SANLAM BENCHMARK 2023

GENERATING A LI:FE OF CONFIDENCE AT EVERY AGE

Innovate | Inspire | Engage

INSIGHTS REPORT

Sanlam

Live with confidence

CONTENTS

FOREWORD: A NEW DAWN OF CONFIDENCE IN A CHANGING WORLD 4
Kanyisa Mkhize
CHIEF EXECUTIVE OFFICER
SANLAM CORPORATE

SANLAM UMBRELLA FUND CHAIRMAN'S REFLECTIONS 8
David Gluckman
CHAIRMAN
SANLAM UMBRELLA FUND

UPDATE ON NATIONAL HEALTH INSURANCE (NHI) IMPLEMENTATION 15
Dr Katlego Mothudi
MANAGING DIRECTOR
BOARD OF HEALTHCARE FUNDERS OF SOUTHERN AFRICA (BHF)

PRIVATE HEALTHCARE INSIGHTS AND TRENDS 20
Mbali Khumalo
MANAGING DIRECTOR
SIMEKA HEALTH

THE POSSIBILITIES AND PITFALLS OF THE TWO-POT RETIREMENT SYSTEM 32
Lorraine Mekwa
MANAGING EXECUTIVE: CLIENT EXPERIENCE
SANLAM CORPORATE
and
Marian Gordon
REGIONAL HEAD & PRINCIPAL INVESTMENT CONSULTANT
SIMEKA

THE EVOLUTION OF THE MEMBER AND INTRODUCTION TO MEMBER-LED OUTCOMES 40
Anna Siwiak
HEAD: PRODUCT DEVELOPMENT
SANLAM UMBRELLA SOLUTIONS

MLO: GENERATING A LIFE OF CONFIDENCE THROUGH MEMBERS' EMPLOYMENT JOURNEY AND BEYOND 46
Koketso Mahlalela
HEAD: MEMBER-LED OUTCOMES
SANLAM CORPORATE

ALPHA GENERATION 51
Ashley Singh
CHIEF INFORMATION OFFICER
SANLAM CORPORATE

EARLY ACCESS TO RETIREMENT SAVINGS – WHAT WE CAN LEARN FROM CHILE 56
Danie van Zyl
SMOOTHED BONUS CENTRE OF EXCELLENCE
SANLAM CORPORATE: INVESTMENTS

2 POT LEGISLATION: AN ADMINISTRATOR OF OCCUPATIONAL FUNDS' PERSPECTIVE 59
Johan Prinsloo
HEAD: RETIREMENT FUND ADMINISTRATION SERVICES
SANLAM CORPORATE

UNDER THE UMBRELLA 63
Riaan Botha
HEAD: BENEFIT CONSULTING
SIMEKA

continued on next page

IMPACT INVESTMENTS CAN CHANGE SA IF SA INVESTS IN CHANGE 66
Elias Masilela
CHAIR
NATIONAL TASK FORCE ON IMPACT INVESTING IN SOUTH AFRICA

A JUST TRANSITION IS NOW A SIGNIFICANT PART OF THE SUSTAINABILITY AGENDA 68
Tinotenda Mtemeri
HEAD: INSTITUTIONAL DISTRIBUTION
SANLAM INVESTMENTS

PATHWAY TO SUSTAINABLE AND DECARBONISED PORTFOLIOS – SOUTH AFRICA PERSPECTIVE 71
Ashley Daswa
SENIOR INVESTMENT SPECIALIST
SANLAM CORPORATE: INVESTMENTS

PROTECTING US FROM OURSELVES: NAVIGATING BIAS IN INVESTMENTS 75
Kingsley Williams
CIO
SATRIX
and
Nico Katzke
HEAD: PORTFOLIO SOLUTIONS
SATRIX

ESSENTIAL FINANCIAL PLANNING | FOCUS ON FINANCIAL PLANS 79
Maxwell Mojapelo
HEAD: BUSINESS DEVELOPMENT
GRAVITON
and
Dominic Sides
HEAD: RETIREMENT OUTCOMES
SANLAM CORPORATE

THE UNFORTUNATE REALITY ABOUT TRUSTEE-ENDORSED DEFAULT ANNUITIES 82
Karen Wentzel
HEAD: ANNUITIES
SANLAM CORPORATE: INVESTMENTS

TRENDS AFTER COVID-19 85
Neil Cilliers
HEAD: ACTUARIAL
SANLAM CORPORATE: GROUP RISK

INVESTING IN NURSE-LED PRIMARY HEALTHCARE: CLINICS CAN IMPROVE EMPLOYEE WELLNESS AND BOOST BUSINESS PROFITABILITY 87
Sandile Mbele
EXECUTIVE DIRECTOR: CORPORATE SOLUTIONS
AFROCENTRIC

DIGITAL HEALTH SCREENING TRENDS 90
Nkateko Msimeki
SENIOR MANAGER: MEDICAL ADVISORY
HEALTH POLICY DEVELOPMENT UNIT AT MEDSCHEME

SEEING PATIENTS DIFFERENTLY: DELIVERING A PATIENT-CENTRED HEALTHCARE MODEL 93
Dr Abongile Qamata
MEDICAL ADVISER
AFROCENTRIC GROUP

EDUCATING MEMBERS: DO WE HAVE THEIR ATTENTION? – OPINION ON THE FUTURE 96
Andrew Wright
EXECUTIVE MANAGER: BUSINESS ENGINEERING AND SOLUTION DESIGN
SUPPORT SOLUTIONS MEDSCHEME
and
Vukosi Sambo
EXECUTIVE HEAD: DATA INSIGHTS
AFROCENTRIC GROUP

FOREWORD: A NEW DAWN OF CONFIDENCE IN A CHANGING WORLD

Kanyisa Mkhize
CHIEF EXECUTIVE OFFICER:
SANLAM CORPORATE

Imagine navigating the journey of life with unshakeable confidence, fearlessly embracing each challenge and opportunity, at any age. Envision adapting and evolving with the ever-shifting world, guided not by fear of the unknown but by the ambition to master it.

The uncertainties we face – in our income, health, wealth, family, and security – can be daunting, yet it is the power of our choices that allows us to steer our destinies.

At Sanlam Corporate, we believe in the power of incremental transformations, much like the compounding effect of interest on an investment. Because life-changing transformation often lies in seemingly insignificant shifts. To borrow from James Clear, best-selling author of *Atomic Habits*, "An atomic habit is a little habit that is part of a larger system. If you want better results you must forget about setting goals. The most effective way to change your habits is to focus not on what you want to achieve but who you wish to become."

Today, with science and technology seamlessly blending into our lives, the possibilities seem endless. Our imaginations, coupled with the powerful tools we have at our disposal, enable us to be the best versions of ourselves.

In our technologically advanced world, it's impossible to overstate the impact of data science and artificial intelligence (AI). They are altering the course of human history, much like the Third Industrial Revolution did in the mid-1900s. Yes, the initial fears of machines replacing humans in workplaces were real, but what actually transpired was an unexpected surge of new job roles, unheard of in previous eras.

The dawn of the computer age in the 1950s introduced machines capable of cognitive functions. Today, the world is our digital oyster, overflowing with boundless information and new fields like data science. We stand on the precipice of significant advancements that promise to elevate that of which we as humankind are capable.

Of course, much like the fears of the early 1900s, there is concern that artificial intelligence will replace humans in the workplace.

Data science, artificial intelligence, and augmented reality

The Third Industrial Revolution was characterised by the advent of electronics, which also initially sparked fears of job loss. Instead, it led to an explosion of new jobs that were unimaginable before. Some even argue that the future workplace may not have us interfacing with technology via keyboards but rather engaging with machines as co-workers.

So, is the human workforce really under threat from AI? Machines are indeed extraordinary, capable of tasks that can astound us. However, while they can outpace us in strategic or mathematical domains, machines are yet to conquer the nuances of genuine conversation or the art of applying lessons from one field to another. True conversation and inquisitiveness remain uniquely human traits. It is here that the marriage of human curiosity with machine efficiency shines, creating a powerful synergy that redefines what is possible.

The progress we have made in sectors like healthcare, where digital advancements are revolutionising disease management and preventative care, is testament to the power of this digital age. If we consider the world as it has been experienced through different generations – from Boomers to Zoomers – it is clear to see how digital advancements have revolutionised our industries.

The world as experienced through generations

In the 1990s, Generation X witnessed the onset of the World Wide Web. By the mid-1990s our industry experienced the shift from defined benefit to defined contribution fund arrangements. Member investment choice soon followed, and by the 2000s groups of people were categorised by the year in which they were born. Behaviours and attitudes were researched, and it became evident that some attributes relating to communication, purchase behaviour and personal identity could be linked directly to global influences.

At the start of the 2000s the Millennial Generation experienced the evolution of the World Wide Web, with the Web2 era empowering more advanced experiences. Data became centralised, with only a few companies owning everyone's data. There was an upsurge in demand for personalisation and customisation, which took the world by storm. Today everything is data driven, and data has become a commodity. The much-talked-about millennials are approaching their 40s and the world has shifted its attention to Gen Z – also referred to as the first true digital natives – and Generation Alpha born between 2010 and 2025.

Researchers estimate that by 2025 there will be 480 million Generation Alpha customers in Africa. Generation Alpha will be significant players in markets of the future. To engage these consumers, businesses need to appeal to their needs, habits and desires. This generation is being guided by fundamental shifts in the way societies, economies and communities engage.

Build confidence with holistic wellness for all

As we prepare for the future, millennials now between 25 and 40 years old, currently make up about 54% of our Sanlam Umbrella Fund membership and hold 23% of the assets. Statistics from Stats SA reveal that there are nearly 16 million millennials in South Africa. They seek financial stability, not for materialistic reasons but to support their pursuit of comfortable and purposeful lives. Millennials are more aware and exposed than previous generations, have witnessed the consequences of the dire decisions made by their predecessors and aspire to create a different and better future for themselves. And while millennials may place value on mental health, physical health, and living well, they do continue to face the stressful realities of future uncertainty and insecurity.

Charting a new era in healthcare

Healthcare represents an area where digital advancements, such as disease management and preventative care, are making significant progress. However, we cannot overlook the stark reality that affordable healthcare and access to medical aid remain elusive for many South Africans. The Council for Medical Schemes' report states that only 8,9 million South Africans have medical scheme coverage. This accounts for only 25% of the 16 million gainfully employed individuals in the country.

Read more on the implications for this cohort on page [##] of this report, which unpacks the healthcare status of our nation and details coverage and attitudes towards healthcare solutions. The research reveals a concerning trend: employers have increasingly relaxed their policies on mandatory participation in medical schemes. Moreover, many have opted not to replace it with access to corporate wellness solutions. Added to this, over the past decade, medical scheme membership has stagnated, with younger individuals deferring their entry into the system. Some employers are even stepping back from guiding or subsidising access to medical aid.

However, wellness solutions and access to quality healthcare can contribute to enabling a future society that is health conscious and mostly self-reliant and not dependent on State-assisted healthcare, ultimately empowering members to confidently achieve desired financial retirement outcomes. With improved health and well-being, individuals are better positioned to secure their financial future and enjoy a fulfilling retirement.

A two-pot system could help members achieve desired financial retirement outcomes

Although the World Health Organisation recently declared the pandemic over, the economic issues in its wake are still very real. Many households now find themselves in immense debt and dire need of emergency funds to alleviate their financial burdens. The high cost of living has left many cash-strapped and the proposed two-pot system will allow people to access a portion of their retirement savings before they reach retirement age.

Using financial modelling enables us to consider the associated implications of granting members early access to their retirement savings. This is important considering that in South Africa the latest household saving rate was 0% for 4Q 2022 and 0,2% for the whole of 2022.

The proposed two-pot system aims to strike a balance between promoting the preservation of retirement benefits and providing access to emergency funds while individuals are still employed. It offers members greater flexibility and drives the desired behaviour of preservation through compulsory measures. For many, this will be a defining moment, a fork in the road that will determine their future trajectory. With the two-pot system, we hope that by allowing individuals access to a portion of their savings we can instil good financial habits.

While well intended, there are some challenges associated with the two-pot system, such as member choice on investment options for the savings pot and the lack of financial knowledge among most members, which may expose them to the risk of capital loss. However, as custodians of our members' retirement savings, we have a duty as an industry to transfer knowledge and provide members with the necessary tools to navigate their financial decisions confidently.

Empowering employees to be financially confident about their future

Our members are at the centre of everything we do at Sanlam Corporate. This is why we have introduced Member-led Outcomes (MLO), a strategic initiative that focuses on advising and informing members about their retirement options. MLO aims to empower members to make confident decisions by providing them with the necessary guidance. Think of it as having an accountability partner who supports and guides you throughout your retirement planning journey.

Behavioural theory research tells us that timely strategies and activations can significantly influence members' decisions, starting from their onboarding phase until they retire. Our goal is to encourage members to preserve their retirement savings, as preservation is crucial for maintaining financial independence and enjoying a comfortable lifestyle in retirement while safeguarding their well-being.

Research from the Zurich Insurance Group reveals that Gen Z may switch jobs up to 10 times between the ages of 18 and 34. To address this challenge, our MLO initiatives focus on implementing strategies that encourage members to make informed decisions aligned with their desired outcomes. Our dedicated retirement benefits counsellors are also there to provide members with access to information and to help them navigate their retirement savings journey effectively.

Conclusion: Financial confidence for your organisation and its people

To truly make a positive impact in our members' lives, we must engage with them actively. As James Clear, author of *Atomic Habits*, said, every action we take is a vote for the type of person or organisation we want to become. It requires continuously adjusting our beliefs, upgrading our identity, and focusing on our systems. This has been our approach since 2020, understanding that behaviour change begins with awareness.

Human behaviour tends to follow the path of least resistance, which is why Sanlam Corporate emphasises the importance of digital enablement and automation. Automating habits is the ultimate way to ensure consistent future behaviour. By enrolling in an automatic savings plan, for example, a single decision can automate your habits and lead to increasing returns over time. Leveraging technology to automate habits is a reliable method for achieving the desired behaviour.

We are more likely to repeat behaviour when the experience is rewarding. The human brain prioritises immediate rewards over delayed ones, so it follows that what is immediately rewarded is more likely to be repeated.

We thank and value the input from each client and intermediary who participated in our client experience research. Without the valuable insights provided, we would not be able to improve. In the coming weeks, we look forward to sharing with you our refreshed Sanlam Corporate website, which has been evolved in direct response to the feedback we have received.

Let us embrace the power of deliberate choices, seize the opportunities offered by digital transformation, and commit to co-creating a future defined by financial confidence and extraordinary experiences.

SANLAM UMBRELLA FUND CHAIRMAN'S REFLECTIONS

David Gluckman
CHAIRMAN
SANLAM UMBRELLA FUND

The year 2023 represents my 11th formal Sanlam Benchmark presentation (excluding panel debates)! My previous 10 presentations all covered the subject of retirement reform, being:

Year	Topic
2009	NSSS versus Free Market Retirement Reform
2010	2nd Umbrella Funds Benchmark Study & Charges Analysis
2011	3rd Umbrella Funds Benchmark Study
2012	Reform ... the Umbrella Fund Response
2013	Retirement Fund Charges
2014	Crunch Time for Umbrella Funds
2015	Retirement Reform in Action
2017	South Africa and the EB Industry in 2030
2018	Default Regulations – A Tipping Point
2019	Make Retirement Great Again

But at the 2023 edition, I serve in a different capacity from all these prior Sanlam Benchmark presentations – as Chairman of the Sanlam Umbrella Fund Board.

My predecessor as Fund Chairman, the late Derek Smorenburg, definitely had style – he retired on 29 February 2020 (also being his wedding anniversary).

So, I was appointed a trustee and elected Sanlam Umbrella Fund Chairman on 1 March 2020. Only four days later, South Africa reported its first COVID-positive case. And two weeks later, the country was placed in a National State of Disaster that was to last no less than 750 days.

It seems an appropriate juncture to reflect on these past three years. Not to dwell on the past, but rather to reflect on what are the important learnings for the future.

So, let me begin by trying to put myself back in March 2020 immediately after my appointment and election as Chairman, and just before the world as we knew it imploded.

I set myself two key goals as Fund Chairman:

1. To steer the Fund through the COVID pandemic; and
2. to oversee succession planning for the Board and Fund officials.

Why did I regard succession planning as vital?

Well, unlike today when I am (by some margin) the oldest of the Sanlam Benchmark presenters, I appreciated I was one of the younger Sanlam Umbrella Fund Board members and Fund officials. We had a very capable and experienced group, but a group in need of future proofing. We also needed to consider how best to advance the Fund's transformation agenda, though with 50% black and 50% female, the Board composition was not too shabby. And we needed to handle this change management in a responsible manner that would allow for a smooth transition, especially considering the additional turbulence arising from the pandemic. We also had to respect that the Board is there to serve the members, and that we are one of the very few (perhaps the only?) major commercial umbrella fund where members effectively elect 50% of the trustees and that these trustees satisfy the highest standards of independence.

It would be remiss of me, at this juncture, not to remember and pay tribute to two of the longest-serving Sanlam Umbrella Fund trustees, namely Derek Smorenburg and Marius Jonas. Both died during the pandemic. Their contribution to the success of the Sanlam Umbrella Fund was immense, and I learnt so much from both.

Our very long-serving Principal Officer, Kobus Hanekom, is truly a legend in the retirement fund industry.
For many years, Kobus was the driving force behind Sanlam Benchmark, and a prominent speaker at many of these events. He has authored manuals that are used as key reference works by all in the industry. His contribution to the success of the Sanlam Umbrella Fund cannot be overestimated. But we as a Board were convinced, and Kobus concurred, that the time was right to look to the future and bring in a younger replacement.

The appointment of a new PO followed a long and rigorous process. We had some 50 applicants, many of whom were among the leading experts in the industry. Ultimately six candidates were short-listed for in-depth interviews, with the Board ultimately appointing Joelene Moodley as the new Principal Officer as from 1 April 2023. Congratulations, Joelene!

Joelene Moodley
Principal Officer

Joelene, being a two-term member-elected independent trustee, not only had to recuse herself from the above-mentioned Board decision-making process, but also presented a small dilemma for the Board. We all agreed it would not be appropriate to have Joelene serve as both a trustee and Principal Officer any longer than absolutely necessary, and therefore the Board resolved to bring forward the planned late 2023 independent trustee election process by six months.

Today, we are almost at the end of that election process. This time around, we received 87 applications for three Board positions – and once again from some of the leading industry experts. I remind you again that the Sanlam Umbrella Fund has the highest standard of independence for these member-elected trustees – none may have worked for the Sanlam Group in the previous 10 years. Once again, after a very rigorous short-listing process, including interviews, the Board settled on nine candidates to be placed on the trustee election ballot paper, including two incumbents, Jolly Mokorosi and Cheryl Mestern, standing for re-election.

The candidates standing for election

Grant Base

Jolly Mokorosi

Kgomotso Ramokala

Megan Rank

Themba Mfeka

Andre Puthiyasilan

Caron Harris

Cheryl Mestern

Devasti Singhi

I hope to reveal the names of the successful candidates at the 2023 Sanlam Benchmark event.

For the sake of completeness, I should mention that succession planning includes myself. Kanyisa and Nzwa requested, and I agreed, that for the sake of continuity, and to ensure a smooth transition, it would be best if I remain Chairman during this transition phase. But once all has settled, it is an issue that we will revisit. This has also been discussed with the outgoing Board. Jolly Mokorosi was already appointed as Lead Independent Trustee last year – a clear signal that we are considering all aspects of succession planning.

In summary, the succession planning, including the transformation aspects thereof, has so far been negotiated very successfully, and I believe the Sanlam Umbrella Fund is in excellent shape as regards its governance structures.

So, let me return to March 2020 and the goal to try to steer the Sanlam Umbrella Fund through the COVID-19 pandemic.

To set the scene, let me remind you of my first Sanlam Umbrella Fund stakeholder communication concerning the pandemic. The President spoke to the nation on Sunday evening, 15 March 2020, announcing a National State of Disaster with effect from 26 March 2020. The idea for that video communication was decided by our Board of Trustees the next day. But for logistical reasons, it was only filmed on the morning of Wednesday, 18 March 2020. The video attracted more than 10 000 views, which is evidence of the panic then felt by many of our stakeholders, not least our members.

One snippet relates to my comment in the video that members retiring at end March 2020 and invested in our lifestage models, need not fear any fall in investment values for the month as the Sanlam guarantees would protect them. I was careful not to promise what would transpire at end April or end May 2020 as I knew there were already heated debates at the highest levels within Sanlam on whether to claw back any non-vested bonuses from investors as is a contractual right. The Sanlam Umbrella Fund, as the biggest investor in these smooth bonus funds, argued very strongly against doing so and in favour of Sanlam taking a longer-term view and looking through the cycle. We felt it was precisely at crisis times such as March 2020 that investors would expect Sanlam to use its capital strength to protect them. I am very glad that common sense prevailed and we were able to be there to support our clients when they needed it the most.

One can sense it from the video, and it became apparent very soon thereafter, that our strong governance structure with eight formal Board Committees was the appropriate and best way to steer the Sanlam Umbrella Fund though the multitude of new and immense risks arising from the pandemic.

In the three years since then we have strengthened this governance structure even further with the establishment of three additional committees, being an Individual Members Products & Servicing Committee, a Remuneration Committee and a Transformation Committee. Thus, today we have 11 functioning Board Committees and I am proud to lead what is, in my opinion, the best-governed retirement fund in South Africa and one with the best interests of its members central to every decision.

11 Functioning Board Committees

I am particularly proud of the industry-leading and pioneering work being undertaken by our Individual Members Products & Servicing Committee chaired by Anna Siwiak. The idea for this Committee stemmed from our product development idea announced at the 2015 Sanlam Benchmark event to champion In-Fund Preservation and In-Fund Annuitisation. This idea was given further impetus by the Default Regulations that became effective from 1 March 2019. Today we manage more than R2 billion on behalf of such individual members. I salute the great work being done by our Member-led Outcomes team, including our retirement benefits counsellors, to improve retirement outcomes for our members even beyond their years of active contributory membership.

There is no way that at the 2023 Sanlam Benchmark event I can cover all that was done to successfully steer the Sanlam Umbrella Fund through the pandemic towards the very strong position in which we find ourselves today.

But I do wish to briefly touch on insurance benefits and premiums, as they were such a topical issue as insurers suddenly found themselves reporting billions of rands in losses at the height of the pandemic.

Now, many of you will be aware that the Competition Commission is conducting an investigation into industry group risk pricing. I must state at the outset that I have no knowledge of how that investigation is progressing outside of what has been reported in the media, and I have no involvement in the risk pricing decisions of any insurer including Sanlam Group Risk. I am a member of our Board's Insured Benefits Management Committee charged with the responsibility of managing these risks from a Fund and member perspective, and engaging and negotiating with our insurers.

In doing so, I am constantly aware that ultimately any insurer is a commercial entity and aims to deliver an appropriate profit/return on capital to its shareholders over the long term. We have to respect the insurers' right to set premium rates at what they believe are sustainable levels, though our Committee has a responsibility to question and challenge the insurers to try to get the best outcome for our members.

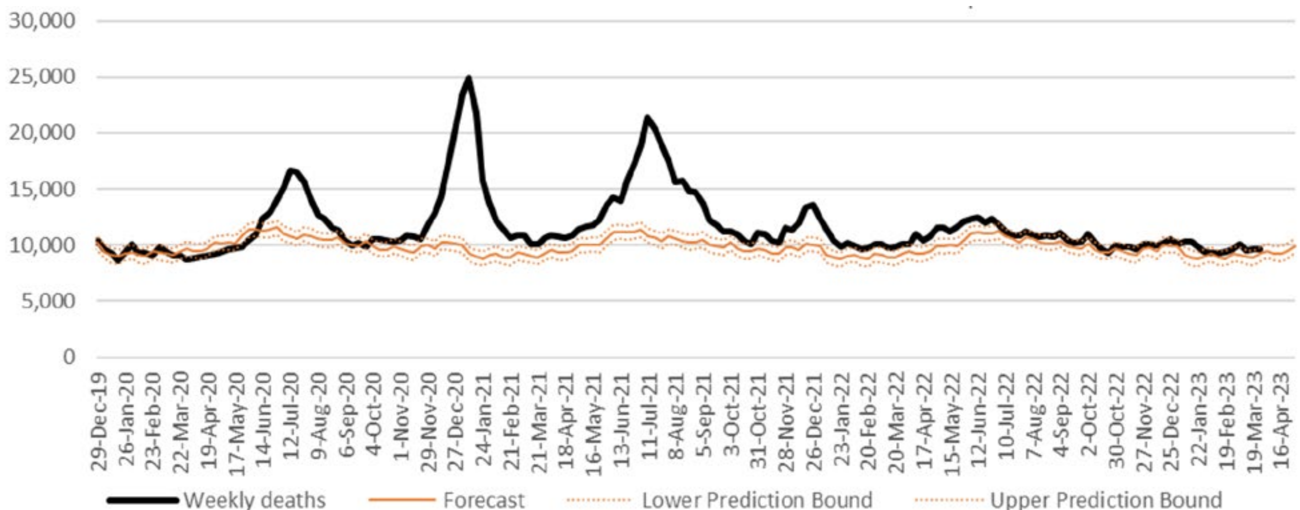
A key question is what is a fair long-term profit margin for an insurer?

There is no one correct answer. But I can share that my intuitive feel is (and has been for many years) that around a 5% long-term profit margin seems reasonable (though many do not agree with me and offer their own views).

I was quite amazed, and even pleased, when our main insurer, Sanlam Group Risk, reported at our most recent Insured Benefits Management Committee held in April 2023 that the Sanlam Umbrella Fund's risk pool overall net claims ratio has been running at precisely 95% since 2016. That is a fairly long period, including the entire pandemic period, and the outcome is precisely in line with what I would have hoped in advance.

The truth though is that Sanlam Group Risk made less than a 5% profit margin over this period. But that relates to the difference between net premiums (used to determine claims experience) and gross premiums (the difference reflects the expenses of the insurer's operations). As part of the Sanlam Umbrella Fund strategy, we set Sanlam Group Risk the target of halving its expenses as a consequence of the umbrella fund administration efficiencies, and clients are only charged risk premiums based on the targeted much-reduced expenses. These expense savings have not yet been achieved but I remain convinced that they can and should be given ever-increasing economies of scale of the Sanlam Umbrella Fund and also massive technological advances. It is the right strategy for Sanlam, and one that is also in the best interests of our clients and members.

Now back in March 2020, we had only a couple of months before notified all our clients in terms of the 2020 annual revision process of risk premiums effective from 1 April 2020 for the ensuing 12 months. Despite the COVID-19 risks and insurer losses arising from the First Wave, around the start of the 4th quarter of 2020 we even managed to negotiate with our insurers to keep risk premiums unchanged for the 1 April 2021 annual revision (which they hesitantly agreed to though only with the right to review after six months should conditions worsen materially because of the pandemic). You might remember the Second Wave hit around December 2020, and even after that I was still thinking we could convince the insurers not to increase insurance rates for our members before the 1 April 2022 annual revision (using negotiating muscle with product providers should be a key strength of any large commercial umbrella fund, and one we often use to try to get the best outcome for our members). But then the Third Wave struck in mid-2021 with devastating effect and it became apparent that the insurers would quite reasonably hike insurance rates significantly from 1 October 2021. It was a very difficult time, and I recall we took so many steps to try to protect our clients even beyond merely the automatic annual rebroke of all risk benefits. Anna Siwiak and I personally set up meetings with all the large clients and consultants to try to explain the insurers' reasoning and the steps we had taken, and to even encourage them to try to see if they were able to do any better by approaching other reputable insurers (but in the main the outcome was that no savings could thereby be achieved).



I must express my gratitude to all our Contracted Benefit Consultants who so ably played their part during that most difficult time, and especially thank those who expressed their gratitude at all we were doing to try to help our members.

So where does this leave us today? The long-term experience indicates that clients have been charged fairly for insurance risks. Premium rates did escalate significantly from 1 October 2021, some 18 months after the onset of the pandemic. While overall premium rates did decrease at the most recent 1 April 2023 annual revision, they still remain significantly above pre-COVID levels. The insurers are still of the view that risks are materially higher than pre-COVID levels and particularly the long-term impacts (e.g. disability claims) are yet to be discovered. But it's clear that life has returned to pre-COVID times with masks almost unseen, traffic levels worse than ever, etc. My sense (and it is no more than an educated guess) is we can expect (and I always position subject to all things being equal!) overall premium rates decreases for perhaps the next two annual revisions in 2024 and 2025. So, for our existing Sanlam Umbrella Fund clients (and even new Sanlam Umbrella Fund clients), I would say we are in a pleasing position looking forward.

When I last presented at Sanlam Benchmark in 2019, I reported that the Sanlam Umbrella Fund was about to reach the R50 billion assets under management threshold. Today we are closing in on double that number, i.e. R100 billion. The clear industry consolidation trend has continued unabated and even accelerated throughout the pandemic. It was unusual for R1 billion+ standalone funds to consider transferring into commercial umbrella funds perhaps even five years ago, but today such decisions are commonplace and rapidly becoming the norm. I expect this trend will continue with consolidation being strongly supported by National Treasury and the FSCA, and also the ever-increasing legislative complexities that place an ever-greater burden and risks on trustees – the impending Two-pot system being a prime example.

Others will interrogate the Two-pot system in greater depth. So let me leave my comments that I am on record as believing this new legislation is far more complex and risky than meets the eye, and I am not at all confident that the majority of retirement funds and administrators will be ready for all that needs to be in place by the likely implementation date of 1 March 2024. We live in interesting times!

Clearly those environmental pressures were key in Sanlam Corporate's decision to exit standalone fund administration. We do appreciate the decision to concentrate all resources in investing in and building the Sanlam Umbrella Fund into the country's best retirement fund. That in turn makes it so much easier for our Sanlam Umbrella Fund Board to be confident that we can successfully navigate our clients and members through this ever-increasing complexity.

The Sanlam Umbrella Fund has enjoyed the fastest annual growth rate, measured in terms of assets under management, of all the major commercial umbrella funds since we launched to the market 15 years ago. The question might be asked why I fixate on growth of assets under management as the most appropriate measure. The answer is that it is a very good measure of market and client appreciation for our value proposition. In a competitive market, where clients can move to any provider they choose, the provider that does best on this measure is surely the one with the best value proposition – particularly for the Sanlam Umbrella Fund where every client is supported by a professional benefit consultant, the vast majority of whom are entirely independent from Sanlam.

And competition is surely the greatest protection for consumers. I am so pleased that the commercial umbrella fund specifically is today a highly competitive market – much more so than when we launched the Sanlam Umbrella Fund to the market in 2008.

So, today the Top 12 commercial umbrella fund sponsors, measured in terms of assets under management (totalling well north of R500 billion and 2 million members!), are as follows:

That is a seriously impressive list of competing providers, and I can assure you we all fight tooth and nail to attract and retain clients. That in turn puts constant pressure on providers to 'up their game' and provide ever-improving products, service and pricing to clients. It is a market that is working.

Where I do believe we have missed a trick as a country is creating the regulatory environment that supports and enhances competition. The protracted and unnecessary Section 14 transfer process being an obvious case in point. But there are many others … If only I could convince the regulators that it is competition, not bureaucracy and tick-box compliance, which adds most value to clients and is the best way to get members towards better retirement fund outcomes. But alas … so far I feel I have failed.

It is also a point I quite recently made very strongly to independent actuary Rob Rusconi when he interviewed me as part of a study being undertaken by the Wits School of Governance, in partnership with the Department of Social Development of the South African Government. The study aims to cover the dynamics of retirement provision by private sector entities or independent retirement funds falling under the public sector. All will be aware that a National Social Security Fund, including some form of retirement provision, remains very much on the political agenda. I argued very strongly, pointing to many failed or failing stated-owned entities, that the better direction for the country, and one that will be strongly favoured by most South Africans, is rather to bolster competition and make an already vibrant and strong private retirement industry even stronger. We shall see whether my inputs have any impact or not …

What we find in this competitive market is that clients' needs are very different within different segments. Large standalone funds tend to already have sound investment strategies in place supported by excellent governance structures, and often the desire is to keep these unchanged and thereby minimise any transition risks, such as 'time out of the market' risk. The Sanlam Umbrella Fund has been particularly successful in this market segment as we offer by far the most investment flexibility, without compromising on good governance, of all the large commercial umbrella funds.

While there can be little doubt that the Sanlam Umbrella Fund is the market leader as regards costs disclosure and transparency, and while I have personally presented research using this umbrella fund's data at a few Sanlam Benchmark events and Actuarial Conventions, that should not be taken to imply I am of the view that costs are even close to the most important factor in selecting an umbrella fund

provider. I am so often amazed that some clients and consultants fight so hard for savings of a few rands per member per month on administration fees, but do not appreciate that a poorly handled transition (even a few days out the market) can result in losses of as much as 5% of total assets in extreme market conditions. Such losses can never be made up by small fee savings, even over 50 years! And it is virtually 50/50 whether markets move up or down over any very short period. Transition is surely the number one risk to navigate when large standalone funds transfer into commercial umbrella funds.

Albert Einstein famously stated that "Everything should be made as simple as possible, but no simpler". That is arguably the most important principle in retirement fund benefit design. It is a key principle we use in transitioning large standalone funds to the Sanlam Umbrella Fund.

But actually there is one principle that is even more important in choosing any long-term partner. It is in my opinion the most important factor to take into account in selecting any provider, but is often not even considered. We live in a world and environment that are continually changing, and more rapidly than ever before. So what is that one principle that transcends all this change?

Integrity!

My sincere hope is that your key takeaway from the 2023 Sanlam Benchmark event is that by partnering with Sanlam you ensure your members will reap the benefits of being helped towards a better retirement outcome by a 100+ year-old South African company underpinned by absolute integrity.

