Financial
Services
Board

The Savings and Investment Regulatory framework

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Introduction

- There are different types of institutions involved in financial services. These include commercial banks, development banks and non-banking financial institutions

- Non-banking financial institutions pursue the commercial objectives

- Non-banking financial institutions provide a range of financial services to their clients

The types of financial institutions regulated by FSB

- The types of financial institutions:

  - Retirement funds

  - Collective Investment Schemes

  - Authorised Financial Services Providers

  - Long Term Insurance Companies

The purpose of financial institutions regulated by FSB

- CIS, Retirement Funds and Insurance companies broadly comprise the regulated investment fund industry

- Each of these provides one or more of the following:

  - savings and investment channel;

  - retirement nest eggs;

  - security for dependence in the event of death

  - insurance policy against unexpected events

The purpose of financial institutions regulated by FSB (cont.)

- Funds channelled into the investment funds industry:

  - contribute to capital formation are used by corporate needing capital;

  - boost economic activity; and

  - should result in wealth creation;

- Whichever component of the investment funds industry, the FSB may be addressing at any point in time, the cornerstone to its approach is investor and policyholder protection through fair investment including:

  - transparency

  -fairness

RETIREMENT FUNDS

- Regulated under the Pension Funds Act, 1966
- The total assets of South Africa's funds is R2.5 trillion (2012)
- The Retirement Funds provides the backbone of the country's savings owing in large part to conditions of service
- exist to provide retirement and death benefits to members
- Encompasses pension funds, provident funds, retirement annuities and preservation funds

RETIREMENT FUNDS

- Underpinned by tax breaks for employees and employers

- Investment destination of the Retirement funds:
  - Equities
  - Bonds
  - Immovable property
  - Insurance products
  - Collective Investment Schemes
  - Cash

- Subject to prudent investing in terms of Regulation 28 and good stewardship by trustees

COLLECTIVE INVESTMENT SCHEMES (CIS)

- Regulated under the Collective Investment Schemes Control Act, 2002
- As at 31 March 2013, total asset under management was R1.3 trillion
- Vehicle for retail and institutional investors to pool funds to invest in a variety of asset classes including equity, debt and derivatives
- CIS structure envisages; manager, portfolio, trustee and deed

COLLECTIVE INVESTMENT SCHEMES (CIS) cont.

- Open-ended funds
  - issue new participatory interest to the investing public to generate new investment
  - redeem participatory interest at their net asset value

- Closed-ended funds
  - issue a fixed number of participatory interest
  - access the value by selling their participatory interest on exchanges

- Subject to terms of deed, CIS invest in a wide range of assets from cash to derivatives. Some assets are riskier than others

How CIS regulatory framework contribute to saving

- Help nation to mobilize capital by enabling investors to a more wide range of investment opportunities.

- By pooling the resources of many investors particularly small investors, CIS are able to offer each participant with:

  - a more scope for investment;

  - a diversified portfolio; and

  - more efficient use of risk management tool than would otherwise be possible

How CIS regulatory framework contribute to saving (cont)

- By adding liquidity to their holding through either a buy-back facility or through stock market listing of the funds, they offer investors a much greater level of flexibility in managing their affairs

- By extending the availability of different investments both geographically and across income groups, they help not only to mobilize savings but also to ensure their efficient allocation to the most productive use

LONG TERM INSURANCE COMPANIES

- Regulated under the Long Term Insurance Act, 1998
- The total assets under management of R1.5 trillion, as at 31 December 2009
- Specialize in providing promises to make specified payments under specified circumstances
- Long term risks in life insurance
- Provide a high level of risk pooling

How Insurance regulatory framework contribute to saving

- Insurance supports economic growth through its capacity to mobilize savings:-
  - life insurance are an effective way conduit for mobilizing saving from the household sector and channelling them to corporate sector

- The essence of insurance is that the insured, who is financially least able to withstand the vicissitudes of fortune, transfer those risks to an entity better able to withstand risks because of its size and ability to pool risks

- Insurance relieves pressure on the government's budget. Private insurance reduces the reliance on government social programs

Tax Concessions

Financial Institution		Benefits to the investors		
Pension funds		Employee contribute 7.5% of income towards saving. Pre-tax money		
Insurance funds		Higher income earners charged 30% of taxable income on endowment vs. 40% marginal tax rate		
Collective Investment Schemes		Capital gains tax only taxed in the hands of the investors on exit from CIS.		

Conclusion

Well developed and properly regulated financial institutions which are an important component of a broad, balanced, efficient financial system that spreads risk and provides a sound base for economic growth and prosperity

THANK YOU