



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH BY MINISTER OF FINANCE MR NHLANHLA NENE

TENTH ANNIVERSARY DINNER, ARGON ASSET MANAGEMENT

VENUE: INANDA CLUB, SANDTON
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Ladies and gentlemen, good evening

Thank you for the kind invitation to address you on your tenth birthday.

A very happy birthday to Argon Asset Management!

I have been asked tonight to speak on transformation of the financial sector generally; and the asset management industry specifically. But I think it is rather you who should be telling me about this important topic.

Argon has forged an enviable reputation as a transformed asset manager in a highly competitive industry. Your string of accolades include:

- the Best Emerging Financial Services Sector Company 2014 awarded by the Association of Black Securities and Investment Practitioners (ABSIP) and
- the Best Asset Management Company Africa for 2014 a few months ago by the European edition of Global Banking & Finance Review adjudged Argon Asset Management

I salute your achievements and I wish you many more decades of success.

It is your tenth birthday. It is our beloved country's twenty-first birthday. This is an appropriate time to pause and reflect on transformation in financial services.



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Transformation

Transformation is at the centre of the South African story; it reflects our collective desire to both correct the injustices of the past and our desire to ensure a sustainable future. It is about the road before us as much as it is about the road behind us.

Transforming the financial sector is an important part of the government's aim to reduce societal imbalances. But, the concept of transformation, particularly when it is applied to the financial sector, is a complex one and one which requires taking a broad view.

Transformation is inextricably linked to inequality. Indeed these two terms are sometimes used interchangeably. But we must be clear – the key problem is inequality. Transformation is a tool to reduce inequality. It is not an end in itself.

Of course, in our nation, because of the deep scars of the past, inequality is closely related to race and gender.

Inequality and the need for transformation is, and has been, a policy focus here in South Africa for as long as we have been a free country but this issue is also garnering attention in many other countries. This is a global problem with local characteristics based on individual countries past experiences. The recent global financial crisis has revealed the central role the financial sector can play in creating and entrenching inequality which has led many other countries to grapple with issues we know all too well here in South Africa.

The financial sector provides tools which can deliver transformation but also itself requires transformation. The financial sector is both the instrument to correct broader societal imbalances but may also contribute and, at times, exacerbate those very imbalances.

It's a very complicated interaction.

Previously disadvantaged people within the financial sector are both victims of inequality while simultaneously participating in a sector that deepens and entrenches inequality.



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Improving conduct practices in the financial services industry

The financial services industry is at the heart of our economy. Asset managers such as Argon are the centre of the financial system. You wield great power; and with great power comes great responsibility.

We need to make sure that the financial services industry is transformed both in who runs it; but also in what it does.

It is not ok to design investment or insurance products that require full time employment, with a fixed monthly debit order with heavy penalties for missing one or two payments that cannot be made up. Many of our people are on small incomes. How does the investment industry help them achieve their dreams?

Financial providers can also design products to the benefit of shareholders rather than financial customers through opaque, predatory pricing and other poor market conduct practices. For example, recent work by the National Treasury has highlighted that high costs for retirement funds erode savings. This is in part due to high fees charged by investment managers.

These poor practices taint the industry. They are a legacy of an industry that focused on profits and fees.

New, young, dynamic, transformed asset managers play a crucial role in driving better behaviour in the industry. Ultimately, an efficient and affordable investment fund industry, which helps the poorest and most vulnerable in our society save for retirement, is in the interest of all of us.

The role of government

As government we need to ensure that a proper legislative and regulatory framework is in place. All relevant stakeholders need to up their game to ensure that the average South African has a better understanding of how financial markets work and that this terrain is not only reserved for the privileged few that have the financial means to get expert advice on



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how to beat the market - to be more direct we need a financial market that is more “inclusive” and products that are simple enough to ensure more people are able to use them.

We also need an ethical industry that does not prey on the ignorance of people and in instances where this does occur punitive measures must be instituted to send out the signal that as a collective we cannot tolerate such behaviour and as an industry you need to reflect on ways to enhance the participation of black fund managers.

