



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

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DISCOVERY FINANCIAL PLANNING SUMMIT

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Introductions

Ladies and Gentlemen, thank you for inviting the Ministry of Finance to your summit.

The 2008 Global Financial Crisis

This summit is taking place against the backdrop of major global financial regulatory reforms following the Global Financial Crisis of 2008. The aftermath of this crisis is still with us. South Africa was affected by the crisis, though its financial sector weathered the storm far better than many countries. Yet, despite its resilience, South Africa as a member of the G20 will be affected by the global trends and reforms, while at the same time dealing with its own domestic challenges and goals.

The Global Financial Crisis of 2008 is generally viewed as one of the greatest misfortunes of our time, and certainly the worst financial crisis after the Great Depression of 1929. World economies were plunged into economic depression, jobs were lost, companies which were more than 100 years old disappeared, international trade slumped and everyone experienced doom and gloom in its starkest form.

Financial crises have the reputation of leading to economic crises and hardship. This strong link between the financial sector, economy and society, puts the financial sector in a very unique position compared to other sectors of the economy.



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The financial sector plays a central role to support the real economy. No non-financial entity in the world has ever been considered Too-Big-To-Fail like the banks have been. The sector touches the life of each and every person, enabling people to make daily economic transactions, save and preserve wealth, insure against disaster and so forth. But the global financial crisis demonstrated that a poorly-regulated sector can have disastrous consequences for the economy and the man on the street. It can disrupt not only individual economies, and not only the global economy, but also the most ordinary of lives out there.

However, we should also imagine an extreme position of a world without finance. In such an extreme world, we should imagine life without banks as safe custodians of our money – which means a certainty of loss; a life without medical aid and insurance – which means an absolute certainty of premature loss of life and assets; a life without money in retirement – which means a certainty of old age poverty; a life without electronic payment for goods and services – which means a certainty of everyday robbery; a life without credit and working capital – which means a certainty of business closure and no housing. The financial sector, ladies and gentlemen, is therefore one we cannot live without.

Moving towards Twin Peaks and better conduct

With its enormous power and ability to rapidly cause major disruption, at national, international and individual level, regulation will always be justified for the financial sector. Given the need to ensure that investors and savers always have access to their hard-earned savings when they need them, the financial sector should therefore, always be held to higher standards than any other sector. Of course, we should not regulate for the sake of regulating. Regulations should always have a purpose, and that purpose, will always be to protect consumers, as well as the financial and economic stability.



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Following the financial crisis, we sought to enhance our financial regulatory framework in South Africa by moving towards a Twin Peaks system of regulation, which will split prudential and conduct supervision between two regulatory agencies.

We feel that one area, which may have been overlooked in the past, is around how financial institutions interact with their clients, how they treat customer complaints and how they do business with their clients. Well before the ushering of Twin Peaks' reforms, the Financial Services Board took a proactive step by developing a Treating Customers Fairly (TCF) framework. The TCF framework will be an important foundation for the Market Conduct Authority/Financial Sector Conduct Authority under the Twin Peaks regime. We have always appealed to the industry to embrace some of these regulatory initiatives without the need to always legislate. We should not always have to legislate for good behaviour and culture.

However, legislation is also important in providing certainty and levelling the playing field, and we are cognisant of the compliance costs associated with regulation. But having said that, we remain of the view that such compliance costs should be generally outweighed by a stable financial sector, which is trusted by its clients and is able to always deliver to them. And not only deliver, but deliver good value too.

In 2014, papers on a draft Market Conduct Framework and the Retail Distribution Review were released, mapping out the various issues and concerns within the financial industry, like complex products; opaque and at times high fees; poor disclosures; conflicted commission based remuneration, et cetera. We hope the industry has and will continue engaging with these documents to enable us to put in place a framework that will better serve the customers, because by serving the customer better, in turn the company will be best served.



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As an industry, whether as brokers, financial planners or product suppliers, let us always have our customers' interests and wellbeing at heart, and not see our clients as simply and only income generators.

