
We care

# INTEGRATED ANNUAL REPORT 2012

Road Accident Fund

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# SCOPE OF THE REPORT

## Introduction

The Road Accident Fund ("RAF") welcomes the opportunity to provide an Integrated Annual Report for the year ending 31 March 2012 in line with the King Code on Governance for South Africa 2009 ("King III"), the Protocol on Corporate Governance in the Public Sector (2002) and the Global Reporting Initiative ("GRI") guidelines. In essence, corporate governance "embodies processes and systems by which corporate enterprises are directed, controlled and held to account."[1] Oversight entails "reviewing, monitoring and overseeing the affairs, practices, activities, behaviour and conduct"[2] of an administrative authority to ensure that it meets its objectives.

## Reporting Cycle

Our objective with this report is to provide our stakeholders with an integrated view of the RAF's organisational, operational and financial performance for the financial year 1 April 2011 to 31 March 2012. It furthermore demonstrates the Fund's commitment to integrity, transparency and accountability. It is the aim of the organisation to provide a complete and balanced view of our performance, including both the challenges and the successes, for the 2012 financial year, as well as those likely to form part of our future.

The RAF is committed to being accountable to its stakeholders. We define stakeholders as "persons, groups or organisations that have a direct stake in our business, since they can affect or be affected by our activities, objectives and policies". The way the organisation engages with and responds to its stakeholders is described under the Stakeholder Engagement section of this report.

## Reporting Boundary

This Integrated Annual Report covers the organisational, operational and financial performance of the RAF, including the audited financial results for the period 1 April 2011 to 31 March 2012 in terms of section 55(1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA").

## Reporting Principles

Reporting principles applied are in line with the PFMA, the International Financial Reporting Standards ("IFRS"), South African Standards of Generally Recognised Accounting Practice ("SA Standards of GRAP"), in the manner required by the PFMA, the King Code of Governance Principles (to the extent possible) and the GRI (G3) guidelines.

## Nature and Scope of Assurance

The Accounting Authority is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with South African Standards of GRAP, in the manner required by the PFMA.

As required by section 188 of the Constitution of South Africa, and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), an independent Report of the Auditor-General of South Africa to Parliament on the Financial Statements of the RAF for the year ended 31 March 2012 is presented in this report.

## Significant Restatements

There were restatements to the Annual Financial Statements as a result of a change in accounting policy adopted in the current financial year. The details of such accounting policy are covered in Notes 12 and 35 of the Annual Financial Statements. No significant restatements were reported in the Annual Financial Statements for the period under review.

## Supporting Documentation

The Integrated Annual Report 2012 includes the following information:

- Scope of the Report and Board Statement
- RAF at a Glance
- Leadership and Governance
- Organisational Performance
- Annual Financial Statements
- Additional Information

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1 Department of Public Enterprises. 2002. *Protocol on Corporate Governance in the Public Sector*, p. 3

2 National Treasury. 2005. *Governance Oversight Role Over State Owned Entities*, pp. 5-6

## Audience

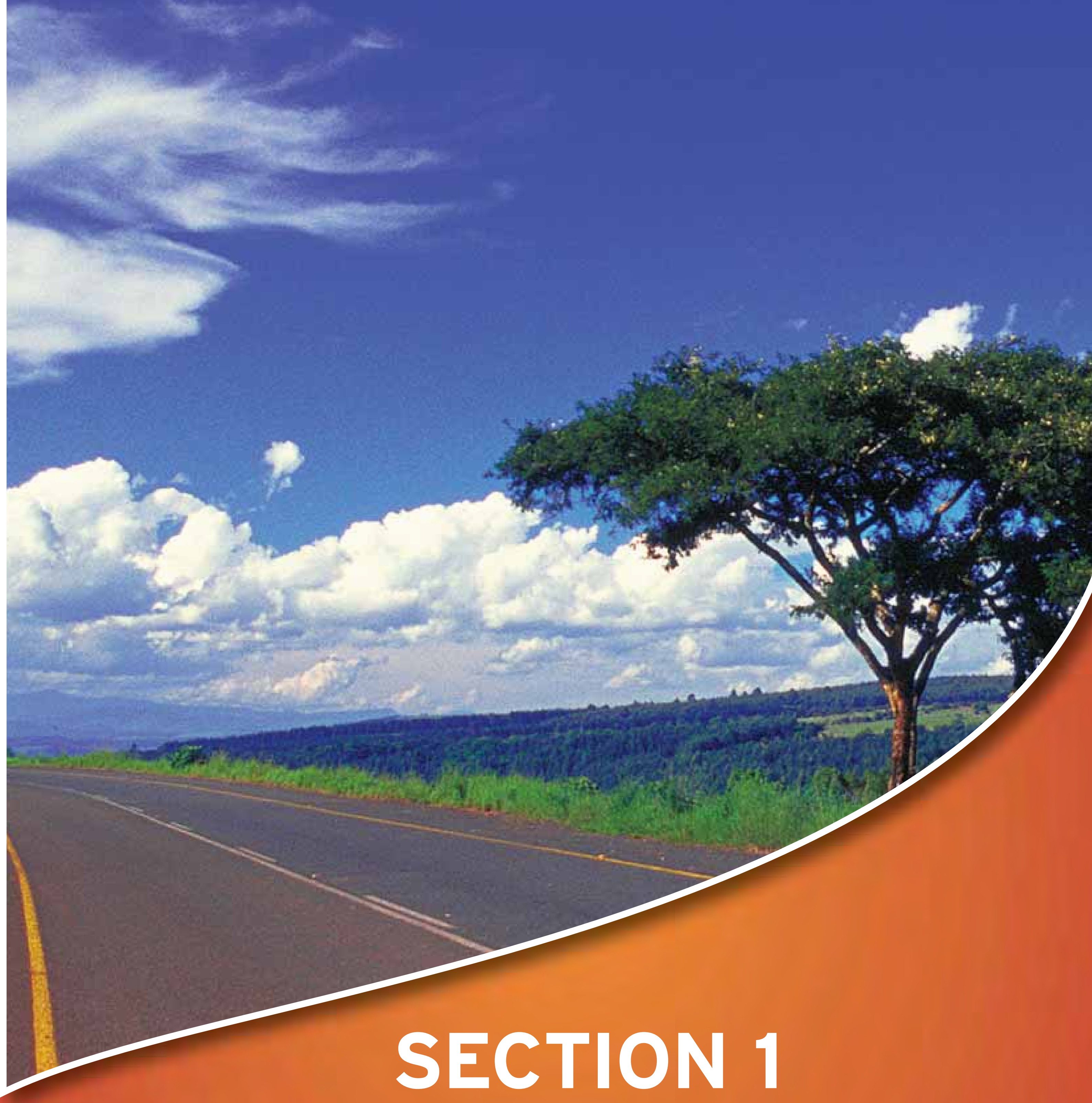
The stakeholders addressed by this report include, among other, the Parliament of the Republic of South Africa, the Executive Authority, national, provincial and local government, industry-related organisations, trade unions, employees, suppliers, existing and prospective customers (local and foreign), the South African public and the media.

# BOARD STATEMENT

The Board of Directors acknowledges its responsibility to ensure the integrity of the Integrated Annual Report 2012. The Board has accordingly applied its mind to the Integrated Annual Report 2012 and, in the opinion of the Directors, the Integrated Annual Report 2012 addresses all material issues and presents fairly the integrated performance of the RAF and its impacts. The Integrated Annual Report 2012 has been prepared in line with best practice pursuant to the recommendations of the King III Report on Governance (2009). The Board authorised the Integrated Annual Report 2012 for release on 31 July 2012.

Signed on behalf of the Board of Directors of the RAF:

Dr Ntuthuko Bhengu
Chairperson of the Board
Date: 31 July 2012



# SECTION 1
## RAF at a Glance

# RAF AT A GLANCE

## 1.1 Organisational Overview

### 1.1.1 Mandate

The RAF is a juristic person established by an Act of Parliament, namely, the Road Accident Fund Act, 1996 (Act No. 56 of 1996), as amended ("RAF Act"). It commenced operations on 1 May 1997, assuming at the time, all the rights, obligations, assets and liabilities of the Multilateral Motor Vehicle Accidents Fund.

The RAF is responsible for providing compulsory social insurance cover to all users of South African roads; to rehabilitate and compensate persons injured as a result of the negligent driving of motor vehicles in a timely and caring manner; and to actively promote the safe use of all South African roads. Section 3 of the RAF Act stipulates that "the object of the Fund shall be the payment of compensation in accordance with this Act for loss or damage wrongfully caused by the driving of a motor vehicle". The customer base of the RAF, therefore, comprises not only the South African public, but all foreigners within the borders of the country. The RAF provides two types of cover, namely personal insurance cover to accident victims or their families, and indemnity cover to wrongdoers.

### 1.1.2 Predecessors

Prior to 1997, the system of compulsory motor vehicle accident insurance was governed by the following legislation:

- Motor Vehicle Insurance Act, 1942 (Act No. 29 of 1942);
- Compulsory Motor Vehicle Insurance Act, 1972 (Act No. 56 of 1972);
- Motor Vehicle Accident Act, 1986 (Act No. 84 of 1986); and
- Multilateral Motor Vehicle Accidents Fund Act, 1989 (Act No. 93 of 1989).

### 1.1.3 Governing Structure

The RAF, as established by the RAF Act, is owned by the South African public. It is listed as a national public entity in accordance with schedule 3A of the PFMA.

Government's governance oversight over the RAF includes:

- Parliament (National Assembly) through the relevant Portfolio Committee and the Standing Committee on Public Accounts ("SCOPA");
- The Executive Authority, the Honourable Minister of Transport; and
- The Board of the RAF.

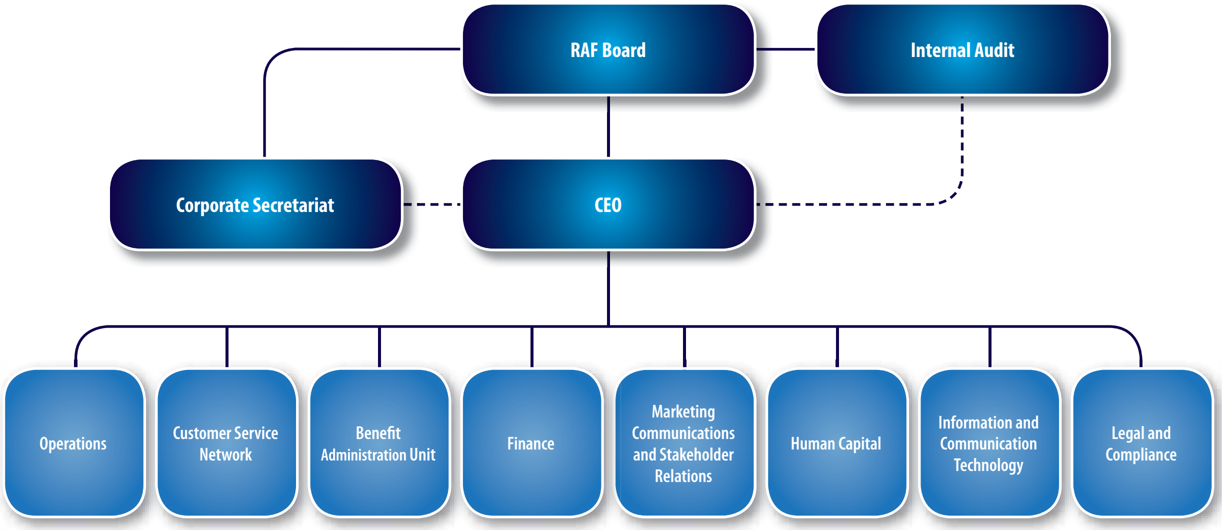
The National Assembly has legislative powers and maintains oversight of the National Executive Authority and the RAF as an organ of State. In addition, Parliament oversees the Executive Authority who is required to provide Parliament with full and regular reports concerning matters under his control.

Parliament exercises oversight of the RAF through the Transport Portfolio Committee and through SCOPA. The Portfolio Committee oversees service delivery and performance in accordance with the mandate of the RAF and its corporate strategy. It reviews financial and non-financial information, such as efficiency and effectiveness measures in delivering services against corporate goals.

The Minister of Transport is the Executive Authority of the RAF and is concerned with the financial viability and risks of the organisation, as well as policy-making and monitoring of policy implementation to ensure that the RAF effectively delivers on its mandate.

The Board of Directors acts as the Accounting Authority of the RAF and is accountable to the Executive Authority for the performance and affairs of the entity. The RAF's Board is responsible for determining the overall direction of the RAF, formulating and implementing policies that are necessary to achieve the RAF's strategic goals, and maintaining good corporate governance.

## 1.1.4 Core Functions




The Internal Audit function reports directly to the Board. The Corporate Secretariat is responsible for providing secretariat support services to the Board and Executive Team of the RAF. The RAF delivers its core mandate through three divisions namely Operations, the Customer Service Network ("CSN") and the Benefit Administration Unit ("BAU"). These departments are supported by Financial Services; Marketing, Communications and Stakeholder Relations; Human Capital; Information and Communication Technology; and Legal and Compliance. The core functions of these divisions are outlined in the table below:

| Division | Core function areas |
|---|---|
| Office of the CEO | • Provides leadership and guides the vision of the organisation<br>• Development and implementation of approved strategies<br>• Implementation of special programmes, such as the New Operating Model ("NOM")<br>• Institutional performance management, monitoring and evaluation |
| Operations | • Claims operations<br>• Supplier claims<br>• Processing of high-value claims<br>• Undertakings and patient outreach programmes<br>• Direct claims<br>• Facilities management<br>• Litigation department<br>• Document management |
| Customer Service Network | • Provincial offices<br>• Regional service centres<br>• Hospital service centres<br>• Community service centres<br>• Mobile service centres<br>• Index intake and verification<br>• Merit assessment<br>• Contact centres<br>• Channel management |
| Benefit Administration Unit | • Final merit assessment<br>• Funeral expenses<br>• Medical case management<br>• Medical expenses<br>• Rehabilitation and life care<br>• Loss of earnings<br>• Loss of support<br>• General damages |

| Division | Core function areas |
|---|---|
| Finance | • Financial accounting<br>• Management accounting<br>• Treasury<br>• Procurement<br>• Business administration<br>• Finance reporting<br>• Actuarial services<br>• Payroll |
| Marketing, Communications and Stakeholder Relations | • Advertising<br>• Brand management<br>• Market research<br>• Communication (internal and external)<br>• Public and media relations<br>• Stakeholder relations management<br>• Road safety awareness<br>• Corporate social investment<br>• Compliance with the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000) |
| Human Capital | • Organisational development<br>• Human Resources ("HR") development (training)<br>• HR administration<br>• Employee relations<br>• Employee wellness<br>• Talent management |
| Information and Communication Technology | • Governance, risk and security<br>• New service, architecture and programme management<br>• Application development and support services<br>• Infrastructure services<br>• Business support services |
| Legal and Compliance | • Risk management<br>• Forensic investigations<br>• Corporate legal services<br>• Internal legal department<br>• Regulatory affairs<br>• Compliance management |

### 1.1.5 Principal Activities

The RAF provides compulsory cover to all users of South African roads, both citizens and foreigners, against injuries sustained or death arising from accidents involving motor vehicles within the borders of South Africa. This cover is in the form of indemnity insurance to persons who cause the accident, as well as personal injury and death insurance to victims of motor vehicle accidents and their families.

### 1.1.6 Economic Role

Road transportation is a critical element supporting and directly contributing to growth in any economy. Road accidents are, unfortunately, a negative consequence of this economic growth, affecting both economically active members of our society and other citizens. Free markets, and in particular the private sector, do not fully address the impact of road accidents on society and the economy. The RAF provides a social security safety net to the country and economy by making available compulsory social insurance cover to all users of South African roads. Contributions to the RAF are done by way of a levy on fuel used for road transportation. The cover extends to all members of society including, but not limited to, the poor, children, legal and illegal immigrants, foreigners, owners and drivers of motor vehicles, as well as their passengers. The social insurance cover, however, does not extend to drivers of motor vehicles that are found to be negligent.

### 1.1.7 Social Role

The socio-economic role of the RAF is to re-integrate victims of road accidents into society, from a health and economic perspective, and to protect at-fault drivers and their families from financial ruin. This is done by the RAF paying the medical and related services costs required to restore accident victims to health, compensating the victims or their families for income or support lost as a result of the accident, and indemnifying the wrongdoer from liability. In addition, the RAF pays general damages to accident victims as compensation for pain and suffering, loss of amenities of life, disability and disfigurement, as well as funeral costs to families in circumstances where the victim of the accident sustains fatal injuries.

### 1.1.8 Vision

The vision of the RAF is "to provide the highest standard of care to road accident victims to restore balance in the social system".

### 1.1.9 Mission

The mission of the RAF is "to provide appropriate cover to all road users within the borders of South Africa; to rehabilitate persons injured, compensate for injuries or death and indemnify wrongdoers as a result of motor vehicle accidents in a timely, caring and sustainable manner; and to support the safe use of our roads".

### 1.1.10 Values

The following values drive everything that we do and the manner in which we do it:


- We care for and support our customers
- We care for and support each other
- We offer solutions
- We take responsibility for our actions
- We commit to and demonstrate integrity, honesty, consistency and fairness in our actions and decisions
- We model the highest standards of personal and professional behaviour

### 1.1.11 Business Model

The crux of the RAF's underlying business model is determined mainly by the legislative environment in which it operates. At present, claims against the RAF for bodily injury and personal loss arising from road accidents are based on the common law rules of delict and liability insurance principles. The remedy is both ineffective for claimants and inappropriate for claims on a social security scheme. Not only are the common law-based claims complex, time-consuming, expensive and fraught with practical difficulties, but the outcome is unpredictable and unreliable.

The current business model of the RAF does not vest the organisation with the capacity to proactively gather and manage road accident and applicant information for better operational and financial planning. There is no effort to collect information at the accident scene and/or to find and collect information as soon as possible after the accident. As a result, the Fund is unable to proactively originate benefit applications on behalf of accident victims based on available information, and thereby improve processing efficiency and the quality of decision-making.

The immediate focus of the current business model is on fault and blame to determine the cause of the accident and to exclude at-fault road users from compensation. As a result, injured persons are unable to access medical care in a timely manner, and dependants of persons killed in road accidents are left to fend for themselves. In addition, claims are received and administered in a litigious and dispute-ridden environment, and many cases take years to be finalised and paid. This prolongs hardship and severely impacts on the poor and vulnerable.

## 1.2 Strategic Objectives

In order to transform the current structural problems of the compensation scheme for road users and to align a revised benefit scheme to the principles and objectives of the Constitution, a Turnaround Strategy was introduced in 2005. The overall aim of the strategy was to provide an effective benefit scheme which is equitable, sustainable, reasonable and affordable in the long term.

Some delays were experienced with regard to the full implementation of the New Operating Model ("NOM"). These included, but were not limited to: HR issues, such as the finalisation of job grades and transfers of employees into the NOM, the claims backlog, and an increased focus on organisational development, such as processes, support infrastructure, etc. Notwithstanding these difficulties, the RAF is still on course with regard to the implementation of an efficient and effective operational model, which comprises the following essential components:

- Processing of claims within specialised processing units in a paperless environment;
- Distributed Customer Service Network ("CSN") covering the breadth of the country and providing proactive and efficient access to customers;
- A strong information technology ("IT") infrastructure to support the organisation; and
- Direct links with service providers to enable quick claims payments and access to information, such as accident reports and hospital records.

A primary area of focus during the next five years will be to complete the transformation by achieving full implementation of an efficient and effective business model. The latter will revolutionise the way in which claims are processed and the manner in which we interact with our customers. We will increase our geographic footprint and thus improve our accessibility; improve our speed of delivery to our customers; interact directly with more customers to ensure that their needs are met in a timely and caring manner; and reduce delivery costs through improved efficiencies, as well as claims lodged directly with the RAF.

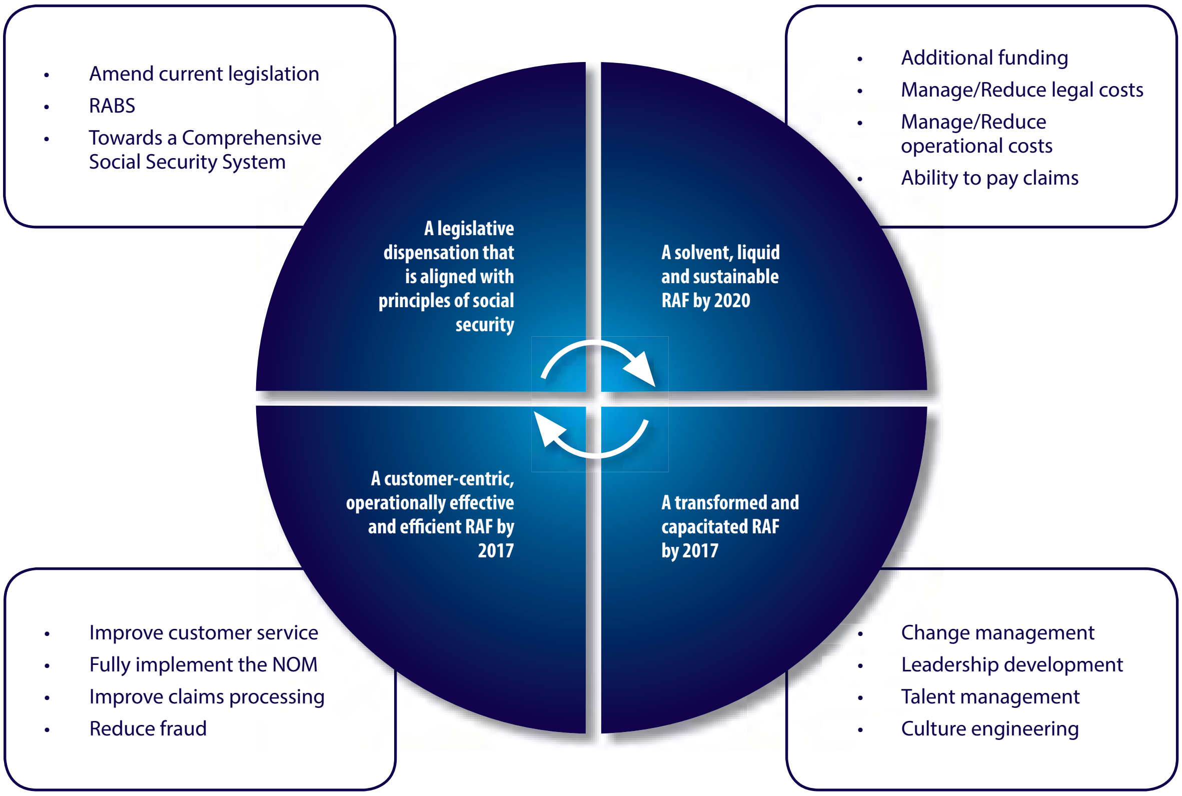
Over the next five years, the RAF Strategy will be anchored on four main pillars. Each pillar aims to deal with specific challenges that the RAF faces. In addition, these will form the basis on which subsequent performance and operational plans will be developed:

| Pillars | Key institutional focus areas to be addressed |
|---|---|
| A legislative dispensation that is aligned to principles of social security | • Addressing the unfair, inequitable and unsustainable nature of the current fault-based system<br>• Alignment of the current RAF to the envisaged Road Accident Benefit Scheme ("RABS") |
| A solvent, liquid and sustainable RAF by 2020 | • Limited funding (especially to deal with the backlog)<br>• Ability to pay claims |

| Pillars | Key institutional focus areas to be addressed |
|---|---|
| A customer-centric, operationally effective and efficient RAF by 2017 | • Improved customer focus<br>• Claims process management<br>- Slow implementation of the NOM<br>- Turnaround times for the processing of claims<br>- Reduction of the backlog<br>• Cost reduction<br>- Fraud<br>- High legal costs<br>- High operational costs |
| A transformed and capacitated RAF by 2017 | • Skills development and training<br>• Capacity building of the new RAF<br>• Negative perception of the RAF as an employer of choice<br>• The lack of effective change management processes |

## RAF Strategic Planning Pillars

The following diagram outlines the key strategic outcomes that will guide the RAF over the next five years and the key focus areas per strategic outcome:




## RAF Strategic Outcomes

### *Legislative Enablement*

While the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) brought about much needed changes to the system, the latter remains inherently flawed.

In achieving legislative enablement, the RAF will:

a) Pursue legislative and regulatory amendments to the RAF Act and the Regulations to that Act;

b) Continue to support the Department of Transport ("DoT") in the process to enact the required legislation to bring the Road Accident Benefit Scheme ("RABS") into existence; and

c) Support the DoT in government's Comprehensive Social Security System ("CSSS") plans.

| Strategic Goal 1 | A legislative dispensation that is aligned to principles of social security |
|---|---|
| Strategic goal description | Contribute towards legislative enablement by:<br>• Motivating for amendments to the current RAF Act<br>• Participating in the process to establish a legislative framework to give effect to the approved RABS Policy<br>• Defend constitutional challenges to the RAF Act |

| Strategic Goal 1 (continued) | A legislative dispensation that is aligned to principles of social security |
|---|---|
| Outcome indicators | • Timely support to the DoT to enable the promulgation of an amendment to section 18 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996)<br>• Support the DoT to achieve the publication of a non-emergency tariff<br>• Publication of an increase to the emergency medical tariff<br>• Support the DoT to publish a non-serious injury list<br>• Propose to the DoT amendments to the current Road Accident Fund Act, 1996 (Act No. 6 of 1996), as amended by Act No. 19 of 2005<br>• Provision of input to the RABS Steering Committee<br>• Provision of input to the Inter-Departmental Task Team ("IDTT") to align the RAF and RABS for integration into the CSSS |

### *The Creation of a Solvent, Liquid and Sustainable Organisation*

The RAF will focus on financial sustainability and may seek options to capitalise the organisation. The RAF actively engages with National Treasury and the DoT to determine RAF Fuel Levy allocation increases annually. Furthermore, the Fund will also commence with the process of developing strategies for reducing legal and operating costs through internal cost management initiatives.

In developing this strategic outcome, indicators and targets, the following assumptions and underlying factors were considered:

- That the fuel levy income will increase by a minimum of 8 cents per annum between 2013 and 2015;
- That the RABS Policy will be implemented by 1 April 2015;
- It is anticipated that the RAF, together with relevant stakeholders, will formulate an appropriate plan to address the deficit beyond the establishment of the RABS; and
- Capital expenditure and operational expenditure investment will be made in the implementation of the NOM during the expansion of the CSN from 2013 to 2015.

| Strategic Goal 2 | A solvent, liquid and sustainable RAF by 2020 |
|---|---|
| Strategic goal description | Increasing revenue, reducing costs and implementing other means to recapitalise the RAF |
| Outcome indicators | • Percentage reduction in the deficit<br>• Percentage reduction in legal costs (year-on-year)<br>• Managed and monitored operational costs to improve sustainability of the Fund<br>• A tariff for serious injury assessment<br>• Support the DoT to achieve the publication of a Regulation to prescribe a period for acceptance or rejection of the RAF 4 Form |

### *Improved Customer Focus, Operational Effectiveness and Efficiency*

During the next strategic planning period, the RAF will complete the implementation of operational improvements through tools, systems and technologies that will provide a seamless and appropriate customer experience. The operational improvements will make our systems and processes more efficient. In addition, the system includes an expansion of our national footprint and the design of our customer interaction points to ensure that the total experience for the customer is of a consistently high standard.

In developing this strategic outcome, indicators and targets, the following assumptions and underlying factors were considered:

- That the RAF Fuel Levy income will increase by a maximum of 8 cents per annum between 2013 and 2015;
- The current funding is only adequate for the RAF to deliver on its current business, and as such, additional funding (specifically to address the backlog) will be made available;
- That the RABS Policy will be implemented by the end of the 2015 financial year. This will have a significant impact on the number of claims processed; and
- The projected claims exclude those claims which have been incurred, but not reported ("IBNR").

| Strategic Goal 3 | A customer-centric, operationally effective and efficient raf by 2017 |
|---|---|
| Strategic goal description | Positive, direct relationships with customers based on an optimised operating model, which is more accessible and efficient and reduces the need for third party legal support |
| Outcome indicators | • Reduced turnaround times for the processing of supplier, personal, funeral and undertakings claims (from date lodged to date of payment)<br>• Reduced turnaround times for the processing of claims for loss of earnings/support and general damages (from date lodged to date of payment)<br>• Increased number and percentage of direct claims (direct claims as a percentage of total personal claims)<br>• Increased number of claims finalised (claims fully settled and archived)<br>• Increased number of personal claims finalised (claims fully settled and archived)<br>• Increased percentage of active undertakings in relation to serious injuries<br>• Increased number of claims repudiated due to identification of fraud<br>• An increased percentage in the customer satisfaction rating on the Customer Satisfaction Index |

*Transformation and Capacity Building of the RAF*

The RAF recognises that effective communication, people and leadership are critical to ensure that we provide the highest standard of care to road accident victims to restore balance in the social system, as captured in the RAF's vision.

| Strategic Goal 4 | A transformed and capacitated RAF by 2017 |
|---|---|
| Strategic goal description | Build an institution that is performance-driven, values the customer and improves the awareness of the RAF brand |
| Outcome indicators | • The rate of acceptance and internalisation of the operating model<br>• Improved leadership capacity and capability<br>• Level of rating on the Employer of Choice Survey ("ECS")<br>• Improved percentage of employees who exceed their performance targets<br>• The RAF's contribution towards government's social and economic transformation agenda<br>• Level of accuracy of talent to fill mission-critical positions<br>• Support the DoT to achieve the publication of a Regulation to prescribe a period for acceptance or rejection of the RAF 4 Form |

### 1.2.1 Geographic Footprint

As part of the RAF's Turnaround Strategy, one of the continued areas of focus is the expansion of the RAF's geographic footprint by means of a distributed Customer Service Network ("CSN") covering the breadth of the country and providing proactive and efficient access to customers. Optimising delivery in the existing CSN infrastructure and then expanding the number of customer touch points represent key pillars of the NOM and have been identified as strategic imperatives for the next three years.

## 1.3 Principal Risks and Uncertainties

The Board identified eight key strategic risks to the RAF for the 2012 financial year. These risks, as well as mitigation measures, are outlined in the table below.

| Risk | Description | Action areas and plans |
|---|---|---|
| Solvency | Due to its unsustainable financial model, the RAF runs at a substantial deficit each year (claims incurred exceed revenue). Consequently, a backlog of unpaid claims has accumulated over time, representing a liability to the RAF (provision for outstanding claims). In recent years, this provision has grown substantially due to the expected growth in the cost of settling these claims, while the RAF has been unable to invest funds to cover these claims. Since the provision for future claims exceeds the RAF's asset base, the RAF is technically insolvent. | • Engage with National Treasury in relation to future utilisation of the Revenue Requirement Model ("RRM") and ongoing maintenance of the model |
| Leadership, people and change management | The RAF is in the process of re-engineering its business and therefore requires leaders and a workforce that are appropriately skilled, accountable, professional and motivated. The non-customer-centric and performance culture has to be managed during this critical phase. Appropriate change management and leadership are crucial in ensuring that organisational transformation is a success. | • Train staff based on Personal Development Plans<br>• Embed a culture of performance management in the RAF<br>• Implement talent management mechanisms<br>• Implement initiatives around a more effective Change Management Strategy<br>• Total optimisation of the NOM |
| Fraud and corruption | The RAF operates in an environment that is targeted by fraudsters, both internally and externally. The RAF has to continuously deal with professional syndicates and individual fraudsters. Considering the transformational state of the organisation, there is a higher propensity for fraud and corruption. | • Implement the Fraud Prevention Policy, which includes rolling out of the Fraud Detection and Prevention Awareness Campaign<br>• Improve fraud detection and prevention measures like the fraud hotline and staff training<br>• Conclude agreements with law enforcement agencies |

| Risk | Description | Action areas and plans |
|---|---|---|
| Implementation of the New Operating Model ("NOM") | The RAF is in a process of overhauling its business. The process will lead to the establishment of an RAF that is more customer-centric, effective and efficient. While the core of the RAF will be a new, fully electronic, paperless, integrated claims management system, this is but one of many components. The system will be supported by further changes throughout the RAF's value chain and will include new customer service channels, a broad geographic footprint, an internal Legal Department, enhanced branding activities, etc. These changes have all been designed to ensure that the RAF customer receives high-quality service, where claims are processed quickly and accurately, costs are contained and fraud eliminated. | • Implement effective change management<br>• Roll out an efficient operating model<br>• Review and enhance policies and procedures<br>• Strengthen project governance<br>• Develop a quality assurance function<br>• Reinforce the existing data centre and improved protection of data<br>• Maintain the IT application for the RAF<br>• Prepare and implement a Business Continuity Strategy |
| Regulatory framework/ environment/ legislation | The current system for road accident compensation in South Africa is fault-based and founded on the law of delict. This scheme is complex and subjective in that it often requires time-consuming and expensive legal procedures in order to establish fault and the quantum of damages suffered. The RAF strives to continuously be a part of ongoing initiatives to implement a defined-benefit no-fault system. While this intention is aligned with the DoT's goals, it is understood that it may take a few years before this new legislation is implemented. Therefore, the RAF has amended the RAF Act by removing some of the subjectivity from the current system. | • Assist the DoT in effecting legislative changes<br>• Provide comments and inputs on the no-fault legislative process, when requested<br>• Engage with IDTT |
| Liquidity | The RAF Fuel Levy is determined with little regard for the main drivers of the RAF's claims expenditure, i.e. number of accidents on the roads, number of vehicles driven, the volume and quantum of the benefits payable by the RAF, and various other economic factors like the inherent inflation of the benefit levels. The prevailing disconnect between the fuel levy awarded by government and the RAF's operational cash requirements is the primary cause of the poor liquidity currently being experienced by the RAF. A further complicating factor to the RAF's ability to manage its limited cash pool is the change of the levy collection method. Previously, the fuel levy was collected by the Central Energy Fund, whereas the current system is administered by SARS. The current system has introduced a two-month time lag between the collection of funds by SARS and its availability to the RAF. | • Engage with National Treasury in relation to future utilisation of the Revenue Requirement Model and ongoing maintenance of the model<br>• Prepare cash flow forecasts and obtain insurance cover<br>• Implement strategies to decrease the claims backlog, which contributes to the RAF's lack of liquidity |

| Risk | Description | Action areas and plans |
|---|---|---|
| Claims backlog | The RAF finds itself in a position where it has a large claims backlog. This backlog is mainly attributable to the organisation having been under-funded for a number of years, and therefore unable to pay claims at the rate it receives them. | • Implement strategies to decrease the claims backlog<br>• Improve internal efficiencies so as to decrease turnaround times for claims settlement<br>• Engage key stakeholders to obtain support for initiatives<br>• Train, motivate and drive staff to improve efficiencies |
| Reputation and image | The RAF is implementing fundamental changes to its operations and strategic direction. It is thus imperative that the organisation communicates these changes to customers and stakeholders and that existing relationships with key stakeholders continue to be nurtured. A central factor relating to the outcome of this initiative will be the RAF's ability to improve its accessibility and perception of the organisation by the public. | • Roll-out of the Integrated Marketing, Communication and Stakeholder Relations Strategy, including improving internal communication and external stakeholder engagements<br>• Roll-out of the new RAF brand<br>• Increase the RAF geographic footprint<br>• Train all staff on customer-centricity and improvement in service delivery |

## 1.4 Value Proposition

Government recognises that all citizens need to use South African roads in order to participate in economic activity. People from all demographic and socio-economic groups, the wealthy and poor, the employed and unemployed, are all exposed to risks on the road. In a developing country such as South Africa, a significant proportion of road users will neither have the financial means to access appropriate healthcare and rehabilitation, nor the ability to commence legal action to recover their loss. The RAF acts as a social security safety net to all users of South African roads.

The provision of road accident compensation or benefits could be viewed as a response to specific socio-economic risks associated with road accidents and injuries, including:

a. The need for trauma and other medical care;
b. The risk of income loss due to injury;
c. The risk of unemployment due to temporary or permanent disability; and
d. The vulnerability of family members who become exposed to financial burdens and dependency if a breadwinner dies.

Essentially, the State intervenes in the risks of road use to protect people who have failed, or are unable to provide sufficient cover for themselves, and thereby aims to alleviate disability and prevent impoverishment. Such State intervention is designed to distribute the risks of injury, disability and bereavement more evenly across the disparate socio-economic bands of society. This system also recognises that the majority of drivers may not have asset or liability insurance cover to meet the claims for damages from persons whom they may accidentally injure on the roads.

The RAF, through its current services and proposed forward planning, contributes to these national priorities as follows:

- Transforming the economy and creating sustainable livelihoods by ensuring that motor vehicle accident victims are appropriately covered, both in terms of medical needs and in terms of income or support that is lost as a result of bodily injury or the death of a breadwinner;
- Improving the health profile of South Africans by ensuring that accident victims have timely access to medical services and ongoing medical rehabilitation;
- Optimising and expanding its footprint (most notably through Hospital, Community and Mobile Service Centres), thus enabling the RAF to provide services at grassroots level and increase its reach to rural and previously under-serviced areas. As such, the RAF is also able to contribute to the development of caring and sustainable communities;
- Building of a developmental State, since the organisation is increasingly aligning its service offering to government's emerging CSSS; and
- Improving public services, evidenced by its turnaround programme which is already under way.

## 1.5 Historical Review

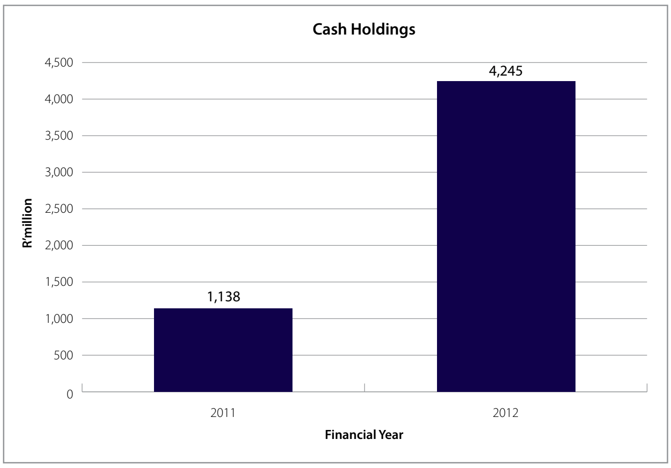
The history of the RAF and its predecessors spans more than 60 years, and commenced with the introduction of compulsory motor vehicle accident ("MVA") insurance in 1942. Since its commencement, the compensation system for MVA victims has remained relatively unchanged. Over the years, several problems pertaining to equity, affordability and sustainability of the system emerged. Between 1954 and 2002 seven Commissions of Inquiry assessed structural, financial and other difficulties inherent in the compensation system.

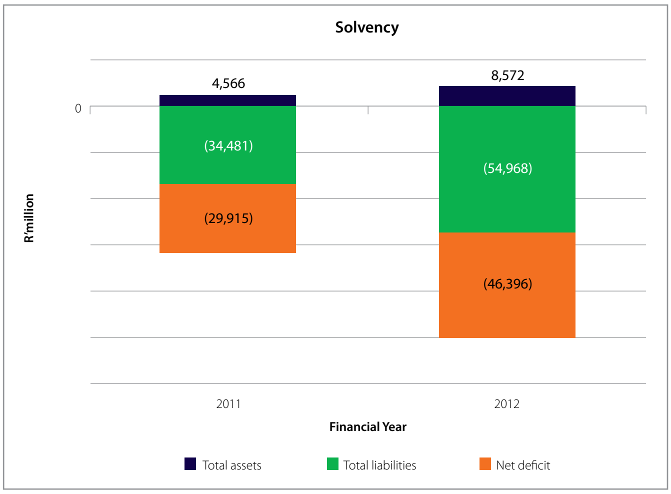
During its lifespan, the MVA compensation system has been plagued by numerous challenges, including service delivery problems; restricted access to medical care; long settlement delays; spiralling costs; insufficient funding to pay claims; an ever-growing liability; multiple, complex and legalistic hurdles due to the adversarial nature of the system; and uncertainty as to whether compensation is ultimately used for the intended purpose.

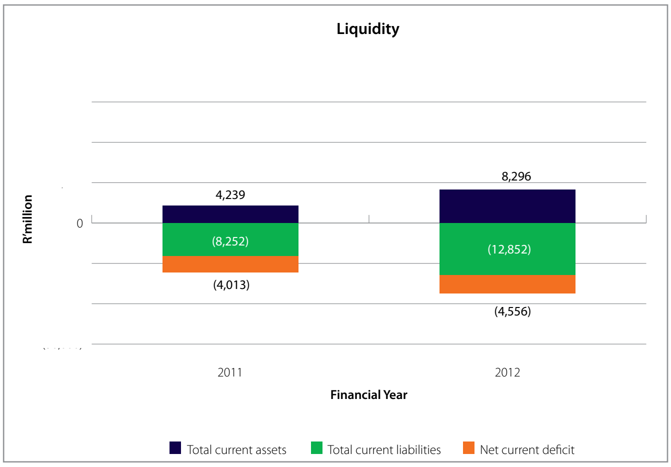
The RAF's summarised financial and operational results are reflected below.

