ACTUARIAL SOCIETY OF SOUTH AFRICA

Quantifying Risk, Enabling Opportunity.

Market Conduct Risk – Retirement Funds

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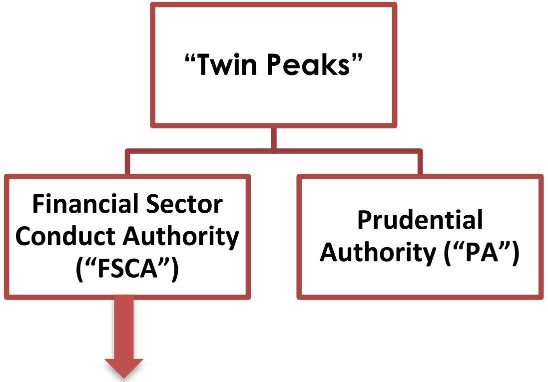
Market Conduct Committee

Date: 18 November 2021

A brief recap/overview

Financial Sector Regulation Act, 2017



- Operates in conjunction with subsidiary legislation
- Including the Conduct of Financial Institutions Act (still awaited)
- But Financial Sector Regulation Act enables regulators to push ahead
- For example many Conduct Standards issued or in pipeline

What is “Market Conduct”?

Purpose and values

Recruitment and onboarding

Training

Products – design, pricing, promotion, post-sale services

Performance management including remuneration

Complaints / remediation

Communication

Governance

What do you believe market conduct to be?

a) The principles of Treating Customers Fairly
b) A Framework within which all decisions are made
c) Consumer Fairness
d) Ethics in Action
e) All of the above

What is "Market Conduct"?

"TCF will require regulated firms to consider their treatment of customers at all stages of their relationship with the customer, from product design and marketing, through to the advice, point-of-sale and after-sale stages. Firms will ultimately be required to demonstrate – through management behaviours and monitoring – that they are consistently treating customers fairly throughout the stages of the product life cycle to which they contribute."

FSB TCF Roadmap document, 2011

What is "Conduct Risk"?

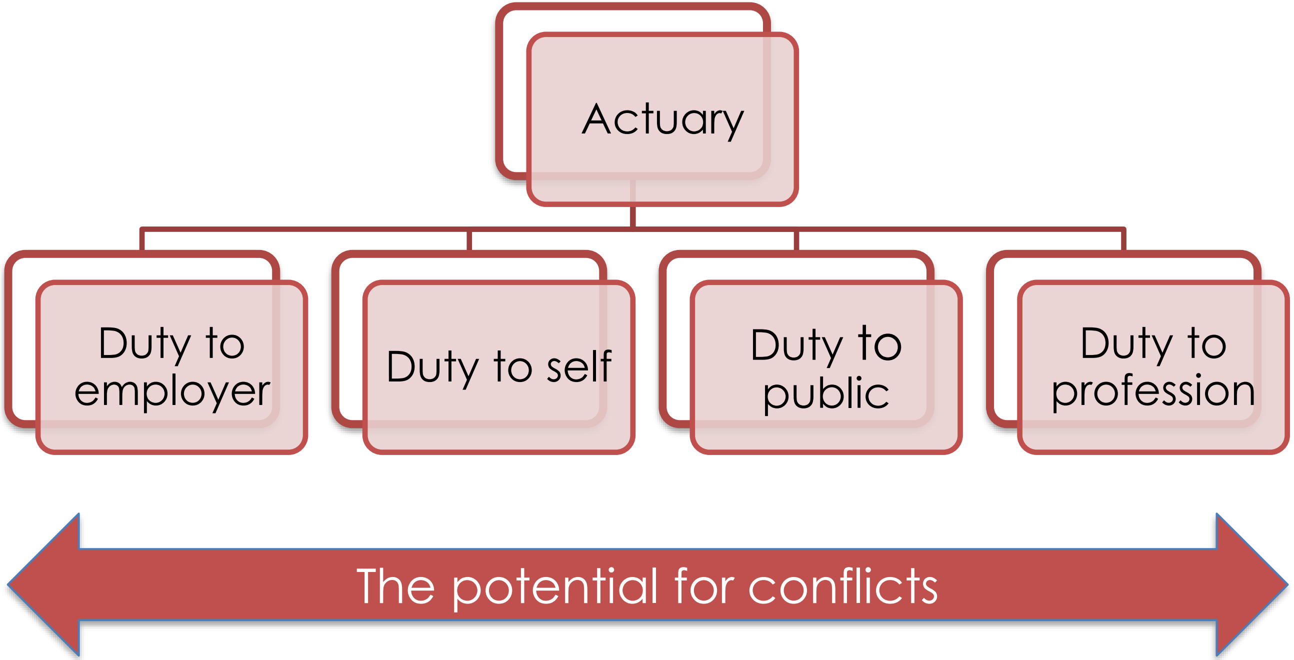
"Business" practices that can adversely affect customers, the organisation, other employees, and the marketplace.

