



As reported previously in Fairheads Times, Fairheads has launched two unclaimed benefit funds – the Fairheads Unclaimed Benefit Preservation Pension Fund and the Fairheads Unclaimed Benefit Preservation Provident Fund.

Fairheads has long been South Africa's leading independent beneficiary fund provider, having looked after and paid out over 100,000 members and beneficiaries. We have developed sophisticated communication methods and accessibility options for members to interact with us and have a proven track record in tracing those who are unaware of the benefits that are due to them.

Our intention is to use the capabilities we have developed in the unclaimed benefits space to make significant inroads into the huge unclaimed benefits problem our country faces.

UNCLAIMED BENEFITS – FAIRHEADS IS UP TO THE CHALLENGE

By David Hurford, Director: Marketing & Consulting

The problem of unclaimed benefits is well known by now. There is reportedly more than R40 billion in unclaimed benefits in the retirement fund industry, and one wonders just how much in unpaid benefits may be sitting in the long-term insurance industry, another story altogether. These figures are not just figures – they have a very real human face, representing unused opportunities and potential personal growth for countless individuals and families around Southern Africa.

There have been some efforts in recent times from the Financial Services Conduct Authority (formerly the Financial Services Board), to compel retirement funds to do more to pay out unclaimed benefits. This has largely taken the form of the establishment of a national database which can be accessed by members of the public to check whether they have any benefits held in a retirement fund or unclaimed benefit fund.

Civil society groups too have been more active, with the Unpaid Benefits Campaign issuing a list of demands around the issue.

A host of other, less reputable service providers have sprung up around the country promising to help beneficiaries to access their funds, usually for a (substantial) cut of the benefit.

Sadly, all this is not enough and we are yet to see any real traction. There remain some fundamental problems, which we see as follows:

- Unclaimed benefits are fertile grounds for attempted fraud. This is because with a little information, it is easy for syndicates to target funds with falsified identity documents, bank accounts and affidavits. And the best part is that the “victim” is none the

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MESSAGE FROM THE CHAIRMAN

Ethan Dube, CEO, Vunani Limited



As the Non-Executive Chairman of Fairheads Benefit Services, I am honoured to have a space in this issue of Fairheads Times to update readers on the relationship between Vunani and Fairheads.

Vunani acquired a majority stake in Fairheads Benefit Services in 2015. We had identified Fairheads as a key

component in our vision of building a diversified financial services business. The fit is good and the deal has bedded down well in all respects.

Fairheads is an excellent business, with strong management, dedicated staff and a unique market niche. The business was bought as a stand-alone entity, and Fairheads continues to be run with no interference from Vunani.

At various levels, nonetheless, there is a strong level of cooperation which benefits both parties. Fairheads' institutional target market has a large degree of overlap with that of our asset management business. In this way we have been able to strengthen business development efforts and networking for both Vunani and Fairheads.

Similarly, at an operational level we have been able to leverage strategic skills to each other's advantage. Fairheads has been able to use the Vunani skills base to the benefit of all stakeholders.

One of the things we most appreciate about Fairheads is its ethos of adding value to the community. This is reflected in the way Fairheads handles its day-to-day business with guardians and members as well as the remarkable guardian roadshows and field agent programmes that bring much-needed financial education to consumers throughout Southern Africa.

We also admire the way that Fairheads continues to innovate. They have a robust platform off which to launch new products and they will doubtless continue to develop this.

We believe the future is bright.

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wiser! Any publicly accessible database, or group which operates on the basis of collecting information from consumers heightens this risk substantially.

- Essentially, administrators and investment managers who are charged with finding "missing" members have no incentive to do so. In fact, because they charge fees based on a percentage of assets, there is a disincentive to finding the members and paying out their benefits.
- A closer understanding of what is required to trace members is needed. Traditionally, the relationship between the retirement funds and their members has been facilitated by the employer or union – and much of the retirement fund's consulting focus has been on keeping the employer or union happy. However, in the case of unclaimed benefits, the employer no longer has a role to play because the very fact that the funds are in an unclaimed fund means that the member no longer works for the employer.

We believe there is a solution to this seemingly intractable problem. The industry needs to collaborate afresh and commit to establishing a centralised administrator of unclaimed benefit funds which is separate from the fund investment management.

That independent administrator would be well connected and able to assist the FSCA in hammering out a solution and getting collaboration and shared databases from retirement funds.