### 1.5.1 Financial Overview

| Statement of Financial Position | 31 March 2012 R'million | 31 March 2011 R'million Restated |
|---|---|---|
| **Assets** | | |
| **Current Assets** | **8,296** | **4,239** |
| Cash and cash equivalents | 4,245 | 1,138 |
| Transfers receivable from fuel levies | 3,884 | 2,950 |
| Interest receivable | 19 | 4 |
| Other financial assets | 145 | 145 |
| Consumable stock | 3 | 2 |
| **Non-current Assets** | **276** | **327** |
| Property, plant and equipment | 214 | 236 |
| Intangible assets | 62 | 91 |
| **Total Assets** | **8,572** | **4,566** |
| **Liabilities** | | |
| **Current Liabilities** | **12,852** | **8,252** |
| Payables and accruals | 84 | 87 |
| Financial liabilities measured at amortised cost | 324 | 526 |
| Provision for outstanding claims | 11,840 | 7,351 |
| Other provisions | 604 | 288 |
| **Non-current Liabilities** | **42,116** | **26,229** |
| Financial liabilities measured at amortised cost | 1 | 1 |
| Provision for outstanding claims | 42,079 | 26,196 |
| Employee benefits | 36 | 32 |
| **Total Liabilities** | **54,968** | **34,481** |
| **Net Deficit** | (46,396) | (29,915) |
| **Net Deficit** | | |
| Revaluation reserve | 72 | 65 |
| Accumulated deficit | (46,468) | (29,980) |
| **Total Net Deficit** | (46,396) | (29,915) |

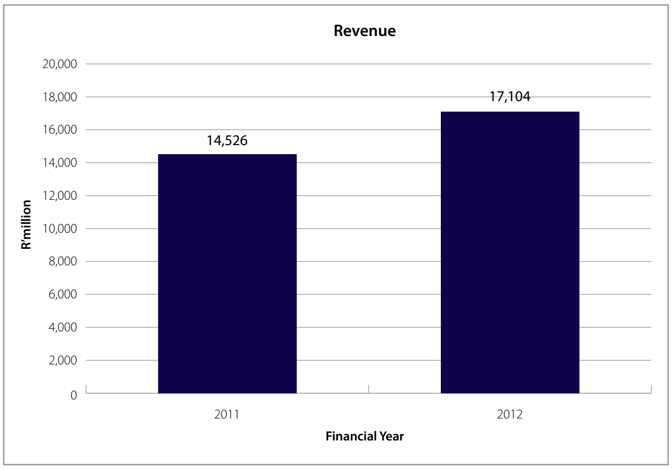


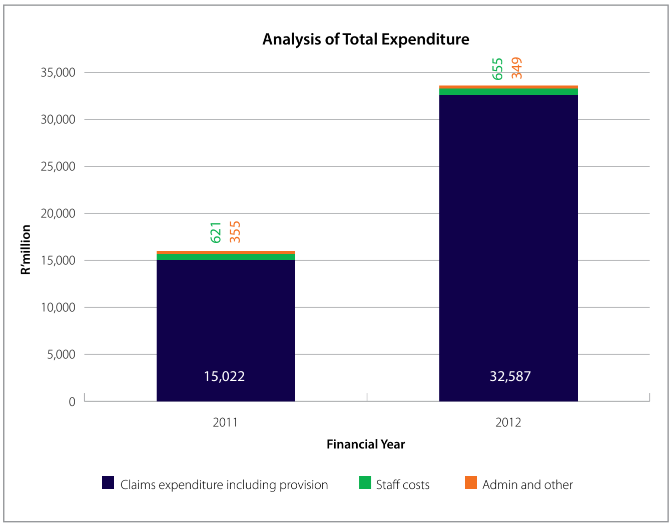



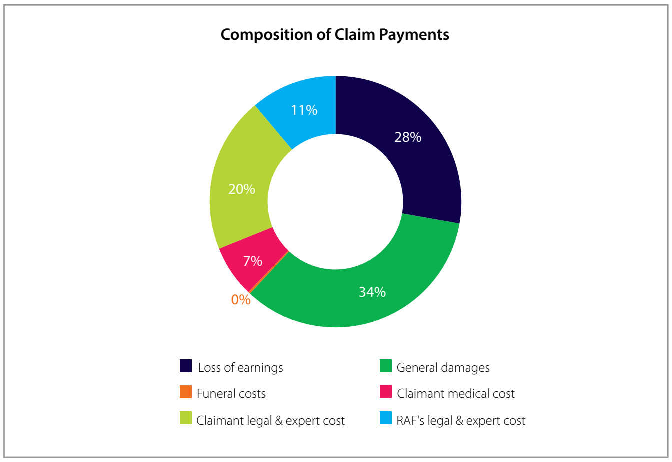



| Statement of Financial Performance | 31 March 2012 R'million | 31 March 2011 R'million Restated |
|---|---|---|
| **Revenue from Non-exchange Transactions** | | |
| - Net fuel levies | 16,989 | 14,474 |
| | 16,989 | 14,474 |
| **Revenue from Exchange Transactions** | | |
| - Investment income and other revenue | 115 | 52 |
| **Total Revenue** | 17,104 | 14,526 |
| **Expenses** | | |
| - Claims expenditure (excluding provision for outstanding claims) | 12,216 | 12,941 |
| - Reinsurance premiums | 23 | 28 |
| - Employee costs | 655 | 621 |
| - Administrative expenses | 238 | 224 |
| - Depreciation, amortisation and impairment | 64 | 60 |
| - Finance costs | 24 | 43 |
| **Total Expenses** | 13,220 | 13,917 |
| **Surplus/(Deficit) Before Provision for Outstanding Claims** | 3,884 | 609 |
| Provision for outstanding claims | (20,372) | (2.081) |
| **(Deficit)/Surplus for the Year** | (16,488) | (1,472) |

| Cash Flow Statement | 31 March 2012 R'million | 31 March 2011 R'million Restated |
|---|---|---|
| **Net Cash Flows from Operating Activities** | 3,114 | 526 |
| **Net Cash Flows from Investing Activities** | (7) | (43) |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | 3,107 | 483 |
| Cash and cash equivalents at the beginning of the year | 1,138 | 655 |
| **Cash and Cash Equivalents at the End of the Year** | 4,245 | 1,138 |



## 1.5.2 Financial Ratios

| | Ref. | Units | 31 March 2012 | 31 March 2011 Restated |
|---|---|---|---|---|
| **Profitability** | | | | |
| EBITDA | 1 | R'm | 3,972 | 712 |
| Surplus/(deficit) to revenue | 2 | % | -96% | -10% |
| Operating surplus/(deficit) to revenue | 3 | % | 23% | 4% |
| Return on average equity | 4 | % | -43% | -4% |
| Return on average total assets | 5 | % | -251% | -35% |
| Cost-to-income ratio | 6 | % | 27% | 30% |
| **Liquidity** | | | | |
| Cash-to-claims cover ratio | 7 | Months | 4.17 | 1.06 |
| Current ratio | 8 | Ratio | 0.65 | 0.51 |
| Net working capital | 9 | R'm | (4,556) | (4,013) |
| Net working capital (excluding claims provision) | 10 | R'm | 7,284 | 3,338 |
| **Solvency** | | | | |
| Total assets to total liabilities | 11 | % | 16% | 13% |

| Definitions | |
|---|---|
| 1. EBITDA | Surplus or deficit before finance costs, taxation, depreciation, amortisation and provision for outstanding claims. |
| 2. Surplus/(deficit) to revenue | Total surplus or deficit as a percentage of revenue. |
| 3. Operating surplus/(deficit) to revenue | Total surplus or deficit before provision for outstanding claims as a percentage of revenue. |
| 4. Return on average equity | Total surplus or deficit for the financial year as a percentage of average net deficit at year-end. |
| 5. Return on average total assets | Total surplus or deficit for the financial year as a percentage of average total assets during the financial year. |
| 6. Cost-to-income ratio | Total administration and human resources costs including RAF and claimant legal and expert costs as a percentage of total income during the financial year. |
| 7. Cash-to-claims cover ratio | Cash and cash equivalents at the end of the financial year divided by average monthly claims expenditure for the financial year (compensation and legal costs). |
| 8. Current ratio | Total current assets divided by total current liabilities. |
| 9. Net working capital | Current assets minus current liabilities. |
| 10. Net working capital, excluding claims provision | Current assets minus current liabilities excluding provision for outstanding claims. |
| 11. Total assets to total liabilities | Total assets as a percentage of total liabilities. |
| 12. New claims lodged | Claims received and registered by the RAF during the financial year. |
| 13. Claims finalised | Claims processed in the supplier and personal claim categories where compensation has been paid in full. |
| 14. Claims outstanding | Claims registered by the RAF that have not been finalised at year-end, or have been reopened and not finalised by year-end. |
| 15. Total undertakings registered | An undertaking is a medical certificate issued by the RAF to cover future medical costs. |
| 16. All claims | All claims settled by the RAF. |
| 17. Personal claims | A personal claim is a claim submitted by any person (the third party) for any loss or damage which that person has suffered as a result of any bodily injury to himself/herself, or the death of, or any bodily injury to any other person. |
| 18. Supplier claims | A supplier claim is a claim submitted directly to the RAF by a person/institution that provided medical treatment and accommodation to the victim of the accident. |
| 19. General damages | General damages represent compensation paid by the RAF for loss of amenities of life, pain and suffering, disability and disfigurement. |
| 20. Loss of earnings | Loss of earnings represents past and future loss of earnings incurred by the accident victim as a result of a motor vehicle accident. |
| 21. Loss of support | Loss of support represents past and future loss of support incurred by the accident victim's family as a result of a motor vehicle accident. |
| 22. Medical compensation | Medical compensation represents past and future medical costs incurred by the accident victim as a result of a motor vehicle accident. |
| 23. Funeral costs | Funeral costs represent cost of interment or cremation of the accident victim arising from a motor vehicle accident. |
| 24. Claimants' legal costs | Claimants' legal costs are expenses paid to accident victims' attorneys and experts for their assistance provided to the accident victim in lodging a claim with the RAF. |
| 25. RAF's legal costs | The RAF's legal costs are expenses paid to the RAF's panel attorneys to represent the RAF in legal cases against it. |

### 1.5.3 Fuel Levy Statistics

| Calendar Year | Units | 31 December 2011 | 31 December 2010 | 31 December 2009 | 31 December 2008 | 31 December 2007 | 31 December 2006 | 31 December 2005 |
|---|---|---|---|---|---|---|---|---|
| * Fuel consumption for road use | Mega-litres | 17,874 | 17,448 | 17,461 | 17,682 | 18,157 | 17,149 | 16,622 |

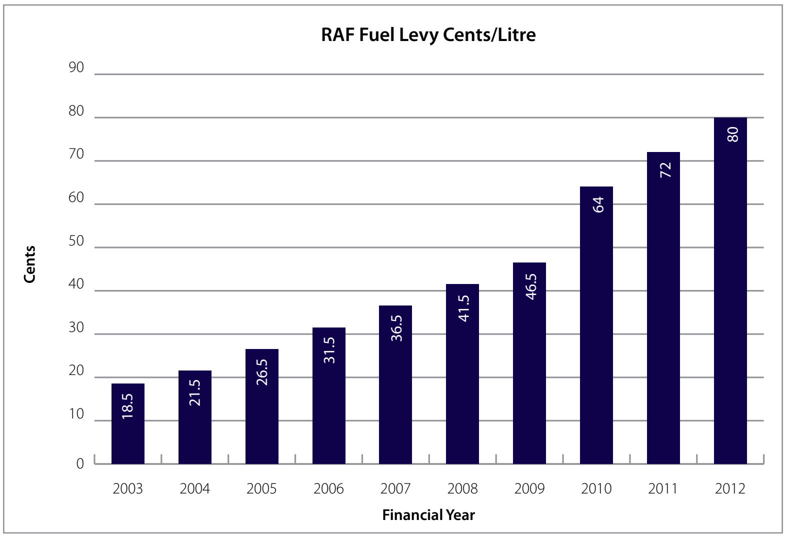
* *Estimated fuel sales for road use (based on CSIR Report CR-2002/79 which recommended that 98% of all petrol sales and 70% of all diesel sales should be allocated for road use purposes)*

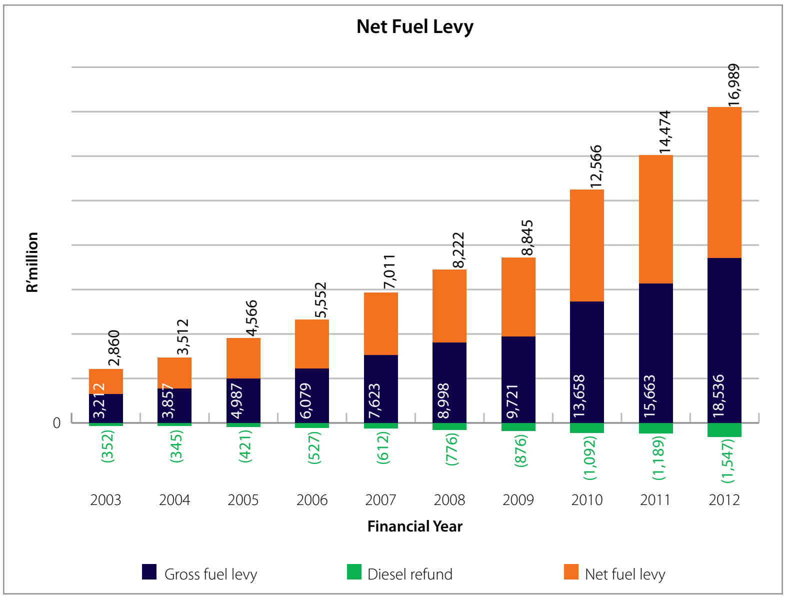
| Financial Year | Units | 31 March 2012 | 31 March 2011 | 31 March 2010 | 31 March 2009 | 31 March 2008 | 31 March 2007 | 31 March 2006 |
|---|---|---|---|---|---|---|---|---|
| RAF Fuel Levy | | | | | | | | |
| Petrol | C/l | 80 | 72 | 64 | 46.5 | 41.5 | 36.5 | 31.5 |
| Diesel | C/l | 80 | 72 | 64 | 46.5 | 41.5 | 36.5 | 31.5 |
| Gross fuel levy | R/m | 18,536 | 15,663 | 13,658 | 9,721 | 8,998 | 7,623 | 6,079 |
| Diesel refund | R/m | (1,547) | (1,189) | (1,092) | (876) | (776) | (612) | (527) |
| Net fuel levy | R/m | 16,989 | 14,474 | 12,566 | 8,845 | 8,222 | 7,011 | 5,552 |
| Diesel refund % of gross fuel levy | % | 8.35% | 7.59% | 8.00% | 9.01% | 8.62% | 8.03% | 8.67% |
| Implied average fuel consumption (Gross fuel levy/RAF Fuel Levy c/l) | Mega-litres | 23,170 | 21,754 | 21,341 | 20,905 | 21,682 | 20,885 | 19,298 |
| Implied average fuel consumption subject to diesel refund (Diesel refund/RAF Fuel Levy c/l) | Mega-litres | (1,934) | (1,651) | (1,706) | (1,884) | (1,870) | (1,677) | (1,673) |
| Implied average net fuel consumption (net fuel levy/RAF Fuel Levy c/l) | Mega-litres | 21,236 | 20,103 | 19,634 | 19,022 | 19,812 | 19,208 | 17,625 |

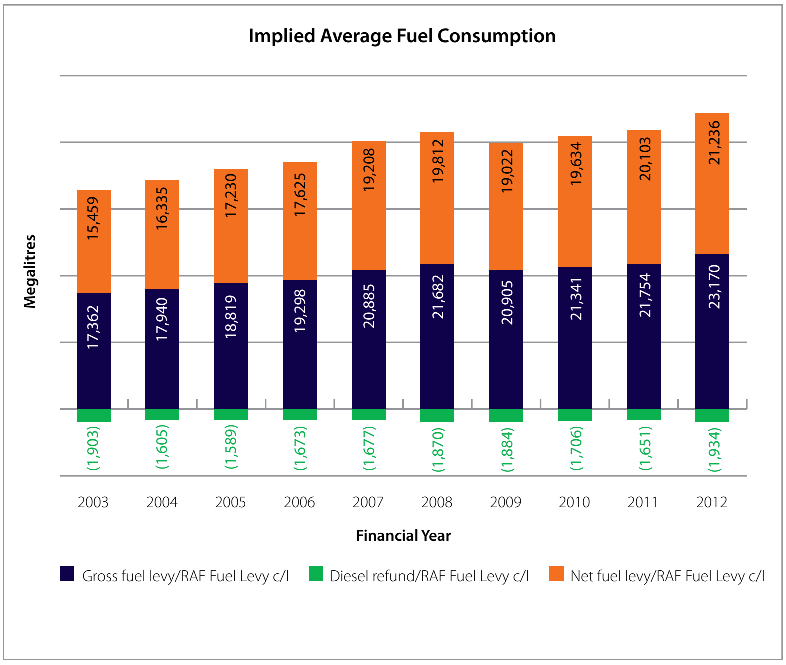
*Source: South African Petrolium Industry Association ("SAPIA"), Department of Energy ("DOE"), Road Traffic Management Corporation ("RTMC")*

| | 31 December 2004 | 31 December 2003 | 31 December 2002 |
|---|---|---|---|
| | 16,140 | 15,538 | 14,910 |

| | 31 March 2005 | 31 March 2004 | 31 March 2003 |
|---|---|---|---|
| | 26.5 | 21.5 | 18.5 |
| | 26.5 | 21.5 | 18.5 |
| | 4,987 | 3,857 | 3,212 |
| | (421) | (345) | (352) |
| | 4,566 | 3,512 | 2,860 |
| | 8.44% | 8.94% | 10.96% |
| | 18,819 | 17,940 | 17,362 |
| | (1,589) | (1,605) | (1,903) |
| | 17,230 | 16,335 | 15,459 |



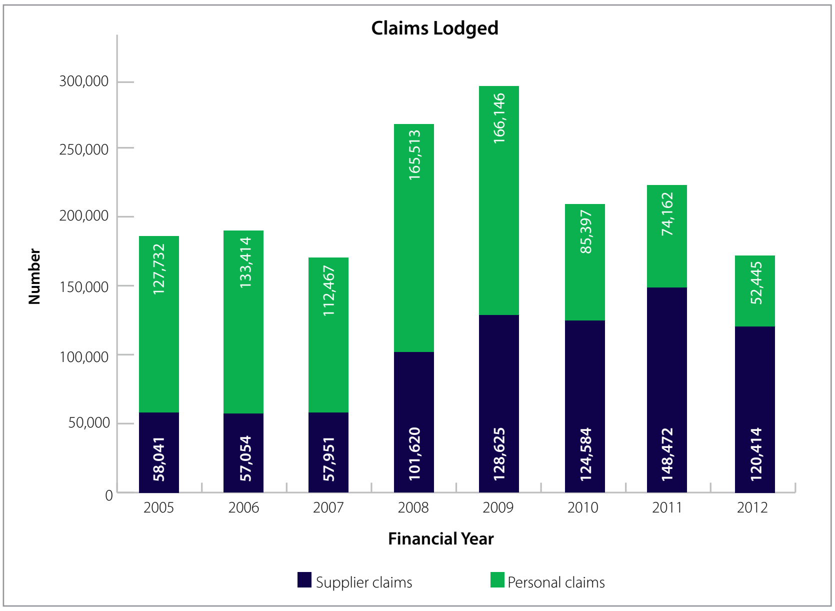



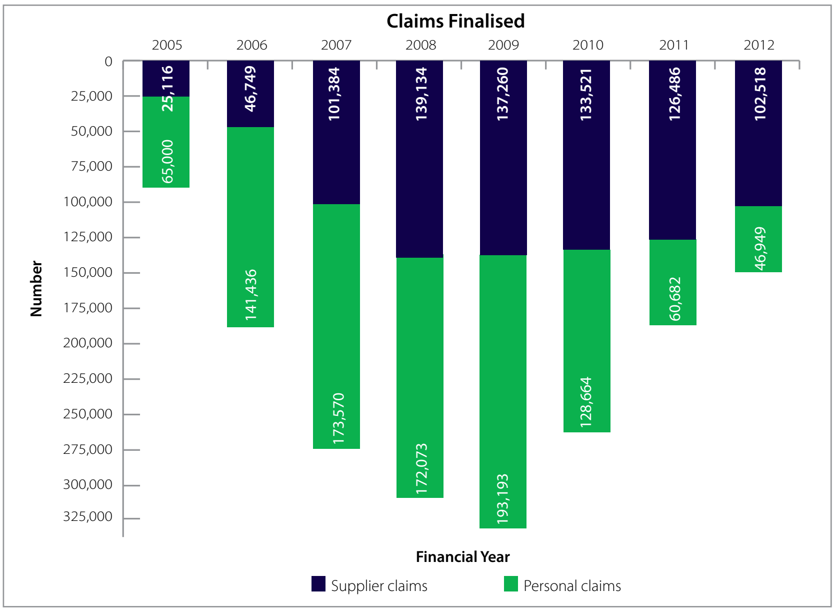



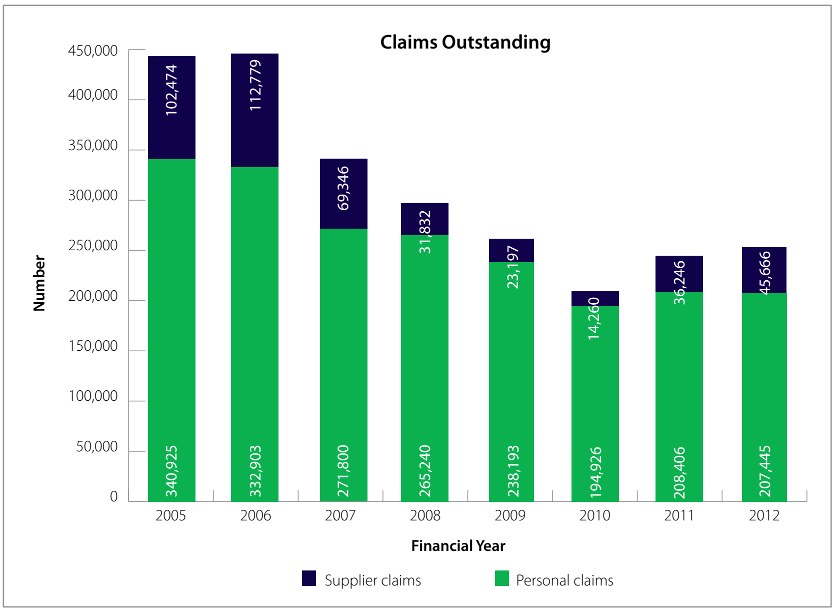
## 1.5.4 Operational Statistics

| Ratios and Statistics | Reference | Units | 31 March 2012 | 31 March 2011 Restated | 31 March 2010 | 31 March 2009 Restated | 31 March 2008 | 31 March 2007 Restated |
|---|---|---|---|---|---|---|---|---|
| **Claims Finalisation** | | | | | | | | |
| **New Claims Lodged** | 12 | No. | **172,859** | **222,634** | **209,981** | **294,771** | **267,133** | **170,418** |
| Increase/(decrease) | | % | -22% | 6% | -29% | 10% | 57% | -11% |
| **- Personal Claims** | | No. | **52,445** | **74,162** | **85,397** | **166,146** | **165,513** | **112,467** |
| - Pre-Amendment Act | | No. | 9,935 | 27,474 | 57,656 | 161,767 | | |
| - Post-Amendment Act | | | 42,510 | 46,688 | 27,741 | 4,379 | | |
| **- Supplier Claims** | | No. | **120,414** | **148,472** | **124,584** | **128,625** | **101,620** | **57,951** |
| - Pre-Amendment Act | | No. | 4,810 | 15,907 | 57,334 | 111,690 | | |
| - Post-Amendment Act | | No. | 115,604 | 132,565 | 67,250 | 16,935 | | |
| **Claims Finalised** | 13 | No. | **149,467** | **187,168** | **262,185** | **330,453** | **311,207** | **274,954** |
| Increase/(decrease) | | % | -20% | -29% | -21% | 6% | 13% | 46% |
| **- Personal Claims** | | No. | **46,949** | **60,682** | **128,664** | **193,193** | **172,073** | **173,570** |
| - Pre-Amendment Act | | No. | 41,351 | 59,152 | 122,352 | 193,161 | | |
| - Post-Amendment Act | | No. | 5,598 | 1,530 | 6,312 | 32 | | |
| **- Supplier Claims** | | No. | **102,518** | **126,486** | **133,521** | **137,260** | **139,134** | **101,384** |
| - Pre-Amendment Act | | No. | 2,949 | 11,986 | 72,388 | 123,844 | | |
| - Post-Amendment Act | | No. | 99,569 | 114,500 | 61,133 | 13,416 | | |
| **Less Data Clean-up Duplicated/ Deleted** | | No. | **14,933** | | | | | |
| **- Personal Claims** | | No. | 9,706 | | | | | |
| **- Supplier Claims** | | No. | 4,244 | | | | | |
| **Claims Outstanding** | 14 | No. | **253,111** | **244,652** | **209,186** | **261,390** | **297,072** | **341,146** |
| Increase/(decrease) | | % | 3% | 17% | -20% | -12% | -13% | -23% |
| Finalised/new | | % | 86% | 84% | 125% | 112% | 116% | 161% |
| **- Personal Claims** | | No. | 207,445 | 208,406 | 194,926 | 238,193 | 265,240 | 271,800 |
| **- Supplier Claims** | | No. | 45,666 | 36,246 | 14,260 | 23,197 | 31,832 | 69,346 |
| **Undertakings** | | | | | | | | |
| Total undertakings registered | 15 | No. | 111,628 | 107,209 | 103,791 | 103,583 | 88,001 | 80,912 |
| Total Rand value of undertakings paid | | R'000 | 124,265 | 85,984 | 82,009 | 80,926 | 58,740 | 59,125 |

| 31 March 2006 | 31 March 2005 |
|---|---|
| | |
| 190,468 | 185,773 |
| 3% | 11% |
| 133,414 | 127,732 |
| 57,054 | 58,041 |
| 188,185 | 90,116 |
| 109% | -44% |
| 141,436 | 65,000 |
| 46,749 | 25,116 |
| | |
| | |
| 445,682 | 443,399 |
| 1% | 28% |
| 99% | 49% |
| 332,903 | 340,925 |
| 112,779 | 102,474 |
| 69,443 | 56,751 |
| 58,724 | 59,184 |

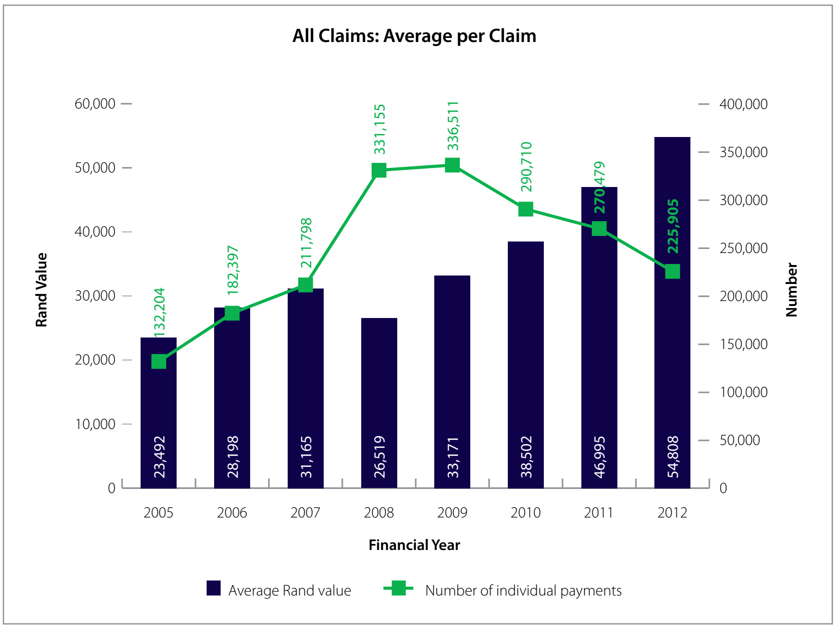


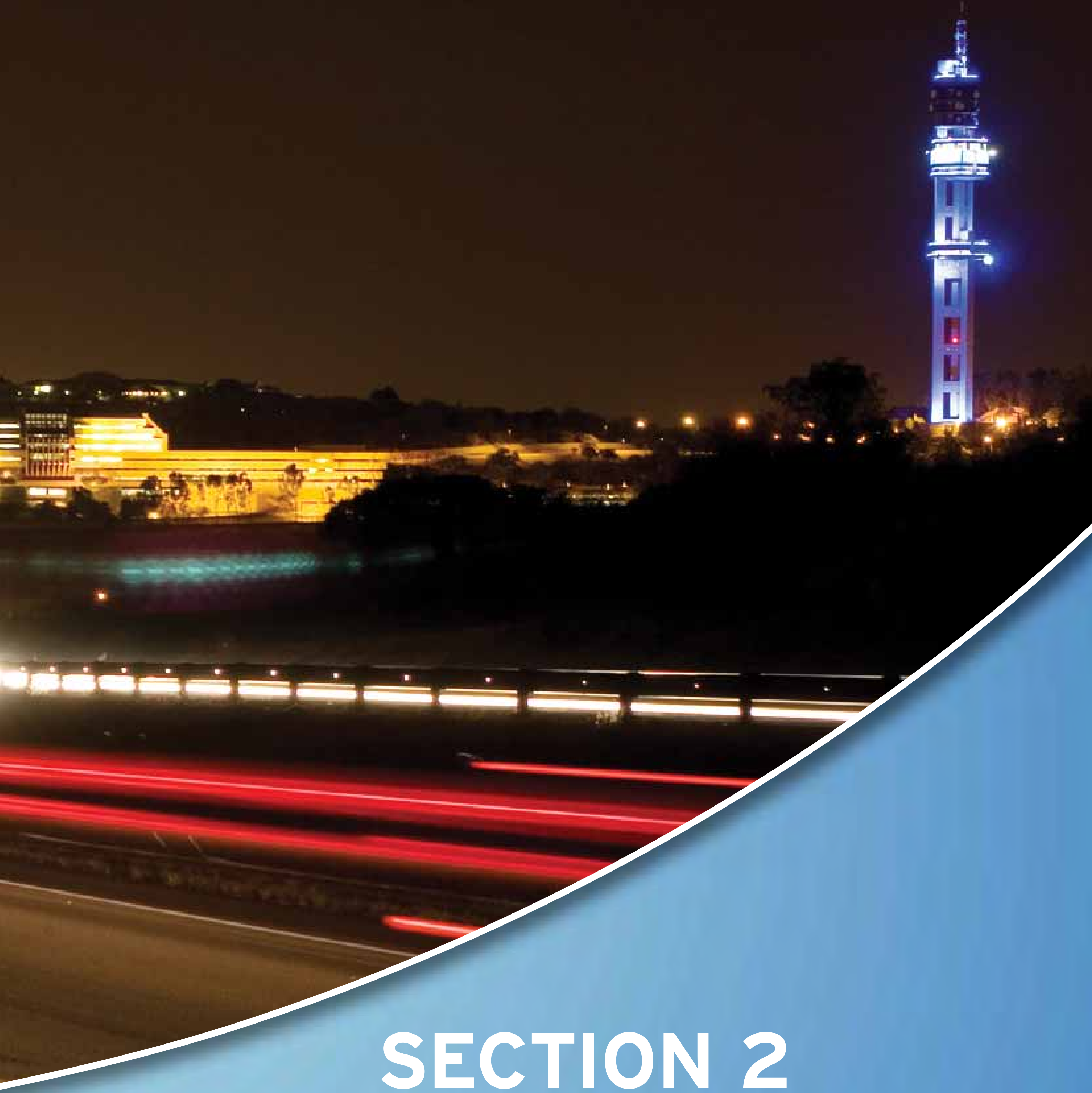



| Ratios and Statistics | Reference | Units | 31 March 2012 | 31 March 2011 Restated | 31 March 2010 | 31 March 2009 Restated | 31 March 2008 | 31 March 2007 Restated |
|---|---|---|---|---|---|---|---|---|
| **Claims Payments** | | | | | | | | |
| **All Claims** | 16 | R'm | **12,500** | **12,800** | **11,400** | **11,100** | **8,800** | **6,600** |
| Rand value per claim | | Ave. | 54,808 | 46,995 | 38,502 | 33,171 | 26,519 | 31,165 |
| Total individual claim payments | | No. | 225,905 | 270,479 | 290,710 | 336,511 | 331,155 | 211,798 |
| **Personal Claims** | 17 | R'm | **12,100** | **12,400** | **10,900** | **10,800** | **8,300** | **6,400** |
| Rand value per claim | | Ave. | 99,614 | 88,430 | 64,288 | 52,876 | 44,851 | 41,883 |
| Total individual claim payments | | No. | 120,728 | 140,007 | 168,962 | 204,275 | 185,544 | 152,480 |
| **Supplier Claims** | 18 | R'm | **400** | **400** | **500** | **300** | **500** | **200** |
| Rand value per claim | | Ave. | 3,379 | 2,533 | 2,716 | 2,730 | 3,209 | 3,603 |
| Total individual claim payments | | No. | 105,177 | 130,478 | 121,748 | 132,235 | 145,594 | 59,316 |
| | | | | | | | | |
| **Claims Payments per Heads of Damage** | | | | | | | | |
| **General damages** | 19 | R'm | **3,900** | **4,400** | **4,800** | **4,900** | **3,900** | **2,600** |
| Rand value per claim | | Ave. | 83,534 | 65,399 | 45,837 | 36,409 | 31,347 | 26,875 |
| Total individual claim payments | | No. | 46,174 | 67,960 | 102,705 | 134,160 | 125,572 | 97,771 |
| **Loss of earnings** | 20 | R'm | **3,200** | **3,300** | **2,500** | **2,300** | **1,600** | **1,400** |
| Rand value per claim | | Ave. | 433,739 | 393,672 | 314,270 | 335,503 | 264,337 | 222,655 |
| Total individual claim payments | | No. | 7,191 | 8,251 | 7,695 | 6,782 | 5,957 | 6,194 |
| **Loss of support** | 21 | R'm | **1,100** | **900** | **700** | **600** | **500** | **400** |
| Rand value per claim | | Ave. | 295,970 | 280,278 | 230,968 | 187,236 | 175,457 | 151,253 |
| Total individual claim payments | | No. | 3,783 | 3,045 | 3,117 | 2,986 | 2,758 | 2,960 |
| **Medical compensation** | 22 | R'm | **800** | **700** | **700** | **800** | **700** | **500** |
| Rand value per claim | | Ave. | 5,870 | 4,879 | 4,678 | 5,241 | 4,367 | 5,670 |
| Total individual claim payments | | No. | 113,975 | 139,634 | 138,115 | 161,893 | 174,836 | 86,101 |
| **Funeral costs** | 23 | R'm | - | - | - | - | - | - |
| Rand value per claim | | Ave. | 9,259 | 8,220 | 7,300 | 6,650 | 5,847 | 5,783 |
| Total individual claim payments | | No. | 5,339 | 2,949 | 3,223 | 3,952 | 3,450 | 3,571 |
| **Claimants' legal costs** | 24 | R'm | **2,300** | **2,200** | **1,700** | **1,600** | **1,300** | **1,000** |
| Rand value per claim | | Ave. | 38,534 | 28,008 | 15,647 | 11,399 | 8,285 | 6,713 |
| Total individual claim payments | | No. | 60,402 | 78,319 | 107,572 | 139,276 | 152,550 | 147,240 |
| **RAF's legal costs** | 25 | R'm | **1,200** | **1,300** | **1,000** | **900** | **800** | **700** |
| Rand value per claim | | Ave. | 14,878 | 13,476 | 10,224 | 9,977 | 9,483 | 10,198 |
| Total individual claim payments | | No. | 83,786 | 93,739 | 97,372 | 98,311 | 82,998 | 66,198 |

| | 31 March 2006 | 31 March 2005 |
|---|---|---|
| | 5,100 | 3,100 |
| | 28,198 | 23,492 |
| | 182,397 | 132,204 |
| | 5,000 | 3,000 |
| | 35,747 | 28,829 |
| | 140,263 | 103,423 |
| | 100 | 100 |
| | 3,059 | 4,309 |
| | 42,133 | 28,780 |
| | | |
| | 2,100 | 1,200 |
| | 22,567 | 19,547 |
| | 94,058 | 59,893 |
| | 1,000 | 500 |
| | 158,755 | 130,278 |
| | 6,444 | 4,172 |
| | 300 | 200 |
| | 122,558 | 93,617 |
| | 2,708 | 1,934 |
| | 400 | 300 |
| | 4,989 | 5,593 |
| | 71,120 | 50,755 |
| | - | - |
| | 5,003 | 4,674 |
| | 3,116 | 1,793 |
| | 800 | 500 |
| | 6,213 | 5,844 |
| | 128,589 | 93,025 |
| | 500 | 400 |
| | 10,411 | 8,571 |
| | 49,939 | 44,895 |





# SECTION 2
## Leadership and Governance

*"The Fund will focus on financial sustainability and may seek options to capitalise the RAF."*

## 2.1 Chairperson's Statement

On behalf of the Board of Directors of the Road Accident Fund ("RAF"), I am pleased to present the organisation's second Integrated Annual Report and the Annual Financial Statements for the financial year ending 31 March 2012.

### Integrated Reporting

The King III Code on Governance was one of the first major publications to highlight integrated reporting. It defines an integrated report as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability." Therefore, the aim of this integrated report is to clearly and concisely inform the organisation's stakeholders about the organisation and its strategy and risks, linking its financial and sustainability performance in a way that gives stakeholders a holistic view of the organisation and its future prospects by putting its performance and strategy in the context of its relevant social and environmental issues.

Importantly, integrated reporting includes forward-looking information to allow stakeholders to make a more informed assessment of the future of an organisation, as well as the manner in which the organisation is dealing with its sustainability risks and opportunities.

King III further recommends an "apply or explain" approach and this regime shows an appreciation for the fact that it is often not a case of whether to comply or not, but rather to consider how the principles and recommendations can be applied. This approach is followed throughout this report.

### South African Economy

Economic activity in South Africa improved during the 2011 calendar year, with real gross domestic product ("GDP") increasing to 3.1%[3] from 2.8% in 2010. Fuel consumption for road use increased by 2.4% to 17,874 megalitres[4] in the 2011 calendar year from 17,448 megalitres in the previous calendar year. The 8% increase in foreign visitor arrivals to the country, totalling

3 *SA Reserve Bank Quarterly Review March 2012*

4 *South African Petroleum Industry ("SAPIA"), Department of Minerals and Energy ("DME"), Estimated fuel levy based on CSIR report CR-2002/79, which recommended that 98% of all petrol sales and 70% of all diesel sales should be allocated for road use purposes*

12,5 million[5] during the 2011 calendar year from 11,6 million in the previous calendar year, also contributed to improved economic activity. The implied net fuel consumption experienced by the RAF showed an increase of 5.6% to 21,2 megalitres based on the average net fuel levy income received, divided by an average levy in cents per litre.

Figures released by the Road Traffic Management Corporation ("RTMC") indicate that the number of accidents with fatalities[6] increased by 3.6% to 11,228 in the 2011 calendar year from 10,837 in the previous calendar year, while fatalities decreased by only 0.1% to 13,954 from 13,967 in the previous calendar year. In the absence of direct statistics and applying the global standard of an average 20 injuries for each one (1) fatality, the expected number of persons injured on South African roads is approximately 279,080. With the introduction of the Amendment Act in August 2008, which, among other, seeks to reduce frivolous claims by persons who are barely injured in car accidents, the RAF expected a reduction in reported claims. In fact, this figure decreased by 22% to 172,859 during the 2012 financial year from 222,634 claims in the previous financial year.

We trust that the recovery of the South African economy and an increase in economic activity will allow the RAF to continue to process as many claims as possible without being concerned about running out of funds.

## Performance Environment and Context

As with any other business, the RAF is affected by general economic conditions and other environmental factors, and by the extent to which it manages its costs effectively.

It is worth noting that the revenue of the RAF is still largely dependent on the amount of fuel sold, and the relevant levy increment as determined by government. Expenses are largely comprised of claims payments. Therefore, the number and value of claims received and paid together with associated costs are large expense items. From a Statement of Financial Position perspective, the liquidity is determined by the cash available after claims and other expenses have been paid out for a specific period, and finally, the liability of the RAF is largely composed of outstanding claims reported at the Statement of Financial Position date, along with their associated costs.

Whilst these value drivers may appear conceptually simple, they are in turn driven by multiple other factors. For example, claims expenditure is influenced by whether a customer chooses to claim directly or to be represented by an attorney; awards made by courts that determine precedent; the number of expert witnesses utilised; and time taken from date of accident to date of finalisation of the claim.

