



MINISTRY OF FINANCE

REPUBLIC OF SOUTH AFRICA

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MEDIA STATEMENT

AGREEMENT BETWEEN THE MINISTER OF FINANCE AND LONG-TERM INSURANCE INDUSTRY ON MINIMUM STANDARDS APPLICABLE TO INSURANCE INDUSTRY SAVINGS PRODUCTS

The Minister of Finance, Trevor Manuel, MP, met today with the CEOs of the major life offices and their representative body, the Life Offices' Association of South Africa ("LOA"), in an endeavor to find an effective solution to complaints raised by individuals to the Pension Funds Adjudicator relating to charge structures and membership entitlements from savings products, in particular the costs of early termination. The Adjudicator has made determinations on a number of these issues, especially with respect to retirement annuities. Some of these determinations have already been tested in court.

We operate from the premise that the retirement fund industry is regulated, supervised and licensed. The Act of licensing a fund or insurer is a permit to render a service in the letter and spirit of the relevant legislation, in exchange for which fees can be earned.

We are mindful of the fact that it is the responsibility of government, the private sector and all of civil society to raise the culture of savings and that in the tradition of South Africa, contractual savings for retirement funds make up the largest part of the savings pool available for investment.

It is clear that since the introduction of savings products like retirement annuities in the 1960s, circumstances have shifted; it is appropriate that we evaluate whether business models have changed to keep pace. Of particular concern is that risks have shifted increasingly towards the individual, particularly in respect of defined contribution retirement funds and market-linked instruments. This has been the context of the Adjudicator's determinations.

We have had to evaluate whether the legislative support for the protection of savings and the quality of supervision are adequate.

Against this backdrop then, we have been able to reach agreement on a Statement of Intent with the major companies in the insurance industry and their representative body. The terms of the Statement of Intent broadly cover an understanding that the expectations of consumers in respect of the net returns from retirement annuity fund member policies and other savings policies have not been met, particularly in the context of early premium cessations. Further, the conditions of macroeconomic stability that now obtain, including a lower inflation rate, has brought the issue of charges into sharp relief as a proportion of

policy holders returns. Further we would like to draw on the experiences that has arisen from individual complaints and move to a general climate of certainty that is more durable in nature. This certainty must provide for the policyholders, long-term insurers and regulators alike.

The key elements include an agreement to meet minimum fund values of 65% going back to 01 January 2001 for cases of early premium termination and premium reductions with respect to retirement annuity fund member policies and other savings products, such as endowment policies, that remain on the books of the insurers. Following further consultation on, and finalization of revised commission regulations, these minimum standards will be increased to at least 70% of fund value.

Arriving at the decision of both retrospective timelines and percentages has been exceedingly difficult.

We consider this agreement to be a great step forward. We are of the view that it provides a measure of restorative justice, a bulwark against systemic risk, sufficient incentive to ensure people remain policyholders, and simultaneously will encourage savings in the future. We will need to take this matter forward to ensure higher levels of certainty. To this end, we will ask the representatives of the life offices to mobilise the support of their boards of directors. We will ask the Financial Services Board (FSB) to ensure higher standards of supervision and we will prepare for the legislative changes to provide the certainty. The benefits of this will accrue only if there is the widest possible communication which ensures that the long term insurers will meet their obligations and that policyholders are more vigilant than they have been in the past.

The Minister of Finance would like to express a special word of appreciation to the many individuals and agencies that have brought us to this point, including the initial work done by the actuary Mr Rob Rusconi, the tireless efforts of particular journalists, the boldness of the Pensions Fund Adjudicator, and the involvement of the agencies of the FSB.

The Minister would also like to express his appreciation to the staff of the National Treasury and LOA.

Issued by: Ministry of Finance

12 December 2005

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