The Twin Peaks framework

The National Treasury’s new regulatory framework, Twin Peaks, will now place as much emphasis on ensuring that financial institutions treat their customers fairly as on making sure that those institutions are solvent and liquid. What is more, we are shifting from a rules-based regulatory framework that has supported tick-box compliance, to one which prioritises good outcomes for financial customers and the macro-economy.

Financial institutions will need to show that they are not only meeting the minimum rules set, but that they also have an entrenched customer-centric approach to their businesses across the product life-cycle.

This means that upfront a product should be designed with the customer in mind, the product should be sold in a manner which is fair and transparent, and the customer should be able to hold the financial institution accountable should the product fall short on what was committed.

In short, the new Market Conduct Authority will aim to ensure that financial customers are able to access and use products that meet their daily savings and risk needs. Market conduct in the financial sector therefore involves an access, fairness, competition and inclusion dimension. Good conduct outcomes are fundamental in ensuring that the distribution of benefits between the providers of financial services and products and the consumers who use them are more fairly shared. Market conduct requirements will cover every aspect of the financial sector including the investment management industry.



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As investment managers would you recommend your fund to your grandfather, friend, daughter, or spouse?

How could your products be working better for customers?

Pension and retirement funds, which are closely linked to the asset management industry, are an area which requires special attention. There are a number of short-to long term reforms that the National Treasury has embarked on.

I will highlight some of these; South Africans do not save sufficiently for retirement and for any unforeseen contingencies. Some of those that do save do not save their retirement funds for the long haul to retirement by taking it out when they change jobs.

This is due, in part, to lack of knowledge on the part of individuals and the automatic default in most companies being to pay out your whole pension as a cash lump sum when you resign from the company. An important first step is therefore to get the defaults right, so that the right thing happens when workers do nothing, instead of the wrong thing, as currently. We are focusing initially on defaults in three areas: the default investment strategy, to ensure that this is simple, appropriate for workers, and chosen after a robust process, the default for preservation, to make sure that if workers do nothing, their funds will be preserved and not paid out in cash, and default annuity policies, to ensure that appropriate, simple and cheaper standardised products are available for workers when they retire from their funds.

Retirement savings of vulnerable workers

In the medium term, we also need to address the issue of the retirement of vulnerable workers. There are an estimated 6 million low income workers in agriculture, construction, retail and “domestic” sectors who do not have employer based retirement arrangements. The National Treasury will be working with labour unions, employer organisations and industry towards establishing good-value, convenient and standardised retirement funds for these workers.



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As I mentioned earlier, these are just some of the reform measures that the National Treasury has embarked on in the area of savings. They are major reforms in the retirement industry and should have an impact on the average South African worker and the industry as well.

Driving transformation

As industry players I hope you will have a frank discussion on initiatives that can be embarked on to increase the percentage of assets managed by black fund managers as a percentage of total industry assets. It is important that more black fund managers are empowered, operate and play in this space because it is only when this occurs that we will make real strides in transforming the investment management industry.

It is clear therefore; that any policy which allows for greater transformation within the financial sector leading to a demographically representative sector with proportionate earnings and ownership is necessary but not sufficient for South Africa to fully meet its objectives.

Conclusion

So far, I have spoken a lot about how we can improve the financial services industry.

But, I am preaching to the converted.

I must commend Argon for your proactive approach to development. Indeed, of your many accolades, Argon Asset Management won the IAIR Excellence in Asset Management Corporate Social Investment Africa

The award recognises Argon's ability in combining global standards with African investment needs, helping the growth of new projects in the continent, thanks to its diversified managed products for institutional clients. Following principles like corporate social responsibility,



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integrity and accountability, Argon has become the point of reference for South African but also worldwide investors.

I hope Argon's reputation for a developmental focus will continue to grow in the decades ahead.

I hope you will be the benchmark for an asset manager that delivers value for all South Africans; rich and poor; of all creeds and colours.

I hope you will grow as a company and become known as the asset manager that ordinary South Africans can trust with their investments, so that they can prosper. When your clients prosper, South Africa prospers.

Your track record in the first decade suggests to me that you are on the right path.

And so, I am pleased to, once again, wish you a very happy birthday.

Thank you