UPDATE ON NATIONAL HEALTH INSURANCE (NHI) IMPLEMENTATION

Dr Katlego Mothudi
MANAGING DIRECTOR
BOARD OF HEALTHCARE FUNDERS OF SOUTHERN AFRICA (BHF)

I would like to share a few thoughts with you on the strides made by the Government in its pursuit of establishing the National Health Insurance (NHI) Fund.

What is NHI?

When we talk about NHI, we are referring to a government-led initiative that is a financing system that seeks to provide equitable and universal healthcare coverage to all South Africans. It aims to reduce the disparities in access and quality of healthcare services and ensure that all of us have access to the healthcare we need, regardless of our socio-economic status and our ability to pay.

It is not an insurance product, but rather a system of pooling funds from various sources, including government revenue, private medical schemes, and individuals, to finance healthcare services for all South Africans. It will be publicly funded and managed, with the aim of improving the quality and affordability of and access to health services.

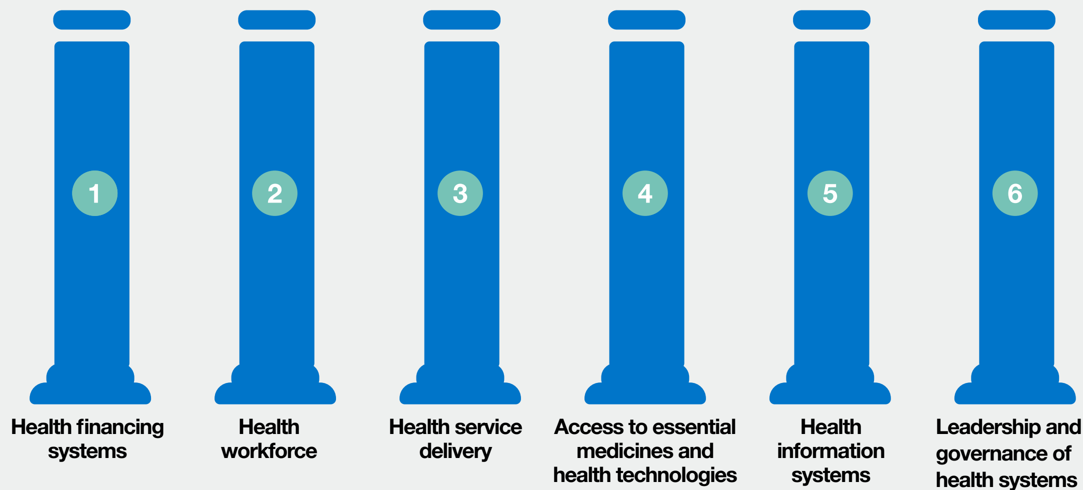
NHI will be implemented in phases, with the ultimate goal of providing comprehensive health services to all citizens by 2026.

What is Universal Health Coverage?

Universal Health Coverage (UHC) is part of the United Nations Sustainable Development Goals (SDGs) and refers to a situation where everyone has access to the health services they need without incurring financial hardship.

The 17 Sustainable Development Goals

To achieve universal health coverage, the World Health Organisation (WHO) recommends six key pillars, which are:



1. Health financing systems
2. Health workforce
3. Health service delivery
4. Access to essential medicines and health technologies
5. Health information systems
6. Leadership and governance of health systems

The WHO further defines UHC as ensuring that all people have access to the promotive, preventive, curative and rehabilitative health services they need, and which are of sufficient quality to be effective, while also ensuring that people do not suffer financial hardship when paying for these services.

So our government's policy position is in alignment with the proposals from the United Nations and the World Health Organisation in pursuit of achieving the Sustainable Development Goals (SDGs), but it is also in recognition of the status of our own healthcare system.

The healthcare system in South Africa currently comprises both the public and private sectors. The public sector is responsible for providing healthcare services to the majority (about 85%) of the population, while the private sector serves a relatively small percentage of the population, mainly those with medical schemes.

The public sector faces various challenges, including inadequate financial resources, infrastructure, staff, and equipment. There are also disparities in access to care and the quality of services within the public sector. The private sector, on the other hand, faces challenges of affordability and high costs of healthcare services for those who are not medically covered. NHI seeks to address these challenges and improve the country's healthcare system by redistributing resources to provide equitable access to healthcare services for all South Africans.

What progress has been made in this regard?

NHI has been in development for several years, and various steps have been taken towards its implementation.

In August 2011, the National Health Insurance Green Paper was published, which set out the broad policy objectives, principles, and key components of NHI. The green paper was followed by a White Paper in 2015 that provided a road map for the implementation of NHI.

In 2018, the NHI Bill was published, which aimed to give effect to the NHI policy objectives and the financing of universal health coverage. The Bill went through a public consultation process, and the submissions made by various stakeholders were considered in the final Bill that was sent to Parliament for approval.

The NHI Bill was introduced to Parliament in August 2019 and has undergone various reviews, consultations, and amendments to ensure it is aligned with South Africa's priorities and realities. It underwent a public consultation period during which stakeholders and citizens submitted their comments and suggestions. The Bill was revised and approved by the Portfolio Committee on Health in September 2021 after a brief period of suspension in 2020 as a result of the COVID-19 pandemic.

The National Assembly needs to consider and vote on the updated Bill. It will then be sent to the National Council of Provinces, which also needs to consider it and hold public hearings before deciding whether to approve or amend it. Once the Bill has been passed by both houses of parliament, it will be sent to the president for assent. There may also be further regulations and administrative procedures that need to be developed and implemented after the Bill is signed into law.

The implementation of NHI will require significant investments in the health system, as well as a phased approach to ensure it is rolled out in a sustainable and effective manner.

What role will the private sector play in NHI?

The private sector is envisaged to play an important role in the implementation and successful running of NHI. While the Bill infers that medical schemes will still exist, they will, however, be required to provide complementary cover to the beneficiaries of the NHI Fund. Employers may be mandated to contribute to the NHI Fund on behalf of their employees.

This is subject to the finalisation of the funding mechanisms as well as the amendments or repeal of appropriate other laws inclusive of the Compensation for Occupational Injuries and Diseases Act (COIDA). Healthcare practitioners and health facilities will be required to register and contract with NHI and provide services to beneficiaries according to the NHI service specifications.

The private sector will be expected to meet the same quality standards as the public sector, ensuring all parties work together towards the common goal of providing access to quality healthcare for all South Africans.

Sentiment analysis of the NHI Bill

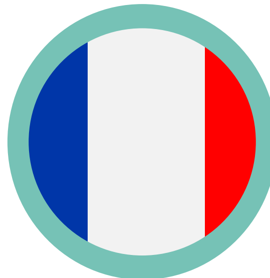
Various stakeholders have expressed concerns about the NHI Bill. The risks identified to the health sector, health practitioners and beneficiaries of the proposed fund are as follows:

- Unclear funding mechanisms, which may lead to underfunding of the healthcare system. While the Bill has mooted how the Fund will be financed, it is the National Treasury that ultimately makes budgetary provisions and these are guided by a Money Bill
- Confusion about the roles and responsibilities of different stakeholders within the healthcare system
- Possible erosion of the quality of healthcare services as a result of diminished capacity and overburdening of the system
- A possible decrease in the number of healthcare practitioners as private healthcare providers may leave the country due to uncertainty
- The impact of corruption on the implementation of NHI. A number of stakeholders have raised concerns about the ability of the government to effectively manage the proposed fund, citing issues such as corruption and poor governance. These concerns emanate from recent experiences, especially following the COVID-19 financial mismanagement incidents.

From a global perspective, there are several countries that have successfully implemented universal health coverage (UHC), which means they provide all citizens with access to basic health services and protection against financial risk. Some of these countries include:

Canada:

Canada has a publicly funded healthcare system that covers all medically necessary services and treatments. This system is financed through income taxes and is administered at the provincial or territorial level.

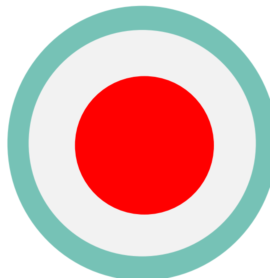


France:

France has a social health insurance system that provides universal coverage to all residents. This system is financed by a combination of employer and employee contributions, as well as government funding.

Germany:

Germany has a mandatory health insurance system that provides coverage to all citizens and residents. This system is financed by a combination of contributions from employees, employers, and the government.



Japan:

Japan has a national health insurance system that covers all citizens and is funded by a combination of premiums, taxes, and government subsidies.

United Kingdom:

The United Kingdom has a National Health Service (NHS) that provides free healthcare to all residents. This system is funded by general taxation and is administered by the government.

There is evidence that the introduction of UHC in these countries and other territories has been positive, with reports of a better quality of healthcare than in those countries that have not implemented UHC. It is because people are more likely to seek medical care early on, rather than wait until their condition has worsened, resulting in better health

outcomes. Further, their citizens have better access to preventive care, primary care, and other medical services. In addition, these countries tend to have higher life expectancy rates, lower infant mortality rates and higher healthcare satisfaction rates among their citizens.

There are however some drawbacks, including:

- **Limited choice:** One of the main disadvantages of a healthcare system with limited private sector involvement is limited choice. Patients may not have as much choice when it comes to doctors, hospitals, and medical procedures as they would in a more market-driven healthcare system.
- **Less innovation:** Another potential downside of limited private sector involvement in healthcare is less innovation. In a market-driven system, private companies are incentivised to innovate and develop new treatments and technologies to stay ahead of the competition. In a system with limited private sector involvement, there may be less innovation and fewer new treatments or technologies.
- **Longer waiting periods:** Limited private sector involvement in healthcare can lead to longer waiting periods for medical procedures, appointments, and tests. This can be particularly problematic for people with serious or urgent medical conditions who need immediate attention.
- **Burden on Government:** Finally, a healthcare system with limited private sector involvement can put a burden on government resources. Governments are responsible for providing healthcare services, and if there is limited private sector involvement, they may need to spend more money and resources on healthcare than they would in a more market-driven system.

Reports from the UK now indicate that the NHS is looking more and more to the private sector for support.

In conclusion, NHI is an important policy tool in the effort to achieve universal health coverage in South Africa and it is a crucial initiative for the South African healthcare sector. It is aimed at improving the quality of healthcare services for all South Africans, regardless of their social status. The implementation of the fund is a complex and lengthy process and requires that everyone participates in the dialogue.

It is equally important to understand the healthcare landscape and our responsibilities as health citizens and consumers of health services alongside those of the employer. It is also aligned with the global move to encourage health promotion and the adoption of a preventative attitude to health rather than the curative and hospi-centric one that defines us as the private sector. This move would be very much in line with the adoption of Universal Health Coverage and would provide financial confidence for employees and their loved ones.

PRIVATE HEALTHCARE INSIGHTS AND TRENDS

Mbali Khumalo
MANAGING DIRECTOR
SIMEKA HEALTH

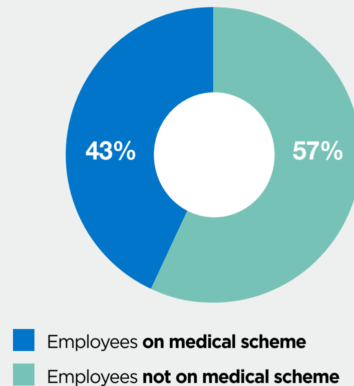
Employer-subsidised/-guided medical schemes used to be the traditional vehicle for providing healthcare for salaried South Africans. Over the past decade this has changed, with medical scheme membership remaining flat, younger people deferring the age at which they join, and some employers stepping back from guiding/subsidising access to medical aid.

Several alternative health solutions have entered the market to fill the gap left by decreasing medical scheme membership. These range from on-site clinics to primary health insurance, employee assistance Programmes (EAPs), corporate nurses, and virtual consults. These solutions make it more cost effective for employers to offer some form of healthcare to their employees, but also complicates the employer's process of deciding what is the correct product mix and how to extract cost and health outcome synergies across complementary health solutions. Companies such as Sanlam through Sanlam Corporate Wellness are developing intergrated solutions for Employers to simplify the advice process and prepackage solutions designed to extract these cost and health outcome synergies.

Making provision for healthcare and wellness expenses is expensive, and even when made available through employers, not all employees participate.

According to the Council for Medical Schemes (CMS) Report of 2022, only 14,95% or 8,9 million South Africans are covered by medical schemes. Over 50% of these beneficiaries are dependants on either their spouse's or parents' cover and 9% of this group are over the age of 65 or pensioners. That means that approximately 4,5 million principal members, which is only 25% of the 16 million economically active South Africans, buy medical aid.

Graph 1: Employee cover on medical scheme



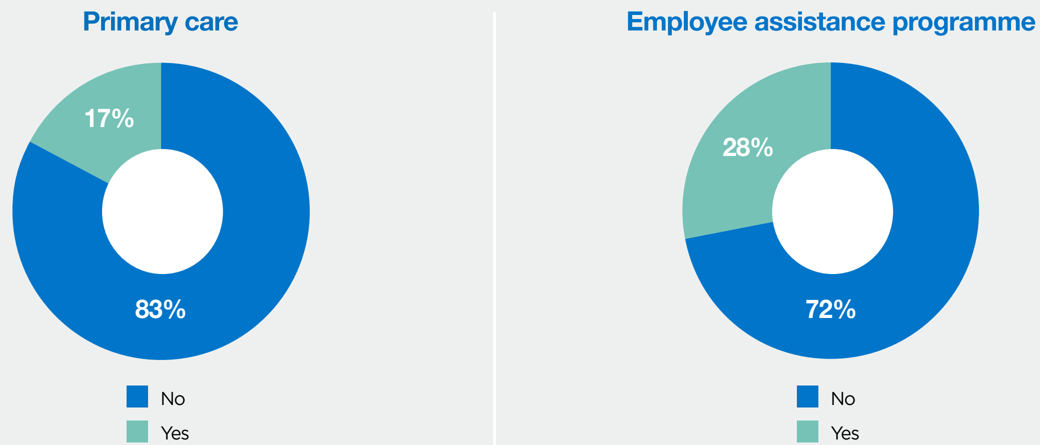
An analysis of Simeka Health's medical scheme clients shows that almost half of employees are not participating in a medical scheme. This does not take into account employees who are covered by medical schemes where their spouse is a principal member.

In addition to the above, there has been a reduction in employers who make participation in a medical scheme a compulsory condition of employment. Even the COVID-19 pandemic could not reverse this trend. It can be argued that had it not been for COVID-19, the shrinkage percentage could have been worse.

Graph 2: shrinkage in compulsory participation

It is clear from Graph 2 that more employers are making employee participation voluntary.

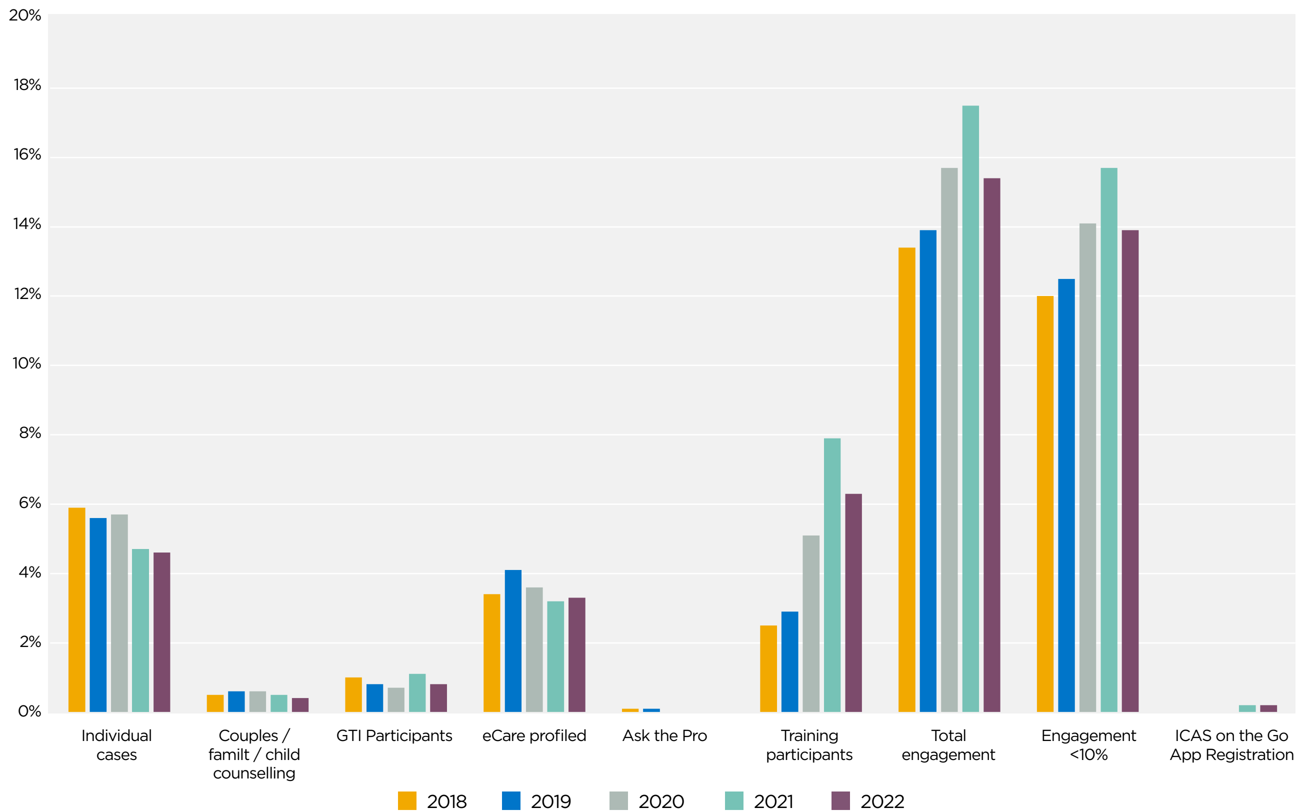
Graph 3: Primary care and Employee Assistance Programme employer participation



A concerning picture is that participation in medical schemes is shrinking. Over the years employers have relaxed the compulsory participation requirement, electing not to even replace it with access to corporate wellness solutions, for example primary care and/or an employee assistance programme, which is designed to improve and support the well-being of employees.

In addition to low corporate wellness take-up by employers, employees do not take advantage of the value these services provide in terms of preventative care and/or early detection leading to early disease management if a condition already exists.

Graph 4: EAP Overall: Year on year engagement analysis



According to Sanlam Corporate Wellness statistics, there was an increase in engagement during the COVID-19 period due to the following:

- In addition to the usual telephonic and face-to-face services available, increased avenues (live chat, virtual, video, email counselling) were made available to employees to reach out to the employee wellness programme (EWP). They could be under lockdown and still be able to receive counselling and support in the comfort of their home.
- More employees seeking support for COVID-19, bereavement, and mental health-related issues.
- More requests received for group trauma support for bereavement and mental health issues.
- Proactively, client companies sought and continue to seek additional group support to empower employees in their professional and personal lives.

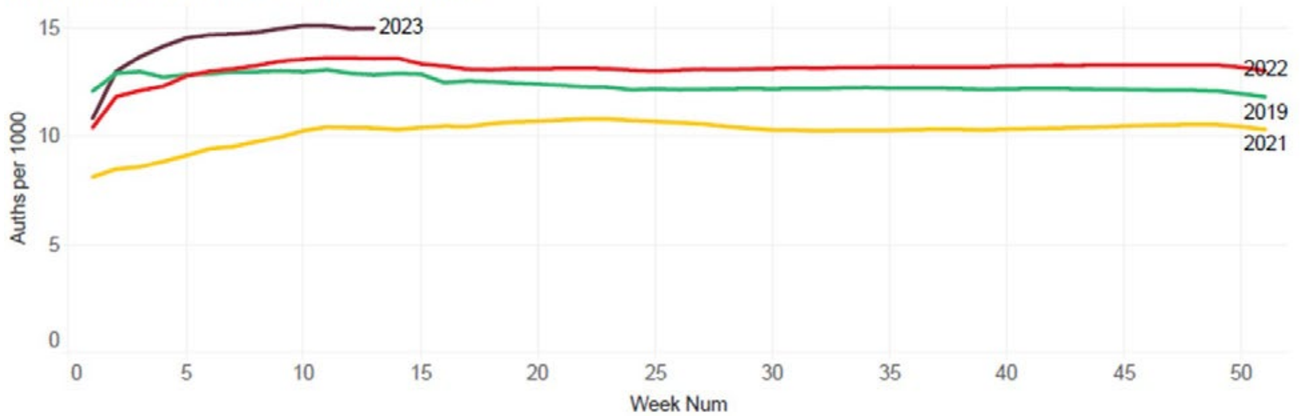
Engagement is beginning to stabilise to pre-COVID-19 periods, although a sharp increase in employees reaching out to seek support for a wide range of psycho-social and practical issues is evident. Presentation of mental health concerns, life threat and behavioural risk (high risk cases) is increasing.

Table 1: Problems presented year-on-year

2018		2019		2020		2021		2022	
%	Problem type	%	Problem type	%	Problem type	%	Problem type	%	Problem type
24,5%	Relationship Issues	18,4%	Relationship Issues	19,8%	Mental Health	18%	Relationship Issues	18%	Mental Health
19%	Mental Health	17,5%	Mental Health	18,3%	Relationship Issues	18%	Mental Health	17,9%	Relationship Issues
9,3%	Organisational & Managerial Issues	12,1%	Personal Development	12,2%	Personal Development	11,1%	Covid-19	9,6%	Personal Development
9,2%	Personal Development	11,2%	Organisational & Managerial Issues	8,1%	Covid-19	9,6%	Personal Development	8,8%	Organisational & Managerial Issues
5,1%	Legal Issues	4,9%	Information & Resources	5,5%	Information & Resources	7,2%	Organisational & Managerial Issues	7,8%	Loss Issues
4,9%	Child & Family Care	4,8%	Child & Family Care	5%	Organisational & Managerial Issues	6,3%	Loss Issues	6,4%	Child & Family Care
3,9%	Trauma	4,7%	Legal Issues	4,9%	Legal Issues	3,9%	Child & Family Care	4,3%	Financial – Planning & Payments
3,8%	Information & Resources	4,1%	Trauma	4,5%	Child & Family Care	3,6%	Financial – Planning & Payments	3,8%	Trauma
3,2%	Health & Lifestyle	3,7%	HR Issues	3,8%	Loss Issues	3,6%	Trauma	3,8%	Legal Issues
2,7%	HR Issues	3,7%	Loss Issues	3,6%	Trauma	3,2%	Legal Issues	3,6%	Health & Lifestyle

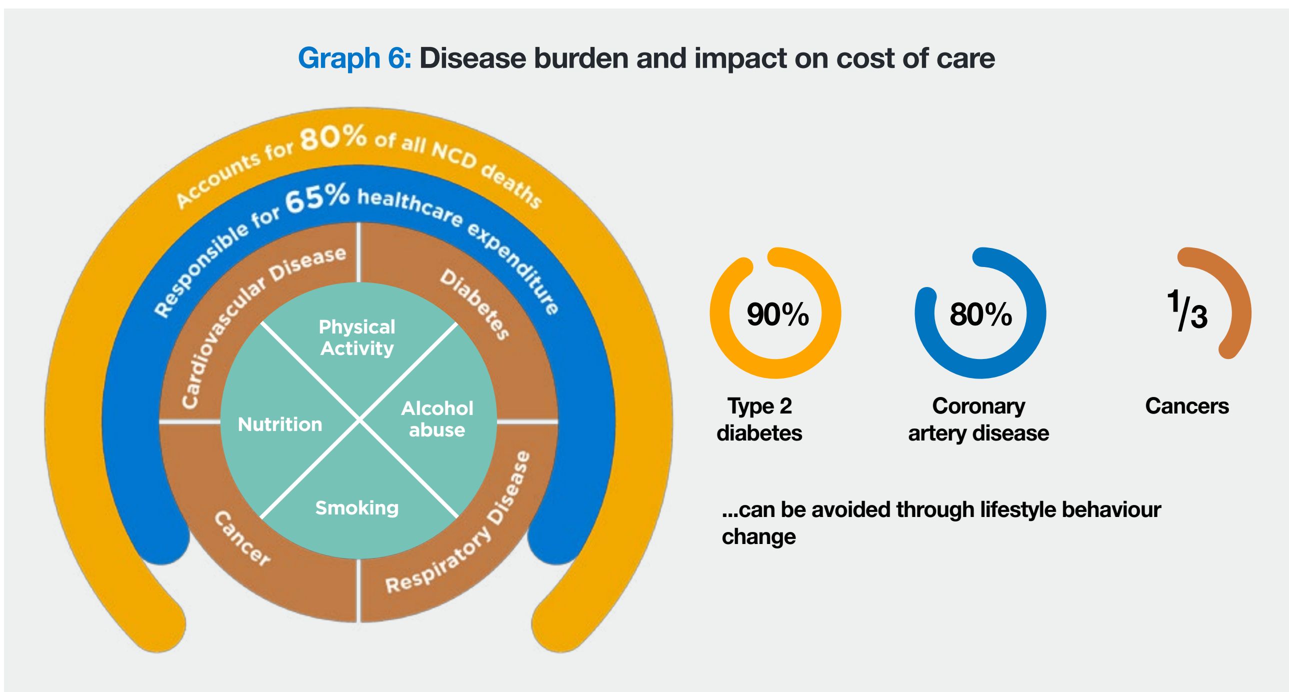
**Percentages will not add up to 100% due to only top 10 selected for this purpose.

Graph 5: Mental health in-hospital claims



The trend is increasing for 2023 with 15 mental health authorisations per 1 000 lives for 2023 YTD.
This is most likely due to a combination of pent-up demand, supply side factors, and increased prevalence of mental health conditions following the COVID-19 pandemic.

Graph 6: Disease burden and impact on cost of care



Predominant causes of wellness challenges can be avoided through lifestyle behaviour changes and by participating in medical schemes and primary care:

- Physical activity, nutrition, alcohol abuse and smoking (The big 4) account for 65% of healthcare costs.
- Earlier participation enables increased role of wellness and preventive care.
- Earlier participation reduces late joiner penalties.
- Earlier participation reduces risk of hospitalisation (65% of expenditure according to CMS industry report).
- Over a third of current expenditure can thus be avoided, resulting in lower cost of care, to enable affordability and improved access.
- Improve risk performance and scheme sustainability.

Citizens delay access to a medical scheme or any healthcare-related solution made available. In this way they also ignore preventative measures made available, like disease and nutrition management programmes, covered by the medical schemes. When they are older, and the disease has progressed and it is more expensive, they also do not have access to any "reserve funds" in their retirement capital because they have also prematurely accessed retirement savings to fund lifestyle choices. Our Consumer Study shows that 38% of South Africans who previously cashed in their retirement benefits have used the money to fund living expenses.

Why even bother with the youth?

According to our partner's (AfroCentric) statistics, only 15,40% of the Medscheme membership universe (3,8 million lives under administration) participate voluntarily and are therefore not linked to a corporate or payroll-related membership. Of this group of voluntary participants, only 18,10% are below the age of 35 and 81,90% are over 35 years of age. These statistics indicate that only 18% of of this cohort are young South Africans voluntarily participate in healthcare-related initiatives or invest in healthcare.

This represents only 2,8% of total membership (107 000 beneficiaries, of whom only 44 000 are principals). If we extrapolate this statistic to the 8,9 million members of medical schemes in South Africa, the total voluntary membership of medical schemes is approximately 250 000 beneficiaries (or 106 000 principal members).

According to Stats SA Mid-year population estimates (MYPE), the population of South Africa was estimated to be 60,6 million by the end of June 2022.

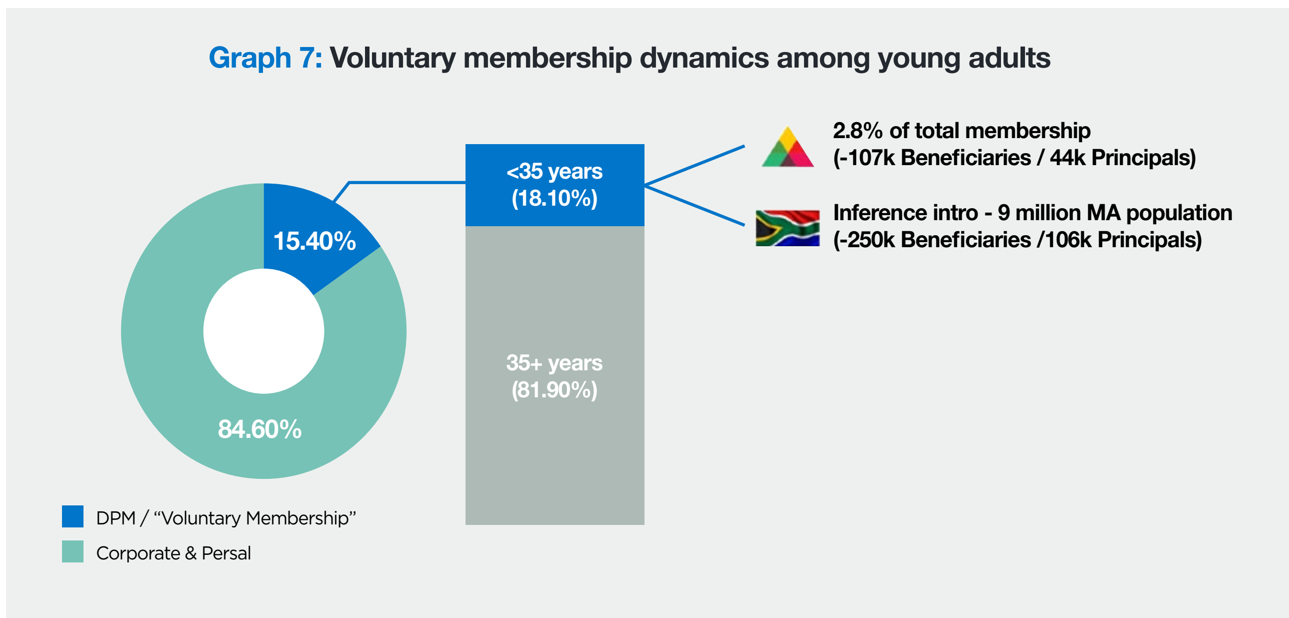
Between 2002 and 2022, South Africa experienced a positive population growth year on year. During the same period, we also saw an increase in life expectancy at birth. Life expectancy also recovered post COVID-19 and improved from 61,7 years in 2021 to 62,8 years in 2022.

The recent COVID-19 pandemic highlighted not only the importance of healthcare and other social services required by people, but also the age profile of the population and the vulnerability of key groups within the country.

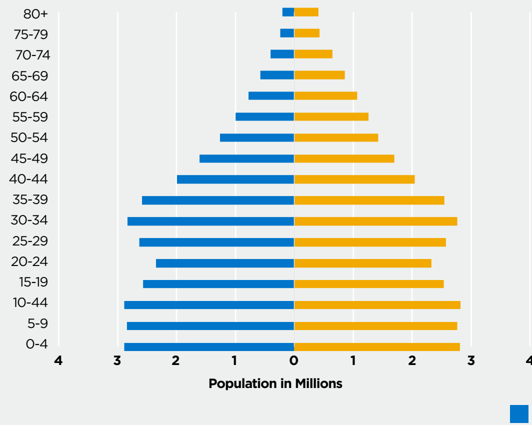
In 2022, the StatsSA MYPE indicated that:

- about 28,07% of the population are aged younger than 15 years (17,01 million)
- approximately 9,2% (5,59 million) are 60 years or older.

Graph 7: Voluntary membership dynamics among young adults

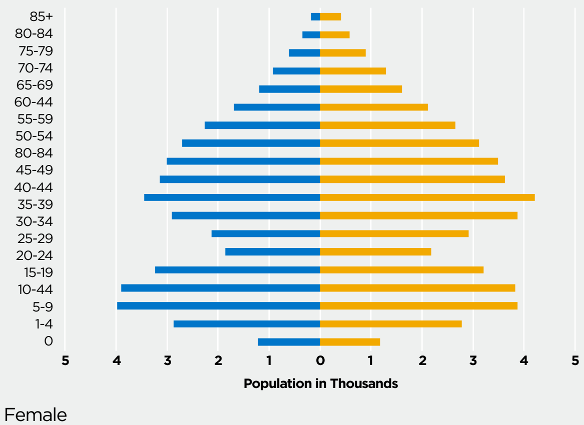


Graph 8: The South African population as at June 2022 by age and gender



Source: *Stats SA 2022*

Graph 9: Medical Scheme participation of the South African population by age and gender



Male Female

Source: *CMS Report 2021/2022*

Graph 8 represents the South African population as at June 2022, whereas Graph 9 represent the medical scheme population as per the 2021/2022 report. From the different shape of the graph for ages 20 – 39 it is evident that people opt out of medical schemes when they are young and healthy. This can be attributed to health not being the priority at a young age (Generation We Youth Spend & Lifestyle survey Report 2022/2023), affordability and the high unemployment rate.

However, it is noticeable in graph 9 that female participation is higher than male participation at childbearing age. This implies that while participation is not a priority, if an event that requires hospitalisation is expected, young female adults prefer access to private healthcare facilities.

According to Medscheme, female principal members on average join a medical scheme two to four years earlier than their male counterparts. However, this ignores instances where people may have joined from other schemes outside the Medscheme universe and where males could have joined for the purposes of having cover for their female spouse.

According to Youth Spend and Lifestyle Report 2022/2023,

64% of the South African population are under 34 years of age

which means there are **37** million young people in South Africa

Moreover, **29** million of them are between the ages of 15 and 34.

Not only are there a significant number of youths, but previous research showed that they also hold 55% of South Africa's spending power – over R100 billion per annum. This is more than previous generations' consumers had at the same age.

