

Where are our fund governance shortfalls?

Summary of the PwC survey



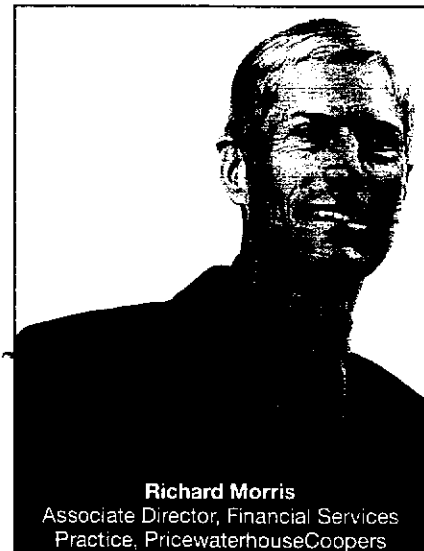
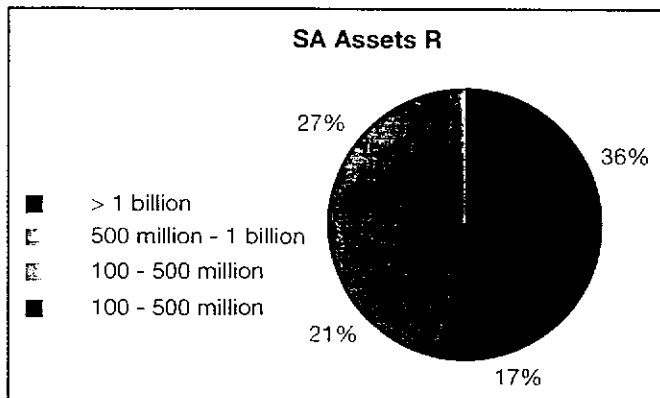
Effective management is crucial to retirement funds in South Africa. Trustee boards are accountable to members for a key part of their life savings. Accordingly trustees carry great responsibility. The recent PricewaterhouseCoopers (PwC) survey on Effective Management of South African Retirement Funds puts these practices under the spotlight. In this article, the key findings of the survey are summarised. Further, suggested actions are provided for trustees in order to address areas of popular neglect.

The insights gained through this survey are intended to:

- assist funds to assess where they stand on the road to effective management; and

- identify what next steps are likely to be the most pertinent.

The survey offers a useful benchmark against which trustees can compare key aspects of their own fund's management. It represents the responses of 110 chairpersons over a wide spread of retirement funds, from large to small, with assets totalling over R80 billion. For interest, we have compared our South African ("SA") results with an equivalent PwC survey in the United Kingdom ("UK") over a year ago.



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Survey highlights – favourable messages

- In general, funds are managed in accordance with their rules and most trustee boards say they are up to date with all legislative requirements. This probably reflects the emphasis that our Pension Funds Adjudicators have placed on compliance with the fund rules. SA funds outperform their UK counterparts in linking decisions to fund rules and legislation.
- SA funds are ahead of their UK counterparts in good and regular communication to members.
- In respect of defined contribution funds, SA is more advanced. The UK still has a mostly defined benefit fund environment. SA defined contribution fund trustee boards give considerable thought to the range of investment options they offer members. They also put effort into communicating the risk / return relationships.

Areas that require attention

- 29% of SA trustee boards had not assessed compliance with the King II principles of corporate governance whereas in the UK almost 92% of trustee boards had assessed compliance with the equivalent Myners report.
- Although most funds are aware of the importance of good governance, only 1/3 have a formal governance mandate that is used for steering management processes and decision making.
- SA funds lag behind the UK in that almost half of the local trustee boards have never actually evaluated just how effective or ineffective they are.
- 29% of trustee meetings are either not fully attended or not all trustees have read the papers in advance. For an average trustee board comprising eight trustees, this means that at least two trustees per meeting would make little or no contribution.
- Some funds do not ask for trustee input when setting the agendas, which means the advisors of these funds may play an unduly influential role in this regard.
- Most trustee boards have carried out a risk assessment process, but in general there is inadequate follow through to ensure that the key risks identified, are effectively mitigated and managed.
- SA trustees need to improve on how they address conflicts of interest. Only 15% of funds surveyed have a formal policy in place to identify conflicts. 38% of funds do not have a process for managing conflicts of interest (UK stats are 20% in this regard). Most of the smaller funds have not even considered a process for managing such conflicts of interest.
- In SA, the survey shows that nearly half the funds have

never done a formal assessment of trustees' knowledge and understanding relevant to their funds operations. Trustees of UK pension funds are way ahead, reviewing their knowledge of legislation and industry practices regularly. A previous UK survey showed similar negative results – this improved after their 2004 change in legislation was promulgated.

Actions for trustee consideration

SA needs to take a serious look at trustee knowledge requirements and consider legislation as the means to achieve the desired outcome. The Registrar of Pension Funds attended the launch of the survey results and noted during the question time that our pensions system was traditionally and is still closely aligned to that of the UK. In the UK, the regulator has set up a web based range of mandatory e-learning modules for trustees. We may find the Registrar learning from the UK's lead in this regard.

We advocate identifying trustee knowledge and experience gaps. Further it would be prudent to arrange for these gaps to be closed as soon as practical, rather than putting this off until knowledge and training requirements are legislated.

Both SA and the UK need to improve on dealing with risk exceptions. Where a risk has been identified, trustees must follow up on whether its impact has been adequately mitigated. This must be monitored on an ongoing basis.

Certain SA trustees need a wake-up-call on conflicts of interest. Such conflicts cloud the judgement of trustees and tend to push aside fiduciary responsibilities to members, sometimes with disastrous consequences (the Fidentia collapse is a case in point). Even where the consequences are less severe, conflicts of interest generally result in funds incurring higher costs than necessary or paying for services that should not be required, in an attempt to meet members' real needs.

Two-way communication with members should be improved. Funds need to establish formal mechanisms to seek out members' views, not just on an ad hoc basis. This is important as members bear the investment risk in the defined contribution funds that predominate in South Africa. Often trustee boards do not consult members and may, for example, opt for an investment strategy that is unduly conservative. Alternatively, the strategy may give away significant upside investment performance in order to procure a guarantee of investment capital. This is often not consistent with the age profile of the members and may not serve them well.

We trust that this summary set will prompt many trustees to ensure that their boards do, indeed, give the above governance issues a sharper focus in the years ahead. This will be good for both the funds as well as most importantly, for their members.

Full survey results are available on request. □