

CONFIDENTIAL

Shaping The Operational Model for Social Security in South Africa: Exploring Alternative Delivery Options

Social Security Handover

2 November 2007

KEY MESSAGES

- Service partnerships leverage the skills and expertise from Government and the private sector to deliver benefits for both, and should be strongly considered for social security
- It is imperative that Government retains control and responsibility for social security as well as present a uniform Government front to its citizens
- Grouping of collection, enrolment, account administration and payment “back office” activities should be consolidated as much as possible into a single clearing house, with significant opportunity for delivery through partnerships with the private sector
- Partnership between the Government and key private sector players into a single entity that will provide services to the owners (i.e. Government and private pension providers), with opportunity to expand service to smaller players, is recommended as it provides maximum savings through economies of scale and restructuring the cost elements of current industry providers
- However, experience from other financial services examples in implementing and running utilities illustrates that this is not an easy solution to negotiate and deliver, and may be met with strong resistance or entrenched viewpoints
- If it doesn't prove possible to deliver the full benefits from this substantial restructuring, there are several other potential delivery options to consider. One option is clearly a government-run operational delivery. Alternatively, you could explore an option which leverages the existing systems of current players through outsourcing account administration and payments to 3-5 private players and creation of a single enrolment and collection entity (which could be provided through government or private sector).
- Going forward, we recommend that a business case for the service partnership model be prepared and the concept scoped more fully and evaluated alongside the potential alternatives

- **Context and rationale for using the private sector**
- Structuring the service partnership
- Potential service partnership model for South African social security
- Early perspectives on detailed design, implementation and fall back options

THERE ARE DIFFERENT ASPECTS TO SOCIAL SECURITY AND SARS HAS FOCUSED ITS RECENT WORK ON THE OPERATING MODEL DESIGN


 Focus of SARS effort

Illustration of the different aspects

Policy:
Strategic guidelines and objectives of overall system

Governance:
Oversight and control of operations

Operating model:
Design of how of people, processes, systems and infrastructure will be co-ordinated in social security to deliver on policy objectives



SARS' approach to the operating model design

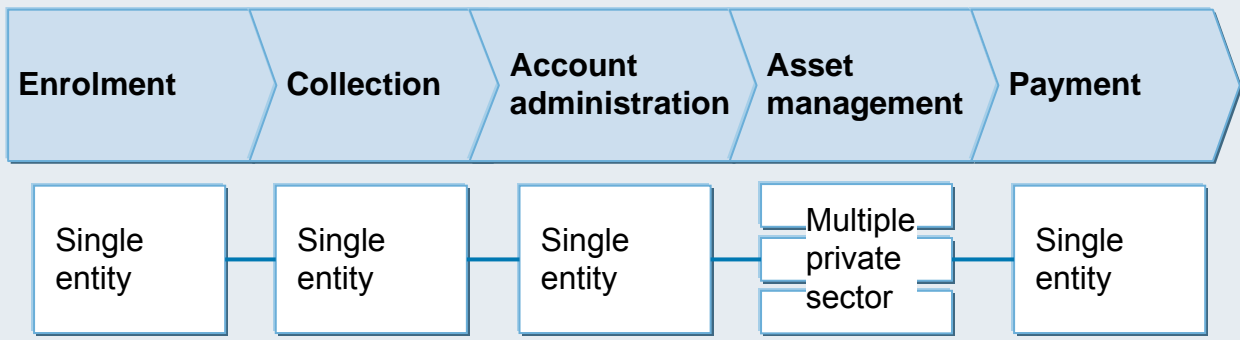
- Defined the key activities required to operate system (5 part value chain) and achieve policy objectives
- Developed features of the approach to efficiently execute each activity (e.g. auto enrolment)
- Proposed a design framework for operations (scale driven) based on five evaluation criteria – cost, participation, service, implementation risk and oversight
- Explored various options for how the operating model may be delivered – **purpose of this document is to share with you an alternative option which involves partnering with the private sector**

YOU HAVE ASKED US TO BUILD ON OUR PREVIOUS WORK AND DEVELOP A POTENTIAL SERVICE PARTNERSHIP MODEL FOR SOCIAL SECURITY

We have assumed the following policy choices . . .

- Mandatory participation
- Wage subsidy or general subsidy to cover low income contributions
- Opt-out option to private sector
- No limitations for role of private sector through private partnerships
- Age cut-off on date of implementation
- System should have flexibility to migrate other social security benefits into it e.g., UIF, health etc.
- Defined contribution system with possible defined benefit element
- Limited choice for members (fund type and administrator)

. . . and worked off the scale-driven design which appears to be more strongly favoured



- Our mandate is to look at potential service partnership opportunities between the government and private sector for the operations of social security
- In developing a potential model we will base our work on the policy assumptions, the 5 part value chain and the scale driven model

SERVICE PARTNERSHIPS BETWEEN GOVERNMENT AND THE PRIVATE SECTOR CAN DELIVER SIGNIFICANT BENEFITS SUCH AS COST AND TIME SAVINGS, AVOIDING DUPLICATIONS, AND LEVERAGING PRIVATE SECTOR EXPERTISE

Private sector strengths

- ✓ Expertise and experience in delivering pension systems (currently providing for 60% of workforce)
- ✓ Investment in systems and technology to operate social security activities
- ✓ Maturity of BPO industry in pensions, with focus on efficiency and cost savings
- ✓ Some knowledge on penetration of informal sector e.g. Mzansi, funeral policies

Benefits

Cost savings



- Pooling of volumes between private sector and government will achieve significant scale economies across industry

Avoid duplications



- Leverage of existing systems in private sector
- Reduced capital expenditure

Resolve skills shortage



- Limited skills in the country can be shared across Government and private sector

Strategic focus and capacity



- Free up senior management time to focus on other key priorities instead of operational execution

Quicker transition



- Quicker implementation and ramp up of system (transition to end state)
- Cost savings achieved can be used to subsidise service to informal sector

Public sector strengths

- ✓ Policy development and strategic management including regulation
- ✓ Compliance expertise through revenue and UIF collection
- ✓ Service delivery and obligation to safeguard citizens retirement income (increases assurance to members of the public)
- ✓ Capital liquidity – access to funds to develop social security system
- ✓ Co-ordination and mobilisation of citizens to participate, particularly those in low income/informal groups

* Individuals with pension/provident or retirement savings
 Source: Team analysis

- Context and rationale for using the private sector
- **Structuring the service partnership**
- Potential service partnership model for South African social security
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WE HAVE DEVELOPED A SET OF DESIGN PRINCIPLES TO UNDERPIN A POTENTIAL SERVICE PARTNERSHIP MODEL FOR SOUTH AFRICA

Design principles

Key elements of service partnership

Cost and simplicity

- **Limited choice** – individuals cannot choose account administrator or fund manager
- **Scale** – each part of the system when outsourced should ensure sufficient scale yet balance operational risk

Service quality

- **Uniform service** – all participants in system must receive consistent service
- **Single government brand** – interface with the public should be represented as single government brand

Participation

- **Compliance and transparency** – single database of information on contributions and member details for defined period to enable compliance checking
- **Multiple channels** – use of various channels (e.g. electronic, physical branches, call centres) which are geographically disbursed to cater for all population sectors

Risk and feasibility

- **Reduced operational risk** – Ensure balance between fewer (or maybe one) partner to achieve scale economies versus several to remove single point of failure
- **Delivery within committed timeline** – system should be deliverable within the 2010 timeline

Government oversight and ownership

- **Government ownership and responsibility** – system designed to ensure Government responsibility for overall social security system



WE POOLED KEY SOCIAL SECURITY ACTIVITIES INTO THEIR LOGICAL GROUPINGS AND IDENTIFIED TWO AREAS WHERE SERVICE PARTNERSHIPS COULD BE USED TO DELIVER SOCIAL SECURITY OPERATIONS

	Enrolment	Collection	Account administration	Payment	Asset management					
Oversight	<div style="border: 2px solid red; padding: 5px;"> <p>1</p> <ul style="list-style-type: none"> Governance and regulation </div>									
Integration and management						<ul style="list-style-type: none"> Channel management Enforcement and compliance Commercial responsibility/procurement 	<ul style="list-style-type: none"> Law writing Enforcement and compliance 	<ul style="list-style-type: none"> Set Standards for service levels Control fees and charges to customers 	<ul style="list-style-type: none"> Benefits and policy design 	<ul style="list-style-type: none"> Oversight Investment policy Fund allocation
Public interface						<ul style="list-style-type: none"> Client interaction and service Education and awareness 				
Day-to-day operations	<div style="border: 2px solid red; padding: 5px;"> <p>2</p> <ul style="list-style-type: none"> Register members </div>	<div style="border: 2px solid red; padding: 5px;"> <ul style="list-style-type: none"> Receive monthly contribution Conduct reconciliation Record/forward information to other partners in value chain Conduct employer enquiries relating to collection </div>	<div style="border: 2px solid red; padding: 5px;"> <ul style="list-style-type: none"> Open account Conduct account maintenance operations – update details Provide member statements Close accounts Call centre </div>	<div style="border: 2px solid red; padding: 5px;"> <ul style="list-style-type: none"> Receive benefit claims Process claims Distribute payments Call centre Web interface </div>	<div style="border: 2px solid red; padding: 5px;"> <p>3</p> <ul style="list-style-type: none"> Invest funds Monitor and report fund performance to account administrator </div>					

- Areas for service partnership
- Retained in Government

1 IT IS IMPERATIVE THAT THE GOVERNMENT RETAINS OVERALL RESPONSIBILITY AND OVERSIGHT FOR THE SOCIAL SECURITY SYSTEM

Responsibility

Activities

Rationale

Oversight

- Governance
- Regulation

- Government governance ensures the system is run in the interests of its members
- Ensures fund is appropriately funded

Integration and management

- Channel management
- Enforcement and compliance
- Legislation
- Benefits and policy design
- Investment policy
- Fund allocation to asset managers
- Commercial/procurement responsibility for service partners

- Government is better positioned to manage overall system through strategic oversight and direction
 - Appointing private partners
 - Monitoring levels of service from partners to members
 - Setting standards for activities
 - Developing investment strategy which is in the interest of members

Public interface

- Consistency of client interaction and service
- Education and awareness

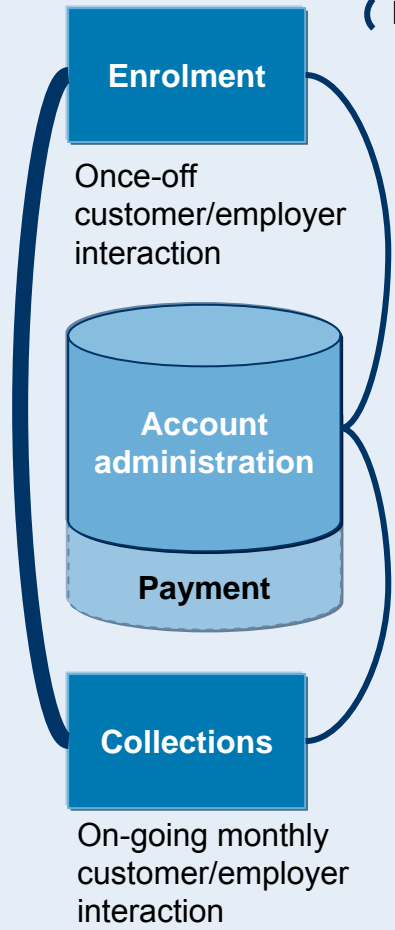
- Increases confidence from the public that their money is safe and system is run with members interests at heart

