

10 Megatrends shaping South Africans financial resilience

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2019 Sanlam Benchmark Research

“The most reliable way to anticipate the future is by understanding the present” – John Naisbitt, author of the 1982 book: Megatrends, 10 New Directions Transforming Our Lives

Individualisation, cost fixation, cyber risk, technological innovation and regular reviews are five of ten megatrends that Sanlam has identified to be shaping the retirement funding industry and affecting financial resilience for South Africans. The insights originate from the 2019 Sanlam Benchmark Research – the group’s annual retirement research, which has been surveying retirement industry stakeholders for 39 years.

Megatrends are the emergent dynamics shaping the future of the retirement funding industry and influence every facet of decision-making. Viresh Maharaj, Chief Executive of Sanlam Corporate Sales and Marketing, says, “This year, one of the key take-outs that emerged was individualisation is required within institutional retirement funds in order to improve financial outcomes.”

Sanlam showed that factors like marginal differences in fees don’t meaningfully move the needle to uplift income, despite the megatrend of a fixation on fees. Rather, it’s decisions like starting to invest early, contributing enough, choosing to preserve, staying invested for the long term, etc. that really make the difference to individuals.

The overall out-take? Maharaj says, “Costs are important but only to a point. Once costs being charged are reasonable and competitive, we need to stop fixating on them and start demanding value instead. It takes the right interventions at the right time. We need to combine high tech with the human touch to empower people to make better financial decisions.”

Another emergent megatrend is that employers within umbrella funds are starting to review their choice of umbrella fund. New entrants and advancements mean that employers are now alert to the need to regularly review their choice of umbrella fund to ensure that their members are best set up for financial resilience. In a survey of 100 professional independent employee benefits (EB) consultants, the Sanlam Umbrella Fund ranked as the umbrella fund most capable of delivering financial resilience to members.

Maharaj says we need to ask the ‘what if’ questions that will shape retirement for generations to come. “What if members want to be treated as individuals within their retirement funds? What if new cyber risks emerge that threaten the security of investments? What if we could make retirement great again? The Sanlam Benchmark research is about asking and answering these questions to spot the megatrends shaping our lives.”

Here are the ten megatrends identified in this year’s Sanlam Benchmark Report:

1. Governance & Regulation

Default regulations are the big change, along with King IV, B-BBEE and Financial Sector Conduct Authority (FSCA) Directive 8. Collectively, these are intended to instil best practice and trust across the industry.

2. Consolidation

We've gone from 13 000 standalone funds in 2005 to just 1 450 today. The consolidation of standalone into umbrella funds is a huge trend that will continue.

3. Review of Umbrella Providers

Competition has increased and employers have more optionality than ever before. We anticipate more frequent reviews and switching between providers.

4. Integration with Healthcare

The integration of healthcare, insurance and retirement funding is anticipated to holistically address a number of financial needs for employees.

5. Group Risk Disruption

A myriad of factors have combined to disrupt the status quo of the group risk space, including pricing behaviour, new regulations, and an increase in risks arising from economic stagnation, skills shortages, and a national health decline. The industry has reached a tipping point. It's a new normal that requires fresh thinking to promote financial inclusion.

6. Technological Innovation

Tech will continue to transform financial experiences across the board. People want online capacity for values and transactions, then they want guidance at the right time. High tech, plus 'high touch' (human counsellors) to the right people at the right time can intervene for optimal outcomes. Like preserving rather than taking a lump sum.

7. Fixation on Costs

If EB consultants had one wish it would be for clients to stop fixating on costs and obsess over value instead.

8. Transformation

Currently, 60% of EB consultants don't consider B-BBEE levels when recommending service providers and 33% don't think employers place great weight on B-BBEE levels. Going forward, this must change as transformation becomes a nationwide imperative.

9. Cyber Risk

Refinitiv estimates the global cost of cybercrime to be about \$600-billion pa. The financial services sector is the most attacked in the world. In the next 5 to 10 years, Sanlam predicts a retirement fund is likely to be defrauded if more stringent infrastructure and oversight don't come into force. Data must be protected. That's why Sanlam created the Cyber Resilience Benchmark to empower consultants, employers and trustees to start asking the right questions.

10. Individualisation

Averages work on average but not for individuals. Every retirement journey is unique. Now and in the future, personalisation is critical.

About the 2019 Sanlam Benchmark Research Report

The 2019 Sanlam Benchmark research is South Africa's most comprehensive retirement funding research, which is freely shared with the public in order to enable better decision-making by all concerned stakeholders. It represents the iteration of a process that began in 1981. After 39 years, the Benchmark survey continues to play an integral role in identifying trends, uncovering issues and setting the precedent for a nationwide industry standard.

The research:

The research engages retirement funding stakeholders to understand the drivers of better financial outcomes. This year, interviews were conducted amongst 100 principal officers and trustees of stand-alone retirement funds and 100 key liaison persons at participating employers. A sample size of 100 interviews was retained for each survey. There was a significant 78% and 54% year-on-year participation in the standalone and umbrella funds surveys, respectively.

Interviews with principal officers averaged approximately 70 minutes in duration, and interviews with participating employers were about 55 minutes each. Fieldwork took place between 18 February and 28 March 2019, across Johannesburg, Cape Town, Durban and Pretoria.

The theme for this year's report:

In her foreword for this year's report, Acting Sanlam Employee Benefits CEO Jocelyn Hathaway said that despite the renewed energy and hope from the elections, South Africa remains challenged by three structural inefficiencies, namely: unemployment, education and healthcare.

As a result, Hathaway highlights that this year's Benchmark research takes a deep dive into the concept of financial resilience and a key insight derived from the studies was that income and education are two mutually dependent variables with the biggest impact on financial outcomes for individuals. The research in no way suggests that educated professionals always make the right financial decisions. So, it's up to all stakeholders in the Employee Benefits industry to actively help future-proof South Africans' retirement savings.

As part of the financial resilience focus, the research explores cybercrime for the first time, with the Sanlam team developing the inaugural Cyber Resilience Benchmark. This shows shifting trends and how Benchmark research keeps abreast with and actively aims to mitigate the key threats it helps to identify.

The theme for this year's report is Enabling Financial Resilience.

The research is available via www.sanlambenchmark.co.za