

Media Release

Association for Savings and Investment South Africa (ASISA)

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Adviser research reveals investors with nerves of steel

South African investors appear to have nerves of steel and seem to be coping surprisingly well with the volatility caused by the global financial markets crisis, according to financial advisers who participated in an online survey conducted at the end of last year by the Association for Savings and Investment South Africa (ASISA).

Peter Dempsey, deputy CEO of ASISA, says during October and November last year financial advisers active in the areas of personal financial planning, investment and long-term insurance cover were asked to participate in the online survey aimed at assisting ASISA and its members in better understanding the needs of financial advisers and their clients.

ASISA received 393 qualifying responses from independent financial advisers, tied agents, bank brokers and corporate brokers. Dempsey says there is industry consensus that this sample is a good representation of advisers active in the industry.

He says only a small percentage of advisers who participated in the survey had clients disinvesting due to volatile market conditions. This does not mean, however, that investors are not concerned, says Dempsey.

“Feedback received from financial advisers indicates that more clients are requesting switches to money market funds, querying performance more often and expressing concerns about reduced returns. Advisers also indicated that they are spending more time reassuring and educating clients than in the past. Only a small proportion of advisers experienced an increase in clients querying fees.”

Dempsey says some advisers even reported an increase in business, including applications for life insurance policies. This trend seems to be in line with both the fourth quarter 2008 collective investment schemes (CIS) statistics and the life insurance sales statistics for the second half of last year.

The net quarterly CIS inflows of R26-billion for the fourth quarter last year were the second highest ever recorded by the CIS industry. And new recurring premiums increased by 19% to R7-billion in the second half of last year.

Saving for retirement

Advisers who participated in the survey indicated that their clients are generally not financially well prepared for retirement.

Dempsey says only 13% of responding advisers indicated that 50% or more of their clients are well prepared for retirement.

The main reasons mentioned by advisers for clients not saving enough for their retirement are:

- A poor savings culture
- Not preserving retirement benefits when switching employers
- Relying solely on employers' funds for retirement benefits

Dempsey says advisers indicated that the retirement annuity (RA) is by far the most frequently sold retirement product, followed by living annuities, and then preservation funds.

Investment views

On average two out of every five advisers said they recommend to clients that more than 50% of their discretionary money should be allocated to unit trusts.

Dempsey says the research showed that the unit trusts sold most often by the respondents are general equity unit trusts and money market unit trusts. This is followed by asset allocation unit trusts and multi manager funds. Least popular are exchange traded funds and wrap funds.

He adds that half of the advisers who participated indicated that they review individual client portfolios annually. The rest of the respondents tend to review portfolios more often than once a year.

On offshore diversification, 45% of the advisers canvassed said they recommend that between 10% and 25% of a client's investments should be held offshore. Some 29% said they recommend a 5% - 10% offshore allocation.

Broader diversification and rand depreciation were listed as the main factors that influence advisers to advise their clients to invest offshore.

Where advisers invest

Dempsey says nearly a third of responding advisers indicated that more than 50% of their personal discretionary investments were held directly in collective investment schemes such as unit trusts.

Advisers considered accessibility the most important benefit of unit trusts, followed by cost effectiveness, transparency and diversification.

Approximately one quarter of respondents indicated that more than 50% of their personal discretionary investments were held within life insurance products and through Linked Investment Service Providers (Lisps).

A third of respondents indicated that more than 50% of their personal contractual investments are held through products within life assurance wrappers and products with Lisps; 17% indicated less than 5% or none.

The respondents

Dempsey says the majority (72%) of participating financial advisers consisted of independent financial advisers. Nearly 60% of respondents had 15 years and more experience in the industry.

He says the independent financial advisers tend to have served slightly longer in the industry compared to the tied agents, bank and corporate brokers.

The vast majority (81%) of respondents were between 35 and 65 years old, with 43% of these being between 50 and 64 years old. Dempsey says this indicates an aging intermediary workforce, the implications of which need to be considered by the industry.

Ends

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ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies. ASISA was formed in 2008 by members of the Association of Collective Investments (ACI), the Investment Management Association of South Africa (IMASA), the Linked Investment Service Providers Association (LISPA) and the Life Offices' Association (LOA).