2

THERE IS OPPORTUNITY TO CAPTURE SYNERGIES FROM MERGING ENROLMENT, COLLECTION AND ACCOUNT ADMINISTRATION AND PAYMENT INTO A SINGLE FUNCTIONAL UNIT CALLED A CLEARING HOUSE

There are several synergies between collection, enrolment and account administration

▶ Strong
◐ Moderate



Benefits

Economies of scale

Fewer interfaces

Single IT system

Uniform brand and consistent service

Explanation

- **Lower cost** of enrolment, collections, account administration, and payments **by combining them into a single unit**
- **Ability to manage and regulate cost across value chain**
- **Reduces process complexity**
- **Reduces disagreements** between value chain players
- **Increases accountability**
- **Reduces handovers and points of failure**
- **Entity responsible for outputs**
- Enables data collection into **single register**
 - **Transparency** of member contributions
 - **Leverages database for compliance/enforcement**
- **Avoids duplication** by using same infrastructure
- Interaction of customers with one entity **promotes solidarity**
- Allows for **even coverage across target groups**

3 IT IS CLEAR THAT MULTIPLE PRIVATE SECTOR ASSET MANAGERS SHOULD MANAGE ASSET INVESTMENTS TO ENSURE OPTIMAL RISK-RETURN

Multiple, competing asset managers are used in most countries

Examples



Rationale

- Competition could **enhance performance**
- **Diversification** of management risk
- Reinforces **importance of private sector**
- Access to **skills and investment capabilities** in the private sector
- Possibility for individuals to **choose asset managers** as well as funds

Capital markets and retirement funds in SA are already relatively developed

Examples







Rationale








- Maintains industry dynamics – historically very strong capital market growth, which has outperformed most emerging markets
- Highly diverse and specialised industry, all required skills difficult to find in one single entity

IN ORDER TO DETERMINE THE PARTNERSHIP MODEL FOR SOCIAL SECURITY, WE HAVE DEVELOPED A FRAMEWORK TO DESCRIBE THE VARYING DEGREES OF GOVERNMENT'S INVOLVEMENT IN OPERATIONS

Level of private sector involvement

	Day to day operations	Management	Integration	Oversight/ governance
	In-house operations owned and run by Government	Outsource some discrete activities to private partners	Partnership under which the private sector delivers and runs major parts of the system	Full outsourcing with private sector delivery of entire value chain
Description	<ul style="list-style-type: none"> Government manages all assets and operations Delivery could be co-ordinated across multiple government departments or integrated into single operating agency Examples include social security delivery in Sweden, UK and US 	<ul style="list-style-type: none"> Government manages operations and outsources specific identified activities such as call centres The role of Government is to run and manage the operations as well as interface with the outsourced activities Each activity typically outsourced to single player Examples include banks outsourcing payroll, IT maintenance and call centres 	<ul style="list-style-type: none"> Government contracts out a whole part of the value chain to external providers Government responsible for awarding contract and oversight/governance of operations, as well as integrating the various outsourced operations to deliver single uniform service to customers Examples of such partnership models included proposed National Pension Saving Scheme in UK and Procesar in Mexico 	<ul style="list-style-type: none"> Government contracts out the operating system to external providers parties (end-to-end) Government responsible for awarding contract and oversight/governance of operations Contract can be awarded to one or several parties Examples of such models include the National Savings and Investments (UK) and the Chilean pension system
Example	<p>Swedish pension system</p> 	<p>NHS shared business services</p> 	<p>Procesar</p> 	<p>National savings and investments</p> 

PARTNERING WITH THE PRIVATE SECTOR TO RUN MAJOR PARTS OF THE VALUE CHAIN IS AN ATTRACTIVE MODEL AS IT IS SIMPLE, PROVIDES CLEAR INCENTIVES AND ALLOWS FOR SPECIALISATION WHILST CAPTURING SYNERGIES

Benefit	Explanation	Example
<div style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Simplicity</div>	<ul style="list-style-type: none"> • Fewer contracts to manage • Government passes role of integrating inputs/outputs to service partner 	 <ul style="list-style-type: none"> • DWP proposal for NPSS contracting clearing house to single entity/ consortium
		
<div style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Clear incentives</div>	<ul style="list-style-type: none"> • Allows output, not input-based contracting • More transparent accountability <ul style="list-style-type: none"> – Easier to identify entity responsible for a process – KPIs are clear with single point of accountability 	 <ul style="list-style-type: none"> • In National Savings & Investments case, Siemens keeps a share of savings it makes through productivity improvements
		
<div style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Service delivery by specialists</div>	<ul style="list-style-type: none"> • Allows different specialists to focus process they do well • Allows provider freedom to <ul style="list-style-type: none"> – Design in cost savings – Contribute design ideas 	 <ul style="list-style-type: none"> • Most countries' social security/national pension systems allow asset management to be done by qualified professionals
		
<div style="background-color: #0070C0; color: white; padding: 10px; text-align: center; font-weight: bold; font-size: 1.2em;">Enables synergies</div>	<ul style="list-style-type: none"> • Related activities are grouped and done by same provider 	 <ul style="list-style-type: none"> • Several processes that require employer interface done by Procesar, e.g., maintaining up-to-date database, reconciling contributions

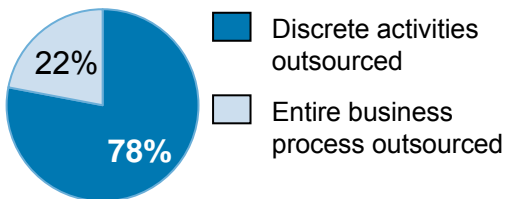
IN ADDITION, TACTICALLY OUTSOURCING DISCRETE, SMALLER ACTIVITIES COULD GENERATE FURTHER SAVINGS FOR THE ACTIVITIES RETAINED IN GOVERNMENT

Types of 'discrete' activities outsourced

- Call centres
- Accounting
- Payroll processing
- Procurement
- IT maintenance

Breakdown of outsourcing

Outsourcing by European banks US\$bn



Outsourcing activities remains more common than outsourcing entire/major parts of a business

Case example of benefits that can be achieved



Case description

- NHS outsourced back office services to Xansa

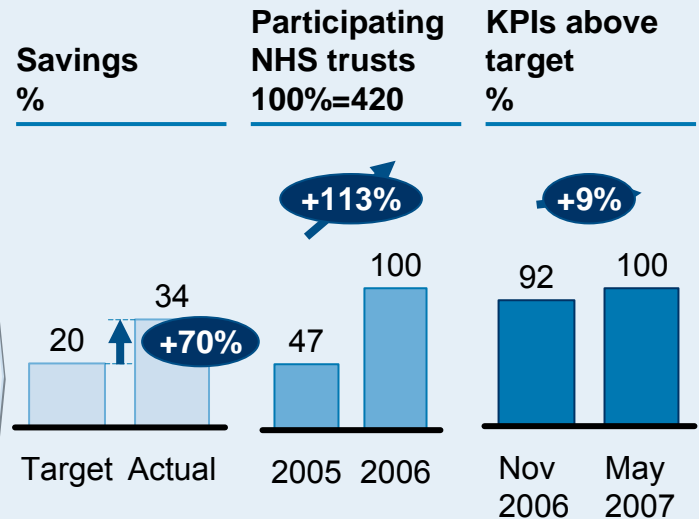
Partnership objectives

- Cost effective delivery of shared financial aid accounting services
- Standardised IT platform

Services offered

- Procurement
- Accounting
- Treasury and cash management
- VAT and payroll processing

Results



• 34% cost saving achieved

• Accelerated implementation achieved

• Key targets being delivered

DEVELOPING AND RUNNING THE ENTIRE SYSTEM IN-HOUSE IS CHALLENGING GIVEN THE TIGHT TIMELINES, COST REQUIREMENTS AND ALREADY CONSTRAINED MANAGEMENT CAPACITY

Therefore consideration for delivering social security fully within government should be considered cautiously as

... it is costly to develop new systems



- Required systems would need to be developed
- Set up costs for entire system could be in R1-2 bn range
- The system would require several thousand FTEs to operate

... it is time-consuming to implement and run new systems



- Design and set-up will require significant management capacity
- NHS-Xansa case example shows that ongoing operation oversight is key to success of systems

... government already has a full agenda



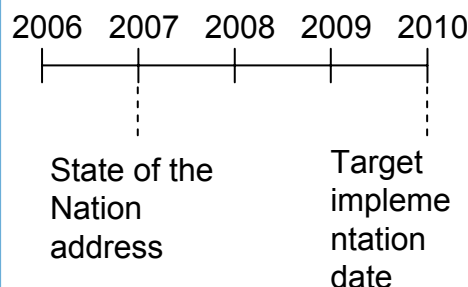
- Government already committed to several other national priorities
 - E.g. modernisation of public services, World Cup 2010, ASGISA* etc

... In social security context, government's core strength is in policy making and strategic management



- Government has deep expertise in policy-making, regulation, decision-making and setting strategic direction
- Day-to-day operations capabilities, for insurance/ pension administration type activities, typically reside in private sector

The timescale to deliver social security is aggressive



* Accelerated and Shared Growth Initiative for South Africa

SIMILARLY, OUTSOURCING THE ENTIRE SOCIAL SECURITY SYSTEM COULD LEAD TO CREATION OF THE 'COMPETITION DRIVEN' MODEL, WHICH IS NOT FAVOURED FOR ITS HIGH COSTS

CHILEAN EXAMPLE



Country context and facts

- 16.5M population
- GDP per capita: \$7,055
- Life expectancy at birth: 78 years
- Maturity of pension system: 26 years

Model fundamentals

Policy features

- System has:
 - defined contribution
 - mandatory participation
 - individual choice of pension provider

Operations

- Government has allowed private provision of the system:
 - 6 private entities (AFPs) are responsible for the entire value chain
 - Average of 12m accounts per provider

Main results up to date

- **Marketing costs are high at 25% of administration costs**
- Lower than expected replacement rates
- **Administration fees still relatively high in spite of competition (e.g., US\$38 in Chile vs US\$34 in Mexico and US\$29 in Sweden)**
- Coverage of self-employed is low



- Contact and rationale for using the private sector
- Structuring the service partnership
- **Potential service partnership model for South African social security**
- Early perspectives on detailed design, implementation and fall back options



ONE SOLUTION TO DELIVER THE 'CLEARING HOUSE' IS THROUGH A UTILITY: A SINGLE LEGAL ENTITY WHICH IS OWNED AND USED BY KEY INDUSTRY PLAYERS AND GOVERNMENT

Description of how a social security utility could be set up

Function/ description	<ul style="list-style-type: none"> • Several players in the pension industry (e.g., SA government, private sector players, GEPP) could set up the entity • The entity could perform clearing house functions on behalf of the owners and other industry players
Governance	<ul style="list-style-type: none"> • Owned and governed by main customers e.g. SA government and pension industry players • A minority stake could be given to an implementing partner e.g. IT player, account administrator • Could be not-for-profit
Partners' capabilities and motivations	<ul style="list-style-type: none"> • Each partner involved in utility ownership and operation must add value <ul style="list-style-type: none"> – Government brings ~13m customers – Private sector brings industry knowledge – Minority partner builds and operates utility's IT platform
Negotiation process	<ul style="list-style-type: none"> • Can take a year or more to negotiate • Issues to be resolved include ownership, who appoints management, user fees, disputes resolution mechanisms etc.

