

# Guarantees now in the spotlight

THE global financial crisis has taught investors that guarantees provided by a financial institution or even a government may be worthless under extreme market conditions.

Tobie van Heerden, business development director; Investec Asset Management, says "black swan events" happen more frequently than predicted and can have dire consequences for investors — especially those banking on a guaranteed level of return.

Recent events have prompted investors, retirement funds and their consultants to reassess the value of explicit guarantees, even when provided by the most credible institutions in the world, he says.

"Close attention is being paid to the costs of guarantees — which are not limited to the explicit fees paid. Implicit costs include the sacrificing of returns as well as the opportunity costs which result from the long lock-in periods," says Van Heerden.

"Worst-case scenario analysis is gaining traction, in which the impact of lapsed guarantees is modelled within more humdrum risk and return scenarios."

He says that the biggest impact of this change will be felt by the traditional providers of smoothed bonus products and structured products, as well as on issuers of rated corporate and gilt-edged government paper.

"Investors will become increasingly assertive regarding disclosure of product provider incentivisation mechanisms, as



Tobie van Heerden ... beware the black swan events.

well as on pricing and overall transparency levels."

On the retirement front, according to Sanlam's 2010 benchmark retirement survey, 60% of pensioners interviewed said that they did not have sufficient funds to live on, with 64% of these being forced to cut back on their living expenses and 31% having to carry on working past retirement.

Justus van Pletzen, chief operating officer of the Financial Intermediaries Association of Southern Africa (FIA), says: "We are heading towards a real social crisis and it is important that people take on board the implications of entering retirement with little or no savings in place to support them."