The youth also focus on their health and growing wealth. They want to earn money to live comfortably. Contrary to previous generations, it is not so much about the money or materialistic intentions, but rather how money can support their goal to lead comfortable and purposeful lives. The youth are focused on an integrated life of education, work, money, health, and genuine connections. This could be due to heightened levels of awareness and exposure through media, and close relationships with older and more experienced family members. Through their experiences, youth have seen the realities of the lives of older generations, and they want something different for themselves.

Research conducted by Stats SA in 2022 also highlights that two thirds of young people report feeling stressed or worried, and many working young people attribute part of this stress to financial insecurity. A negative macro environment (further exacerbated by COVID-19) has contributed to youth rating their stress levels at an average 6,5 out of 10 (with 10 being very stressed). Even the younger groups mentioned a concern over financial stability, with 12% of students pointing this out as a stressor, and

12% highlighting unemployment as a stressor. Additionally, factors like crime, safety, and load shedding were highlighted as stressors by young people. On top of these, economically active young adults are predominantly stressed by their need to find or keep employment.

The high prevalence of stress may be linked to this generation's focus on and openness around mental health and well-being. Although the youth value mental health, physical health, and living well, they continue to face the reality of stress, future uncertainty, and insecurity. On the other hand, they spend the least on healthcare, as can be seen in Graph 9.

The biggest problem is that there is reduced cross-subsidisation between the young and healthy and the older and sicker people. Also, the thinking that NHI will lessen the disparity about access to quality care is misleading, and the low voluntary participation percentage will worsen, putting the entire population at risk.

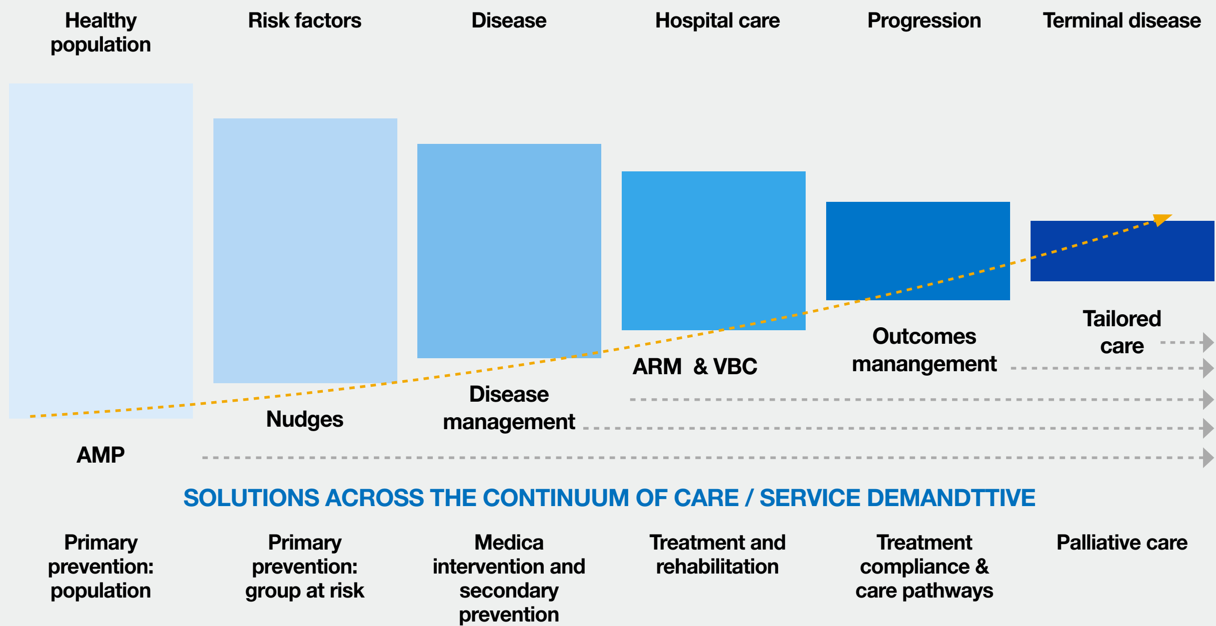
South Africans only start prioritising provision for healthcare from the age of 40 onwards. But this might be a little too late.

According to Medscheme's statistics, one third of their membership base (1,2 million members) have a chronic health burden. This demonstrates the difference between reactive care and the preventative care impact of late participation. Although most healthcare practitioners and medical schemes encourage members to start having routine tests, for example cancer at age 40, wellness initiatives have no age limit and if engaged at an early age, most chronic conditions could be prevented or diagnosed early enough to arrest its severity.

Late joiner penalties are imposed due to possible selection against health insurers. This makes the joining process expensive and too expensive for some.

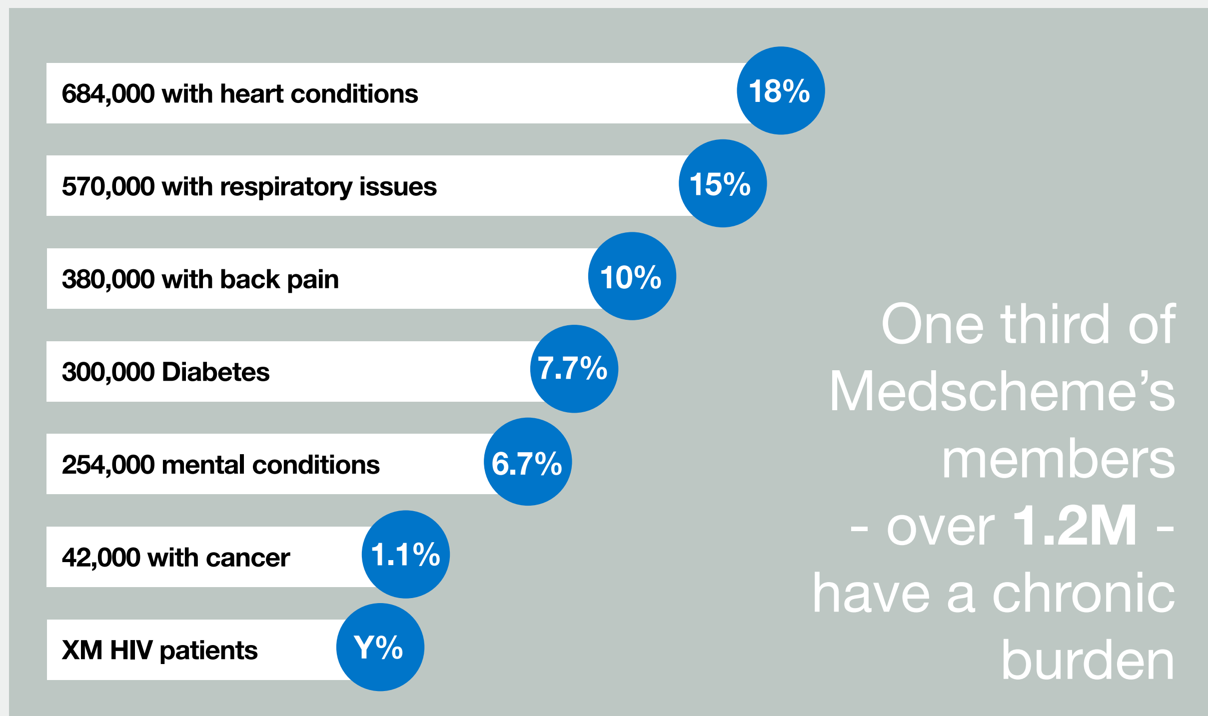
Statistics show that control of non-communicable diseases (NCDs) reduces the burden of disease by approximately 80%.

Graph 10A: People at different points on the healthcare system change and can benefit from different interventions



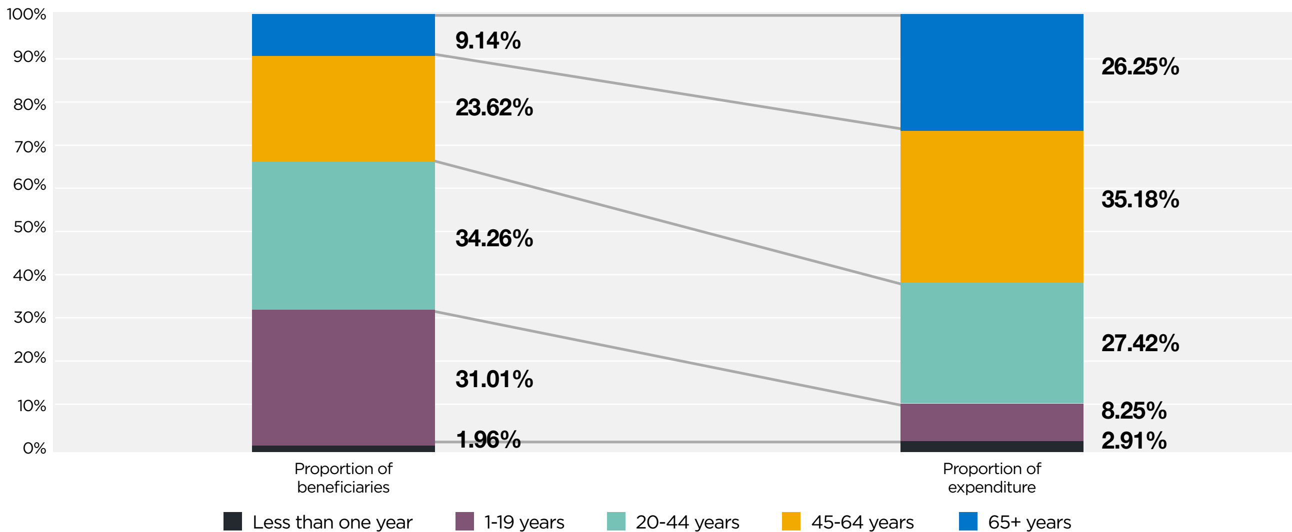
Graph 10B: Impact of delayed participation

- Reactive instead of proactive care
- Higher chronic prevalance (1/3 of the membership base!)



The World Health Organisation (WHO) 2030 Agenda for Sustainable Development recognises non-communicable diseases (NCDs) as a major challenge for sustainable development. It aims to accelerate progress on the prevention and control of NCDs and seeks to ensure member states adopt policies and programmes that improve NCD outcomes, save the lives of people living with NCDs, and to reduce premature mortality from NCDs through prevention and treatment.

Graph 11: Healthcare expenditure by age band (CMS report)

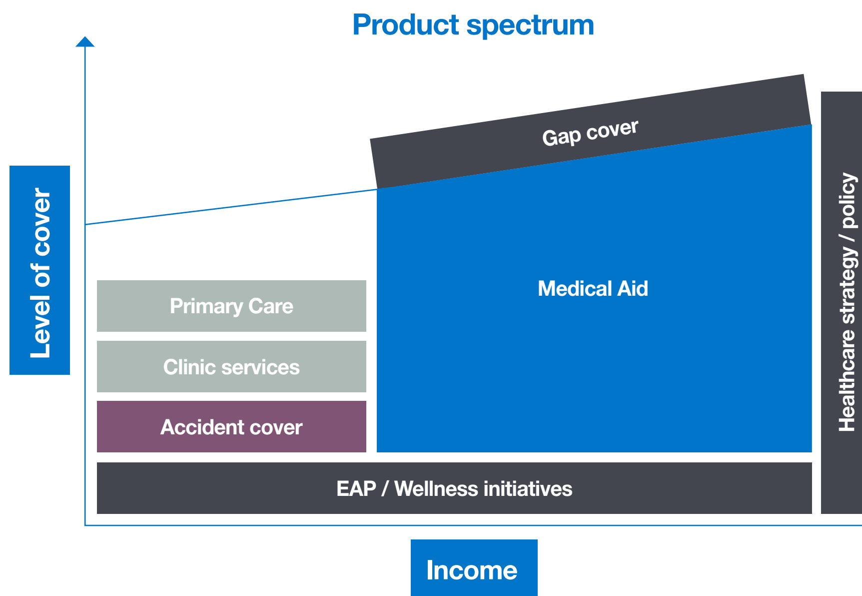


Cost of care is skewed towards elderly and sickly (45 and above (32%) account for 61% of the expenditure)

Life happens to all of us. As we pass through various life stages everything else, such as family, raising kids, and acquiring assets, takes priority, but the reality is that the stress of all this impacts our health; therefore, leading a healthy lifestyle and focusing on reducing the risk factors associated with these diseases become a priority.

Employers and employees alike never know what the ideal healthcare solution set for an employed individual is. Medical schemes, primary healthcare insurance, hospital plans, gap cover – it is all too confusing, therefore they disengage. Because of a lack of knowledge and the perception that medical schemes are cost prohibitive for members, we see the trend in switching to low-cost options, hospital plans and medical insurance. In fact, cost should not be the only deciding factor; needs should be at the centre of this decision making.

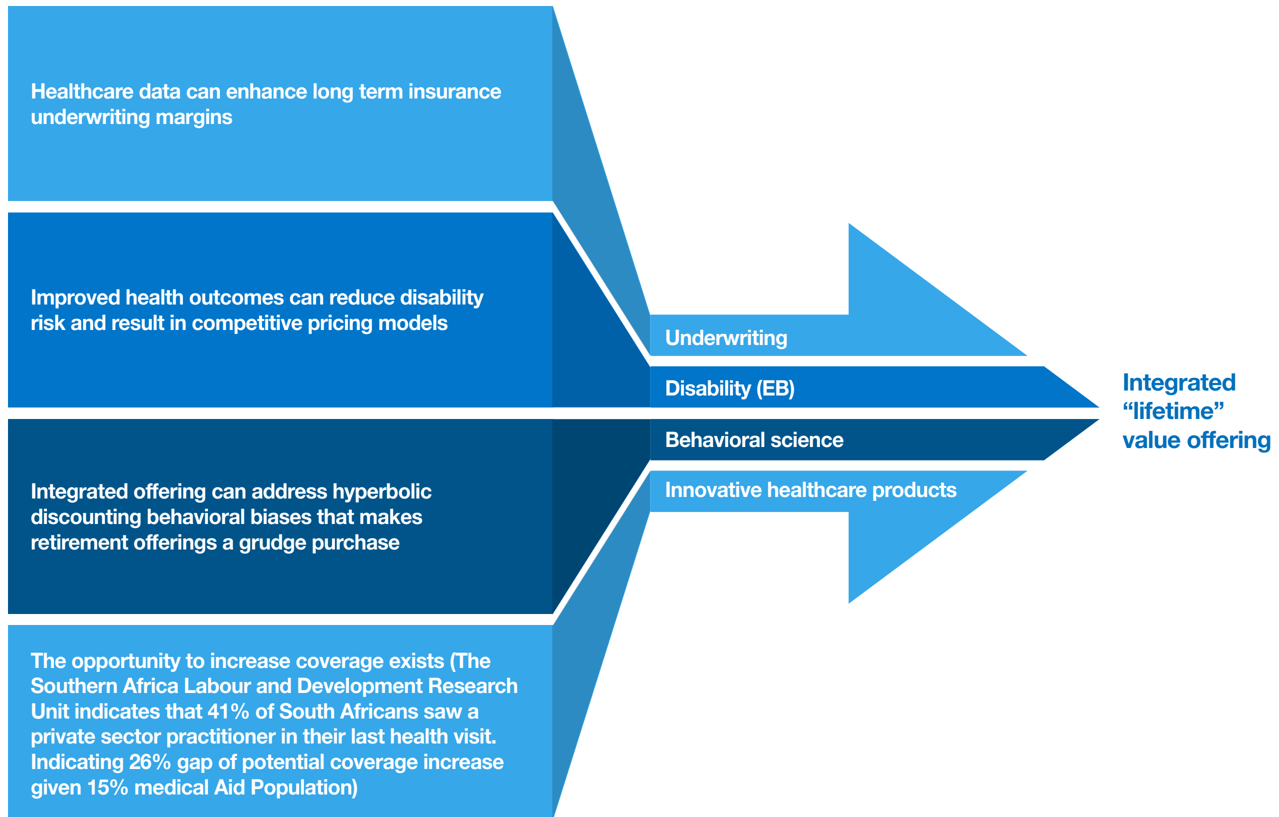
Product spectrum



During our previous Benchmark session we spoke about envisioning a new tomorrow and the convergence of healthcare and life insurance. Over the past 10 years, technology has advanced significantly to allow us to engage with our health daily. Leading active lives and recording our data lead to early identification of health warnings and early detection, resulting in healthy lives.

The good news is we can improve health outcomes!

Graph 12: Improving health outcomes converges with life insurance



The focus is on living a balanced life but what does that mean? Is it possible and does a balanced life really improve our health?

Sanlam Health Solutions

The business case for health integration into long-term insurance and retirement

Our diverse range of solutions are designed to work together, so clients can choose the ones that are right for them and combine them in a way that best suits their employees' and business needs.

Sanlam Umbrella Fund

- Sanlam Umbrella Fund members have access to free Virtual GP Consultations and free Virtual Nurse Consultations. They can book a consultation from anywhere, via cell phone or computer. They can access this service via the Sanlam Member Portal, or Sanlam My Retirement App.
- Sanlam Evolve EAP assists with improving the quality of life of all employees, providing them with the means to take ownership of their well-being and achieve a healthy work-life balance.
- Sanlam Gap cover covers the shortfalls between what your Medical Scheme will pay, and the rates charged by medical specialists.

Call for action

We live in an era where stressors are in abundance, e.g. the Russia/Ukraine war, climate change causing extreme weather patterns, GBV, crime, power crisis, unemployment, economic crisis, COVID-19/long COVID – the list is endless. These all cause us stress that, if left unchecked, can contribute to many health problems such as high blood pressure, heart disease, obesity, diabetes and more.

If we do not prioritise **self-generation** (proactive, take charge, self-management, self-sustainability) by taking advantage of wellness solutions and provide for access to quality healthcare **now**, what generation are we raising, and what is the future health status of our nation? The generation we are raising only knows “stranger danger”, so what is the future mental state of these youngsters? A study done by Wits University in 2022 shows that 25,7% of South Africans are suffering from depression and anxiety, and only a third is on treatment. Are we raising a nation that is physically, emotionally, mentally, and financially depressed? If so, the results will be disastrous!

Let us not allow the circumstances of today to turn us into a dying nation of tomorrow. It is time to take charge of our health and our wellness. What role can employers play in creating a healthy workforce, which results in healthy organisations and in turn a healthy nation?

Organisations and nations are like a human being, they require all the organs and limbs to function optimally for the pulse to beat consistently (the bottom line of your balance sheet/GDP to remain positive). However, technology has advanced to such an extent that some limbs can be replaced using prosthesis, but the **heart** (the people) needs to keep beating for the pulse to exist and be consistent. An ailing heart cannot maintain a consistent pulse, even with a pacemaker.

We are a nation in an ICU with a limited number of beds, the **employe**r. This ICU is supported by highly skilled personnel available 24/7, through **Sanlam Corporate Wellness Solutions**. However, it requires the cooperation and a fighting spirit of the **patient, the employee**. Let us be proactive and take charge of our health. Utilising the benefits provided by our employers is one way of doing so. By so doing, our nation will heal, bit by bit, and we will become a physically, emotionally, mentally, and financially healthy nation for generations to come!

THE POSSIBILITIES AND PITFALLS OF THE TWO-POT RETIREMENT SYSTEM

Lorraine Mekwa
MANAGING EXECUTIVE: CLIENT EXPERIENCE
SANLAM CORPORATE
and
Marian Gordon
REGIONAL HEAD & PRINCIPAL INVESTMENT CONSULTANT
SIMEKA

Note: This article was written on the basis of the 2022 Draft Revenue Laws Amendment Bill. Some aspects of the article may become redundant with the publication of an updated Revenue Laws Amendment Bill.

Introduction

The objective of the retirement fund industry is to ensure members can retire comfortably, with enough income in retirement to live with confidence.

BUT, the results are staggering!

Less than **10%** of retirees can maintain their standard of living before retirement, due to under-saving and not preserving their assets.

These retirees are therefore reliant on the state pension and their families for financial support. This financial dilemma is largely attributed to poor preservation rates when changing jobs, which erodes financial security for retirement. To combat this unsustainable norm, policies and resultant solutions should aim to improve the social impact on our communities.

The reform from defined benefit funds to defined contribution funds shifted the responsibility from employers to members, as the onus is now on members to ensure they:

- contribute enough towards their retirement fund;
- invest in the right risk-profiled portfolios over time; and
- preserve their savings when changing jobs so they can retire comfortably.

Unfortunately, this reform has led to poor retirement outcomes with low levels of preservation in the industry.

There have been multiple attempts and proposals to enforce preservation since the early 1980s, but due to pressure from

unions, politics and other forces, compulsory preservation never got significant traction. In September 2012, the National Treasury released a technical discussion paper for public comment. This paper highlighted the need for preservation and gave birth to large-scale industry developments, such as T-day, P-day, and the default regulations.

The closest the National Treasury has come to improving preservation rates in South Africa has been through the default regulations. The regulations aimed to nudge members to preserve their retirement savings when changing jobs by making it easier for them to preserve their assets when exiting the fund. Preservation rates, however, remain low and the lack of access to emergency funding remains of great concern.

The proposed amendments in the 2022 Draft Revenue Laws Amendment Bill gave effect to the previous announcements made by the Minister in the February 2021 budget speech. These amendments also follow a discussion document titled *Encouraging South African Households to save more for retirement* released by the National Treasury in December 2021 for public comments.

However, although preservation remains pertinent, so too does the need for members to access their savings during times of need.

This was highlighted by the COVID-19 pandemic, where members were more financially fragile due to large-scale retrenchments and salary reductions, with no access to funding despite having assets invested in their retirement funds. However, there was no legal way in which members could access this funding without resigning.

Explanation of how it works

The proposed two-pot retirement system is expected to be effective from 01 March 2024 and aims to:

1. Firstly, increase preservation rates to improve retirement outcomes, and
2. Secondly, to provide members with access to their retirement savings in cases of emergency.

The delicate trade-off between these two objectives was considered in formulating the two-pot retirement system.

Members' retirement savings will actually be apportioned to three separate pots:

- **Firstly, the retirement pot**, where a minimum of two thirds of contributions will be allocated after implementation of the two-pot system. After four decades of various proposals, the industry has finally gained traction in implementing compulsory preservation until normal retirement age to improve member outcomes. This is a huge step in the right direction to empower members to live with confidence.
- **The second pot is the savings pot**, where a maximum of one third of contributions will be allocated post implementation of the two-pot system, and which members will be able to access if they so choose. This will be very helpful for members who do need emergency funding, such as what we witnessed during the COVID-19 pandemic.
- **And lastly, the vested pot** will house the accumulation of all retirement savings before the implementation of the two-pot system and will be subject to the current rules of the fund.

Because the final regulation is not in place yet, there are many unknowns.

The effective date is expected to be 1 March 2024. In our opinion, it is unlikely to be postponed given the political pressure with 2024 being an election year. This is a very tight deadline for all parties in the industry. We are pleased to announce that our EB administrators have assured us they will be ready to implement the two-pot system by then.

The implications for defined benefit funds and retirement annuities, divorce and retrenchment, Regulation 28 and the tax implications are yet to be defined.

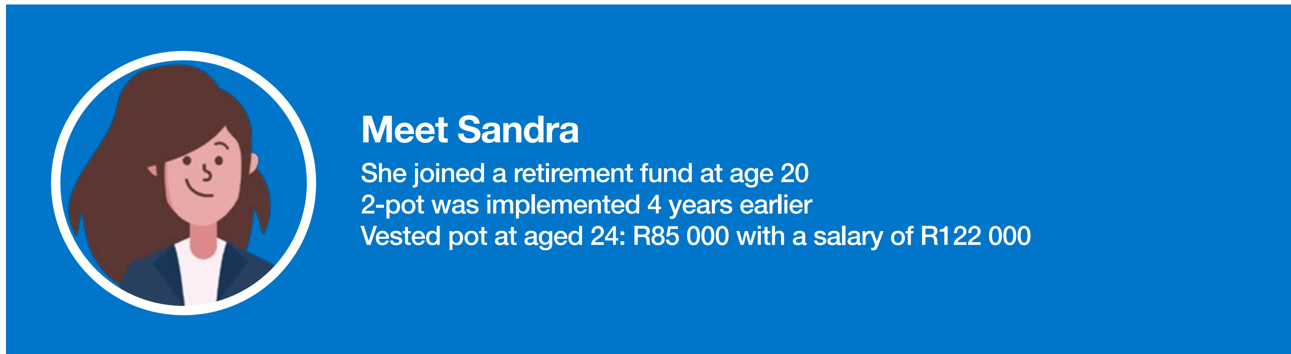
Furthermore, the draft indicates that withdrawals from the savings pot can be made "once per year", but there is no indication of how the year is calculated.

The big question is whether a portion of members' current retirement savings will be transferred to the savings pot on 01 March 2024. Although seeding of the savings pot was not introduced in the draft, we believe its exclusion could drive

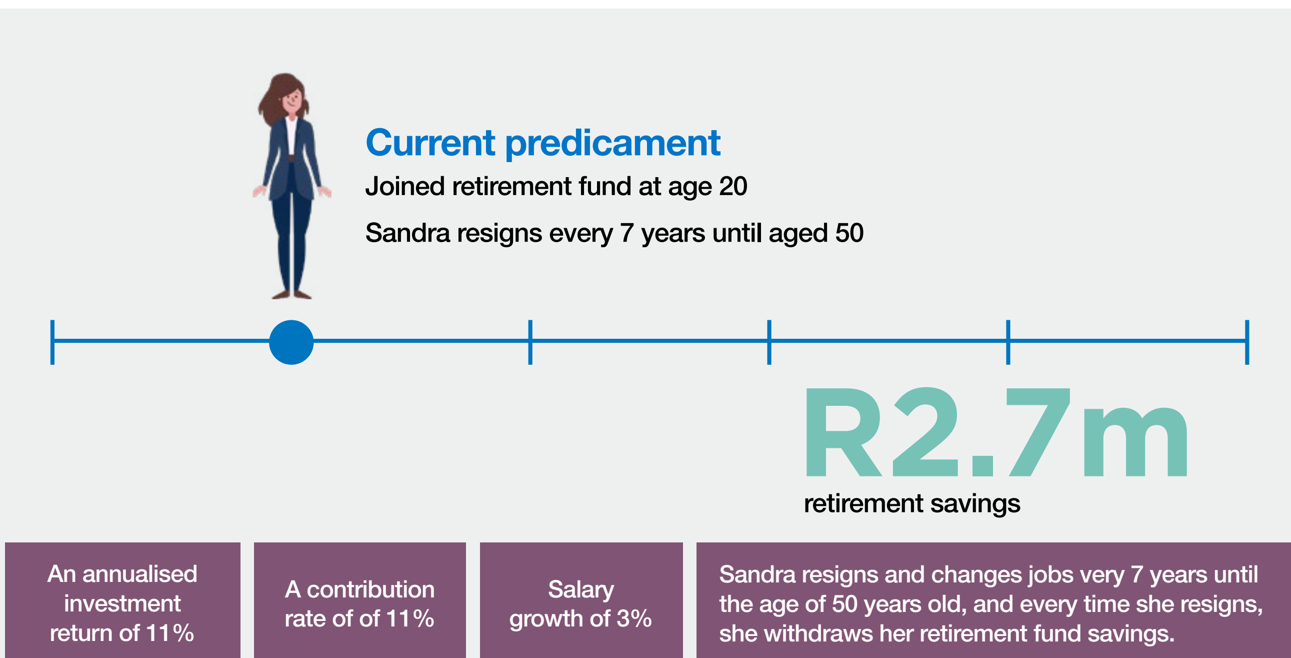
members to resign before implementation to get access to their full retirement savings. Assuming that seeding becomes applicable, the amount needs to be significant enough to matter but not too large to erode current retirement savings.

These are only some of the unknowns.

Earlier, we mentioned the two conflicting objectives of the two-pot system. We have conducted some modelling to evaluate how effective the proposed changes would be.

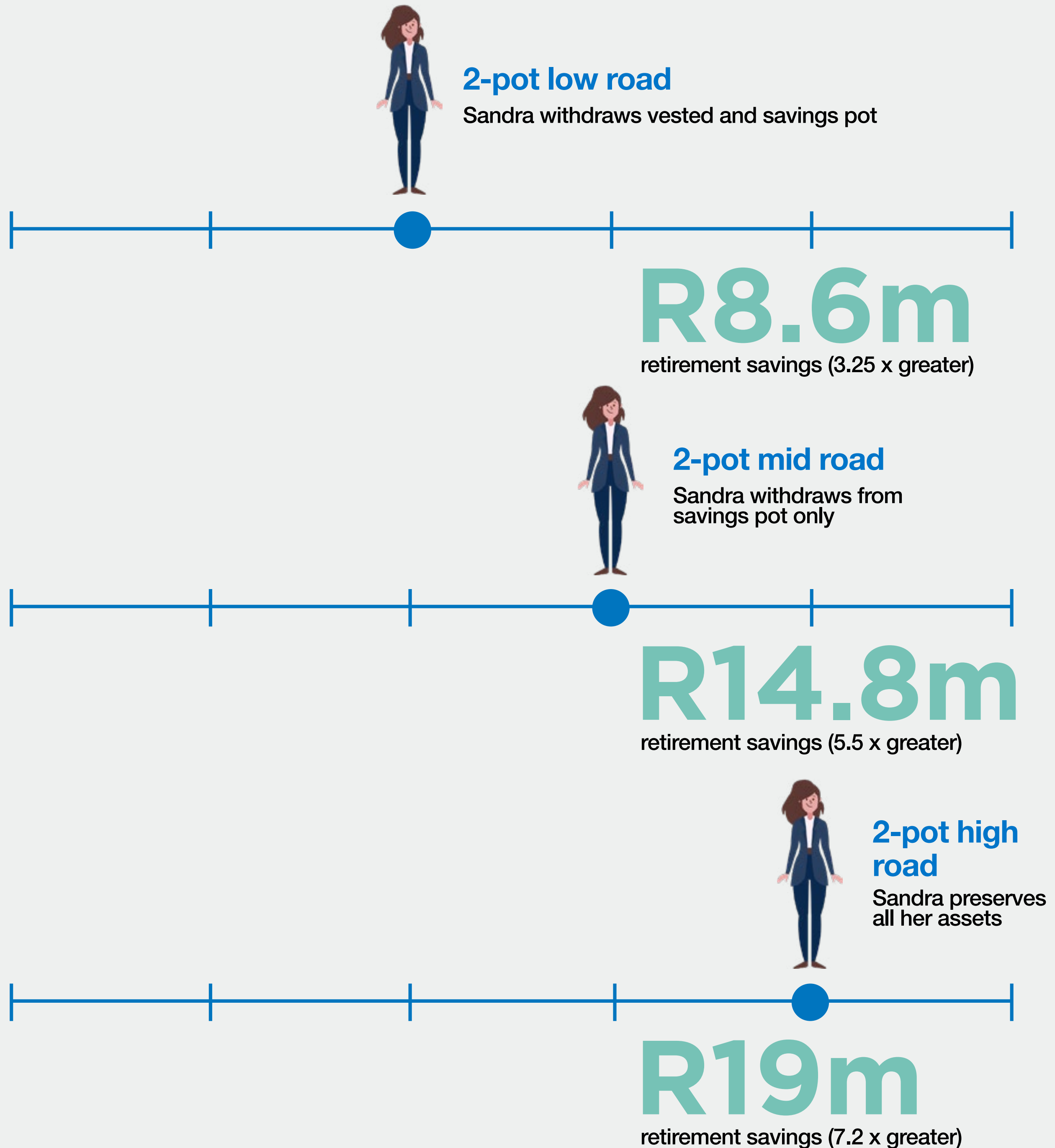


In our first member profile we assume Sandra joins a retirement fund through her employer at age 20, and the two-pot retirement system is implemented four years later. As a younger member, she stands to have most of her contributions invested under a two-pot regime. Sandra will most likely feel its success or failure. At this age, she will have a small vested pot of R85 000 accumulated in the four years before the implementation of the two-pot system, with a salary of R122 000.



The current predicament the National Treasury is trying to solve is that Sandra resigns frequently, and she is not preserving her retirement fund savings. This is a relevant scenario in our industry as our Benchmark 2022 survey showed that members were more likely to cash out than to preserve. We assume Sandra resigns and changes jobs every seven years until the age of 50, and every time she resigns, she withdraws her retirement fund savings.

At retirement, she ends up with a savings pot of R2,7m. In reality, she likely ends up with even less because we assume she does not withdraw her retirement savings or change jobs after the age of 50.



An annualised investment return of 11%	A contribution rate of of 11%	Salary growth of 3%	Sandra resigns and changes jobs very 7 years until the age of 50 years old, and every time she resigns, she withdraws her retirement fund savings.

If we consider the two-pot environment, we assume Sandra withdraws the little she has saved up in the vested pot. She also accesses the savings pot throughout her career as the cash becomes available, and only leaves the retirement pot untouched. Sandra's retirement outcome changes significantly by 3,25x as she manages to accumulate R8,6m. This is remarkable as all other assumptions are the same.

Additionally, Sandra is not having to resign from her work to gain access to her retirement assets. She gets access to the savings pot in case of emergencies, while still improving her retirement outcomes. The two-pot retirement system is therefore expected to significantly improve younger members' retirement savings by means of compulsory preservation in the retirement pot.

Sandra can, however, improve her outcomes even further by choosing not to withdraw from the vested pot. In this scenario, we assume Sandra accesses the savings pot, but leaves the retirement and vested pots untouched. This is expected to increase her retirement savings to R14,8m, up 5,5x from the current scenario of only R2,7m.

The best-case scenario for any member of a retirement fund would, however, be to not withdraw any retirement savings. Encouragingly, close to half of participants in the 2023 Consumer Study indicated they were not planning to cash out their savings. If Sandra decides to fully preserve all her assets throughout her working life, she will significantly improve her assets and retire with R19m, which is 7,2x more than the current situation.