Case examples

	
Function	76% of UK cheque processing
Governance	JV between major UK banks* (49% stake) and Unisys (51%)
Partners	Unisys appointed management and built systems
Negotiation	1 year to complete
Benefits	Rationalisation of sites ; halving of headcount to 2,000

	
Function	Inter-bank electronic switching and related services
Governance	Owned and managed by 12 South African banks
Negotiation	Founded in 1993, and formalised in National Payments Act in 1998
Benefits	Rationalisation of IT systems

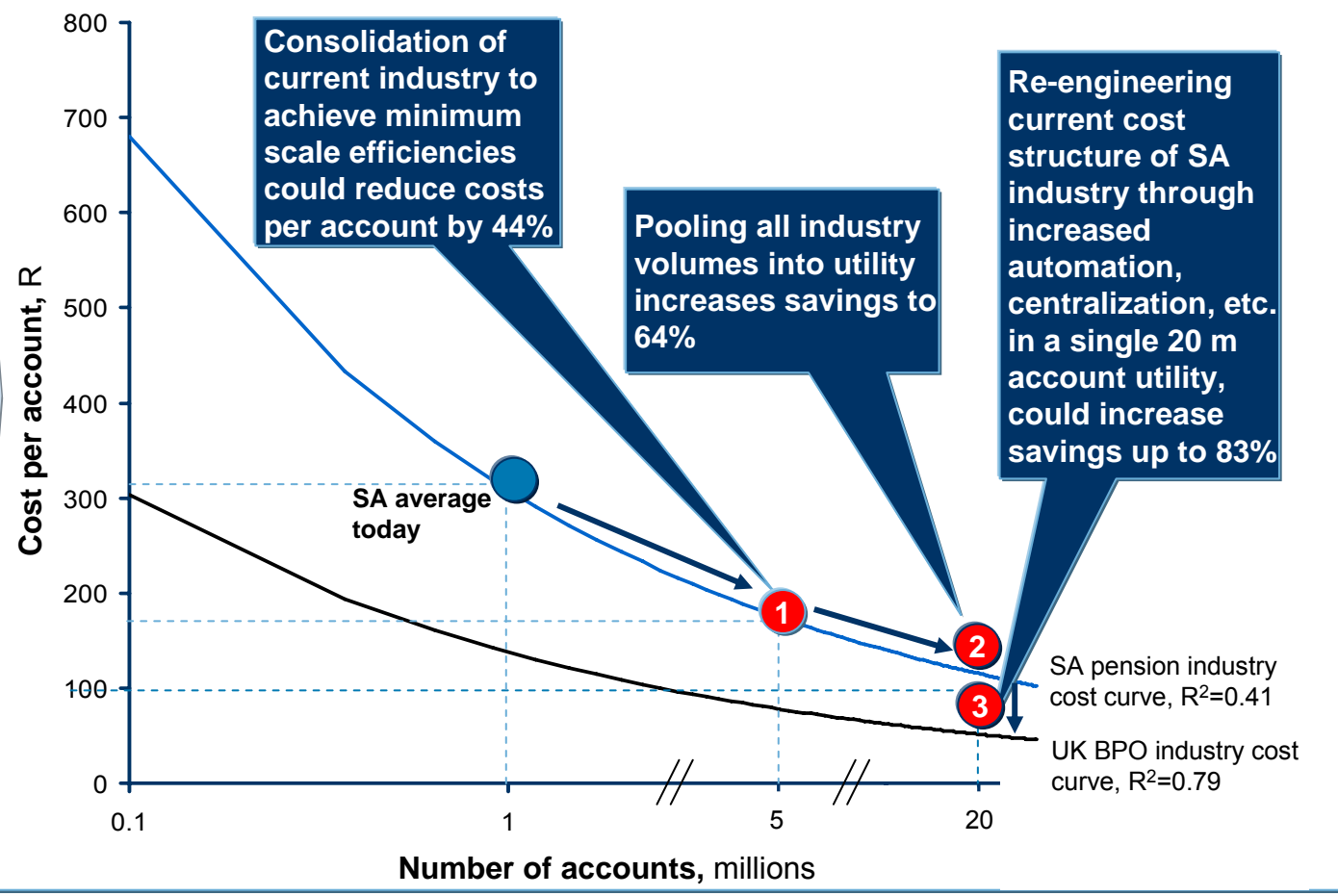
* Lloyds, Barclays and HSBC

ACCOUNT ADMINISTRATION COSTS IN SOUTH AFRICA ARE GREATER THAN INTERNATIONAL BENCHMARKS DUE TO THE ABSENCE OF SCALE AND AUTOMATION

Assumptions used in analysis

- Social security should increase the number of pension accounts in South Africa to 23m
- The cost structure of UK BPO vendors is representative of industry benchmark best practices due to:
 - Automation
 - Specialisation
 - Incentive structure
- Cost curves based on available data for 27 BPO pension contracts vendors and 6 South African pension providers
- Fitted curves extrapolated to 20m accounts for purposes of comparison and estimation of scale effects

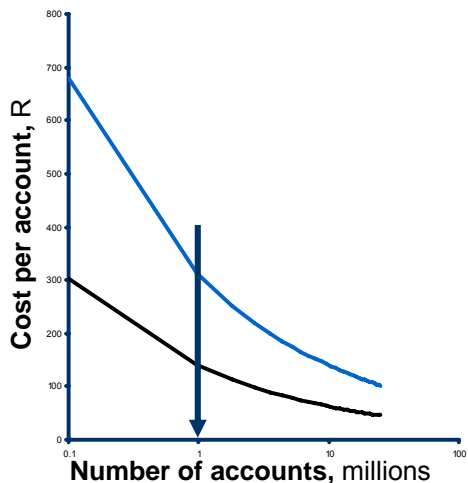
Comparison of SA pension industry administration cost curve to international benchmark



THE SA PENSION INDUSTRY COST STRUCTURE HAS A HIGH VARIABLE COMPONENT RELATIVE TO BENCHMARK, RESULTING IN HIGHER AVERAGE COSTS

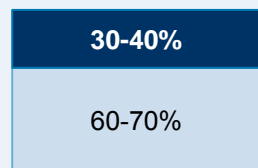
ESTIMATE

Comparison of SA pension industry cost curve to international benchmark



SA pension industry cost structure has high variable costs as percentage of total costs

SA industry

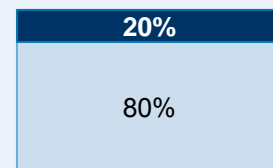


At 1m accounts

Which could be attributed to . . .

- **Low levels of automation**
 - More manual processing due to generally lower levels of automation in SA industry
- **Operating model architecture**
 - Pension administration part of larger corporate business or handled in multiple small self-administered funds
- **Market features**
 - Limited public and industry pressure regarding pension administration costs resulting in opaque cost structures

Global benchmark

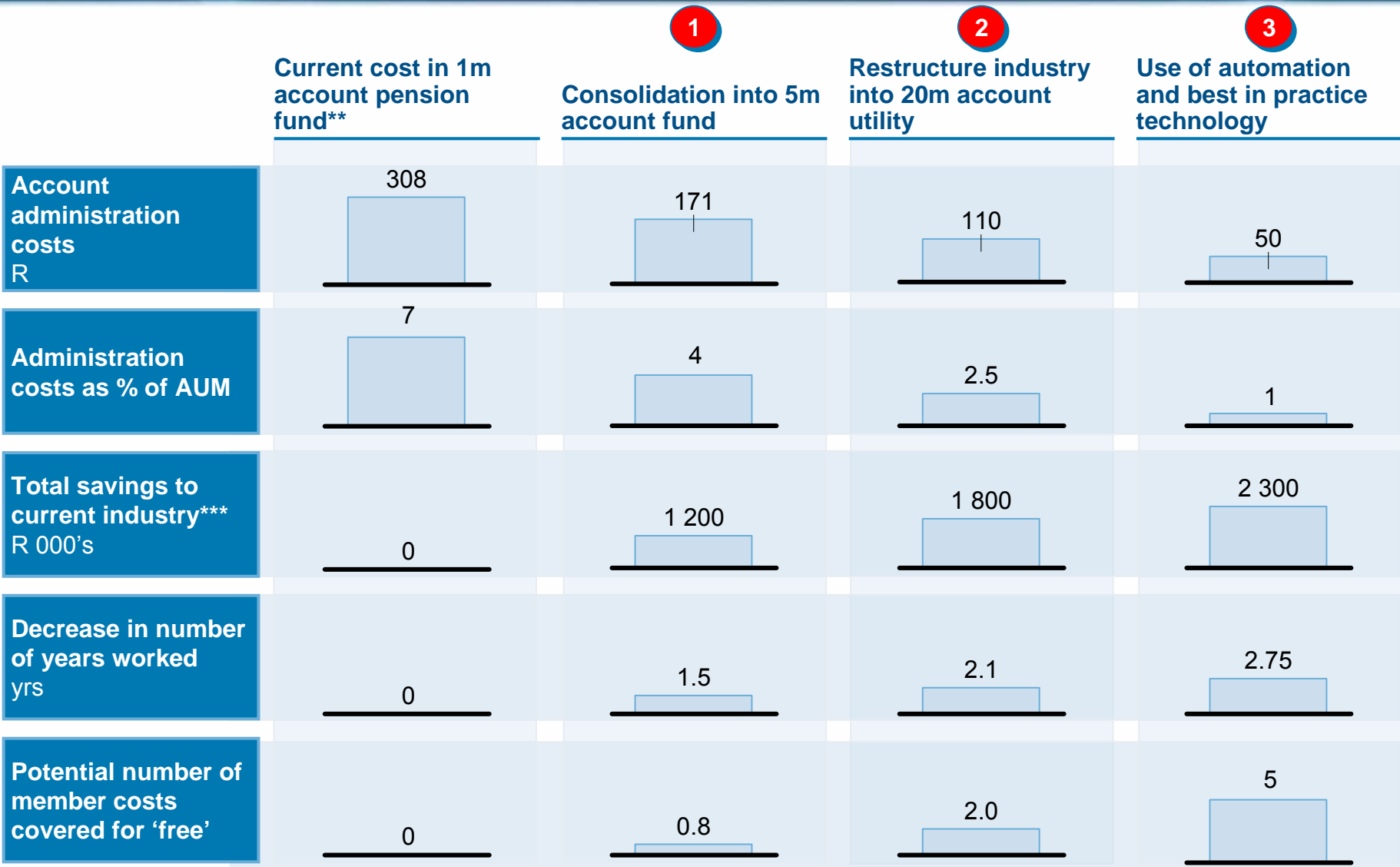


At 1m accounts

- Use of highly automated systems, reducing FTEs per account
- BPO vendors operate large highly centralised systems to capture scale economies
- Increasing consolidation of industry into few BPO players focused only on pension administration with clear cost benefits to users

- Creation of a separate account administration utility would restructure back office processing in the industry and deliver significant cost savings

