

Media Release

Association for Savings and Investment South Africa (ASISA)

10 February 2016

Meaningful cost comparison across investment products introduced

Consumers and advisers will for the first time be able to compare charges and their impact on investment returns across most savings and investment products from October this year.

All members of the Association for Savings and Investment South Africa (ASISA) are required to adopt the new ASISA Standard on Effective Annual Cost (EAC) from 1 June 2016. The first phase, which applies to all new investment applications, must be implemented by 1 October 2016.

ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers (LISPs), multi-managers, and life insurance companies. The EAC Standard will apply to the majority of products offered by these companies.

Introducing the new EAC Standard to the media earlier today, Michael Summerton, convenor of the ASISA EAC Working Group, explained that the Standard is most likely a world first in its comparative scope and cost transparency.

The EAC Standard facilitates a standardised approach to cost disclosure by product providers that consumers and advisers can use to compare charges in a meaningful way irrespective of whether the product is a unit trust, a living annuity, a retirement annuity or an endowment policy.

According to Summerton, this will enable consumers to make more informed decisions when choosing savings and investment products.

Why the EAC Standard

Summerton explained that before ASISA was formed in 2008, the savings and investment industry had been fragmented along product lines, which had led to vastly different cost disclosure methods.

As a result the Collective Investment Schemes (CIS) industry had been applying the Total Expense Ratio (TER) method of cost disclosure. Although this method is used widely and is internationally accepted, it is backward looking and does not take into account fees such as advice and initial fees.

The long-term insurance industry developed the Reduction in Yield (RIY) method. While this method is able to incorporate advice and initial fees, it is forward looking and relies on assumptions based on an estimation of expected costs.

Summerton said that while both the TER and RIY are good cost calculation measures, neither allow for meaningful comparison between products with differing legal structures.

“As a result it has been almost impossible for consumers and advisers to compare the costs of different products in a meaningful manner. One of ASISA's earliest priorities, therefore, was the development of a standardised approach to cost disclosure.”

Summerton said an ASISA team of product specialists, actuaries and marketers from the various member companies was tasked with developing the EAC Standard.

“Given the challenges presented by the product and disclosure diversity, we are exceptionally proud that we now have in place a solid approach to cost disclosure, which carries the approval of our members and is viewed as a positive development by National Treasury and the Financial Services Board.”

In addition the EAC Standard is aligned to the outcomes of the Treating Customers Fairly framework, in particular Outcome 3, which requires product providers to ensure that customers are given clear information and are kept appropriately informed before, after and during the point of sale.

What to expect from EAC disclosure

The EAC Standard applies to all local CIS (including foreign CIS approved by the Financial Services Board for marketing in South Africa), contracts issued under a LISP license, all long-term insurance savings contracts (including endowments and living annuities), as well as retirement annuity funds and preservation funds.

The EAC standard requires product providers to disclose four separate components of charges (including VAT), and perform the EAC calculations assuming that an investor terminates the investment at the end of specific time periods that must be shown in the disclosure table:

- **Investment Management Charges** - costs and charges for the management of all underlying investment portfolios
- **Advice Charges** - initial and annual fees, both lump sum and recurring
- **Administration Charges** - all charges relating to the administration of a financial product
- **Other Charges** - catch all for all remaining charges such as termination charges, penalties, loyalty bonuses, guarantees, smoothing or risk benefits, wrap fund charges and risk benefits like waiver of premium

In terms of the Standard, the EAC must be calculated separately for each of the four components and then totaled to provide one EAC figure for the financial product, expressed as a percentage. The Standard specifies how these costs must be calculated.

All charges that an investor will incur must be included in the EAC measure. Where a charge is not available, a reasonable best-estimate must be used. This must be disclosed.

The table below (which must be presented with prescribed explanatory wording) is an example of what investors can expect to receive from product providers in October this year when obtaining a quotation for a savings or investment product:

Charges	1 Year	3 Years	5 Years	Term to maturity: 10 Years
Investment Management ²	1.1%	1.1%	1.1%	1.1%
Advice	0.5%	0.5%	0.5%	0.5%
Administration ¹	0.9%	0.9%	0.9%	0.9%
Other ^{3,4}	0.3%	0.3%	0.3%	0.0%
Effective Annual Cost	2.8%	2.8%	2.8%	2.5%

Summerton emphasised that the EAC Standard facilitates cost comparison only, and does not provide any insights into the differences in product features.

The Standard strongly cautions product providers against manipulating any values to inflate the projected or anticipated performance of a product or to make a product appear less expensive. It also requires companies to use plain language in their cost disclosure.

The EAC Standard and detailed examples of the disclosure table that must be provided to consumers and advisers can be downloaded from the ASISA web site: <http://tinyurl.com/zub94zr>

Adherence to the Standard

Summerton explained that ASISA members are required to submit a compliance certificate to ASISA annually within three months of 31 December, which certifies that the EAC calculations and disclosures comply in all respects with the letter and spirit of the EAC Standard. The certificate must be signed by the company's CEO as well as either the auditor, statutory actuary, or chief compliance officer.

Disclosure for existing products

As part of a phased implementation, investors can expect companies to provide them with an EAC, for products sold after 1 April 2010, from 1 June 2017.

From 1 June 2018, products sold after 1 April 2000 must be compliant. And from 1 June 2019, products sold before 1 April 2000 must be compliant.

Ends

To set up interviews please contact:

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The Association for Savings and Investment South Africa (ASISA)

ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. These members hold assets under management of R8.5-trillion.