

# Introduction



This is the second year that we have undertaken a separate study on umbrella funds, and hence this is the first time we can present comparative results to the previous year, and we can start to analyse the emerging trends.

Once again, we have surveyed 100 employers that participate in umbrella funds, but one should be careful in appreciating some of the changes in the sample in drawing conclusions on trends.

A major finding is that larger employers are continuing to consider umbrella funds as a viable alternative to employer-sponsored standalone funds with the key reasons being issues related to cost savings, time savings thus allowing more time to focus on core business issues, and also the increasing complexity of fund governance.

As more large employers choose to join umbrella funds, the profile of employers that we survey naturally changes to reflect the changing industry demographics. 52 of the 100 surveyed participating employers in 2010 participated in the 2009 Survey, although only 43 of these employers participated in the 2009 Umbrella Funds Survey and a further 9 employers participated as standalone funds in 2009.

The average sub-fund size increased from 370 members and R49 million assets in 2009 to 387 members and R88 million assets in 2010.

A key issue that we had to decide on in conducting the umbrella fund survey was who would be the right person to interview per sub-fund. For standalone funds, the appointed principal officer is the natural person to interview, but unfortunately no such position exists at sub-fund level within umbrella funds. We have tried to identify the key person responsible for retirement fund issues within each of the participating employers, and have interviewed this person. In some cases, the sub-funds' appointed consultants were present at the interviews.

Surveys test the perception and understanding of interviewees. At times these results may differ from analysis conducted on source data, i.e. on the administration platform. But surveying perceptions and understanding is nonetheless very powerful, and we believe should present very good insights into the workings of the umbrella fund industry.

The survey attempts to be representative of the entire South African umbrella fund market. Clients of the five major players in this market represented 68 of the 100 participants (down from 78 in 2009), with the balance of clients being spread between other market players.

The results of the survey are analysed further within the following topic summaries covering Contributions, Communication, Governance, Investments, Risk Benefits and Advice.

It does appear that there is some evidence emerging that the umbrella fund industry is steadily improving its overall value proposition with encouraging



trends being reported in terms of both the Communication and Governance topics.

The situation as regards costs remains unsatisfactory, and our research indicates that there is clear evidence emerging that costs are generally not well understood by umbrella fund participants. We believe it is critical that the industry focuses attention on this matter in order that a truly competitive private sector umbrella fund market underpinned by consumer choice can thrive and grow.

A worry is that employer contributions towards retirement fell quite substantially from 2009 to 2010, and this naturally impacts the overall net provision towards retirement funding. This might reflect the wider worldwide economic downturn that has been experienced since 2008, but clearly there have also been some changes in the profile of surveyed sub-funds, and therefore one should be cautious about drawing conclusions too quickly. Nonetheless this is an important statistic to continue to monitor carefully in future years.

**David Gluckman**

MANAGING DIRECTOR: SANLAM UMBRELLA SOLUTIONS  
SANLAM EMPLOYEE BENEFITS

**Kobus Hanekom**

PRINCIPAL OFFICER: SANLAM UMBRELLA FUND