



Financial Services Board

Approach to Risk-Based Supervision: FSB, South Africa

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Overview:

- Supervisory Landscape
- Comparison of FSB approach with IOPS model
- Processes adopted: Risk assessment
- Factors affecting risk assessment:
 - Administrators
 - Retirement funds
- Calculating risk rating





Supervisory Landscape

Quasi-mandatory occupational funds and voluntary funds

- Number of funds = 11 835
- Number of members = 9 Million
- Asset value = \$214 Billion
- Number of administrators = 323
- Board of Trustees (BOT):
 - Minimum of 4
 - 50% appointed by members
 - Estimated number of trustees: 30 000 – 60 000



Comparison of FSB approach with IOPS model

FSB:	IOPS:
- Rules and compliance based legislation	- Interpretive legislation
- Members elect at least 50% of the board members	- Execute a fit and proper test on members of governing body
- Quantitative limits set for investments	- Prudent person
- Non disclosure of risk rating	- Disclosure of risk rating



Process adopted: risk assessment

- Large number of retirement funds and administrators preclude supervisor from conducting individual risk assessments
- Self assessment risk questionnaire introduced for completion by each supervised entity
- Electronically submitted and risk assessed

Factors influencing\impacting on probability rating - Administrators

- Number of funds under administration
- Number of outstanding statutory returns
- Number of complaints against administrator
- Qualifications in audit reports
- Contraventions of the Act
- Outcome of inspections
- Determinations of Pension Funds Adjudicator

- ***The risk rating of the administrator influences the risk rating of the funds under their administration***



Factors influencing\impacting on probability rating – Retirement Funds

- Financial information identified electronically on the early warning system:
 - Audit opinion
 - Bank overdraft
 - Exceed prescribed investment limits
 - Exceed investment limit in a participating employer
 - Arrear contributions
- Non-submission of statutory returns
- Complaints against the fund
- Determinations by the Pension Funds Adjudicator
- Whistle Blowing (including Reportable Irregularities)



Calculation of risk rating:

$$\text{RISK} = \text{IMPACT} \times \text{PROBABILITY}$$

The four risk categories are:

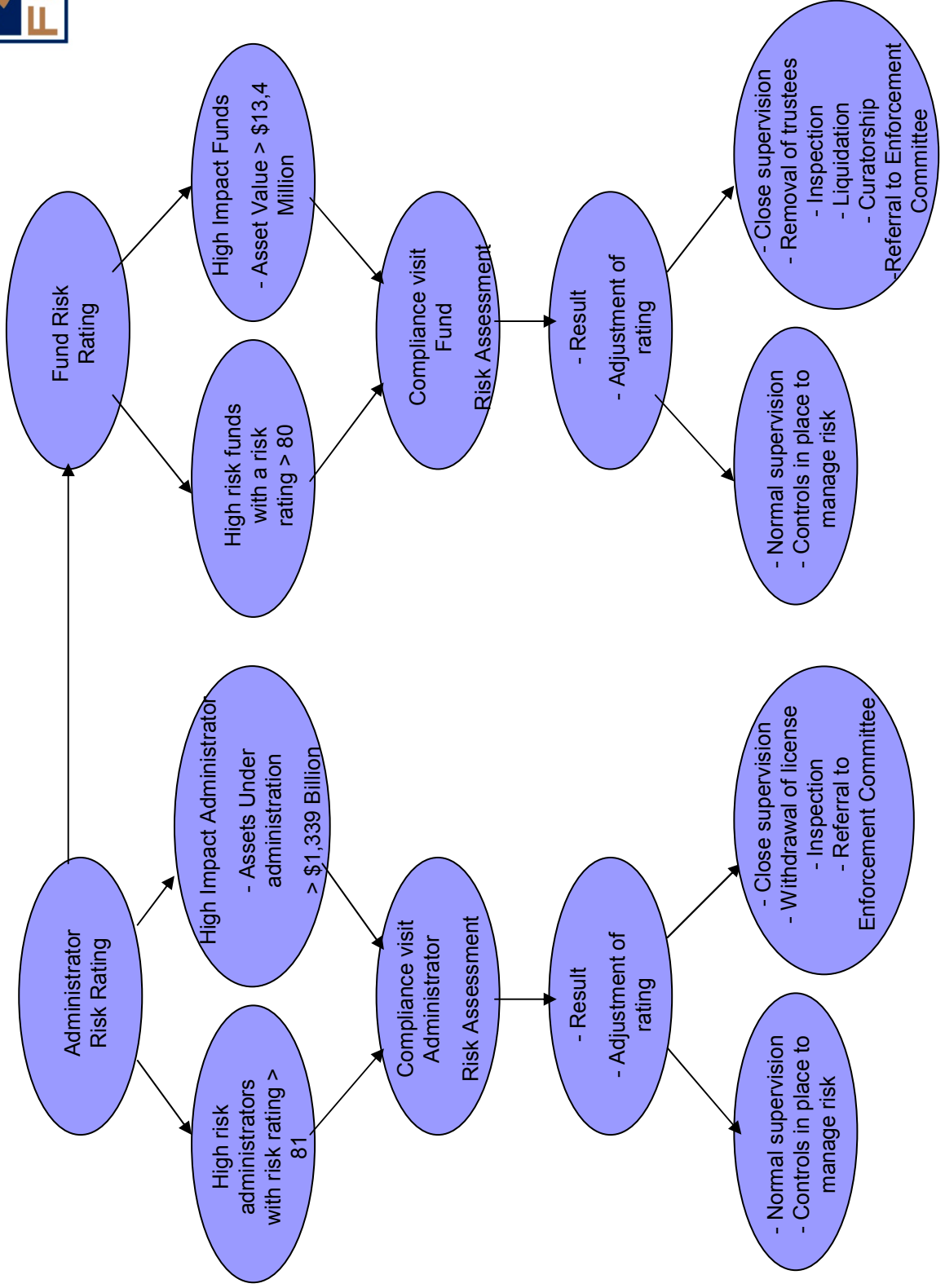
1. Low
2. Moderate
3. Significant
4. High



Impact rating

Threshold	FUND: <i>Asset value of fund</i>	ADMINISTRATOR: <i>Asset value under administration</i>
High (4)	>\$13,4 Million	>\$1,339 Billion
Above Medium (3)	>\$6,7 Million < \$13,4 Million	>\$134 Million < \$1,339 Billion
Below Medium (2)	>\$1 Million < \$6,7 Million	> \$67 Million < \$134 Million
Low (1)	<\$1 Million	< \$67 Million

SUMMARY: RISK FRAMEWORK





Thank You
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