itinews.co.za
SOUTH AFRICAN
Insurance Times & Investments News

Press Office Feature : **PFA urges speeding up of 'treating customers fairly' law**

Company: Pension Funds Adjudicator
Author: Noluthando Lamula
Email: editor@itinews.co.za
Posted: 18 Jun 2014

Concern over the weaknesses in regulations in the retirement sector made known

The "Treating Customers Fairly" legislation proposed by the National Treasury must be finalised in order to ensure consumers are enlightened by providers of financial products to enable them to make informed choices, says the Pension Funds Adjudicator.

Muvhango Lukhaimane said the Treating Customers Fairly principles will guide the relationship between the financial industry and consumers.

"Although it is intended to culminate in legislation, the TCF rules will also be a tool for self-regulation by the industry to measure themselves as to whether or not they are dealing fairly with the consumer by providing them with sufficient and clear information that will enable them to make informed choices when acquiring financial products," she said.

Ms Lukhaimane was commenting in a determination following a complaint regarding excessive causal event charges. The complainant said he had not been made aware at the time of purchasing a retirement annuity policy of the causal event charge that will be imposed when he enquired about cancelling the policy.

Causal event charges are imposed by long-term insurers when retirement annuity members made their policies paid up or wished to transfer same to other service providers.

The complainant,P Ramjith of Sandton, was a member of the Lifestyle Retirement Annuity Fund (first respondent),underwritten and administered by Liberty Group Limited (second respondent). His policy commenced on 1 November 2005 with a maturity date of 1 November 2043.

He said when he obtained a quote from the second respondent for early exit on his retirement annuity, he was informed of a 22% penalty on his investment if he decided to transfer his funds to another institution.

The complainant's value in the first respondent was R219 606.97. The second respondent quoted a causal event charge of R48 313.53 on the complainant's fund value, thus reducing the value to R171 293.44.

The complainant considered this penalty to be harsh. He said he had voluntarily increased his premiums over the years from the original R150 to R5 808. He said had he continued with the original premiums, he would have been paying R326per month which meant that his investment value would have been significantly less, resulting in much less penalties.

The second respondent submitted that the penalty of 22% was within the limits prescribed by legislation as well as the rules of the first respondent.

In her determination, Ms Lukhaimane said to assess the reasonableness of the causal event charge that the first respondent would impose if the complainant transferred his fund value, the services of an independent actuary were engaged.

The actuary found that as the policy has been in force for nine years out of 38 years and the large extra increases paid in premiums, the proposed causal event charge in the amount of R48 313.53 amounting to 22% of the total fund,was fair and reasonable.

Ms Lukhaimane accepted the actuary's finding that the causal event that would be imposed if the complainant transferred his membership to another institution was fair and reasonable.

"In deducting the 22% from the complainant's fund value, the second respondent will be acting in accordance with generally accepted actuarial practice, the provisions of the rules, the provisions of the policy documents, the provisions of the Long Term Insurance Act and the regulations," said Ms Lukhaimane.

Meanwhile, Ms Lukhaimane also noted with concern the weaknesses in regulations in the retirement sector when viewed in light of the six Treating Customers Fairly (TCF) principles.

She said most retirement annuity products failed four of the TCF principles in that the products and services sold were not designed to meet the specific needs of the customers.

"In the event that customers fall on hard times, drastic termination fees are imposed, customers are not given clear information before and after contracting of causal event charges, the advice provided is not suitable and customers face serious post-sale barriers in trying to change investment products."

In terms of the proposed legislation, firms are expected to demonstrate that they deliver the following six TCF principles to their customers throughout the product life cycle:

• Customers are confident that they are dealing with firms where the fair treatment of customers is central to the firm's culture;
• Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly;
• Customers are given clear information and are kept appropriately informed before, during and after the time of contracting;
• Where customers receive advice, the advice is suitable and takes account of their circumstances;
• Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect; and
• Customers do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.

"The complainant submitted that he was not aware of the penalties to be charged when he transfers his membership to another institution, which falls short of the openness required by the TCF principles with which the respondents associate themselves.

"It is on this basis that the TCF principles need to be finalised and enacted into law in order to avoid complaints of this nature," said Ms Lukhaimane.

http://www.itinews.co.za/companyview.aspx?cocategoryid=5&companyid=61&itemid=36161FD7-2D82-4EFA-91DF-D820BC8A3403