It would charge a modest monthly administration fee which is rand-based and not a percentage of the benefit, as well as a termination fee once the member has been successfully traced. The administrator's revenue stream would therefore depend on finding people so that the incentive is aligned with the problem at hand.

The independent administrator would have expertise and innovation in tracing members. Initiatives such as roaming tracing agents in the field and information roadshows in both rural and urban areas would be employed.

If volume and scale were achieved in the form of a national unclaimed benefits administration service, then information and distribution networks could be explored, for example with retail loyalty programmes and government agencies, with proper commercial arrangements in place.

If a centralised unclaimed benefits administration service were formed, there would be automatic sharing of databases across multiple entities.

Most importantly, the independent administrator would have the structure and experience in dealing with members in a “retail sense”, that is directly, as opposed to retirement fund administrators which generally deal with members through the latter’s employer.

Communication would be key. The administrator would have a state-of-the-art contact centre that handles all official languages and others that may be relevant; SMS communication would be commonplace.

As Southern Africa’s largest independent benefits administrator, Fairheads Benefit Services is available to take up the challenge.

THE HUMAN FACE

Since the recent inception of Fairheads’ Unclaimed Benefit Funds, we have made steady and pleasing progress in tracing people who are owed money.

CASE STUDY 1

Imagine the sense of elation and achievement when we managed to trace a 77-year-old man who is owed R170,000 through an unclaimed benefit dating back to employment some 35 years ago. The client suffers from ill health, lives in a small room and walks with difficulty.

The information passed on to us from the previous administrator was exceedingly scant. We proceeded with a consumer trace and managed to obtain a phone number following which we proceeded with our internal process of making an initial phone call to gather information.

Our client was exceedingly reluctant to offer any information, including his ID, and kept asking “But

who is Fairheads?”. We suggested he visits both the Fairheads and FSCA websites. Once we had confirmed his address we even offered to visit him so that he could meet Fairheads officials and be reassured. This he did not want. On account of the sum of money involved, we needed original certified documents which he was unable and unwilling to provide. A breakthrough finally came once we chatted to our client’s brother, who knows Fairheads’ headquarters buildings at No 2 Long Street in Cape Town and was willing to bring our client to our offices. The rapport improved once this happened, but this case study illustrates the challenges in establishing the all-important trust.



CASE STUDY 2

A 59-year-old woman had been traced years ago by an external tracing agent used by her previous employer, but contact had been lost. When we took over the case in March 2018, we at least had a contact telephone number. A consumer trace confirmed the information provided by the previous administrator, including her work history. The benefit claim dated back to 1982 and the woman was not aware of the funds due to her (some R6,000). ▶

The benefit claim dated back to 1982 and the woman was not aware

The process from then on was fairly simple, given email contact and that the client was able to visit a Fairheads walk-in centre to submit completed forms. All that remains is for SARS to provide a tax clearance certificate before we are able to pay out the funds.

Early key learnings

- Trust is a huge issue. Scamming is rife in South Africa, with most of us having received SMS's or emails promising all kinds of winnings and inheritances. Some people have fallen for such scams and been hurt. Imagine then that you get a call out of the blue from someone at Fairheads who says there is an unclaimed benefit due to you but cannot give you any details until they are 100% sure they are dealing with the right person. You are expected to give all kinds of personal details upfront to a stranger and understandably would be suspicious.
- The important issue of trust makes us realize how important the Fairheads brand is. We can at least refer potential beneficiaries to the Financial Sector Conduct Authority for vouching, encourage them to visit our website, or invite them to visit our walk-in centres for reassurance. We are hopeful that as we continue to succeed in tracing people, so the public will become more familiar with the Fairheads name and know they can trust us. Indeed, if a company outsources their unclaimed benefit administration to us, employees will hear by word of mouth the various successful traces and this will encourage awareness of the possibility of benefits lying unclaimed.



Fairheads' Field Agent making contact with member.

- Given the difficulty in asking upfront for personal information, we use means over and above those of our standard tracing department to help find out whether we are indeed dealing with the right person. These include:
 - Using Google maps to check addresses
 - Phoning churches or schools to find out whether the family is known
 - Using the website of the Independent Electoral Commission (IEC) which may provide a link to the member's last known address by indicating where the member was registered to vote. ■

GUARDIAN ROADSHOWS – AN UPDATE

We are busy putting together the final programme for Fairheads' annual guardian roadshow. This pioneering programme, now in its eighth year, has made a remarkable contribution to financial literacy in Southern Africa. Thousands of guardians, caregivers and members now not only know about beneficiary funds but are also able to plan their future, for example by knowing how to draw up a budget, be it for monthly expenses or planning for studies. We have also over the years focused attention on useful information for minors who now know that you can apply for an ID at age 16 and that this is about the age to start thinking ahead to tertiary studies and how to fund them.