This is exciting! Even under the worst-case two-pot scenario, where a younger member such as Sandra withdraws from the vested and savings pots, the retirement outcomes are expected to improve. As an industry we are making great strides in improving preservation rates.

What is the impact on older members who are closer to retirement?

Meet Thabiso

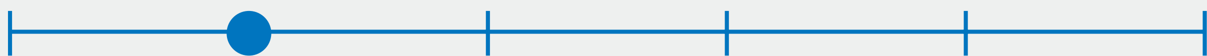
Joined a retirement fund at age 20

Thabiso resigns every 7 years until aged 50

Current predicament

Joined retirement fund at age 20
He is 51 years old when the 2-pot is implemented

Thabiso resigns every 7 years until aged 50



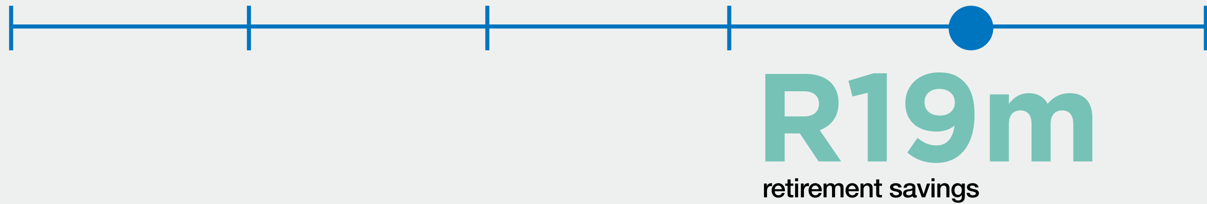
R1.4m

retirement savings

An annualised investment return of 11%	A contribution rate of of 12%	Salary growth of 3%	Thabiso resigns and changes jobs very 7 years until the age of 50 years old, and every time he resigns, he withdraws his retirement fund savings.

In the current scenario, Thabiso has resigned every seven years in his career and cashed out his savings. At age 50 he stops resigning and cashing out his retirement savings, but continues to withdraw from the access pot. When he retires, he has retirement savings of only R1,4m. That is a stark difference from the **R19m** he would have saved had he been fully preserving throughout his career. This is an important point as a large number of current members of retirement funds currently fit this unfortunate description. This highlights that the ability of the two-pot system to improve retirement outcomes hinges on a long term of contributions to the forced preservation retirement pot.

2-pot high road
Thabiso preserves all his assets



R19m
retirement savings

An annualised investment return of 11%	A contribution rate of of 12%	Salary growth of 3%	Thabiso resigns and changes jobs very 7 years until the age of 50 years old, and every time he resigns, he withdraws his retirement fund savings.

One way in which Thabiso can improve his retirement savings is to preserve his assets from this point forward, and not withdraw from the access pot. This could improve his retirement savings by approximately R300 000.

This current scenario is one that cannot be solved by the two-pot system for this large group of members. In fact, it could make it worse. As an industry, we have our work cut out for us to walk the journey with these members through counselling, financial education and financial advice to guide them from pre-retirement to appropriate post-retirement solutions.

So, this is encouraging, and we are clearly heading in the right direction. However, we need to head there swiftly by 01 March 2024. The Sanlam Corporate team has been working tirelessly to ready the two-pot ship.

The entire retirement fund industry has the enormous task of implementing the two-pot retirement system by 01 March 2024. These institutions need to consider:

- updating the fund rules and facilitating systems and process changes;
- issuing member communication;
- updating counselling material with accessible and understandable information to assist members;
- developing the capability required for the administration platform;
- trustee and member education and training on the implications of two-pot system; and
- setting and refining investment strategies in the two-pot regime, to name but a few.

We now understand a little more about how the member will be impacted, but trustees and consultants still have a big role to play in shaping their investment strategies.

As a trustee of a retirement fund, there is a spectrum of investment solutions available to you. In considering the most appropriate solution, trustees need to consider their investment objectives, Regulation 28 implications, liquidity risks and their membership profile. Importantly, members' financial sophistication, level of preservation and contribution rates, risk profiles and tolerance are all important in decision making as these will drive the future behaviours of members.

Trustees could consider retaining the current long-term investment strategy for both the savings and the retirement pot. The risk with this option is that members wishing to withdraw their assets could crystallise their losses if they are invested in an aggressive strategy that has been underperforming.

The product houses are likely to also have issues with accommodating the required liquidity in some of their portfolios, particularly those with higher alternatives and private market exposure.

The second option is to offer a lower risk-profiled portfolio for the savings pot relative to the retirement pot. The risk is that members wishing to remain invested and **not** withdraw any savings until normal retirement age would face lower investment returns on their assets. This would have severe consequences for their retirement fund savings in the long run. We would be punishing those members who preserve everything. In Sandra's case, her outcomes in the two-pot high-road scenario may be impacted significantly by a reduction in retirement savings from R19m to R16m (assuming money-market rates on the savings pot). This is an important point, and the industry should aim to not disadvantage one group of members to bring benefits to another group.

There are at least two ways in which you can combat this risk:

1. If you could consider a lower risk-profiled portfolio for the savings pot, the retirement pot could be invested **more** aggressively to compensate for the lower expected return.
2. And, instead of using money-market strategies, you could consider an asymmetric strategy that offers capital growth with relatively lower levels of volatility.

A third option trustees could consider is providing member choice portfolios for assets invested in the savings pot, coupled with a "default" savings strategy for those members who do not wish to choose their own portfolios. Although this would not be the direction taken for most funds, it could be an option for mega funds that have higher governance models. Although this option would give members the freedom to make their own decisions depending on their shorter-term needs, the risks cannot be ignored.

For instance, most members may not have the financial sophistication to make these complex investment decisions. Another issue is that the risk of switching between portfolios could result in the crystallisation of losses.

So the spectrum of options for trustees ranges from quite simplistic solutions to more complex options. It is important to highlight here that a lot of these options may only be developed at a later stage as administrators are still focused on accommodating the existence of different member pot contributions and withdrawals.

The administrators are the engines through which all these changes come to life. With the looming effective date of 01 March 2024, administrators are under great pressure to ensure their systems can cater for various member pots. The complex scope of changes the administrators need to implement is unpacked in our Insight article by Johan Prinsloo.

Administrators are facing a number of challenges, such as preparing for changes that are yet to be finalised.

- Due to the anticipated increase in the number of cash withdrawals, a risk arises that payments could be made to fraudulent bank accounts.
- Increased volumes of transfers may impact service level agreements.
- The expected increase in processed volumes will require significant resources from a human capital and technological perspective. Administration businesses would need to fund these additional capabilities, which may impact the cost of administration services, particularly if one considers varying degrees of customisation.

Using digital withdrawal platforms would solve a lot of these problems, but it also does not come for free. Digital access would also help ensure equitable access to withdrawal capabilities.

In the commercial umbrella fund landscape, participating employers invested in off-the-shelf defaults would be at the mercy of their chosen funds and administrators to employ a strategy that meets the needs of members. Members value optionality, so from a participating employer and consultant perspective, mass customisation is largely preferred. However, that may not necessarily be possible depending on the direction taken by umbrella funds and administrators.

Service providers that provide mass customisation may have a competitive edge and this could impact future umbrella conversion decisions of stand-alone retirement funds. Umbrella funds would do well to engage with industry stakeholders to consider the requirements of all clients.

Conclusion

If you walked around the corridors of our industry buildings, there was a sense that this regulation might just divide us more than sport. In fact, our 2023 Consumer Study reflected this split view. One thing rang true in all the arguments, and that is that the industry is focused on providing good member outcomes. The two-pot system is not a silver bullet; there are pitfalls for more mature members in retirement funds.

Our models, with the assumptions we discussed, reveal that the two-pot system has the potential to achieve both the objectives that have been set for it. A great win for an industry that has been struggling with less than desirable retirement outcomes.

The regulation brings risks to every party in the industry who needs to play a role in bringing it to life.

- The funds, as fiduciaries, together with their trusted consultants, must navigate this new normal by providing and crafting appropriate solutions, suited to their membership, to improve retirement outcomes.
- Members need to be empowered to explore these new options without hampering their long-term retirement outcomes. Counselling and financial advice partners are crucial in educating and encouraging members to view the savings pot as an option and not an obligation.
- The administrators have a big task without fully understanding the ask.
- Our regulators will face challenges even after this regulation is in place. There is an article by Danie van Zyl in our Insights pack about the lessons we can learn from further afield. He explores how the Chilean law makers allowed their version of 'early access to retirement savings' regulation to accommodate an increasing number of withdrawals. Once Chilean regulators opened the initial access to retirement savings, they opened the floodgates to the abuse of the savings. That risk is heightened in an environment, such as ours, where unemployment and lack of economic growth are pervasive.

THE EVOLUTION OF THE MEMBER AND INTRODUCTION TO MEMBER-LED OUTCOMES

Anna Siwiak
HEAD: PRODUCT DEVELOPMENT
SANLAM UMBRELLA SOLUTIONS

We all know retirement funds have evolved significantly in South Africa and globally over the past century, driven by changes in demographics, economic and political conditions, and social expectations. However, what about the evolution of our retirement fund members? How have they changed over this time?

In the 1970s, most retirement funds in South Africa and worldwide were defined benefit (DB) funds, managed by employer-appointed boards of management. Benefit design favoured retirement and death but penalised resignation in order to encourage employees to commit to their employer for the long term. Many reminisce about the good old DB days but don't appreciate that DB funds don't fit with the modern world anymore.

In a recent article, Zurich Insurance Group discussed research that shows that Gen Z could change jobs up to 10 times between the ages of 18 and 34. As a reminder, Gen Z comprises those born between 1997 and 2010, and is likely to account for 27% of the working population by 2025. An interesting side note is that Gen Z is the first generation to grow up with no recollection of a world without the internet!

The 1980s and 1990s saw a dramatic transfer of employees from these defined benefit funds to defined contribution schemes. This was viewed positively by all parties:

- Trade unions saw advantages for their members in the better resignation benefits;
- Astute employees sought to capture the investment rewards of a bull market; and

- Employers preferred a defined contribution arrangement, since it provided for the capping of their staff expenses, eased the introduction of package remuneration approaches, and transferred the investment and expense risks to the employee.

At this point, we as an industry shifted (or should have shifted) to focusing on members as our clients rather than only Employers or Intermediaries. But has this happened?

Members of defined contribution funds have been encouraged to become more active in the management of their retirement fund investment choices and benefit structures. While this has contributed to greater depth and competition in the industry, it has increased the risks to members arising from limited investment expertise, poor advice, or the intricacies of the market.

Having worked in the retirement fund industry for the past 15 years, I am not sure the gravity of this responsibility is fully appreciated by our members. Taking a look at the recent Benchmark Consumer Study conducted by Sanlam Corporate surveying more than 600 South African consumers, I was pleasantly surprised that 83% of employed consumers surveyed were aware of all or some of the benefits provided by their employer, including retirement, medical aid and risk benefits. Sixty-five per cent (65%) of those contributing to a retirement fund stated they were aware of the value of their fund savings and a whopping 90% confirmed they had engaged with their retirement fund benefits via the employer's website, the employer's HR, the fund administrator's call centre, the fund's website or app, retirement benefit counsellors, their personal financial advisor or the consultant appointed by the Employer. Only 10% said they do not engage with their retirement savings. This is great! I'm clearly worried for no reason.

However, on delving deeper into the data, it seems that consumers with retirement savings are not very confident about their knowledge and understanding of their retirement benefits. Forty-four per cent (44%) of these members have never revisited or reconsidered the options they selected when joining the retirement fund. Twenty percent (20%) of these members said that they were still happy with the selections they originally made, 13% believed their employer and the fund trustees offered the best options to them, but 45% confirmed the reason they had not reviewed their initial selection was a lack of knowledge about retirement planning, being put off by the complexity of the options available, not being aware of options available and a fear of change.

And the all-important indicator of preservation ... 47% of the consumers surveyed had previously taken their retirement savings, or a portion thereof, in cash. When consumers were asked what support they were provided with at the time of resignation or retrenchment in order to make the decision, the majority indicated that they were provided with no support.

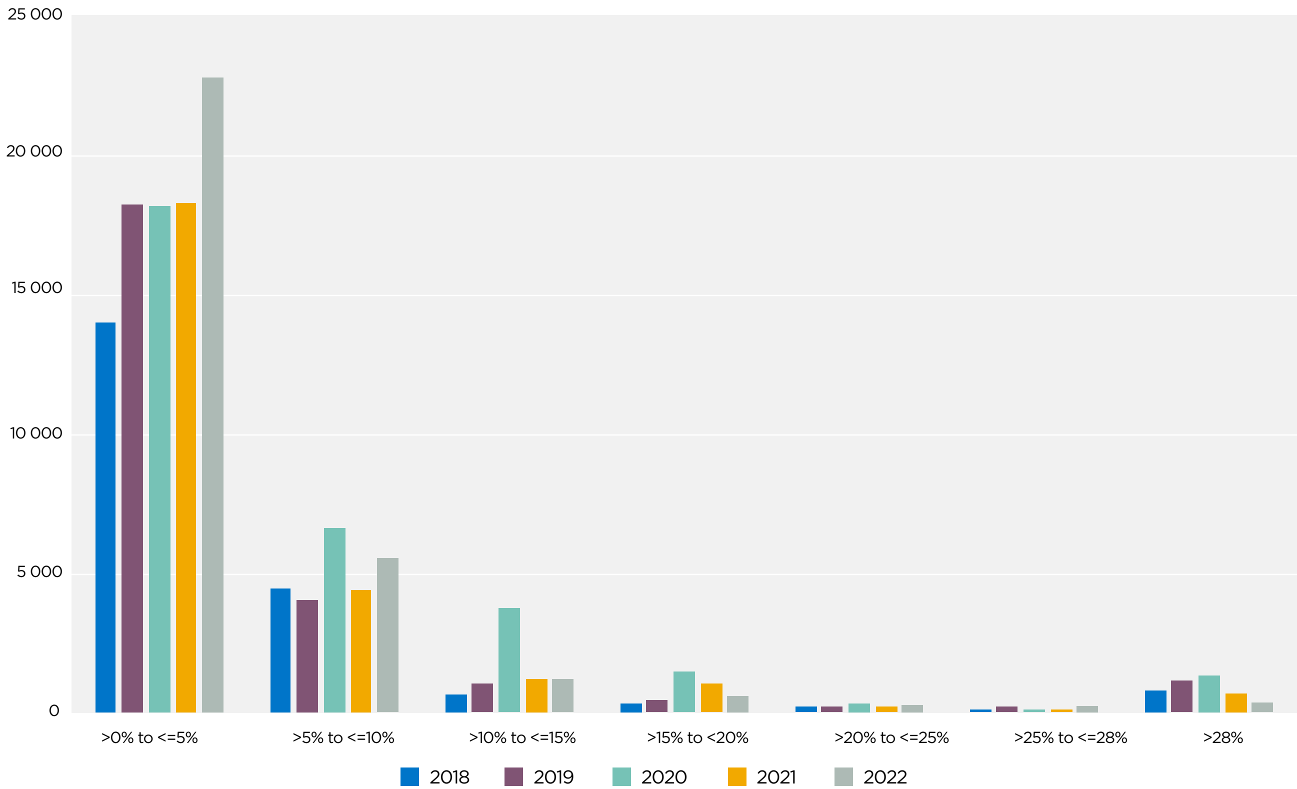
I was provided support from HR	15%
I was provided access to a financial advisor	8%
I was provided with literature on the impact of my financial decision on withdrawal	11%
Nothing, I was just provided with the withdrawal form from HR	55%
Don't know / not sure / cannot remember	11%

So, perhaps the willingness and engagement are there, but the financial pressures, cost of living, and inflation our members experience are still too high for them to really create a LI:FE of confidence. I can only think what complexity the new Two-pot system will add!

However, perhaps things are changing. Research from the 2022 Blackrock Retirement Survey suggests that Gen Z is already saving more than previous generations. Many members of Gen Z have memories of the financial crises of 2008 and 2009. They could have witnessed their parents or loved ones losing a job or home during that time. The same is true for the COVID-19 pandemic. Gen Z individuals might have watched their family go through a tough financial time when businesses shut down. Older Gen Z workers may have lost their own jobs. These experiences have motivated many young employees to establish an emergency fund and build long-term savings accounts such as their retirement savings.

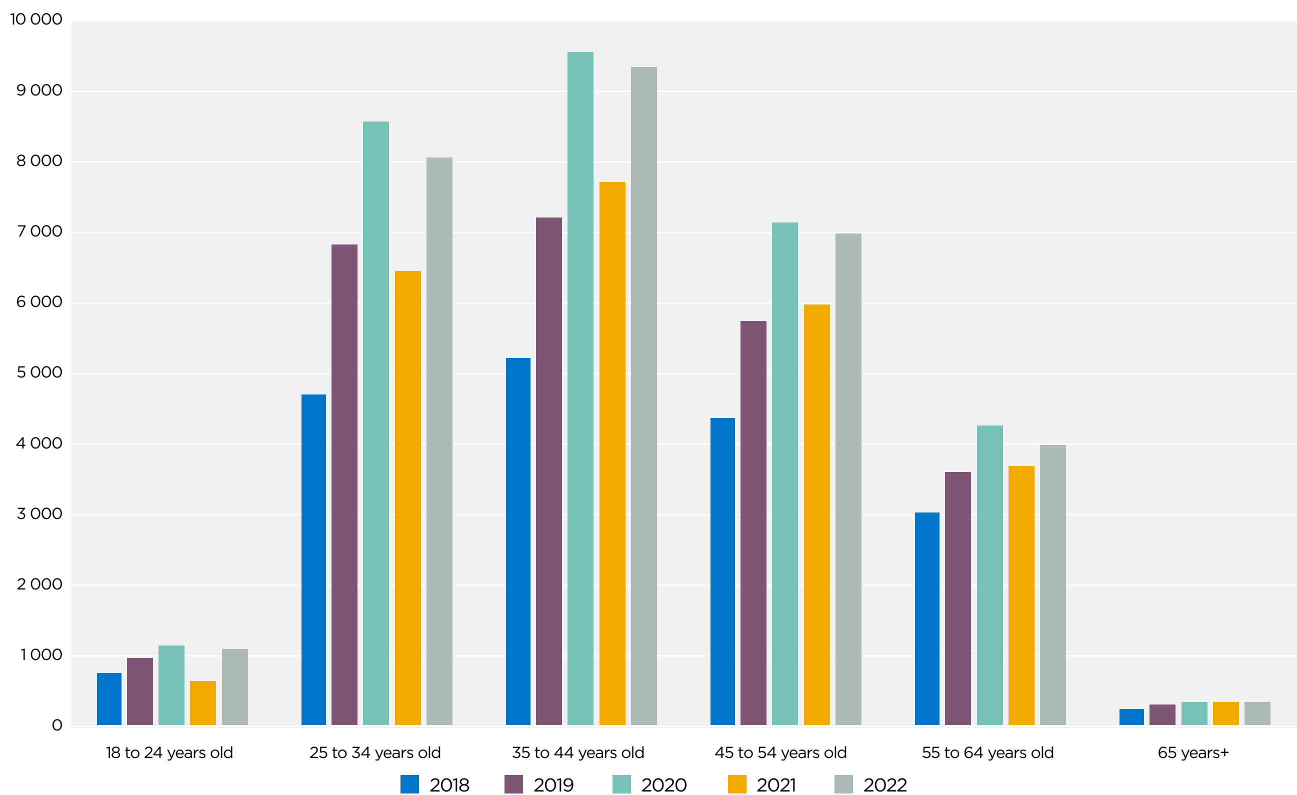
A look at the Sanlam Umbrella Fund data shows that our members are evolving. I was again pleasantly surprised to find that the number of members paying additional contributions to their retirement funds over and above the Employer-allowed categories has increased significantly in the past 5 years. The majority of the members choosing to make additional contributions selected to contribute up to an additional 5% of their salaries towards retirement.

Number of Members Making Additional Contributions

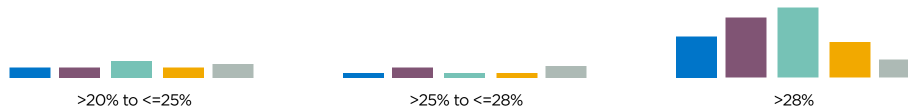


Interestingly, there is quite a spread of ages among members choosing to contribute additionally, including a large number of 25- to 34-year-olds. So perhaps the younger generation is more financially savvy, or has been scarred by the statistics of the pandemic. Or perhaps all the relentless communication from the industry on the importance of contributing sufficiently for retirement, has finally paid off!

Age Distribution of Members Paying Additional Contributions



What interested me most, however, is the number of members making additional contributions of over 28% of their monthly salary.



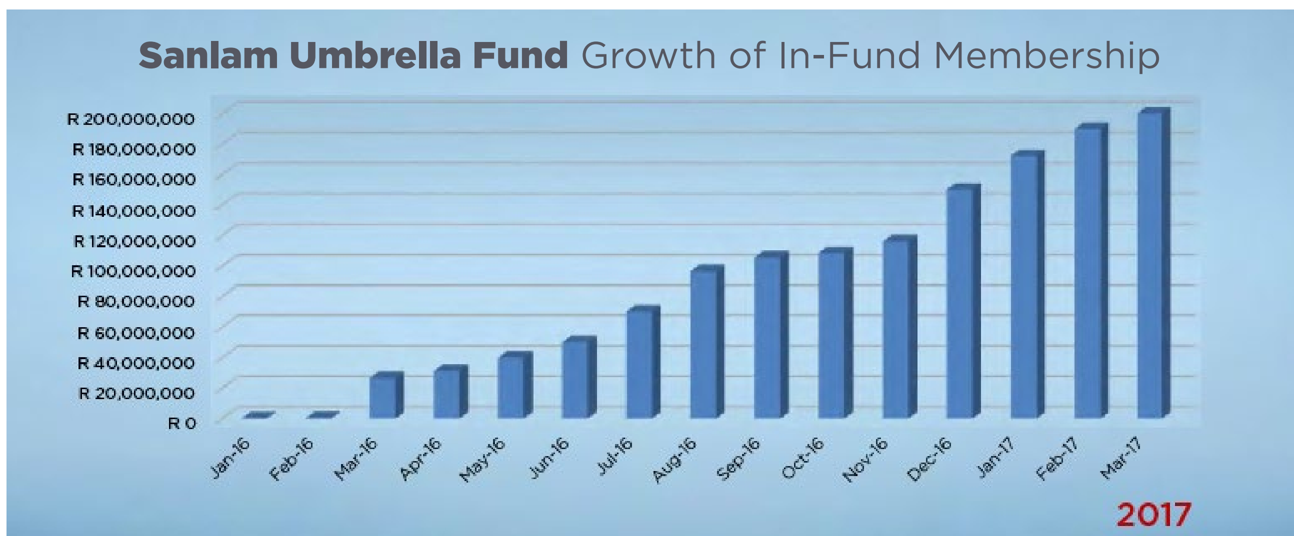
Looking more closely at this category of members, the majority (57%) of the members contributing over 28% were over age 45, with 81% between the ages of 35 and 64. Eighty per cent (80%) of members in this additional contribution category contributed a once-off additional amount in 2022. It is likely this was part of a bonus or a 13th cheque. Five per cent (5%) of these members contributed at over 28% for the full 12 months. From my research, these members were equally spread in the age groups between 35 to 64. Some members were nearing retirement, and might be worried they had not saved sufficiently. Others had a very low base contribution rate allowed by their Employer (such as 5%). There were also members who had a very low pensionable salary relative to their total salaries. So, the reasons for these very high additional contributions vary, but I love it that members are taking action and ownership. The fact that many more members are contributing in excess of their Employer contribution rates means members appreciate the value of their retirement savings.

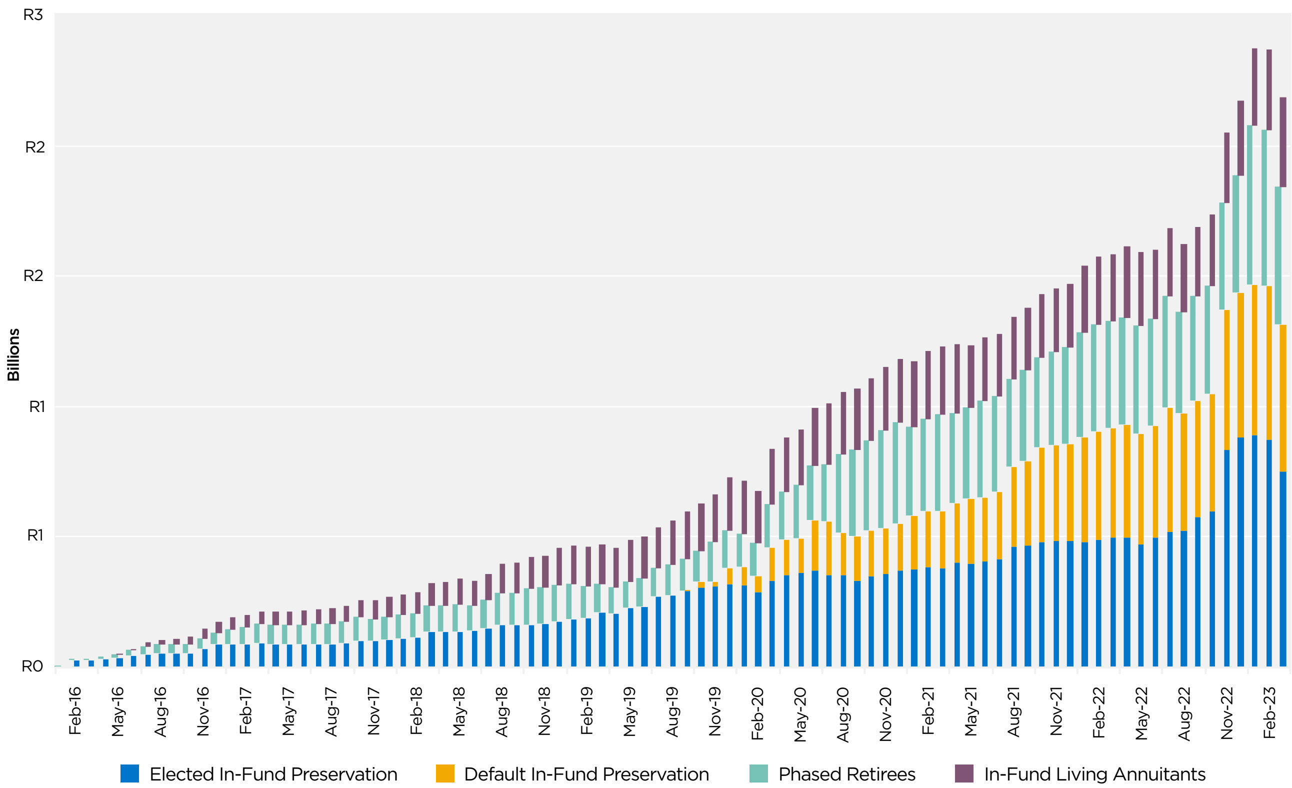
As a reminder, although the tax deductibility is limited to contributions to a maximum of 27,5% (or R350 000 per annum), there is nothing illegal or wrong with contributing more. The excess contributions will just not qualify for an upfront tax deduction. This is still a good investment given all the other cost savings and strong governance attributable to institutional arrangements.

However, this got me thinking: A few Benchmarks ago, in 2015, my colleague Willem le Roux from Simeka stated in his presentation that if a brand-new member entering the workforce at age 20 had started contributing 25% of his or her salary towards retirement, after 15 years they would never need to contribute again to reach a reasonably comfortable replacement ratio of 66%. We all know the power of compounding interest, but this led me to ask the question, is it ever too late to make a difference to your retirement outcomes?

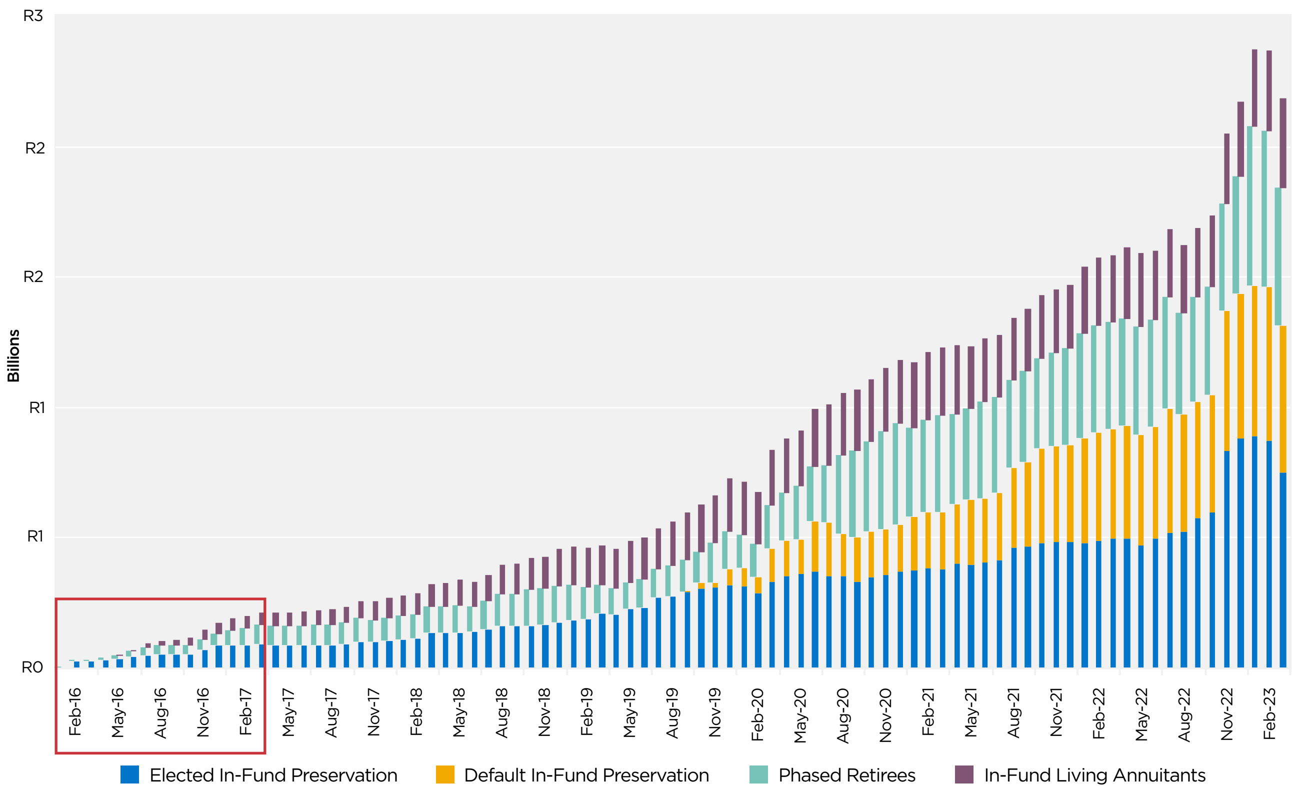
Making some assumptions on investment returns and salary escalation: We worked out that a member aged 40, with zero retirement savings, could get to the same net replacement ratio of 66% if they contributed 31.5% of their salary to age 65. We appreciate that this is a near impossible task for many of our members, and why we encourage members to contribute consistently throughout their working lives, but it is possible.

Earlier, David mentioned the Individual Member Products and Servicing Committee formed by the Sanlam Umbrella Fund in 2020. I must admit, I am impressed with the foresight of the Trustees, understanding that the Individual Member groups would grow significantly over the years and that these members' needs would differ from active members. The Committee has already provided many insights into our members' needs and behaviours. David used the slide below in his 2017 Benchmark presentation, showing the growth of the Sanlam Umbrella Fund In-Fund membership. It looked quite impressive since we introduced the in-fund membership groups in January 2016, namely paid-up members, phased retirees, and in-fund living annuitants.





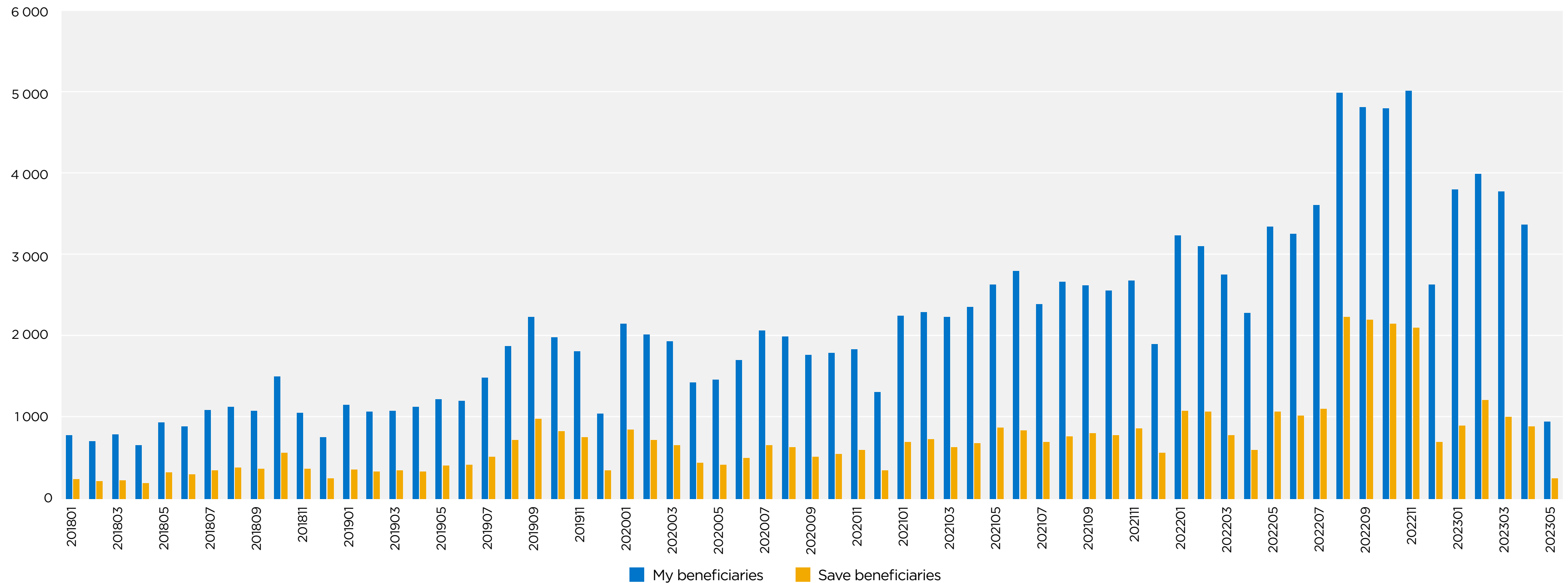
In comparison, this is the section David presented in 2017:



What's also interesting to note on this graph is the dip we saw in March 2020. Perhaps some members withdrew their in-fund benefits in fear of the pandemic, in the light of the National State of the Disaster declared on 15 March 2020. It is not a significant dip though, which tells me that our proactive interventions with members at the time, deploying our benefit counsellors to engage with members who appeared to be "panic switching" or "panic withdrawing", were successful.

