FPI

Financial Planning
Institute of Southern Africa

Setting the standard

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FPI'S POSITION ON NATIONAL TREASURY'S DISCUSSION PAPER ON RETIREMENT FUND REFORM

INTRODUCTION

The Financial Planning Institute of Southern Africa (**FPI**), an Association Incorporated in terms of Section 21, is an organization that was formed in 1981 by few concerned industry members. It was first called the Institute for Life and Pension Advisers (**ILPA**) and in 1999 the name was changed. **FPI** is a member of Certified Financial Planner Board of Standards (**CFP BOARD**) and an affiliate member of the Financial Planning Standards Board (**FPSB**). It represents over 8000 financial advisers including corporate members. The main objective of the **FPI** is to promote education, ethics, experience and examination in the industry.

On the 31st of March 2005, the members of the **FPI** Pension Fund sub-committee met with the representatives from the National Treasury whereat the **FPI**'s position on Pension fund reform was outlined.

We are generally supportive of the measures suggested by the National Treasury Task Team (NTTT) to review the provisions of the Pension Fund Act and we share the view that tax reform should be dealt with at the same time as the reforms set out in the Discussion Paper. We wish to comment as follows on the commission aspects:-

POSITION

1. The **FPI** is fully supportive of the initiatives to encourage South Africans to save for retirement via efficient and cost effective vehicles.

2. We support a choice of retirement fund vehicles that will allow South Africans to invest in vehicles that meet their personal needs.

3. The current commission regime in terms of which Financial Planners are remunerated for their services is in need of revision. A blanket prohibition on the payment of commission as appears to be suggested in the discussion paper, will however have a wide range of undesirable implications and is not considered a workable solution to the problem. Given the complexities of the matter there does not appear to be an easy and simplistic solution to the problem.

4. We recommend that an iterative process be embarked upon by National treasury and the relevant stakeholders in the industry so that the alternatives can be modeled and their direct and indirect consequences understood before any solution is agreed upon and implemented.

5. We offer to assist and participate in such a workgroup.

6. Our points of departure are –

6.1 Every person, especially those in the formal employment sector, should have a living financial plan, and should therefore have access to financial advice. If commission is outlawed Financial Advisers will have to operate on a fee basis. The cost of a financial analysis and retirement plan that complies with FAIS and all the other legislative requirements is substantial. It will mean that people in the lower income groups will not have access to financial advice simply because they cannot afford to pay a professional financial planner an appropriate fee.

6.2 Advance or upfront commission at product level should be permitted with the proviso that this is effected as a loan by the product supplier to the financial adviser.

6.3 The risk of early termination would therefore be borne by the product supplier who would in turn have recourse against the financial adviser.

6.4 All costs imposed by product and advice suppliers should be fully disclosed, as required by FAIS.

6.5 Commission should be deregulated and fully disclosed

6.6 The issue of commission cannot be viewed in isolation as there are many other costs that impact on both investment allocation amounts and the early termination of a contract.

6.7 The commission and cost structures should be radically simplified. Each type of savings product should have a very small number of structures.

6.8 Products which serve the same purpose for consumers should have the same commission structures for advisers

6.9 The commission structure for any given product should incentivise advisers to give appropriate advice and to review product suitability and performance overtime on behalf of the customer.

6.10 The cost of initial advice should be separated from the cost of on-going advice. Paying for initial advice over time could also encourage persistency.

6.11 An annual commission statement showing how much commission has been paid each year for each product, broken down between initial and on-going payments, so allowing the customer to check that they have received and are receiving the services they were led to expect, and compare cost with quality and investment performance.

6.12 The customer should be given the right to choose between paying a once off fee or commission paid over time. The right for the customer to ask provider to move commission payments for on-going service to another adviser, or stop them altogether in exchange for lower product charges.

CONCLUSION

We are generally supportive of the recommendations of the National Treasury Task Team as set out in the discussion paper. We however believe that the regulation of the intermediary remuneration in terms of the Pension Fund Act, Insurance Act or Medical Schemes Act is inappropriate. A holistic approach is recommended under the auspices of the FAIS Act.