RA FEES STILL UNACCEPTABLE

Upfront costs on traditional Retirement Annuities (RA's) are still too high. Anyone who is buying an RA from a life assurance company needs to be very careful before taking the leap. In most cases, it will be far cheaper to use an RA from a unit trust company where your fees are transparent and charged on an on-going basis rather than taken upfront. One of my colleagues has a Sanlam RA that she took out in 2003 – before she joined us. She recently decided to transfer it to a low cost, indexed RA. Sanlam were happy to do it for the princely sum of 25% of her current fund value. This would never have happened if her RA was with a unit trust company that charges "pay-as-you-go" fees only. I cannot wait for Treasury to implement Treating Customers Fairly (TCF) legislation in South Africa so that this type of charging can be relegated to the past - where it belongs.

LARGE FINANCIAL INSTITUTIONS NEED TO WAKE UP

The mess that the world finds itself in after the Global Financial Crisis can largely be attributed to greed. Large financial institutions played a prominent role in creating the crisis and their behaviour during and afterwards has been appalling. Ordinary tax payers are questioning why their tax money should be used to bail out executives who think of them as "muppets" and cash cows to be milked at any cost. Barclays' conduct in the Libor debacle is yet another illustration that they have learnt no lessons from the Crisis. In South Africa, we were largely shielded from the worst effects of the Crisis but we have our own sordid history of financial institutions milking us. The real effects of the Financial Crisis will be felt in the years ahead as our generation will be very slow to trust a large financial institution and many of us will avoid them where possible. This trend could be very detrimental to the long term stability of the financial services industry.

UNFAIR EXIT PENALTIES IN INVESTMENT PRODUCTS

In 2004, an ethical actuary by the name of Rob Rusconi published a report called, "Costs of Saving for Retirement" which highlighted that charges on individual Retirement Annuities (RA's) could reduce your eventual maturity value by between 26.7% to 43.2%. He proved what most of us had been saying for years, we are being ripped off by excessive charges. His report was one of the contributing factors that lead to a change in the industry to ensure that fees were fairer to clients. Once the changes had taken effect, things quietened down and the focus on charges moved to banks and other institutions. I suggest that we let the life assurance companies off too easily. Over the last few years, more low-cost, indexed retirement products have been launched by unit trust companies. This means that it has become viable to transfer people out of the life assurance companies' expensive products to the better alternatives. Sadly, the life assurance companies are choosing to charge penalties to retain their clients rather than reduce costs to entice them to stay.

As a company, we have been surprised how many clients will be forced pay 25% of their existing capital as a penalty to transfer their own money to another product provider. As an example, if you have saved R400,000 over a period of 10 years in an RA, you will be charged R100,000 of your own money to move the RA to another company. Until now, I have not been able to publish details of these penalties because the policies belonged to our clients and we need to protect their confidentiality. I have recently seen these types of surrender penalties from most of SA's big life assurance companies. However now I can write about a Sanlam retirement annuity that belongs to Yolande Botha who works for us. We have a quote from Sanlam that states she will pay a penalty of R16,544.52 on a policy that is worth R67,754.01. This means Sanlam wants to charge her 25.5% of her own money to move her RA to a cheaper RA at another company. Just to reiterate the point, Sanlam is not alone in this behaviour; most of the life assurance companies charge 25% to move RA's to cheaper product providers.

HOW CAN THIS BE FAIR TO CLIENTS?

I will give Sanlam credit, the disclosure of fees is absolutely clear, the charges are clearly explained. My point is that this is incredibly expensive and is simply not fair to clients. Whilst no one can argue that Sanlam are entitled to the charges in terms of a contract that they created, I am arguing that this cannot be construed to be a fair arrangement to all parties. To me, this is a decidedly one-sided arrangement that I hope will be changed when Treating Customers Fairly legislation is implemented in South Africa. The whole basis of our financial services industry is that we must trust our financial services institutions. This trust has already been severely damaged by events over the last few years and charges that are patently unfair to one party will only erode this trust further.