SAVINGS FROM SCALE ECONOMIES IN ACCOUNT ADMINISTRATION AS WELL AS USE OF BEST IN PRACTICE TECHNOLOGY CAN YIELD SIGNIFICANT SAVINGS FOR A TYPICAL PENSIONER*



* Assumes a pensioner earning R37,000 per year, 13% contribution rate, nominal return of 9.5% and 6% inflation
 ** Average cost of pension provision (excl. asset management and marketing) for SA
 *** Based on 9m accounts

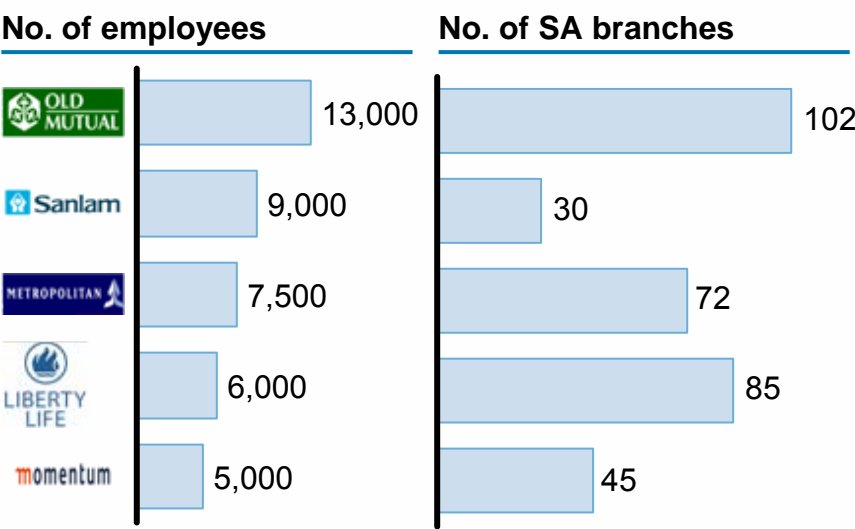
SEVERAL KEY PLAYERS IN THE PENSION INDUSTRY COULD SET UP THE UTILITY BY CONTRIBUTING DIFFERENT FORMS OF EQUITY SUCH AS MEMBERS, IT SYSTEMS, SKILLS AND RESOURCES

SA occupational retirement funds serve in excess of 8m members and handle R1 trillion in funds

Breakdown of occupational funds (2005)

Fund type	AUM Rbn	Membership m	2005 contributions Rbn
• Self-administered	580	3.7	34
• Insurance under-written	224	4.0	20
• Parastatal	50	0.2	2
• Government	426	1.4	20
Total	R1,280bn	9.3m	R76bn

Five largest life and pensions players in SA employ over 40,000 people in ~300 locations throughout the country



Key activities include

Collect contributions	Update account balances
Reconciliation	Client communication
Operate call centres	Asset Management
Enrol new members	Regulatory reporting

THE PROPOSED UTILITY FOR SOUTH AFRICA WOULD PROVIDE BACK OFFICE FACILITIES TO BOTH GOVERNMENT AND PRIVATE PENSIONS PROVIDERS

Clearing house will be formed through a partnership between government and private sector, each contributing something



Government could bring:

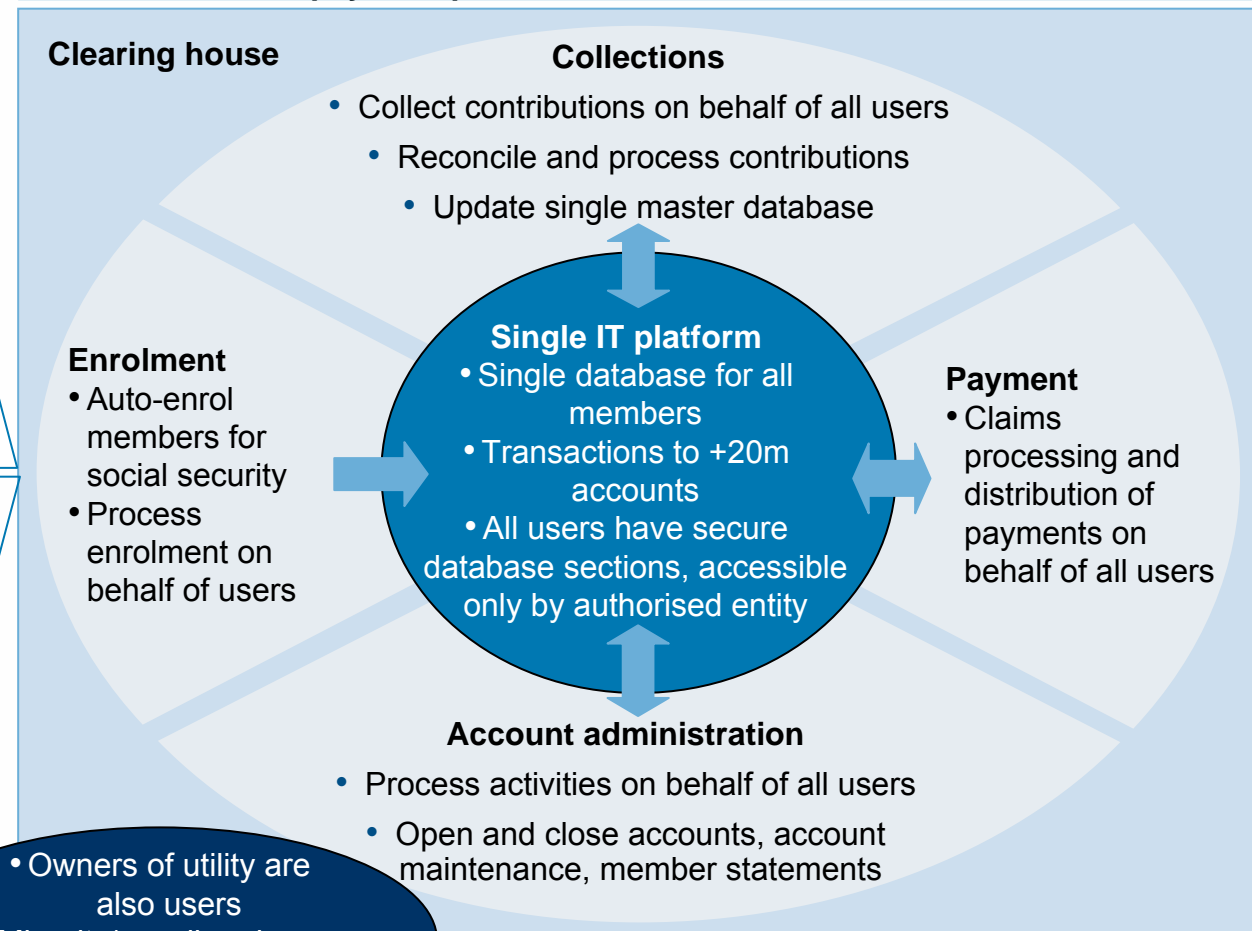
- Scale from 13m social security accounts
- Skills and expertise
- People and processes



Private sector companies could bring

- Skills and expertise
- Capital/equity
- People and processes
- IT systems

To form separate legal entity which will provide enrolment, collections, account administration and payment processes to all

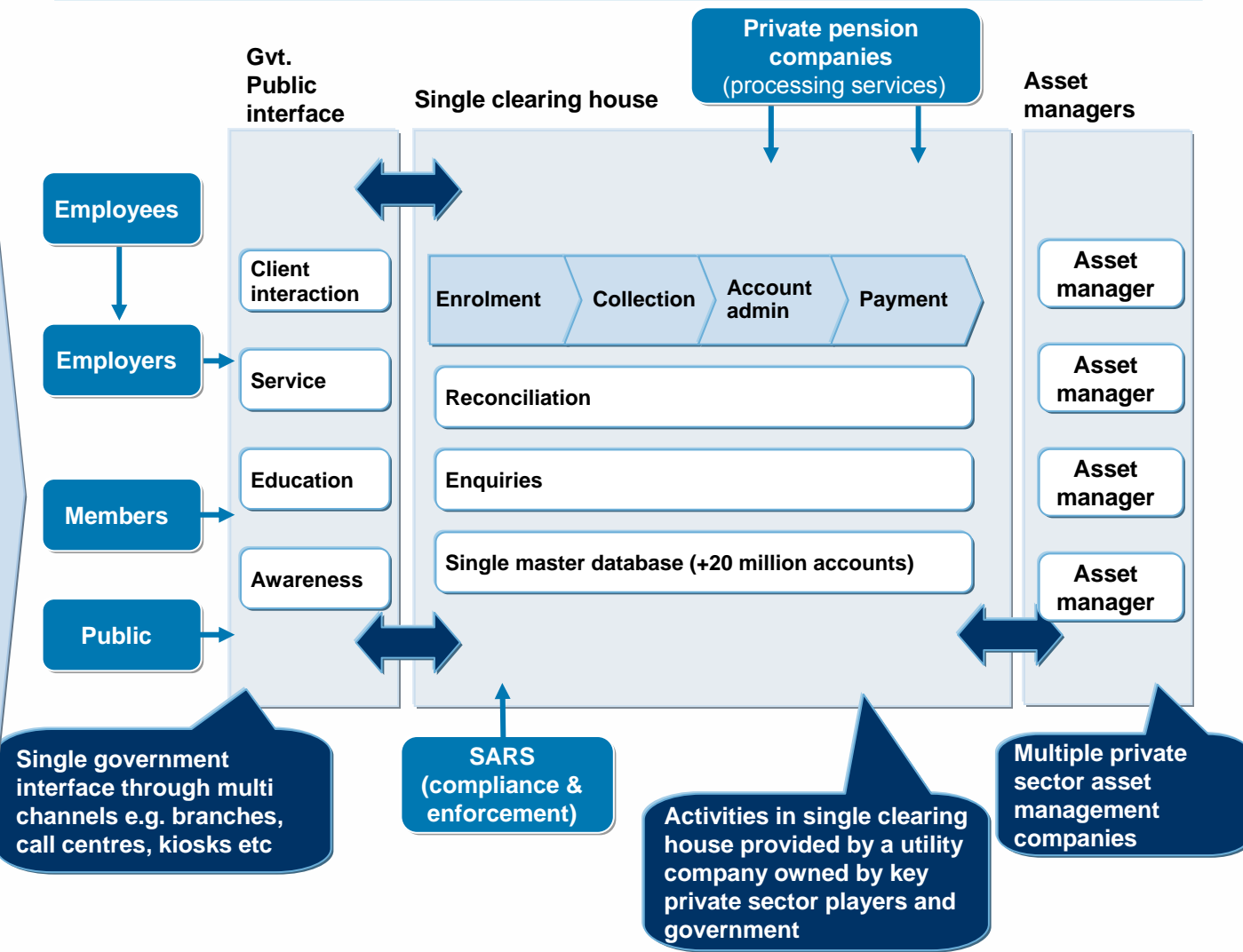


- Owners of utility are also users
- Minority/ smaller players have access to service at a fair price/ cost

IN SUMMARY, THE CLEARING HOUSE PARTNERSHIP MODEL HELPS GOVERNMENT DELIVER SOCIAL SECURITY BY LEVERAGING EXPERTISE OF THE PRIVATE SECTOR RESTRUCTURING