## Towards a Comprehensive Social Security System

South African society is characterised by great disproportions in income, economic ability and lifestyle. Since 1994, government has adopted a range of policy, statutory and other measures to develop a more equitable, coherent and comprehensive social system. Despite limited resources, it has gradually expanded the scope and reach of social security benefits and services to support disadvantaged sectors of the economy. As a result, it has extended cover to employed and unemployed persons, the poor, vulnerable and elderly, as well as those in need of healthcare.

Social security measures endeavour to protect people from misfortune and significant risks of life by providing safety to individuals, families and communities. Government believes that the ultimate objective of social security is to achieve social solidarity so that the risk of misfortune becomes the comprehensive or collective responsibility of the whole society. Effective social security provisions recognise people's interdependence and the value of individual dignity, equality of opportunity and social justice. Essentially, the Constitution of the Republic of South Africa affirms a universal right to social security, including appropriate social assistance for those unable to support themselves and their families.

Against this background, government continues to review its social security programmes and re-allocate resources so that socio-economic rights currently not available or fully available, may be delivered. The restructuring of the social insurance benefits for road accident victims is part of this ongoing process and the Road Accident Benefit Scheme ("RABS") Policy represents a first step towards this goal.

## A New Dispensation

The current RAF Act is based on fault and insurance principles and the framework does not enable the RAF to fully contribute to the socio-economic outcomes to which government has committed. The RABS Policy (also referred to as "the no-fault policy"), which seeks to transform the current system with a new scheme based on social security principles that will be more equitable, affordable, reasonable and sustainable, has been approved by government. The legislative process to enact legislation based on this policy has commenced.

The legislative framework linked to the no-fault policy will provide that victims of road accidents will no longer be required to prove fault or contributory fault on the part of another driver. This will mean that access to emergency healthcare will be immediate and not dependent on an investigation as to how the accident occurred. The focus of the new scheme will move away from determining fault, to focusing on the needs of the victim, including the following:

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*5 Statistics SA – Tourism 2011, Report No. 03-51-02*

*6 Road Traffic Management Corporation ("RTMC"), December 2011*

- Benefits of the scheme will be made available to eligible claimants on a no-fault basis, with no deductions or penalties applied for the road user's own negligence;
- The source of financing will be a fuel levy imposed on fuel sold for use on land;
- The primary source of funding will be a dedicated fuel levy imposed on fuel sold. The scheme will be fully funded so that the compulsory contributions are sufficient to meet liabilities as they accrue;
- Medical and healthcare services available in South Africa will be paid on a fee-for-service tariff or on the basis of capitation;
- An income support benefit (for loss of income and loss of earning capacity) will be payable subject to thresholds, ceilings and maximum caps, and be paid periodically; and
- Family support benefits will be payable to the spouse or life partner and dependent children of a breadwinner killed in a road accident, subject to thresholds, ceilings and maximum caps, and be paid periodically.

## RAF Performance

The RAF returned a steady performance during the current financial year driven by a 17.9% growth in revenue compared to the previous financial year. Total revenue at R17,1 billion was R2,6 billion higher than the revenue in the previous financial year of R14,5 billion, mostly as a result of an 8 cents per litre increase in the RAF Fuel Levy during the financial year, as well as an unexpected increase in volumes of fuel sold during the period under review.

Cash claims expenditure decreased due to lower claims finalisation numbers by 2% over the previous financial year to R12,5 billion from R12,8 billion last year. With the average settlement per claim increasing by 17% to R54,808 in 2012 from R46,995 in the previous financial year, the number of claims finalised reduced to 149,467 this financial year compared to 187,168 in the previous financial year. The Fund was unable to reduce the backlog of outstanding claims. In fact, the number of outstanding claims at financial year-end had increased by an additional 8,459 claims (3%) to 253,111 from 244,652 last year. The reason for this and other performance challenges are discussed further in this report.

## The Way Forward

Over the next five years, the RAF strategy will be anchored on four main pillars, i.e. legislative alignment; solvency, liquidity and sustainability; operational effectiveness and efficiency; and transformation and capacity building.

In facilitating legislative alignment, the RAF will specifically be responsible for motivating and proposing amendments to the current legislation and supporting legislative processes that the Department of Transport ("DoT") embarks on, as well as participating in relevant structures.

The RAF will further provide support to the DoT in respect of the process to enact legislation aligned to the RABS Policy, as well as government's Comprehensive Social Security System ("CSSS") plans.

The Fund will focus on financial sustainability and may seek options to capitalise the RAF. The RAF will continue to actively engage with National Treasury and the DoT to determine fuel levy allocation increases annually. Furthermore, the organisation will also commence with the process of developing strategies for reducing legal and operating costs through internal cost management initiatives.

During the 2013 – 2017 strategic planning period, the RAF will complete the implementation of the New Operating Model ("NOM") through tools, systems and technologies that will provide a seamless and appropriate customer experience. The NOM will make the RAF's systems and processes more efficient. In addition, the system includes an expansion of the organisation's national footprint and the design of customer interaction points to ensure that the total experience for the customer is of a consistently high standard.

The RAF recognises that effective communication, people and leadership are critical to ensure that we provide the highest standard of care to road accident victims to restore balance in the social system, as per the RAF's new vision.

## Acknowledgements

On behalf of the Board of the RAF, I wish to extend our sincere gratitude both to the outgoing Minister of Transport, Mr Sibusiso Ndebele, and his Deputy, Mr Jeremy Cronin, as well as the entire DoT team for their unstinting support during the 2012 financial year. We would also like to welcome the new Minister of Transport, Mr Ben Martins, and the Deputy Minister, Ms Sindisiwe Chikunga, and wish them well in their new positions. Furthermore, we would like to thank the Portfolio Committee on Transport, together with our partner stakeholders, for the assistance and guidance afforded to the RAF during this financial year.

In addition, we would like to thank the Acting Chief Executive Officer, Mr Mandla Mvelase, for his invaluable contribution to the RAF over the past couple of months. A word of welcome is extended to Dr Eugene Watson, who joined the RAF as Chief Executive Officer on 2 July 2012. Finally, my thanks go to the Management and staff of the RAF for their ongoing loyalty and dedication.

**Dr Ntuthuko Bhengu**
Chairperson of the Board
Date: 31 July 2012

*"The Department of Transport's policy proposal to move to a no-fault benefit scheme is welcomed"*

## 2.2 Overview by the Chief Executive Officer

### Introduction

The Road Accident Fund's ("RAF's") Integrated Annual Report 2012 is centred on the principles and recommendations of King III. The Report focuses on putting the financial results in perspective by reporting on how the Fund has impacted, both positively and negatively, on the socio-economic life of all users of South African roads.

### Financial Performance

The Fund recorded a deficit of R16,5 billion in the financial year under review compared to a net deficit of R1,5 billion in the previous year. The year-on-year increase in the deficit is directly related to the growth in the provision for outstanding claims, which increased from R34 billion (2011) to R54 billion in the current year.

Total revenue for the year grew by 17.9%, from R14,5 billion to R17,1 billion, as a result of an 8 cents per litre increase in the RAF Fuel Levy and an increase in the volume of fuel sold over the previous calendar year. Net fuel levies accounted for more than 99% or R17 billion of total revenue. Increases of 8 cents per litre of fuel sold were recorded in the period under review, as well as in the prior financial year.

The Statement of Financial Position remains under-capitalised, with a net deficit of R46,4 billion (2011: R29,9 billion) recorded for 2011/12. It is noteworthy that the RAF has now been actuarially insolvent for over three decades, yet it continues to honour its obligation to claimants. During the year under review, there has been a change in accounting policy with regard to the provision for outstanding claims.

In line with GRAP 19, the liability is split into a provision for outstanding claims amounting to R53,9 billion and a contingent liability of R18,7 billion. The Auditor-General South Africa ("AGSA") has expressed an opinion that the Financial Statements fairly present, in all material respects, the financial position of the RAF, as at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the PFMA.

The details of the change in accounting policy relating to the provision for outstanding claims are captured in Note 35 to the Annual Financial Statements. The detailed notes on the provision for outstanding claims are reflected in Note 12 to the Annual Financial Statements. Importantly, the change in accounting policy has resulted in a reduction of R4,8 billion (2011: R200 million) in the claims expenditure in the Statement of Financial Performance. In the Statement of Financial Position, it has resulted in a reduction of R18,7 billion (2011: R14,1 billion) in the provision for outstanding claims and of R14,1 billion (2011: R13,9 billion) in the opening accumulated deficit.

Total expenditure for the year, excluding the increase in the provision for outstanding claims, decreased by 5% to R13,2 billion (2011: R13,9 billion). Actual cash claims expenditure of R12.5 billion was recorded against revenue and accounted for 92% of total expenses, with the balance being made up of employee costs, i.e. 5%, and administration and other costs, i.e. 3%.

The Fund recorded excess cash resources of R4,2 billion on its balance sheet at year-end, but we consider this to be of a temporary nature as the cause relates to the nature and volume of claims received and processed. Management interventions have been implemented.

During the year under review, the Fund extended an invitation to plaintiff attorneys to submit claims (and relevant evidence) for settlement well in advance of the trial dates, in order to prevent lengthy court procedures and to bring about savings in respect of legal costs. To date, the response has not been overly positive, but we are confident that this initiative will gather momentum. (The RAF has received numerous compliments from plaintiff attorneys in regions where this intervention produced the intended results.)

## Financial Sustainability

As government continues to mould the basis for its Comprehensive Social Security System ("CSSS") plans, there is an increased need for the RAF to fulfil its socio-economic mandate, whilst remaining financially sustainable. Unlike other public entities who serve as pillars of our nation's social security framework, the RAF operates in an environment where:

- Funding, or contributions via the fuel levy are not associated with claim frequencies and costs;
- The beneficiary base is not constituted by past, present or future contributors to the RAF Fuel Levy;
- The benefit available to beneficiaries or claimants is not defined and in some instances is not limited to a maximum value; and
- Social security is not limited to protecting income, support or funding healthcare needs, but extends to all three of the key elements of social security.

Moving into the next financial year, attention will be placed on the identification of funding mechanisms, which are related to the benefits provided by the Fund, clarifying what benefit is available to claimants and determining who may claim for compensation. This is necessary to ensure that the RAF and the commitment of government to support and compensate victims of road accidents remain sustainable.

The Department of Transport's policy proposal to move to a no-fault benefit scheme is welcomed, as this will best meet the needs of the South African public by providing a reasonable, equitable, affordable and sustainable scheme that focuses on medical requirements and rehabilitation. In the short and medium term, government will need to consider interim legislative changes to ensure that inefficiencies in the current compensation system are minimised and contained.

## Operational Efficiency and Effectiveness

In the period under review, there was a 2% reduction in cash claims expenditure. This was largely due to a reduction in the operational processing of claims. The average settlement per claim increased by 17% to R54,808 in 2012 (2011: R46,995), but the number of finalised claims reduced to 149,467 (2011: 187,168). The RAF had hoped to maintain the claims processing rate of past years, but did not manage to do so. Reasons for the reduced claim settlement activity are as follows:

- *The Mvumvu Constitutional Court Case*

The Constitutional Court found it unconstitutional to treat pre-Amendment Act passenger claims (which had not been settled at the date of the judgement) as limited claims (i.e. R25,000), which resulted in the RAF not being able to settle these claims during the year under review.

The estimated effect of this judgement was that between 12,000 and 18,000 claims to the value of approximately R1 billion were not settled, as the introduction of amended legislation in light of the Constitutional Court ruling was awaited. In this regard, the DoT is in the final stages of effecting the requirements of the Constitutional Court and it is anticipated that this process will be completed during the 2012/13 financial year.

- *The Unintended Effect of the Amendment Act (Claims Case Mix)*

The number of personal claims lodged with the RAF reduced substantially after the 2008 Amendment Act was introduced. Prior to the introduction of this Act, the RAF received in excess of 100,000 personal claims annually, of which the majority represented claims for minor injuries (such as 'whiplash' and other soft tissue injuries). Currently, the RAF receives less than 50,000 personal claims per annum, but these claims are mostly for more serious injuries, which require expert medical opinions and the determination of future loss of earnings. As a result, claims of this nature have become more complex and time-consuming to settle. The estimated effect is that approximately 24,000 claims to the value of R2,2 billion require settlement. In addition, a trend has developed where pre-Amendment Act claims for minor injuries have now become claims involving future loss of earnings related to minor to moderate head injuries.

- *Other Contributing Factors*
  - Settlement of post-Amendment Act claims remains low. Some courts have awarded general damages based on the nature of injuries, despite the RAF's findings that these injuries were not serious according to the American Medical Association ("AMA") assessment method. The RAF has appealed a number of these cases, as it was never the intention of the Amendment Act for courts to determine the seriousness of injuries sustained in an accident. In fact, the Amendment Act regulates that an independent medical tribunal should determine whether an injury should be regarded as serious or not. It is expected that these cases will proceed to the Supreme Court of Appeal in the new financial year and that the outcomes will set a precedent for similar cases in future.
  - The list of non-serious injuries, aimed at assisting both the RAF and plaintiff attorneys in determining whether general damages can be paid out in order to settle claims more rapidly, has not been regulated. It is envisaged that these Regulations will be published in the new financial year after consultation with the Minister of Health.

As mentioned, the 2008 Amendment Act, while bringing about savings on the smaller general damages claims, has seen attempts to increase or maximise the value of compensation awarded for pre-Amendment Act claims. By way of example, in some instances the courts have awarded vast future loss of earnings claims for whiplash injuries that were settled as mere general damages claims only a few years ago (i.e. not as special damages).

- *Provision for Claims Incurred*

The reasons for reduced or delayed claim payments listed above have had a material impact on the provision for outstanding claims, which increased to R54 billion. The increase in the provision for claims incurred but not reported ("IBNR") was also affected by the following:

- *Higher Claim Amounts*

During the 2012 financial year, average claim amounts (adjusted for type of claim and delay since accident) were higher than anticipated at the start of the year and comprised almost 41% of the increase in the provision. Average claim amount assumptions were therefore adjusted by the Statutory Actuary in line with the recent claims experience.

- *Payments on Previously Finalised/Settled Claims*

Payments on claims previously settled exceeded the amount included in the opening provision and accounted for 42% of the increase in the provision for claims incurred. At the end of the previous financial year, it was believed that such practices had been eliminated to a large degree and the provision was set accordingly. A detailed investigation was undertaken and it became apparent that although there were indications that the trend had improved over the past year, it still represented a level that was much higher than initially anticipated. Based on the recent historic data, allowance was therefore made for future payments relating to such claims.

The remainder of the increase in the provision relates to slight changes in the actuarial methodology and assumptions to ensure that the provision is accurately measured. More detail on the provision for claims incurred is captured in paragraph 3.2.9 of Section 3 of this Integrated Annual Report.

Despite the aforementioned challenges, a total of 149,467 claims were finalised during the year. Unfortunately, the inappropriate allocation of economic resources continues under the current compensation arrangement. Of the R12,5 billion paid towards claims:

- Only R800 million was paid in medical costs;
- Over R3,5 billion was spent in legal and expert costs;
- Over R3,9 billion was paid in general damages – primarily to persons not seriously injured; and
- Over R4,3 billion was paid for loss of earnings and support.

Success fees (contingency fees) paid to attorneys were estimated to be in the region of R4,5 billion, exacerbating the plight of the hardship victims of accidents suffer. In addition, the average time taken to settle a claim still ranged between 12 to 60 months for non-hospitalised claims, primarily because of the need to prove fault and the subjectivity in determining loss of earnings and support benefits.

During the year under review, the RAF was not able to reduce the backlog of outstanding claims. The backlog increased by an additional 8,459 claims from 244,652 (2011) to 253,111 (3% increase). This is a cause for concern and the Board has prioritised the processing of these claims. It is alarming that these claimants have had to endure such a long wait for assistance.

## Achievements

With regard to legislative enablement, the finalisation of the long-awaited Road Accident Benefit Scheme ("RABS") Policy took place in the year under review and was published on 21 November 2011. The so-called "no-fault policy" provides that victims of road accidents will no longer be required to prove fault or contributory fault on the part of another driver. This will mean that access to emergency healthcare, support and rehabilitation will be immediate and not dependent on an investigation as to how the accident occurred and who was to blame. The focus will rest firmly on the needs of the victim.

Despite a litany of challenges, the RAF finalised a total of 149,467 claims during the 2012 financial year.

In addition, the 2012 financial year saw a conscious improvement in customer-centricity, with initiatives such as the "RAF on the Road" campaign, aimed at enhancing the Fund's accessibility and visibility. RAF employees took to the road to bring the organisation's core service offering directly to communities across the country. 2,059 community members were assisted with RAF claims procedures, 263 claims to the value of R35,9 million were settled on the spot, undertakings were issued, status updates were provided, and potential claimants were encouraged to lodge their claims directly with the RAF.

## Assurance

The comprehensive audit performed by the Auditor-General South Africa has been noted with appreciation. Both systemic and incidental control weaknesses highlighted in the 2011/12 audit will be used by Management to ensure that the RAF discharges its statutory obligation with due care and diligence. We have taken note of all of the audit findings and will actively pursue the full implementation of all Management undertakings. Controls will be established to ensure that fruitless and wasteful expenditure is addressed, that claims processing is compliant with the PFMA and that HR practices yield the desired outcomes.

## Looking to the Future

The RAF's Strategy, as approved by the Board of Directors, is anchored on the following four main pillars:

- A legislative dispensation that is aligned to principles of social security;
- A solvent, liquid and sustainable RAF by 2020;
- A customer-centric, operationally effective and efficient RAF by 2017; and
- A transformed and capacitated RAF by 2017.

All efforts will go into ensuring that these strategic pillars are fulfilled.

The RAF will provide support to the DoT in respect of the process to enact legislation aligned to the RABS Policy, as well as government's CSSS plans. The Fund will focus on financial sustainability and will seek feasible options to adequately capitalise the organisation. Furthermore, the organisation will also commence with the process of developing strategies for reducing legal and operating costs through internal cost management initiatives, regulatory changes and more efficient litigation management. Operational interventions will be introduced and completed in order to provide a seamless and appropriate customer experience. In addition, our national footprint will be expanded to ensure that the total experience for the customer is accessible, available and of a consistently high standard. Finally, the RAF recognises that effective communication, people and leadership are critical to ensure that we provide the highest standard of care to road accident victims to restore balance in the social system, as is captured in the RAF's vision.

## Acknowledgements

I wish to express a heartfelt word of gratitude to the outgoing Minister of Transport, Mr Sibusiso Ndebele, and the Deputy Minister of Transport, Mr Jeremy Cronin, for their ongoing assistance in seeking solutions to the challenges faced by the RAF during the period under review; the Director-General, Mr George Mahlalela, and the officials at the DoT. Our gratitude is also extended to the Chairperson and members of the Portfolio Committee of Transport for the candid guidance given throughout the year.

I extend a warm message of thanks to the Chairman, Vice Chairman and the Directors of the Board of the RAF for the unfettered guidance, leadership, enthusiasm and dedication they have exemplified throughout the financial year under review.

A special word of appreciation is extended to Mr Mandla Mvelase, who "held down the fort" as Acting Chief Executive Officer from 28 July 2011 to end June 2012. And finally, a word of appreciation also goes to the RAF Management and staff for their continued support, loyalty and diligence.

I officially extend a warm welcome to the new Minister of Transport, Mr Ben Martins, and the Deputy Minister, Ms Sindisiwe Chikunga. The Board and employees of the RAF are committed to successfully executing the mandate of the RAF, operating at improved efficiency levels, implementing Ministerial priorities and ensuring that the RAF contributes meaningfully to the improvement of the lives of people.

In conclusion, we recognise those who have lost their lives, been injured or who have lost a loved one in a motor vehicle accident in the financial year under review. Our responsibility going forward is to excellently address the suffering which has arisen and continues to result from motor vehicle accidents.

Watson, E

**Dr Eugene Watson**
Chief Executive Officer
Date: 31 July 2012

## 2.3.1 Board Profiles

### Dr NM Bhengu (Chairperson of the Board)

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

MBChB (University of Natal), Diploma in Anaesthetics (College of Medicine of South Africa), MBA (Wales University, Cardiff), Master of Public Health, Healthcare Management (Harvard University)

**Major Directorships held:**

Nestlé South Africa (Pty) Ltd, South African Nuclear Energy Corporation (Necsa)

**Current Employment:**

Clinix Health Group

### Mr V Mahlangu (Vice-Chairperson of the Board)

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

Diploma in Public Relations (Damelin), National Certificate in Business Administration (Technikon SA), Small Business Development Programme (Unisa), Certificate in Public Sector Governance (Unisa), Certificate in Management Studies (MANCOSA), MBA (General) (MANCOSA)

**Major Directorships held:**

None

**Current Employment:**

Match Commissioner: Confederation of African Football ("CAF")

### Mr JN Masekoameng

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BCom (University of the Witwatersrand), Higher Diploma in Tax Law (University of Johannesburg), Certificate in Labour Law (Unisa), MBL (Unisa School of Business Leadership)

**Major Directorships held:**

Matlotlo Trading CC and Epistar

**Current Employment:**

Chief Executive Officer: Ditsebi Solutions

### Mr T Moyo

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BCom (Accounting) (ROMA), Post-graduate Diploma in Strategic Management (Baruch College City University of New York), MBA (Finance) (Cardiff Business School, Wales University), Risk Management (University of Stellenbosch), Graduate Diploma in Company Direction (Graduate Institute of Management), Executive Development Programme (Harvard Business School), AIRMSA, MCMA (UK)

**Major Directorships held:**

Orion SA (Pty) Ltd, Yokoyo Investments (Pty) Ltd, Alpha Tours Africa (Pty) Ltd, Innovida SA Dubai (Pty) Ltd, Innovida South Africa (Pty) Ltd, Push Umlozi (Pty) Ltd

**Current Employment:**

Chairperson and Chief Executive Officer: Yokoyo Investments (Pty) Ltd, Innovida South Africa (Pty) Ltd and Alpha Tours Africa (Pty) Ltd

## Adv. DS Qocha

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BA (Law) (National University of Lesotho), LLB (National University of Lesotho), Strategic Leadership Programme (GIBS), Broadcasting Policy and Regulation (LINK Centre, Wits), Telecoms Policy Regulation and Management (LINK Centre, Wits) and General Intellectual Property Course (WIPO)

**Major Directorships held:**

None

**Current Employment:**

Deputy Executive Director: National Association of Broadcasters ("NAB")

## Ms NZ Qunta

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BAdmin (University of Zululand), BCom (Hons) (University of Pretoria), MCom (Economics) (University of Pretoria), MBA (University of Oxford Brookes) and Corporate Governance Certificate (Unisa)

**Major Directorships held:**

Mintek, KwaZulu-Natal Tourism

**Current Employment:**

Chief Executive Officer: ZBQ Consulting

## Adv. MJ Ralefatane

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BProc (UNIN), LLB (UNIN), LLM (Labour Law) (RAU), Certificate in Labour Relations (University of Pretoria) and Certificate in Human Rights (University of Pretoria)

**Major Directorships held:**

Gauteng Enterprise Propeller and Gauteng Development Agency

**Current Employment:**

MJ Ralefatane & Associates CC

## Mr DK Smith

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**

BSc (University of Stellenbosch), FASSA, International Senior Management Programme (Harvard Business School)

**Major Directorships held:**

Sanlam Ltd, Mediclinic International Ltd, and Reinsurance Group of America (SA)

**Current Employment:**

Director of Companies

## Ms A Steyn

**Date of Appointment as Non-Executive Director:** 1 October 2010

**Qualifications:**
BSc (University of Stellenbosch)

**Major Directorships held:**
None

**Current Employment:**
Private Practitioner

## Mr LED Hlatshwayo

**Date of Appointment as Non-Executive Director:** 1 October 2011

**Qualifications:**
BCom (University of Zululand), BCompt (Unisa), BCompt/CTA (Hons) (Unisa), CA (SA), and MBA (Potchefstroom University)

**Major Directorships held:**
Central Energy Fund

**Current Employment:**
Chief Investment Officer: Jobs Fund, Development Bank of Southern Africa

## Mr T Tenza

**Date of Appointment as Director-General's Representative on the Board:** 1 January 2010

**Qualifications:**
Secondary Teachers Diploma (Indumiso College), BCom (Unisa), BCom (Hons) (Unisa), Master of Arts in Applied Economics (University of Michigan, USA)

**Major Directorships held:**
None

**Current Employment:**
Acting DDG: Transport Policy and Economic Regulation (DoT), Chief Director: Research and Development (DoT)

## 2.3.2 Executive Profiles

### Dr E Watson

**Position:** Chief Executive Officer (from 1 July 2012)

**Qualifications:**
MBChB (Wits)

**Major Directorships held:**
None

### Mr A Gernandt

**Position:** Chief Operations Officer

**Qualifications:**
BCom (Accounting) (UP), BCom (Hons) CTA (UP), CA (SA), Executive Leadership Programme Certificate (Unisa), Executive Development Programme (GIBS)

**Major Directorships held:**
None

### Ms LJ Fosu

**Position:** Chief Financial Officer (from 1 May 2011 to date)

**Qualifications:**
BCom (Accounting) (University of Limpopo), Post-graduate Diploma in Management (Financial Accounting) (UCT), BCom (Hons) CTA (Unisa), CA (SA)

**Major Directorships held:**
Various

### Mr J Hlabangane

**Position:** Executive: Human Capital

**Qualifications:**
BAdmin (University of the North), Employee Relations Diploma (Wits Business School), Executive Development Programme (GIBS)

**Major Directorships held:**
None

### Mr S Ramessur

**Position:** Chief Information Officer

**Qualifications:**
BSc Computer Science (University of Natal), Certificate in Accounting (Heriott Watt), Certificate in Strategic Information Systems Planning (Heriott Watt), Executive Development Programme (GIBS)

**Major Directorships held:**
None

### Ms L Steele

**Position:** Executive: Legal and Compliance

**Qualifications:**
BA LLB (Wits)

**Major Directorships held:**
None

## Ms N Jafta

**Position:** Executive: Marketing and Communications (from 11 August 2011 to date)

**Qualifications:**

BA (Communications) (University of Fort Hare), Psychology (Hons) (University of Fort Hare), Management Advanced Programme (Wits Business School), Advanced Diploma in Marketing (IMM) (dissertation pending), Effective Leadership Programme (Wharton University)

**Major Directorships held:**

None

## Mr MI Mvelase

**Position:** Executive: Customer Service Network (Acting CEO from 28 July 2011 to 30 June 2012)

**Qualifications:**

Bachelor of Law (University of Zululand), Post-graduate Diploma in Marketing (Unisa), Diploma in Financial Management (Damelin)

**Major Directorships held:**

None

## Mr A Ramavhunga

**Position:** Acting Executive: Customer Service Network (from 19 October 2011 to 30 June 2012)

**Qualifications:**

BSc (Mathematics and Computer Science) (Wits), BSc Hons (Computer Science) (Wits), MBA (GIBS)

**Major Directorships held:**

None

## Ms M Moiloa

**Position:** Executive: Benefit Administration Unit (from 1 April 2011 to 31 January 2012)

**Qualifications:**

BCom (Unisa), Diploma: General Nursing and Midwifery (Ga-Rankuwa College of Nursing)

**Major Directorships held:**

Medshield Medical Scheme, Institute of Directors, Institute of Retirement Funds

## Ms E Janse van Rensburg

**Position:** Acting Executive: Benefit Administration Unit (from 30 January 2012 to date)

**Qualifications:**

BProc (UP)

**Major Directorships held:**

None

## 2.4 Corporate Governance

### 2.4.1 Introduction

Good governance, according to King III, rests on the four fundamental principles of *fairness, accountability, responsibility and transparency*. Fairness means that the interests of all stakeholders must be taken into account. Within the context of the RAF, "stakeholders" are defined as persons, groups or organisations that have a direct stake in our business because they can affect or be affected by our activities, objectives and policies. Accountability refers to the ability of a Board to explain and justify its actions, while responsibility refers to the obligation of the Board to take good care of the assets, investments and interests of the stakeholders. Transparency implies disclosure of the organisation's financial, risk, social and environmental performance.

The philosophy underlying King III is concerned with three principles:

- Effective leadership characterised by the four fundamental principles, as well as the concept of *Ubuntu*, a South African concept that includes mutual support and respect, interdependence, unity, collective work and responsibility;
- Sustainability, which implies conducting an entity's operations in such a manner that existing needs are met while taking into consideration the impact of its operations on future generations. An entity is expected to be a responsible citizen that must, in an integrated manner, take social, environmental and economic issues into consideration when formulating strategy, risk and performance. The entity must therefore not only report on sustainability, but its performance must be sustainable; and
- Corporate citizenship, based on the Constitution, which imposes responsibilities on individuals and corporate entities alike, to ensure that people can rely on the realisation of fundamental rights.

King III applies to all entities and not only listed companies, but acknowledges that it is almost impossible for one set of rules to apply equally to all the variants of corporate life. Accordingly, King III follows an "apply or explain" approach where the Board may decide not to follow a principle in particular circumstances, yet still achieve standards of good corporate governance. The starting point for the Board, however, is always to ensure that legal requirements are met.

King III is a stakeholder-centric model which is based on the precept that, in taking the legitimate interests of stakeholders of the entity into consideration, the best interests of the entity are served. As such, success is defined in terms of the long-term positive impact on all stakeholders. Stakeholders, therefore, need to assess the sustainability of the entity, including aspects such as brand, goodwill, quality of management and risk management and whether sustainability issues have been taken into consideration. This report accordingly provides sufficient information for stakeholders to make informed decisions.

### 2.4.2 Board Structure

The Board of the RAF consists of 11 Non-Executive Directors, including a representative of the Department of Transport ("DoT"). The Road Accident Fund Act, 1996 (Act No. 56 of 1996) ("the RAF Act") provides that the Minister of Transport, who exercises control over the RAF on behalf of the government of the Republic of South Africa, appoints the Chairperson, Vice-Chairperson and Non-Executive Directors to the Board. The Minister also appoints the Chief Executive Officer ("CEO") on such terms and conditions as may be determined by the Board.

The standard term of a Non-Executive Director is three years. Non-Executive Directors are eligible for re-appointment for a further two terms. The Executive Management team is appointed by the CEO, after consultation with the Board. Executive Management is employed on the basis of either a standard permanent employment contract or a fixed-term contract. The maximum duration of fixed-term contracts is three years. The Board is required to meet as often as the business of the RAF requires, but at least four times a year.

Directors have unrestricted access to the advice and services of the Corporate Secretary. In addition, the Directors are entitled to obtain independent, professional advice at the RAF's expense, where they deem it necessary.

Directors receive ongoing training as they attend relevant courses throughout the year, as presented by various service providers including the Institute of Directors.

### 2.4.3 Composition of the Board

The current Board was appointed on a three-year term, which commenced on 1 October 2010. The Members of the Board, including their profiles are presented under Section 2.3.1 above.

### 2.4.4 Powers and Functions of the Board

According to section 11 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996):

(1) "The Board shall, subject to the powers of the Minister, exercise overall authority and control over the financial position, operation and management of the Fund, and may *inter alia*:

- (a) Make recommendations to the Minister in respect of:
  - (i) The annual budget of the Fund;
  - (ii) Any amendment to this Act;
  - (iii) Entering into an agreement with any institution referred to in section 9;
  - (iv) (This sub-paragraph was deleted by section 4 of Act No. 19 of 2005 with effect from 31 July 2006);
  - (v) Any regulation to be made under this Act.
- (b) Terminate the appointment of any agent and determine conditions on which such appointment is effected or terminated;
- (c) Approve the appointment, determination of conditions of employment and dismissal by the Chief Executive Officer ("CEO") of staff of the Fund on management level;
- (d) Approve internal rules and directions in respect of the Management of the Fund;
- (e) Approve loans made or given by the Fund;
- (f) Approve donations for research in connection with any matter regarding injuries sustained in motor vehicle accidents;
- (g) Determine guidelines in relation to the investment of the money of the Fund; and
- (h) Delegate or assign to the CEO and any member of the staff of the Fund any power or duty of the Board as it may deem fit, but shall not be divested of any power or duty so delegated or assigned, and may amend or withdraw any decision made by virtue of such delegation or assignment.

(2) The Board may report to the Minister of Transport as often as it deems necessary, but shall at least once during a financial year, or when requested by the Minister to do so, report to the Minister regarding matters dealt with during that year, or as requested by the Minister.

(3) A quorum for any meeting of the Board shall be a majority of its voting members.

(4) The Board shall meet as often as the business of the Fund may require.

(5) (a) The Members of the Board referred to in section 10(1)(a) shall be reimbursed by the Fund for all reasonable expenses incurred in attending meetings of the Board.

(b) Members of the Board shall be remunerated by the Fund for services rendered as such Members, and reimbursed for all reasonable expenses incurred in attending meetings of the Board, provided that the Chairperson of the Board may receive such higher remuneration than that of the other Members, as may be determined by the Board.

(6) (a) Resolutions of the Board shall, whenever practicable, be taken on the basis of consensus.

(b) If consensus cannot be reached and except where otherwise expressly provided, all matters before the Board shall be decided by a majority of the votes cast."

### 2.4.5 The Board: Duties and Responsibilities

The Board is governed by the RAF Corporate Charter, which details the roles, structures and functions of the Board, its various Board Sub-Committees, Chairs and CEO. The Board is responsible for determining the overall direction of the RAF. This is guided by a five-year Strategic Plan and Annual Performance Plan, which were submitted to the Executive Authority, the Minister of Transport, by the end of January 2012, as prescribed in terms of National Treasury Instruction Note No. 33. The Board is also responsible for formulating and implementing policies that are necessary to achieve the RAF's strategic goals and maintain good governance.

In line with King III, the Board is tasked with providing ethical leadership, managing the organisation's ethics effectively and ensuring that the entity is not only a responsible citizen, but is manifestly so. Corporate governance principles should be adhered to while fully appreciating that strategy, risk, performance and sustainability are integrated. Broadly speaking, the Board is expected to act in the best interests of the entity.

The Board is responsible for ensuring that an effective and independent Audit Committee exists that must conduct risk-based internal audits. The Audit Committee must consist of independent Non-Executive Directors and the Chairman may not serve as the Chairman of the Board. The Board is also responsible for compliance by the entity with all laws and codes and the integrity of the sustainability report, based on the principles of transparency and accountability.

Issues that receive the Board's particular attention include IT governance, which should be aligned with the objectives of the RAF in terms of performance and sustainability. Business rescue provisions, in the event that the entity has financial difficulties that have not been adequately addressed, are highlighted, since it is important to ensure that entities that are still financially viable or morally accountable should, where possible, be saved in the interests of all the stakeholders.

As part of the Board's responsibility for risk governance, the Board pre-determines the acceptable levels of risk and monitors that risks taken are within set parameters. The Audit or Risk Management Committee assists the Board in carrying out this function.

The Board is tasked with monitoring the efficiency and effectiveness of Management and renders support to Management in implementing the strategies and policies of the Board. The onus to provide effective, compliant corporate governance is collectively assumed by the Board.

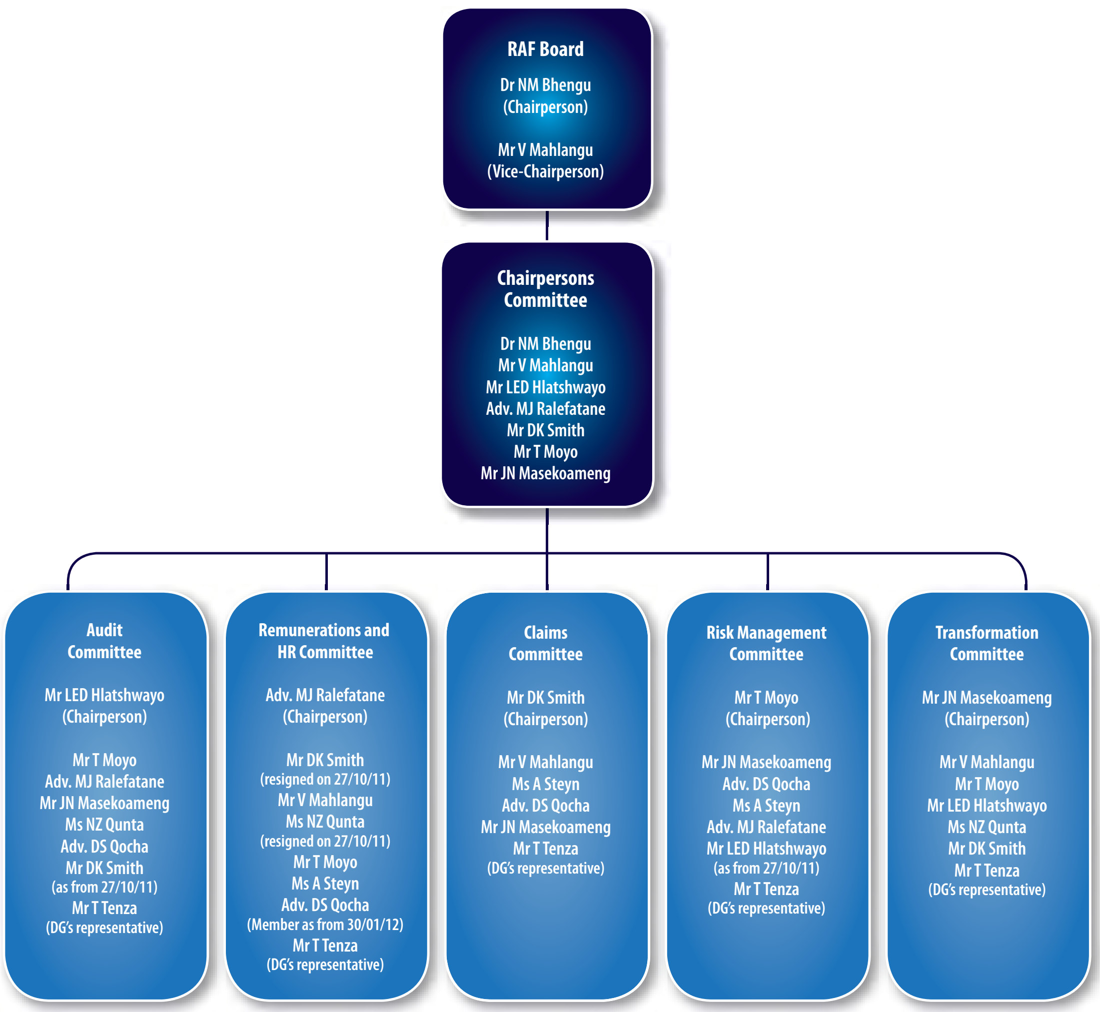
The RAF reviews its processes and practices on an ongoing basis to:

- Ensure compliance with legal obligations;
- Ensure the maintenance of appropriate internal controls and risk management policies and practices;
- Ensure the use of RAF funds in an economical, efficient and effective manner;
- Ensure adherence to good corporate governance practices that are continually benchmarked; and
- Assess the impact of the RAF's operations on society, the economy and the environment.

The processes and practices are underpinned by the principles of transparency, integrity and accountability and an inclusive approach that recognises the importance of all stakeholders and of managing stakeholder relationships and perceptions to ensure the viability and sustainability of the RAF.

### 2.4.6 Committees of the Board

The Corporate Charter of the RAF outlines the functions of the Sub-Committees of the Board, including the composition, role and responsibilities, delegated authority and meeting requirements in respect of each of the Sub-Committees. The Board has established the following Sub-Committees: Audit Committee; Risk Management Committee; Claims Committee; Remuneration and Human Resources Committee; Transformation Committee and Chairperson's Committee (*ad hoc*).



The Board retains full and effective control over the operations of the organisation and has delegated some of its powers to Sub-Committees, the CEO and Executive Management through a Delegation of Authority framework. The Delegation of Authority does not dilute the duties, responsibilities and accountability of the individual Directors and the Board as a whole.

### *2.4.6.1 Audit Committee*

| Audit Committee Members (Board) | Role |
|---|---|
| LED Hlatshwayo | Chairperson (as of 27 October 2011) |
| T Moyo | Member (Chairperson: 1 April 2011 to 26 October 2011) |
| MJ Ralefatane | Member |
| JN Masekoameng | Member |
| NZ Qunta | Member |
| DS Qocha | Member |
| DK Smith | Member (as from 27 October 2011) |
| T Tenza | (DG's representative) |

In compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA"), as well as the Treasury Regulations issued in terms of the PFMA, the Board, as the Accounting Authority, has established an Audit Committee. The Committee consists of five Non-Executive Directors. The Chairperson is appointed by the Board and is an independent Non-Executive Director of the Board. The majority of current Audit Committee Members are deemed to be independent. The Chairperson of the Board is not eligible to chair the Audit Committee. The Audit Committee meets at least four times a year, but may meet more frequently when necessary. The Committee may invite the Chairperson of the Board, the Chief Financial Officer, external auditors or the Chief Audit Executive, or any other person to attend meetings. The Committee meets with Internal Audit, the Auditor-General of South Africa, or an external auditor, at least quarterly to ensure that there are no unresolved issues of concern.

