ISSUE 52

VERBATIM

April 2020

COVID-19 UPDATE

A. FSCA COMMUNICATION 12 OF 2020

This communication from the FSCA deals with Covid-19 issues in relation to various entities which the FSCA regulates.

"Customers" for retirement funds generally means the fund's members and beneficiaries.

The Communication includes the following points relevant to retirement funds – which are regulated entities:

- Customers must be treated fairly, especially in the light of uncertainty and market volatility created by Covid-19;
- More than ever now, customers must be assisted with more empathy, flexibility and understanding;
- Relief and support options for vulnerable customers must be considered;
- Profiteering off those that are vulnerable and suffering will not be tolerated;
- Business continuity plans must be reviewed and operational ability assessed. Risks and potential risks must be assessed and mitigated. This includes the ability to deliver services within the agreed and communicated service level agreements with customers. Comment: given that most of a fund's operational ability lies with its administrator and investment managers, funds should consider the ability of their administrator and investment managers (as well as other key service providers) to continue operating. The FSCA states that the frequency of reporting and the analyses of trends and concerns are of the utmost importance;
- The board's due diligence, monitoring and control over third parties (e.g. its service providers) should remain in place. Where required, alternative methods of delivering fair outcomes to customers should be considered;
- Senior management should take responsibility for managing the impact of the COVID-19 on the business and regularly review their approach. Comment: for retirement funds this requires the board to keep a tight strategic hold on the fund's approach to Covid-19 issues;
- Regular and continuous communication to all internal and external stakeholders and customers regarding the current business continuity plan, processes or procedures that might change and the way forward regarding the mitigation of risks. Comment: boards need to ensure that they are communicating in an ongoing manner with members as well as other stakeholders, such as employers, especially those employees and employers in financial distress as a result of Covid-19;
- If any major risks are identified as a result of COVID-19, which could materially impact fair outcomes to customers, the entities should immediately communicate this risk, the impact thereof and mitigation plans to the FSCA;
- The complaints process and turn-around-times for resolving complaints should continue as usual. Accurate reporting of all complaints will be essential for doing trend analysis and for the regular reviewing of mitigating measures that need to be taken

VERSO®
FINANCIAL SERVICES (PTY) LTD

Tel: (021) 943 5300 or 0861 88 88 81 | Fax: (021) 917 4600
E-mail: info@verso.co.za | Web: www.verso.co.za
An authorized Financial Services Provider. License number 14985

by senior management (comment: or the board in the case of retirement funds) when reviewing the business continuity plans and their effectiveness.

- The FSCA expect that, in order to understand and manage risks, financial institutions will increase the frequency of their complaints reports as well as the analysis of the root cause of complaints.

- As regards cybersecurity: financial institutions (comment: which includes retirement funds) should explicitly consider cyber-risk exposures and potential for breaches that may be heightened over this lock-down period due to wide roll out of remote working capabilities. Ongoing communication to customers is required to inform them about the latest types of cyber-attacks and scams and to reduce the risk of financial loss or data breaches.

The Communication includes the following points directed specifically to retirement funds:

- "The Board should keep abreast of risks that COVID-19 brings to the fund, and take necessary steps to mitigate such risks. The Board is also encouraged to clearly communicate COVID-19 developments and risk management strategies to fund members, to promote calm and minimise the risk of premature fund withdrawals.

- Retirement fund benefit administrators must inform all relevant stakeholders such as funds and their members, as well as third parties of any changes to their processes, procedures and ensure that the necessary communication is sent in this regard".

B. ESSENTIAL SERVICES

The Regulations to the Disaster Management Act 2002 have been amended for the third time. The amendment extends the meaning of "essential services". For financial services, "essential services" used to mean:

> 'financial services necessary to maintain the functioning of the banking and payment environment, including the JSE and similar exchanges, as well as Insurance services'.

"Essential services" in relation to financial services has now been amended to include:

"the following services necessary to maintain the functioning of a financial system as defined in section 1(1) of the Financial Sector Regulation Act, only when the operation of a place of business or entity is necessary to continue to perform those services:

i. the banking environment (including the operations of mutual banks, cooperative banks, co-operative financial institutions and the Postbank);

ii. the payments environment;

iii. the financial markets (including market infra-structures licensed under the Financial Markets Act, 2012 (Act No. 19 of 2012);

iv. the insurance environment;

v. the savings and investment environment;

vi. pension fund administration;

vii. outsourced administration;

viii. medical schemes administration; and

ix. additional services designated in terms of regulation 11B(4A)(c)(i)".

The abovementioned services may not be interpreted to include debt collection services.

The above-mentioned services would be "essential services" and would be able to continue to work from their place of business where this is necessary to perform their services. Outsourced administration activities related to "pension fund administration" could possibly include outsourced services such as death benefit services and tracing services, amongst others.

Tel: (021) 943 5300 or 0861 88 88 81 | Fax: (021) 917 4600
E-mail: info@verso.co.za | Web: www.verso.co.za