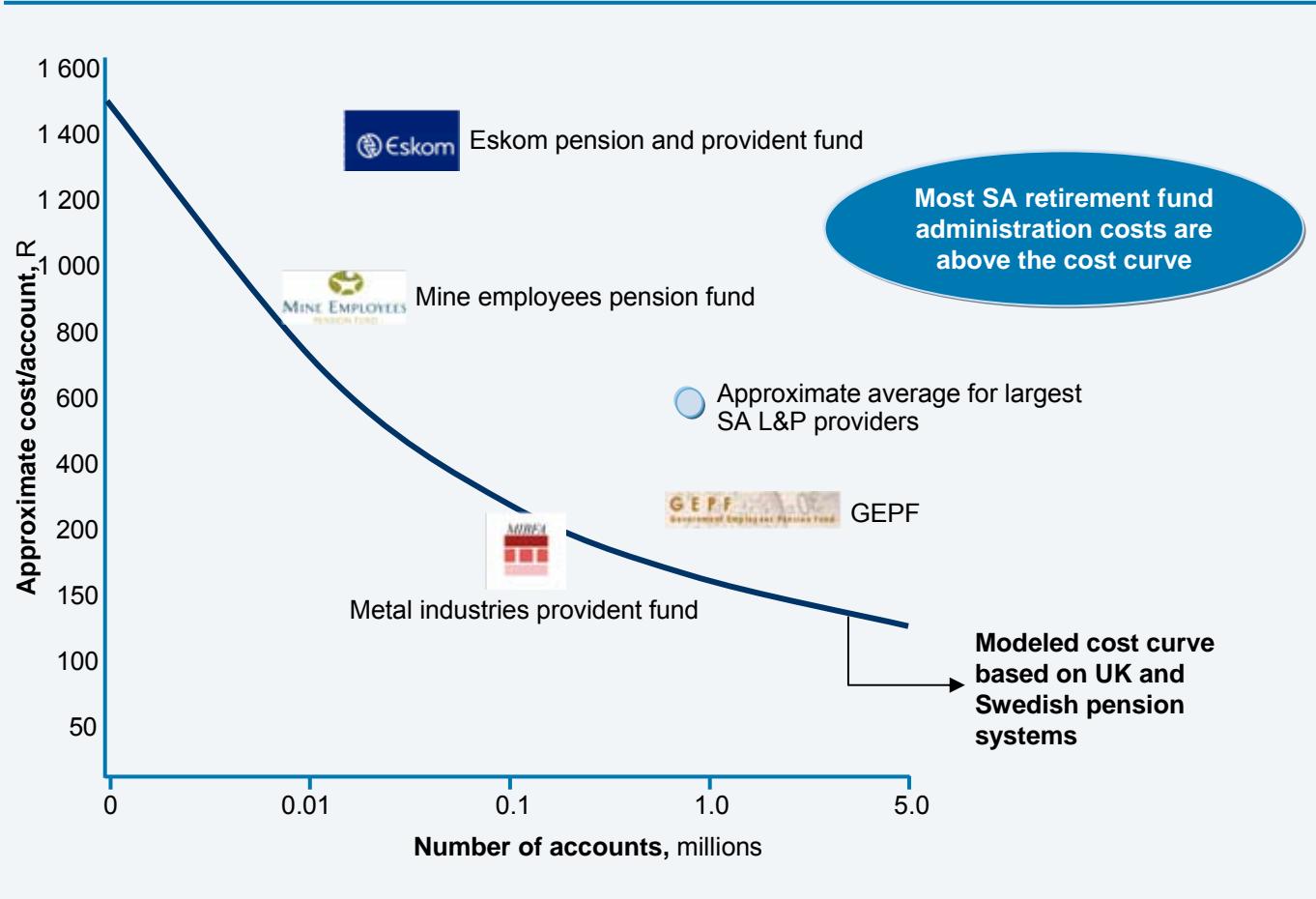
Illustration of social security design architecture

- What you have to believe**
- ✓ High private sector interest to participate in joint utility with government
 - ✓ Private sector players willing to build new systems/migrate onto a single common platform
 - ✓ Sufficient economies of scale achieved from pooling national volumes into single entity
 - ✓ Ability to negotiate a complex deal with many stakeholders to fundamentally change the structure of the pensions landscape in SA
 - ✓ Building and operating a single system of such scale is manageable and can be completed within 2010 timeline



... AS WELL AS ALLOW CURRENT RETIREMENT FUND PROVIDERS TO ADMINISTER ACCOUNTS AT SIGNIFICANTLY REDUCED COST

Illustration of SA retirement fund administration costs vs European industry benchmark



Utility enables cost reductions through . . .

- Greater cost transparency
- Scale efficiencies for South African pensioners
- Improvements in processing efficiency (incentives)

Net result for South African pensioners could mean . . .

- A GEPF pensioner could save approximately R181 per year, equivalent to:
 - R9 343 at retirement*, or
 - 4% increased fund value at retirement, or
 - the ability to earn the same pension with almost two years less work

* Assuming an annual salary of R37,000, a 13% contribution rate, 6% inflation and nominal return of 9.5%
 Source: 2006 Life Assurance; Bulletin; internet research

- Context and rationale for using the private sector
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- **Early perspectives on detailed design, implementation and fall back options**

EXPERIENCE SUGGESTS FIVE MAJOR AREAS THAT MUST BE ADDRESSED IN THE UTILITY'S STRUCTURE AND GOVERNANCE TO ENSURE SUCCESS

Area	Key considerations for social security	Typical problem that arises
Control	<ul style="list-style-type: none"> • Should government be the majority shareholder? • How many private sector partners should be invited? • How will new partners be incorporated with time, e.g., UIF, RAF, etc. 	<ul style="list-style-type: none"> • In iPSL case, Unisys (IT partner) misused majority (51%) stake <ul style="list-style-type: none"> – diverted attention from core purpose (cheque processing) to cheque imaging
Governance	<ul style="list-style-type: none"> • How ill main decisions be taken? • What is the ideal board membership structure and who should sit on it? • What the process will be for selecting the senior management, e.g., CEO 	<ul style="list-style-type: none"> • iPSL had no dispute resolution mechanism to agree which bank would get new cheque processing software first • iPSL's KPI regime failed to achieve sustained cost reductions
Architectural design	<ul style="list-style-type: none"> • Should the utility build/buy a new IT system, or sue exiting private sector platforms? • What are the implications for FTEs who cannot be absorbed into the utility? 	<ul style="list-style-type: none"> • Partners could not agree on common IT platform • Partners need to align on choices for top management
Pricing	<ul style="list-style-type: none"> • Should the pricing be transparent across users • What is the best pricing method to ensure four costs across industry without subsidizing smaller players? 	<ul style="list-style-type: none"> • In iPSL case, prices for users did not fall as predicted
Contract duration	<ul style="list-style-type: none"> • Should the utility be set up per a defined period, e.g., 20 yrs? • What events could trigger a contract renegotiation 	<ul style="list-style-type: none"> • Need to be clear how long contract is for

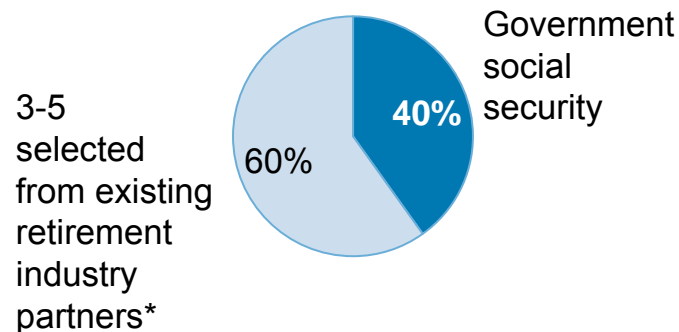
THE UTILITY COULD BE A SEPARATE LEGAL ENTITY WITH NO MAJORITY SHAREHOLDER, AND EQUITY PROPORTIONAL TO NUMBER OF ACCOUNTS PER PARTNER

ILLUSTRATIVE

Assumptions

- A single dominant shareholding should be avoided because
 - Private sector unlikely to agree to dominant government shareholding
 - Dominant shareholding was misused in iPSL case
- Partners could be largest 3-5 current retirement/pension providers
- Limiting numbers of partners (e.g. to 3-5) could help keep ownership manageable
- Shareholding could be proportional to number of accounts contributed into utility
- Government could keep a shareholding large enough to veto critical decisions
- Careful consideration on admission of new shareholders required

Potential shareholders' ownership share %



Example considerations for new shareholders

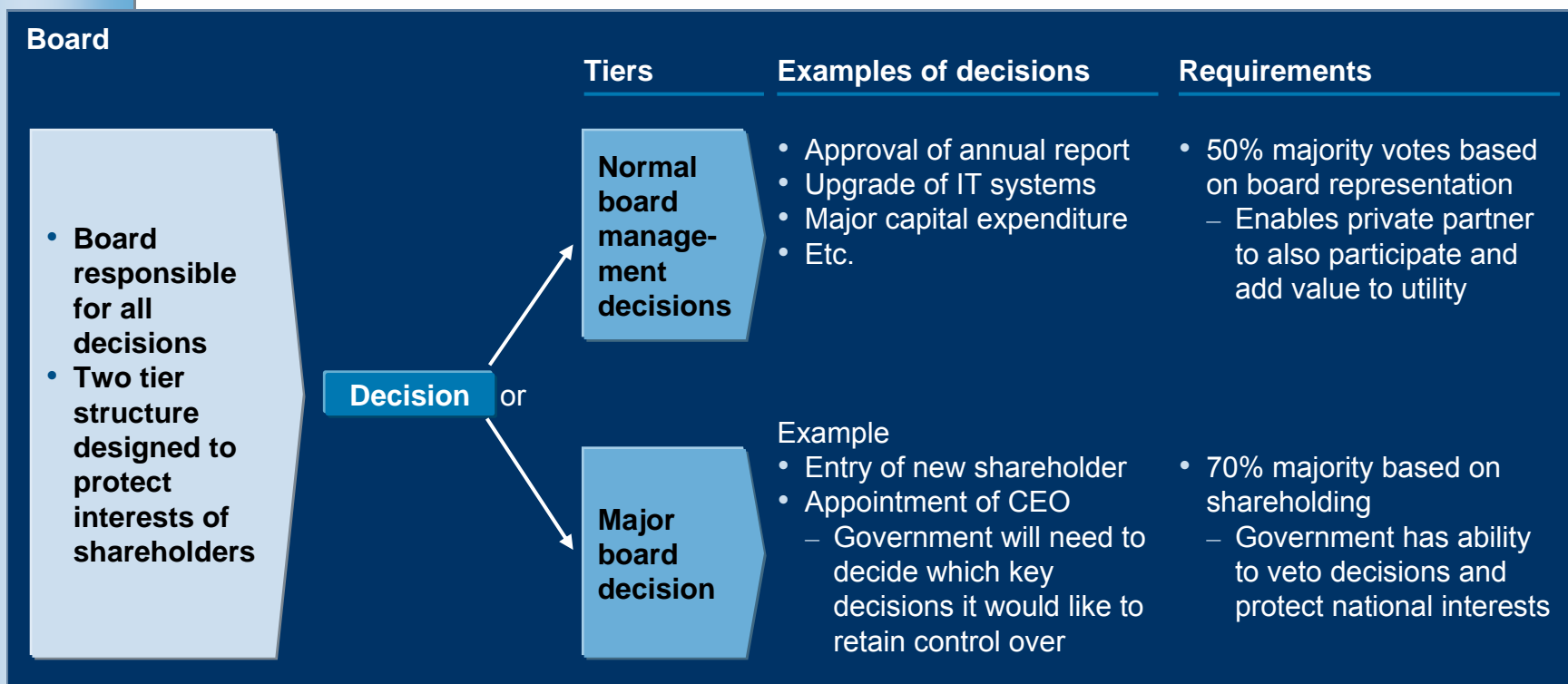
- Should new shareholders be allowed post utility creation, or is shareholding static for duration of contract?
- If new shareholders allowed:
 - What are the pre-requisites for new entities to assume shareholding, e.g., UIF, RAF
 - Is this one of the key decisions where government retains veto