The Board has taken cognisance of the recommendations contained in King III that the Audit Committee should entirely consist of independent Non-Executive Directors, and possess a broader range of skills and experience collectively with regard to integrated reporting, internal controls, external and internal audit processes, corporate law, risk management, sustainability issues, IT governance and governance processes. The Members elected collectively represent the skills base required. Augmentation of skills takes place by means of ongoing training, presented by various institutions.

The Audit Charter is reviewed annually and approved by the Board.

The overall objective of the Audit Committee is to assist the Board of the RAF in ensuring that Management has created and maintained effective risk management, and an effective internal control environment in the organisation, and that Management demonstrates and stimulates the necessary respect of the internal control and governance structures for the achievement of the objectives and goals of the organisation, as well as the management of risks to an acceptable level. The Audit Committee further accepts responsibility for the Integrated Annual Report.

The Committee satisfies itself of the level of expertise and resources of the Finance Department. The Chairman of the Audit Committee formed part of the interview panel to appoint the Chief Financial Officer ("CFO").

The Audit Committee Report, on page 136 of the Annual Financial Statements provides a full description of its remit. The report includes commentary on internal financial controls, external audit, going concern, risk management, internal audit, sustainability reporting and the expertise of the CFO and the finance function.

### *2.4.6.2 Remuneration and Human Resources Committee*

| REMCO Members (Board) | Role |
|---|---|
| MJ Ralefatane | Chairperson |
| DK Smith | Member (resigned 27 October 2011) |
| V Mahlangu | Member |
| NZ Qunta | Member (resigned 27 October 2011) |
| T Moyo | Member |
| A Steyn | Member |
| DS Qocha | Member (as of 30 January 2011) |
| T Tenza | DG's representative |

The Remuneration and Human Resources Committee ("REMCO") consists of four Non-Executive Directors. The CEO is an *ex officio* member of the Committee. The Chairperson is appointed by the Board and is an independent, Non-Executive Director. The Committee meets twice a year, or as often as necessary.

REMCO is responsible for developing and implementing a competitive Human Resources ("HR") Strategy to ensure that the RAF is able to attract, retain and develop the best possible talent to support superior business performance. The objective is to create an organisational culture, structure and processes to support the development of people and the optimisation of their potential. The HR Strategy forms part of the Strategic Plan and REMCO is responsible for enforcing, monitoring and auditing development and progress.

The functions of REMCO include, but are not limited to the following:

- Overseeing the setting and administration of remuneration at all levels in the RAF;
- Ensuring that there is a Remuneration Policy in place, which promotes the achievement of the RAF's strategic objectives and encourages individual performance;
- Reviewing the outcome of the implementation of the Remuneration Policy to ensure that the set objectives are being achieved;
- Ensuring that a mix of fixed and variable pay meets the RAF's needs and strategic objectives;
- Satisfying itself as to the accuracy of recorded performance measures that govern the vesting of incentives;
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified and correctly valued;
- Considering the results of the performance evaluation of the CEO and Executives in determining remuneration;
- Selecting an appropriate comparative group when comparing remuneration levels;
- Developing appropriate HR Policies for the RAF;
- Monitoring the implementation of the RAF's HR Strategy, Employment Equity ("EE") Policy and Skills Development Plan; and
- Overseeing the preparation and recommending to the Board the Remuneration Report, to be included in the Integrated Report, with specific reference to accuracy, completeness and transparency.

The Committee is required to ensure that the report provides a clear explanation of how the Remuneration Policy has been implemented.

### *2.4.6.3 Claims Committee*

| Claims Committee Members (Board) | Role |
|---|---|
| DK Smith | Chairperson |
| V Mahlangu | Member |
| JN Masekoameng | Member |
| A Steyn | Member |
| DS Qocha | Member |
| T Tenza | DG's representative |

The Claims Committee consists of five Non-Executive Directors. The CEO is an *ex officio* member of the Committee. The Chairperson is appointed by the Board and is an independent, Non-Executive Director. The Committee meets four times a year, or as often as necessary. The Chief Operations Officer ("COO") and other Executives attend meetings of the Claims Committee, as and when required.

The functions of this Committee include, but are not limited to, the following:

- The setting up of appropriate policies and procedures relating to all aspects of claims administration;
- Approving strategies relating to the streamlining of activities in the claims operations environment and improvement of service delivery;
- Monitoring the performance of the claims operations of the RAF;
- Monitoring settlement of claims in excess of R5 million;
- Recommending the valuation of the outstanding claims liability to the Board for approval; and
- Overseeing legislative amendments pertaining to the RAF Act.

### *2.4.6.4 Risk Management Committee*

| Risk Management Committee Members (Board) | Role |
|---|---|
| T Moyo | Chairperson |
| JN Masekoameng | Member |
| DS Qocha | Member |
| A Steyn | Member |
| MJ Ralefatane | Member |
| LED Hlatshwayo | Member (as of 27 October 2011) |
| T Tenza | DG's representative |

The Board of the RAF has an established Risk Management Committee in compliance with the PFMA, as well as the Treasury Regulations issued in terms of the PFMA. The Committee consists of five Non-Executive Directors appointed by the Board. The Chairperson is an independent, Non-Executive Director of the Board. The CEO is an *ex officio* member of the Committee. The Committee Chairperson is knowledgeable of the status of the position, and has the requisite business, financial and leadership skills. This Committee meets at least four times a year, but may meet more frequently when necessary. The Committee may invite the Chairperson of the Board, the CFO, or any other person to attend meetings.

Risk management remains an integral part of RAF operations. The Risk Management Committee of the Board is satisfied that during the 2012 financial year, the risks were managed within the risk appetite set by the Board and that sufficient monitoring, reporting and controls exist to ensure that risks are effectively managed.

The roles and responsibilities of the Risk Management Committee include:

- Ensuring that the RAF has implemented an effective policy and plan for risk management that will enhance the RAF's ability to achieve its strategic objectives;
- Ensuring that disclosure regarding risk is comprehensive, timely and relevant;
- Overseeing the development and annual review of a policy and plan for risk management to recommend to the Board for approval;
- Monitoring the implementation of the Risk Management Policy and Plan by means of risk management systems and processes;
- Ensuring that the Risk Management Plan is widely disseminated throughout the organisation and integrated in the day-to-day activities of the RAF;
- Monitoring the quality, integrity and reliability of the organisation's Risk Management Framework;
- Reviewing and assessing that the integrity of risk control systems and strategies are in place and are effectively managed;
- Making recommendations to the Board concerning the levels of tolerance and appetite, as approved by the Board;
- Ensuring that risk management assessments are performed on a continuous basis;
- Ensuring that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;
- Ensuring that Management considers and implements appropriate risk responses;
- Ensuring that continuous risk monitoring by Management takes place; and
- Monitoring external developments relating to the practice of corporate risk accountability and the reporting of specifically associated risks, including emerging external risk trends and their impact on the RAF.

In line with King III, the Risk Committee reviews its mandate on a regular basis to ensure its responsibilities are adequately addressed.

The Committee ensures that its processes assist Management to consider all risk areas in any decisions or recommendations made to the Board, and ensures that subsequent risks that may arise from time to time are considered and reviewed. In addition, the Committee:

- Reviews the reinsurance protection of the RAF, including type of cover, limits and deductibles and ensures that the Board is apprised of uninsured and uninsurable risks;
- Together with the RAF's Corporate Legal Services Department, reviews any legal matters that could have a significant impact on the organisation's business and monitors the decision-making processes within the RAF;
- Reviews information to be provided in the Integrated Annual Report of the organisation related to risk management and makes recommendations to the Board to ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- In carrying out its responsibilities under these terms of reference and via the co-ordinating official, is authorised to investigate any activity within its terms of reference and may, as and when required, obtain independent professional and legal advice, or appoint any advisors or consultants to assist in executing its duties;
- Ensures that all decisions support and promote the RAF's Risk Management Strategy;
- Conducts a self-assessment of its performance and effectiveness at least once a year and evaluates the performance of the Risk Manager;
- Liaises closely with the Audit Committee to exchange information relevant to risk;
- Provides a formal opinion to the Board on the effectiveness of the risk management system and processes; and
- Reviews reporting pertaining to risk management to be included in the Integrated Annual Report with regard to relevance, comprehensiveness and timeliness.

A Risk Management Policy and Risk Management Framework have been approved that are supported by strong risk management methodologies overseen by the Risk Management Committee. A Senior Risk Manager oversees the operational aspects of risk management within the RAF.

On an annual basis, the Board undertakes a risk assessment whereby the top risks of the organisation are identified. A full Risk Strategy is then developed to address the identified risks. The top eight risks identified by the Board are as follows:

- Solvency;
- Leadership, people management and change management;
- Fraud and corruption;
- Reputation and image;
- Implementation of the New Operating Model;
- Regulatory framework/environment/legislation;
- Liquidity; and
- Claims backlog.

Details on these risks and the systems put in place by the RAF to manage the risks are disclosed in Section 3 of this report.

### *2.4.6.5 Chairperson's Committee*

The Chairperson's Committee is an *ad hoc* Committee that meets as and when required by the Board to deal, among other issues, with matters of emergency that cannot be dealt with through special Board meetings. There was no need to meet during the year under review.

| Chairperson's Committee of the Board |
|---|
| NM Bhengu (Chairperson) |
| V Mahlangu (Vice-Chairperson) |
| LED Hlatshwayo (Chairperson – Audit Committee) |
| DK Smith (Chairperson – Claims Committee) |
| MJ Ralefatane (Chairperson – Remuneration and Human Resources Committee) |
| T Moyo (Chairperson – Risk Committee) |
| JN Masekoameng (Chairperson – Transformation Committee |

### *2.4.6.6 Transformation Committee*

| Transformation Committee of the Board | Role |
|---|---|
| JN Masekoameng | Chairperson |
| V Mahlangu | Member |
| T Moyo | Member |
| LED Hlatshwayo | Member |
| NZ Qunta | Member |
| DK Smith | Member |
| T Tenza | DG's representative |

The Board of the RAF established a Transformation Committee on 27 October 2011. This Committee consists of six Non-Executive Directors. The CEO is an *ex officio* member of the Committee. The Chairperson is appointed by the Board and is an independent, Non-Executive Director. The Committee meets twice a year, or as often as necessary. Executives attend meetings of the Transformation Committee, as and when required.

The functions of this Committee include, but are not limited to, the following:

- Providing strategic direction and overseeing the implementation of the New Operating Model ("NOM") as provided for in the RAF's organisational blueprint ("the diagnostic");
- Oversight of the implementation of change management interventions;
- Financial monitoring of all transformation activities;
- Monitoring and evaluation of the implementation progress and effectiveness of the NOM in achieving organisational strategic objectives;
- Any other efforts that support transformation;
- Performing an ongoing cost benefit analysis in order to ensure a return on investment in the NOM; and
- Providing assistance to the CEO in devising strategies that will ensure efficient and cost-effective service delivery and streamlining of activities under the NOM.

## 2.4.7 Attendance of Meetings

### *Board Attendance*

| Board Members | 26 April 2011 | 11 May 2011 | 1 June 2011 | 24 June 2011 | 29 June 2011 | 28 July 2011 | 30 August 2011 | 13 September 2011 | 26 September 2011 | 27 September 2011 | 27 October 2011 | 28 November 2011 | 13 January 2012* | 14 January 2012 | 30 January 2012 | 29 March 2012 | Total of 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NM Bhengu | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 16 |
| V Mahlangu | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | x | √ | √ | 15 |
| JN Masekoameng | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | √ | 16 |
| T Moyo | √ | √ | √ | √ | x | √ | x | √ | √ | √ | √ | √ | √ | √ | √ | √ | 14 |
| DS Qocha | √ | √ | √ | √ | √ | √ | x | √ | √ | √ | √ | x | √ | √ | √ | √ | 14 |
| NZ Qunta | √ | √ | √ | √ | √ | √ | √ | x | √ | √ | √ | √ | √ | √ | √ | √ | 15 |
| MJ Ralefatane | √ | √ | √ | √ | x | √ | √ | √ | √ | x | √ | √ | √ | √ | √ | √ | 14 |
| DK Smith | √ | √ | √ | √ | √ | √ | x | √ | x | x | √ | x | √ | √ | √ | √ | 12 |
| A Steyn | √ | √ | √ | √ | √ | √ | x | √ | √ | x | √ | √ | √ | √ | √ | √ | 14 |
| LED Hlatshwayo | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | √ | √ | √ | √ | √ | √ | √ | 7 |
| T Tenza (DG's representative) | √ | √ | √ | √ | √ | x | √ | √ | √ | x | √ | √ | √ | √ | √ | √ | 14 |
| CEO (*Ex officio*) | √ | √ | √ | x | √ | √ | √ | √ | √ | N/A | √ | √ | x | x | √ | √ | 12 |

* *Apologies were tendered for meetings not attended.*

### *Audit Committee Attendance*

| Board Members | 26 April 2011 | 17 May 2011 | 21 June 2011 | 26 July 2011 | 27 July 2011 | 3 August 2011 | 24 October 2011 | 24 November 2011 | 27 January 2012 | Total of 9 |
|---|---|---|---|---|---|---|---|---|---|---|
| T Moyo (Chairperson until 27 October 2011) | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| LED Hlatshwayo (Chairperson as of 27 October 2011) | N/A | N/A | N/A | N/A | N/A | N/A | √ | √ | √ | 3 |
| MJ Ralefatane | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| JN Masekoameng | √ | √ | √ | √ | √ | √ | √ | x | √ | 8 |
| NZ Qunta | √ | √ | √ | x | √ | √ | x | √ | √ | 7 |
| DS Qocha | √ | √ | √ | x | √ | √ | √ | √ | √ | 8 |
| DK Smith (as of 27 October 2011) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | x | √ | 1 |
| T Tenza (DG's representative) | √ | √ | √ | √ | x | x | √ | √ | x | 6 |
| CEO (*Ex officio*) | √ | √ | √ | √ | x | x | √ | √ | √ | 7 |

* *Apologies were tendered for meetings not attended.*

### *Claims Committee Attendance*

| Claims Committee Members | 25 May 2011 | 21 July 2011 | 26 October 2011 | 28 February 2012 | Total of 4 |
|---|---|---|---|---|---|
| DK Smith | √ | √ | √ | √ | 4 |
| V Mahlangu | √ | √ | √ | √ | 4 |
| JN Masekoameng | √ | √ | √ | x | 3 |
| A Steyn | √ | √ | √ | √ | 4 |
| DS Qocha | √ | x | √ | √ | 3 |
| T Tenza (DG's representative) | √ | √ | √ | √ | 4 |
| CEO (*Ex officio*) | √ | √ | √ | √ | 4 |

* *Apologies were tendered for meetings not attended.*

## *Risk Management Committee Attendance*

| Risk Management Committee Members | 24 May 2011 | 15 July 2011 | 10 October 2011 | 30 March 2012 | Total of 4 |
|---|---|---|---|---|---|
| T Moyo | √ | √ | √ | √ | 4 |
| J Masekoameng | √ | √ | √ | √ | 4 |
| DS Qocha | √ | √ | √ | √ | 4 |
| A Steyn | √ | √ | √ | √ | 4 |
| MJ Ralefatane | x | √ | √ | x | 2 |
| LED Hlatshwayo | N/A | N/A | N/A | x | 0 |
| T Tenza (DG's representative) | x | x | x | √ | 1 |
| CEO *(Ex officio)* | √ | √ | √ | x | 3 |

* *Apologies were tendered for meetings not attended.*

## *Remuneration and Human Resources Committee Attendance*

| REMCO Members | 9 June 2011 | 4 July 2011 | 13 September 2011 | 19 October 2011 | 28 November 2011 | 28 February 2012 | 29 March 2012 | Total of 7 |
|---|---|---|---|---|---|---|---|---|
| MJ Ralefatane | √ | √ | √ | √ | √ | √ | √ | 7 |
| DK Smith (resigned 27 October 2011) | x | √ | x | x | x | N/A | N/A | 1 |
| V Mahlangu | √ | √ | √ | √ | √ | √ | √ | 7 |
| NZ Qunta (resigned 27 October 2011) | √ | √ | √ | √ | √ | N/A | N/A | 5 |
| T Moyo | √ | √ | √ | √ | √ | √ | √ | 7 |
| A Steyn | √ | √ | √ | √ | √ | √ | √ | 7 |
| DS Qocha (as of 30 January 2012) | N/A | N/A | N/A | N/A | N/A | √ | √ | 2 |
| T Tenza (DG's representative) | x | √ | x | √ | x | √ | x | 3 |
| CEO *(Ex officio)* | √ | √ | √ | √ | √ | √ | √ | 7 |

* *Apologies were tendered for meetings not attended.*

## *Transformation Committee Attendance*

| Transcom Members | 20 January 2012 | Total of 1 |
|---|---|---|
| JN Masekoameng | √ | 1 |
| V Mahlangu | √ | 1 |
| T Moyo | √ | 1 |
| LED Hlatshwayo | √ | 1 |
| NZ Qunta | √ | 1 |
| DK Smith | x | 0 |
| T Tenza (DG's representative) | √ | 1 |
| CEO *(Ex officio)* | √ | 1 |

* *Apologies were tendered for meetings not attended.*

## *Chairpersons' Committee Attendance*

| Chairpersons' Committee Members | 4 April 2011 | Total – of 1 |
|---|---|---|
| NM Bhengu | √ | 1 |
| V Mahlangu | √ | 1 |
| T Moyo | √ | 1 |
| MJ Ralefatane | √ | 1 |
| DK Smith | x | 0 |

* *Apologies were tendered for meetings not attended.*

### 2.4.8 Remuneration of Directors

The Minister of Transport determines the remuneration of RAF Directors, taking cognisance of National Treasury guidelines, as well as the RAF's ability to attract and retain the leadership necessary for the turnaround of the organisation. National Treasury annually determines a cost of living increment.

Directors' as well as Executives' emoluments are set out in Note 28 to the Annual Financial Statements.

### 2.4.9 Performance Assessment

A formal evaluation of the Board, its Committees and the individual Directors will be performed during the next financial year.

### 2.4.10 Performance Agreement

The RAF concludes, on an annual basis, a Performance Agreement ("the Agreement") with its Executive Authority, the Minister of Transport. The Agreement documents the key performance indicators ("KPIs") to be attained by the RAF, as agreed between the Board and the Minister. The Agreement serves to promote and encourage good governance practices within the RAF, by clarifying the respective roles and responsibilities of the Board and the Minister. The Agreement provides the Minister with a mechanism to direct the activities of the RAF in line with the national strategic objectives of government.

The performance objectives agreed with the Minister for the current financial year are reflected on pages 124 to 131.

The RAF's performance against these objectives was audited by the Auditor-General of South Africa, whose report is contained on pages 134 and 135 of this Integrated Annual Report.

### 2.4.11 The Public Finance Management Act, 1999

The PFMA provides strong guidance to public entities on good corporate governance. The Board developed a dedicated capacity to ensure compliance with the PFMA. The responsibilities of the Board, as defined in section 51 of the PFMA, include taking appropriate action to ensure:

- Effective, efficient and transparent systems of financial and risk management and internal control;
- That a system is maintained for properly evaluating all major capital projects prior to a final decision on each project;
- The implementation of appropriate and effective measures to prevent unauthorised, irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct;
- That all revenues due to the RAF are collected;
- The economical and efficient management of available working capital; and
- The definition of objectives and the allocation of resources in an economical, efficient, effective and transparent manner.

### 2.4.12 Code of Conduct and Ethical Standards

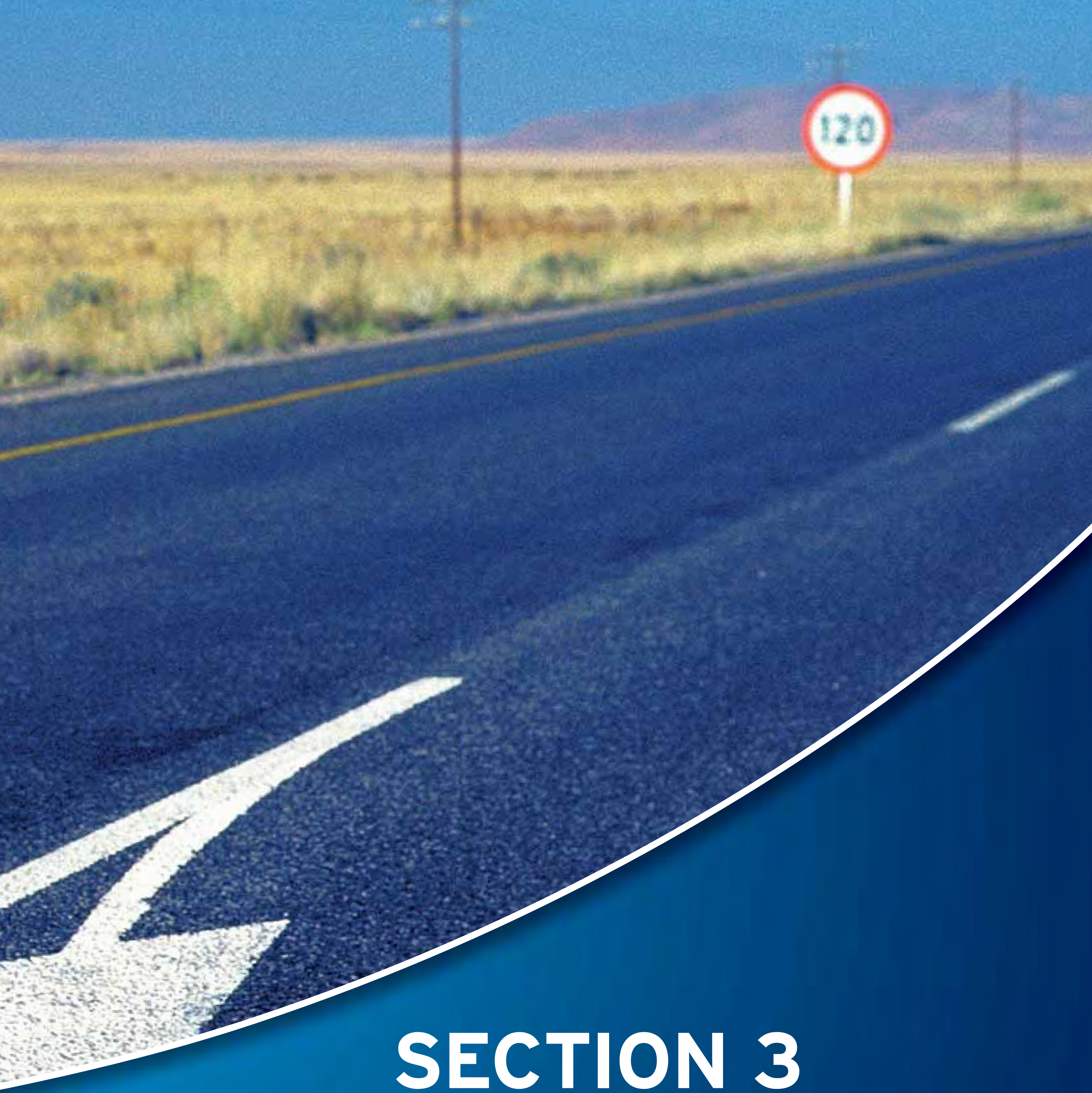
The responsibility of building and sustaining an ethical corporate culture is shared equally by the Board and Management.

An approved Code of Conduct, which should be read in conjunction with the Conflict of Interest Policy, defines the RAF's organisational values and requires adherence by Directors, employees and contractors to the RAF in accordance with the ethics prescribed in these documents. The purpose of the Code of Conduct and the Conflict of Interest Policy is to set ethical standards and values applicable to all Directors, employees and contractors of the RAF. These documents are intended to assist in fostering adherence to the highest ethical standards within the RAF and to clarify issues, policies and protocols relating to fraud, corruption and unacceptable conduct.

The Board has established effective procedures in terms of the Code of Conduct and Conflict of Interest Policy to enable the Board/Management to manage and address issues related to the declaration and management of conflict of interests pertaining to financial and business interests, recruitment and selection, procurement, as well as dealings with stakeholders. Related matters dealt with include the use of the organisation's assets, protection of confidentiality and obligations of Management and the Board.

The Code of Conduct prescribes the mechanisms in place to deal with deviant behaviour.

The Audit Committee receives and deals with any concerns or complaints, whether from within or outside the RAF, relating to the accounting practice and internal audit of the RAF, the content or auditing of the RAF's Financial Statements, the internal financial controls of the RAF and related matters.




# SECTION 3
## Organisational Performance

## 3.1 Operating Environment

### 3.1.1 Legal Framework

The central goals of the RAF, namely service delivery in terms of our mandate, the optimisation of our business and ultimately the sustainability of the RAF, rely significantly on the legislative environment in which the organisation operates. The current legislative environment hinders rather than enables the RAF in the attainment of this vision, since it is based on fault and insurance principles. Achieving operational efficiency and effectiveness in a system that is complex, encourages litigation and focuses on the cause of the accident rather than the immediate medical and financial needs of victims, is challenging.

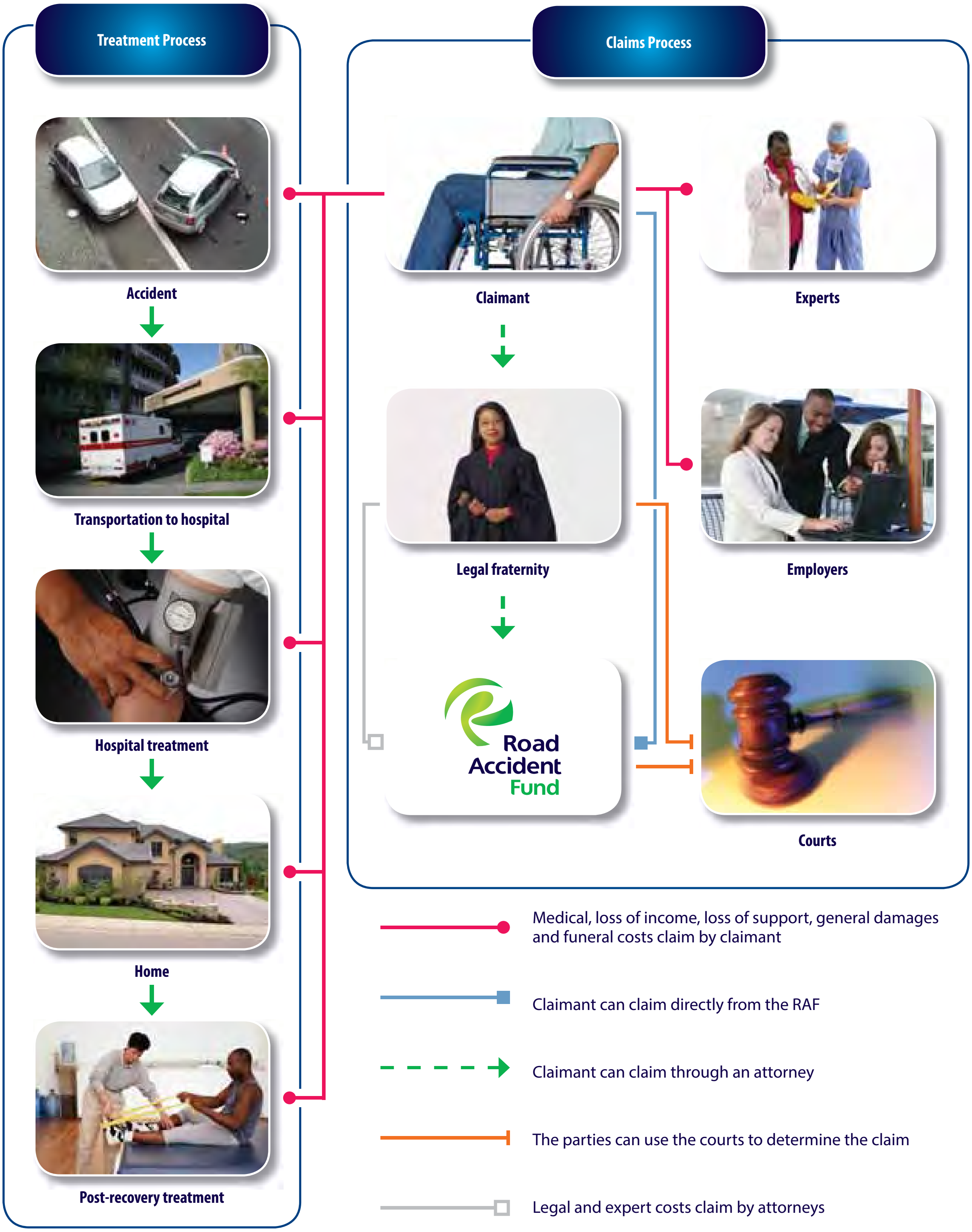



*Figure 3.1 – RAF operating environment*

### *3.1.1.1 Legal Mandate*

The Road Accident Fund Act, 1996 (Act No. 56 of 1996) ("the RAF Act") was amended by the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) (hereinafter referred to as the "RAF Amendment Act").

The RAF is responsible for providing appropriate cover to all road users within the borders of South Africa and, in a timely and caring manner, to rehabilitate and compensate persons injured as a result of the driving of motor vehicles. Section 3 of the RAF Act stipulates that "The object of the Fund shall be the payment of compensation in accordance with this Act for loss or damage wrongfully caused by the driving of a motor vehicle". The client base of the RAF therefore comprises not only the South African public, but all foreigners within the borders of the country. The RAF provides two types of cover, namely personal insurance cover to accident victims or their families and indemnity cover to wrongdoers.

The provisions of the RAF Act govern all claims arising from motor vehicle accidents that occurred before 1 August 2008. Motor vehicle accidents that occurred after midnight on 31 July 2008 are governed by the provisions of the RAF Amendment Act. The implications of some of the changes effected to the system of compulsory motor vehicle insurance by the RAF Amendment Act are explained below.

The RAF Amendment Act provides a more equitable, sustainable and reasonable system to compensate victims of road traffic accidents in that it:

- Removes discrimination that existed in the RAF Act, particularly relating to certain passenger claims;
- Reduces abuse through the introduction of caps on loss of earnings and loss of support claims; limiting access to general damages; and abolishing claims for secondary emotional shock; and
- Assists the poor in obtaining treatment in an emergency by determining that the healthcare providers will be paid at private sector rates.

Despite the positive outcomes of the RAF Amendment Act, the Law Society of South Africa and a number of other applicants brought an application challenging the constitutional validity of certain provisions of this Act, as well as certain Regulations thereto. The application was heard in the North Gauteng High Court and the court dismissed all but one of the challenges, which related to the place of lodgement of claims.

The applicants applied for leave to appeal to the Constitutional Court so as to challenge the constitutional validity of the provisions in the RAF Amendment Act relating to:

- The medical tariff for non-emergency medical treatment (the Uniform Patient Fee Structure for fees payable by full-paying patients prescribed by the National Health Act, 2003 (Act No. 61 of 2003));
- The limitation of the RAF's liability for loss of income and support; and
- The abolition of the common law right to claim the balance of damages from the wrongdoer.

Judgement was delivered by the Constitutional Court on 25 November 2010. The attack on the constitutional validity of the non-emergency tariff was the only challenge that was successful. The Court declared the non-emergency tariff to be inconsistent with the Constitution and made an order obliging the Minister of Transport to prescribe a new tariff. In the interim period, the RAF is obliged to compensate the reasonable, necessary cost of treatment in respect of claims for non-emergency medical treatment.

## 3.1.2 Liability of the RAF

### *3.1.2.1 Fault-based System*

The system of compensation managed by the RAF in terms of the RAF Act and the RAF Amendment Act is based on the requirement of fault. The RAF is only obliged to pay compensation if an injury or death is due to the negligent or other wrongful act of the driver or owner of a motor vehicle, or his or her employee in the performance of the employee's duties as an employee.

In establishing fault, the common law rules of delict, as developed and interpreted by the courts, are applied.

The effect of the system being fault-based is that in order for a claimant to succeed with a claim against the RAF, it must be established that the damage or loss suffered did not result from, or solely result from, the claimant's own negligence or other wrongful act or omission. If the claimant was not negligent in causing the collision, the RAF is liable for paying the full agreed or proven damages. If the claimant was solely to blame for the collision, no claim can be made against the RAF.

Inherent in the fault-based system are numerous difficulties, including long delays in accessing compensation, high delivery costs and burdensome complexities. Appreciating that the current fault-based system does not meet the needs of victims of road traffic accidents, government is in the process of implementing more relevant policies and strategies to better serve the needs of persons who are affected by injury or death resulting from road accidents. This transformation of the system is dealt with below.

### *3.1.2.2 Compensation only for Bodily Injury*

The RAF is liable only to pay compensation for loss or damage suffered as a result of bodily injury or death. The effect of this is that the RAF does not pay for any loss or damage to property (such as damage to motor vehicles, goods conveyed in a vehicle, etc.).

### *3.1.2.3 Accidents within South African Borders*

The RAF is liable for loss or damage caused by the negligent or unlawful driving of a motor vehicle at any place within the Republic of South Africa.

### *3.1.2.4 Losses and Damages Compensated*

The compensation paid by the RAF is determined by the RAF Act and the RAF Amendment Act, and is based on the common law of delict. Damages paid by the RAF are categorised as special damages and general damages. Special damages are paid for pecuniary losses that have been, or will be suffered, and include:

- Past and future hospital, medical and related expenses;
- Past and future loss of earnings;
- Past and future loss of support; and
- Funeral expenses.

General damages (non-pecuniary losses) are paid as compensation for loss of amenities of life, pain and suffering, disability and disfigurement to persons who have suffered bodily injury in a motor vehicle accident.

The extent of liability of the RAF differs in terms of the provisions of the RAF Act and the RAF Amendment Act. The limitations and exclusions that are provided for in each of these Acts are explained below.

### *3.1.2.5 Apportionment of Damages*

As the RAF Act and the RAF Amendment Act provide for a fault-based system of compensation, the amount of damages recoverable by a claimant is reduced by the extent to which the claimant's own fault contributed to his or her damages. This is calculated through the application of section 1 and 2 of the Apportionment of Damages Act, 1956 (Act No. 34 of 1956).

The effect is that if a claimant was partly to blame, then the RAF will not be liable for the percentage of damage representing the claimant's own negligence.

### *3.1.2.6 Liability for Legal Expenses*

In terms of the RAF Act, claimants who are paid compensation by the RAF are entitled to have their legal fees (on a party-and-party basis) paid for by the RAF. However, this provision has been deleted in the RAF Amendment Act. The effect is that in claims to which the RAF Amendment Act is applicable, the normal rules relating to the award of legal costs in litigated matters apply.

#### *3.1.2.6.1 Exclusions of Liability*

##### *3.1.2.6.1.1 Exclusion of Liability in Terms of the RAF Act (Accidents that Occurred Prior to 1 August 2008)*

The liability of the RAF for loss or damage is excluded in specific instances provided for in terms of section 19 of the RAF Act. In respect of claims governed by the RAF Act, namely claims arising from accidents that occurred before 1 August 2008, liability is excluded in circumstances where:

a) The person who suffered the loss or damage (defined in the Act as the "third party") cannot hold the wrongdoer (usually the driver) liable for the damages at common law;
b) A paying motorcycle passenger is injured or killed by the exclusive negligence of the driver of the motorcycle;
c) A person is a member of the same household as the driver of the motor vehicle in which such person was conveyed, and the collision resulted solely from the negligence or unlawful act of such driver;
d) A person was a passenger in a motor vehicle and was responsible for the maintenance of the driver of such motor vehicle and the collision resulted solely from the negligence or unlawful act of such driver;
e) A third party does not institute a third party claim against the RAF personally or through an admitted and practising attorney or other authorised official;
f) A third party enters into an agreement with any person other than an admitted and practising attorney or other authorised official in terms of which such a person receives a portion of the compensation recovered, or any amount for services rendered in respect of a third party claim;
g) A third party unreasonably refuses or fails to submit to a medical examination by a medical practitioner appointed by the RAF on request of the RAF and at its cost; and
h) A third party refuses or fails to:
    (i) Submit to the RAF (at the latter's cost) copies of all relevant medical reports in their possession;

(ii) Allow inspection of their medical records held by a medical practitioner or a hospital;
(iii) Submit an affidavit setting out full particulars of the accident together with a claim form; and
(iv) Supply, within a reasonable time from obtaining possession thereof, copies of all relevant statements and documents in respect of the collision.

*3.1.2.6.1.2 Exclusion of Liability in Terms of the RAF Amendment Act (Accidents that Occurred on or After 1 August 2008)*

Section 19 of the RAF Amendment Act continues to provide that liability is excluded in the instances referred to in sub-paragraphs (a), (e), (f), (g) and (h) above. However, the RAF Amendment Act does not provide for the liability of the RAF to be excluded in circumstances referred to in sub-paragraphs (b), (c) and (d) above. The effect of this is that the RAF will be liable on the same principles applicable to other claimants if a person is injured or killed on or after 1 August 2008 and at the time of the accident such person was:

a) A paying motorcycle passenger injured or killed by the exclusive negligence of the driver of the motorcycle;
b) A member of the same household as the driver of the motor vehicle in which such person was conveyed and the collision resulted solely from the negligence or unlawful act of such driver; and/or
c) A passenger in a motor vehicle who is responsible for the maintenance of the driver of such motor vehicle and the collision resulted solely from the negligence or unlawful act of such driver.

The RAF Amendment Act brought into being one further instance where the RAF's liability is excluded, namely where the loss or damage results from secondary emotional shock. The effect of this is that where an accident occurs after 31 July 2008 and a person suffers shock as result of witnessing or hearing of such accident and the person suffers losses consequent to the shock, the RAF will not be liable for these losses. However, a person who suffers loss as a result of secondary emotional shock will have the right to claim such loss from the wrongdoer in terms of the common law.

### *3.1.2.7 Limitation of Liability*

*3.1.2.7.1 Limitation of Liability in Terms of the RAF Act (Accidents that Occurred Prior to 1 August 2008)*

In terms of section 18 of the RAF Act, the liability of the RAF is limited in certain instances, in respect of accidents which occurred before 1 August 2008.

In respect of certain specified categories of passengers or the dependants of those passengers in the case of the death of the passenger, the liability of the RAF is limited in respect of both the amount recoverable and the damages sought to be indemnified, depending on the category into which the particular passenger falls.

The limitation only becomes operative where the injury or death is caused by the sole negligence of the driver of the vehicle in which the passenger was conveyed.

In respect of passengers conveyed in vehicles under the following prescribed circumstances:

- Passengers for reward (section 18(1)(a)(i));
- Passengers conveyed in the course of the lawful business of the owner of that motor vehicle (section 18(1)(a)(ii));
- Passengers conveyed in the course of their employment where they are not covered by the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993) ("COIDA") (section 18(1)(a)(iii)); and
- Lift club passengers (section 18(1)(a)(iv)), the liability of the RAF is limited to an amount of R25,000 in respect of both general and special damages.

The liability of the RAF in respect of claims of all other passengers (social passengers, such as friends) is limited to R25,000 in respect of special damages only (section 18(1)(b)). These passengers are not entitled to general damages.

However, in the matter of A Mvumvu and Others versus the Minister of Transport and Another, three applicants, all victims of motor vehicle accidents which occurred before 1 August 2008, lodged claims with the RAF and were informed that their claims were limited to R25,000 by section 18 of the RAF Act. The applicants challenged the constitutional validity of section 18 of the RAF Act on the basis that the section infringed certain constitutional rights, including the right to equality. The Western Cape High Court proceeded to declare parts of section 18 of the RAF Act invalid. The Constitutional Court heard the application for confirmation of the order of constitutional invalidity issued by the Western Cape High Court, and on 17 February 2011 the Constitutional Court ordered that sections 18(1)(a)(i), 18(1)(b) and 18(2) of the RAF Act are inconsistent with the Constitution and invalid. The declaration of invalidity was however suspended for a period of 18 months from the date of the order to enable Parliament to remedy the defect.

After the Court's judgement, the DoT and the RAF commenced work on a draft Amendment Bill, which was published for public comment on 15 August 2011. Certain of the comments received were very critical of the Bill, suggesting that the Bill was unfair, impractical and that it remained unconstitutional. The Department considered that there was merit in certain of the comments and decided to revisit the Bill. The revised Bill has subsequently been referred to the Chief State Law Advisor for consideration.

*Funeral Expenses*
Section 18 of the RAF Act limits the liability of the RAF for funeral expenses, with the RAF only being liable to pay the necessary actual costs related to cremation or interment.

*Reduction of Liability*
In terms of section 18 of the RAF Act, the RAF may deduct from its liability amounts that claimants are entitled to under certain other specified legislation. In this regard, the RAF is entitled to reduce its liability in the following circumstances:

- Passengers who are employees injured or killed in the course of their employment and who are covered by COIDA. In terms of the RAF Act, the monetary amount for which the RAF is liable is limited to the amount which the claimant could have claimed but for section 18 of the Act or R25,000, whichever is the lesser, minus any compensation to which the claimant is entitled under COIDA; and
- Members of the South African National Defence Force ("SANDF") who have claims against the Minister of Defence in terms of the Defence Act, 2002 (Act No. 42 of 2002) ("the Defence Act"). This refers to members of the SANDF who are, at the time of the accident, rendering a military service or undergoing military training in terms of the Defence Act or any other Act governing the SANDF.