As education is our main focus with the guardian roadshows, we are determined to ensure that ALL guardians have access to the roadshows. This means not necessarily targeting our venues to be where there is the highest concentration of members, but also holding the workshops in areas which are easier for some guardians to travel to. We are this year

therefore adopting the principle of going where we have not been before, in order to lay a foundation for the future.

Some of the new places we will be visiting include in the Eastern Cape (Mqanduli, Libode, Elliotdale, Ngquleli and Idutywa) in KwaZulu Natal (Estcourt, Inanda, Amamzintoti, Harding) and Mpumalanga (Acomhoek, Driekop).

Last year, we made a short video of the workshops which gives a good impression of what guardians, caregivers and members can expect if they attend. The heartfelt expression of gratitude from many make all the hard work more than worth its while!

You can visit the video on our website.
www.fairheads.com/watch-2018-guardian-roadshow/

Please also visit our website for the detailed programme which should be ready by end July 2018. ■



From left: Yvonne Mahlatji, Monde Matolengwe, Nombi Sekaledi, Vincent Maqina, Jeanette Mahlanya, Giselle Gould Front: Khani Mashale, Benedicta Radebe

MINeworkers BENEFICIARY FUND: A CAREFUL BALANCE OF RISK AND RETURN

By **Roland Greaver, CEO,**
Kagiso Asset Management



Managing portfolios for the Mineworkers Beneficiary Fund should remind the fund manager that behind every investment portfolio are real individuals whose future wellbeing depends, to a large extent, on the daily actions and decisions taken in the portfolio.

Since the Steinhoff scandal hit the headlines in December 2017, the ethics and behaviour of fund managers and corporate executives has moved to the centre of discussions on the South African investment landscape.

Large and permanent capital losses have occurred in portfolios which can ill afford such major drawdowns, because of the nature and risk profile of the underlying investor. Investors will never recover these losses incurred.

When one evaluates the Investment Policy Statement of the Mineworkers Beneficiary Fund, it is clear that inflation-beating returns, balanced with a well-structured risk management framework, are critical requirements for the fund to meet its long-term liabilities and shorter-term cash flow requirements.


Funding the education needs and spending programmes of the fund's beneficiaries is a multi-year commitment. It is therefore essential that the rate of growth in the fund's investments is always ahead of its rate of spending, in order to preserve the assets of the fund and maintain its purchasing power. Therefore, returns must outpace the rate of education inflation, which has for many years run at a higher rate than the country's overall annual inflation figure. The current overall inflation rate is 4.4% while the inflation for primary and secondary education is at 7.7%. In particular, the rise in prices of school uniforms, stationery and school fees is the key contributor to the higher levels of education inflation. It is therefore essential that fund managers employ a portfolio construction methodology that includes assets and instruments geared to generate returns which are above this inflation and provide sustainable growth over a 10-year time horizon.

The fund therefore has a long-term growth orientation while at the same time requires high liquidity because of its short-term cash flow and spending requirements. To achieve these challenging and often contradictory objectives, fund managers managing the underlying portfolios have to incorporate long-term growth assets while minimising shorter-term return volatility.

Over the long term, equities have proven to be the asset class with the highest probability of generating the required growth rates in excess of inflation, while also preserving the purchasing power of the fund. The question then remains: what type of equity portfolio is more likely to deliver an expected return higher than the spending rate of the fund? It is my contention that this is an actively managed equity portfolio, underpinned by a valuation driven investment philosophy along with strong risk management fundamentals.

South Africa's equity market has a high concentration of large capitalisation stocks. Many of these large companies' shares trade at an extremely high valuation matrix and are deemed expensive from a valuation investment philosophy perspective. They carry the risk of substantial capital losses should share prices revert to more realistic levels or should such companies' operations start to disappoint.

These elevated valuations are in part the result of global monetary policy over the last decade. Following



It is therefore crucial that the inclusion of 'rand hedge' assets be considered to reduce such currency/inflation risk.

the global financial crisis, major countries' central banks embarked on large-scale quantitative easing programmes. This had the unintended consequence of inflating global asset prices, as central banks bought back assets from private investors and created high levels of liquidity in the markets. South Africa, being part of the emerging market basket, has benefited from this in unprecedented portfolio flows. As a result, while many of our large South African companies are world class businesses, from a valuation point of view their share prices now trade at expensive levels and therefore offer lower or even negative expected returns for the foreseeable future.