* These could be private sector or government pension partners e.g. GEPP

GOVERNMENT COULD STILL RETAIN CONTROL OVER KEY DECISIONS IN THE UTILITY THROUGH A TWO TIER DECISION MAKING PROCESS

ILLUSTRATIVE

Decision making structure for social security utility



Arbitrator

- Projects minority shareholder interests; minority shareholders can lodge appeals to board decisions

Regulator

- Enforces price transparency, i.e., pension funds must disclose administration costs to customers
- Ensures protection of consumers' data

BOARD MEMBERSHIP COULD CONSIST PRIMARILY OF OWNERS, BUT COULD ALSO INCLUDE NON-EQUITY-HOLDING USERS AND NON-VOTING MEMBERS

ILLUSTRATIVE

Assumptions

- Board could be the key decision making body
- Chair could rotate at set periods e.g. 2 years
- An uneven number of voting members could help ensure decisive votes
- Besides the equity holders:
 - Other users of the utility e.g. self-administered funds could have voting rights
 - The IT vendor and a neutral expert could be invited as non-voting members who may have valuable contributions to discussions

Illustration of board membership

	Share-holding %	Board seats	Vote in management decisions	Vote on major decisions
Social Security	40%	3	√	√
Private sector*	60%	4	√	√
Small private users	0%	2	√	X
Other board members	0%	2	X	X

Examples of board responsibilities

- Appointing CEO
- Appointing vendor for single IT platform
- Setting KPIs
- Monitoring achievement of KPIs

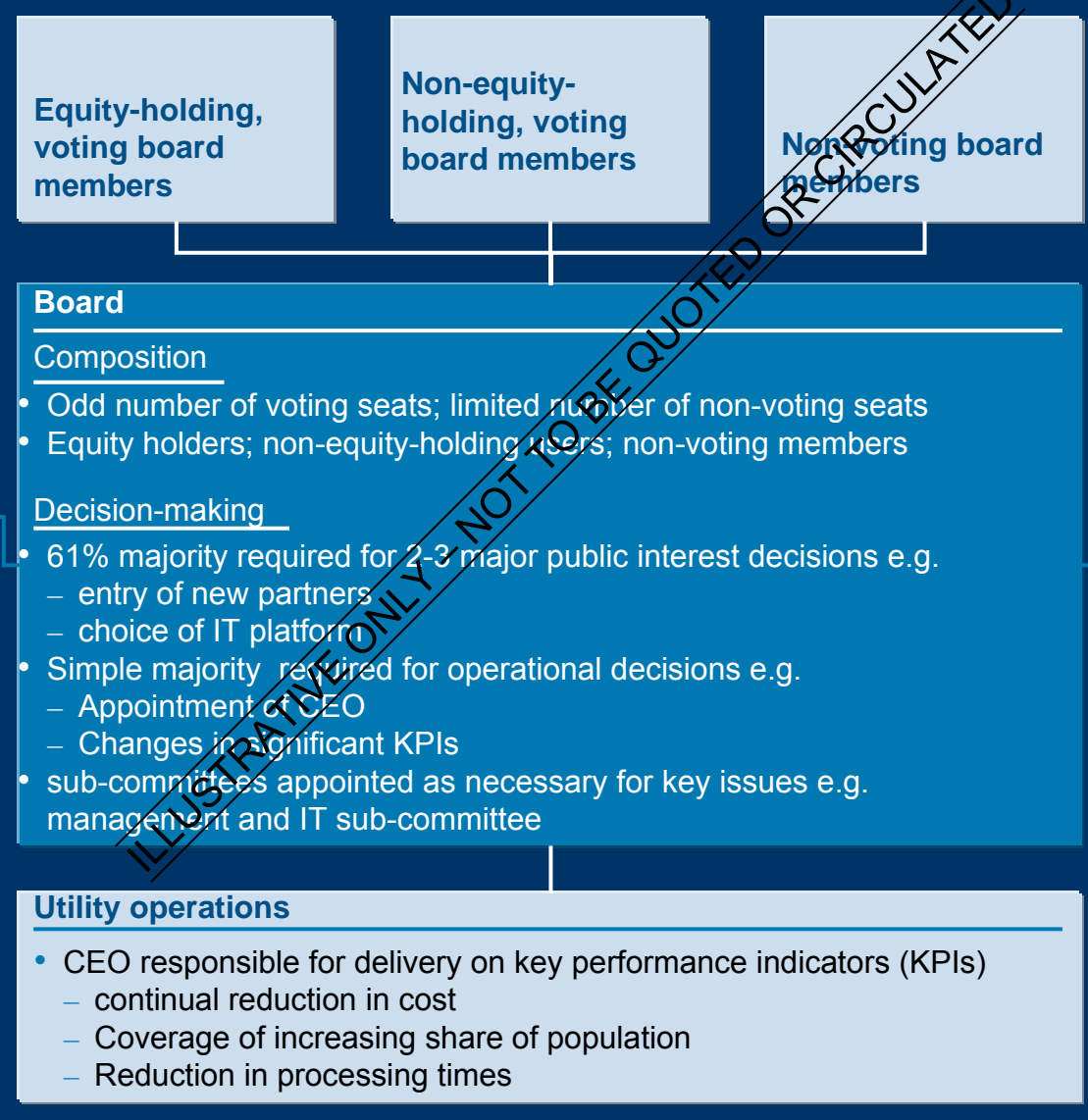
* This could include large non-private sector partners e.g. GEPP

A POTENTIAL RESULTING GOVERNANCE STRUCTURE COMPRISES A STRONG BOARD, A REGULATOR AND AN ARBITRATION COMMITTEE

ILLUSTRATIVE

Regulator

- Could be a department within current pension administrator
- Role would be
 - To ensure all pension funds disclose their administration costs to users
 - Ensure utility abides by data protection laws



Board

Composition

- Odd number of voting seats; limited number of non-voting seats
- Equity holders; non-equity-holding users; non-voting members

Decision-making

- 61% majority required for 2-3 major public interest decisions e.g.
 - entry of new partners
 - choice of IT platform
- Simple majority required for operational decisions e.g.
 - Appointment of CEO
 - Changes in significant KPIs
- sub-committees appointed as necessary for key issues e.g. management and IT sub-committee

Utility operations

- CEO responsible for delivery on key performance indicators (KPIs)
 - continual reduction in cost
 - Coverage of increasing share of population
 - Reduction in processing times

Arbitrator

- Could:
 - comprise 3 members so vote is decisive
 - comprise 3 respected and neutral figures e.g. Chief Justice, Archbishop, Central Bank Governor

* E.g., reserve bank governor; head of pensions regulatory body






TO AVOID LENGTHY DISAGREEMENTS ON WHO'S IT PLATFORM TO USE, PARTNERS MUST AGREE UP FRONT TO BUILD/BUY NEW IT PLATFORM

Potential platforms

There are several IT companies who build/sell systems

EXAMPLES


-  • Accenture Life Insurance platform – US\$5m; 9 mths implementation; 10m account in tab testing
-  • Cyberlife – life policy system; US\$1-2m; up to 21 mths implementation; 3-7m accounts in the field
-  • Ingendium – US\$5m; 9mths implementation; 20m accounts in lab testing




As well as existing systems already in use in industry

EXAMPLES

UIF

COIDF



Competitive tender
Invite bids

Selection criteria

ILLUSTRATIVE

- 80% automated
- Handle 25m account
- High ratios of up-front to ongoing costs
- Has transaction processing and account administration capability
- Is adaptable to incorporate other types of social security e.g., health insurance
- Can interface with existing systems

DWP case suggests criteria should be few and not overly prescriptive so vendors have space to design best solutions

Selected platform

- Experience (e.g., iPSL) suggests this is the most difficult issue to reach consensus on
- A competitive tender process is fair and will lead to the best outcome in an objective manner

PRICING OF SERVICES FROM UTILITY MUST BE SUFFICIENT TO COVER OPERATING AND CAPITAL COSTS

ILLUSTRATIVE

There are at least two decisions for pricing services in utility: Cost plus or sliding scale

	Decision 1: Cost plus cost of capital	Decision 2: Sliding scale
Pricing:	<ul style="list-style-type: none"> • Shareholders charged at operating cost plus cost of capital • Other users charged at operating cost plus cost of capital plus fair return 	<ul style="list-style-type: none"> • Tariff based on volume i.e. high volume users pay lower tariff and vice versa
Rationale:	<ul style="list-style-type: none"> • Pricing structure is simple and transparent 	<ul style="list-style-type: none"> • Pricing provides incentive to increase volume
Pros:	<ul style="list-style-type: none"> • Allows for recovery of operating cost and shareholder's capital • Savings translate to shareholder's return on investment 	<ul style="list-style-type: none"> • Incentivises users to process more volumes through the utility • Utility achieves economies of scale quickly
Cons:	<ul style="list-style-type: none"> • High volume users may subsidise cost of smaller volume users due to inaccurate cost association • Does not encourage high volumes 	<ul style="list-style-type: none"> • Must be calculated and agreed upon on initial set-up • Small volume users could end up paying very high prices

Management should be incentivised to continuously lower cost and increase usage of utility

KPI's focused on cost reduction

- KPI's that measure
 - Cost reduction
 - Increasing volumes
 - Efficiency improvement

- Offer performance incentives

Regulate price transparency and data protection

- Existing regulatory bodies could be leveraged to ensure
 - Customers have complete information on costs
 - Customers data is adequately protected
 - Appropriate business practices and processes are followed

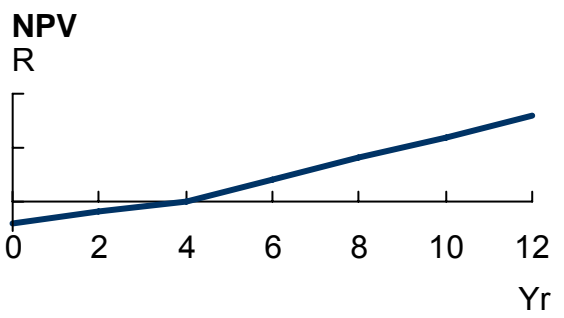
- Pricing structure could be:
 - Such that the utility **does not lose money**, but **recovers the shareholder's investment**
 - **Regulated** by existing independent bodies to **encourage cost transparency**