The claimant's common law damages suffered as a result of the accident are reduced by the RAF in the sum that such a claimant is entitled to under the Defence Act (section 18(2)).

### *3.1.2.7.2 Limitation of Liability in Terms of the RAF Amendment Act (Accidents that Occurred on or after 1 August 2008)*

*Limitation on Passenger Claims Removed*
The inequitable and discriminatory provisions in the RAF Act that provided for the RAF's liability to be limited to R25,000 where a person is injured or killed while a passenger in a vehicle that was solely to blame for the accident, was removed in terms of the RAF Amendment Act. The effect of this is that the RAF is liable on the same principles applicable to all other claimants if a person is injured or killed on or after 1 August 2008, and at the time of the accident such person was a passenger in the vehicle that was solely to blame for the accident.

*Funeral Expenses*
The limitation of the RAF's liability to pay only the necessary actual costs of cremation or interment remains in the RAF Amendment Act.

*Reduction of Liability*
The RAF Amendment Act retained the provision that the RAF may deduct payments received by third parties in terms of COIDA and the Defence Act.

*Additional Limitations in the RAF Amendment Act*
The removal of the limitation on passenger claims served to increase the liability of the RAF. So as to ensure the sustainability of the system, it was necessary for new limitations on the RAF's liability to be introduced in the RAF Amendment Act. In respect of accidents occurring on or after 1 August 2008, the liability of the RAF is limited as follows:

1. With effect from 25 November 2010, in accordance with the Constitutional Court's order in the matter referred to above, until the Minister of Transport prescribes a new tariff, the RAF compensates the reasonable and necessary cost relating to non-emergency medical and related expenses.
2. Emergency medical treatment and related expenses are compensated in accordance with a prescribed RAF tariff.
3. Loss of income and support is now capped at a maximum of R160,000 per annum, irrespective of the actual loss. This cap is adjusted quarterly to counter the effect of inflation. The latest adjustment came into effect on 31 January 2012, adjusting the cap to R194,043 per annum.
4. Payment of general damages is now limited only to instances where a serious injury has been sustained. In terms of the Regulations to the RAF Amendment Act, an injury will be assessed as "serious" if the injury results in 30% or more impairment of the Whole Person as provided for in the American Medical Association Guides ("AMA Guides"). The Regulations further provide that such an injury may be assessed as serious if that injury:
   (i) Resulted in a serious long-term impairment or the loss of a body function;
   (ii) Constitutes permanent serious disfigurement;
   (iii) Resulted in severe long-term mental or severe long-term behavioural disturbance or disorder; or
   (iv) Resulted in the loss of a foetus.

Apart from being required to ensure the sustainability of the system, the introduction of new generally applicable limitations on the RAF's liability has gone some way towards addressing the systemic problems in the RAF Act, in that:

1. The inequity of the poor subsidising the rich has been partially addressed through the cap on loss of income and support and the medical tariffs;
2. The payment of general damages in instances only where a serious injury has been sustained limits wastages in the system and curtails abuse; and
3. By limiting liability for loss of income and support, the system is more reasonable and sustainable, as the risk of enormous claims by foreign road users has been removed.

### 3.1.2.8 Comparison of Liability of RAF in Terms of RAF Act and RAF Amendment Act

| | **RAF Act**<br><br>**Applicable to accidents that occurred before 1 August 2008** | **RAF Amendment Act**<br><br>**Applicable to accidents that occurred on or after 1 August 2008** |
|---|---|---|
| Passengers whose injury or death is caused by the sole negligence of the driver of the vehicle in which the passenger was conveyed. | a) Liability limited to R25,000 for special damages and general damages in instances where:<br>(i) Passengers are conveyed for reward;<br>(ii) Passengers are conveyed in the course of the lawful business of the owner of that motor vehicle;<br>(iii) Passengers are conveyed in the course of their employment where they are not covered by COIDA; and<br>(iv) Passengers are conveyed as part of a lift club.<br><br>However, on 17 February 2011, the Constitutional Court held that the sections limiting the liability of the RAF to R25,000 for claims of passengers for reward and passengers injured in the course and scope of their employment are inconsistent with the Constitution and invalid. The declaration of invalidity was suspended for a period of 18 months. Legislation is being finalised to address the aspects that gave rise to the constitutional invalidity of the specific sections of the Act. | R25,000 limitation removed and the RAF is liable on the same principles applicable to all other claimants. |
| Passengers whose injury or death is caused by the sole negligence of the driver of the vehicle in which the passenger was conveyed, in circumstances other than the four instances set out in (a) above. | Liability limited to R25,000 for special damages only.<br>This limitation is also addressed in the legislation being finalised to address the aspects that gave rise to the constitutional invalidity of the specific sections of the Act. | R25,000 limitation removed and the RAF is liable on the same principles applicable to all other claimants. |
| A paying motorcycle passenger where the injury or death results from the exclusive negligence of the driver of the motorcycle. | Liability excluded. | Exclusion removed and the RAF is liable on the same principles applicable to all other claimants. |
| A member of the same household as the driver of the motor vehicle in which such person was conveyed and the collision resulted solely from the negligence or unlawful act of such driver. | Liability excluded. | Exclusion removed and the RAF is liable on the same principles applicable to all other claimants. |
| A passenger in a motor vehicle who is responsible for the maintenance of the driver of such motor vehicle where the collision resulted solely from the negligence or unlawful act of such driver. | Liability excluded. | Exclusion removed and the RAF is liable on the same principles applicable to all other claimants. |
| The person who suffered the loss or damage (called the "third party") cannot hold the wrongdoer (usually the driver) liable for the damages in common law. | Liability excluded. | Liability excluded. |
| A third party refuses or fails to:<br>(i) Submit to the RAF at the RAF's cost, copies of all relevant medical reports in their possession;<br>(ii) Allow inspection of their medical records held by a medical practitioner or a hospital;<br>(iii) Submit an affidavit setting out full particulars of the accident together with a claim form; and<br>(iv) Supply, within a reasonable time from obtaining possession thereof, copies of all relevant statements and documents in respect of the collision. | Liability excluded. | Liability excluded. |

*3.1.2.8 Comparison of Liability of RAF in Terms of RAF Act and RAF Amendment Act (continued)*

| | **RAF Act**<br><br>**Applicable to accidents that occurred before 1 August 2008** | **RAF Amendment Act**<br><br>**Applicable to accidents that occurred on or after 1 August 2008** |
|---|---|---|
| A third party does not institute a third party claim against the RAF personally or through an admitted and practising attorney or other authorised official. | Liability excluded. | Liability excluded. |
| A third party enters into an agreement with any person other than an admitted and practising attorney or other authorised official in terms of which such a person receives a portion of the compensation recovered, or any amount for services rendered in respect of a third party claim. | Liability excluded. | Liability excluded. |
| A third party unreasonably refuses or fails to submit to a medical examination by a medical practitioner appointed by the RAF on request of the RAF and at its cost. | Liability excluded. | Liability excluded. |
| Claims arising from secondary emotional shock. (Secondary emotional shock refers to instances where the claimant was not involved in the accident, but either witnessed or heard of the accident). | The RAF is liable for full agreed amount of proven loss or the amount awarded by the court. | Liability excluded. |
| Funeral expenses | The RAF is liable to pay the necessary actual costs related to cremation or interment. | The RAF is liable to pay the necessary actual costs related to cremation or interment. |
| Hospital, medical and related expenses. | The RAF is liable to pay the reasonable and necessary costs resulting from the injuries sustained. | Liability of the RAF is determined on the basis of two tariffs:<br>(i) Emergency medical treatment is paid according to a prescribed RAF tariff; and<br>(ii) With effect from 25 November 2010, in accordance with the Constitutional Court's order referred to above, until the Minister of Transport prescribes a new tariff, the RAF compensates the reasonable and necessary cost relating to non-emergency medical and related expenses. |
| Loss of income | The RAF is liable for the unlimited actual loss, except in instances where the passenger limitation of R25,000 applies. | Liability capped at a maximum of R160,000 per annum, irrespective of the actual loss. This cap is adjusted quarterly to counter the effect of inflation and stood at R194,043 per annum as at 31 January 2012. |
| Loss of support | The RAF is liable for the unlimited actual loss, except in instances where the passenger limitation of R25,000 applies. | Liability capped at a maximum of R160,000 per annum, per deceased breadwinner, irrespective of the actual loss. This cap is adjusted quarterly to counter the effect of inflation and stood at R194,043 per annum as at 31 January 2012. |
| General damages (pain and suffering, loss of amenities of life, disfigurement and disability). | The RAF is liable for damages in all instances where an injury is sustained, except where the passenger limitation is applicable, in which case the damages are capped or excluded in respect of "social passengers". | The RAF is only liable if a "serious injury" has been sustained. An injury will be assessed as "serious" if the injury results in 30% or more impairment of the Whole Person as provided for in the AMA Guides.<br>Certain injuries will be regarded as "serious" even if the injury does not result in 30% or more impairment of the Whole Person. These are injuries that:<br>(i) Result in a serious long-term impairment, or the loss of a body function;<br>(ii) Constitute permanent serious disfigurement;<br>(iii) Result in severe long-term mental, or severe long-term behavioural disturbance or disorder; or<br>(iv) Result in the loss of a foetus. |

| | RAF Act<br><br>Applicable to accidents that occurred before 1 August 2008 | RAF Amendment Act<br><br>Applicable to accidents that occurred on or after 1 August 2008 |
|---|---|---|
| Legal costs | Upon acceptance of an amount offered, the RAF is liable to pay the agreed or taxed party and party costs in respect of the claim. | Automatic liability to pay costs not retained. Normal rules applicable to costs of litigation apply. |
| Right to claim against the wrongdoer in terms of the common law. | Retained where the RAF is unable to pay the compensation and in instances where the balance of any damages of a claim is above the R25,000 limitation. | Retained only where:<br>(i) The RAF is unable to pay any compensation; and<br>(ii) In instances of secondary emotional shock. |

### *3.1.2.9 Compliance Framework and Processes*

Quarterly legislation reports, detailing changes in all applicable laws, rules, codes and standards that may impact on the operations of the RAF, are submitted to the Risk Committee for review. The reporting function is performed by the Corporate Legal Services Department.

PFMA compliance is submitted to the Executive Authority and National Treasury on a quarterly basis. Other checklists relating to areas such as employment law are completed on a quarterly basis for internal control purposes.

A Constitutional Court litigation register is kept by the Corporate Legal Services Department.

#### *3.1.2.9.1 Regulatory Penalties, Sanctions or Fines*

No fines, sanctions or penalties were imposed on the RAF or any of its Board Members or Officers during the financial year.

### *3.1.2.10 The Way Forward – Transformation of the System*

The present system, based on fault and insurance principles, is not achieving the purpose for which it was created. Over the years, significant problems relating to equity, affordability and sustainability of the existing system have developed. Among the shortcomings of a fault-based compensatory system are:

- The high and spiralling cost structure;
- A focus on fault and cause of the accidents, rather than the immediate medical and financial needs of the road accident victims;
- Long settlement delays that prolong hardship and suffering; and
- The legal complexity and litigious environment in which it operates.

Government is in the process of implementing more relevant policies and strategies to serve the needs of persons who are directly affected by injury or death resulting from road traffic accidents. During September 2011, Cabinet approved the Policy on the Restructuring of the RAF on a No-Fault Basis and as Compulsory Social Insurance in relation to the Comprehensive Social Security System ("the Policy"). Through the restructuring of the system, the overall aim is to provide an effective benefit system that is reasonable, equitable, affordable and sustainable in the long term. More specifically, reforms to the current system will be introduced to:

- Expand access to benefits to a wider group of road accident victims by removing the requirement to prove fault; and to persons exposed to the risks of road transportation by providing benefits on a no-fault basis; and
- Align the benefit system to the reform of social security, such as the reforms to be proposed in the Government Position Paper on Social Security Reforms, as mentioned by the President in his 2011 State of the Nation Address.

The Policy proposes a move away from the existing fault-based system founded on insurance principles to a no-fault scheme of benefits based on principles of social security. The strategic objectives of such a scheme will be to:

- Facilitate access to timely and appropriate healthcare;
- Enable and encourage rehabilitation;
- Prevent or reduce permanent disability so as to advance the independence, earning capacity and social participation of persons injured in road accidents;
- Provide long-term and life care for the seriously injured;
- Relieve (not necessarily restore) loss of income and financial support by alleviating financial hardship of persons injured and of dependants as a result of the death of a breadwinner in a road accident;
- Be accessible and efficiently administered, with less resources spent on delivery costs, and more resources allocated to healthcare;
- Be accountable to road users by assisting those injured in road accidents and providing relevant and timely service to claimants; and
- Form part of an envisaged Comprehensive Social Security System ("CSSS").

### 3.1.3 Funding

The RAF can obtain its funding from several sources as outlined below:

- Fuel levy income;
- Government grants, paid by National Treasury when there is a pressing need such as an acute cash shortage;
- Borrowings/loans, which are an allowed source of funding according to the RAF Act. This option has not been used to date; and
- Investment income, acquired from invested funds that occasionally result when the RAF's operational capacity prevents it from paying out all its funds.

#### *3.1.3.1 RAF Fuel Levy*

The primary source of income for the RAF compensation scheme is a levy raised on fuel. The levy is measured in terms of cents per litre on petrol and diesel fuel sold in South Africa and forms part of the general fuel tax regulated by government. The fuel levy per litre is set by National Treasury on a yearly basis, whereas total fuel sales are influenced by a number of macro-economic factors. On an annual basis, the RAF requests National Treasury for an increase in the RAF Fuel Levy, based on a financial model and a calculation of its costs during the coming year. The full extent of the RAF Fuel Levy requested is seldom granted. This is because National Treasury has historically set the levy on the basis of a pay-as-you-go principle rather than with the purpose of establishing a fully-funded position for the RAF. During the 2012 financial year the RAF Fuel Levy was set at 80 cents per litre.

The RAF is not involved in the collection of its fuel levy. The South African Revenue Service ("SARS") administers the collection of the fuel levy and pays it to the RAF, in accordance with provisions of the Customs and Excise Act, 1964 (Act No. 91 of 1964) and the RAF Act.

The two main variables that determine the income of the RAF are the volume of petrol and diesel sold per annum and the rate of the levy. The RAF Fuel Levy can be viewed as a compulsory contribution to social security benefits which is used only for the specific purposes as provided for in legislation. The RAF Fuel Levy collection process is depicted in the figure below.

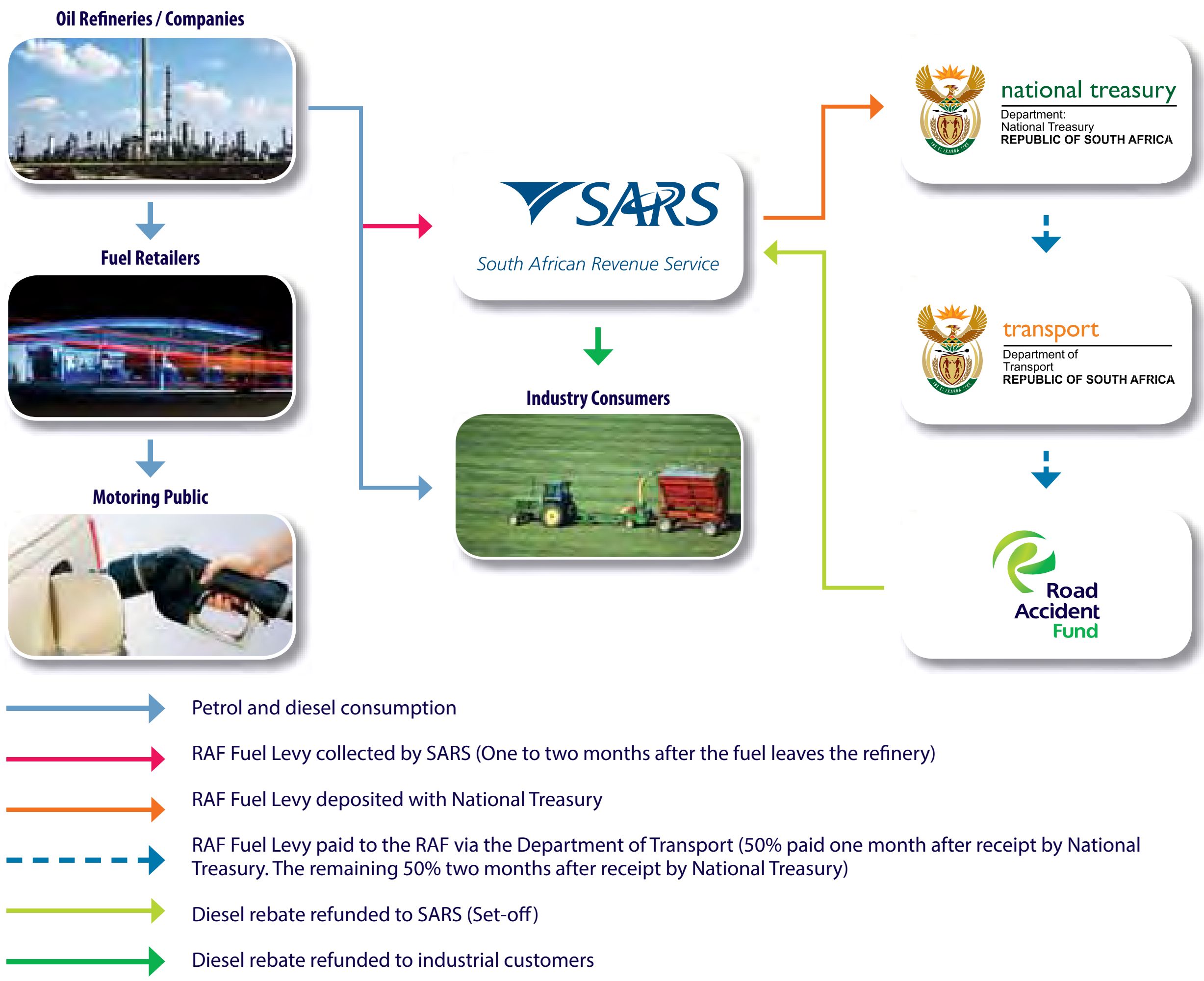



*Figure 3.2 – RAF Fuel Levy collection process*

### *3.1.3.2 Diesel Refund*

A further influence on the RAF's Fuel Levy income is the concession provided by the Commissioner of SARS to certain sectors of the economy in respect of diesel. These concessions are granted on the basis of the level of off-road use by their vehicles, which make little or no use of the road network during their consumption of diesel.

The concessions have been granted as follows:

- Agriculture and Forestry 80%
- Onshore Mining 80%
- Fishing and Coastal Shipping 100%
- Offshore Mining 100%
- Rail Freight 100%
- Eskom 100%

Where a 100% concession exists, no cover by the RAF is granted. Where an 80% concession is made, the balance of 20% affords these users cover by the RAF in respect of their on-road vehicle use. This effectively reduces the RAF's Fuel Levy income by the amount of the refund.

## 3.1.4 Key Operating Environment Challenges

The effective functioning of the RAF is hampered by a number of factors. These factors can be divided into four categories, namely:

- Issues that are common to all delictual based systems;
- Specific issues with the South African system;
- Environmental issues; and
- Internal challenges faced by the RAF.

The following diagram outlines these key challenges:

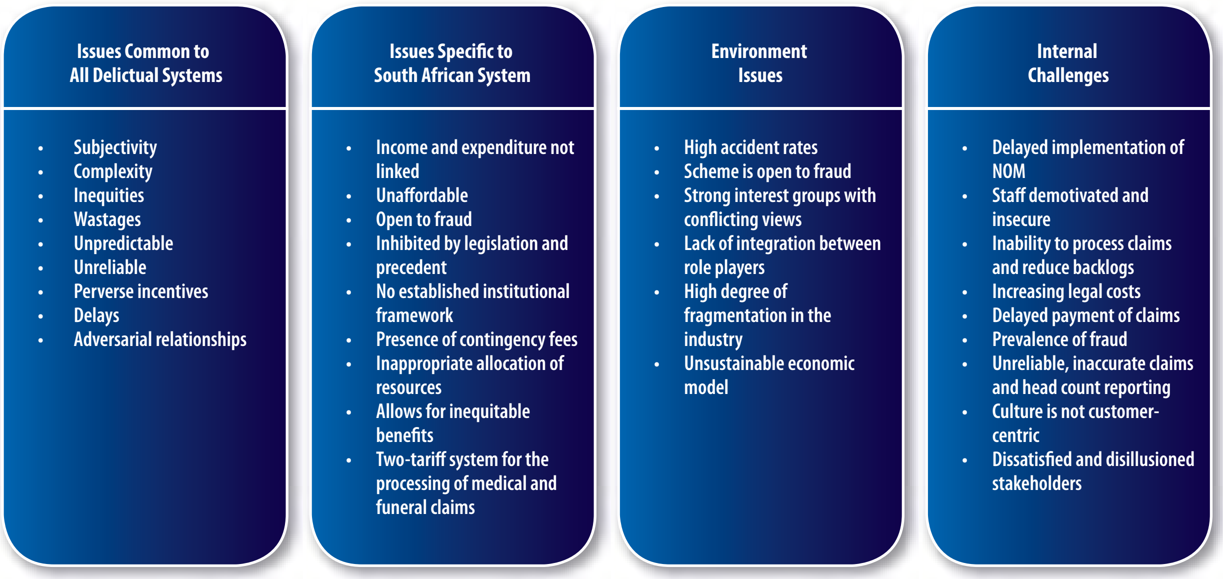



*Figure 3.3 – Challenges faced by the RAF*

## 3.2 Review of Operations

### 3.2.1 Financial Position

The RAF is affected by general economic conditions and other environmental factors, and by the extent to which it manages its costs effectively. These factors are illustrated in the following figure.

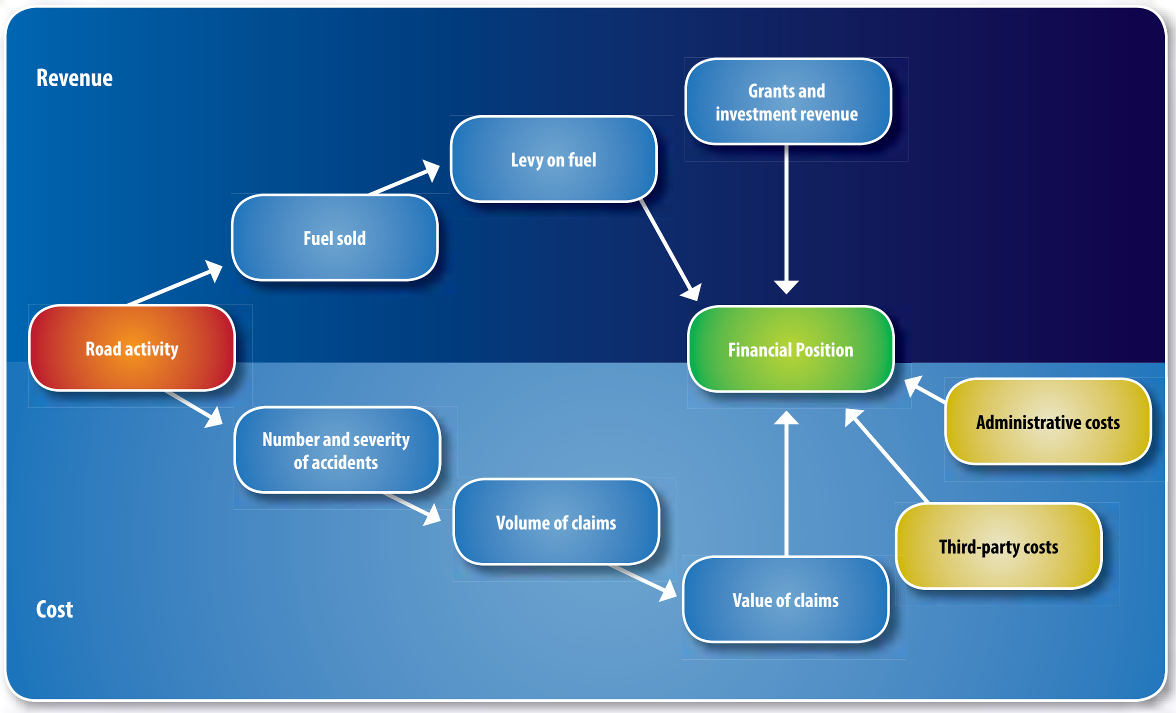



*Figure 3.4 – Factors influencing the RAF's financial position*

The nexus of all these factors is road activity in South Africa:

- The number of vehicles on the road influences the amount of fuel sold, which in turn affects the revenue granted to the RAF by National Treasury. This revenue comprises the fuel levy together with *ad hoc* government grants and minor income from investments to equal the RAF's total revenue.
- The number of vehicles on the road also influences the number of accidents, although many other factors influence this statistic, particularly the relative severity of accidents. Volume and severity of accidents influence the volume and average value of claims made against the RAF. Claims, combined with the cost of third parties, such as attorneys and medical/legal experts, and the RAF's administration costs, equal the RAF's total costs.

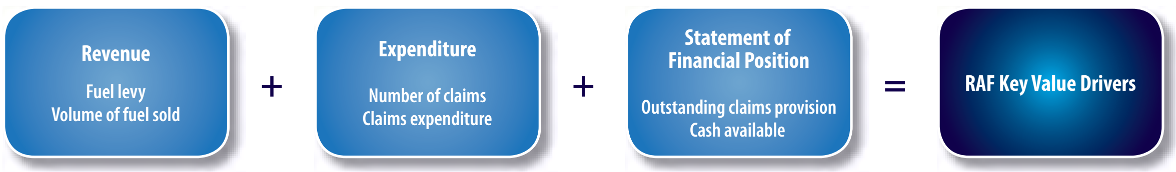
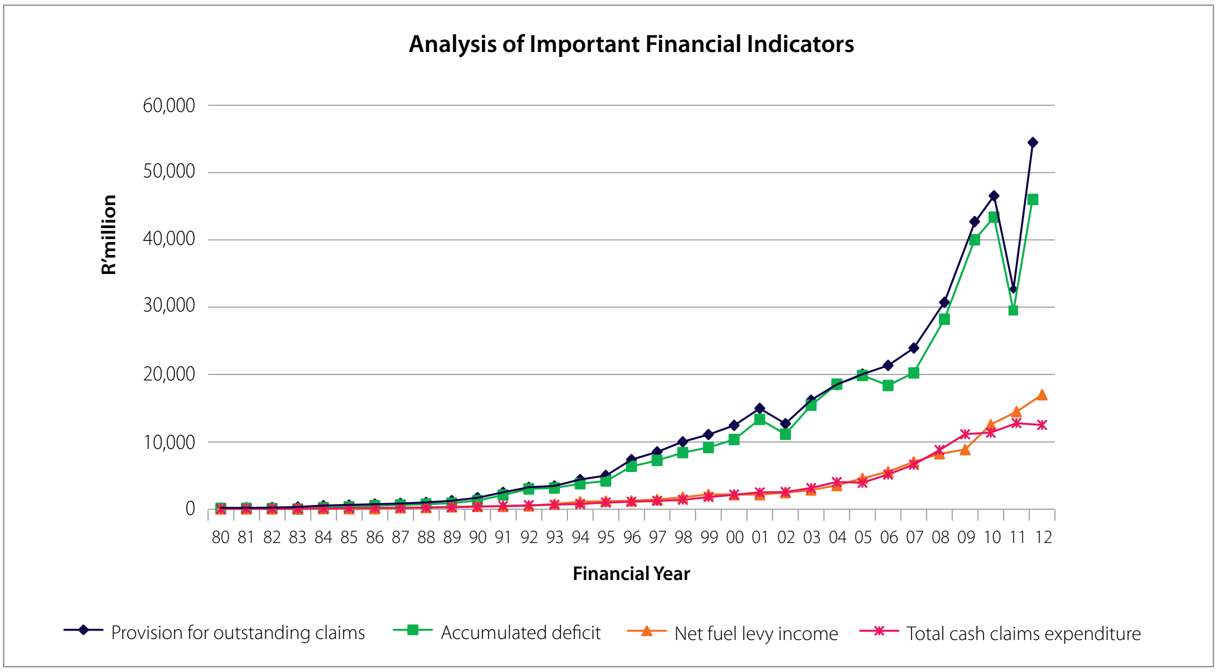



*Figure 3.5 – Key value drivers of the RAF*

### 3.2.2 Key Value Drivers

Claims payments comprise the RAF's largest expense item. Liquidity is determined by the cash available after claims and other expenses have been paid out for a specific period. Liability is largely composed of outstanding claims that need to be settled, along with their associated costs.

Whilst the value drivers presented may appear conceptually simple, they are driven by multiple other factors. Claims expenditure is influenced, for example, by whether a customer chooses to claim directly or to be represented by an attorney; awards made by courts that determine precedent; the number of expert witnesses called; and the time taken from date of accident to date of finalisation of the claim. As a consequence of these revenue and cost drivers, the gap between the RAF's deficit and its income, which has been growing over the last three decades, has grown exponentially in recent years as depicted in *Graph 3.1*.

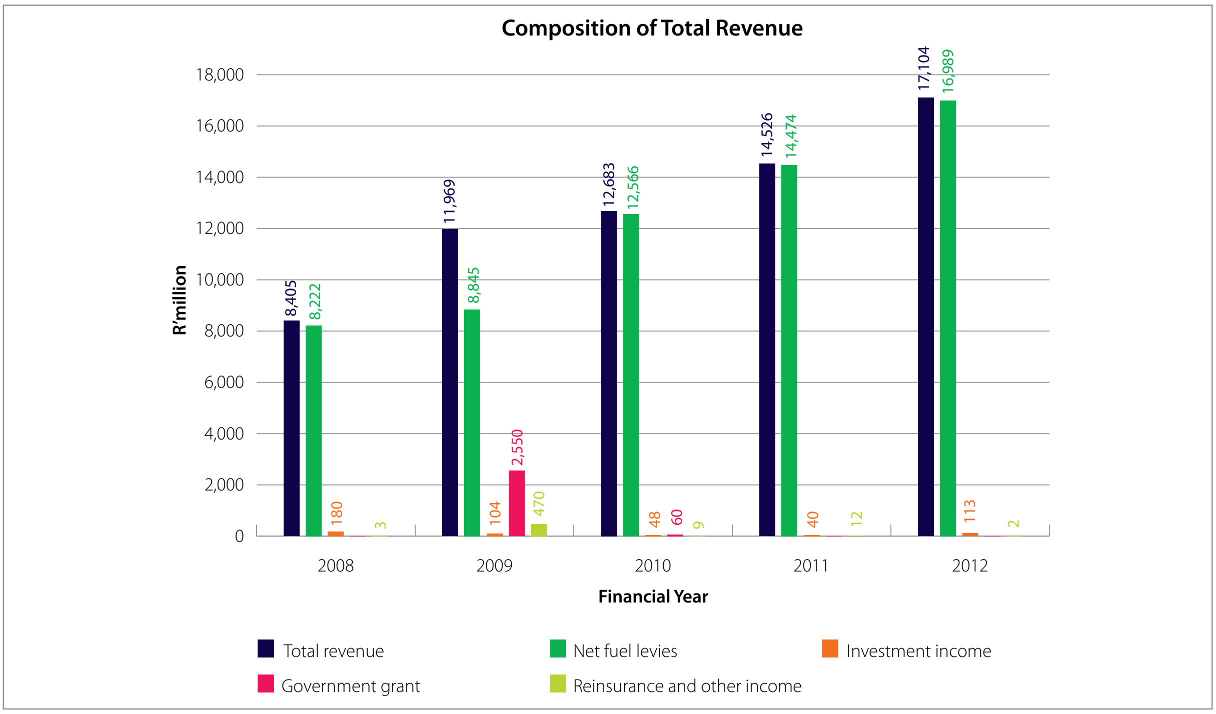



*Graph 3.1 – The widening gap between income and deficit*

### 3.2.3 Revenue

As indicated in *Graph 3.2* below, the total revenue of the RAF has increased over the years. For the period ending 31 March 2012, an increase of R2,6 billion (17.7%) in total revenue was recorded when compared to the corresponding period last year. This is attributable to the following primary factors:

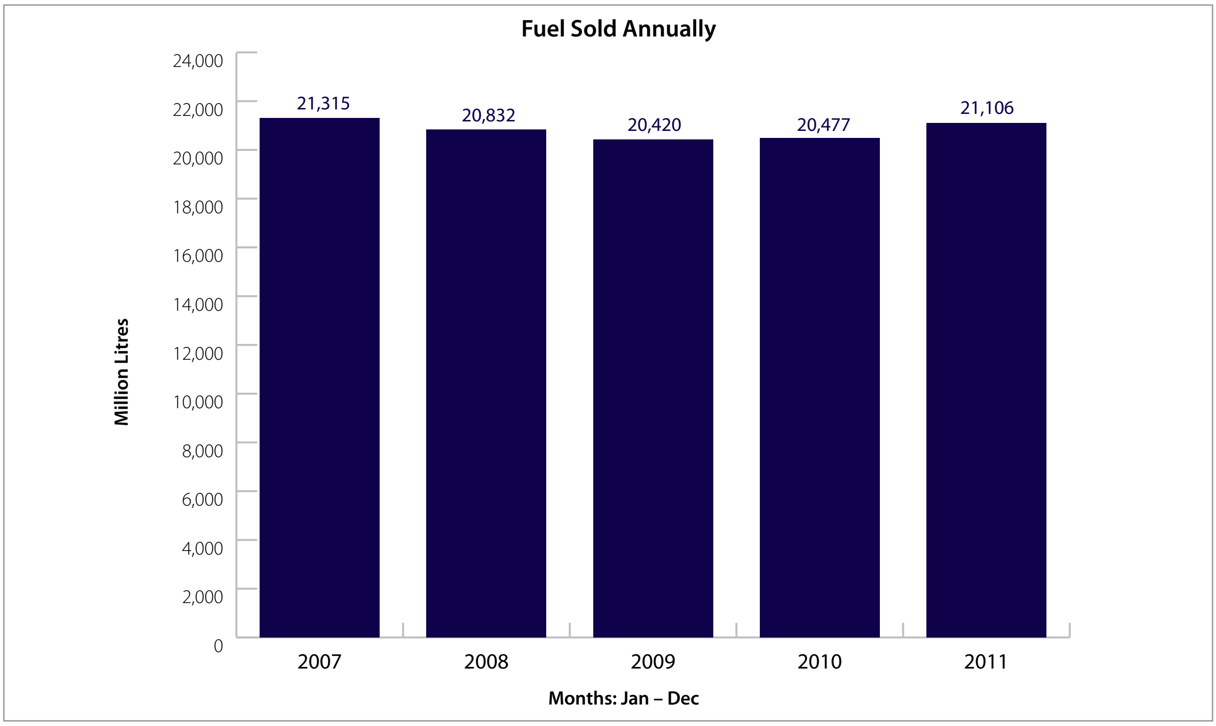
- The net RAF Fuel Levy increased by 17% to R17 billion (2011: R14,5 billion);
- Investment income increased by 18.3% to R113 million (2011: R40 million); and
- Reinsurance and other income decreased to R2 million (2011: R12 million).




*Graph 3.2 – The increase in revenue over the past five years*

### *3.2.3.1 Fuel Levy*

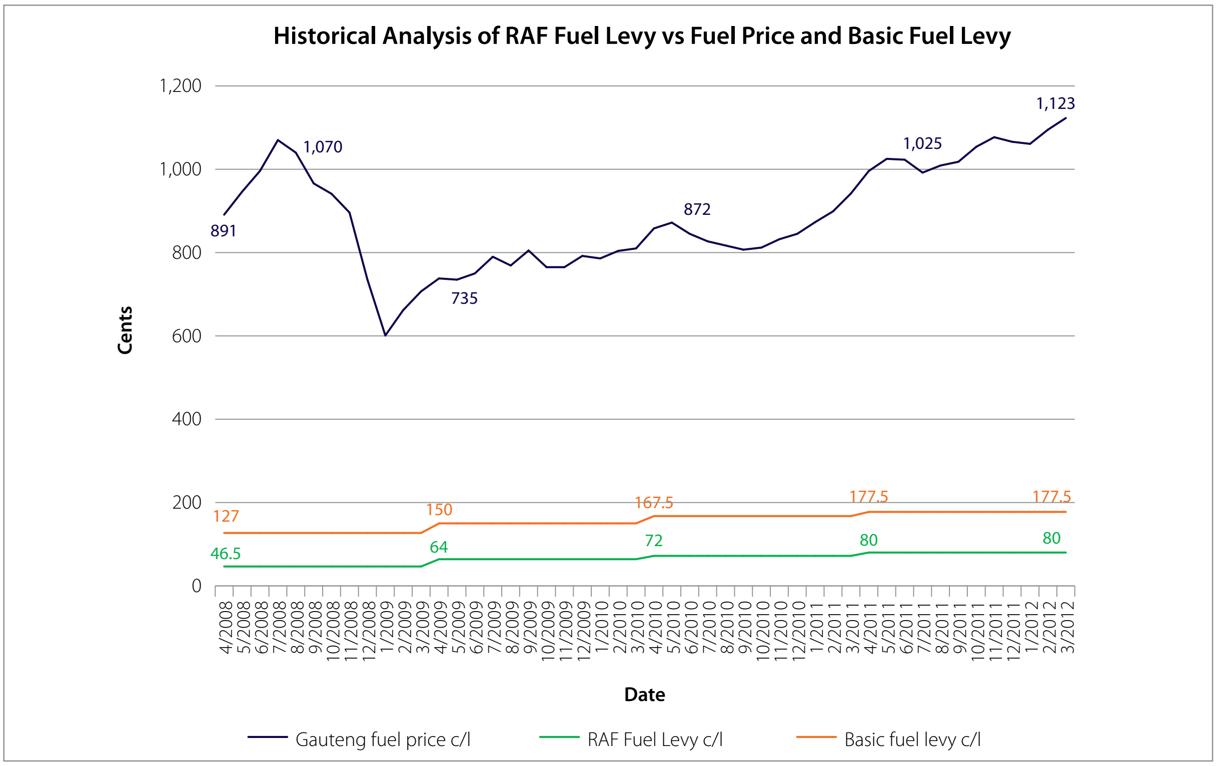
The growth in the RAF Fuel Levy income *(Graph 3.3)* arose primarily as a result of the 8 cents per litre fuel levy increase, from 72c/l (2011) to 80c/l (2012), effective from the beginning of the financial year. The volume of total petrol and diesel usage in the country increased by 3% to 21,1 megalitres for the period January to December 2011 (Jan to Dec 2010: 20,5 megalitres) *(Graph 3.3)*.




*Graph 3.3 – Growth in Fuel Levy income*

*Sources:* *Statistics on "All Fuel Sales: Petrol and Diesel" – Road Traffic Management Corporation ("RTMC");*
*Statistics on "Fuel Sales Volume SA: Petrol and Diesel" – Department of Energy ("DoE");*
*"Sales of Major Petroleum Products in South Africa" – South African Petroleum Association ("SAPIA")*

At these levels, the RAF Fuel Levy represents 7% of the total fuel price at the pump, which averaged more than 1,045 cents per litre in Gauteng for the year under review *(Graph 3.4 and Figure 3.6)*.