Business -> owners, employees, representatives/agents, partners

Consequences for the Actuary:

- Personal liability
- Personal reputational damage
- Reputational damage to the profession

Possible Risk Framework



Some topical conduct issues

Life Insurance
- Underwriting practices
- Premium reviews
- Appropriateness of commission structures

General Insurance
- Pricing practices

Health Insurance
- Complexity of the medical aid packages
- Regulatory resistance to Low cost benefit options

Investments
- Return expectations
- Transparency of fees especially penalties
- The double dipping charging structure
- "Institutional" versus "retail" fee structures

Banking
- Published interest rates
- Blacklisted customers
- Can borrowing be made too easy?
- Lending practices
- Transparency of fees

Retirement Matters
- Financial Soundness of Rule amendments vs fairness to members/ beneficiaries
- Conversion of DB to DC benefits

Damages
- Fees charged for actuarial reports/calculations in particular charging more for RAF reports than for other clients

Other
- Loyalty programmes
- Socio-economic pricing differentials
- "Free money"
- "Free services"
- … and what else…?

APN904 Market Conduct - summary

- Applies across all practice areas
- Draws from
    - ASSA Code of Conduct
    - Draft Conduct of Financial Institutions Bill
- Factors relating to MC and TCF for new products or when giving advice to clients
- Factors relating to MC and TCF for legacy product
- Actions that ASSA member should take if they have concerns regarding these issues

Market Conduct – Retirement Funds: Communication

TCF Principles:

Outcome 3:

Customers are given clear information and are kept appropriately informed before, during and after the time of contracting

Market Conduct – Retirement Funds: Communication

Actuaries working in the Retirement Funds arena could be:

- Valuators
- Benefit Consultants
- Investment Consultants
- Asset Managers
- Trustees
- In Administrator team
- Other?

Market Conduct – Retirement Funds: Communication

- Communication could be perceived not to be part of the duties of actuary
- Customer (outcome 3):
  - Employer
  - Member/Beneficiaries
  - Trustees
- Don’t need to worry about what Funds communicate to members

What is the actuary's responsibility in terms of communication?

a) Ensure Trustees fully understand the regulatory framework impacting on the financial soundness and compliance of the fund.

b) Ensure that the Trustees are provided with sufficiently clear information to be able to communicate the changes to benefits and/or financial implications of any change to members

c) Draft appropriate communication for the trustees/employer to send to members

d) Ensure the valuation results are appropriately communicated to the trustees.

e) All of the above

f) Only a and d

Market Conduct – Retirement Funds: Communication

Retirement Fund activity	Member Communication	Member's circumstances
Member joining the fund	Welcome letter: - Understanding benefits (pre and post retirement); - Understanding options (pros and cons)	- New job - Need to understand employment practices - Retirement fund – just another one of zillion forms to be completed - Most members not financially savvy

Does HR understand what they should explain to the employee?

Market Conduct – Retirement Funds: Communication

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Does HR understand what they should explain to the employee?