Other non-pricing KPI's could be measure e.g. coverage of informal sector

THE CONTACT DURATION SHOULD BALANCE TIME REQUIRED TO RECOUP INVESTMENT AND GIVING OWNERS REQUIRED FLEXIBILITY

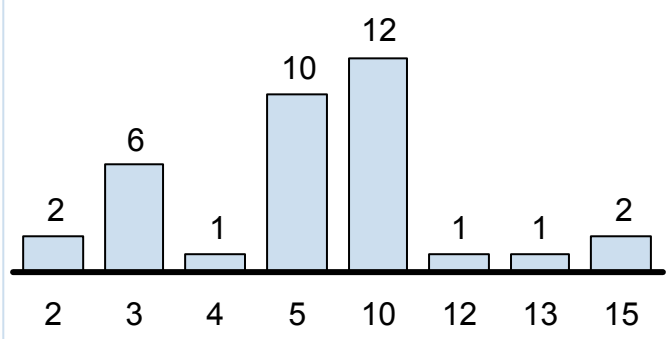
Need to allow sufficient time for project to become NPV positive

ILLUSTRATIVE



Experience suggests deals of 5-15 years are most common

BPO pension deals by length of contract
No. of yrs



Partners need flexibility to manage risk and new entrants (e.g., other social security)

Risk

- Members may not want to commit for overly long horizons

New entrants

- Other parts of social security (e.g., health and unemployment insurance) may want to join the utility after a certain period, e.g., 5 or 10 yrs

Examples from cases



- 15 yr contract to outsource end-to-end business to Siemens



- 10 yr concession from government to run pension collections



- Need to balance time required to recoup investments vs flexibility requirements
- Experience suggest contract lengths of 5-15 years most common
- Could include clause for renegotiation if other social security (e.g., health, unemployment join utility)

THE UTILITY'S EXIT TERMS SHOULD ADDRESS A NUMBER OF KEY ISSUES AND EXPLICITLY LAY OUT THE PROCEDURE

Key issues to address

Exit procedure

Employees

Assets/ IP/ Equity stake

Social security accounts

Questions

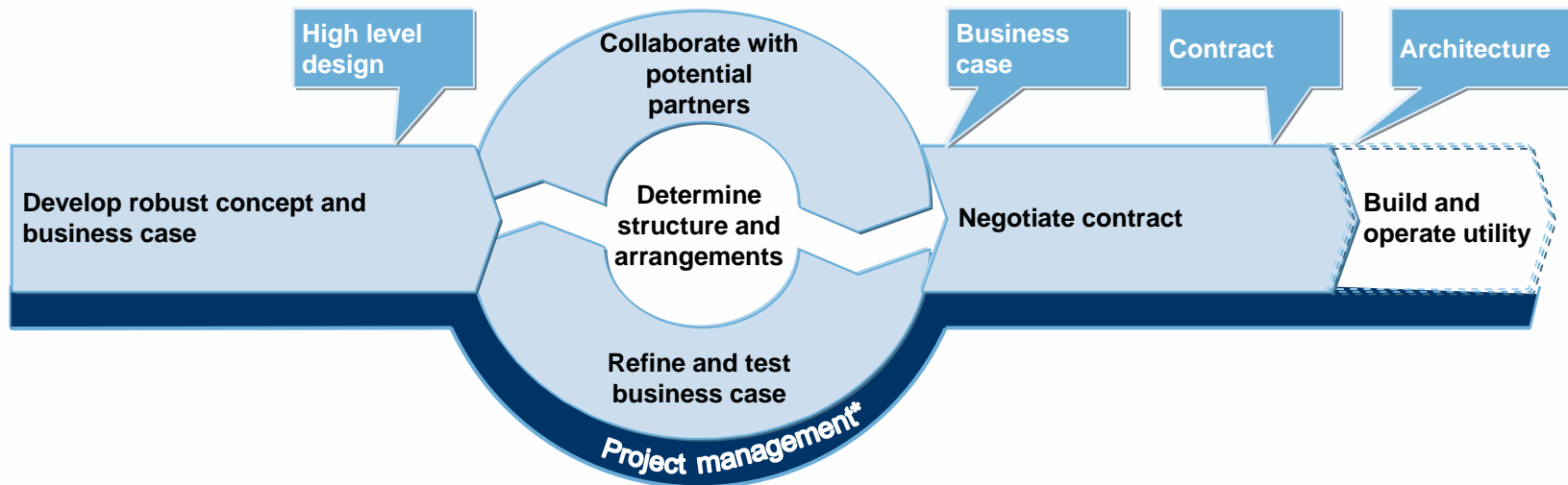
- Under which circumstances can a shareholder exit the utility?
- Do the other shareholders have to offer to buy the shareholding?
- Will the remaining shareholders have right of first refusal?
- Can other shareholders veto the exit?
- What is the duration of the partnership?
- What will happen to employees if scale is reduced?
- Will the exiting shareholder be able to take any employees they contributed to the utility?
- Will the exiting shareholder be compensated for their equity contribution?
- Can the exiting shareholder remove any equipment that they brought into the partnership?
- Will exiting shareholder be bound by non-disclosure of trade secrets, non-competition and utility IP clauses?
- Will the exiting shareholder still be entitled to future dividends/profits?
- Does the government want flexibility to exit the system?



- Exit terms should be agreed before the utility is set-up
- To discourage early divestment, the utility policy could exclude compensation of exiting shareholders for their equity contribution

THERE ARE THREE STEPS TO SUCCESSFULLY IMPLEMENT THE SOCIAL SECURITY UTILITY IN SOUTH AFRICA

Key sign-off Discussed on next pages



Key activities

- Develop high level design
 - Articulate utility's rationale and functions
 - Conduct feasibility analysis
 - Write detailed business case for utility (develop economics model)
 - Use gap analysis to determine additional expertise, capital and systems required from private sector partners
- Consult potential partners on utility's structure and arrangements e.g. ownership, concept of common IT platform, name and role of regulator
 - Refine business case following private sector input
 - Use as basis for final go-ahead
 - Conduct due diligence on each potential partner:
 - their incentive to join utility
 - what they bring to partnership
 - Develop transparent criteria and process for selecting potential partners
- Invite preferred partners to negotiating table
 - Agree each partner's contribution and its value
 - use as basis for agreeing equity stakes
 - Agree
 - concrete goals for utility
 - service level management approach (e.g. KPIs)
 - process for selecting management and common IT platform
 - entry and exit clauses
 - dispute resolution mechanism
 - Sign contract
- Develop operational architecture
 - Build or transfer IT platform
 - Hire or transfer staff into utility
 - Secure premises
 - Launch utility using phased approach

* Strategic direction, milestones, contingency plans, communication strategy

Source: Team analysis

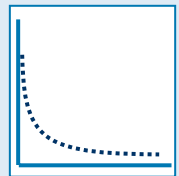
BEING ACCURATE, CONSULTATIVE AND ITERATIVE ON THE ECONOMIES OF SCALE ASSUMPTION IS KEY TO THE SOCIAL SECURITY BUSINESS CASE



Key ingredients of the social security utility business case

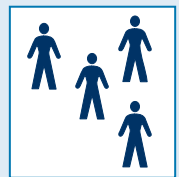
Rationale

Accurate estimates of economies of scale



- Cost savings from economies of scale often over-estimated
 - Can lead disillusioned partners to leave utility within first years of operation

Share assumptions with private sector



- Provides shared clarity on what is needed from each partner
- Allows alignment on whether benefits will be realised

Early government approval



- Government commitment to the business case required early on to generate momentum
- Alignment within government on key policy choices critical to success of social security

Flexibility



- Business case is a 'live' document
- Must be revised as new information comes to light
- Business case can be used to track whether intended savings are achieved in practice

- To keep partners in a sustainable relationship you need to:
 - Accurately and honestly appraise scale benefits
 - Allow partners opportunity to assess and critique the business case
 - Incorporate their input into the business case

A RIGOROUS GAP ANALYSIS IS ALSO REQUIRED TO UNDERSTAND WHAT GOVERNMENT NEEDS FROM THE PRIVATE SECTOR EARLY ON



ILLUSTRATIVE

Gap analysis process	Example illustration of Gap analysis			Remaining requirements to be leveraged from private sector partners
	Social Security requirements	Available from Government		
<ul style="list-style-type: none"> • Conduct diagnostic of required <ul style="list-style-type: none"> – Capability – Capacity – Capital – Systems • Identify 'gaps' between what is required, and what government already has in-house • Conduct 'outside-in' diagnostic of private sector ability to fill 'gaps' • Refine concept for partnership with specific requirements from private sector partners 	<div style="border: 1px solid black; background-color: #0070C0; color: white; padding: 10px; text-align: center;"> Capability and capacity </div>	<ul style="list-style-type: none"> • 3 000 trained FTEs with 3+ years account administration and transaction processing experience • 20 senior managers with 10+ years' pensions/financial services experience 	<ul style="list-style-type: none"> • x trained FTEs with 3+ years' account administration and transaction processing experience • y senior management with 10+ years' pensions/financial services experience 	<ul style="list-style-type: none"> • (3 000 – x) trained FTEs with 3+ years' account administration and transaction processing experience • (20-y) senior management with 10+ years' pensions/financial services experience
	<div style="border: 1px solid black; background-color: #0070C0; color: white; padding: 10px; text-align: center;"> Capital </div>	<ul style="list-style-type: none"> • R 1-2 bn in start-up capital 	<ul style="list-style-type: none"> • ZAR z bn from MTEF 	<ul style="list-style-type: none"> • ZAR (1-z) bn start-up capital
	<div style="border: 1px solid black; background-color: #0070C0; color: white; padding: 10px; text-align: center;"> Systems infrastructure </div>	<ul style="list-style-type: none"> • IT platform to handle 25 million accounts • 500-FTE call centre • 100-200 branches 	<ul style="list-style-type: none"> • Limited functionality IT systems • b-FTE call centre 	<ul style="list-style-type: none"> • 25 million account IT system with monthly reconciliation capability • (500-b) FTE call centre



FOR EACH POTENTIAL PARTNER, THE GOVERNMENT SHOULD ARTICULATE THE PARTNER'S INCENTIVE TO JOIN THE UTILITY AND THE CONTRIBUTION THEY WILL MAKE

Define process to arrive at short-list of private sector partners

- Select limited number of partners (e.g. 2-3) so negotiation remains manageable
- Define transparent criteria to identify short-list of private sector players e.g.
 - Expertise
 - Size
 - Technology
 - Capital
- Collaborate with selected partners to refine initial service partnership model

Develop fact-based understanding of each partner's net incentive to join utility

ILLUSTRATIVE

	Option A: join utility	Option B: don't join utility
Total revenue* (ZAR m)	6 000	5 900
Total cost** (ZAR m)	5 450	5 700
Total net revenue (ZAR m)	550	200
NPV (ZAR m)	335	127
IRR (%)	70	97

- Analyse whether NPV of joining utility exceeds NPV of remaining outside

Analyse each partner's contribution to partnership

Partner A

Capability and capacity

- 4 senior management with 10+ years' pensions/ financial services experience
- 350 FTEs with 3+ years' account administration and transaction processing experience

Capital

- Liquid assets of ZAR500m for financial year 2007

Systems

- Most sophisticated pension marketing system in SA

* Need to make assumption about losses/gains of customers in each option. Calculate costs over 5 year (lifespan of IT platform) from launch of utility.

** Need to make assumption on (i) up-front investment cost (ii) ongoing cost in each option. Ongoing cost inside utility requires assumption about cost saving from economies of scale. Calculate revenue over 5 year (lifespan of IT platform) from launch of utility.