*Graph 3.4 – Comparison of RAF Fuel Levy vs fuel price and basic levy*

**95 Unleaded Petrol Price Breakdown in Gauteng as at 31 March 2012**

The Department of Energy sets fuel prices in line with important parity and cost-recovery principles. The price is made up of the following components:

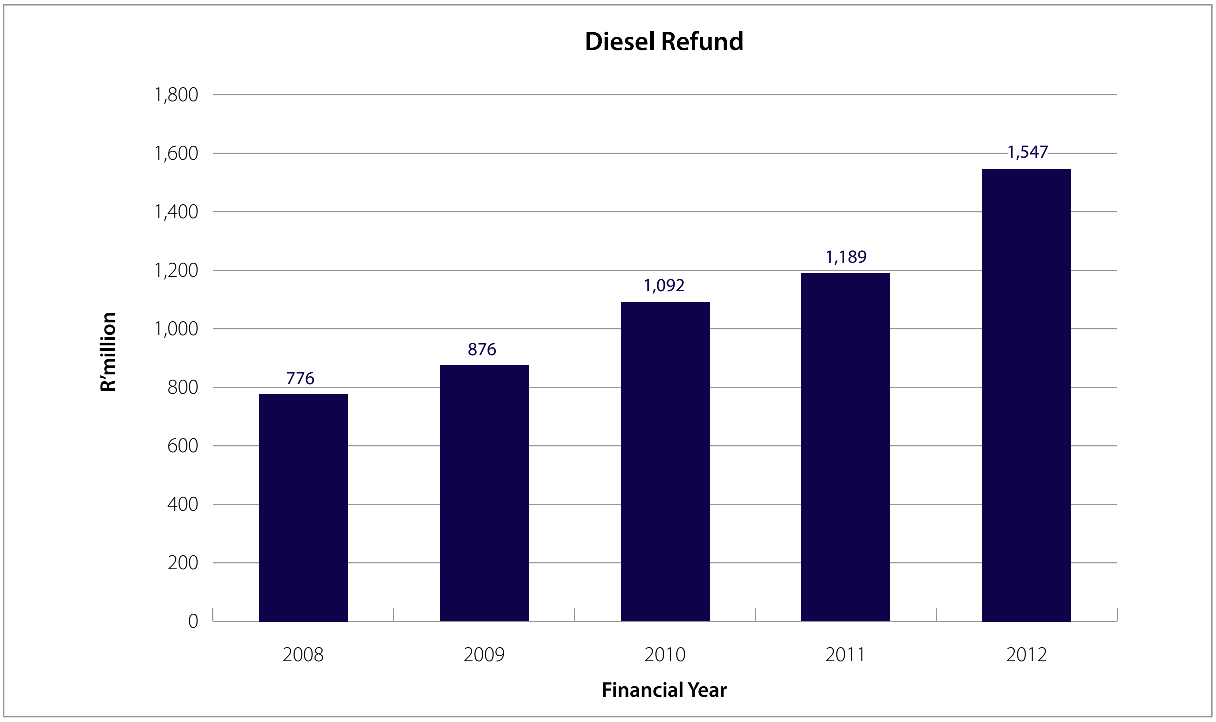
| | |
|---|---|
| Basic fuel price: | **58.43%** |
| Dealers' margin: | **8.17%** |
| RAF Fuel Levy: | **7.12%** |
| Wholesale margin: | **4.67%** |
| Taxes (Fuel levy –15.81% and Customs and Excise – 0.36%): | **16.16%** |
| Storage, handling and delivery including minor transport costs (Secondary transport and storage costs – 1.87%, Primary transport costs (Gauteng) – 2.04%, Petroleum products levy – 0.01%, DSML – 0.89% and Incremental Inland Transport Recovery levy – 0.27%, Slate levy – 0.39%): | **5.47%** |
| Pump rounding: | **-0.04%** |
| | **100.00%** |

*Figure 3.6 – Breakdown of petrol price (Gauteng) 31 March 2012*

* *Source: Department of Energy*

### *3.2.3.2 Diesel Refund*

The refund on diesel fuel provided to certain industrial sectors of the economy increased to R1,5 billion (2011: R1,2 billion). The refund, which represents 8% of the RAF Fuel Levy income, is a major concession on income due to the RAF. The refund has continued to grow steadily over the years (*Graph 3.5*).




*Graph 3.5 – Refund on diesel fuel*

### *3.2.3.3 Investment Income*

Investment income increased by 183% to R113 million (2011: R40 million), mainly due to higher average cash holdings during the year caused by an increase in total revenue and lower claims processing numbers. The average interest rate on investments decreased to 5.06% (2011: 5.55%). Cash holdings for the period ended 31 March 2012 were R4,2 billion compared to R1,1 billion in the previous financial year *(Graph 3.2)*.

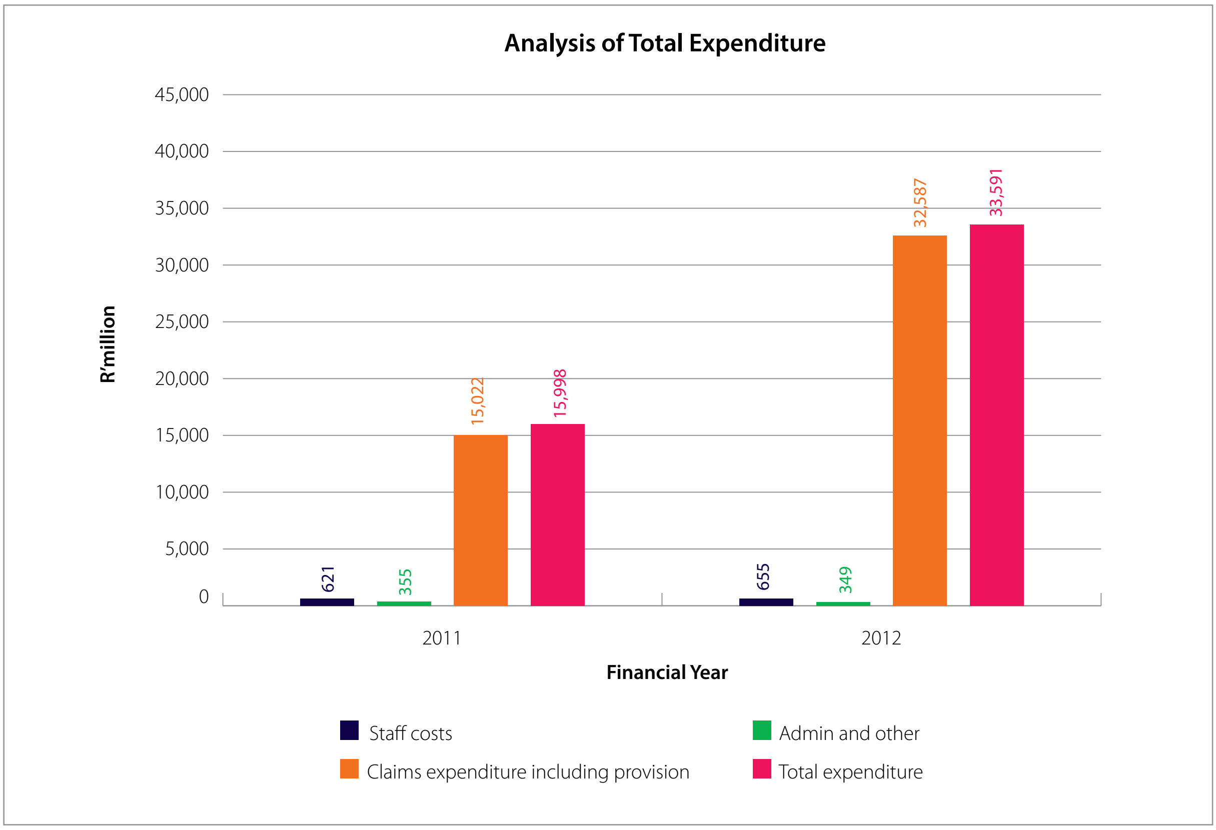
### *3.2.3.4 Reinsurance Income*

The RAF enters into reinsurance treaties with major international reinsurance companies to cover catastrophic accidents. During the review period, the RAF recovered R80 thousand (2011: R10 million) from reinsurance companies, due to the fact that claim numbers under the post-Amendment Act reduced, with a lower total amount payable per incident. This trend has resulted in fewer claim incidents qualifying for reinsurance claim recoveries. The RAF's reinsurance recoveries derive from a portion of the total claims per incident that is in excess of the retention limit. In view of the aforesaid, reinsurance recoveries are expected to show a general decrease from prior financial years *(Graph 3.2)*.

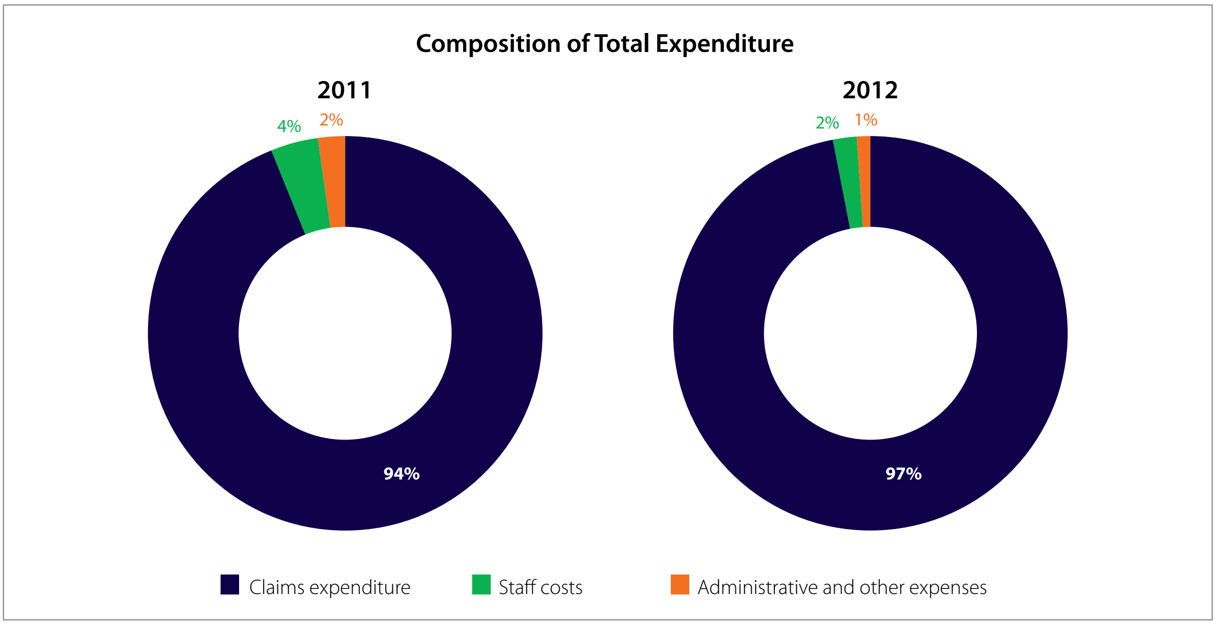
## 3.2.4 Expenditure

Total RAF expenditure increased by 110% to R33,6 billion (2011: R16 billion).

Staff and administration costs, at 2% and 1% respectively, remained a relatively small portion of total expenses. Total claims expenditure, inclusive of the provision for outstanding claims at 97% of total expenditure, increased by 117% to R32,6 billion (2011: R15 billion) *(Graphs 3.6 and 3.7)*.




*Graph 3.6 – Expenditure*

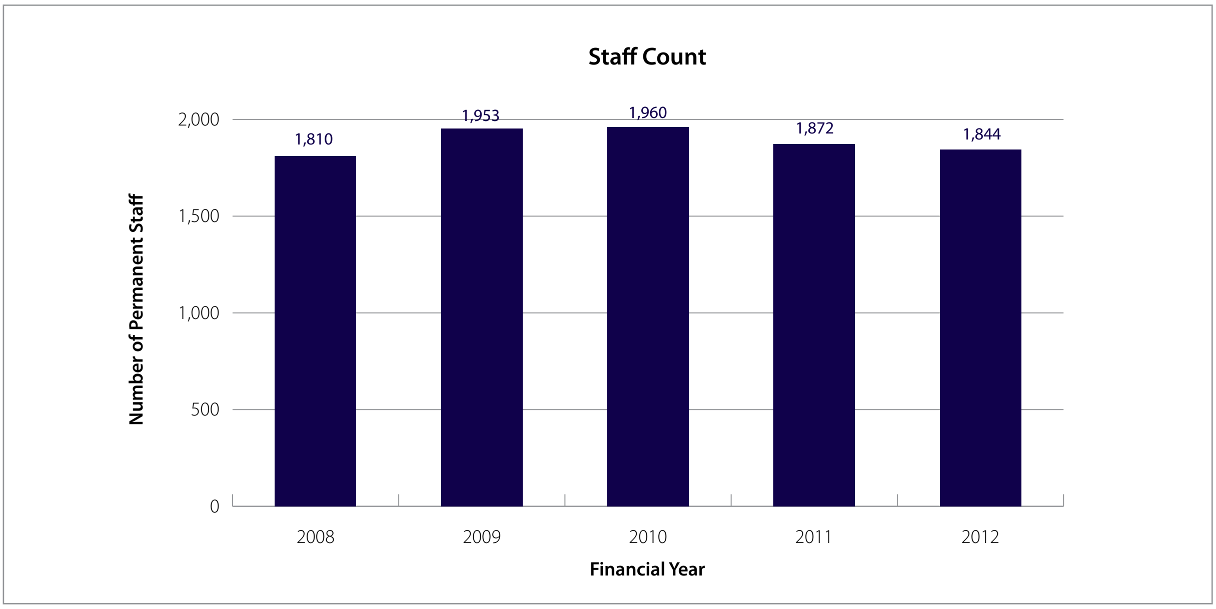



*Graph 3.7 – Composition of expenditure*

### *3.2.4.1 Staff Costs*

Staff costs for the financial year, at R0,66 billion, were 6% higher than the previous reporting period (2011: R0,62 billion). The main reasons for the increase were:

- Salary increases averaging 5.6% for the period ended 31 March 2012 as compared to the previous reporting period and other non-HR-related costs;
- Plans to appoint scarce skills externally for divisions such as the Medical Department did not materialise during the year; and
- Staff numbers decreased by 1.5% to 1,844 (2011: 1,872) *(Graph 3.8)*.




*Graph 3.8 – Staff numbers decreased in 2012*

### *3.2.4.2 Administration and Other Costs*

Total administration and other costs for the 2012 financial year, at R0,35 billion, were 3% lower compared to the previous reporting period (2011: R0,36 billion). The positive variance was mainly due to savings experienced owing to the delay of the full roll-out of the New Operating Model ("NOM").

### *3.2.4.3 Claims Expenditure and the Growth in Claims Provision*

Claims expenditure, including the provision for outstanding claims for the 2012 financial year, at R32.6 billion, was 117% higher than the corresponding period last year (2011: R15 billion).

The increase was mainly attributable to an upward adjustment in the provision for outstanding claims caused by the following:

*Higher Claim Amounts*

During the 2012 financial year, average claim amounts (adjusted for type of claim and delay since accident) were higher than anticipated at the start of the year and comprised almost 41% of the increase in the provision. Average claim amount assumptions were therefore adjusted by the Statutory Actuary in line with the recent claims experience.

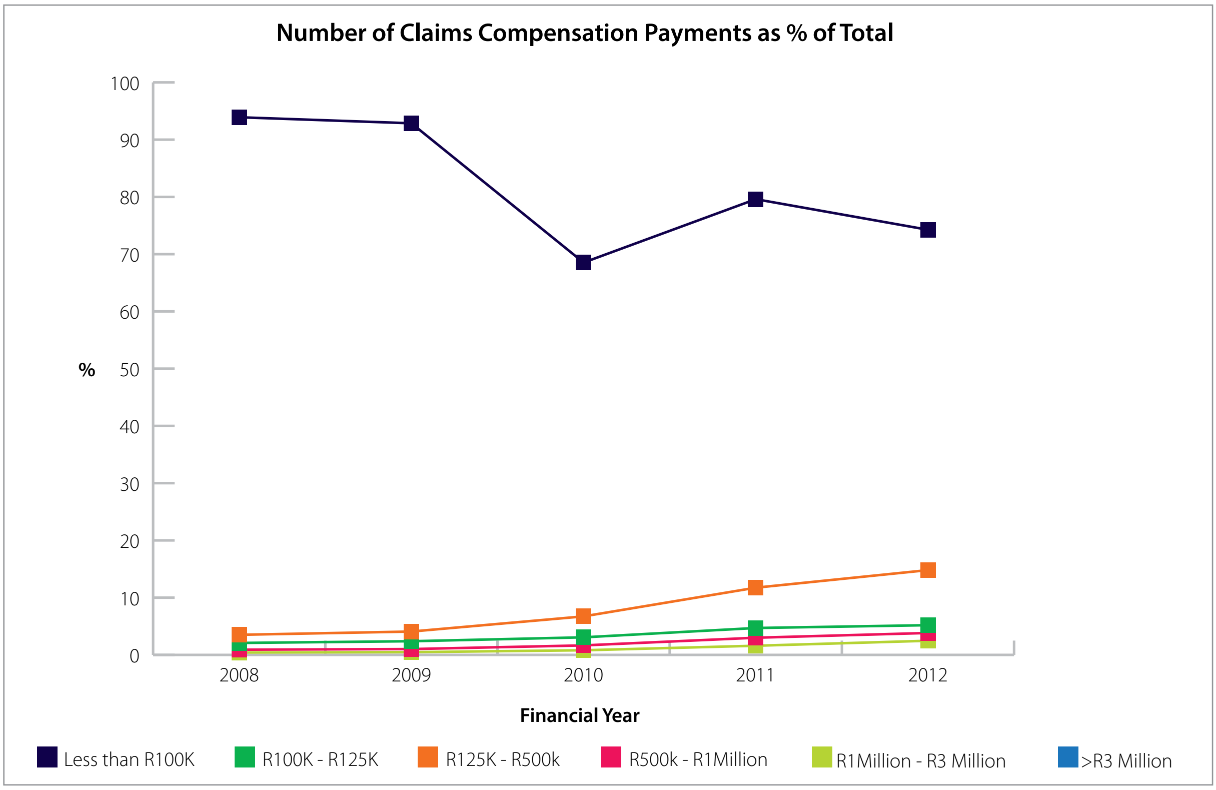
*Payments on Previously Finalised/Settled Claims*

Payments on claims previously settled exceeded what was included in the opening provision and accounted for 42% of the increase in the provision for claims incurred. At the end of the previous financial year, it was believed that such practices had been eliminated to a large degree and the provision was set accordingly. A detailed investigation was undertaken and it became apparent that although there were indications that the trend had improved over the past year, it still represented a level that was much higher than initially anticipated. Based on the recent historic data, allowance was therefore made for future payments relating to such claims.

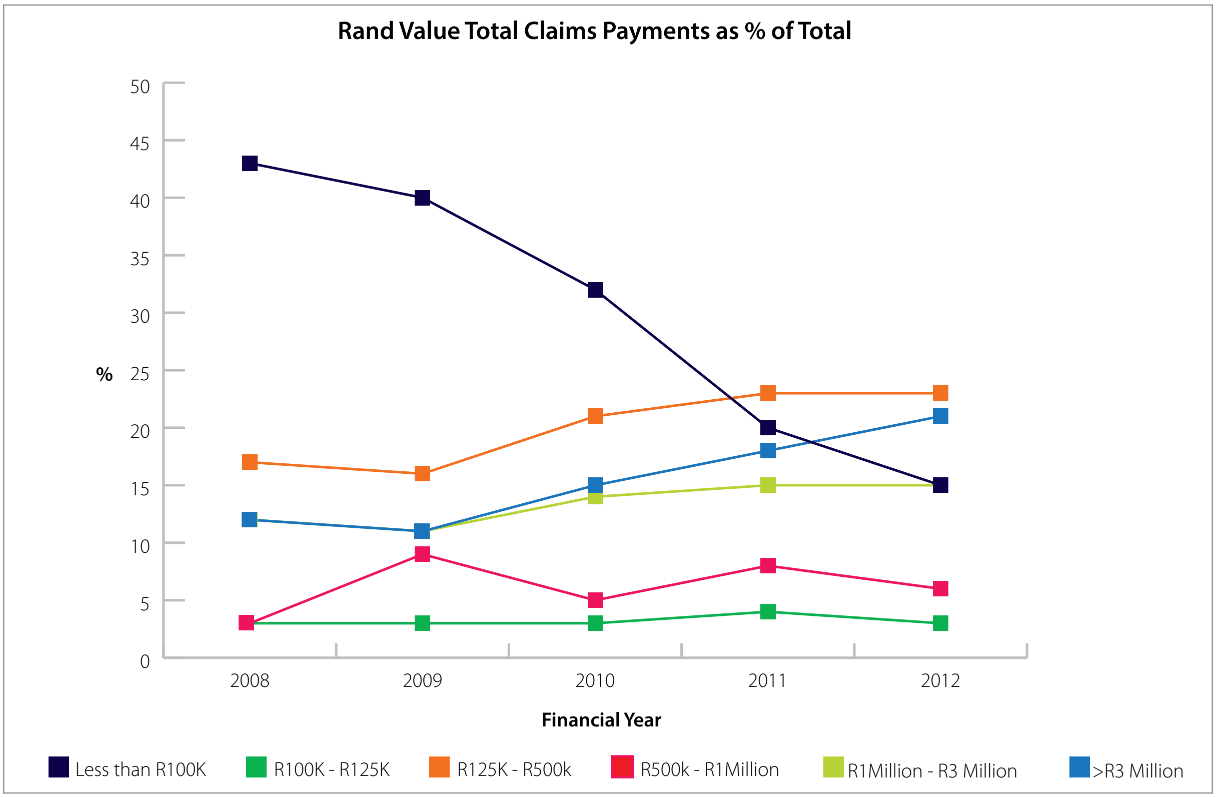
The remainder of the increase in the provision relates to slight changes in the actuarial methodology and assumptions to ensure that the provision is accurately measured.

*Change in the Composition of the Claims Expenditure*

There was a substantial growth in the medium to larger group of claims from 2011 to 2012. As claims got closer to trial date, the heads of damages, specifically with regard to future loss of earnings, were amended to higher amounts. This caused a notable increase in the average payment amounts in this category. This trend has been noted by Management in the claims settlement process, where claims that had been settled for minor head injuries a few years ago have now become large claims as a result of the so-called future loss of earnings capacity. The graphs below, based on real paid-out amounts, and not adjusted for inflation, indicate a similar trend in that a large number and Rand value of claims paid in 2012 were in the larger claim category (as opposed to claims paid out in 2008 for example).

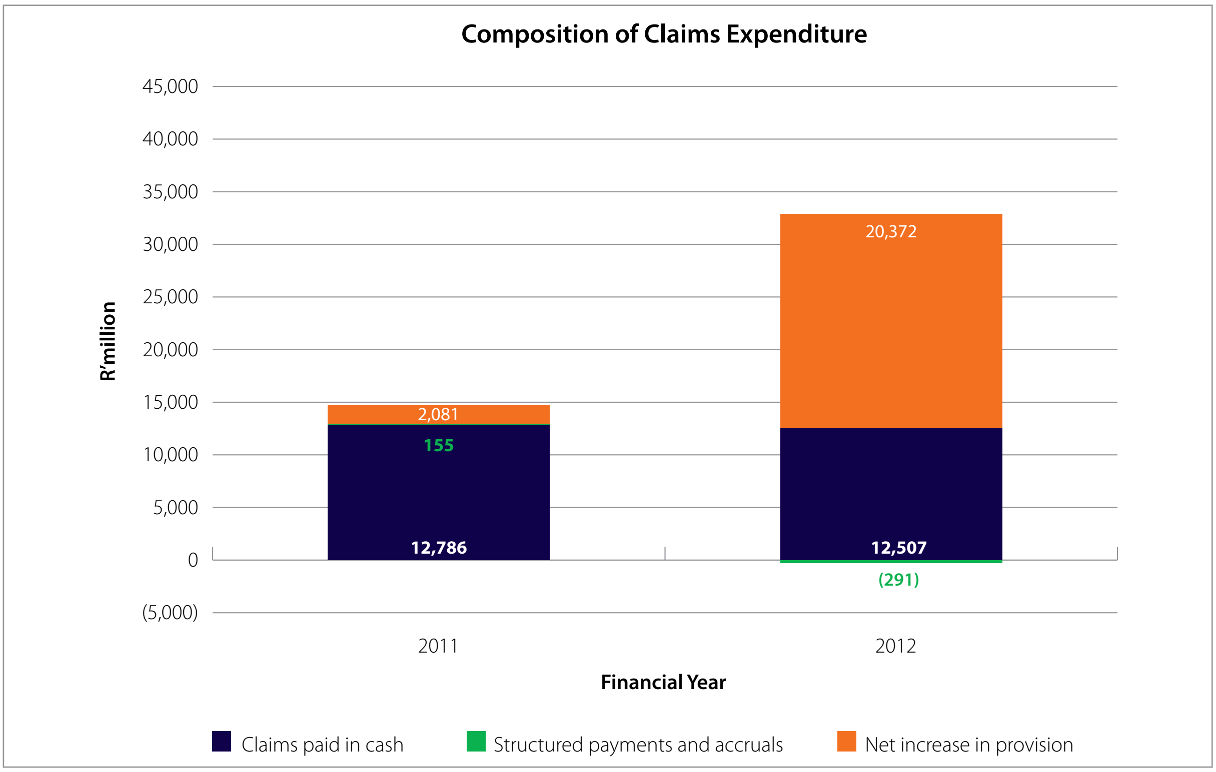



*Graph 3.9 – Number of claims – % compensation payments*




*Graph 3.10 – Value of claims payments – % of total*

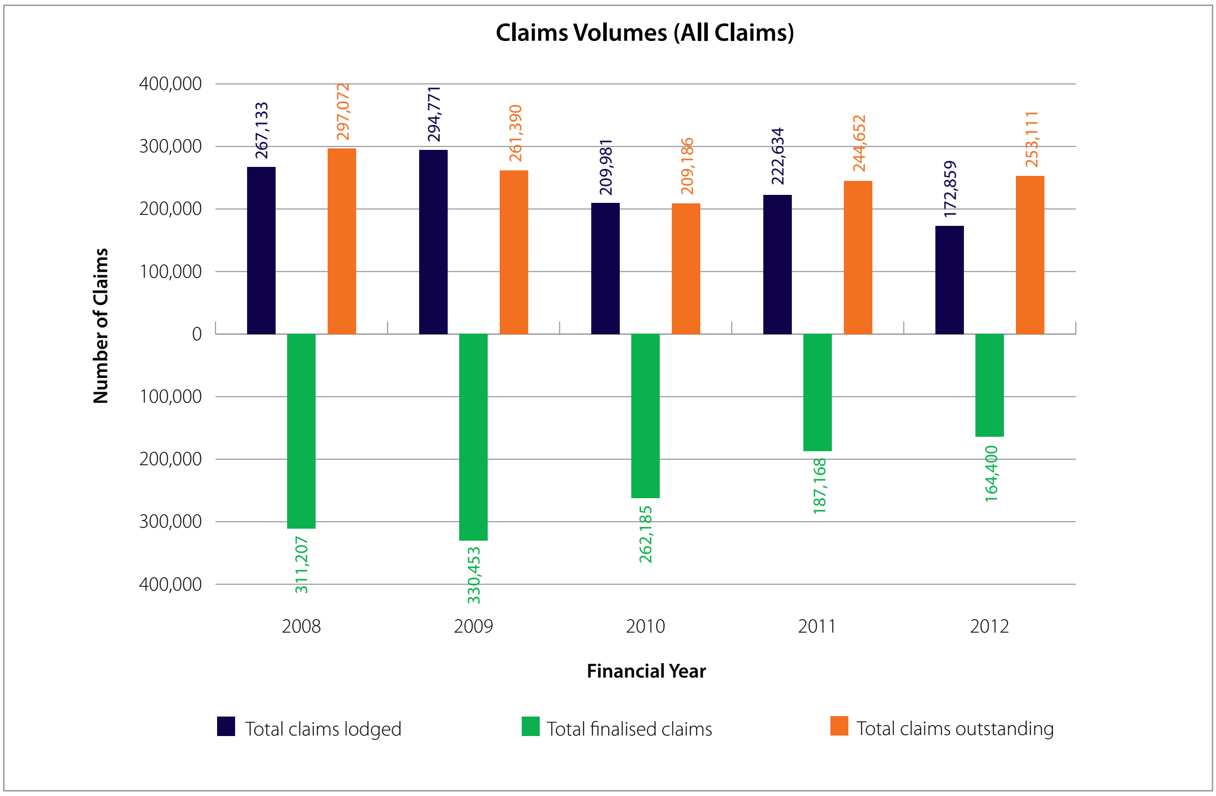
The total cash payout for claims actually decreased by 2.3% to R12,5 billion (2011: R12,8 billion) as a result of fewer claims being finalised than anticipated. Higher average claims values were experienced as a result of the lower finalisation rate of claims, as well as higher than inflation increases in tariffs, costs and compensation. This, in turn, was influenced by the increase in outstanding claims provision (R20,4 billion) being 879% higher than the increase in the previous financial year (2011: R2,1 billion). Total claims expenditure also included payments accrued in the previous financial year (R291 million) *(Graph 3.11)*.



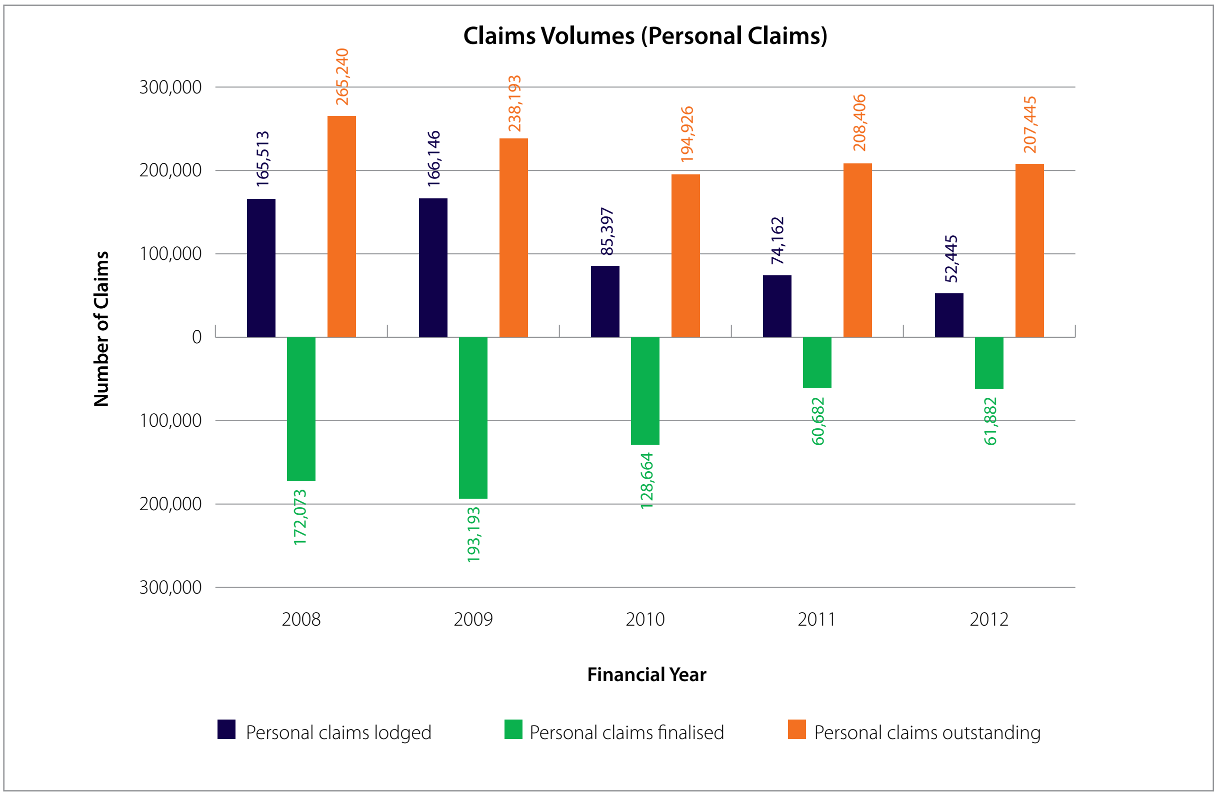

*Graph 3.11 – Composition of claims expenditure*

*3.2.4.3.1 Claims Volumes*

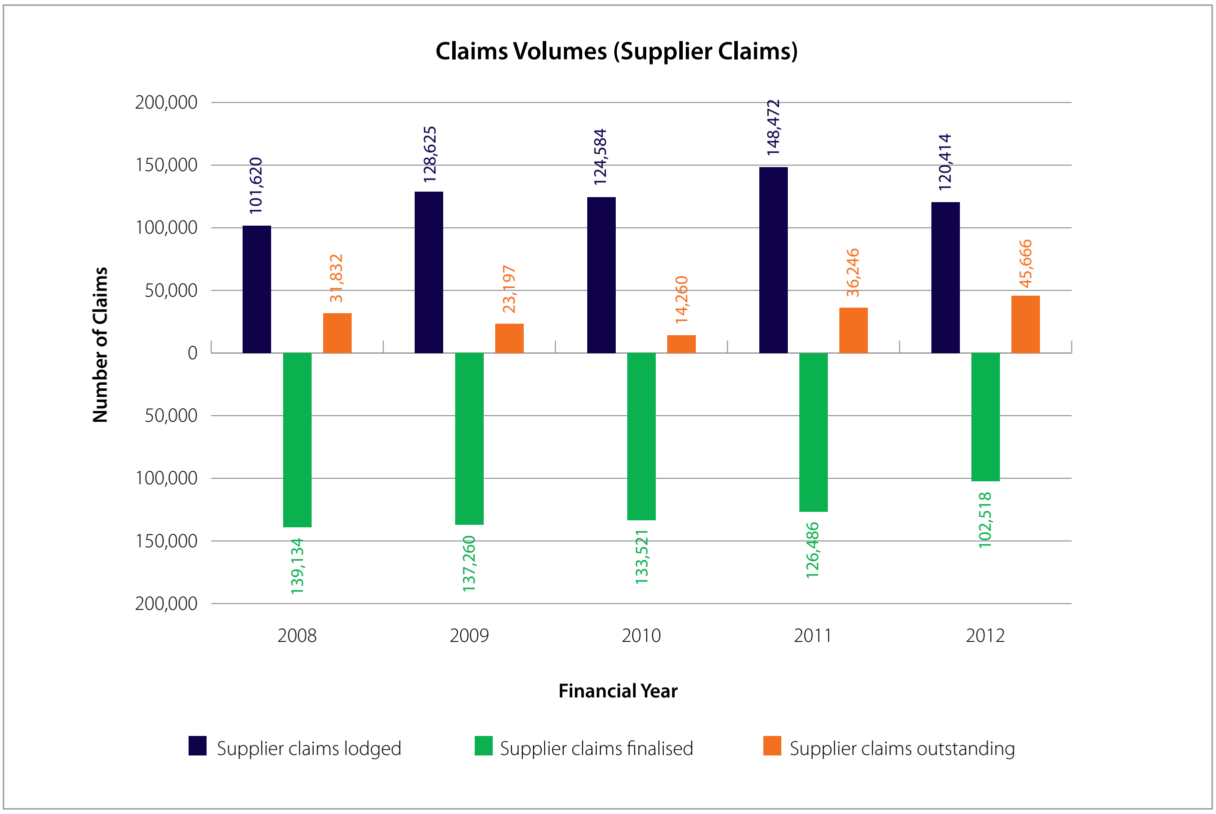
The claims backlog increased from 244,652 outstanding claims at the end of the previous financial year to 253,111 outstanding claims at the end of the reporting period *(Graph 3.12)*. Out of a total of 164,400 claims processed, 149,467 claims were finalised and 14,933 claims were cleaned up during the financial year.




*Graph 3.12 – Volumes of all claim types*




*Graph 3.12(a) – Volume of personal claims*




*Graph 3.12(b) – Volume of supplier claims*

Claims lodged decreased by 22% from a total of 222,634 in the previous reporting period to 172,859 in the current financial year *(Graph 3.12)*.

Some 62% of the claims finalised during the year under review were supplier claims (2011: 68%). As at 31 March 2012, the number of outstanding claims was made up of 207,445 personal claims (2011: 208,406) and 45,666 supplier claims (2011: 36,246) (*Graph 3.12 (a) and (b))*. The process of direct payments to service providers yielded positive benefits. Not only did it accelerate the payment of accounts, but it also reduced unnecessary delays occasioned by the involvement of intermediaries.

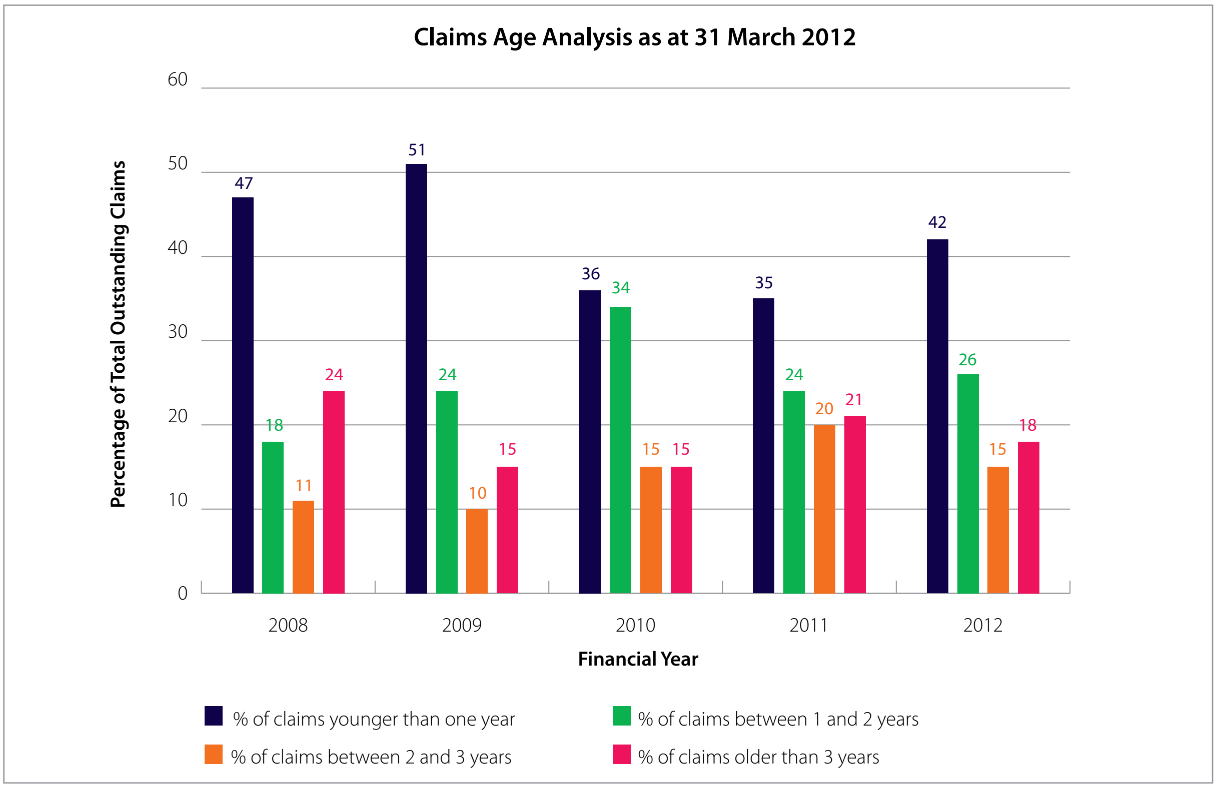
In order to address the backlog in claims processing, the following actions were taken and implemented during the 2012 financial year:

- A Backlog Project Team, representing all operational areas, was formed in October 2011. Weekly meetings were held to monitor progress and plan additional interventions to increase claim settlements. Performance was monitored at an individual claims handler level and corrective actions, in the form of mentoring, training or disciplinary action, were taken where under-performance was detected.
- A meeting was held with all panel attorneys, impressing upon them the need to increase claims settlements materially. Specific additional targets were given to panel attorneys.
- A block settlement initiative was started in December 2011 to increase the number of settlements. Panel attorneys were requested to present all files that were at a stage where an offer could be made at block settlement meetings.
- Invitations were extended to all plaintiff attorneys to attend block settlement meetings.

Initiatives of this nature always take time to gather momentum. It is envisaged that the real benefits will only transpire in the next financial year.

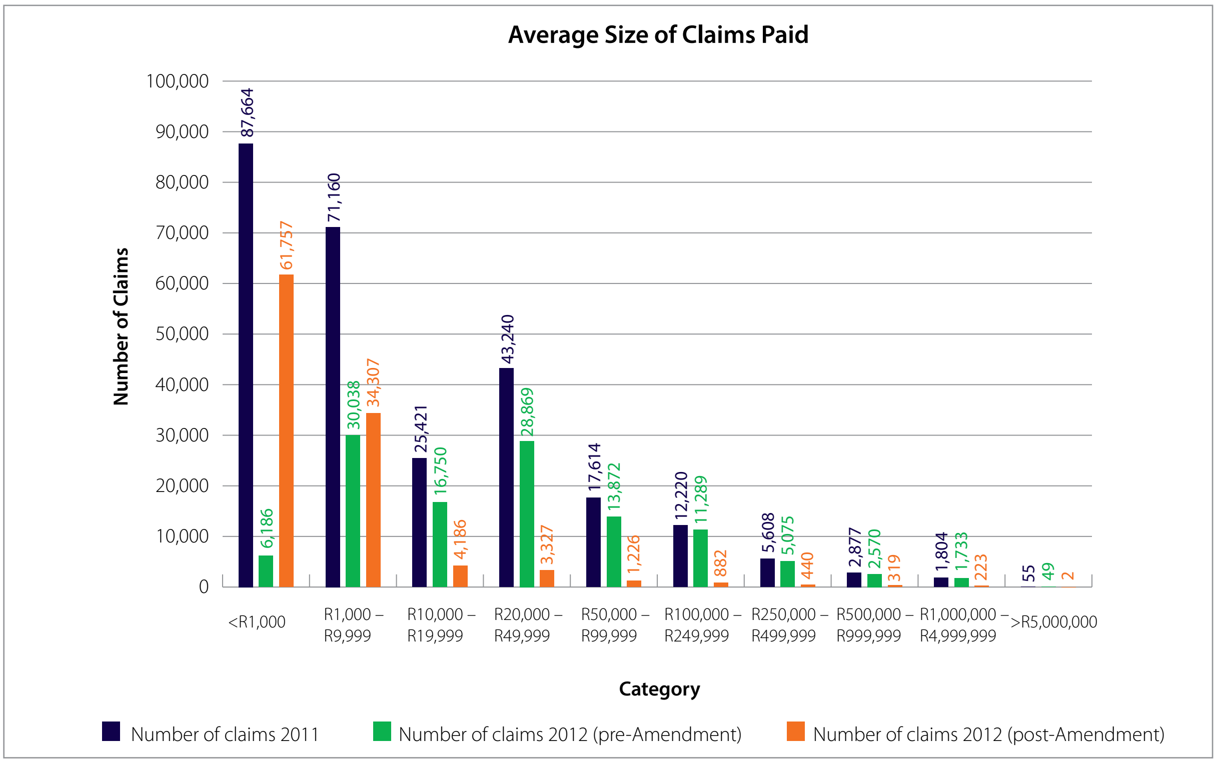
In addition, a complete physical audit of claim files is currently being conducted to determine the exact stage of the claim. Thereafter, the claims will be split into logical groupings and fast-tracked to settlement before trial dates. Direct claims will receive special attention in this regard. Additional validity checks will also be performed to ensure that potential fraudulent files are uncovered and investigated.