Small and medium-sized companies on our market have largely been neglected by such global emerging market investors and are therefore trading at much lower valuation levels, offering higher expected returns.

To avoid capital losses in such an environment, stock selection becomes of critical importance in constructing the equity component of a well-diversified multi-asset class portfolio for a fund with a risk profile such as that of the Mineworkers Beneficiary Fund.

The extent and nature of the due diligence that the fund manager employs should focus on minimising risk at

an asset allocation and stock selection level. In South Africa, there are certain risks which are very difficult to manage. One such risk is the probability of a spike in inflation due to a substantial weakening of the currency. Such an inflation spike will lead to an increase in interest rates and a fall in assets prices. South Africa's currency is one of the most liquid currencies among its emerging market peers and therefore more vulnerable to the ebb and flow of emerging market sentiment by foreign investors. It is therefore crucial that the inclusion of 'rand hedge' assets be considered to reduce such currency/inflation risk.

In summary, the Mineworkers Beneficiary Fund has to set a long-term return objective in excess of its expenditure and payment distributions in order to preserve the purchasing power of the fund. Calculating such an acceptable rate of return using the sum of the spending rate, expected inflation rate and the cost of generating investment returns would be a good starting point. Performing careful due diligence across all asset classes should minimise capital losses and therefore return volatility over the short to medium term. Such a coordinated investment and risk management strategy should support the fund's short-term liquidity requirements as well as its longer term real return objectives. ■

MAJORS' BENEFITS CAN BE PAID INTO A BENEFICIARY FUND

Beneficiary funds were conceived with the primary aim of protecting death benefits due to minor dependents of deceased retirement fund members. Often what is missed though is the fact that beneficiary funds can be used to hold majors' benefits as well. And in many cases, the beneficiary fund may be the best vehicle to place these benefits.

All that is required is for the member to guide the trustees accordingly on their retirement fund nomination or for the retirement fund trustees to use their discretion in deciding on a beneficiary fund.

Aside from the strong governance aspects, the pricing and tax advantages of placing monies into a beneficiary fund are also not yet that well known. They can be summarised as follows:

- **Pricing equivalent to that of a current account.** Beneficiary fund costs, like those of retirement funds, have reduced over time. The Fairheads Umbrella Beneficiary Fund is in some cases cheaper than a bank account, with the added benefits that come with the product.
- **Expert investments and institutional pricing.** The investment manager and asset allocation of beneficiary funds allow members to benefit from expert investment knowledge which has been gained over many years of managing minors' money, which is quite different from the investment management of contributory retirement funds. Investments are pooled,

creating an opportunity for significant savings when it comes to fees.

- **Significant tax advantages.** Beneficiary funds are wholly tax exempt, both in terms of income and capital distributed from the fund. There are few better investment vehicles available in South Africa today from a tax perspective. In a sense a beneficiary fund can be viewed as a tax-free preservation vehicle.