HIGH-LEVEL GOVERNMENT LEADERSHIP AND STRONG NEGOTIATION PREPARATION WILL BE ESSENTIAL FOR SUCCESS



Best practice approach on successful negotiation

✓ Set up dedicated negotiation team

	Description	Roles
Sponsor +	<ul style="list-style-type: none"> Senior government official – respected in both private sector and government 	<ul style="list-style-type: none"> Manage partner relationships Provide escalation forum
Core negotiation team +	<ul style="list-style-type: none"> Lead Finance, legal and IT experts 	<ul style="list-style-type: none"> Present at negotiations Co-ordinate all other inputs
Functional analysts	<ul style="list-style-type: none"> Legal, finance, HR, IT, etc. 	<ul style="list-style-type: none"> Provide expertise and analysis during preparation

✓ Conduct thorough preparation prior to negotiations

- Define key negotiation objectives through analysis of most advantageous outcomes
- Articulate negotiation strategy and script
- Decide fall-back options

Key areas for agreement upfront

Structural arrangements

- Nature and value of each partner's contribution
- Agree which IT system will be used and implications for users
- Agree whose people/resources will be absorbed into new entity

Implementation approach

- Appointment of implementation management and governance structures
- Tracking and performance management regime –how will milestones be tracked and sanctions for non delivery

Terms and conditions for partnership

- Agree dispute resolution mechanisms
- Entry and exit clauses for new partners during set up and post implementation
- Role of advisors and key implementation suppliers e.g. IT provider

EXPERIENCE FROM OTHER FINANCIAL SERVICES EXAMPLES IN IMPLEMENTATION AND RUNNING UTILITIES ILLUSTRATES THAT THIS IS COMPLEX TO GET RIGHT



Challenge	Description	Impact
Achieving anticipated cost savings	<ul style="list-style-type: none"> Banks' business case for utility over estimated benefits from economies of scale 	<ul style="list-style-type: none"> Anticipated cost savings not achieved Led to IPSL diverting attention from core purpose to more profitable ventures
Alignment on which IT platform/system to use	<ul style="list-style-type: none"> Partner banks (Barclays, Lloyds, HSBC) failed to align on a single IT platform As a result, iPSL uses 3 platforms – Unisys A-ITS, Allogent Sierra and IBM CPCS/HPTS 	<ul style="list-style-type: none"> Potential savings opportunities lost (no economies of scale) Resources wasted on 200+ projects to tailor IT platform
Dispute resolution	<ul style="list-style-type: none"> Banks did not agree on mechanisms to manage dispute early on Examples of areas of common dispute included <ul style="list-style-type: none"> Which IT platform to use Who got cheque imaging first 	<ul style="list-style-type: none"> Disputes continued for extended period unresolved Compromised performance of utility
Control of IT partner	<ul style="list-style-type: none"> Unisys was 51% equity holder (IT partner) Insisted on using own software for image achieving, even though it was not the cheapest 	<ul style="list-style-type: none"> IT partner pursues self-interest above group interest

- Must not overestimate economies of scale
 - Otherwise partners become disillusioned
 - They can then loose focus at best, or leave utility at worst
- Key things to agree up front are:
 - IT platform to be used
 - Dispute resolution mechanism
 - Balanced ownership structure



AND COULD BE MORE COMPLICATED FOR SOUTH AFRICA AS A UTILITY IN PENSIONS WILL RESULT IN MAJOR RESTRUCTURING OF THE CURRENT BUSINESS WHICH COULD BE MET WITH INDUSTRY RESISTANCE

From . . .

- Highly fragmented industry structure
 - +3,500 self administered funds
 - 3 government and parastatal funds
 - 15 L&P providers

- In excess of 40 000 employees in over 300 locations throughout the country

- Independent IT systems and unique value proposition for pension administration (i.e., providers competing on the quality of IT systems and services provided to customers)

. . . to

- Consolidation of back-office structures into a single utility

- Rationalised back-office processes, which may result in up to 65% decrease in FTE requirements

- Single IT system and back-office processes for the major pension administrators

- Significant effort and complexity
- Implementation risks high
- Potential for industry resistance

THEREFORE SUCCESSFULLY IMPLEMENTING A UTILITY IN SOUTH AFRICA WILL BE DEPENDENT ON SOME KEY FACTORS

Strong governance

- Strong senior leader from within Government as sponsor (who has the respect of Government and private sector)
- Create a steering group or governance committee which is empowered to make decisions and deliver implementation of utility

Early collaboration

- Engage key private sector partners in discussions early on and develop detailed design jointly
- Create dedicated working group with representatives from key private sector partners
- Get incentives right

Discipline and rigor

- Engage other stakeholders early (e.g., lawyers, auditor general, human resources, etc.)
- Conduct rigorous analysis (e.g. develop detailed economics model) and instil discipline in process which is similar to that used in a due diligence exercise
- Do not under estimate the complexity of technology transformation

Negotiate business terms upfront

- Negotiate terms and conditions upfront (i.e. business principles), ensuring that you build in flexibility clauses and governance mechanisms
- Pull together a professional negotiation team involving senior management

IF THE UTILITY MODEL IS NOT FEASIBLE, THE GOVERNMENT COULD PARTNER TO ACCESS EXISTING PRIVATE SECTOR INFRASTRUCTURE, SKILLS AND CAPACITY

ILLUSTRATIVE

Uniform government brand presented in branches, call centres and other member interaction points

Members and general public

Uniform public interface

Single collection and enrolment agency

Multiple administrators

Rationale/ assumptions used in creating alternative model

- Government has flexibility to conduct collections and enrolment through SARS or private sector
- Service partnership designed for minimum capital outlay and leverages existing infrastructure
- Faster implementation timeline (required by 2010)
- Model still encourages competition in the private sector, with companies competing for services to social security

Employees

Employers

Self employed

Consortium of private sector companies or SARS to deliver

Enrolment

Collection

Reconciliation

Enquiries

Database of contributions

SARS (compliance)

Open account	Account maintenance	Statements	Payments	Close accounts
Open account	Account maintenance	Statements	Payments	Close accounts
Open account	Account maintenance	Statements	Payments	Close accounts
Open account	Account maintenance	Statements	Payments	Close accounts

Multiple asset managers

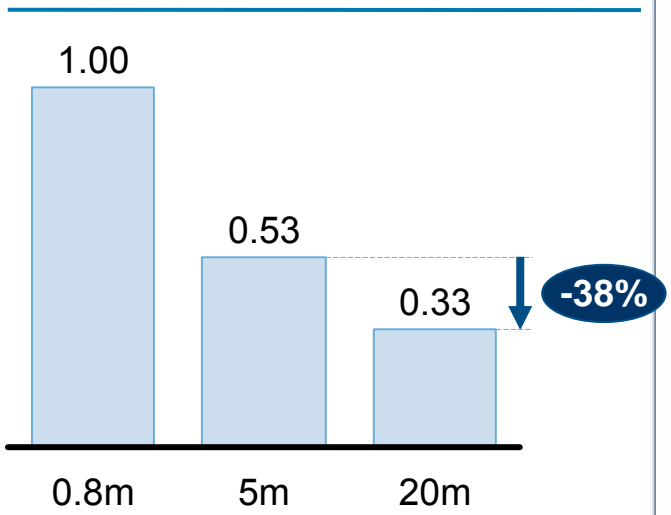
Separate account administration/payment from collection/ enrolment

Account administration provided by multiple private sector companies selected through tender, running on own systems (standardised for social security)

THIS SERVICE PARTNERSHIP MODEL CAPTURES MOST BENEFITS THROUGH SCALE, REDUCED CAPITAL EXPENDITURES AND QUICKER IMPLEMENTATION TIMELINE

3-5 providers will still achieve relatively significant economies of scale . . .

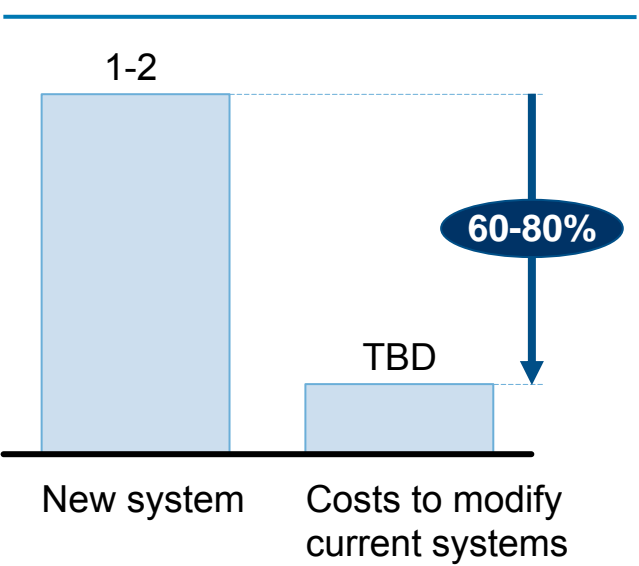
Estimated impact of consolidating volumes into 3-5 providers versus single, index



70% of cost savings can be achieved by moving to four players with 5 million accounts each

at a significantly reduced capital outlay . . .

Estimated cost Rbn



Costs to modify current private sector systems are small relative to cost of building new utility

- Implementing the alternative option may be simpler, and over a short period may be cheaper due to reduced upfront costs
- Implementation period will be significantly reduced as most of the systems already in use
- However will not capture the full scale economies compared to fundamental restructuring of the industry

END

EXECUTIVE SUMMARY

Context and rationale for using the private sector

- Earlier this year SARS developed a perspective on the operating design of social security, and syndicated it with the IDTT. Following on from this phase of work, the IDTT expressed interest in exploring how the South African government could use service partnerships with the private sector to deliver the operations of the social security system. Service partnerships leverage the best of government and private sector to deliver benefits to both.

Structuring the service partnership

- The approach to Structuring the service partnership for South African social security was governed by a set of design principles and a service partnership framework aimed at bringing together the strengths and skills of government and the private sector. This objective can be achieved by pooling the social security activities into logical functional groups, and partnering with the private sector to run major parts of the value chain.

Potential service partnership model for South African social security

- An optimal service partnership should pool expertise, systems and scale from both government and private sectors, whilst also creating the right incentives for performance. One such solution is the creation of a utility: a single legal entity which is owned by key industry players and government to deliver the operations of social security. In practice, implementation could be challenging and would require developing a robust business case, collaborating with partners and negotiating the agreement.

Early perspectives on detailed design, implementation and fall back options

- Establishing such a utility would involve substantially reshaping the current SA pensions landscape. Experience from other financial services examples in implementing and running utilities illustrates, that this is not an easy solution to deliver and may be met with resistance. If necessary an alternative to the utility model could employ the existing private sector to support operations delivery, involving multiple administrators using their existing IT platforms and systems, without requiring the same degree of structural change to the industry.

Conclusion

- In summary, the delivery of social security through private sector partnerships presents benefits for the Government, private sector partners as well as most individuals in South Africa who are registered in a retirement fund. Although the single industry utility provides the most benefits, it is also the most complex and risky to implement. Going forward, the government should engage with the private sector to obtain inputs to refine the concept further and develop a more robust business case in parallel to conducting an internal gap analysis to determine the key requirements to be fulfilled by private partners