Claims younger than one year increased from 35% in 2011 to 42% in 2012 and the percentage of claims older than three years decreased from 21% to 18% at the end of the financial year *(Graph 3.13)*. The bulk of claims outstanding at year-end arose from new accidents.



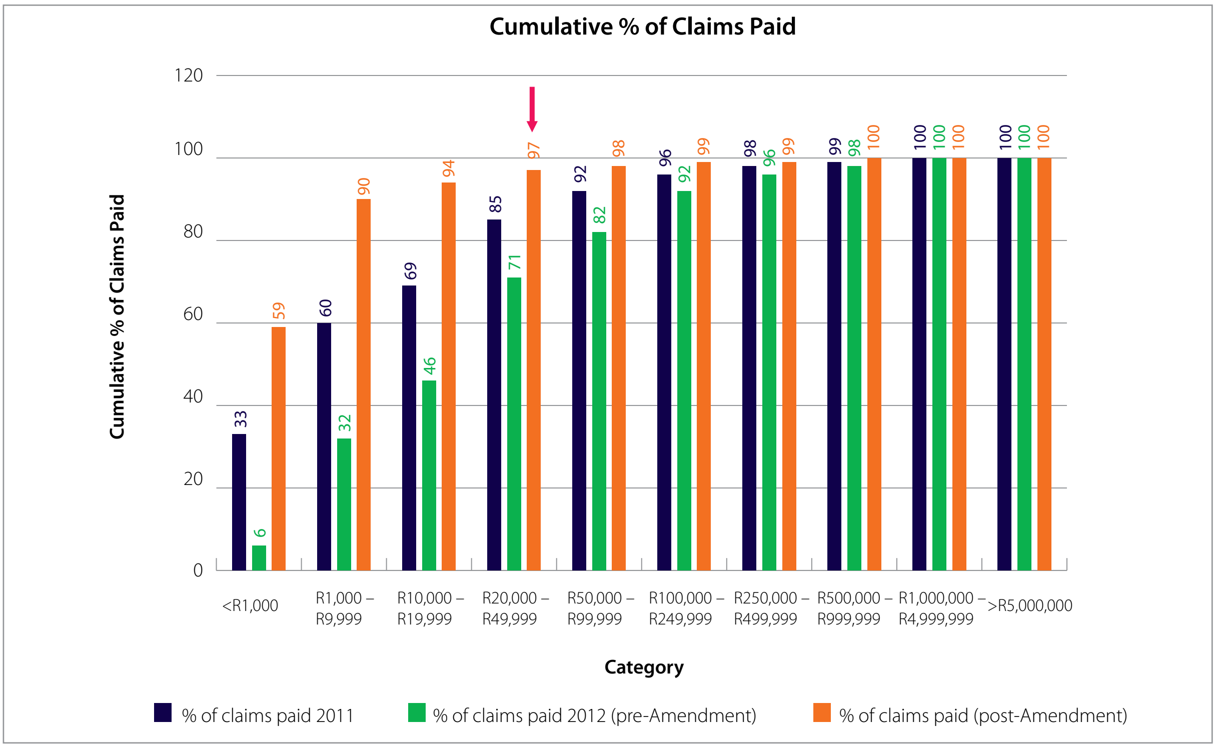

*Graph 3.13 – Age analysis of claims*

Of the 164,400 claims processed in 2012, a large number of claims were valued at less than R1,000 *(Graph 3.14)*. This can be ascribed to the accelerated approach to supplier claims, which allowed for hospitals and other service providers to be paid directly by the RAF. As a result, the RAF managed to reduce the backlog of supplier claims more effectively than that of personal claims *(Graph 3.12(a) and (b))*.




*Graph 3.14 – Average size of claims paid*

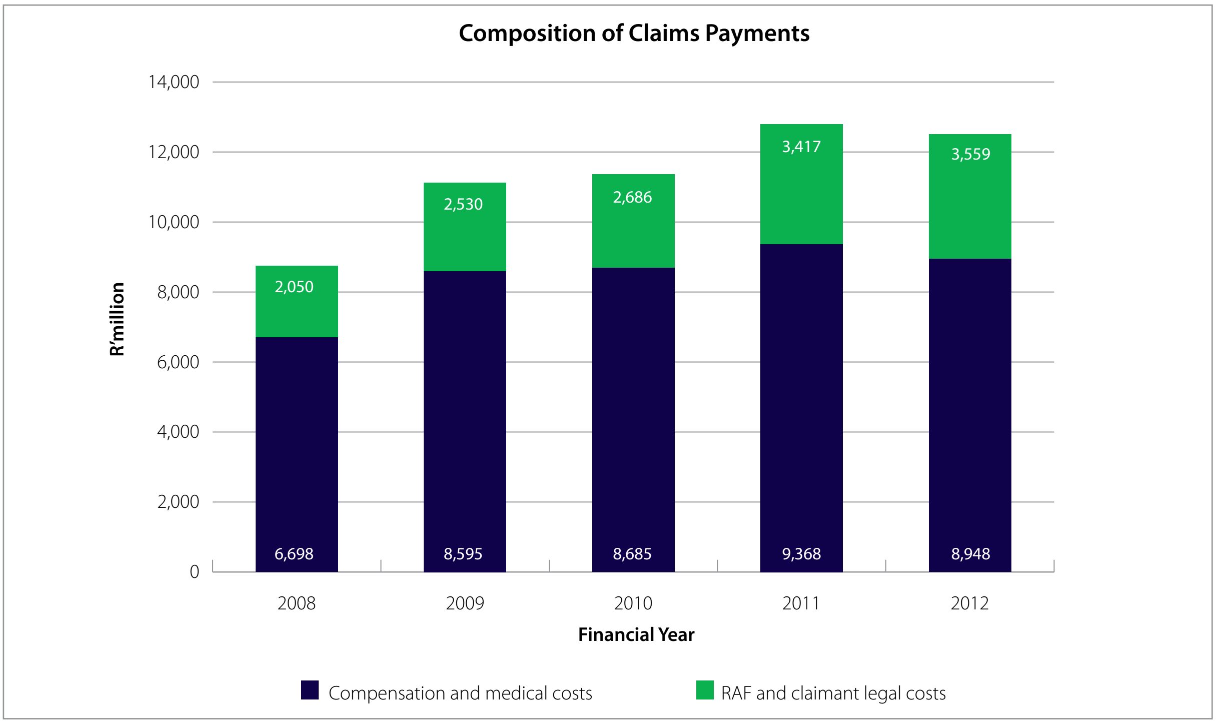
During the financial year, the RAF continued to receive and settle high volumes of small claims, with more than 84% (average of pre- and post-Amendment Act claims) being for settlement values below R50,000 *(Graph 3.15)*.




*Graph 3.15 – Cumulative % of claims paid*

### 3.2.4.3.2 Claims Value

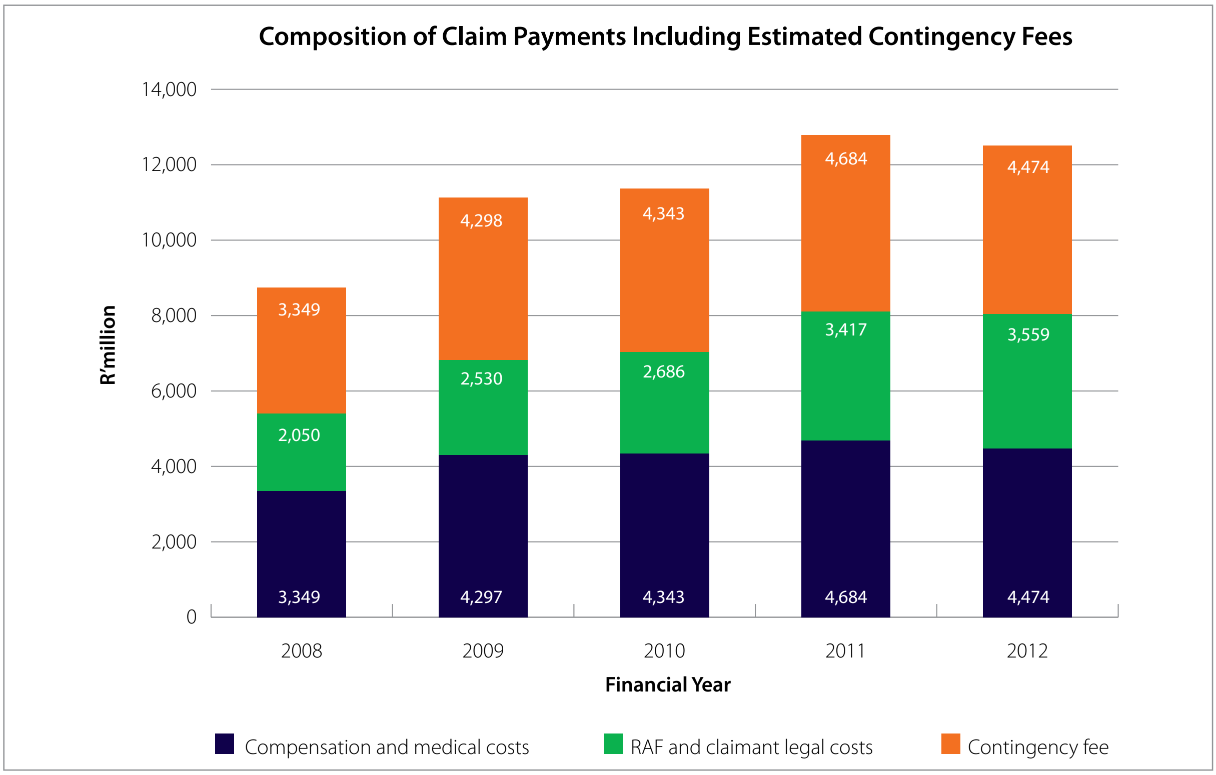
The composition of the claims payments continues to reflect the inadequacies of the existing fault-based, common law system of compensation. The introduction of a no-fault system should address these wastages over the longer term. In the short term, Management believes that interim legislative changes (that could address some of the wastages) should be proposed to the Shareholder. Of the R12,5 billion (2011: R12,8 billion) cash paid out in respect of claims for the 2012 financial year, only R8,9 billion (i.e. 72%) (2011: R9,4 billion (i.e. 73%)) represented compensation payout. The balance of 29% (2011: 27%) comprised legal and other expert fees *(Graph 3.16)*.




*Graph 3.16 – Composition of claims payments*

Approximately 90% of personal claims lodged with the RAF are submitted through attorneys, many of whom charge contingency fees that are not in line with the Contingency Fees Act, 1997 (Act No. 66 of 1997). The Contingency Fees Act provides for attorneys to charge contingency fees up to 25% of compensation, on condition that the 25% is not more than double the attorney's normal fee. If such is the case, the attorney is required to charge the lesser amount. A high number of attorneys who act on behalf of claimants charge more than 25% of the compensation paid to claimants, on the basis that they enter into common law contingency agreements. The RAF is of the view that such agreements are unlawful and that all contingency fee agreements must comply with the provisions of the Contingency Fees Act. An application is currently pending before the North Gauteng High Court, Pretoria, where the court will be called upon to make a ruling as to whether common law contingency fee agreements are unlawful.

For illustrative purposes, assuming that attorneys' contingency fees amounted to 50% of compensation during the year under review, only R4,47 billion of the cash paid out by the RAF for the period ended March 2012 (2011: R4,68 billion) actually reached the victims of accidents. This means that as much as 65% of all claims disbursements made by the RAF are paid to attorneys, as opposed to the claimants. This is precisely why the RAF believes that the current legislative model is wasteful, since the cost of service delivery is disproportionately high in relation to the compensation paid and the RAF Fuel Levy received *(Graph 3.17)*.




*Graph 3.17 – Composition of claim payments including estimated contingency*

The composition of the compensation portion of the claims *(Graph 3.18)* indicates that the bulk of the cash that the RAF pays out is in respect of loss of amenities of life or general damages, as opposed to medical costs or loss of income and support. For accidents that occurred after 1 August 2008, general damages are only paid out if a serious injury has been sustained, which is in line with the RAF Amendment Act.

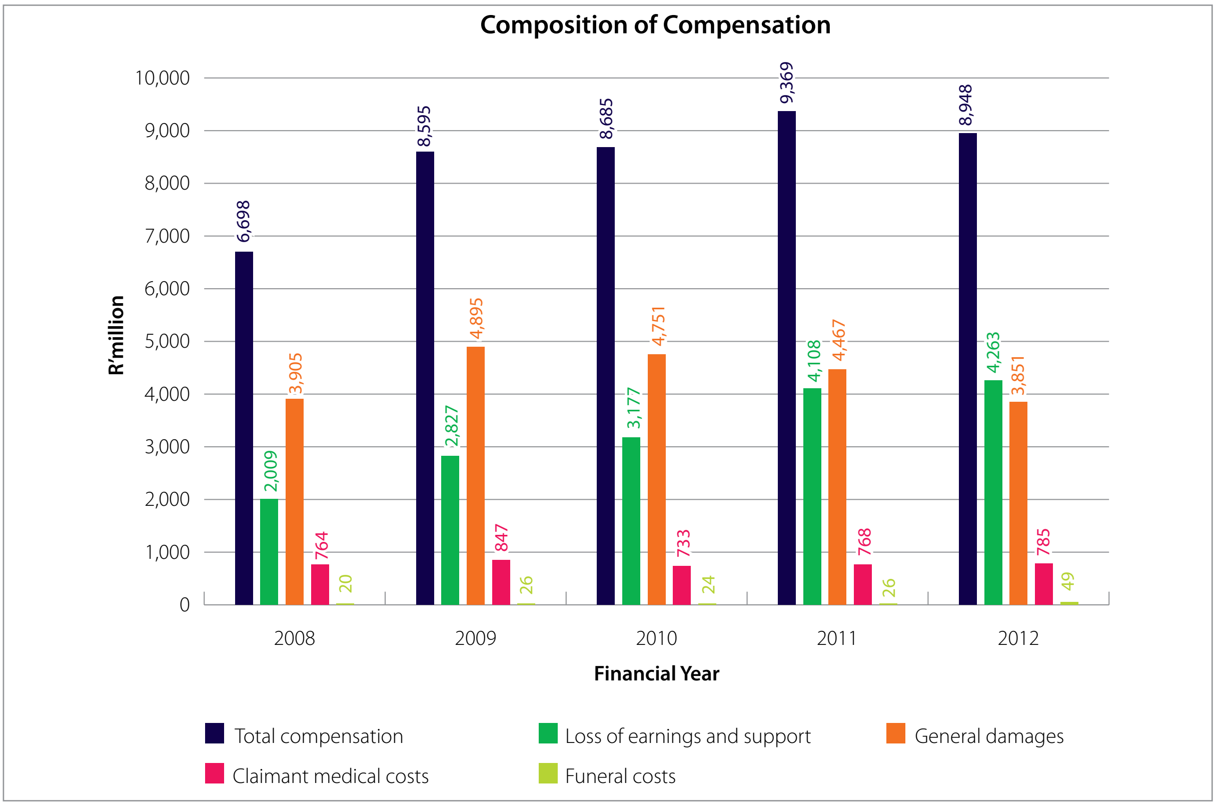
During the 2012 financial year, R3,9 billion (2011: R4,5 billion) was paid out as general damages. This represents 43% (2011: 48%) of the compensation paid (excluding legal fees). In proportion to total payouts, general damages have shown a decrease over the last two years. It is expected that the RAF Amendment Act will result in further decreases in claims for general damages payouts. It is, however, important that the list of non-serious injuries is published by the Minister of Transport, as this will simplify the assessment of general damages claims. A list of non-serious injuries was submitted to the DoT and the RAF and the DoT consulted with the Department of Health ("DoH") regarding the list, as required in terms of the RAF Act. The DoH requested that two changes be made and these were effected and submitted to the DoH in August 2011. Confirmation of approval is awaited in order for the list to be published by the DoT.

Medical payments, at R0,78 billion (2011: R0,77 billion), represented 9% (2011: 8%) of compensation paid. Loss of income and support payments of R4,3 billion (2011: R4,1 billion) represented 48% (2011: 44%) of compensation paid, and funeral costs, at R0,049 billion (2011: R0,026 billion), represented 0.6% (2011: 0.3%) of compensation paid *(Graph 3.16)*.

Compensation for loss of income and support is starting to show an upward trend. The reasons for this are:

- The introduction of the Amendment Act increased passenger claims to the average of any other claim where the driver was the sole cause of the accident – these claims were previously limited to R25,000. As a result of the Amendment Act decreasing claims volumes materially, plaintiff attorneys are increasingly finding any possible way, even if the injuries are not that serious, to prove future loss of earnings capacity. The result is that claims that could have been settled for less than R100,000 are now being proven as fairly material claims, with medical reports to substantiate the loss of earnings. Offers made by claims handlers are no longer accepted at previous levels and matters are pushed to courts where substantial awards are being made on loss of earnings. This has also escalated legal fees.
- It seems that courts are becoming more lenient. Minimal proof of loss of earnings is accepted, particularly where the testimony of self-employed road accident victims, who are not paying taxes and have no income and expenditure statements as evidence, is heard and judgement is made on the basis of people's testimony.
- Previously, loss of support claims were quantified on the basis of the agreement between the RAF and the attorney. More recently, a new trend has developed whereby industrial psychologists' reports are introduced, with career progression and promotions factored in, to inflate the loss of support claim.
- In the past, claims for minor children were projected, based on the parent's educational background. This impacted negatively on the previously disadvantaged sectors of the population, which represent the majority. With social and political changes, these claims are no longer settled on this basis and have become million Rand settlements.

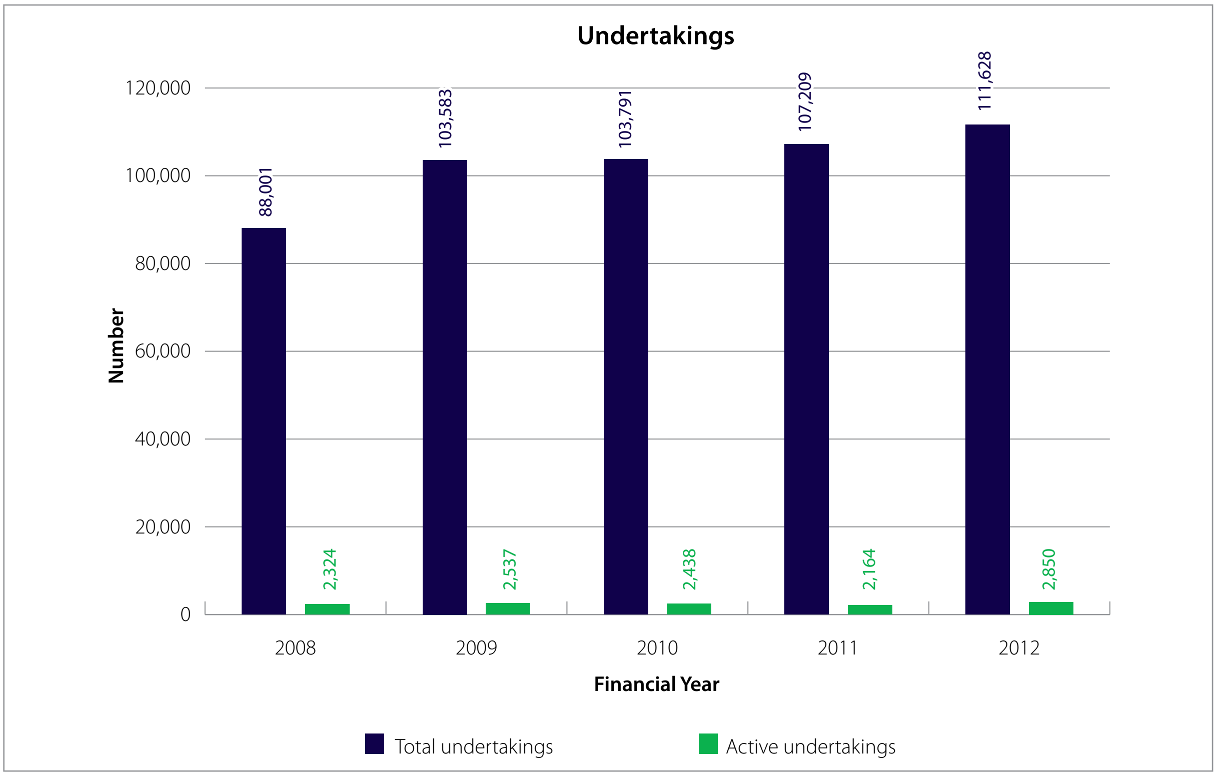
A matter of extreme concern for the RAF is that the cost of service delivery remains disproportionately high in relation to the compensation paid in comparison with the RAF Fuel Levy received, more so because the bulk of the cash that the RAF pays is in respect of loss of amenities of life and general damages, as opposed to medical costs and loss of income and support.




*Graph 3.18 – Composition of compensation*

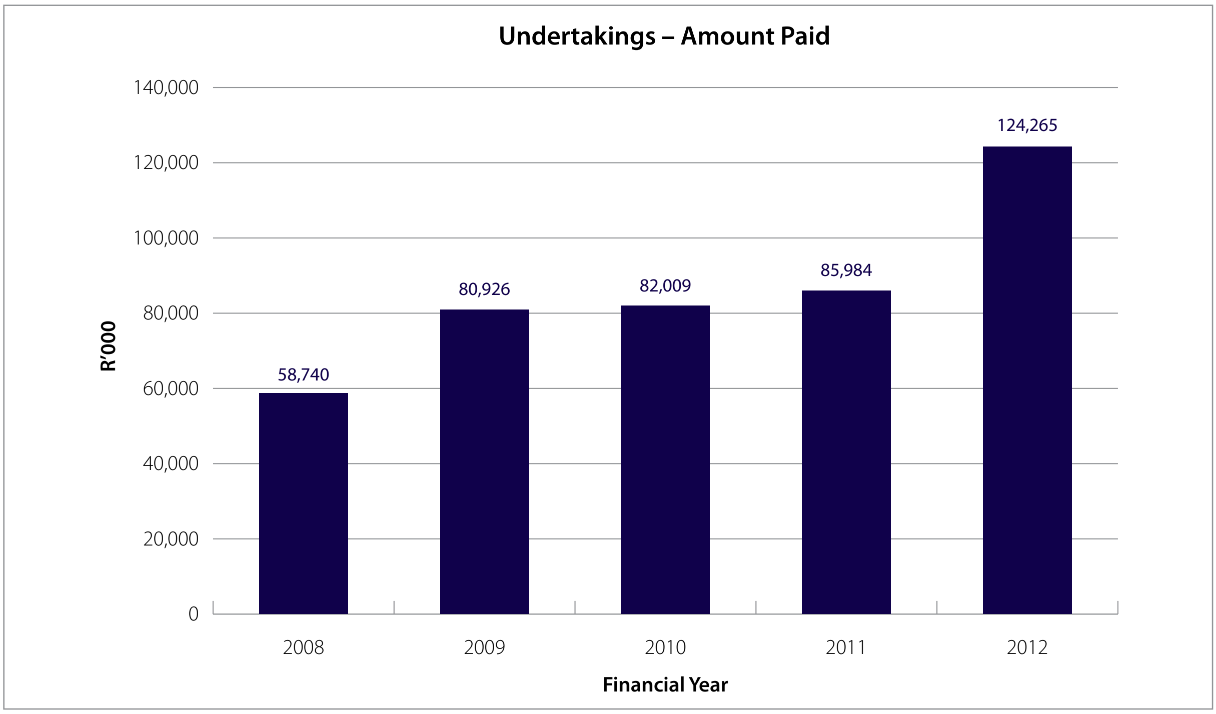
### *3.2.4.3.3 Undertakings*

Medical cost payments are inclusive of certificates issued to claimants by the RAF to cover future medical treatments, known as "undertakings". An undertaking is regarded as active if a claim is made against it during the year. The total number of undertakings certificates issued increased to 111,628 (2011: 107,209). The number of active undertakings in respect of which payments were made also increased to 3% of all undertakings issued (2011: 2%) *(Graph 3.19)*. This is in line with the nature of the instrument issued, since most injuries arising from motor vehicle accidents heal and do not represent chronic illnesses.




*Graph 3.19 – Undertakings (future medical treatment)*

Payments in respect of all undertakings issued for the 2012 financial year amounted to R124 million (2011: R86 million) *(Graph 3.20)*.




*Graph 3.20 – Undertakings paid out*

### *3.2.4.4 Claims Categories and Averages*

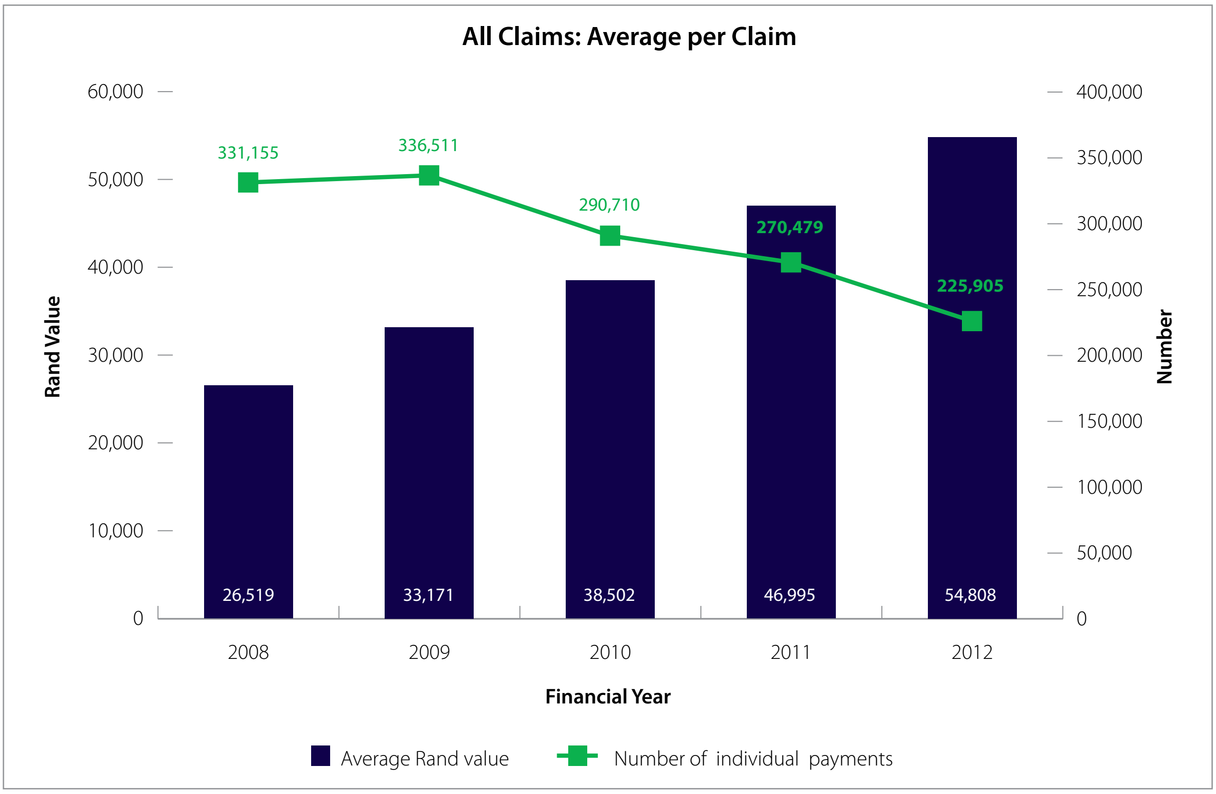
Claims settled by the RAF differ materially when the composition of the claim is considered. The following analysis provides insight into the average number of claims paid over the past five years, as well as the composition of these claims.

*3.2.4.4.1 Total Claim Payments*

The average Rand value of all claims paid increased by 17% during the financial year from R46,995 to R54,808 (2011: increase of 22% from R38,502 to R46,995). The average increase in payments per claim from 2008 to 2012 has been 13% per annum. This increase was due to the higher value personal claims that were processed compared to lower value supplier claims.

The percentage of the claims payments in the category of 36+ months increased in the majority of heads of damages during the 2012 financial year compared to the 2011 financial year, as attorneys continued to exert pressure for claims (already captured on the system) to be paid. The average for the 12 months was therefore higher, as older claims are more expensive to settle.

The total number of individual claim payments settled decreased by 16% during the financial year from 270,479 to 225,905 (2011: decrease of 7% from 290,710 to 270,479). The average decrease in the number of claims settled between 2008 and 2012 has been 4% per annum *(Graph 3.21)*.




*Graph 3.21 – Average Rand value of all claims paid*

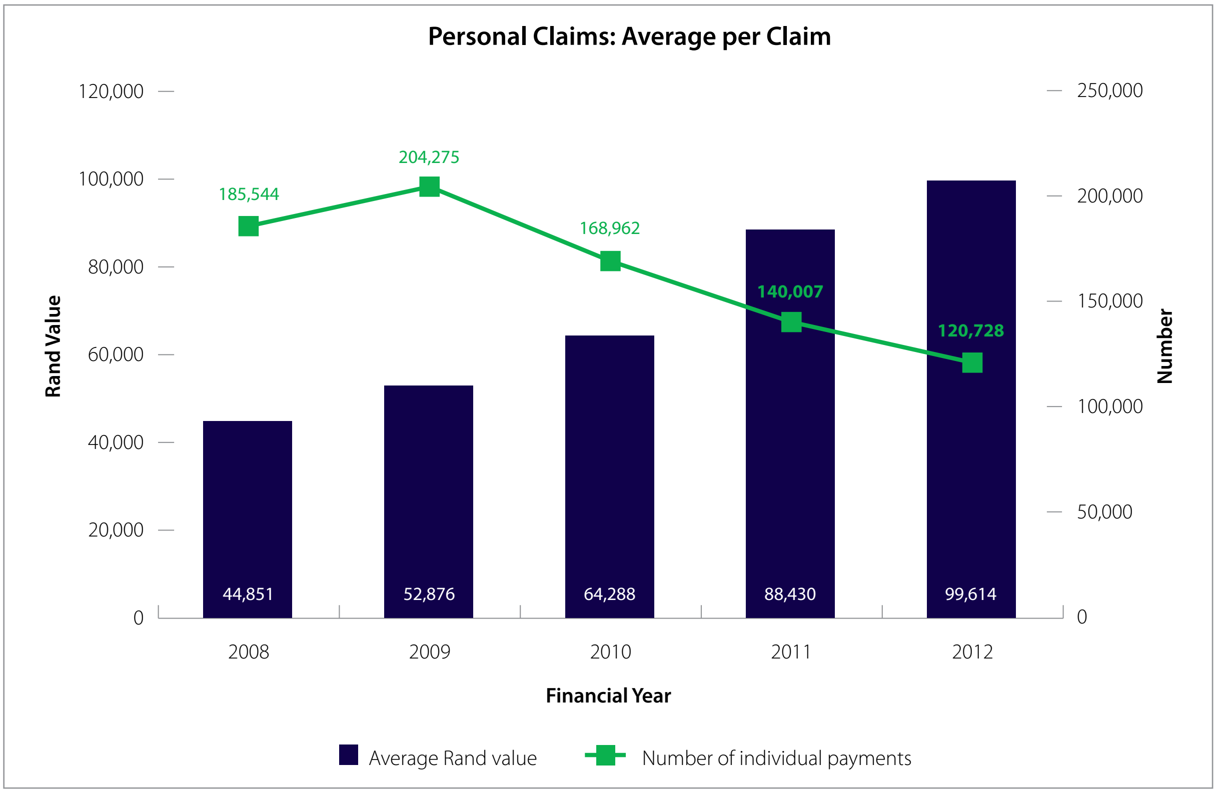
*3.2.4.4.2 Personal* versus Supplier Claims***

* A personal claim is a claim submitted by any person (the third party) for any loss or damage which that person has suffered as a result of any bodily injury to himself/herself, or the death of, or any bodily injury to any other person.

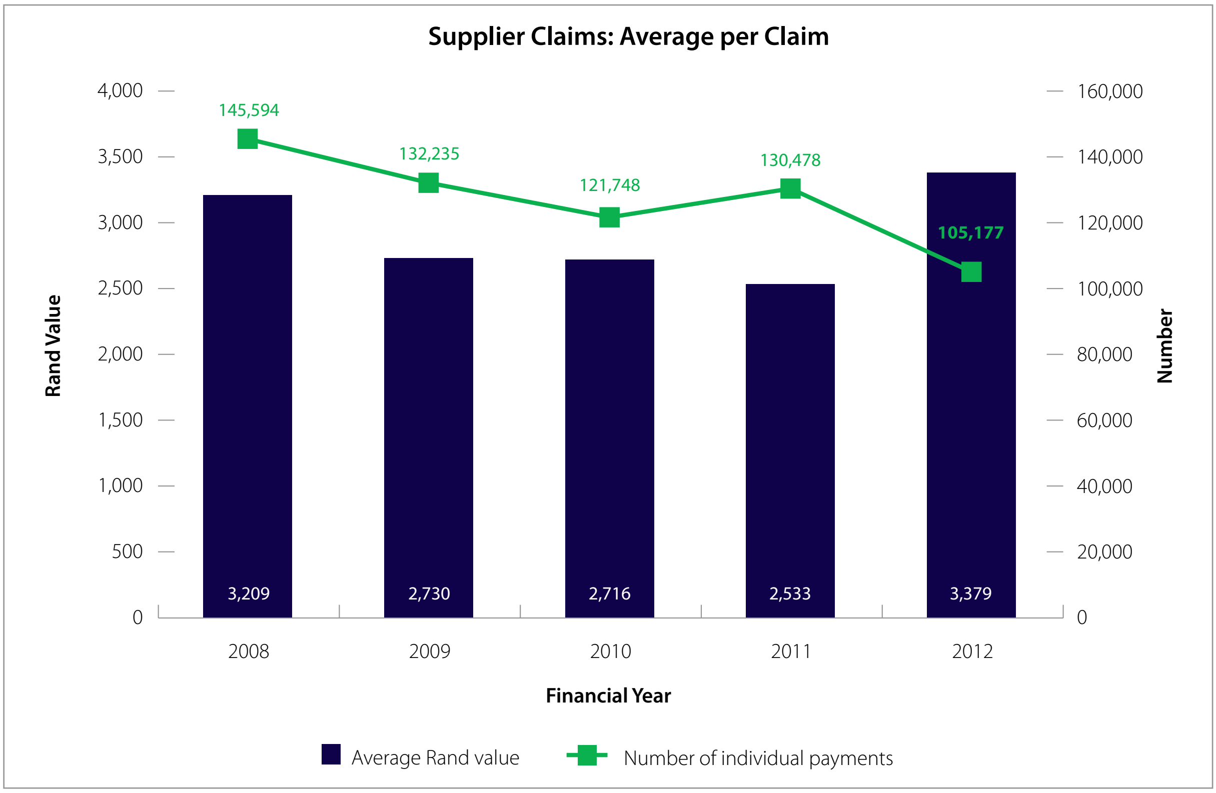
** A supplier claim is a claim submitted directly to the RAF by a person/institution that provided medical treatment and accommodation to the victim of the accident.

The average Rand value of all personal claims paid increased by 13% at the end of the financial year from R88,430 to R99,614 (2011: increase of 38% from R64,288 to R88,430). The average payment of personal claims has increased by 19% per annum from 2008 to the end of the 2012 financial year. The main reasons for this are unpacked under the different heads of damages.

The total number of individual personal claim payments decreased by 14% at the end of the 2012 financial year from 140,007 to 120,728 (2011: decrease of 17% from 168,962 to 140,007). The average decrease in the number of payments per claim from 2008 to the 2012 financial year has been 13% per annum *(Graph 3.22)*.




*Graph 3.22 – Average Rand value paid for personal claims*




*Graph 3.23 – Average Rand value paid for supplier claims*

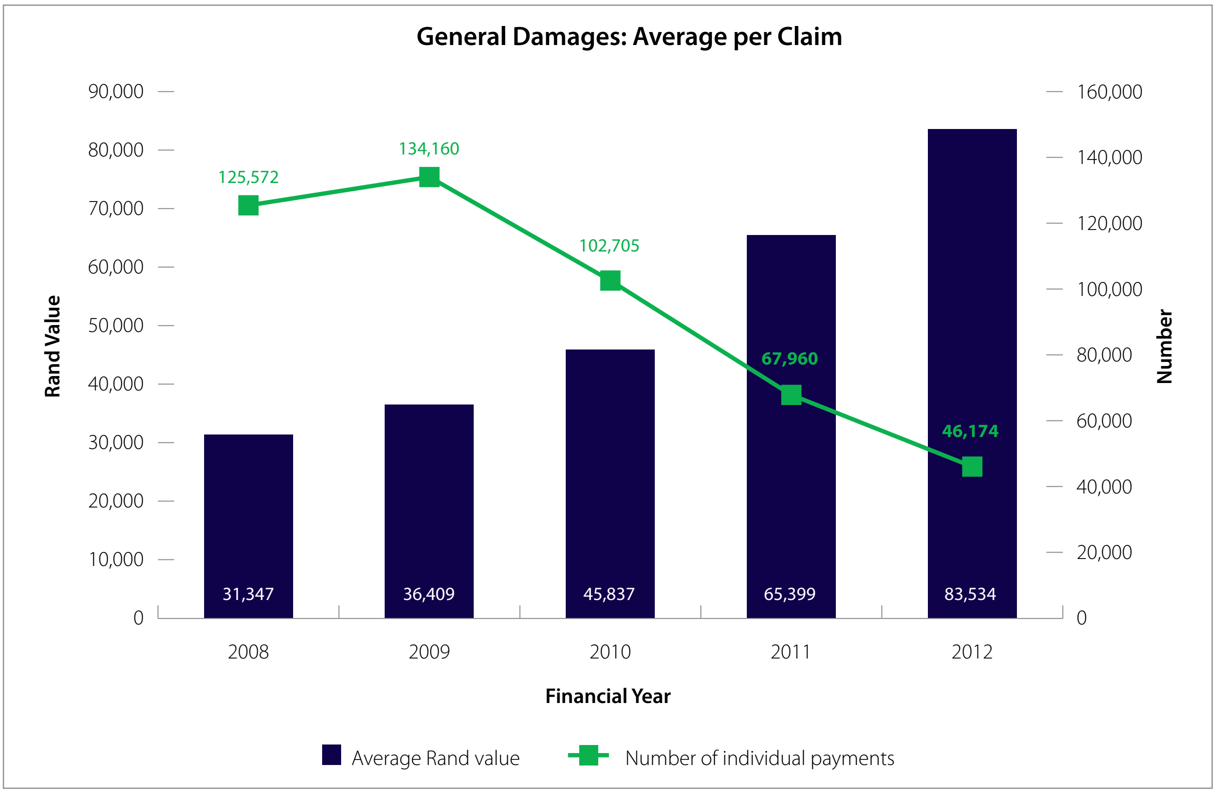
The average Rand value of all supplier claims paid increased by 33% at the end of the review period from R2,533 to R3,379 (2011: decrease of 7% from R2,716 to R2,533). Average payments per claim have stabilised from 2008 to the end of the review period. The increase in the average payment per supplier claim is attributable to a decrease in the number of payments to suppliers by the RAF, as well as higher amounts claimed during the financial year.

The total number of individual supplier claim payments decreased by 19% at the end of the financial year from 130,478 to 105,177 (2011: increase of 7% from 121,748 to 130,478). The average increase in the number of claims from 2008 to the end of the review period has been 23% *(Graph 3.23)*.

*3.2.4.4.3 General Damages*

The average Rand value per general damages claims paid increased by 28% during the financial year from R65,399 in the previous financial year to R83,534 (2011: increase of 43% from R45,837 to R65,399). The average payment for general damages claims has increased by 26% per annum between 2008 and the current financial year. This is mainly due to the larger category of claims (above R100,000) comprising 69% of the total payments in this category in comparison to 61% at 31 March 2011. As the backlog is being addressed, the smaller pre-Amendment Act claims are decreasing and only the larger, more serious injury claims remain. The increase in average is therefore to be expected.

