

Industry standard to usher in fee transparency

A new industry standard will drive transparency around hidden fees in the financial services sector, and there is optimism that consumers will benefit in the long run.

02 April 2019: Big financial services companies may soon need to find new ways to pad their earnings, as a new industry standard is threatening to expose the financial service sector's worst kept secret – hidden fees.

The Retirement Savings Cost (RSC) Disclosure Standard – developed by the Association for Savings and Investment South Africa (ASISA) – is designed to encourage financial service providers to be more transparent and give clients a clearer picture of their fee structures. The standardised retirement savings cost disclosure methodology is intended to assist employers when comparing costs from different umbrella fund providers that are members of ASISA.

While there is no law that will enforce the RSC Disclosure Standard, there is hope that industry players will do the right thing for the benefit of consumers and abide by the provisions of the standard.

Fedgroup CFO Sheldon Friedericksen explains that, in the past, legislation prescribed what had to be disclosed by financial services companies. Until now, companies were only required to reveal their asset management fees and their service fees, which is where most of the hidden costs were located – these can include admin fees, reporting fees and share trading costs.

“You always knew they were there, but you didn't know what they were, and it was all very hard to get to the bottom of,” says Friedericksen.

While there is optimism that the standard will change the way in which financial service providers reveal their fee structures, it is unlikely that consumers will see a sudden drop in fees, once hidden costs have been exposed.

“The standard is quite prescriptive in terms of what you must disclose, and you have to submit a compliance report to ASISA. But with standards and regulations, especially new ones, there is always a place to hide,” says Friedericksen.

And while the standard is aimed at achieving complete and total disclosure, this may take some time.

“The new standard is still being interpreted and debated and there will always be loopholes. At the end of the day, it is still up to the moral compass of industry to implement this effectively. And at the moment, clients don't have trust in the financial sector,” says Friedericksen.

While he expects that the new standard will not revolutionise the industry, it will force the industry to have a discussion about hidden costs. The RSC Disclosure is an illustration of the estimated retirement savings costs at an employer level and is not an employee level cost disclosure.

“Companies will be forced to justify their hidden costs. People are happy to pay, as long as they see value for their money. If nothing else, it will empower people to start asking the questions,” he says.

Fedgroup Life CEO Walter van der Merwe says that while it is right for any business to charge a fee or make a profit from delivering services and benefits, some financial services providers have enriched themselves beyond an acceptable level at the expense of their clients.

“There are many organisations whose business strategy is to directly and deliberately offer products that are complex and convoluted. Why do their products have to be so complex that even financial advisors have difficulties explaining them? How am I supposed to understand them as a consumer?”

Van der Merwe says the new standard is a huge leap in the right direction for the consumer, giving people one number to compare from provider to provider.

“It also brings fees into perspective in terms of value. People don’t mind paying slightly more if they can see they are getting a benefit,” he says.

He also believes that the RSC Disclosure Standard will bring about noticeable changes in the industry. “There will be exposure for some of the big providers. It will show where they have been able to charge exorbitant fees and get away with it.

“Hopefully, they will restructure their fees before the new calculation and the past will remain hidden. They will then have a new fee structure where they are charging less.”