As Sanlam Corporate we have also investigated how we can use incentive theory of motivation to encourage our members. Incentive theory of motivation is a behavioural theory that suggests people are motivated by a drive for incentives and reinforcement. We offered Sanlam Umbrella Fund members a R50 voucher for Shoprite, Checkers, Dis-Chem or Takealot if they completed or updated their Nomination of Beneficiary form online via the member portal or app. Correctly completed, and updated Nomination of Beneficiary forms are critical for both fund savings and insured benefits. The campaign ran from the beginning of July to the end of September, and we saw a significant spike during that time, where members either viewed their nominated beneficiaries (in blue) or submitted changes or loaded nominated beneficiaries (in yellow). It is clear that incentives are an important tool we can use to motivate our members. Research has also shown that informed members make better decisions at "moments of truth" or important life events, so we are currently looking at incentivising members to make sure they are aware of all the options available to them, prior to making retirement decisions.

Nomination of Beneficiary Elections Viewed and Updated



Sanlam has really embraced this shift towards focusing on the member. From a Sanlam Corporate perspective, this means providing not only retirement fund solutions, but also holistic financial solutions that are personalised and tailored to the needs and preferences of individual members. In order to achieve our goal of **generating a LI:FE of confidence at any age** for our Sanlam Corporate members, we have even launched a programme focusing on purely member-led outcomes.

I think what is important to acknowledge following all the research and statistics and all the initiatives, is that our members are evolving and changing and as Sanlam Corporate we need to be agile and keep aligning with their needs. As new generations become our clients and members, we need to be aware of their intended outcomes. It is also only with the continued support of our intermediaries and employers that we can truly make a difference to our members' lives and help them **create a LI:FE of confidence at any age**.

MLO: GENERATING A LIFE OF CONFIDENCE THROUGH MEMBERS' EMPLOYMENT JOURNEY AND BEYOND

Koketso Mahlalela
HEAD: MEMBER-LED OUTCOMES
SANLAM CORPORATE

Sanlam Corporate has shifted its focus to deeply understand and fulfil the identified needs of our members. It is important for us to journey with our members throughout their employment until they retire and beyond. It is at these different moments of truth or life events that we have partnered with our members – from when a member joins the fund, up until he or she resign from his/her employer or even work towards his/her retirement and beyond.

We are there especially for the beneficiaries through the unfortunate event of the member's death or disability, ensuring that our members' interests are protected. Being the accountability partner of our members is central to what we do so we can really instil and generate a life of financial confidence.

It is with that in mind that we now have the member-led outcomes programme (MLO). The ultimate goal of MLO is to drive positive outcomes for our members. We want to see more and more South Africans retire comfortably irrespective of the alarming industry statistics we have seen to date.

In this regard, **70%** of respondents in the 2023 Benchmark consumer study highlighted that they were worried about whether their retirement savings would be enough to live on by the time they reached their golden years.

Let us face it, as much as we do not want to admit this, it is probably a thought we have often, especially as we grow older while dealing with the demands that come with raising our children and supporting our families.

Hence MLO aims to educate and equip our members with the tools needed so they can practise the financial habits that will lead to a more comfortable retirement. This is achieved by our members:

1. Remaining focused and encouraged to preserve, especially as and when they change employers.
2. Working on increasing their retirement contributions and also allowing them to take advantage of the tax deductible, maximising their overall retirement savings. I am encouraged to see from the 52% of the consumer study respondents who would like to increase their retirement contributions if they could, that this is definitely possible.
3. Remaining disciplined in their retirement saving by doing so consistently, even with the Two-pot system legislation coming into effect next year.

So, what we have identified in driving the success of MLO is ensuring the practice of driving member financial awareness and overall financial well-being. It is through members engaging with their employee benefits that we can enable member needs to be met.

From the Benchmark consumer study we have noted that 52% of consumers engage with their retirement benefits digitally and that

65%

engage with their retirement fund or retirement annuity through digital platforms.

The preferred means of consumers to do so is mostly through the employer's or fund's website, app or mobi site. Of course, MLO ensures we are aligned with consumer sentiment through our technologically enabled avenues. Our member portal and retirement app provide a one-stop platform for members to have direct and immediate control over their employee benefits. This is in line with:

- The over 200 respondents who would like to be able to update their beneficiaries whenever they wanted; and
- The more than 140 respondents who wanted to be able to view their retirement savings whenever they wished to do so.

So, keeping our members informed through product agnostic avenues is crucial in achieving positive outcomes for our members. Members' curiosity is important for their financial well-being as this starts to drive the desired change.

There are a number of other initiatives that are focused on delivering the message with impact, including the Imali Zam member sessions, consistent communication aimed at informing members of their benefits, current status and any legislative changes of which they need to be aware. My favourite has to be through rewards and nudges, which always encourage behaviours that drive better outcomes for members.

I should highlight that for our rewards and loyalty strategy, we are focused on giving our members incentives that not only provide for their everyday needs but also enhance their life experiences. I'm excited to share, in this year, we will be launching something in this regard. So, watch this space!

At Sanlam Corporate we pride ourselves on being a valuable and trusted partner to employers, trustees and intermediaries while putting the members' interest at the centre of it all.

Financial Education

From my introduction, you would have gathered that having informed members is a key principle of MLO. Financial literacy or education teaches the skills and attitudes necessary to understand general finances. Hence, developing an understanding of our finances equips us with the knowledge and skills needed to manage our money appropriately. It is these well-informed choices that then encourage financially responsible behaviour.

Many respondents in the consumer study were unfortunately not confident when it came to their employee benefits.

When measured on a 3-point scale of zero confidence, confident and very confident –

3 in 10 respondents mentioned that they were not fully conversant with the retirement benefits provided by their employer;

4 in 10 of the respondents mentioned they had no confidence when it came to understanding the different investment tools available. That is very unfortunate because, if understood, those tools could be used to maximise the return on their underlying funds; and

54% of the respondents, when asked about their preference in investing in the default investment portfolio, stated they would not know how to structure their own portfolio. This could mean the individual's risk profile could be mismatched with his/her risk tolerance level – not a great position to be in when mapping out your retirement needs.

It is difficult for everyone to know everything, but the answer to this is knowing where exactly to find the relevant information. This is how we can then start to tip the scale and move up to the "very confident" point on the scale.

Retirement Benefits Counselling

Earlier I mentioned our technologically enabled capabilities to enhance the MLO value proposition. Further to this we have people-enabled capabilities to cover the full scope of our member needs. Twenty-five per cent (25%) of the consumer study respondents highlighted their need to talk to HR, their employer's/fund's call centre, or an appointed retirement benefits counsellor to assist them.

However, it appears that only 36 out of 237 respondents actually received support from their HR. A discouraging 10% mentioned that they did not engage with their retirement fund at all.

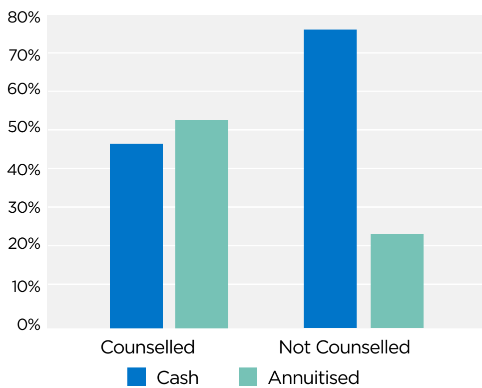
This highlights the importance of getting in touch with a retirements benefit counsellor. In view of the Default Regulations that came into effect in 2017 we established a team of retirement benefits counsellors to inform members of their:

1. Available investment portfolios;
2. The terms of the fund's annuity strategy;
3. The process by which the funds handle preserved benefits as per Regulation 38; and
4. Any other options available to them.

Retirement Benefits Conselling does not constitute of financial advice as per the FAIS Act. Further to this the retirement benefits counsellors are available to refer to and support the appointed Contracted Financial Advisors and Contracted Benefit Consultants available on the Umbrella Fund.

Making retirement benefits counselling available to members when withdrawing from their fund through resignation or retrenchment or as they approach retirement has brought about a shift in member behaviour where members are choosing to encash less. The following statistics emerged from from the retirements within our Umbrella Fund. at the end of December 2022:

A shift in member behaviour where members are choosing to encash less at retirement: Dec 2022



Our counsellors are even there for our members as they join the fund and not only at exit, as is currently legislated. This is because it's important to us that members understand their retirement savings, from the beginning.

Power of Preservation

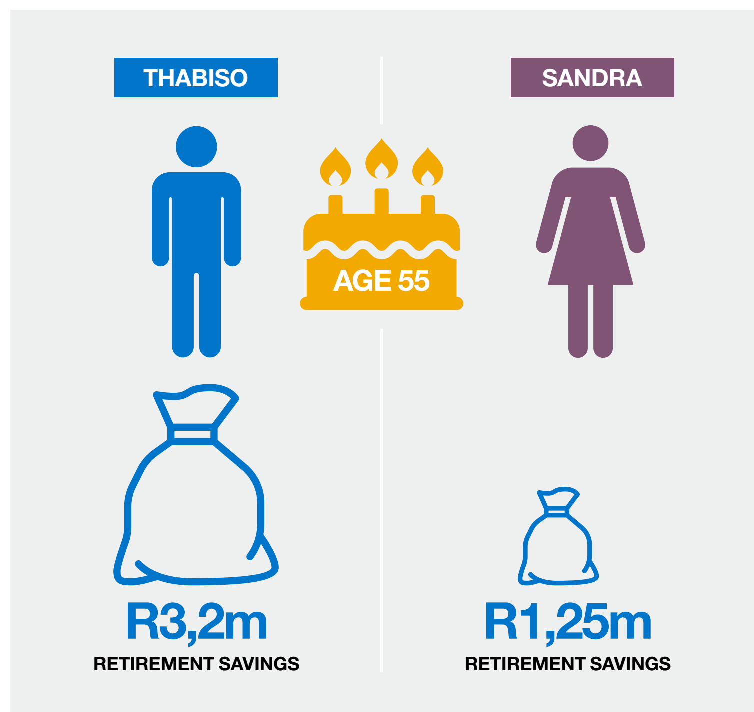
There is so much that can be achieved with practising good financial behaviours. Let us take a look at two individuals with different retirement savings due to their financial philosophies and personal circumstances. Thabiso and Sandra are both 25 years old, and both started working at the beginning of this year. They are both earning a monthly salary of R10 000. Let us assume:

1. Their salaries increase at a rate of 6% p.a.;
2. They both contribute 15% of their gross salary to their retirement savings; and
3. They earn interest of 6,5% p.a. in their underlying invested funds.

Suppose they both change employers twice in their careers (at ages 32 and 43 respectively) before they both decide to retire at the age of 55.

Both times Thabiso changes jobs he decides to preserve his retirement savings and not take any funds in cash. This means his retirement savings continue to grow steadily and uninterruptedly over the 30 years. Remember the three principles I mentioned at the beginning – focus, changed behaviour and discipline. Thabiso approaches his retirement savings in exactly this way. By the time he reaches age 55, he finds his retirement savings have grown to just over R3,2 million.

Sandra, however, is faced with some financial pressures. So she decides to withdraw all her funds, first at age 32 and then again at 43 when she is again in another financially pressing position. In both instances, she effectively has to start from scratch in saving for retirement, until she too retires at age 55. As a result, she ends up with having saved only R1,25 million by the time she reaches retirement, as she reduced her years of contributing to her retirement savings from 30 to just the remaining 12 years of her employment. Sandra has obviously not saved enough for retirement. At that point it could potentially be too late as she would now also be part of the population that struggles to make end meet in their retirement.



Sandra loses out on 61% of what her retirement savings could have been if only she had preserved them every time she changed jobs like Thabiso. If she had perhaps made some adjustments to managing her finances, starting with budgeting and managing her lifestyle accordingly, it would have put her and her family in a better position in her golden years.

Ensuring members make informed decisions that positively influence their retirement benefits is key to MLO's philosophy.

Financial Advice for holistic financial journey

It is important that our members' financial journey is completed by having access to financial advice. Had Sandra been in touch with a financial adviser earlier (before she had thought of withdrawing her funds at age 32 or 43), she would have seen what retirement could look like and might have decided to preserve her retirement savings.

Many South Africans are currently feeling anxious about their financial position. In the study, close to 2 in every 3 individuals stated they were anxious about their current financial position.

Only 20% of respondents indicated that they were getting financial advice on retirement early enough. Depending on how you look at it, it could also mean that people are living with an extended period of anxiety, not knowing how or what to even think regarding their financial futures. So, it is important that we enable our members to access affordable financial advice in order to help them deal with this anxiety. Access to financial advice ensures members are:

1. Informed of how to manage their finances;
2. Assisted in having their benefits structured in a way that suits their and their family's needs; and
3. Financially confident that they are well covered, especially with regard to the financial risks life brings during their employment and beyond.

THE ALPHA GENERATION

Ashley Singh
CHIEF INFORMATION OFFICER
SANLAM CORPORATE

The term Generation Alpha refers to those born after 2010, and they are the children of millennials. This generation is projected to be the most technologically advanced and digitally fluent generation yet, growing up in a world where technology is pervasive and omnipresent.

In order to understand this generation, let us reflect on previous generations:

Generation X in the 90s, the Web 1.0 era:

- Services were separate and static, and one had to physically go to various service providers. There were point-to-point interactions and information was received and passed on, but there was no interactivity.

This culminated in a market that was siloed, fragmented (no inter-operability), and exclusive – it was difficult to get in the game if one did not have the tools, knowledge, or resources. For instance, one needed significant resources, such as bricks and mortar, to open and manage a chain of hotels or an ownership of vehicles and other assets for the transportation industry.

Moving on to the Millennial Generation – Web 2.0:

- We literally have the world in the palm of our hands – the smartphone.
- Industries are no longer siloed; one can purchase electricity, airtime, bread and a funeral policy at one's local fashion retailer.
- Technology has given rise to new industries, shattering and disrupting existing commercial institutions.

But, as Web 2.0 technologies have become omnipresent, infrastructure shortcomings and new vertical industries have given rise to innumerable threats, such as personal data being abused, political censorship over media platforms, and the hacking of digital lives.

A new era that will solve the shortcomings of our generations and underpin the technologies of the future, has been born.

Introducing future customer, as they are today:

- Exploring a day in the life of the Generation Alpha individual – how does he/she engage in ways that are different from both our generation and that of our parents?
- At just 8 years old, Dani my daughter is already showing signs that she will be a vastly different type of customer from our generation, and the generation before us.
- For example: She can navigate the internet with ease on any digital device.

In 15 years', time, when she is old enough to start demanding FSP-related services, she will be accustomed to interacting via Web 3.0 technologies:

- She will connect with friends, peers, and colleagues virtually and in real time via the Metaverse/AV/VR.
- Her decisions – whether about what type of car to buy, what clothes to wear, what person to vote for, or what food to eat – will be informed by big data and artificial intelligence.
- She will have unfettered access to, and transparency of, information everywhere via blockchain technology.
- She will be in constant touch with the world around her, at a fraction of the cost, thanks to 5G and 6G technology.
- She will live an automated lifestyle, where mundane tasks are completed with efficiency, allowing her the time to focus on what matters most.

Dani is not alone.

Researchers estimate that by 2025 there will be 480 million customers just like Dani in Africa alone.

Their needs, habits and desires are being guided by six fundamental shifts in the way societies, economies and communities engage.

1 A life in flow

The pursuit of freedom may be the most consistently powerful urge of them all, and technology now allows us to cut many ties. Fixed acquisitions that once anchored us (jobs, contracts, mortgages) will soon flow with us. The world of one job, one house and "my" things will be replaced by the flexibility of constant connectivity and new models of work. We will have our assets and freedom, too. In a world prioritising access over sole ownership, optionality is the new stability.

Our lives will become increasingly delocated:

- Wi-Fi, Li-Fi, 5G and changing norms allow us to delocate tasks and complete anything from anywhere.
- Due to wearables and connected devices, the internet is like electricity – constant current throughout our lives, nothing we "log on" to, just something that is always on.

Flexible models of work will be the norm.

Traditional ownership will yield to experience:

- We will increasingly access assets through peer-to-peer sharing, co-ownership, and on-demand rental.
- What used to be symbols of success – a home with a new car in the driveway – may be viewed as burdensome assets.

Dani will gain freedom: the flexibility of mobility and the opportunity of access.

Dani's life depends much less on dedicated spaces. She shops anywhere, anytime. She can access the world from her home and her home from the world, so traditional delineations between home, work, and travel blur. "Home" means something fundamentally different, as a portable lease replaces a 30-year mortgage.

She pays for usage, not possession, trading the status of ownership for flexibility and optionality. She shares any high-value asset that frequently sits unused (a car, a lawn mower, a piece of art).

She shuns anything that breaks the "flow" of her life: anything she cannot do from the comfort of her connected home (she trades doctor's visits for telemedicine), any experience that demands a special trip (no checkout counters for Dani), any purchase that ties her down (no house, no annual gym membership), and any job that tells her when and where to work instead of just providing the platform to access work. She does not report to one employer but works up to six gigs in each day, applying her talents where they fit best. Her life is in constant flow.

It is already happening.

Today, Dani wakes up in Cape Town. She pays weekly rent to Neighbourgood so she can bounce between communal living spaces with friends whenever she wants. She has few possessions – and she prefers it that way. Style Rotate sends

her a new wardrobe every month, and if she ever needs a steamer or a suitcase, Peerby points her to a neighbour who owns one. She chooses experiences over things. Her career is made up of short-term gigs from Upwork, where she freelances as a consultant. Each project rewards her with new skills, perspectives, and connections. If money is tight, she walks dogs with Wag! or drives with Lyft using a car she co-owns with her Neighbourgood mates. Her life comes with some uncertainty, but Paymenow helps her smooth out her irregular income.

2 Transparent existence

We crave connection, and we trade a lot to get it. In the future, we will increasingly be tracked – and track ourselves – but we will also reap greater and greater benefits of social connection, quantified performance, and personalised recommendations.

We will live amid continual monitoring:

Our wearables will know if we need more calcium, our refrigerator will know if we need more milk, and our car will know the cheapest place to pick it up. These consumer products know more because they watch more. But will the culture of surveillance render privacy a privilege, or an illusion?

Social experiences will dominate:

We will have a greater willingness to share all of life's moments – merging public and private. Social platforms will make sharing easy, and benefits like lower premiums, product discounts, and simply a broader sense of belonging will flow to those who are willing to share their data. Sharing will give us access (think jobs that require social influence) and save us money (think discounts for always wearing your seatbelt). We will make choices and purchases with one eye towards what is shareworthy, always striving for connection and personalisation.

Sharing and monitoring will increase demands for accountability and transparency:

When all can be shared, it will be suspicious if it is not. And when all can be tracked, we will demand transparency. The rise of blockchain technologies, which have seen a 111% increase in global venture capital funding and 713% increase for African funding 2021, brings a distributed ledger that allows for mass verification and fundamentally demands transparency.

Dani's defaults are set to "public". Most of her life's moments are meant to be shared. She stays in closer touch with friends, and social experiences occupy an ever-increasing proportion of her life. She has an instantly searchable record of every picture she has ever taken and every memory she has ever made.

She resists anything that demands unplugging. Why shut out social connection? Sure, occasionally, she goes on a digital detox, but just recently she bought a driverless Tesla mainly so she could keep texting on her commute.

She does not trust any company that asks her to do so. She trusts transparency, and she demands that her contracts and valuable items are registered in the distributed ledger.

She lives a transparent existence.

It is already happening

Dani wakes up to the soothing alarm of her Sleep Cycle, which wakes her at her lightest sleep phase. Her Apple Watch incorporates her sleep cycle data in the amount of exercise she should get for the day. The data is sent to her health insurance provider to determine whether she qualifies for a discounted rate. When Dani reaches for her toothbrush, her toothbrush holder detects the motion and triggers her coffee machine to begin brewing. As Dani brushes her teeth, her toothbrush sends health data to her dentist. She gets an alert from Sensus, which notifies her that electricity pricing on her smart grid will peak over the next two hours ... or that there will be load shedding. With one tap, she switches all her electronics to low-power mode.

3 Omnipotent individual

From tribes to teams, our drive for power has dictated behaviour for centuries. Technology will give us new opportunities to wield power in line with our personal preferences. Production will be personalised to the unique wants of controlling, empowered consumers. Consumption will be a customised act of co-creation. We will wield deity-level authority over our lives and use that power to make and modulate everything from our homes to our jeans to our genes.

We will live in environments of learned customisation:

- Much customisation will be automatic, as our connected devices intelligently learn our tastes and preferences, enabling smart purchases and emotionally responsive environments. We will be able to control our smart things anywhere, anytime. Our homes will know us by our heartbeats and will adjust temperature, entertainment and art based on our stated and imputed preferences. Stores will change displays based on a simple customer scan, making in-person interactions as adaptive as the Amazon home page. We will increasingly expect technology to form an intelligent, adaptable ecosystem around us. Products will automatically adapt to us

Modularity, mixing and customisation will become the expectation:

- The era of options marks the end of standardised experiences. Endless customisability implies and invites participation and self-expression. Standard will simply be the starting point as we increasingly craft our own world through control, customisation, and creation.

She will gain power: control over devices, environments, and outcomes.

Dani controls more than ever – even automatically. She steps in her car, and it already knows where she is going. She opens her messages and only sees what is important. Her meal is made and delivered in the perfect portion.

She saves a lot of time at home and at work because of how personalised her environments are.

She has elevated expectations. She knows she is tracked, so she expects to be understood and even anticipated. Products should be tailored to her. She hates what is mass produced and only buys from big companies if what they make is adaptable or customisable. Every purchase is an opportunity for self-expression. And in a modular, mixed, made-to-measure world, Dani buys only what is exactly right for her.

The world is hers, quite literally. The world she sees and experiences is made for her.

She is the omnipotent individual.

It is already happening.

Since Dani plans to stay in Cape Town for six months, she has chosen a smart apartment that will learn and adapt to her preferences. The screen on her Samsung smart refrigerator automatically tags its contents with the expiration dates and generates recipes and grocery lists based on her frequent purchases. Her Whirlpool washing machine saves her washing preferences and automatically orders detergent when it is running low (scanning every detergent brand each time to ensure she receives the best price). Her echo-compatible lights dim as they detect her mood, and her Google Nest thermostat automatically adjusts the temperature based on her schedule. With custom-made clothing from Amazon, her clothes are always unique and perfectly fitted. Dani expects everything to be precisely tailored to her, especially with all the data she gives up.

4 On-demand everything

Our appetite for the instantaneous knows no bounds. Immediate access and automated task completion will make strides towards truly immediate gratification, and will fundamentally change how we spend our time and what we expect from experiences. From printing in 3D to streaming in VR, we will have on-demand access to all our desires. We will tell our grandchildren: Once upon a time we had to wait.

Everything from entertainment to groceries will be available in an instant:

- Drones will deliver our purchase desires within the hour. The revolution will not be televised – it will be streamed and binge-watched on an iPhone.
- Repetitive tasks will be taken care of.

She attends concerts virtually, on her own schedule. She would rather 3D-print a good cabinet shelf than go shopping for the perfect one. She trades accuracy for immediacy, self-diagnosing online instead of waiting for the doctor.

She lives an on-demand life.

It is already happening

Dani takes care of her chores before she leaves the house. She has asked Alexa (her AI personal assistant from Amazon) to schedule a new business meeting with a prospective client; she has sent her grocery list for Woolies Dash to deliver by end of day; she has tweaked her preferences for Acorns to invest her savings more aggressively; and she has sent an order to MakerBot to 3D-print a toy for her niece's upcoming birthday. So much to manage! But overall, it saves her a lot of time, so now she just has higher expectations for how much she should get done.

5 Exponential intelligence

We demand understanding. Artificial intelligence will be here to help. In the future, not knowing will be unacceptable and impossible. With constant access to the world's knowledge base, we will know more than ever.

Robots and intelligent devices will instantly interpret diverse information sources. A deep learning robot will be able to make all sorts of decisions:

- Find patterns in medical data to help doctors make smart diagnoses.
- Pinpoint fashion trends by scanning what people are wearing at music festivals.
- Recommend city traffic patterns based on air quality and congestion.
- Help teachers customise instruction based on individual students' learning paces.
- Learn what viewers do not like about a TV ad that causes them to change the channel.

Additionally, connected devices mean that AI can equip us with real-time recommendations incorporating remarkably

personal measures and drawing on traditionally human variables (like emotion and desire). For example, AI will be able to intervene before we get a craving for unhealthy food.

Traditional education will get more accessible through democratised platforms and more open expertise:

- Udemy, Coursera and other massive online learning platforms expand the reach of knowledge. Open educational resources diminish the demand for costly textbooks and further democratise access.

How will Dani respond?

She will gain achievement: more knowledge, more capabilities, more possibilities.

Dani knows everything. Or, she at least has access to the knowledge. She is surrounded by artificial intelligence. An intelligent machine composes a first draft of the data analysis report she needs to complete.

At one of her gigs, her hours are supervised by a "robo-boss," who ensures she bills her client correctly. The robo-boss completes her data-driven performance review too.

At home, an algorithm determines what show will be best for her to watch, based on her current mood, past favourites, and friends' preferences.

It is already happening.

Dani finds a strange-looking bug bite on her right arm. She uploads a picture to CrowdMed, where an algorithm will aggregate and filter suggestions from hundreds of medical experts and generate a detailed diagnostic report. As her emotion-tracking wearable Feel senses her stress levels going up, it pings her Amazon Echo smart speaker to start playing her favourite acoustic tracks.

6 Synthetic reality

Today, we speak of two worlds: Digital versus Real. This distinction will disintegrate, and these worlds will merge. The expansion of augmented reality, virtual reality and digital identities will give rise to a synthetic reality. Like synthetic fibres or synthetic limbs, our synthetic reality will combine the natural and the man-made to enhance form and function.

We often view technology as at odds with our fundamental humanity. But technology widens what we are capable of becoming. Our reality is enhanced by digital overlays, our world expanded by digital access, our identity broadened by digital connections.

We will live in immersive environments that drive collaboration, connection, and empathy.

In a few year years' time, VR will be on track to outpace the TV market in annual revenue. It will be easy and common to virtually live in someone else's shoes. VR experiments show that seeing a 65-year-old avatar of yourself prompts you to save more for retirement. On the lighter side: Entertainment will be more fun, games will be more active, shopping more informed and navigating nearly foolproof. Map overlays will guide our hikes, encouraging us to explore more of our world. With the expansion of augmented reality, we will no longer speak of digital versus real worlds. Our identity will grant us access to new possibilities:

We will have asset classes we have not even defined yet as we increasingly realize the value of our attention, personal data, and broader digital footprints. As any teenager with a Snapchat Story already knows, we will carefully craft personal brands as one of our few remaining owned assets.

Identity management will become much more critical.

How will Dani respond?

Dani does not draw strict delineations between her real and virtual world — the overlap is so extensive the difference is indistinguishable. She does not speak of her digital identity or her real identity, she just speaks of herself.

She loves that she is able to travel (she can test out a vacation spot in VR all in one afternoon).

She rarely gets lonely because, every night, she watches TV next to her sister who lives halfway across the country.

She has many new ways to make money. She is rewarded for watching ads, seeing movies, rating doctors, picking up trash, and all sorts of little activities people used to do for free.

She lives in a synthetic reality, digital and human in harmony.

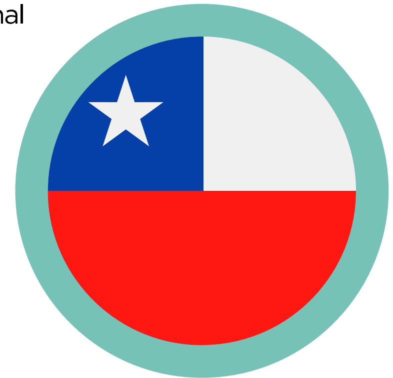
At Sanlam Corporate we are committed to ensuring all our generations live with confidence.

EARLY ACCESS TO RETIREMENT SAVINGS – WHAT WE CAN LEARN FROM CHILE

Danie van Zyl
SMOOTHED BONUS CENTRE OF EXCELLENCE
SANLAM CORPORATE: INVESTMENTS

Long-time attendees of our Sanlam Benchmark Symposium may remember the presentation by Jose Piñera, architect of Chile's famed private pension system, at Benchmark 2007. Sanlam invited Jose to speak to our clients as the Chilean pension system was being touted as possible inspiration for a proposed government-managed National Social Security Fund in South Africa.

Although the idea of a National Social Security Fund in South Africa is still being discussed by sections of our government, we can perhaps look towards Chile once again as we prepare to allow members early access to their retirement savings via the two-pot system.



Brief background to Chile's retirement system

Chile launched its national mandatory defined contribution (DC) plan in 1981, replacing a government-sponsored pension system in favour of mandatory private retirement savings. Formal-sector workers contribute 10% of their taxable income into individual accounts managed by private pension managers known as *Administradoras de Fondos de Pensión* (AFPs). Workers can also make additional voluntary contributions.

It became one of the largest and best-funded defined contribution schemes in Latin America and held over $200bn in assets at the onset of the COVID-19 crisis (more than 80% of GDP). The system boosted national savings and supported Chile's sovereign creditworthiness as long-term financing could be obtained in local currency (buying government bonds), removing exchange rate risk when repaying the debt.

COVID crisis and accessing pension savings

During the COVID-19 pandemic, the government gave in to populist pressure to allow access to workers' existing savings to alleviate the financial crisis that a large portion of the Chilean population was facing. Despite initially being opposed to the plan, President Sebastian Piñera (brother of Jose Piñera) approved a plan whereby non-retired account holders could access 10% of their retirement savings. It is important to point out that account holders with small balances could access more than 10% of their savings (for very small amounts even 100%). The first withdrawal began in July 2020 and could be made on a voluntary basis for up to one year after the withdrawal law was published.

The Central Bank of Chile warned the country that the withdrawal would weaken the Chilean peso, increase the cost of borrowing and possibly trigger a liquidity crisis for the fund managers.

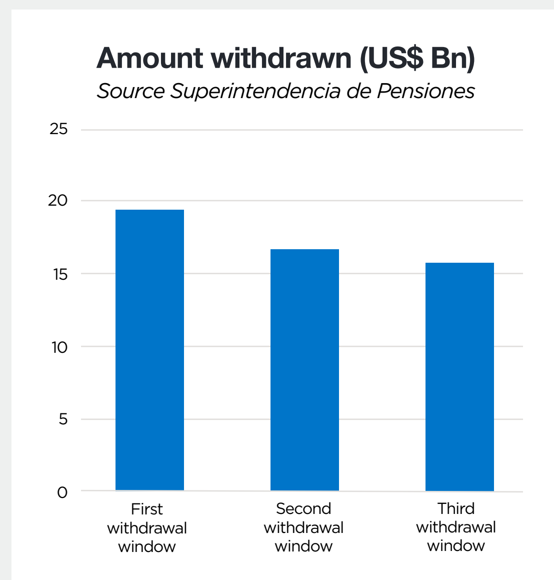
What was supposed to be a one-off event was repeated in December 2020 (this withdrawal was the only one that required individuals to pay income tax on the amount taken). Once again members could access 10% of their account value (accounts with small balances could again access more).

In April 2021 a third withdrawal window was opened, this time including annuitants.

A fourth withdrawal window is currently being discussed by the Chilean legislature (May 2023).

The result was that a quarter of the assets in the pension system ($49,9bn) was withdrawn, with the largest portion from the first withdrawal window. Overall, 66% of account holders made withdrawals during all three withdrawal windows. Only 3,4% of account holders did not make any withdrawals. As account holders with small balances were able to take most of their savings, roughly a third of account holders now have a zero account balance.

Analysis by the Central Bank of Chile (2020) indicates that the early withdrawals were primarily used for consumption spending (often durable goods), emergency spending to survive, and repaying debt, with the remainder ending up in household current and savings accounts.



AFP fund managers have had to sell a significant amount of assets to meet the withdrawal requests, leading to lower asset values (and a steepening of yield curves) and liquidity concerns. To provide the managers with some liquidity, the Central Bank of Chile bought government bonds on the secondary market. The peso also depreciated significantly.