Good value products

Costs have become a recurring major concern since the Global Financial Crisis partly because of the low investment growth and return era we find ourselves in, which is likely to linger for the foreseeable future. This low investment return era has prompted investors to now pay more attention to factors which contribute to returns, the major one being costs. The exorbitant salaries and bonuses paid to some of your colleagues, especially in other parts of the world, have been a source of global concern and debate. Short-termism and how improperly structured rewards contribute to it, have the potential to destroy value for investors.

The human spirit, when properly guided can lead us to great innovations. However, if such a spirit is misguided, it can result into an animal spirit dominated by greed and can have devastating consequences. We should strive to strike a very delicate balance between regulating human behaviour to do good, while also respecting our liberties. Well-constructed principles and rules can help to instil a positive cultural change.

The wellness of our employees and citizens

There are arguably two forms of wellness which are important in our lives, financial wellness and physical wellness. For now, allow me to leave spiritual wellness to the spiritual leaders. The lack of financial wellness can easily and negatively affect our physical wellness, so too the lack of physical wellness can deprive us of the means to earn a living.



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For example, debt has ravaged our society in the last decade, with the ratio of debt to disposable income in South Africa sitting at 78 per cent in 2014. Excessive and chronic debt breeds chronic depression. It is, therefore, imperative that as employers, we take all steps to ensure that employees are being looked after, beyond just getting a salary.

We should put in place systems within our companies and organisations, which will ensure that employees are not overly-indebted, and if they are, they are ways to assist them. We should ensure that employees are saving sufficiently for their retirement and beyond, that they have sufficient insurance to cover their medical costs, loss of property and lives. An unhappy employee will always be unproductive.

As the Alexander Forbes Benefits Barometer shows, employers should start taking a holistic picture of employees' wellness, considering the contribution which the private sector can make to enhance social protection to employees.

Retirement reforms

On the retirement side, we continue to engage with our social partners on retirement reforms. We remain of the view that these gradual improvements to the current retirement system are critical in ensuring that we have citizens who can retire comfortably.

We feel that the right defaults on preservation and annuities could help employees in making the right decisions. We are supported by behavioural economics in our thinking, which has gained prominence of late by showing how individuals behave in reality, and the role defaults and incentives can play in nudging individuals to do the right thing. As Government, we continue to provide generous tax incentives for retirement savings, and have even gone further this year by enabling multifaceted Tax Free Savings Accounts for the first time in South Africa.



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In fact, Discovery has arguably become an innovator through embracing behavioural economics. By using reward incentives, a number of the Discovery products are able to nudge people to do drive carefully, eat healthy and keep fit. Human nature has an inherent tendency to respond to incentives.

The National Development Plan

South Africa has its challenges. One mistake we tend to make as South Africans, is to think that we are unique in experiencing challenges, or even in some of our challenges. Of course, challenges differ in their nature, magnitude and number but every country has its own.

Our chronic high unemployment rate, slow and relatively low economic growth, high inequality and related poverty, are scourges which cannot be ignored for long, and require a concerted effort from all of us.

The National Development Plan has identified infrastructure as one of the critical areas to facilitate and fast-track South Africa's economic growth. As you would know, the numbers are large, estimated at R3 trillion of spending. This must be funded, and this is where we think the private sector can partner with Government in channelling resources to appropriate projects.

Conclusion

In conclusion, the financial sector, completely left to its own, can be very disruptive at times. Yet, it remains crucial to a well-functioning modern economy and our welfare. The reality is that financial regulation is here to stay. Although South Africa has fared better during and after the crisis, we cannot rest on our laurels.



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If South Africa's resources, ingenuity and diversity can be well harnessed for a common good, then positive outcomes can be realised.

So what is our vision of South Africa's financial sector? It is a sector which is robust and embraces diversity in those it serves and those it employs to serve it; it is a sector which treats its customers fairly at all times; it is a sector which can team up with Government to facilitate investment funding in the country; it is a sector which can design and deliver products which offer good value to customers, without compromising its creativity.

Thank you