The employee benefits industry in 2030

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> **It is not in the stars to hold our destiny but in ourselves.**
> William Shakespeare

"Predicting the future is easy … getting it right is the hard part" **is a well-known adage associated with forecasting, but somehow I prefer the Shakespearean philosophy when thinking about the future employee benefits industry. We don't really need to make predictions when we control our own destiny.**

On 8 June 2016 Cabinet approved recommendations for overhauling our fragmented social security system (Figure 1) and the associated long-awaited Comprehensive Report was finally released in late November 2016. Already the Nedlac negotiation process on these recommendations has commenced.

Most commentators understand and support the need to reduce inequality in South Africa. Furthermore there are no doubt multiple inefficiencies in our current social security framework that should be eliminated. But I have my doubts about whether one of the central proposals can work for South Africa; that being the creation of a mandatory and contributory National Social Security Fund (NSSF) and specifically the retirement savings component thereof.

SOUTH AFRICA'S SOCIAL SECURITY SYSTEM

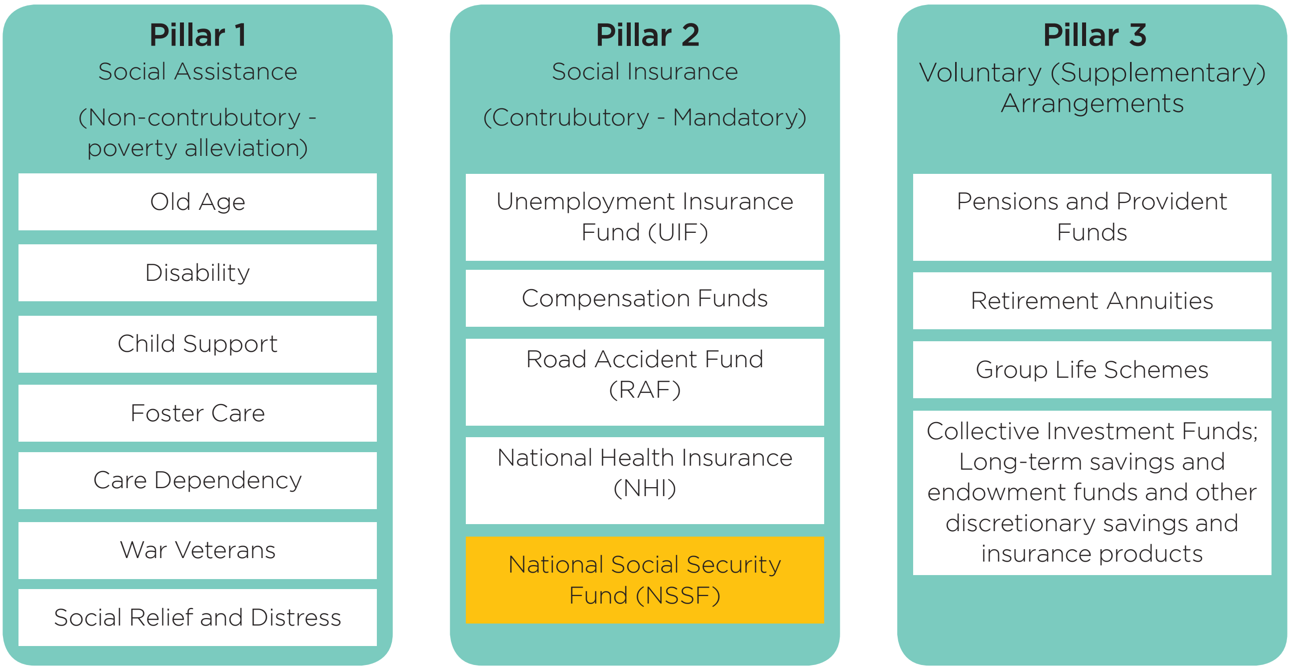

Figure 1

I have previously explored this subject matter in a paper presented to the Actuarial Society of South Africa in 2009[1] , and as captured in the following thoughts

"The needs of the vast majority of the population would be better served by concentrating our efforts on decreasing unemployment rather than imposing a mandatory new retirement funding model that might well pull in the opposite direction by increasing the cost of employment. A sensible approach would be to try to gradually increase in real terms the amount of the Social Old Age Grant – economic growth and reduced unemployment being necessary pre-conditions for such a policy to be successful."[2]

There are so many challenges to the successful implementation of the NSSF that I cannot envisage it being successfully implemented by 2030.