The Central Bank estimates that the bulk of the increase in inflation for 2021 was due to increased household consumption and spending – above their pre-pandemic levels – together with the depreciation of the peso. Both were influenced by the pension fund withdrawals and an anticipation of further withdrawals. The withdrawals also contributed to the credit downgrade of Chile in 2020.

It will take a significant amount of political will in Chile to break the cycle of repeated withdrawal demands by the country's citizens.

Impact on members

The Chilean Pensions Commission reported that

the reduction in pension account balance for **men** was

24,3% on average

while for **women** it was

33,3% after the three withdrawals

In order to recover to the pre-withdrawal level,

men would need to contribute to the pension scheme for an additional

5,6 years

while **women** would need to contribute for an additional

6,3 years

Borrowing from research into behavioural finance, most people place a far greater value on having money now, rather than an income in retirement. Which is why most successful retirement systems are mandatory. It also seems that the withdrawals were not only limited to those with small balances or low incomes, begging the question whether the withdrawals were really due to financial need.

Higher inflation and interest rates have also reduced the benefit of the withdrawal amounts that account holders have received. It is likely that some of these account holders would look to government in their old age for some type of state pension.

Lessons for South Africa

The Chilean experience represents an interesting case study for South Arica as we prepare to implement early access to retirement funds under the two-pot system. On the one hand, we already have significant withdrawals taking place as many retirement fund members encash their retirement savings when they change employment. The two-pot proposal would limit this as two-thirds of future contributions would need to be preserved until retirement and converted into an income in retirement. On the other hand, a push by Trade Unions for members to be able to access a large portion of their existing savings would jeopardise the likelihood of members being able to secure a decent income in retirement and would further damage our already fragile economy.

Whatever the final rules regarding the accessing of retirement savings under the two-pot system (which at time of writing remain unclear), policymakers will need to guard against repeated calls for access to existing savings to avoid the Chilean experience of repeated outflows out of the retirement system.

The hope is that, when members know they will still be able to access a portion of their retirement savings in future (even if still working), it will alter member behaviour and decision making. Members will not feel they have to withdraw their savings when changing jobs "just in case". With easily accessible and understandable information, as well as counselling from their retirement funds, members can become more empowered to make better choices.

TWO-POT LEGISLATION: PERSPECTIVE OF AN ADMINISTRATOR OF OCCUPATIONAL FUNDS

Johan Prinsloo
HEAD: RETIREMENT FUND ADMINISTRATION SERVICES
SANLAM CORPORATE

Note:

- **This article was written on the basis of the 2022 Draft Revenue Laws Amendment Bill. Some aspects of the article may become redundant with the publication of an updated Revenue Laws Amendment Bill.**
- **This article is written from an Administrator's perspective and the views expressed herein do not constitute advice of any nature.**

Over the years the retirement fund industry has seen many changes. These date back to the 1980s with the commencement of conversions from defined benefit to defined contribution funds. Then there was the surplus legislation in 2001, the trend of conversion to umbrella funds picking up over the past decade, default regulations, and finally the T-day legislation in 2020.

From an Administrator's perspective, it should be safe to argue that the two-pot legislation, which at the time of writing this article was set to become effective 1 March 2024, will be the most significant and complex change to administration processes and systems compared to any of the changes seen before. Also, where some of the changes were implemented over a number of years, like T-day, the two-pot system will go live on the same day as the legislation's effective date.

For some, who may not be familiar with the intricacies of retirement fund administration, the question may be why the two-pot legislation is such a big deal and simply not the flip of a switch to execute. What follows is an answer to this important question.

Fund credit classification

With T-day, a member's fund credit had to be reclassified as a 'vested' and 'non-vested' fund credit on an administration system. Similarly, with the two-pot legislation, a fund credit must now be reclassified into three categories, being a 'vested pot', 'saving pot' and 'retirement pot'. This in turn has an impact on downstream processes such as transfers between Administrators (Section 14s and ROTs) and benefit statements where the fund credit needs to reflect the same classification.

Practically, this means that all fund-credit records (for members younger than 55) on an administration system, which in Sanlam's case exceed a million records, need to be changed from one naming convention to the new 'vested pot' naming convention for all fund credits up to 28 February 2024.

Option to participate in the two-pot system for members 55 years and older on 1 March 2021

Members 55 and older on 1 March 2021 have the option to participate in the two-pot dispensation, i.e. to split future contributions between the Savings Pot and Retirement Pot. An Administrator will have to develop and implement a process whereby such a member can exercise this option and also ensure thereafter that contributions are correctly allocated. The Administrator must also keep track of which members in this age band made this choice and which ones did not.

Contributions

For members younger than 55 and members who elected to participate, all contribution post the effective date of the two-pot system must be split by allocating one third to the Savings Pot and two thirds to the Retirement Pot. Once a member's contribution is received from the Employer, the Administrator's system must be able to allocate contributions and investment returns in this manner. Similarly, for members who did not elect to participate, contributions must be allocated to the Vested Pot.

Currently a member's contribution is allocated in the manner prescribed by the T-day legislation. Hence, administration systems must be changed to cater for the new dispensation.

Seeding

At the time of writing this article, it was reasonable to assume that members will have the option to transfer a certain amount from their Vested Pot into the Savings Pot (or compulsory seeding). This is a new process and an Administrator will have to develop and implement a process whereby a member can exercise this option and will have to ensure that it is correctly accounted for in the make-up of a member's total fund credit. The Administration system should also be able to validate the maximum amount that can be transferred to the Savings Pot. This can be accommodated by a configurable set-up field, based on what the final legislation states.

Annual withdrawal from the Savings Pot

Although annual withdrawals from the Savings Pot are akin to withdrawals from the fund at termination of employment, this is an entirely new process with its own challenges.

Normally, at termination of employment, an Employer will submit a claim form on behalf of a member for processing. The two-pot legislation allows a member to make an annual withdrawal from the Savings Pot. The question is whether this payment request must also be routed via the Employer, or whether members should be allowed to submit a payment request directly to the Administrator. Another question is whether both channels should be catered for with the option to activate a particular channel, depending on the appetite of the Board and Employer to facilitate additional administration.

If the member is allowed to submit a payment request directly to the Administrator, it brings with it the increased risk of fraudulent claims. Fraud risk controls in respect of withdrawals, for example, in the retail banking sector, are reasonably mature, and it may be that Administrators may need to borrow from the learnings of the banking sector in order to beef up fraud risk controls for withdrawals from the Savings Pot.

Another expected impact is the volumes of claims Administrators may receive, especially in the first couple of months post the effective date of the two-pot legislation. In order to accommodate these volumes it is likely necessary to automate the process in order to efficiently deal with the additional workload. This also means that applications for a cash withdrawal can only be made on a digital platform – any manual process cannot be dealt with effectively. A related point is that each claim necessitates a tax directive application process (withdrawals will be taxed at marginal rates) and the Administrator will be dependent on SARS's ability to handle the increased volumes.

Different investment strategies for the different pots

Vested Pot **Savings Pot** **Retirement Pot**

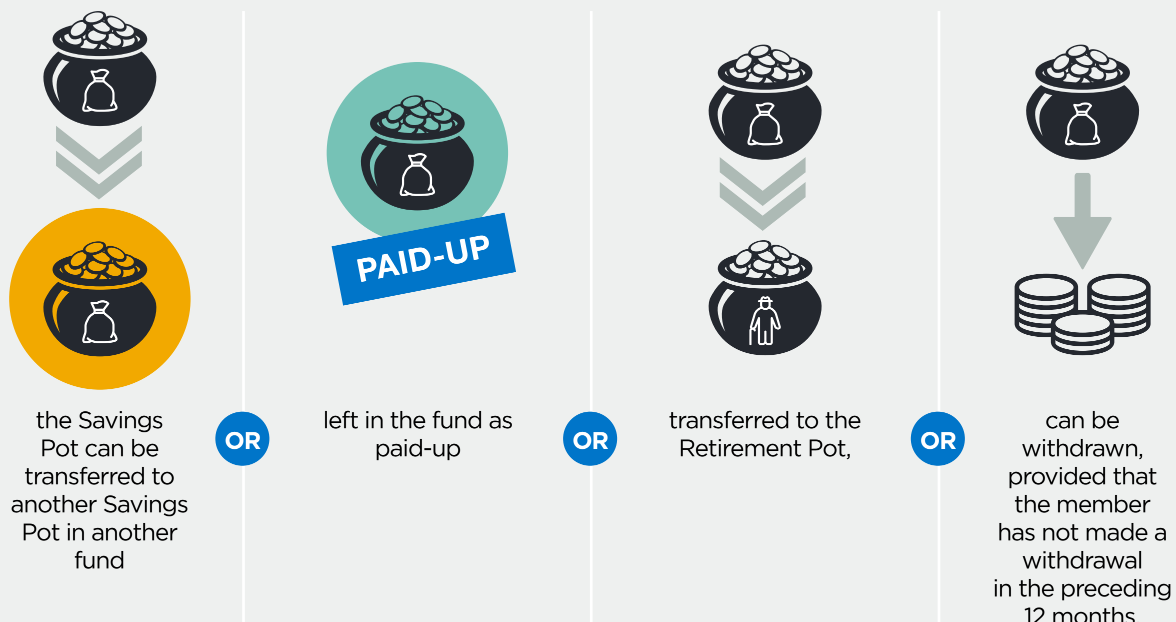
Another topical aspect is whether to allow for different investment strategies for the Vested, Savings and the Retirement Pots respectively and whether to allow member choice in the process. Currently and in most cases, members with member choice are able to invest their fund credit in one portfolio and invest their future contributions in another portfolio.

If this option is allowed with member choice, instead of two investment decisions members will have to make three to four additional decisions in respect of the investment of their current fund credit and future contributions with reference to the Vested, Savings and Retirement Pots respectively. Administratively, it would be quite challenging and very complex to administer this option, should it become a requirement. It is also an open question whether Administrators will be able to develop this functionality in the given time frame, in addition to all the other developments mentioned in this article.

Member options at termination of employment

Currently, a member has a couple of options when terminating employment with his/her Employer. A member can take his/her benefit or part thereof in cash or preserve it in or outside of the fund. These options now become applicable in respect of each of the Vested, Savings and Retirement Pots.

For example:



Apart from maintaining service levels during such a complex selection and processing activity, the challenge is to make it administratively as easy and straightforward as possible for members to make these selections. Benefit counsellors will likely also need to be plugged into the exit process.

The options are similarly complex at retirement.

What can a Board consider in the mean time?

A couple of themes come to mind:

- As can be seen from the aforementioned, the two-pot legislation will introduce a lot of complexity into the retirement fund industry, and members may struggle to understand these complexities. We foresee that an extensive communication strategy will be required in order to educate members on the two-pot dispensation.
- If there is a low appetite for different investment strategies for the different Pots, Boards may wish to consider whether the investment strategies and investment portfolios of a fund are liquid enough to cater for withdrawals from the Savings Pot. It should also probably be considered that members need to understand the implications where the Savings Pot is invested in an underfunded smooth bonus portfolio.
- Members will have to preserve their retirement pot on resignation and, barring certain minimums, use it to purchase an annuity at retirement. A Board may consider tools to help members consider options at their disposal as well as 'defaults' where a member is uncertain about what to choose.
- Depending on the capabilities of the fund's Administrator, a Board, likely in consultation with the Employer, may wish to prescribe the channel through which a member can submit a request for an annual withdrawal from the Savings Pot. Bearing in mind that the ultimate objective is for members to save towards retirement, a Board and/or Employer may wish to keep tighter control over the exercising of this option by members.
- Given the complexities of investment choice and investment strategies already in play, a Board may wish to gauge its appetite for allowing different investment strategies for the different pots and also whether to allow member choice in the process. This is of course only a consideration where the fund's Administrator is able to administer such a complexity.

UNDER THE UMBRELLA

Riaan Botha
HEAD: BENEFIT CONSULTING
SIMEKA

Evolution

Commercial umbrella fund offerings have evolved over the past few decades from pure products to open architecture platforms. Initially, the main aim was providing economies of scale for small companies that could not afford the executive time and the direct cost of operating a standalone fund. When more flexibility in terms of benefit design, investment options and insurance was introduced by umbrella funds, a wider range of clients showed an interest, typically those who had a lower appetite for control, customisation and governance. Today, leading umbrella funds allow larger clients to basically lift and drop their standalone arrangement onto its platform, with trustee oversight, of course.

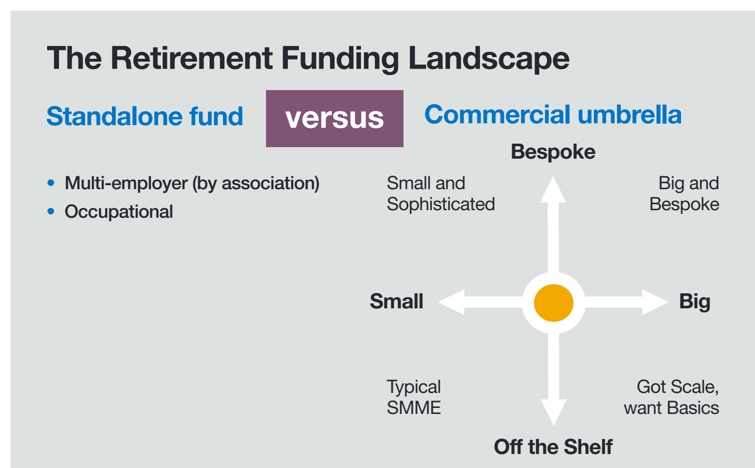
Consolidation

In the 90s there were more than 16 000 registered retirement funds in South Africa. According to the latest FSCA report, there remain little more than 1 300 active funds. In the same reporting period, more than 6 500 participating employers joined umbrella funds.

The Regulator's approach is clear – consolidation of retirement funds will improve governance and reduce costs. It is interesting to note that umbrella funds will, for the first time, be defined in the Pension Funds Act when the COFI Bill is enacted.

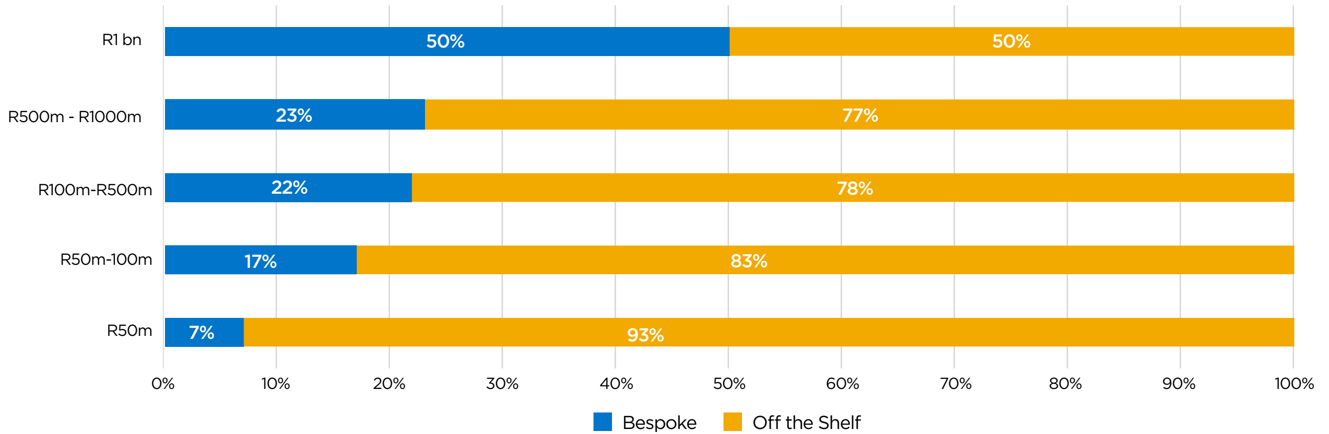
With a clear trend towards umbrella arrangements, the need for good governance at Trustee and Participating Employer levels is imperative. International experience has shown that better-governed and more-formalised multi-employer funds increase trust among stakeholders.

The fact is that there is no client representation on trustee boards of commercial umbrella funds, and profit motives and conflicts of interest mean that strong governance measures are required for umbrella funds in order for clients and members to trust the system. Although employers retain freedom of mobility and there is healthy competition among umbrella providers, the suspicion of being lured and captured into high-margin products remains.

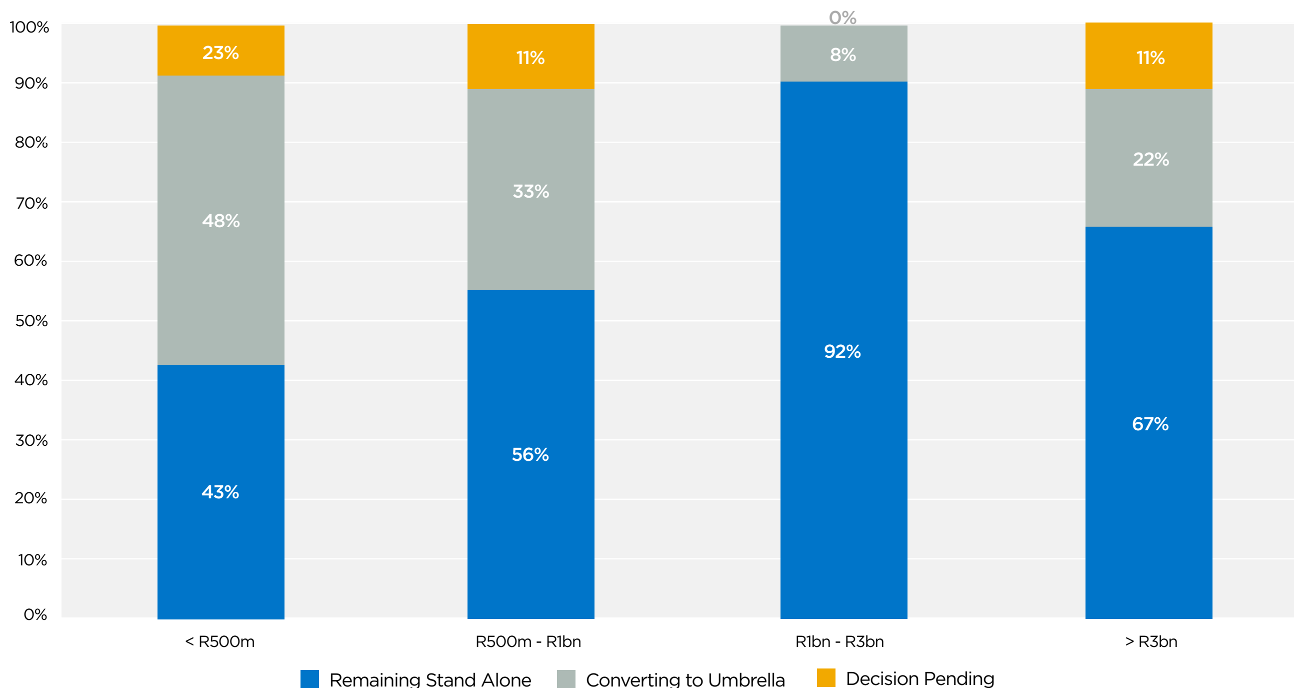


The following research may give some perspective of how clients relate to the Retirement Funding landscape.

The Sanlam Umbrella Fund has 2 269 employer groups and nearly R87 bn assets. One in twelve employer groups has customised investment strategies that represent nearly 40% of the fund's assets. As is expected, the need for customisation increases by a client's asset size:



When it was announced on 5 December 2021 that Sanlam was exiting standalone fund administration to specialise in the administration of umbrella funds, it sparked reconsideration of retirement arrangements for our clients. The material impact this transaction would have on the options with regard to standalone fund administrators, the ever-increasing governance burden on trustees, and the evolution of umbrella offerings, resulted in a number of our clients converting from standalone to umbrella arrangements:



Strategic Decisions

There is no obvious answer as to where a client should be. The right solution is arrived at through adopting a well-researched and advice-led process that steers through the preferences, nuances and complexities of each client.

The key factors determining client outcomes are undoubtedly investment strategy and the interplay between having control vs lighter governance. Price is also important, but can only be put into perspective once clients fully appreciate what they are buying.

Invisible handcuffs

Often, integrated solutions are offered, which blurs the lines between advice and product. We find that certain umbrella providers cross-subsidise "consulting" and administration services by asset management fees. The very competitive package deal is then restricted to placing assets with the provider – an inherent conflict of interest that presents clients with product support rather than trusted ongoing advice.

Most clients want a holistic and simple solution, which is what they get at face value. Behind that solution are complex models enthused by profit motives. For these businesses, the end game is gathering assets, and keeping those assets post retirement. Our role as consultants is, first and foremost, to help our clients understand what they want, and then what to buy from whom, and at what price.

Journey Ahead

Once implemented, the journey ahead under the umbrella will experience rain and sunshine. Although employers will be rid of a substantial part of the governance burden, important duties and responsibilities cannot be neglected.

The primary duty of the management forum is the facilitation of consultation and decisions among the employer, members and the umbrella fund. This function is more demanding where bespoke strategies are implemented.

The key purpose is improving member outcomes, whether in a basic or bespoke solution. Ongoing operational disciplines such as monitoring administration and investment performance remain. Benefit architecture, investment strategies and member experiences should be reviewed from time to time to determine whether the existing approach is indeed effective and adding value. There is a lot on offer in terms of member education and experience these days. Unfortunately, enablers like calculators, apps, member portals and other multi-media interventions have low penetration. An important role of the employer is putting a member engagement strategy in place that leverages these enablers and is proactively driven.

Confidence

Our solutions are failing if members are not confident about their retirement provision.

When they become employed, they need to appreciate what a regular contribution means, and that it is not a grudge payment. During employment they need to pull the right levers in determining a better outcome. At retirement, for most it will be the most important financial decision of their life. Beyond that, they want to enjoy their golden years with dignity and financial confidence.

A well-guided retirement funding solution via the workplace is a critical enabler for generating a life of confidence, at any age. For that, trustees, employers and members need a trusted adviser on their side.

IMPACT INVESTMENT CAN CHANGE SOUTH AFRICA — IF SOUTH AFRICA INVESTS IN CHANGE

Elias Masilela
CHAIR
NATIONAL TASK FORCE ON IMPACT INVESTING IN SOUTH AFRICA

Sound political leadership and accountability are prerequisites if South Africa wants to position itself as a favourable investment destination — and increase its capacity to benefit from foreign direct investment.

The recent move by the National Treasury — a longtime bastion of ethical principles — granting Eskom a partial exemption from section 55(2)(b)(i) of the Public Finance Management Act and Treasury Regulation 28.2.1 for a period of three years was a disappointing development for the country.

Even though the exemption has been withdrawn — for now — this surprising move sends an unfortunate message to investors that South Africa is not serious about accountability. This concern gets elevated if an entity like the Treasury is seen to be sending such a signal.

This is a problem because, quite evidently, the country is crying out for investment and labour-absorbing growth. We urgently need to leverage impact investing, an innovative form of private capital-led and socially driven investment that enables businesses to generate benefits for society alongside financial returns.

This, with the aim of addressing inequality, plugging infrastructure gaps, boosting education and health, improving unemployment, and even fixing the ongoing electricity crisis that plunges much of the country into unsustainable darkness for hours at a time.

While not a silver bullet, impact investing could solve many of South Africa's problems — but not without the right environment in place. Policy certainty is paramount and sacrosanct for private capital to take the much-needed lead. This seems to be increasingly lacking and has become South Africa's most debilitating Achilles heel.

The origin of the need for private capital-led growth lies in the adoption of the SDGs (Sustainable Development Goals) and in the recognition that states had failed in the delivery of the MDGs (Millennium Development Goals) and a commitment not to fail in the delivery of the SDGs. The role of the private sector was heightened in this agenda, in particular the Africa-based private sector. This gave rise to SDG 16 (peace, justice and strong institutions) and 17 (partnerships for the goals).

Five years ago, I was fortunate enough to lead a group of visionary and selfless South Africans to the Impact Summit of the Global Steering Group for Impact Investing in Delhi, India.

Discussion and debate abounded, and the overarching message was that, unlike environmental, social and governance (ESG) investing, impact investing is rooted in action.

It identifies a real-world problem, harnesses the strengths of both investor and investee and continuously measures the impact created. It is not a charitable exercise, but a mindset shift from focusing only on profit to focusing on profit optimisation while delivering positive measurable outcomes for society — solving world problems. It truly offers a win-win for everyone.

To make sure that the country does not miss out on the value that this kind of approach offers, I believe that we urgently need to unearth the obstacles that are hobbling impact investment, not just in South Africa, but on the entire continent, and map out how to move forward.

One of the major hurdles to investment is low absorptive capacity, which has been defined as the ability of a country to benefit from knowledge and technology spillovers as a result of foreign direct investment. Recent evidence suggests that the quality of governance — including aspects such as transparency, control of corruption, the rule of law, and financial sector supervision — affects a country's ability to benefit from international capital flows.

Put simply, no investment intervention will work if a country lacks a supportive policy framework and the political will to drive transformation and improve the lives of all citizens. Boosting absorptive capacity depends on two main drivers: political leadership and accountability. Our latest litmus test is the most recent pact on a just transition. The indications on this front are not encouraging.

Over the years, there has been growing concern from the private sector about policy uncertainty and poor governance. Similarly, our public sector lacks the necessary leadership and accountability to deliver a professional service. Many public servants lack the skills and/or professionalism to do their jobs to the best of their abilities, and often seem to serve their political principles over society.

The professionalisation of the public sector, as demanded in the National Development Plan, would go a long way to building trust between government and the public as well as assuring potential investors their resources are in safe hands.

With the inaugural **Africa Impact Summit**, to be held in Cape Town this July, we have an opportunity to change the country's and the continent's governance and investment trajectory. The summit will seek to provide a platform for thought leaders from across the continent to share on-the-ground insights from national and regional perspectives, while drawing on the diverse global impact investing community excited about the opportunities Africa presents. In particular, it is to set the stage for private capital leadership in development.

The opportunities are there: in South Africa, there has been some blurring of lines between the traditional roles of government and the private sector. In some sectors, such as health and education, private companies have stepped into gaps left underserviced by the government. Collaboration between the government and private investors would only enhance and grow these impactful interventions.

However, without a fertile policy and investment environment tended by accountable leadership, investors will be reluctant to plant seeds here.

The summit aims to bring together stakeholders across government, civil society and business to stoke conversations, share visions, and shine the spotlight on impact investing. It is an opportunity we cannot afford to miss — an opportunity to use impact investing as the Marshall Plan for the continent.

A JUST TRANSITION IS NOW A SIGNIFICANT PART OF THE GLOBAL SUSTAINABILITY AGENDA

Tinotenda Mtemeri
HEAD: INSTITUTIONAL DISTRIBUTION
SANLAM INVESTMENTS

At Sanlam Investments we believe that sustainable investing is critical to everything we do. By evaluating environmental, social and governance (ESG) factors, as an asset manager we can make better-informed investment decisions and improve the sustainability of investment returns for clients.

We consider it part of our fiduciary responsibility to our clients to pursue sustainable investment returns, and we therefore have a responsibility to:

- evaluate ESG factors to better understand the risks and opportunities in our investments and make better-informed investment decisions; and
- hold the investee entities that we invest in accountable, and encourage them to uphold and improve their standards across all ESG factors.

ESG considerations that are financially material must be included in our investment process and decision making. As a large investor in local markets, we have an above-average ability to influence investee entities and hence have a responsibility to include active engagement with investee entities as part of our ESG strategy. Our ESG efforts, including the engagement with investee entities, should focus on **more than just ESG considerations** that are financially material. We believe that our influence can generate socio-economic benefits in addition to sustainable and competitive financial returns.

The focus on sustainability has become common in investment markets and, as a result of the requirement for improvements in governance, environmental and positive social impacts, will increasingly be a key driver of structural change in countries, companies and the markets in which we operate. This was confirmed by the results of this year's Global Climate Survey by Robeco, leaders in sustainability investing and Sanlam Investments' key sustainability partner. The results of this year's Global Climate Survey illustrate the many challenges faced by investors globally on their journey towards net zero and decarbonisation. In spite of

the challenges, it remains clear that most investors recognise the need to act on the issue of climate change and are determined to follow through on their decarbonisation goals. In South Africa and other emerging economies, the sustainability movement has progressed further to incorporate more than just environmental impact considerations; we now must take into account the closely related issues of biodiversity and the just transition rationale, which is covered in the survey for the first time – incorporating a unique South African perspective for the first time, offered by Sanlam.

This year Robeco incorporated the views of Abel Sakhau, Head of Sustainability at the Sanlam Group, specifically on the topic of a just transition and what it means in SA in the climate change conversation.

The survey indicates that in the coming years, investors will be demonstrating an increased awareness that climate action must take the wider impacts on nature and society into account. So, it's no surprise that the 2023 survey shows how investors are attaching increased importance to the just transition discussion.

What is a just transition?

Broadly speaking, when it comes to a just transition, investors and others want to address any adverse socio-economic impacts of a shift to a low-carbon economy, such as unemployment and poverty caused by moving away from the use of fossil fuels. This problem can be acute in developing countries such as South Africa, which rely heavily on activities such as mining, forestry, or oil and gas extraction, for a large part of their economy. Moving to a low-carbon world will mean moving away from carbon-intensive activities and protecting biodiversity, and if this is to be socially and economically just and equitable, then ways are needed to help those affected make a just transition. This could be government, or international action, to help workers move from coal mining to renewable energy generation, for example, or to help farmers move to more sustainable farming practices.

Two years ago:

- **Only 24% of investors** investors said a just transition was at the centre of, or played a significant part in, their investment policies.
- **This has risen to 48% of investors today** and it is expected to reach 67% of investors in two years' time. It is notable that Asia-Pacific investors are close to European investors on the importance of a just transition, with North American investors lagging behind them on this issue.

Investors are increasingly taking account of the need for a just transition

	Europe			North America			Asia-Pacicfic		
	2 years ago	2 years ago	Next 2 years	2 years ago	2 years ago	Next 2 years	2 years ago	2 years ago	Next 2 years
At the centre of our investment policy	6%	18%	32%	7%	9%	16%	2%	7%	21%
A significant factor in our investment policy	19%	38%	43%	16%	29%	38%	22%	43%	54%
Not a significant factor in our investment policy	40%	30%	15%	32%	41%	30%	39%	35%	18%
Not part of our investment policy at all	33%	13%	8%	42%	20%	10%	30%	9%	1%

Data may not sum to 100% due to 'Don't know" not shown

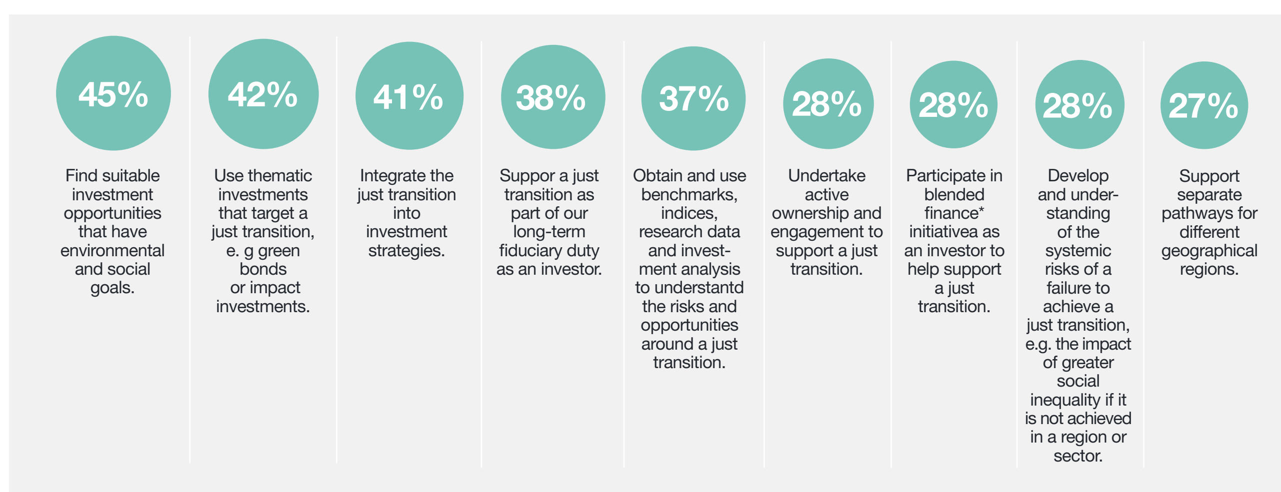
While investors are making the just transition issue a key part of their investment policies, it is most likely to be implemented through finding appropriate investments at present. For example:

- **Forty-two per cent (42%) of investors** said they have already used, or are very likely to use thematic investments that target a just transition in the next two years.
- **Forty-five per cent (45%) say that they already have**, or are very likely to find, suitable investment opportunities that have environmental and social goals.

Investors are also looking at investment approaches that will help develop their deeper understanding of a just transition, although this is currently only being done by a minority. For example:

- **Thirty-seven per cent (37%) have already obtained,** or are very likely to obtain and use benchmarks, indices, research data and investment analysis to understand the risks and opportunities regarding a just transition over the next two years.
- **Twenty-eight per cent (28%) are developing an understanding of the systemic risks** of a failure to achieve a just transition, while a similar number are at the stage of supporting a separate pathway for different geographical regions over the next two years. If investors are to fully support a just transition, then more need to develop their knowledge and understanding of its systemic risks and issues, such as separate pathways for different regions.

Investors plan to take more action on a just transition in the next two years



The need for greater knowledge and understanding is clearly shown by the finding that only 10% of investors globally assess their knowledge and understanding of supporting a just transition as very good, while a further 31% say that they have a reasonable level of knowledge and understanding of a just transition. These findings show that investor education on a just transition is still in progress, with most investors having either a limited, or little or no knowledge and understanding thereof.

