

Cleaning up the unclaimed benefit industry – addressing issues of complexity

By
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In an attempt to tackle the pertinent issue of the unclaimed benefit 'black hole', where insurers and administrators lack incentive to trace beneficiaries and pay out unclaimed benefits as they are then able to continue claiming admin fees and accrue interest, the Financial Services Board (FSB) is in the process of enacting new legislation to quantify the 'depth' of the issue and also enforce better best practice through enforced compliance, according to the organisation's information circular (PF no 4 of 2015) (www.fsb.co.za, accessed 3-5-2016) and its draft notice no 2 (www.fsb.co.za, accessed 3-5-2016).

Personally, I agree with the ethos and principle behind these proposed changes as the FSB is trying to protect the interests of fund members and the FSB and feels this regulation will go a long way to tightening up the market. I believe that this approach will negatively impact unclaimed benefit fund members and beneficiaries as the associated costs will need to be carried by the fund, and the members themselves, thereby reducing the benefit they ultimately receive.

In the face of these proposed changes, and in the spirit of treating customers fairly, administrators will need to simplify processes and cut overheads to keep fees down. In this regard, there are numerous ways in which this can be achieved.

For starters, fund administrators could consider keeping an actuary on retainer and appointing them as a valuator on all the funds under administration. This approach means that the valuator would be paid a set fee to fulfil the statutory requirements of each fund, instead of a fee for issuing a s 14 certificate to each fund, which can often be in the region of R 2 000 – R 4 000 per certificate. This should offer cost savings based on the economies of scale that can be achieved.

Another approach would be for administrators to amend fund rules and procedures to allow for a single transfer

per fund or participating employer per year to be made to an unclaimed benefit fund, instead of transferring when the member's benefit becomes 'unclaimed'. This would mitigate the associated costs of multiple transfers.

This approach would enable administrators to transfer as many benefits as possible at a time, to minimise FSB and actuarial costs. In the interim, the benefit should remain invested in the occupational fund earning investment returns, but can merely be marked as a 'paid up member' or as an 'inactive member'. Paid-up members in an active fund would generally be charged lower fees as the active members are also contributing to the costs of running the fund. In addition, by remaining invested in the fund's investment portfolios, while there is greater investment risk, this reduced fee should be offset by the higher investment return earned.

In a similar vein, the industry could maximise the time and input of fund trustees to extract the greatest value from them, for example, waiting for trustee meetings to get signatures can reduce costs. By giving trustees adequate notification that there will be multiple certificates to sign, and saving these administrative requirements for the scheduled trustee meetings when they are already engaged in fund-related activity, gives administrators leverage to include the signing of documents into the fees charged by trustees for attending such meetings rather than having to pay additional hourly-based fees for trustees to sign documents.

Lastly, large administrators can also consider in-sourcing a tracing department, provided they can get the same access to the databases that external agents use.

There are, however, two stumbling blocks to this approach:

- Firstly, the cost of accessing these databases requires the right economies of scale to make it viable.
- Secondly, the Protection of Personal

Information Act 4 of 2013 (POPI) may affect an administrator's ability to obtain the relevant personal information, and any exemptions from sections of POPI required for funds and administrators to address this problem may be last on the Regulator's list of considerations in the application of POPI. Greater clarity in terms of POPI is required to determine what degree of access an administrator will have in obtaining and processing member information without active and informed consent being obtained from the member before this step can be considered, which is impossible due to the nature of an unclaimed benefit.

Whatever the challenges, and there will be more given the nature of proposed changes to the legislation that governs unclaimed benefits, I believe that the impact they will ultimately have on fund members can be mitigated to some degree with a bit of creativity and ingenuity by the industry.

The industry needs to work with the FSB to find a solution to the issues facing the unclaimed benefits market, and we can do this by working smarter to keep costs down so that administrators can do their job and meet the FSB's proposed new administrative requirements without eroding the benefits of members.

- See also part one of the article 'Cleaning up the unclaimed benefit industry – the FSB's unclaimed benefit bugbear' 2016 (June) *DR* 55.

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