How can we as actuaries ensure that HR has the appropriate information to share with employees?

a) Meet with HR to discuss the various different communication channels (including using appropriate language medium)
b) Draft sample communication for HR.
c) Review communications to be sent out by HR
d) Be available to assist new HR personnel to get up to speed with Retirement matters.
e) All of the above
f) None of the above

Market Conduct – Retirement Funds: Communication

Retirement Fund activity	Member Communication	Member's circumstances
Annual Review	• Member benefit statement • Road shows? • Annual member communication	- Possibly very busy at work - Don't really understand what this is about - Not interested (the younger ones) - **NOT COMPULSORY TO ATTEND**

What can we do to change the attitude of trustees/members/employers?

Market Conduct – Retirement Funds: Communication

Retirement Fund activity	Member Communication	Member's circumstances
Exit	• Withdrawal benefit form/online • Retirement benefit form/options	- Need the cash - Cant preserve - Worried about retirement holiday - Heard lots about Living Annuity (better than conventional annuity) - **UNCERTAIN**

Easy to say: Defaults implemented – "average member"

Retirement Funds: case study

The details of the fund are as follows:

- A Defined Benefit (DB) fund
- Pension at retirement from Fund
- Spouses After Retirement
- Conditions:
  - Married at retirement
  - And at Death (same spouse)

Retirement Funds: case study

The specifics of the case

- Pensioner was married at retirement
- Divorced subsequently (not many details)
- Subsequently pensioner died
- Ex-spouse request payment:
    - Fund refused
    - PFA agreed

Basis:

- Ex-spouse not eligible for benefit

The one view:

It was UNFAIR

- Pension includes contingent spouses
- Divorce not taken into account in annuity (already provides for spouse pension)
- Pensioner may have provided support
- Support “stopped” regarded as unfair
- If divorce prior to retirement, spouse would have received her portion
- PFA: was TCF considered? Pre- and Post- retirement inconsistent treatment

The other view:

It was FAIR

- DB provides cross-subsidies
- Active member contribution rate
- Pensioners mortality and increases
- Funding may provide for benefit
- But rules do not provide – benefit only payable surviving spouse (married at retirement)
- Ex-spouse eligibility would have required complete split (capitalise “loss”)
- Rules apply

Questions to consider

What do you think is the valuator/actuary's responsibility when certifying?

a) certify financial soundness
b) fairness to all stakeholders (ie members; pensioners; deferred pensioners/ deferred retirees; employer; trustees)
c) fiduciary responsibility (satisfying regulatory requirements)
d) All of the above
e) Only a and c

What actuarial advice could valuators provide to trustees when contemplating rule amendments?

a) Include the issue of fairness to all stakeholders
b) Minimize risks to stakeholders (eg rich DB benefits – potential high risk to employer; risky investment strategy (DC) – potential high risk to members
c) Detailed communications of pros and cons of each option
d) All of the above

What else can the valuator do if no agreement is reached?

a) Accept the client's view and approve the amendment/change requested
b) Suggest an independent view from another actuary/valuator/legal adviser/consultant
c) Become a whistle blower on the matter
d) If all else fails (and you have an uneasiness about the matter), RESIGN!
e) Only b – d above

Closing remarks

HISTORICALLY

Closing remarks

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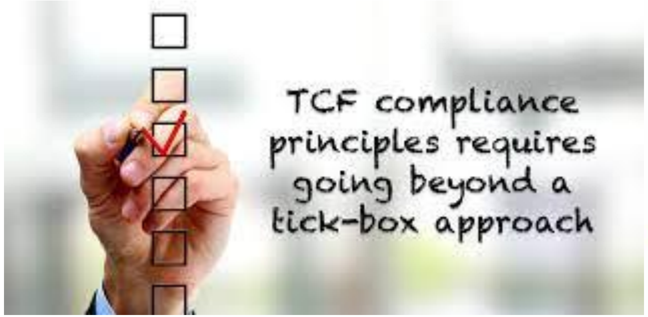
Closing remarks

HISTORICALLY

CURRENT AND FUTURE



Questions?

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