Key lessons from this year's survey

This year's survey highlights the challenging journey investors are undertaking as they move from aspiration towards implementation of their net zero commitments. Climate action continues to mature. Most investors have done their materiality assessments and evaluated the carbon footprints of their portfolios. They are now getting their heads around more complex topics such as integrating forward-looking data on the transition readiness of companies into their investments. But the road to net zero is not linear. The challenging energy markets of 2022 have triggered higher short-term exposure to oil and gas, as the benchmark weight of energy sectors increases. And it is implementation that is now the real challenge for investors as they work towards a sustainable, low-carbon economy.

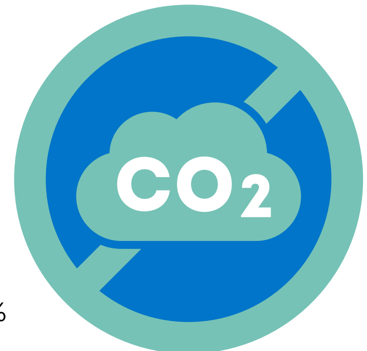
Finally, on a positive note, Lucian Peppelenbos, Climate & Biodiversity Strategist at Robeco, says the survey results indicate that we are close to reaching a tipping point for the mainstreaming of climate change, biodiversity and the just transition narrative into investment strategies globally. As investors implement policies to tackle climate change, with aims such as decarbonisation and avoidance of biodiversity loss in their investment portfolios, the just transition concept is becoming increasingly more important to them.

Note that within Sanlam Investments, as a responsible asset manager, it is our intention is to increase our investments in risk or climate mitigation and adaptation strategies through our Alternatives business. In our active manager, we will measure and account for climate (and other) risks in the underlying companies we invest in, through the ESG metrics we build into our investment processes.

PATHWAY TO SUSTAINABLE AND DECARBONISED PORTFOLIOS - SOUTH AFRICA PERSPECTIVE

Ashley Daswa
SENIOR INVESTMENT SPECIALIST
SANLAM CORPORATE: INVESTMENTS

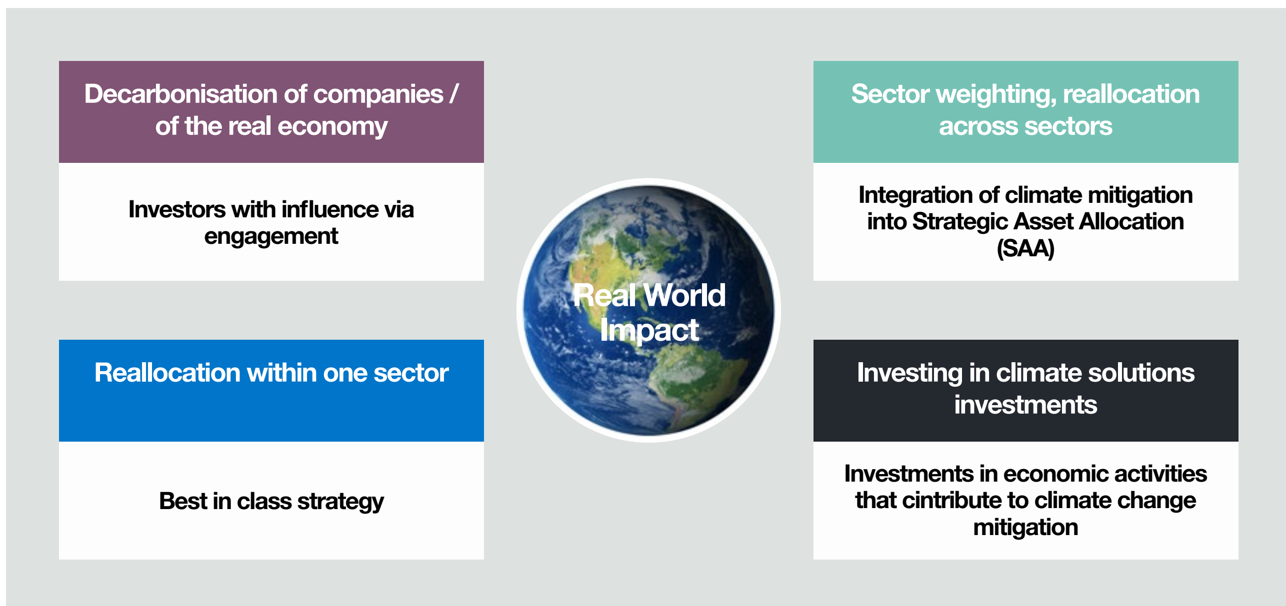
The investment landscape is changing rapidly as the world moves towards a more sustainable future. Asset owners and asset managers have a growing interest in integrating climate change considerations into their investment portfolios to ensure a sustainable and decarbonised future.



The 2022 Sanlam Benchmark Survey showed an increased appetite for using retirement funds' assets to tackle climate change. The percentage of retirement funds that did not have climate change considerations as part of their investment strategies decreased from 51,2% to just 25% over the past two years, and for employers participating in umbrella funds from 57,0% to 34%. Therefore, one could ask how asset owners and asset managers can justly and equitably transition investment portfolios to net zero greenhouse gas emissions by 2050. Net zero by 2050 is the target that aims to limit climate warming to 1.5 degrees above pre-industrial levels, as set out in the Paris Agreement at the UN Climate Change Conference (COP21).

Decarbonisation is the largest investment theme of our era

Decarbonisation of portfolios is becoming an increasingly important investment theme because of the growing awareness of the risks associated with climate change and the need for a global transition to a low-carbon economy. As investors become more aware of the impact of carbon emissions on the environment, they are recognising the need to reduce their exposure to fossil fuel-related investments and to increase their investments in clean energy and other sustainable solutions.



Source: Net Zero Asset Owner Alliance, December 2022.

As depicted in the diagram below, decarbonising portfolios involves reducing or eliminating investments in companies that are heavily dependent on fossil fuels and increasing investments in companies that are leading the transition to a low-carbon economy, such as those in renewable energy, energy efficiency, sustainable transportation, and other environmentally friendly sectors. This approach not only aligns with the goals of reducing greenhouse gas emissions and mitigating climate change but also has the potential to generate long-term risk-adjusted returns for investors.

Investors are also recognising that decarbonisation can help manage risks associated with climate change, including physical risks such as the impact of extreme weather events and transition risks such as policy changes and technological advances that could disrupt industries and investments.

Furthermore, there is increasing demand from clients and stakeholders for sustainable investments, which has led to the development of a wide range of investment products and services focused on decarbonisation, including green bonds, sustainable funds, and impact investing strategies.

A topical debate regarding emerging markets has been whether investors should pursue a climate change transition plan to a low-carbon economy or a social plan to create jobs and reduce poverty while creating a climate-resilient economy. A double-materiality approach is imperative, such that investors should embark on a journey towards clean energy by committing to a just transition, where we avoid the socio-economic impact of divesting suddenly from fossil fuels, but instead commit to moving determinedly but responsibly towards clean energy because our earth and our future depend on it.

For South African investors to commit themselves to achieve net zero portfolio emissions by 2050 or sooner, they need investment strategies that are consistent with achieving this goal. The Paris Aligned Investment Initiative recommends that investors consider the following key components at the portfolio or fund level, which set direction and portfolio structure and strategy to achieve net zero: governance, objectives and targets, long-term strategic asset allocation, asset alignment, stakeholders, market engagement and policy advocacy, and tracking and reporting progress. These components are discussed further below.

Governance structure

The board of trustees of retirement funds and investment committee set the direction for investment portfolios to be aligned with overall net zero commitment. This should be incorporated in the funds' investment policies and in investment mandates given to asset managers. Implementation and performance reviews by asset managers should be done in line with funds' policies and mandates given to asset managers. Asset managers have fiduciary responsibility to ensure retirement fund assets are managed to reflect the net zero investment strategy. Asset owners and asset managers should undertake climate risk assessment and management in line with Task Force on Climate-related Financial Disclosures (TCFD) requirements as a key first step towards alignment. This is because it has implications for an investor's return expectations that inform strategic asset allocation.

Setting objectives and targets

Objectives and targets set the direction and ambition of an investment strategy towards net zero and serve to monitor the effectiveness of this strategy. Asset owners and managers should set robust, science-based net zero pathways that are central tools to assess appropriate portfolio targets and the alignment of assets. The key outcomes of objectives and targets are emission reductions from assets (top-down portfolio level) and increased investments in assets aligned with, or contributing to, the net zero goal (bottom-up asset level).

Regarding the top-down emission reductions from portfolio level, investors should measure their current absolute emissions of the portfolio and allocation to climate solutions such as renewable energy and energy efficiency, among others. This should be done by identifying high-emission sectors to reduce carbon intensity. On the other hand, bottom-up investors should aim to increase the percentage of assets under management (AUM) invested in net zero or aligned assets over time. More importantly, asset owners and asset managers should set engagement targets, i.e., engage with the largest emitters in the investment portfolio, such as coal-mining companies.

The diagram below demonstrates that asset owners and managers should have a balanced approach to channel capital towards a lower carbon future, lowering investment exposures to carbon risks (climate mitigation), aligning portfolios with a chosen climate glide path (portfolio transition) and increasing investment exposures to climate-related innovation and solutions (portfolio adaptation).

We need a balanced approach to allocate capital towards a lower carbon future

Source: UBS Asset Management, becoming climate aware, mobilising capital to help meet climate change goals: an investor's perspective, WEF paper 2020.

Strategic asset allocation (SAA)

Most investors have a top-level process for allocating assets across different investment opportunities to achieve long-term investment objectives. This is often known as strategic asset allocation (SAA). SAA and other similar processes are a key tool for the achievement of the desired risk-adjusted returns and fiduciary responsibility of responding to climate change. Investors should aim to do the maximum possible to reduce emissions and increase allocations to climate solutions, subject to relevant constraints. For example, investors should be able to account for the carbon emission within the portfolio and asset level. Further to this, investors can also adopt a net zero-aligned benchmark, such as the MSCI Climate Paris Aligned Indices, and reallocate capital based on its low-carbon and climate-based investment strategies, such as renewable energy sources.

Asset class alignment

Through their asset consultants, investors should use portfolio construction to weight portfolios towards aligned and transitioning assets. Additionally, in certain circumstances, investors can use selective divestment from fossil-fuel asset classes. Investors must choose whether to opt for negative screening (excludes entire sectors or industries from the investable universe) or best positive/best-in-class screening (investing in sectors, entities or projects that are chosen for their positive environmental, social and governance (ESG) performance or contribution). An example of such an investment strategy is the Sanlam Living Planet Fund. The Worldwide Fund for Nature (WWF) supports the Sanlam Living Planet Fund, which aims to provide long-term investors with acceptable financial returns within a framework that enhances environmental sustainability by redirecting investment flows towards sustainable opportunities and away from unsustainable practices. The mission of this fund is to reduce the degradation of the planet's natural environment and to build a sustainable future in which humans live in harmony with nature. The Fund is well diversified, actively managed and complies with Regulation 28 of the South Africa's Pension Funds Act.

Stakeholders, market engagement and policy advocacy

Investors can also prioritise engagement and stewardship as the primary mechanism to drive alignment with sustainable and decarbonised portfolios, commonly known as active ownership. This entails engaging with companies and voting company shares on a variety issues, influence company strategy for long-term value creation, helping company management capture value by mitigating risk or seeking opportunities and advancing ESG disclosure and practices.

Investors must also collaborate and partner with other stakeholders, including governments, companies, and civil society organisations. This includes engaging with policymakers to advocate for policies that support the transition to a sustainable and decarbonised economy. It also means working with companies to encourage them to prioritise sustainability and social responsibility in their operations and supply chains.

Track and report progress

The transition to a sustainable and decarbonised portfolio requires a long-term perspective, patience, and flexibility. It is not a one-off event but an ongoing process that requires continuous monitoring, evaluation and adaptation. Investors must be prepared to take a long-term view and accept short-term volatility as they position their portfolios for the future. To ensure transparency and robust implementation of net zero commitments, asset owners and managers should disclose the following information. This can be done in line with the TCFD reporting structure:

- The board-level commitment to the goal of achieving net zero portfolio emissions by 2050 or sooner, as relevant for asset owners and asset managers, and responsibility for the implementation of the commitment and strategy. Furthermore, investors should make disclosures relating to the extent to which climate objectives have been incorporated into mandates and objectives for asset managers, portfolio managers, and other personnel as relevant.
- Science-based scenarios or pathways should be used to guide target setting and company assessment.
- Disclosure of how climate metrics, targets and objectives have been incorporated into SAA or similar processes.
- Portfolio construction approaches and products developed to facilitate allocation to products that support net zero-aligned investing.
- Engagement, stewardship, and direct management actions undertaken in line with the framework for asset class alignment.
- Voting policy and voting record.
- Exclusion policy, and divestment decisions.
- Information on direct and collective policy actions.

Summary and Conclusion

In conclusion, the pathway to a sustainable and decarbonised investment portfolio requires a combination of divestment from high-carbon industries, investment in low-carbon industries, consideration of social and environmental impacts, and a long-term perspective. Asset owners and managers should take bold action and seize this opportunity to not only generate returns but also contribute to a more sustainable future, long-term growth, and stability in a rapidly evolving global economy.

PROTECTING US FROM OURSELVES: NAVIGATING BIAS IN INVESTMENTS

Kingsley Williams
CIO
SATRIX
and
Nico Katzke
HEAD: PORTFOLIO SOLUTIONS
SATRIX

Alexander Pope famously said that "to err is human, to forgive is divine". When it comes to investing, learning from, and not repeating past mistakes is what we should truly aspire to.

With this in mind, we explore areas in which investors experience biases, and the investment mistakes to which these sometimes lead. Indexation strategies can help protect investors from making decisions based on their biases.

Superiority Bias: Being better than average

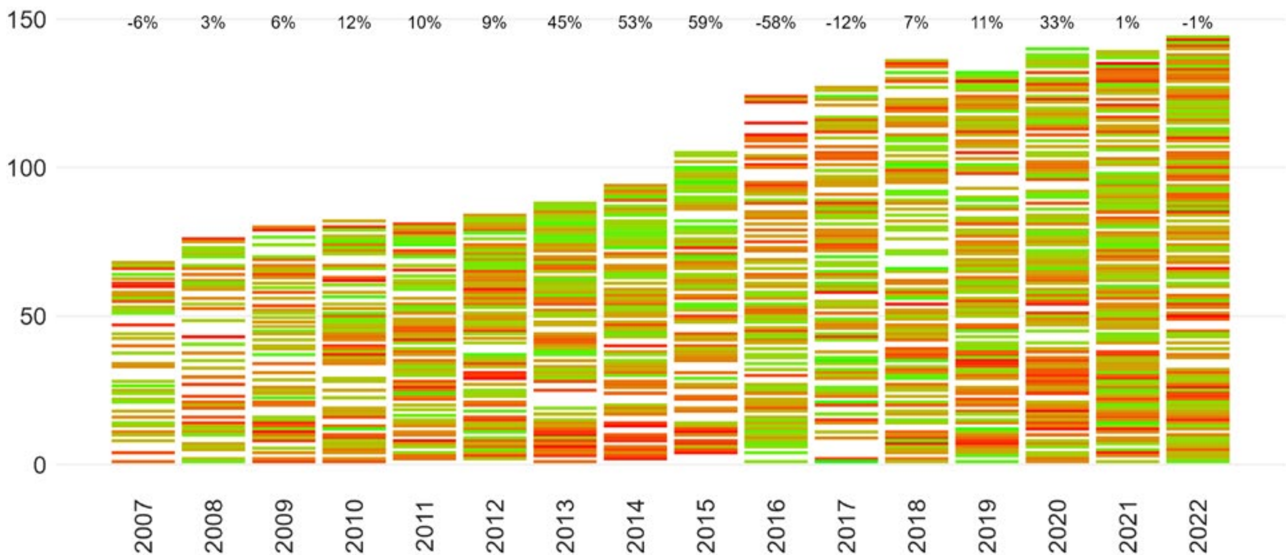
A statement that typifies a superiority bias is: "I am better than average." While possibly true on the margin, this cannot be true overall.[1] Yet studies have shown that most people (particularly men) rate themselves significantly better than average drivers. We apply a similar rule of thumb when it comes to our ability to find better-than-average managers. But how plausible is this?

The data to the contrary is clear. Identifying future winners by carefully considering past performance leads to no better result than chance. In the chart below we rank annual active manager performance, while colouring each line according to past three-year performance (green being a past winner, red a past poor performer). If performance was persistent, we would see greens mostly at the top and reds mostly at the bottom. The true picture, however, is far more mixed (correlation of past performance above each bar). In fact, since 2015 each year's past three-year top-quartile performers had worse odds of repeating the feat by luck (23% average).

1. Except in fringe examples where the data is severely skewed, e.g. stating that "I have more fingers than average" would be a correct statement for most (as the average would be just below 10).

ASISA General Equity Fund Performance Persistence

Shading indicates past three years' performance up to indicated year (green: best, red, worst)
Rank / position indicates given years' performance.



Source: Satrix & Morningstar retail funds, January 2002 – December 2022

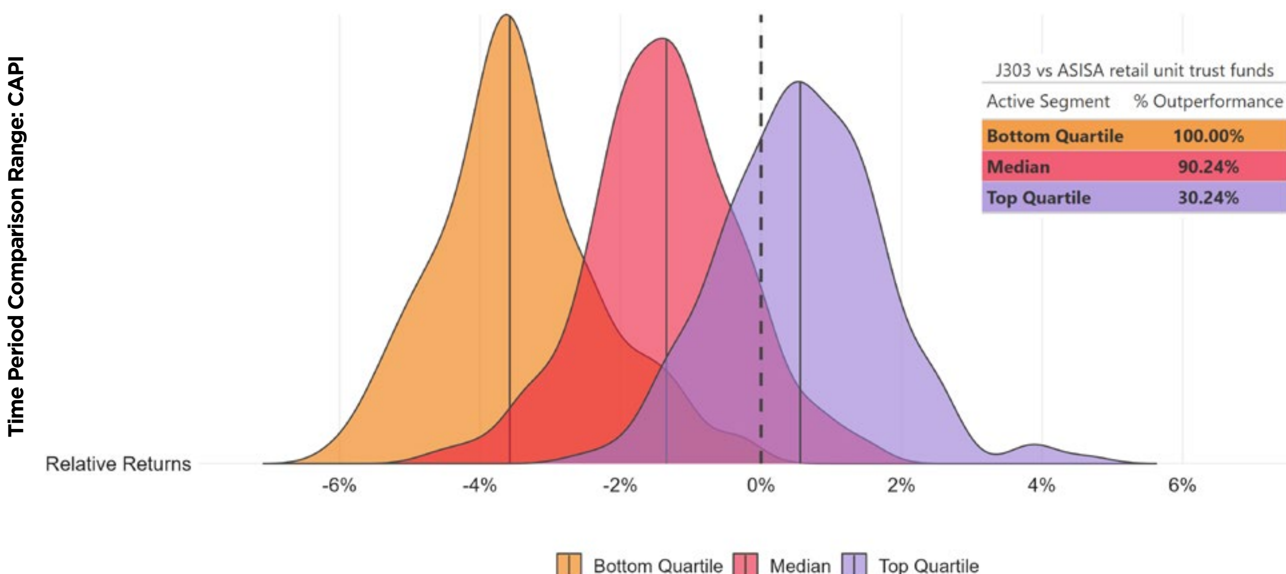
Confirmation Bias: Passive investing is guaranteed to underperform

It is not just that identifying winners is hard. Many investors believe that, even if not a top-performing manager, their managers can at least navigate markets successfully and that "passive investing is guaranteed to underperform". Yet this simply does not hold conceptually or empirically. Nobel Laureate William Sharpe proposed the arithmetic of active management, which suggests active manager performance on average should be in line with a representative benchmark, before fees, and well below the benchmark after fees. The data bears this out.

Below, a rolling three-year local active manager performance over the past 20 years is compared to the FTSE/JSE Capped All Share Index (after applying a 50bps annual fee). It indicates the median manager underperformed 87% of the time over all three-year periods, with the Index less costs in the top quartile almost a third of the time.

Distribution of Rolling 3 Year Performance Relative to CAPI Index*

Distributions: Percentiles of ASISA General Equity Fund Comparative Performance to CAPI Index*



Source: Satrix, Morningstar, FTSE/JSE & Satrix, January 2003 – December 2022. Performance of retail class active funds excluding fund of funds and index funds. | **** Benchmark index less 50bps per annum.***

Anchoring Bias

Anchoring bias refers to attaching value to arbitrary information. A good example of this (which most investors can relate to) is evaluating an investment outcome based on the price you paid for it (your anchor price). Selling and realising a loss on this anchored price is painful and thus often avoided, even if evidence suggests holding on might lead to further losses. Realising profits by selling too early is also a typical behavioural trait (an irrational fear of the market somehow realising this and coming to take back its dues). It is often termed "taking profits", which seems prudent but makes no sense when it is simply for the sake of doing it. Investment holdings should be unemotionally evaluated based on expectations, not anchored (paid for) prices, which is hard to stick to, even for seasoned professionals.

Consistent contributions to index strategies help investors build long-term market exposure, without the distractions of (ultimately irrelevant) short-term price fluctuations. The rules-based discipline also means index managers are not similarly swayed.

Anchoring can also refer to attaching more value to a widely accepted or communicated belief, even if strong evidence to the contrary exists. One such example is the broadly held belief that because markets are complex, investing requires complex navigation to succeed. It needs someone to constantly adjust a portfolio. But this ignores the fact that prevailing market prices are already reflective of all the complexities accounted for by analysts. This makes accurate exploitation of mispricing extremely difficult.

The numbers also suggest this. Various studies have shown long-term strategic asset allocation to be the dominant driver of returns, with tactical (short-term) opportunistic changes seldom adding value.[2] The concept of masterly inactivity applies, where trusting the process pays off long term.

An indexed approach to managing balanced funds helps ensure the manager's focus is firmly placed on that which matters most – long-term allocations. This helps fight the urge to act, incur costs and lock in loss-making decisions. Even if the average manager is right 50% of the time when making tactical decisions, the added trading cost of acting reduces value overall, the impact of which is compounded with time.

Consider the performance of the Satrix Balanced Index Fund. This is a long-term-oriented indexed approach (rules based) that applies insight from across the Sanlam group, with modern statistical techniques applied to arrive at an optimal long-term allocation. The process is revisited every second year, with no tactical adjustments made in the interim. This is an exercise in applying masterly inactivity. Since its 2013 inception, it has outperformed industry peers **94%** of the time on a rolling three-year basis (**65%** rolling one year), being in the top quartile more than half the time.

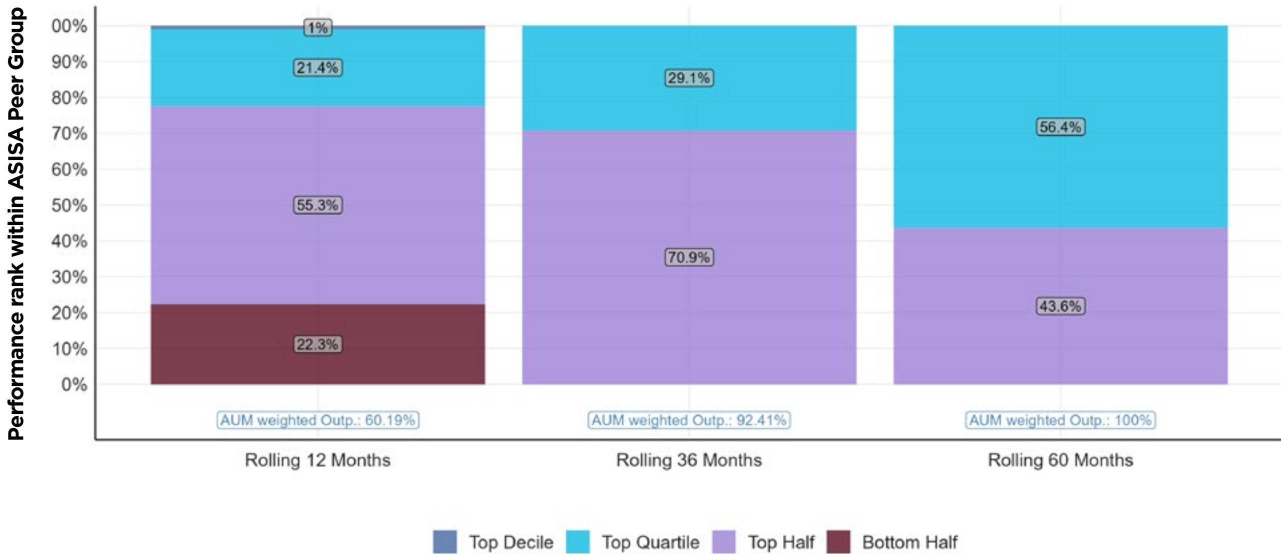
Similarly, the Satrix Enhanced Balanced Tracker Fund, which also tracks a variety of asset class indices, has outperformed the institutional Alexander Forbes Global Large Manager Watch peer group median **59%** of the time on a gross-of-fees rolling three-year basis. This is before the additional compounding benefit of lower fees relative to peers. Over the medium to long term, combining the odds of above-median performance with the certainty of lower costs is truly a winning formula to reach your retirement goals with confidence.

2. See McCarthy & Tower, Static Indexing Beats Tactical Asset Allocation (*The Journal of Index Investing*, 2021).

This is not only a local phenomenon. Consider the MSCI World Index. It has, since 2010, always outperformed the median active manager globally[3]. Local managers have also struggled to add value through stock picking in the highly efficient global arena. In fact, since its 2013 inception, the Satrix MSCI World Equity Index Feeder Fund has never underperformed its local active peer group median on a rolling three-year basis.

Consistency Comparison within ASISA Peer Group: Satrix MSCI World Equity Index Feeder Fund Index Feeder Fund A1

(ASISA) Global EQ General I Rolling Consistency: Nov 2013 - Apr 2023



Source: Satrix & Morningstar, January 2013 – December 2022.

In conclusion, adding value above indexation through consistently accurate tactical allocation is significantly harder to achieve than our anchored beliefs suggest. Remember that the experts we trust to provide active differentiation are doing so against other experts. All the evidence points to the average investor standing to benefit greatly from indexation. *Unless, of course, you are indeed better than the average investor.*

3. Source: Morningstar, calculation: Satrix. We compared the MSCI World Index to a list of between 1 500 – 3 000 global managers.

ESSENTIAL FINANCIAL PLANNING | FOCUS ON FINANCIAL PLANS

Maxwell Mojapelo
HEAD: BUSINESS DEVELOPMENT
GRAVITON
and
Dominic Sides
HEAD: RETIREMENT OUTCOMES
SANLAM CORPORATE

Plan, commit and execute

A lot of times when engaging with trustees, principal officers, joint forums, business executives or human resource representatives there is a slight uneasiness on allowing wealth management and financial planning services across their membership base. Undoubtedly, concerns about inadvertently enabling product sales discussions typically weigh more than the benefit of providing the opportunity for guidance and individual planning for each member.

This begs the question: If you as an employer or fund seeks to enable wealth management and financial planning services for your members, what should be the focus of those services?

We believe it should be on **planning**, or put in another way, the core focus of the service should at the very least enable your members to plan, commit and execute on what they would consider as the best trajectory of their financial growth and well-being. By applying this philosophy, one would be amplifying the real value of a financial planning service.

Innovating beyond the current status quo

Whenever we think of new services or products, or even improvements on the services we currently offer, the focus is always on maximising member satisfaction and alignment with the objectives of the joint forums or boards of trustees. Although the term is loosely used in today's world, client satisfaction can be extremely difficult to gauge and capture. Financial planning services are not spared in this regard given that they are professional services and at times dependent on customer needs, requirements and demands, which tend to vary.

However, we can look to published research to establish a consistent framework of how members, trustees, executives, and human resource representatives could evaluate the value created by new financial advice offerings. Research carried out by a team led by Jagdish Sheth at the University of California in 1991 on 'Why we Buy What we Buy: A Theory of Consumption Values' is a great framework to apply generically across products and services to determine potential aspects of achieving or improving client satisfaction. For a financial advice service, the framework could look as follows, for instance:

Table 1: A framework for improving financial planning services offered to members vis-à-vis member satisfaction

Value Driver for Client Satisfaction	What does it mean, generally?	What should we consider in terms of new offerings or improvements to enhance the financial well-being of members?
Functional Value	This is the core performance or utility of a product or service. For instance, all drinks must at least quench your thirst.	The core of individual financial planning is on delivering and co-creating **financial plans** that focus solely on enabling members to achieve their short-, medium- and long-term goals.
Emotional Value	This is the client experience aspect of the product or service offering. For instance, if 'convenience' is key to the experience of acquiring something to eat, a different value is attached to in-store purchases compared to a drive-thru or ordering via a mobile application.	Trust is key in financial planning. **Creating a safe environment** when members engage with a financial planner by enforcing the conversation to be about planning without a focus on products and solutions and further **enabling a do-it-yourself** option for members who do not require assistance.
Economic Value	This would touch on the fairness in terms of the pricing of the service or products compared to alternatives.	The world of financial planning can be opaque, especially in terms of pricing. This can be a big hurdle and deterrent for members to take up or even try a service. So, **making the service free** would encourage members to try it at the very least.
Conditional Value	This is the value placed on products and services due to a situation or circumstance facing the buyer. For instance, on a rainy day the price of an umbrella suddenly becomes less of a concern when one must walk a distance (i.e., the value is higher).	Financial planning services are typically a grudge purchase, and, in most cases, people tend to seek financial advice when an extreme life-changing event occurs, for example the death of a loved one or some form of accident that results in permanent disability. **Driving awareness through education of the potential financial gaps** that members face even in their early years of working would likely help with this.

Introducing Essential Financial Planning

As part of our financial advice offering to participating employers in the Sanlam Umbrella Fund, we have now launched a new financial planning service with the aim of maximising the holistic value of individual financial planning for every member.

Essential Financial Planning is aimed at active members who are seven or more years from normal retirement age, where the focus is on maximising the financial well-being of each member through the provision of access to **free financial planning** that is relational and uses a goal-based advice philosophy. Members are enabled to create a financial road map together with a qualified financial planner, but the members are under no obligation to implement the recommendations post engaging the service, thus encouraging those members who have never had the experience of financial planning to try out the service.

The service is delivered via Advice Partner, an innovative digital platform that allows members to conduct a financial self-check, easily manage essential financial aspects, and generate a financial road map on their own. This platform also allows for a financial planner to guide and participate in the creation and implementation of that road map.

In our efforts to ensure there is alignment with the strategic objectives of the participating employer's joint forum, the solutions utilised are centred around the in-fund benefits of the participating employer, with preapproved gap-filling solutions where required.

Through the Essential Financial Planning offering, each member is introduced to the culture of holistically evaluating his/her financial situation earlier in the employment journey, receiving behavioural coaching to build the stamina of committing to financial goals, taking advantage of, and maximising the in-fund investment and risk benefits, and ultimately setting himself/herself up for a better retirement outcome.

This service complements the already existing **Specialist Wealth Management** offering that focuses on exiting members (covering retirement, retrenchment, disability, resignation, and death). The core aim of the service is to provide guidance on the default and alternative annuitisation and preservation options, and the optimisation of tax efficiencies when going into retirement, ensuring adequate cash-flow management and efficient estate planning.

Providing Additional Free Support Services

It is very difficult to commit to any financial goals if a member is heavily indebted or there is lack of awareness of the need to immunise oneself against possible future risks or liabilities.

Debt and Credit Management

To complement both the Essential Financial Planning and specialist Wealth Management services, members will have access to a debt and credit management offering that includes a credit report, and a budgeting and tracking mechanism, including free access to a credit coach if their situation is dire. This service will ensure members are assisted to eliminate bad credit (i.e., credit that was taken for consumption instead of acquiring long-term assets) in their financial portfolio.

Financial Education Programme

Given that most individuals are not aware of all the future risks they may face financially and there is generally a lack of knowledge of personal financial matters, we provide a free financial education programme that is tailored to the needs of the members and which we design together with the participating employer. The content of the programme is generic and delivered in plain language, with no product push, and is focused on empowering members to be aware of their financial gaps.

Conclusion

We have improved the financial planning service we make available to participating employers in the Sanlam Umbrella Fund to include a free and no-obligation financial planning service, Essential Financial Planning, which is supported by debt and credit management and financial education. We anticipate that these improvements will increase the holistic financial well-being of each member, leading to improved retirement outcomes.

THE UNFORTUNATE REALITY ABOUT TRUSTEE-ENDORSED DEFAULT ANNUITIES

Karen Wentzel
HEAD: ANNUITIES
SANLAM CORPORATE: INVESTMENTS

Regulation 39 of the PFA Act stipulates that from 1 March 2019 all defined contribution retirement funds, including retirement annuity funds, are required to have in place a trustee-endorsed default annuity strategy.

The proposed annuity strategy must be appropriate and suitable for the members of the fund, with reasonable and competitive fees and charges. The strategy needs to be reviewed annually and may include traditional life annuities and living annuities being paid from the fund or an external provider.

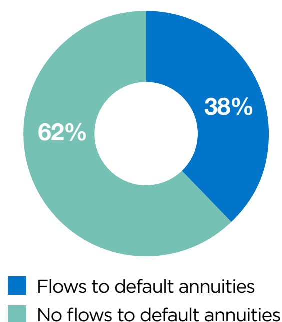
Members will at least need to consider a trustee-endorsed, competitively priced annuity strategy and will have access to a retirement benefits counsellor, with the aim of improving retirement outcomes.

Human behaviour and default bias

Whether people choose default offerings or not depends on various factors, such as the context, the nature of the offering, and the individual's decision-making process. People may choose default offerings because they do not have a strong preference or do not want to make the effort to evaluate other options, known as the default bias. For example, people may stick with default settings on their computer or phone because they are familiar with them and do not want to spend time adjusting them.