But that doesn't imply we cannot radically improve the current South African retirement fund system. We made this call as far back as the 2009 Sanlam Employee Benefits Benchmark Symposium, and this has also been a key initiative of National Treasury for the past five years, and not without some successes.

A central thrust of these reforms has been consolidation of the industry in order to reduce inefficiencies and gain economies of scale. This success is illustrated by Figure 2, and introduces the base for continued further gains.

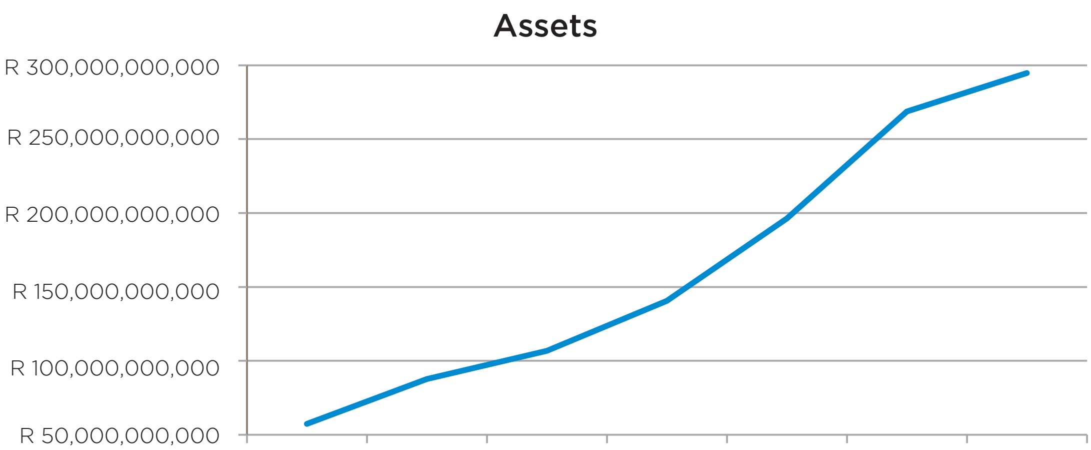

Figure 2

[1] Retirement Fund Reform for Dummies, Actuarial Society of South Africa Convention, 2009

[2] Guest Editorial, South African Actuarial Journal, 2010

The Benchmark Survey and our other research reveals quite a few successes achieved by commercial umbrella funds:

1. Average members' provision for retirement increased from 9.9% of salaries in 2009 to 14.2% of salaries in 2017.
2. Average reductions-in-yield for the Sanlam Umbrella Fund fell from 1.90% in 2011 to 1.66% in 2016.
3. Effective competition has significantly increased as measured by the number of significant recent new entrants to the market.
4. ASISA has already launched an Effective Annual Cost ("EAC") mandatory industry standard for retail savings products, and plans are far advanced to extend to the institutional market in the near future.
5. Government has also simplified the retirement savings landscape by harmonizing the tax treatment of pension funds, provident funds and retirement annuity funds.
6. Default regulations are anticipated to be finalized during 2017, and some funds have already implemented institutionally priced In-Fund Preservation and In-Fund Annuity options.

This is where I have chosen to concentrate my efforts. I prefer to concentrate on working every day to improve outcomes for members than to engage in endless debate on a theoretical possible future system.

So it's not so much me looking into a crystal ball to inform my view of the industry in 2030 (Figure 3), but rather looking and extrapolating what has already been achieved.

EB Industry in 2030

1. Significantly accelerating retirement fund and provider consolidation
   - R 1 billion + funds remaining on standalone basis will be the exception not the norm
   - disappearance of small commercial umbrella funds
   - disappearance of small administrators
2. Increasingly higher standards of governance for all retirement funds
3. Technology and scale, the key enablers
   - significant improvement in administration and service delivery
4. Blurring of institutional and retail worlds
   - member becomes the customer
5. Greater focus on value (outcomes) than cost
   - Umbrella Fund Benchmark Weightings
6. Fewer but better independent EB consultants
   - technology to replace rote tasks
   - new skills bridging institutional and retail worlds
   - excellent communication skills

Figure 3

I believe this can work and how well we succeed as an industry is entirely up to us!