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Responsible Investment in the South African Pension Fund Industry: A Critical Analysis

by

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¹ **Note:** The findings from this working paper does not in any way reflect the views of the Development Finance Centre (DEFIC). The views are only representative of the authors.





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Responsible Investment in the South African Pension Fund Industry: A Critical Analysis

Ann-Maree Tippoo and Reza C Daniels

Abstract

South African regulation requires pension funds and their trustees to act in the best interest of their beneficiaries, according to their fiduciary duty. According to the preamble to Regulation 28 of the Pension Fund Act of 1956, this includes responsible investing (RI). However, the South African RI landscape, barring a few exceptions, is dominated by financial institutions other than pension funds who do not necessarily have the same legal and fiduciary imperatives. Using data gathered from semi-structured interviews with key people in the industry a grounded theory approach and content analysis this research addresses why there is limited RI action on the part of pension funds. The findings show that pension fund trustees lack understanding of RI as well as the full scope of their fiduciary duties mainly due to issues with trustee competency, resource allocation, and legacy behaviour and interpretations of legislation. Additionally, there is little accountability to both the regulators and members in this regard. The importance of addressing these reasons is brought into focus by considering the role of pension funds as constituents of the social security system, as savings institutions, as allocators of capital, and as part-owners of companies making RI consideration a natural and integral part of decision making. Based on the findings, this paper recommends appropriate training interventions for trustees, in addition to a review of trustee selection, appraisal and tenure. Furthermore, industry consolidation and agreement around RI frameworks and definitions would serve to improve understanding of RI. To improve accountability, the paper recommends the introduction of non-prescriptive, demonstrative reporting requirements. Important themes for further research include the competency of South African trustees and the development of frameworks for the understanding of RI in the industry.

Keywords: Responsible Investment | Pension Funds | Trustees | Regulation 28 | Fiduciary Duties | South Africa |