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Tsunami of regulatory change impacts on stakeholders throughout the financial services industry

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Regulation has impacted how each and every stakeholder in the financial services industry conducts business, most notably how one stakeholder interacts with another. The Sanlam Investments Institutional Insights Conference (IIC), recently held in Johannesburg, investigated how regulations such as the Protection of Personal Information Bill (POPI) and Regulation 28 affected relationships between clients, advisors and product suppliers to name a few.

In his opening remarks Johan van der Merwe, CEO Sanlam Investments, said that the foundation for a successful and sustainable financial services firm was the emotional connection it achieved with shareholders, clients, employees, service providers, business partners and the broader community.

“Sanlam achieves this ‘connection’ by operating as a client-centric wealth organisation, an acknowledgement that without clients we do not have a business,” said Van der Merwe. “The fundamental structural changes at our firm are directed at serving clients better and, in partnership, tackling the challenges posed by the tsunami of financial services regulation.”

“As a leader in the financial services industry, Sanlam Investments stands for improving the lives of a broad range of stakeholders, of which our clients are a very important one. We hold the savings and investments of the nation in our hands and we need to be successful in order to enable South Africans to retire with dignity,” Van der Merwe added.

Regulation with wide impact on the industry is the recently implemented POPI Act. “POPI is about protecting customers’ information and is not as bad as it is made out to be,” said John Giles, a Partner at Michalsons Attorneys. It does not stop financial services providers from processing information; but rather informs on how to process client and transactional data with proper care.

Giles offered up some ‘quick wins’ for firms that deal with customer data. One ‘tip’ is to shred all paper that the company no longer requires to ensure that the personal information contained in those documents does not get into the wrong hands. A second is for firms to set up an incident response policy to ensure a standard documented approach should a data breach occur.

Investment return was also under the spotlight at the event as Viresh Maharaj, Chief Marketing Actuary at Sanlam Employee Benefits presented on longevity trends. He said that the retirement funding industry would have to respond to longevity risks by reviewing defaults, reconsidering guaranteed annuities, lengthening the investment horizon and reviewing investment strategy, to name a few.

Asset managers face a different set of challenges. “We have been operating in a low return environment since the global financial crisis struck late in 2007,” said Nersan Naidoo, Chief Executive of Sanlam Investments’ Investment Core. “One solution to the low return phenomenon is to reduce costs by making use of passive investment strategies.”

Taking appropriate risk is difficult because regulation restricts the basket of assets that fund managers can assemble to achieve returns for their clients. “While 90% of active retirement fund members feel they are invested too conservatively, Regulation 28 of the Pension Funds Act limits their equity exposure to just 75%,” said Naidoo.

He proposed portable alpha strategies linked to the maximum allowable investments in hedge funds, private equity and Africa to boost the equity exposure in retirement funds and accommodate the longer investment horizons introduced by longevity trends.

Africa’s potential was elaborated on by Michael Lalor, EY Lead Partner Africa Business Centre. He told the audience at the IIC that the risks associated with doing business in Africa were not fundamentally different to those in other emerging markets.

“The biggest obstacle to inward investment to Africa is its sheer scale combined with the fragmentation introduced by the continent’s 54 sovereign states,” said Lalor. Investors struggle to create critical mass in multiple markets that are so different from one another. He added that Sanlam’s patient and deliberate approach to building its African brand deserved applause.

The final word was left to Michael S. Falk a Partner in Focus Consulting Group, who capped the conference with a roundup of global retirement trends. He said that the shift from Defined Benefit to Defined Contribution retirement funding mechanisms was a dominant global trend that was here to stay.

Falk also suggested that consumer behaviour – and a deeper understanding of behavioural finance – were key to addressing savings inefficiencies in modern economies.