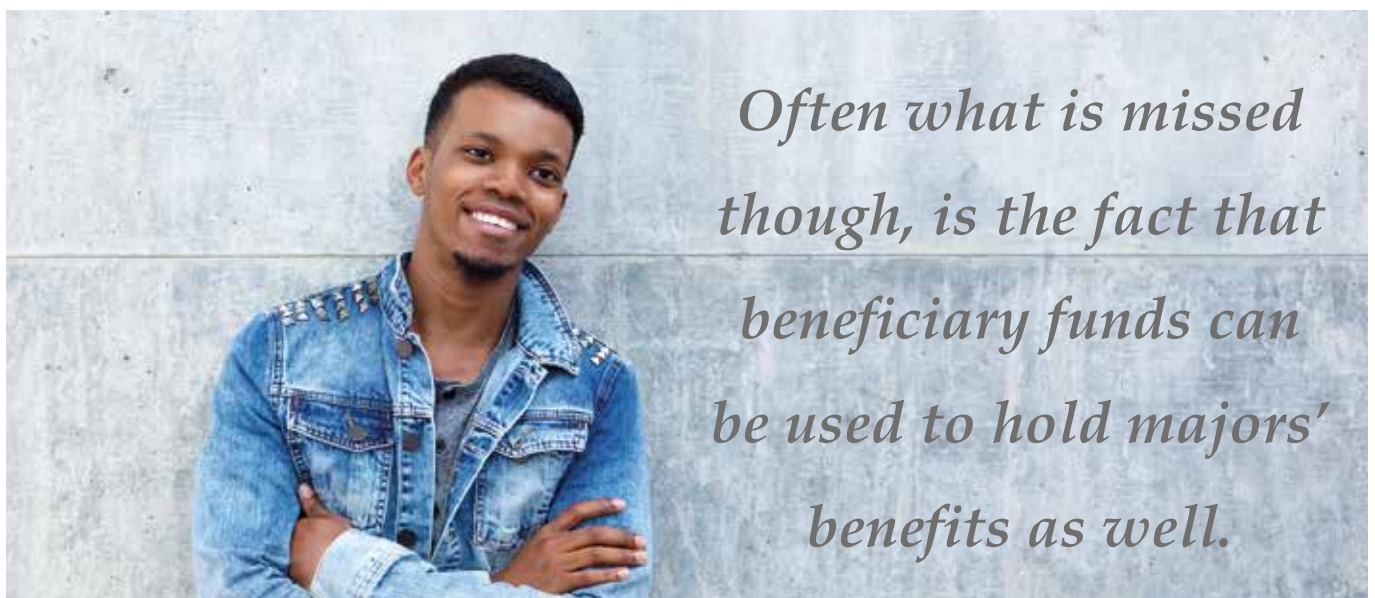
ESTATE PLANNING

Fairheads' growing range of products can now neatly be used for estate planning purposes. While as a benefits administrator we do not give advice directly, you can speak to a financial planner about using:

Fairheads Umbrella Beneficiary Fund as a vehicle to accept s 37C and other employment-related benefits (these are assets which fall outside your estate) In conjunction with *Fairheads Legacy Trust* as a vehicle to accept monies which form part of your estate should you pass away. The Trust has been designed as a cost-effective professionally administered vehicle to safeguard assets on behalf of beneficiaries which include:

- Deceased estates
- Inter vivos trusts (living trusts)
- Testamentary monies
- Road Accident Fund (RAF)

You can read more about Fairheads Legacy Trust on our website. ■





FUND GOVERNANCE - MORE THAN JUST A TICK BOX APPROACH

Fairheads Benefit Services has administered children's benefits for over 25 years, having looked after and paid out over 100 000 members during this time. Strong fund governance is at the forefront of our success because not only do we tick all the right boxes, the independent oversight over our fund affairs provides the impetus for us to strive for ever increasing standards.

Our track record speaks for itself:

- Fairheads was the pioneer of umbrella trusts in the 1980s
- The Fairheads Umbrella Beneficiary Fund was the first registered beneficiary fund in South Africa
- Fairheads was the first to conduct guardian roadshows in 2010
- Fairheads was the first to disclose all fund fees using the ASISA Effective Annual Cost standard, something which few if any providers have followed
- Our Field Agent Program is the first in the country which aims to locate and service those clients who simply cannot do it themselves.

Fairheads – Keeping children's money safe.

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FAIRHEADS
Benefit Services

CYBERCRIME

By Darlene Van Dieman, Head of Compliance



WHAT IS CYBERCRIME?

Cybercrime is the unlawful use of a computer to commit a crime. “Computer” is defined in South Africa’s Cybercrime Bill as any electronic programmable device whether it is a standalone or a part of a computer system or any other device or equipment. The purpose of the legislation is primarily to create offences and impose penalties which have a bearing on cybercrime, specifically the distribution of data messages which are harmful, and to provide powers to identify and investigate cybercrimes. Secondly, the Bill has been drafted to bring South Africa in line with international data security law.

Cybercrimes include credit card and identity theft, hacking into a network to extract information, cyber stalking, ransomware and the piracy of software. They also include the malicious spread of viruses, the violation of privacy, password theft, phishing, email bombs, spam and fake news.

HOW DOES CYBERCRIME AFFECT COMPANIES?

The findings of the international Cost of Data Breach Study identified that companies took an average of 155 days to detect a breach and a further 44 days to contain

the incident. The average cost of one breach is R29.8 million. When a breach took longer than 100 days to detect, the cost rose to R34.95 million.

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PwC’s Global Economic Crime Survey found that only 35% of South Africa companies had a cyber-incident response plan in place. Furthermore, according to MimeCast, South Africa has a 41% risk of cybercrime and the highest probability of experiencing a data breach in the next 24 months.