Trustee-endorsed default annuity solutions are opt-in solutions offered by retirement and umbrella funds. Unfortunately, these well-priced options have not attracted high flow volumes during the past five year, while life annuities both in the retail and corporate business units have had high flows reported. Sanlam is the provider of trustee-endorsed annuity solutions to around 100 stand-alone funds. Sixty-two per cent (62%) of funds did not have any flows at all to default annuities. In the case of these funds, members may not be aware of the offering available to them.

Fund with flows to default annuities



In reply to a question in the Benchmark Survey on the most important features of a default annuity strategy, trustees indicated that to them the two most important features of such a strategy were:

1. Longevity protection and an income for life
2. Annuity income that keeps pace with inflation.

Both these features were present in most of the trustee-endorsed strategies and retirees still did not select these products.

Why the low take-up of a trustee-endorsed offering?

Industry-wide the take-up of Regulation 39 strategies has been low. We believe the main reasons for the low take-up are the following:

- Members are not aware of the retirement options available to them at retirement.
- Lack of knowledge about annuity options.
- No proper proactive retirement benefit counselling rolled out in funds.

When it comes to making important investment decisions, it is always best to get professional advice from people who have the required skills and training. A good accredited financial adviser will sell financial products that meet your financial needs. Members should ask their financial advisers about the fund options available and ask for a comparative quotation for these options and the proposed strategy.

Now is a good time …

The price of a guaranteed life annuity is dependent on a few factors, including yields, mortality assumptions and charges. This graph sets out the price of a guaranteed escalation annuity for a male member retiring at age 65. The graph indicates that due to the level of current yield curves, the cost of an annuity is the lowest since March 2020 (COVID-19) and it is thus a great time to lock into these rates via life annuities.

Effect of yields on the price of an annuity since Jan 2020

Premium

1 000 000
950 000
900 000
850 000
800 000
750 000
700 000
650 000
600 000

03 Jan, 24 Jan, 14 Feb, 06 Mar, 27 Mar, 17 Apr, 08 May, 29 May, 19 Jun, 10 Jul, 31 Jul, 21 Aug, 11 Sep, 02 Oct, 23 Oct, 13 Nov, 04 Dec, 25 Dec, 15 Jan, 05 Feb, 26 Feb, 19 Mar, 09 Apr, 30 Apr, 21 May, 11 Jun, 02 Jul, 23 Jul, 13 Aug, 03 Sep, 24 Sep, 15 Oct, 05 Nov, 26 Nov, 17 Dec, 07 Jan, 28 Jan, 18 Feb, 11 Mar, 01 Apr, 22 Apr, 13 May, 03 Jun, 24 Jun, 15 Jul, 05 Aug, 26 Aug, 16 Sep, 07 Oct, 28 Oct, 18 Nov, 09 Dec, 30 Dec, 20 Jan, 10 Feb, 03 Mar, 24 Mar, 14 Apr, 05 May, 26 May

Male, age 65, married, R5 000 p.m.

Each member close to retirement is encouraged to contact his/her retirement fund, get the details of the trustee-endorsed strategy and get a quotation from his/her retirement benefit counsellor or financial adviser.

Financial planning is like navigation. If you know where you are and where you want to go, navigation is not such a great problem. It is when you do not know the two points that is becomes difficult.

TRENDS AFTER COVID-19

Neil Cilliers
HEAD: ACTUARIAL
SANLAM CORPORATE: GROUP RISK

COVID-19 has had a devastating effect on the country – indeed the world – as friends, family and jobs were all lost to the effects of the pandemic.

Humans are a resilient species, however. It is still early and difficult to say with certainty that the pandemic is over – the World Health Organisation declared at the start of May that COVID was no longer a "global health emergency". Today we speak of a "post-COVID" world – even though its after-effects are still felt across doctors' rooms, hospitals and economies all over the world. Even though we are still cautious about the future, it seems an opportune time to reflect on the pandemic and see how things have changed.

The most obvious effect of the pandemic was the increased mortality. COVID came in four major waves in South Africa, starting in March 2020 and ending in January 2022. In figure 1, we see the effect of the waves on mortality rates during each month – with the peak months being almost 600%, or 5x higher than would have been expected in the pre-pandemic time period.

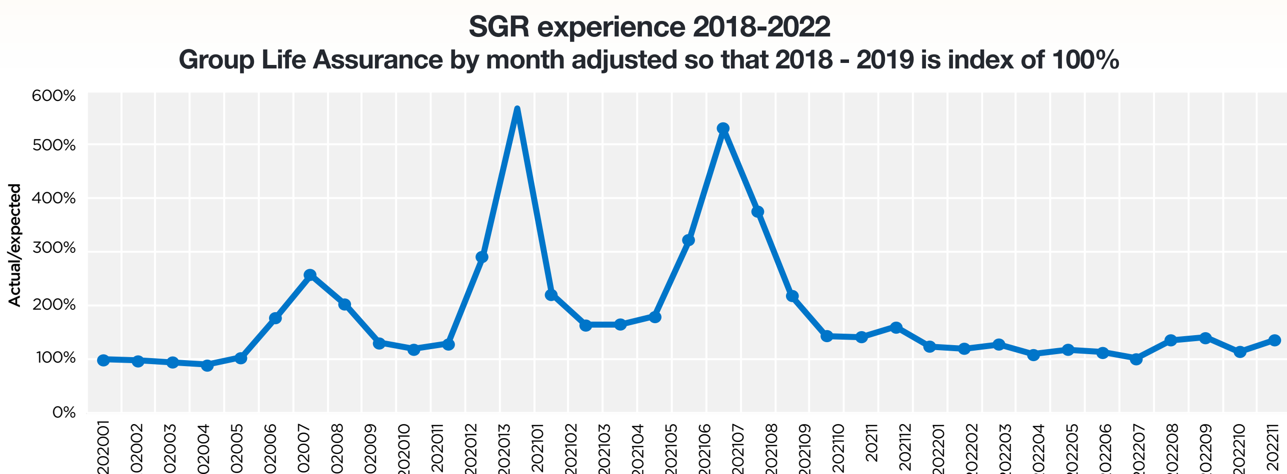


Figure 1: Shows the actual mortality vs the pre-pandemic mortality period.

While there has been significant improvement in the overall mortality rates since the fourth wave of the pandemic, mortality is still higher than before the pandemic.

Time period	AvE relative to 2018-2019	Males AvE relative to 2018-2019	Females AvE relative to 2018-2019
2018 - March 2020	100%	100%	100%
April 2020 - Dec 2021	200%	208%	182%
2022	106%	104%	113%

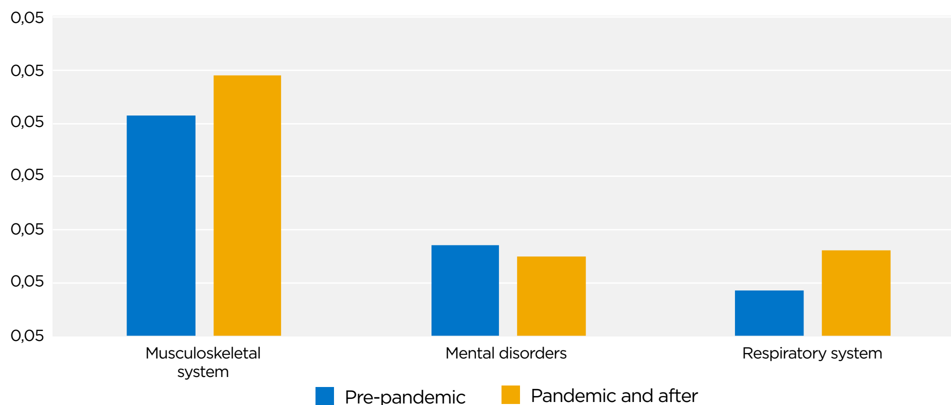
Table 1: Shows the overall mortality in different periods compared to the pre-pandemic period for males and females.

In fact, in Table 1 we see that mortality has not quite returned to normal yet – with mortality for males and females still being about 4% and 13% higher than normal respectively. Another oddity in the experience is that older ages seem to have returned closer to normal than younger ages – with the age group 30 – 45 still being 8% higher than expected, while the 45 – 60 age group has returned to normal. This may be driven by the fact that the virus was much more devasting at older ages, and the vulnerable members of the group succumbed during the pandemic, leaving the people who survived healthier and more resilient on average. At the younger ages, the virus was not as deadly; however, the tail of its effects is much longer as it slowly works its way through the more vulnerable members of the age group.

On the disability side, the most obvious effect is that disability claims due to respiratory conditions increased in proportion by almost 100%, making up about 4% of claims before the pandemic and making up 8% of claims during and after the pandemic. This seems intuitive since COVID-19 was a respiratory virus and its effects are well documented.

Some more subtle, second-order effects are that we have seen a jump in musculoskeletal claims, being very consistent around 20% before the pandemic and jumping by 15% to make up almost a quarter of claims in the latter part of the pandemic and afterwards.

Proportion of disability claims by causes before and after the pandemic



Musculoskeletal claims are very often found to increase during times of economic stress in a country, as the claims are slightly more subjective and difficult to assess. This can lead to claims from the "hidden disabled" – where people who have been living and working with some level of disability are pressured by their circumstances to lodge a disability claim and are often approved.

Interestingly, despite all the talk of mental health during the pandemic, we have not yet seen any increase in mental disorder claims (stress and depression) since before the pandemic. This is something we are monitoring closely, as the overwhelming feeling in the industry is that this is a ticking time bomb.

Overall, the pandemic has had a drastic effect on claims over all product lines, and the effects are still felt today. It will be interesting to see how these trends continue into the future and whether we will ever return to a normal, pre-pandemic frame of reference. The insurance industry proved its worth during the pandemic, providing protection and stability for families during an incredibly trying time. While the future is uncertain, with long COVID lingering and other potential life-changing events being a possibility every day, the insurance industry remains well capitalised and ready to provide policyholders and members with peace of mind and financial stability.

INVESTING IN NURSE-LED PRIMARY HEALTHCARE: CLINICS CAN IMPROVE EMPLOYEE WELLNESS AND BOOST BUSINESS PROFITABILITY

Sandile Mbele
EXECUTIVE DIRECTOR: CORPORATE SOLUTIONS
AFROCENTRIC

"When people feel strong and resilient – physically, mentally, emotionally, and spiritually – they perform better, with more passion, for longer. They win, their families win, and the corporations that employ them win." (HBR 2001)

Although it seems overused, reality is that in the post-COVID world there is a global health and wellness crisis.

The World Health Organisation in March 2022 stated that there had been a **25%** increase in stress and anxiety.

According to the World Obesity Atlas in 2022, globally about **1 billion people** will be obese, and specifically in South Africa approximately **30%** of the population will have BMI's above 30 by 2030.

Add to these statements that the global mental health crisis could cost the world **$16 trillion** by 2030 according to an article of the World Economic Forum (WEF).

It is critically important that employers look after their employees holistically if they want to ensure their businesses remain profitable and sustainable into the future.

Nurse care in the workplace could become an integral part of a viable solution to address the concerning facts mentioned above. We should recognise the role they play as the backbone of any healthcare system.

Sanlam Corporate Wellness, through its collaboration / partnership with AfroCentric, enable nurses to play an even more significant role in improving affordable, quality healthcare. Sanlam Corporate Wellness recognises the significant role nurses play in improving access to healthcare. In this regard, within our healthcare value chain, nursing professionals play key roles in clinical, administrative, supportive and leadership functions.

For instance, Sanlam Corporate Wellness partners with independently contracted nurses through a network of over 3 000 nurses across the country. Hundreds of nurses are also employed as Case Managers by AfroCentric's Medscheme and their other accredited managed care entities. In addition to this, our nurse colleagues work in senior leadership roles.

Healthy and happy employees are the most productive employees. It is for this reason that we advise businesses to invest in nurse-led primary healthcare clinics onsite, which provide easy access for employees to wellness screening services throughout the year to proactively manage the early onset of non-communicable diseases, commonly referred to as Lifestyle diseases. Also, when necessary, employees could consult the nurse for minor ailments, saving them time and money.

To broaden the access to healthcare even further, and at a fraction of the cost, employers could also purchase virtual nurse consults on behalf of their employees, once again increasing access to meaningful medical treatment that is both accessible and convenient.

It is fitting to also highlight the key role our corporate nurses play in a work environment. While health screening is conducted at least once a year, the corporate nurse is there to do regular follow-ups of employees who have presented with chronic conditions to ensure they are registered on the correct active disease risk management programmes and access the right medical benefits, thereby reducing their day-to-day costs.

Nurses establish a personal relationship with employees, guiding them through the anxiety they may experience when adjusting to major lifestyle changes, or to assist them with weight loss or when they are starting on chronic medication.

Prevention is better than cure, so before you find yourself a statistic, take action and ensure you and everyone around you are proactive and part of the wellness journey.

DIGITAL HEALTH SCREENING TRENDS

Nkateko Msimeki
SENIOR MANAGER: MEDICAL ADVISORY
HEALTH POLICY DEVELOPMENT UNIT AT MEDSCHEME

Heart disease, respiratory disease, diabetes and cancer account for almost two thirds of healthcare expenditure for medical schemes. These chronic conditions – often caused by modifiable risk factors – are not well managed. This is often due to a combination of lack of health awareness and education, and lack of access to primary and secondary prevention services.

Of additional concern is that almost half of South Africans who have diabetes or hypertension are unaware of their illness. They risk remaining undiagnosed until they require regular medication to support and manage their condition and the complications consequent on late diagnosis. Earlier intervention may give them the opportunity to change lifestyle habits to prevent disease, be diagnosed early and receive timeous care, and reduce the risk of developing additional non-communicable diseases.

Health risk assessments (HRAs) are well accepted as an important contributor to the provision of equitable healthcare and have been formally incorporated into the healthcare systems of the UK, USA and South Africa. The Commonwealth Fund described these types of screenings as 'enormously effective' as 'part of a broader programme to engage [participants] in their health, shape lifestyle choices and promote prevention'. The ability to screen a population holds many benefits, including providing population-based insights and risk stratification for further intervention.

Addressing the issue of limited participation

The value of health and wellness screening assessments is acknowledged; however, new solutions are needed, given low levels of participation in traditional screening opportunities that limit the benefits on a population level. While uptake of wellness benefits has increased over time, typically only a single-digit percentage of medical scheme beneficiaries complete HRAs.

General challenges with screening and preventative services contributing to the low take-up of these benefits include:

- Low perceived value in exchange for the effort to go for screening
- Screening events provide easy access only to main members and not their dependants
- Limited incentives for participation.
- A misalignment between how the wellness service provider is remunerated, on the one hand, and the need to encourage higher participation during wellness events, on the other. An example would be where the service provider is paid only for organising the event: there is a disincentive to encourage greater participation as this may increase the cost to the service provider without an increase in revenue.

Additionally, participation bias results in more members who are already engaged in their healthcare (either healthy or on a chronic programme) going for screening assessments – thereby reducing the ability to identify at-risk beneficiaries.

Increasing acceptance of digital solutions

Addressing the limitations in participation is essential to understanding true population-level health risk. In recent years, digital health enablement has supported the rise of digital healthcare services. The COVID-19 pandemic accelerated not just digital heath uptake, but also technological advancement in the space, thereby increasing access and making it more affordable and acceptable. A good example of mobile health that predates COVID-19 is MomConnect, a South African NDoH initiative that has been shown to increase antenatal care uptake.

There are currently over 350 000 healthcare apps: 110 of these account for 10 million downloads – almost half of all app downloads. This suggests a willingness on the part of people to engage with their health, whether from a quantified self-perspective, wellness or disease management perspective.

Based on these findings, Deloitte predicts that app-based solutions will empower patients to manage their health through digitally enabled care pathways, broaden access to healthcare services and increase participation and awareness of the wider population's health and wellbeing.

Providing health screening services on a digital platform can address the barriers to accessing primary prevention services and serve as complementary to traditional HRA services. Digital health effectiveness has been improving in maturity over the past few years as more high-quality studies on their efficacy and safety have been published. An IQVIA report has identified an increased acceptance of digital solutions to support healthcare provision.

While digital therapeutics and diagnostics may require further investigation and the use of stand-alone devices, progress has been made in determining digital biomarkers through existing smartphone technologies. These biomarkers can provide objective, quantitative measures of an individual's health status that can guide appropriate health-seeking behaviours.

Refined technology applied through a face scan

Some digital health companies have refined technology such as photoplethysmography (PPG) and transdermal optical imaging to create awareness of traditional biomarkers like heart rate, blood pressure and breathing rate. Using evidence-based algorithms, these technology companies can risk-stratify populations and provide deeper insights into individuals who may not currently be accessing health services.

Some wellness screening solutions incorporate a facial scanning technology that determines a host of critical wellness measurements; the face scan operates via cellphone, tablet or laptop camera. Such facial scans can utilise the latest remote PPG (rPPG) technology to perform the assessment coupled with AI and machine learning. rPPG is a non-invasive optical technique that detects blood volume changes in the microvascular tissue bed beneath the skin. No longer requiring physical contact, it relies on ambient light being reflected from the skin and captured remotely by a camera, whose image sensors convert light into electrical signals. These are then filtered using AI techniques.

It's a progression on pulse oximeters that monitors a subject's heart rate and peripheral oxygen saturation but relies on the fact that arterial blood displays different optical absorption relative to other tissue components in certain light wavelengths. By emitting light through the skin layers and measuring the amount of light propagating in the tissue, the signal reflects blood volume changes over time. The waveform can then be used to calculate late physiological variables such as heart rate, respiratory rate and blood pressure.

In addition, the following risk factors can be estimated following the face scan and answering a few questions:

- Stress
- Cardiac workload
- Calculated BMI
- Diabetes risk probability
- Cardiovascular disease risk
- Hypercholesterolemia risk probability
- Hypertriglyceridemia risk probability.

Benefits of screening applications

Increasingly, there are applications available that have been developed with clinical rigour, with some even having US-based FDA approval. Following digital screening, members can receive individualised reports for discussion with their treating physician for potential diagnosis of previously unidentified conditions; the screening data can also enable health risk stratification of the population health of medical schemes.

Clinically validated health screening applications can potentially fulfil the following functions:

- Pre-screening to nudge high-risk candidates to go for a full HRA
- Promote health awareness
- Used in combination with other metrics to guide lifestyle and disease management interventions
- Support virtual consultations.

Considerations

Since this is not a mature technology, careful consideration should be given to the roll-out of these services. This is to ensure that minimal harm is done to beneficiaries:

- Education on the technology must be clear about its limitations.
- Deployment must be responsible.
- Screening must lead to actionable insights.
- Risk stratification must integrate with the existing managed care process.

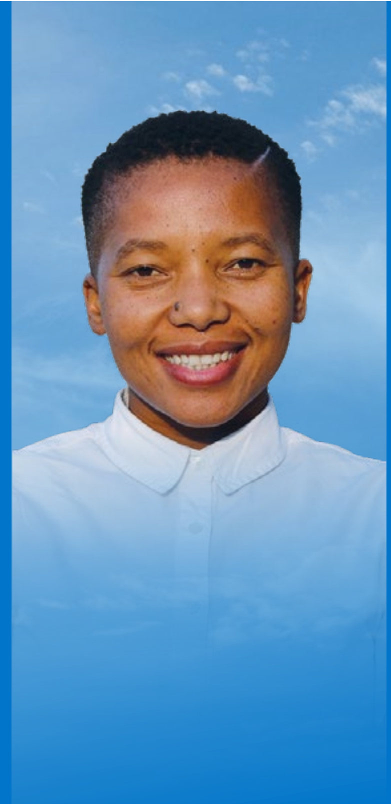
Health advantages

The digital enablement of health screening shows promise from a scalability and risk stratification perspective. Understanding that beneficiaries are now looking more to digital health for solutions, this can improve healthcare engagement and early interventions. Fully digital solutions are also hugely cost-effective and can be done anywhere in the world from any person's smartphone. Addressing the low participation rate in traditional screening, those beneficiaries who have been excluded from HRAs in the past can now access digital health risk stratification. Any members that show potential risk factors identified by a smart digital solution should be referred to health days, mobile clinics or their family practitioner for further assessment.

The member screening data collected can be shared with the managed care organisation with members' consent which, in turn, could enhance clinical support to members. More importantly, through earlier detection and diagnosis of disease, accessibility and equity of care can be improved at scale.

SEEING PATIENTS DIFFERENTLY: DELIVERING A PATIENT-CENTRED HEALTHCARE MODEL

Dr Abongile Qamata
MEDICAL ADVISER
AFROCENTRIC GROUP



The healthcare industry must shift towards a patient-centric healthcare model that uses technology, IoMT, hospital at home, predictive analytics and artificial intelligence (AI), and interdisciplinary collaboration.

The healthcare industry must shift towards a patient-centric healthcare model that uses technology, IoMT, hospital at home, predictive analytics and artificial intelligence (AI), and interdisciplinary collaboration.

In the world of healthcare, when patients seek medical attention for illness or injury, they are often vulnerable and in need of support. As healthcare providers, we are entrusted with the critical task of providing them with the necessary expertise and care to help them transition from acute illness to recovery, with minimal disruption to their daily lives and a reduced risk of complications.

To support patients in navigating the healthcare system and promote healing and recovery, we need collaboration among all stakeholders and a focus on prioritising the patient's well-being. This entails providing clear information on his or her condition and treatment options, as well as minimising disruptions to his/her life by offering flexible scheduling and alternative healthcare delivery models like hospital at home. Additionally, involving the patient's loved ones in the care process is essential.

As stakeholders in healthcare provision, our primary objective is helping patients achieve the best possible outcome and experience, both in terms of their physical health and their overall well-being. However, with a rapidly evolving healthcare landscape and the increasing complexity of patient care, this objective has become more challenging. Patients are becoming more informed and tech-savvy, and they expect more from their healthcare providers and funders. To deliver the best possible care, we need to start seeing our patients differently and adopt a patient-centred healthcare model.

The Medscheme model puts the patient at the centre of the care delivery process and focuses on delivering care that is tailored to each patient's unique needs. We leverage technology, Internet of Medical Things (IoMT), predictive analytics, AI and strategic partnerships to provide more personalised care that is accessible and convenient for patients. It is a model that embraces alternative care settings where appropriate and reduces the burden of traditional hospital care while promoting collaboration between providers and funders to achieve the best clinical outcomes and patient experience.

Technology, the IoMT and Hospital at Home

Technology continues to play a significant role in transforming the healthcare industry. The use of electronic health records, telemedicine, and mobile health has improved access to care and allowed for more personalised and convenient healthcare services.

One technology that has gained significant attention in recent years is the Internet of Medical Things (IoMT). The IoMT refers to the connection of medical devices and wearables to the internet, allowing for real-time monitoring of patients' health status. The IoMT has made it possible to collect vast amounts of patient data and use it to improve patient outcomes. By using wearable devices and other remote monitoring tools, clinicians can continually monitor patients and intervene when necessary, reducing the need for in-person visits and hospitalisation while improving patient outcomes.

Hospital at home is an emerging acute-care delivery model that allows patients to receive hospital-level care in the comfort of their own homes. By using technology, remote monitoring, and mobile healthcare teams, clinicians can provide the same level of care as in a hospital setting. This approach reduces the risk of hospital-acquired infections, improves patient comfort, reduces the burden on hospitals, and reduces healthcare costs – making it a more sustainable care model than the traditional hospi-centric model.

In 2020, Medscheme partnered with Quro Medical, a black-owned, South African digital health company that pioneered a technology-based hospital-at-home solution that combines in-home and virtual visits with remote monitoring, offering patients timely hospital-level care in their homes. Together, we have enabled care at home that is safe and unlocked great value for our client schemes, their members and healthcare providers.

Leveraging innovative, clinically proven technology, hospital at home goes beyond telemedicine and traditional home care. It intelligently incorporates clinical data as well as the remote healthcare monitoring value proposition – closing the active data and patient monitoring fault lines often found in more traditional telemedicine approaches. Ultimately, by bringing all the essential elements of in-hospital care to the patient's home, the technology-enabled hospital at home reduces the costs of healthcare delivery and provides a solution that is an alternative to a general ward hospital admission.

Predictive Analytics and AI

Predictive analytics and AI have the potential to transform the way healthcare is delivered. By analysing large datasets, AI can identify patterns and predict outcomes, providing clinicians with insights that can help them make better-informed decisions. In the healthcare sector, employing predictive analytics enables the identification of individuals who may be susceptible to specific ailments or negative occurrences. By facilitating early intervention and targeted treatment, healthcare providers can either prevent the onset of these conditions or lesson their consequences.

Building on the success of hospital at home, and keeping the focus on driving down hospitalisation, Medscheme and Quro Medical conceptualised the Transitional Care Programme (TCP), which sought to address the hospitalisation challenge from a different angle. Our collective hypothesis was that combining hospital at home (reducing hospitalisations) with the TCP (reducing readmissions) would have an exponential impact on our desired healthcare outcomes.

Improving in-hospital efforts can help bridge the gap in transition care and reduce avoidable readmissions. However, even with the best in-patient care, readmissions can occur due to factors beyond the treating practitioner's control and visibility. To mitigate for this, Medscheme developed a risk-of-readmission model that identifies patients at high risk of being readmitted within 30 days by considering factors such as morbidity data, admission characteristics, and patient demographics during their hospital stay.

The TCP provides a technology-enabled care program that interfaces clinical care teams with patient data for rapid, efficient, individualised, and disease-specific support to patients outside facility walls.

The Interdisciplinary Team Approach

Finally, an interdisciplinary team approach to care delivery has been shown to be more effective than a siloed approach. When healthcare providers from different disciplines work together, patients receive more comprehensive care that considers all aspects of their health. This approach improves patient outcomes and reduces healthcare costs by avoiding unnecessary treatments and hospitalisations.

To deliver a patient-centred healthcare model, it is essential that all key stakeholders including clinicians, service providers and funders work collaboratively to provide coordinated care that is tailored to the patient's unique needs. This approach ensures patients receive the care they need when they need it, reducing the burden on the healthcare system and improving patient outcomes.

Furthermore, this requires a shift away from the traditional fee-for-service model, where healthcare providers are paid for each service they provide, towards a value-based care model, where healthcare providers are paid for achieving positive patient outcomes. Such a model encourages healthcare providers to focus on improving patient outcomes, rather than provide unnecessary services. It also encourages payers to work with healthcare providers to develop more efficient and effective care models.

The collaboration between Medscheme and Quro Medical is critical not just for the success and longevity of the hospital at home and TCP initiatives, but also for achieving their overarching goal of transforming the healthcare system. This transformation involves reducing healthcare expenses, enhancing patient outcomes, and working towards a healthier continent. This partnership fosters commitment from both funders and healthcare providers, culminating in a more sustainable healthcare delivery model.

We need to shift our perspective and embrace a patient-centric healthcare model that incorporates diverse resources and methodologies, including technology, IoMT, hospital at home, predictive analytics, and AI, as well as strategic collaborations. By so doing, we can offer customised, and accessible care to our patients, while improving clinical outcomes and enhancing the satisfaction of patients and their families, all in a manner that is cost-effective and sustainable.

EDUCATING MEMBERS: DO WE HAVE THEIR ATTENTION? – OPINION ON THE FUTURE

Andrew Wright
EXECUTIVE MANAGER: BUSINESS ENGINEERING AND SOLUTION DESIGN
SUPPORT SOLUTIONS MEDSCHEME
and
Vukosi Sambo
EXECUTIVE HEAD: DATA INSIGHTS
AFROCENTRIC GROUP

Let us hypothesise that we have lost the battle to educate members. The war can still be won. Scheme benefits are by default complex and members select their options based on perceived affordability, with little understanding of the benefits and associated rules, and how best to navigate their benefits at the time of need. Traditional educational strategies fall flat, given that members only pay attention (turn up) at the time of need.

The problem with the traditional approach to educating members is that it assumes they can reach a state of full knowledge of their product. This is a fundamental error, simply because the product itself is not only complex, but also evolves every year. The ecosystem in which the product is experienced is a complex weave of broad healthcare regulatory dynamics, technology advances and socio-economic factors. This implies the need to treat every service touchpoint as a potential opportunity to assist ("educate") the member. Furthermore, the amount of information involved is arguably "beyond" the comprehension of an average member. One must unlock a "cache memory"-style capability at points of care and service, providing information relevant to the need. Responsible use of data and modern digital solutions is the only way to achieve this to ensure effective member utilisation of benefits.

Contact centres are under pressure to meet transactional service levels, rather than incentivised to navigate the service experience. Hence, they often provide partial support, not the high-touch empathetic care required to educate and enable members. Before one even tries supporting members, one should declutter the customer service journey through enabling real-time, always available, self-servicing.

Enable the member (and healthcare provider) to check benefits and limits, obtain pre-authorisation and submit claims in real time, at the point of service, and through the channel of choice. Technologies are available to orchestrate high levels of data interpretation and ingestion (Natural Language Processing (NLP), APIs), automated decision making (Decision Engines coupled with Master and Reference Data Solutions), process and workflow automation (Robotic Process Automation).

However, the missed opportunity still lies within the communications that follow. Unless done in a way that is understandable, relevant and nudges to the next best outcome, the automated self-servicing simply addresses an administration need, and adds little value to the customer. This is when members are most likely to engage with content and understand their entitlement and next steps.

Content creation has received much in the press with the release of ChatGPT into the public domain. Generative AI is a real opportunity to provide relevant content, based on the interpretation of the situation, assuming that one has well-architected content that is accessible.

We strongly enforce elements of responsible AI practices in how we implement technologies. These satisfy attributes of model fairness, explainability, counterfactuals and causal analysis, supported by a responsible AI scorecard to ensure ethical outcomes. To ensure these outcomes, foundational data management practices with regard to our datasets and platforms promote security, efficient operations, observability abilities, data quality, and discoverability of data. We are thus able to wrap our summarisation models on content delivery with citations to the data and content sources to validate the integrity of information supplied.

All these are aimed at the personalisation of care and service experience that deliver cost savings, improve health outcomes, and improve access to care. Our adoption of these technologies is carefully considered and aimed at providing accurate information, facilitating communication and streamlining data analysis, while preserving customer privacy and confidentiality. We focus on four key benefit categories that flow from this modern and effective form of care delivery.

1 Enhance patient engagement

Ability to drive patient support by enabling contextualisation of the history of member care and interaction history to deliver an insightful understanding of member needs at each care touchpoint. This is empowered by pattern recognition from our machine learning algorithms that allow us to ensure hyper-personalised care and service navigation in the most proactive and real-time way.

2 Enhance clinical experience

Augmentation of these technologies at point of care ensures a data-driven support for clinicians to unlock a view of alternative treatments based on historical patterns and simplify the ambient clinical intelligence that helps clinicians prioritise more complex care. AI can provide more accurate and efficient analyses of patient data, making it easier for practitioners to make informed decisions about treatments and detecting potential health risks, allowing them to respond quickly to reduce these.

3 Cost of care

Access to quality healthcare is largely dependent on affordability. AI helps detect patterns in a person's health history that could indicate a higher risk of certain diseases or conditions, enabling health providers to tailor preventative care plans accordingly. This not only reduces costs but also improves patient outcomes.

4 Optimal service with care

Although typically perceived as robotic and inhuman, it is important to understand that care sits at the heart of AI-driven health innovation. In simple terms, AI-driven systems can quickly analyse large amounts of data and generate insights that help inform care and service decisions.

4.1. Caring interactions

At point of service, it is critical to note the emotive and possibly life-changing nature of each conversation that members have with care consultants. Use of speech-to-text technology that enables sentimental analysis and of technologies such as ChatGPT is one of the unique ways in which our people are empowered with relevant information to ensure caring experiences that match the totality of cognitive, affective, sensory, and behavioral customer responses at all service touchpoints.

4.2. Elevating care and service navigation to high-touch services

People should still own the high-touch/high-value engagements, directed by the deep insights derived from the AI models, where empathy, caring and time are required to educate and support the member. A future-fit approach shifts "education" to a conversational capability whereby AI reproduces aspects of human intelligence, including the ability to communicate effectively. AI can adapt to the user, context, and moment. AI listens, learns, engages, acts, and measures and together with other hyper-automation techniques can provide relevant content at the time of need.

4.3. Omni-channel, technology-augmented care coordinators

Identifying those instances where high-touch intervention will add high value is key. Using NLP to understand the request, AI models interpret the need, then refer it to the right skill. Agents work across all channels, assisted by virtual agents that supply content relevant to the situation and assist in directing the discussion, including recommending the next steps for the member to follow.

What channels do members prefer and is this even relevant? Designing a solution application landscape that is channel agnostic (yet integrated) delivers the same result, irrespective of preference. Conventional channels requiring more effort from members will naturally be succeeded by those that are more convenient and add greater value. Over 60% of Medscheme's three million total monthly interactions are digitally enabled across all channels.

Care and service in the moment

The opportunity exists to change the way in which members are enabled with relevant information at the service moment. Considering all of the above, it is fair to conclude that AI-enabled strategies will soon enable personalised support, replacing conventional educational strategies.

References available on request

Wagieda Pather
Head: Market Insights
Sanlam Corporate
E Wagieda.pather@sanlam.co.za

Danie van Zyl
Head: Smoothed Bonus Centre of Excellence
Sanlam Corporate
E danie.vanzyl@sanlam.co.za

Lorraine Mekwa
Managing Executive: Client Experience
Sanlam Corporate
E Lorraine.mekwa@sanlam.co.za

Live with confidence

2 Strand Road, Bellville 7530 | PO Box 1, Sanlamhof 7532, South Africa

Sanlam Life Insurance Limited Reg no 1998/021121/06.
Licensed Financial Services and Registered Credit Provider (NCRCP43).

www.sanlam.co.za

SCO755 06/2023