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# Reducing client risk in umbrella fund investments



**W**e need to change many aspects of umbrella funds governance. Thanks to the efforts of the Financial Services Board (FSB), some of these required changes are already underway. The industry regulator has thus far opted for a gradual approach and has made some headway in addressing issues that are symptomatic of the larger underlying problem – poor fund administration and the proverbial bureaucratic red tape.

In the case of administrative inefficiency that makes it so difficult for customers to switch funds, the FSB has done good work by removing smaller administrators that aren't competent, and bringing in capital adequacy. Once implemented, market consolidation should be realised.

However, despite regulation to try to alleviate it, a great deal of inertia remains in the industry when customers try to switch funds. The current model is still too reliant on the previous fund administrator to transfer the required data to the new administrator, but they have no incentive to expedite the process as they've already lost the client, and are further incentivised to drag their feet as they continue to earn an asset management fee – another pertinent point of contention.

It's important to consider, despite frustrations in the industry, that when driving retirement reform, the issue of practicality cannot be ignored when trying to implement step changes in an industry of this nature. As such, a completely new administrative framework is too idealistic. As is so often the case, implementing gradual change is often more

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successful, especially if it's going to take 15 years to implement a complete overhaul.

### **Putting client investment ahead of administration inadequacies**

Critical for consideration in the overhaul of the umbrella fund industry must include a review of asset-based management and administration fees, which increase in relation to the sum invested – thereby penalising those who save or invest more.

In addition, the assets under management bear no relation to the cost of administration and should, therefore, be structured differently. A fixed cost every month, per member, for instance, regardless of how much they contribute or how much has been invested, would offer a more equitable approach as it doesn't penalise those who invest or save more.

Certain umbrella funds also choose to invest in portfolios, which attract multi-manager fees. However, the large institutions have a habit of only disclosing the top fees, not the underlying asset manager fees. As such, the costs associated with managing assets is a key area that should be reviewed, especially as greater transparency would enable retirement savers to make more informed comparisons and make selections based on performance and the associated costs to determine real returns.

As such, regulated fee transparency will allow for cost and benefits comparison. If employers were able to easily evaluate fund fees and benefits against each other, and move with less hassle, all other issues would fall in line.

### **Opening the market**

Unfortunately this inherent inertia is preventing the natural economics of a more open market, which would drive greater competitiveness as customers who don't receive good service at a competitive price, or are overcharged, would have the ability to talk with their feet.

And the other factor hampering this shift, not enabling it as it should, are the legislated changes, under the Taxation Laws Amendment Act, 2013. Under these new regulations provident fund members will be forced to forfeit their vested rights (i.e. the portion which they would still be entitled to in cash) if they switch funds, which will make the market even 'stickier'. We, therefore, feel that this legislation should provide clarification before implementation to help free up the market while still promoting retirement reform, rather than compound the bigger issue.