To safeguard a company, critical questions must be asked:

- Is there a cyber-incident response plan in place?
- How systems-dependent is the company?
- Does the company have a disaster recovery plan in place?
- How is access to the systems controlled?
- Where is data stored?
- What measures are in place to safeguard data e.g. information asset management, encryption, remote wiping of devices, etc?
- Are systems monitored?

WHAT ARE THE CONSEQUENCES OF INFORMATION BREACHES?

Business relationships are built on trust. When information has been leaked or hacked into, the trust relationship is invariably violated because personal information which includes investment information, identity numbers or bank account numbers is stolen or leaked into the public domain.

Should an identity thief get hold of your personal information, he is able to create an entirely new identity using your information. The identity thief is able to open store accounts, obtain credit lines, buy a home and almost claim your life. Just consider the stress and frustration of having your identity stolen and needing to prove who you are. Your identity number is truly your most valuable asset and it must be safeguarded.

Millions of people have had their personal information put at risk through recent hacking and violation scandals involving Facebook, Sony Playstation, MyHeritage and Uber (UK). Standard Bank (Japan) lost R300 million which involved the withdrawal of cash using fake ATM cards, and in June this year Liberty Life was held to ransom with hackers demanding payment to have their clients' personal investment information returned.

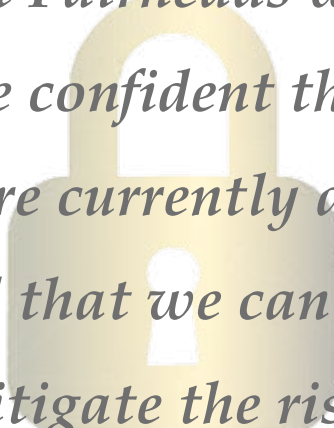
WHAT IS FAIRHEADS DOING?

A key element in the mitigation of cyber-risk is the development of a monitoring and reporting programme. Fairheads' compliance has developed a comprehensive risk management assessment (CRMA) which identifies the potential cyber-risks to which Fairheads may be exposed. The CRMA contains an analysis and identification of compliance risks derived from the Protection of Personal Information Act (POPIA), the Electronic Communications and Transactions Act (ECTA), the Regulation of Interception of Communications and Provision of Communication Related Information Act (RICA) and the Cybercrimes and Cybersecurity Bill (CaC). With a full understanding of the data security and cybercrime risks, Fairheads is

able to navigate these risks through the implementation of controls and monitoring of the control environment to mitigate cyber and data risks.

The second key element is to embed the legislative requirements into the company's operations. Fairheads has drafted and implemented several policies which include The Electronic Communications and IT Security Policy, and the Information Asset Policy which provides guidelines to personnel on how to protect the information asset, not only in terms of data security, but also the physical security of the person and the asset. Fairheads' concern for both clients and personnel information is included in its Privacy Statements for staff and clients to ensure that the highest level of security is in place to protect personal information and data. Fairheads also has a Data/Personal Information Breach register in place in the event that personal information has been violated in terms of data security.

*At Fairheads we
are confident that
we are currently doing
all that we can to
mitigate the risk.*



Regular monitoring on the implementation of data security takes place and is reported to the Assurance Risk and Compliance Committee as well as the Compliance and Audit Committees. Fairheads has a Business Continuity Management Programme and a Disaster Recovery Programme in place which are monitored and overseen by the Internal Audit Department. Fairheads has appointed a Personal Information Officer who is responsible for reporting personal information breaches to the information regulator.

In conclusion, cybercrime is a very real threat. All companies should be taking it seriously and all employees should be on the lookout for any data breaches. At Fairheads we are confident that we are currently doing all that we can to mitigate the risk. ■

CSI

Fairheads is honoured to support an initiative that believes that every child has a basic right to education with dignity. The Uniform Project raises funds for school uniforms for children in Chintsa, located 41 km north of East London in the Eastern Cape. This is one of many projects under the auspices of The Friends of Chintsa, a collaborative community-based organisation.

"I am writing to tell you that we used Fairheads' donation to purchase one hundred and two pairs of shoes for children at the Nkwezana School which is about 30 km north east of East London. The children were surprisingly reverent, almost as if they were in church, and received the shoes with wonder. I wish you could have been with us to participate in this delightfully heartwarming occasion." - Mary Sanfilippo, Director of the Uniform Project



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