The number of individual general damages claims showed a substantial decrease of 32% from 67,960 in the previous financial year to 46,174 (2011: decrease of 34% from 102,705 to 67,960). This decrease was expected as a result of the implementation of provisions of the RAF Amendment Act. On average, the number of claims in respect of general damages has decreased by 11% per annum since 2008. This claims category continues to be abused, as most of the claims for general damages are not for serious injuries. The RAF Amendment Act should address this anomaly over time *(Graph 3.24)*.

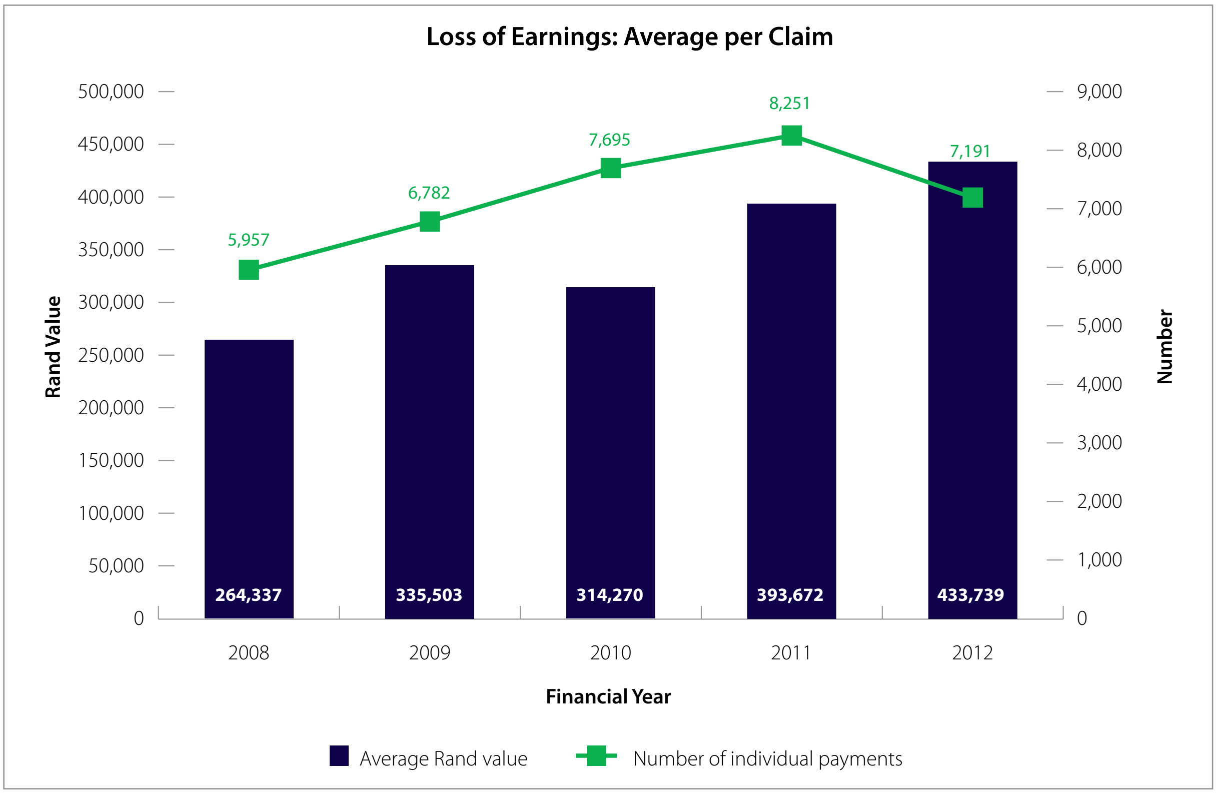



*Graph 3.24 – Average Rand value paid for general damages*

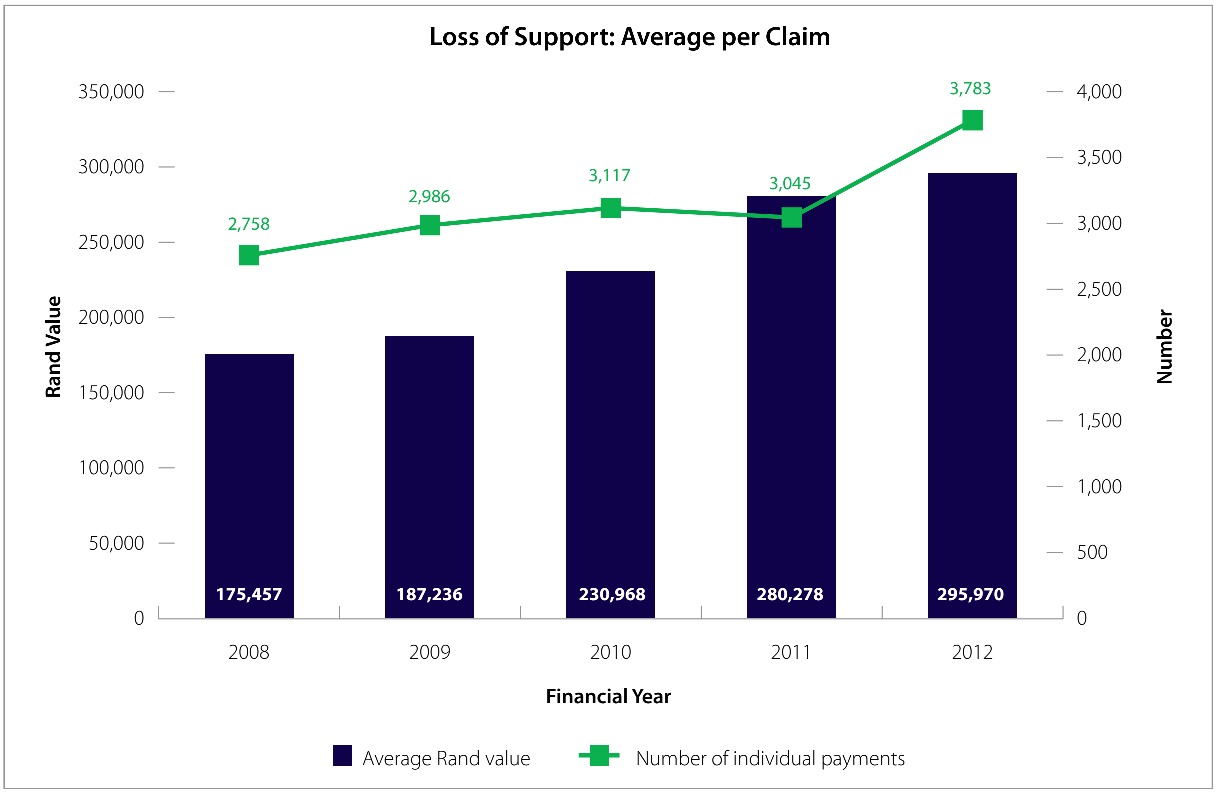
*3.2.4.4.4 Loss of Earnings*

The average Rand value of all loss of earnings claims paid increased by 10% at the end of the 2012 financial year from R393,672 to R433,739 (2011: increase of 25% from R314,270 to R393,672). The average loss of earnings payment per claim has increased by 15% from 2008 to the end of the 2012 financial year. This is mainly due to the larger category of claims (above R500,000) comprising 73% of the total payments in this category in comparison to 70% at 31 March 2011.

The total number of individual loss of earnings claim payments decreased by 13% at the end of the 2012 financial year, from 8,251 in the previous reporting period to 7,191 (2011: increase of 7% from 7,695 to 8,251). Only 7,191 out of a total of 120,728 claims were paid for loss of earnings. This represents 6% of the total number of claims paid. Once again, this indicates the level of abuse of the current dispensation. The average settlement over the past few years has increased far in excess of the growth in gross national income and average wage and salary increases throughout the country. The introduction of the RAF Amendment Act will not, however, result in a material reduction in the payment of loss of earnings, despite the cap being set at R160,000 per annum adjusted for inflation. This is due to most South Africans earning an annual income of less than the capped amount. In addition, more accident victims will become entitled to claim for loss of income and loss of support as a result of the removal of the R25,000 limit on passenger claims *(Graph: 3.25)*.




*Graph 3.25 – Average loss of earnings compensation per claim*




*Graph 3.26 – Average loss of support compensation per claim*

#### 3.2.4.4.5 *Loss of Support*

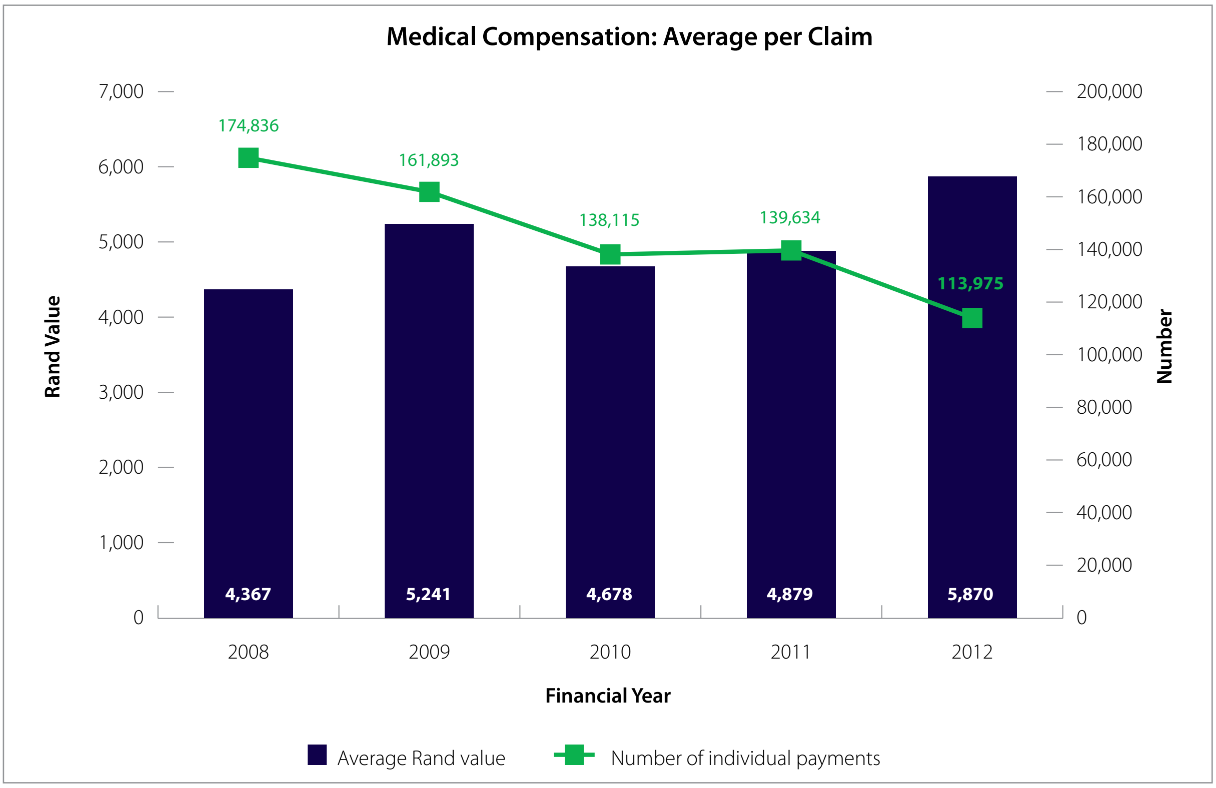
The average Rand value of loss of support claims paid increased by 6% at the end of the 2012 financial year from R280,278 to R295,970 (2011: increase of 21% from R230,968 to R280,278). The average loss of support payment per claim has increased by 15% per annum since 2008. The increase is mainly due to the larger category of claims (above R1,000,000) comprising 27% of the total payments in this category in comparison to 24% at 31 March 2011.

The average number of individual loss of support claim payments increased by 24% at the end of the 2012 financial year from 3,045 to 3,783 (2011: decrease of 2% from 3,117 to 3,045). The average number of claims has increased by 6% per annum since 2008 *(Graph 3.26)*.

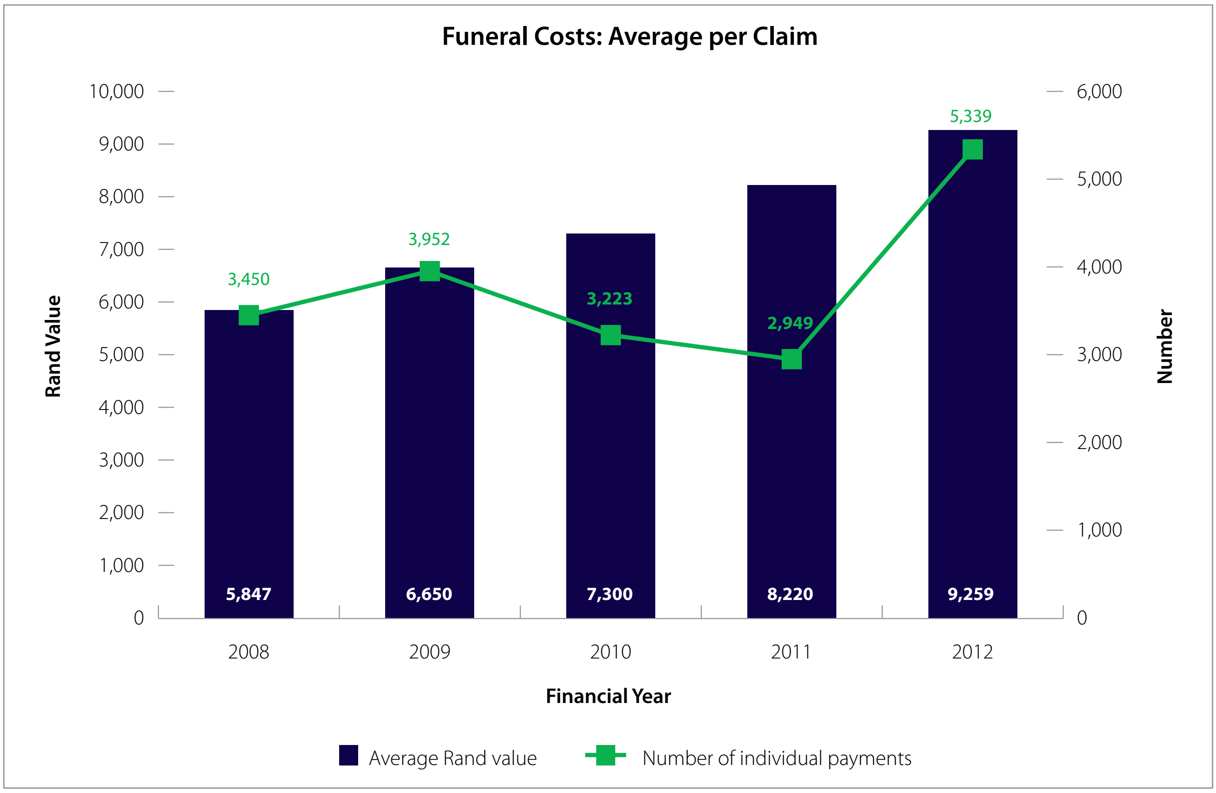
#### 3.2.4.4.6 *Medical Compensation*

The average Rand value of all medical cost claims paid increased by 20% at the end of the 2012 financial year from R4,879 to R 5,870 (2011: increase of 4% from R4,678 to R4,879). The average medical cost payment per claim has increased by 2% per annum since 2008.

The average monthly individual medical cost claim payments decreased by 18% at the end of the 2012 financial year from 139,634 to 113,975 (2011: increase of 1% from 138,115 to 139,634). The average number of claims for medical costs has increased by 13% per annum since 2008 *(Graph 3.27)*.




*Graph 3.27 – Average medical cost compensation per claim*




*Graph 3.28 – Average funeral cost compensation per claim*

### *3.2.4.4.7 Funeral Costs*

The average Rand value of funeral costs claims paid increased by 13% at the end of the 2012 financial year from R8,220 in 2011 to R9,259 (2011: increase of 13% from R7,300 to R8,220). The average payment per claim for funeral costs has increased by 10% per annum since 2008.

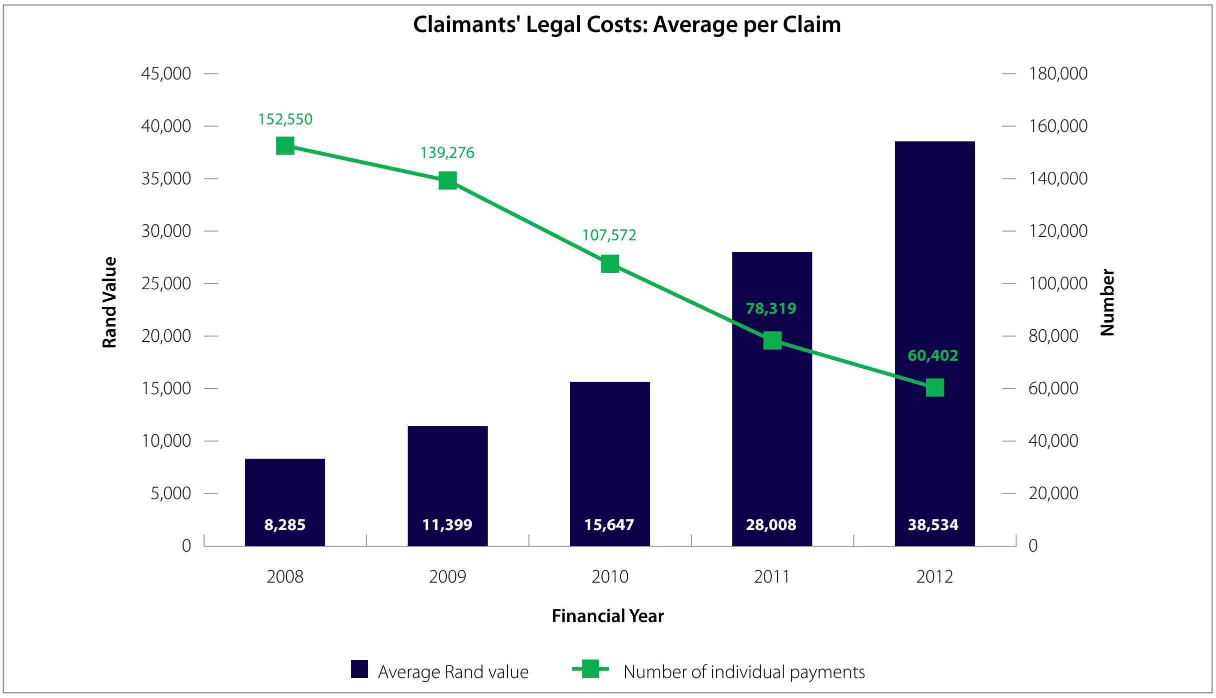
The average number of individual claims payments for funeral costs increased by 81% at the end of the 2012 financial year from 2,949 in the previous reporting period to 5,339 (2011: decrease of 9% from 3,223 to 2,949). On average, the number of funeral cost claim payments increased by 0.2% per annum over the past five years *(Graph 3.28)*.

### *3.2.4.4.8 Claimants' Legal Costs*

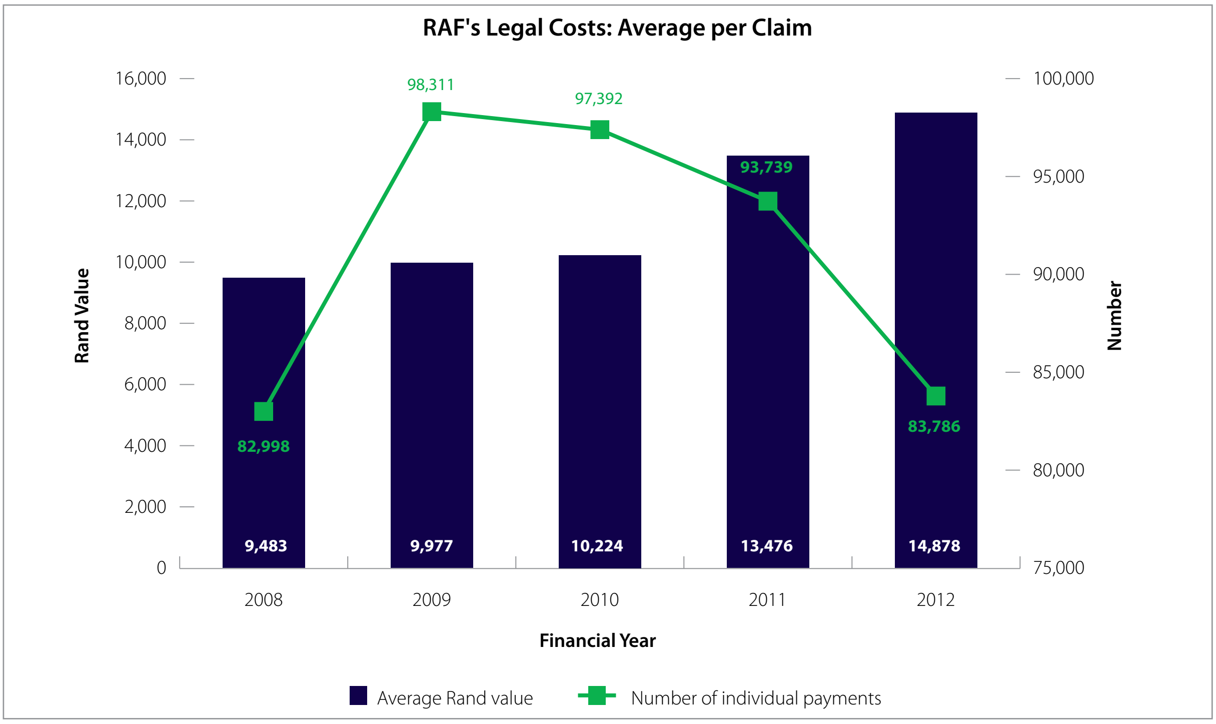
The average Rand value of claimants' legal costs settled increased by 38% at the end of the 2012 financial year from R28,008 in the previous reporting period to R38,534 (2011: increase of 79% from R15,647 to R28,008). The average claimants' legal cost payments per claim increased by 43% per annum since 2008. This is mainly as a result of increases in the tariffs being set by an independent Rules Board. High-level interventions, probably at Ministerial level, need to be made in order to come up with a solution. The RAF contributes as much as 80% or more of all litigation costs in the country and should be granted the opportunity to provide its inputs with regard to the calculation and setting of new tariffs.

The average total of individual claimants' legal cost claim payments decreased by 23% at the end of the 2012 financial year from 78,319 to 60,402 (2011: decrease of 27% from 107,572 to 78,319). The average number of claimants' legal cost payments per claim decreased by 16% per annum over the five-year period *(Graph 3.29)*.

The current system benefits attorneys who, despite being paid their legal costs in full by the RAF, continue to charge a contingency fee to the claimants. The current fault-based system of compensation results in vast legal costs being incurred in determining fault and the quantum of the payment. A properly defined no-fault compensation system in the future should see significant savings in this regard.




*Graph 3.29 – Average claimant's legal cost per claim*




*Graph 3.30 – Average RAF legal cost per claim*

### *3.2.4.4.9 RAF's Legal Costs*

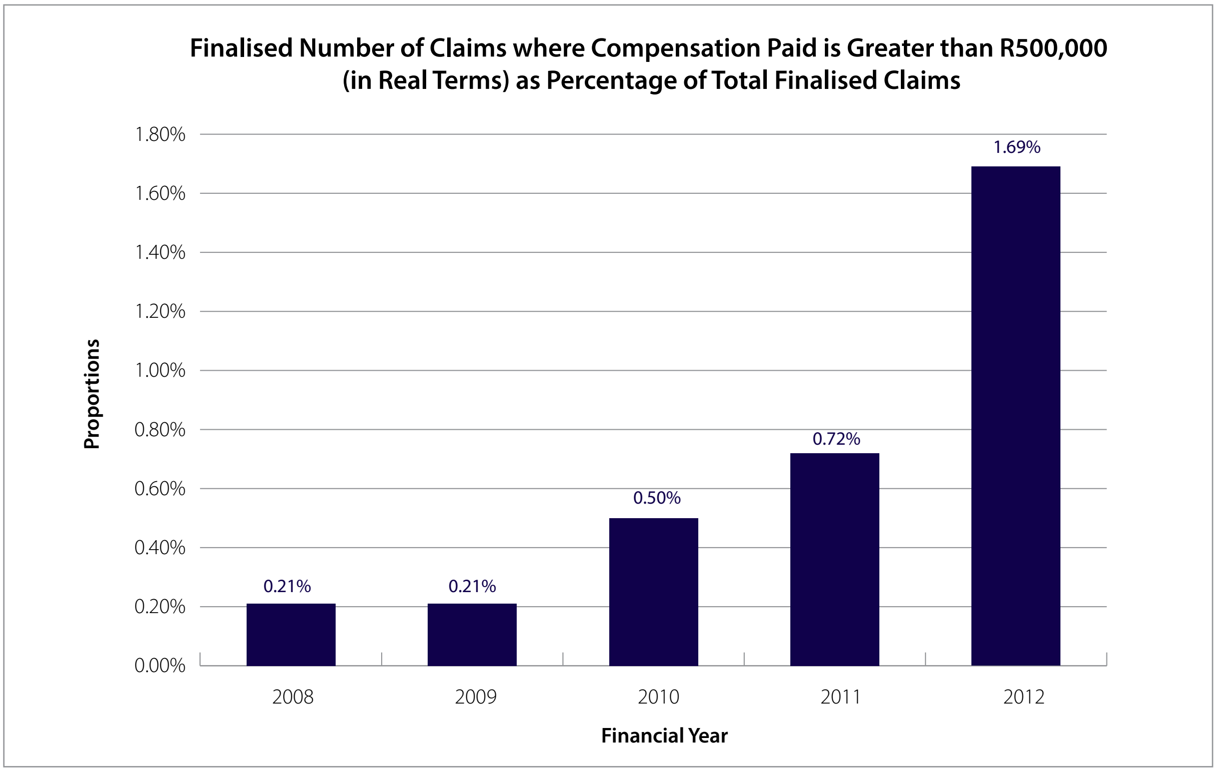
The average Rand value of the RAF's legal cost payments per claim increased by 10% at the end of the financial year from R13,476 in the previous financial year to R14,878 (2011: increase of 32% from R10,224 to R13,476). The average increase in the RAF's legal cost payments per claim has been 9% per annum from 2008 to the end of March 2012.

The average number of individual RAF legal cost payments per claim for the 12 months decreased by 11% at the end of the 2012 financial year from 93,739 at the end of the previous reporting period to 83,786 (2011: decrease of 4% from 97,392 to 93,739). There has been an average increase of 6% per annum in the number of RAF legal cost payments per claim since 2008 *(Graph 3.30)*.

The establishment of an in-house Legal Department is expected to bring about savings in legal costs incurred by the RAF in the medium to long term.

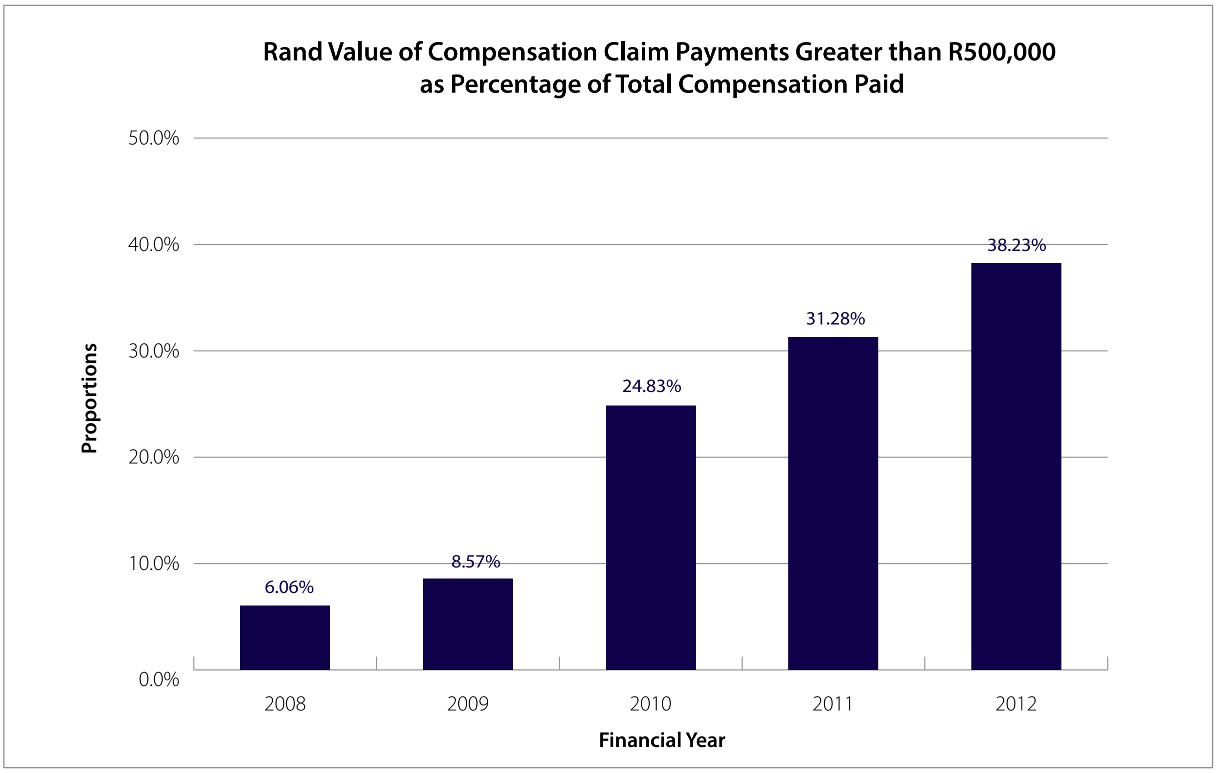
### *3.2.4.5 High-value Claims*

Although the number of high-value claims (claims where compensation paid is greater than R500,000) as percentage of the total finalised increased during the year, these claims still represent a relatively small proportion of total claims finalised by the RAF during the current financial year, i.e. 1.69% of the total number finalised (2011: 0.72%) *(Graph 3.31)*.




*Graph 3.31 – Number of claims compensated >R500,000 as a % of total claims finalised*

In terms of total Rand value paid, these claims constituted 38.2% of the total compensation paid out during the reporting period (2011: 31.3%) *(Graph 3.32)*.




*Graph 3.32 – Rand value of claims >R500,000 compensated as a % of total compensation paid*

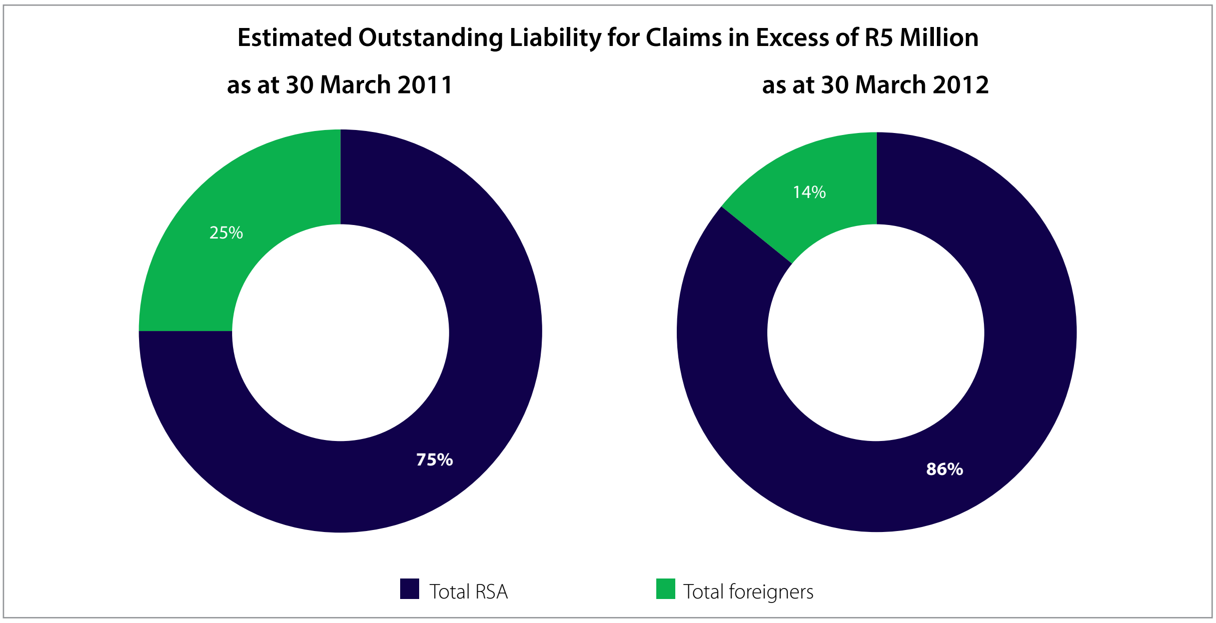
### 3.2.4.6 Foreign Claims

Claims by foreign visitors to South Africa continued to form a large proportion of high-value claims due to an increasing influx of foreign visitors to the country. Since the bulk of payments to foreign nationals are made in their currency of origin and they are accustomed to unlimited benefits with regard to loss of earnings in their own countries, foreigners' claims have dominated high-value claims in the pre-Amendment Act dispensation.

With the promulgation of the RAF Amendment Act, loss of earnings and loss of support payments to foreigners have been capped at R160,000 per annum, adjusted for inflation on a quarterly basis since August 2008. The current cap at financial year-end was R194,043.

As at 31 March 2012, 14% (2011: 25%) of the value of the estimated liability of claims in excess of R5 million comprised claims by foreign nationals *(Graph 3.33)*.

It is important to note, however, that the actual claimed amounts can often exceed the estimated value of the claim.



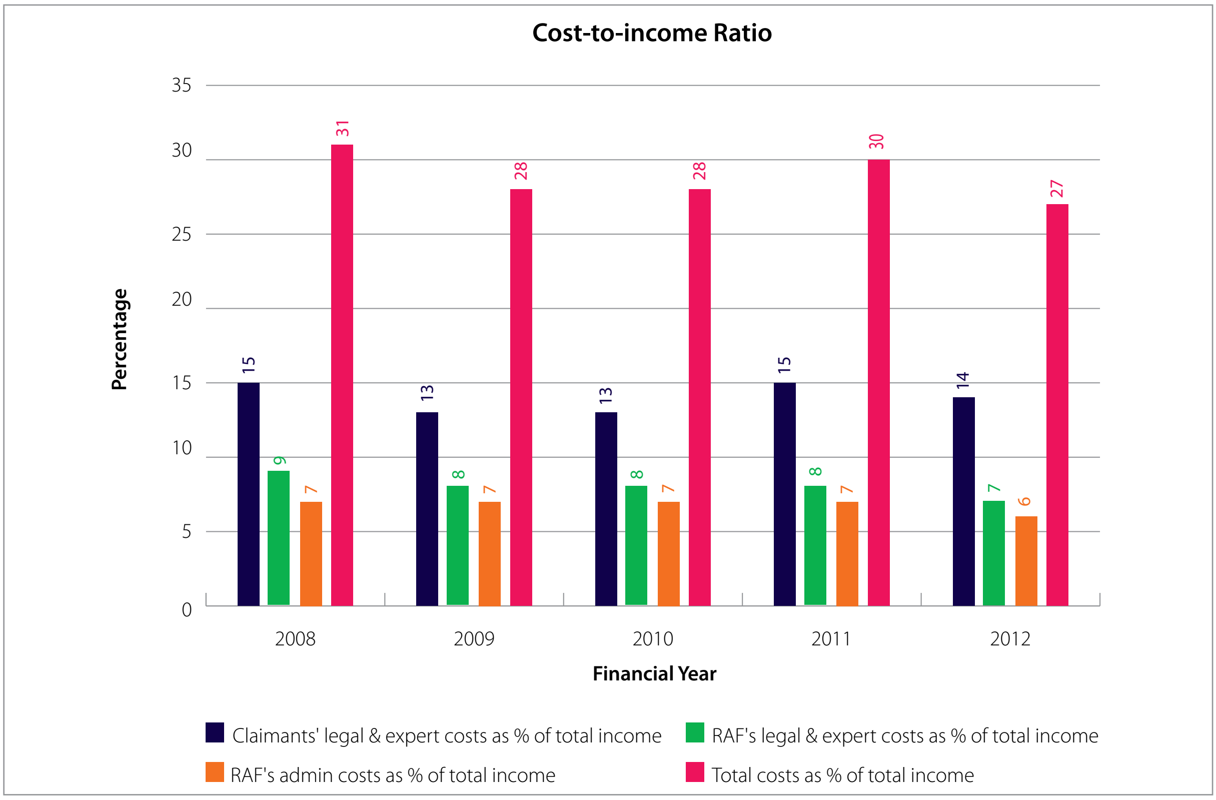

*Graph 3.33 – Estimate outstanding liability for claims >R5 million*

## 3.2.5 Cost of Service Delivery

The RAF constantly focuses on cost-reduction measures to improve efficiencies and to avail more cash for the payment of compensation.

The cost-to-income ratio for the financial year decreased to 27% (2011: 30%). Administration costs decreased to 6% (2011: 7%), RAF legal and expert costs decreased to 7% (2011: 8%) and claimants' legal and expert costs decreased to 14% (2011: 15%). All costs, except for claimants' legal and expert costs, remained fairly constant during the year *(Graph 3.34)*.

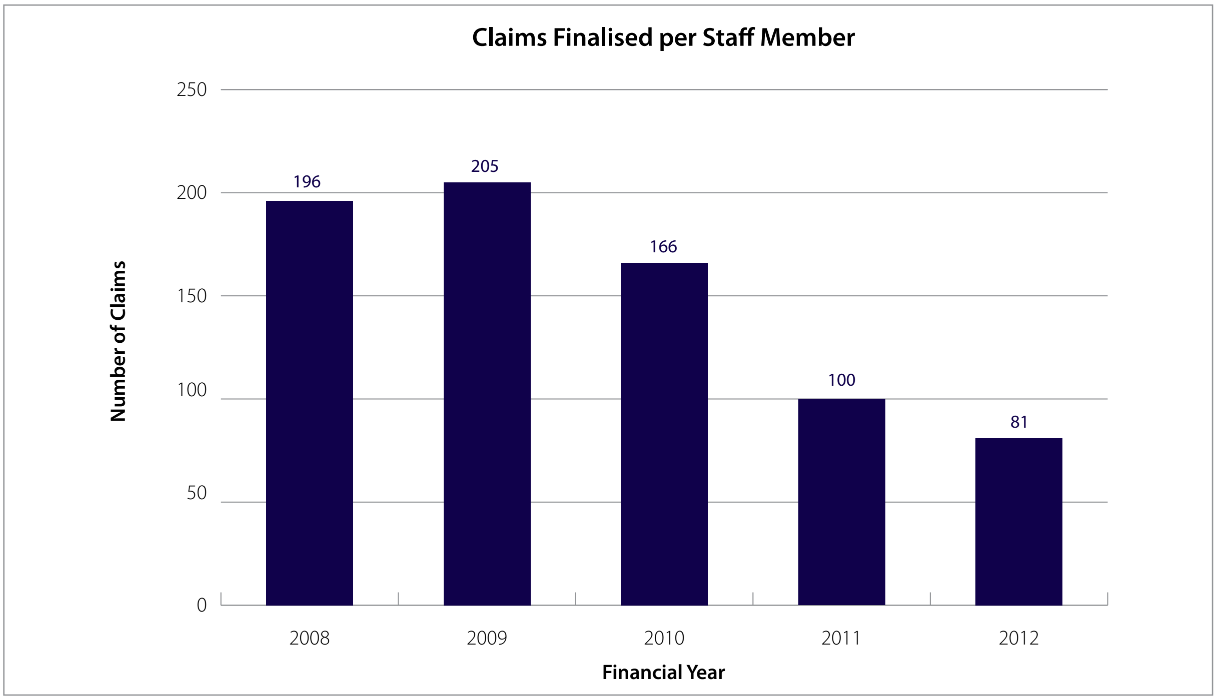
Additional measures, currently being introduced within the RAF, include the roll-out of a new claims system and processes, as well as a campaign to deal with claimants directly rather than through third parties. These interventions have already yielded cost reductions and are expected to reduce costs even further in the longer term.




*Graph 3.34 – Cost-to-income ratio*

### 3.2.6 Productivity

Efficiency measures that are being introduced within the RAF include changes in processes to increase productivity. As a result of the reasons indicated in 3.2.4.3 above, claims targets were not achieved as planned and, as a result, staff productivity appeared to decline during the reporting period *(Graph 3.35)*. It is noteworthy that the number of claims lodged also decreased in the year under review, but the backlog of non-finalised claims increased. This reduction in finalised claims is directly related to the net cash holdings at year-end and is the reason why operational efficiency has been prioritised.



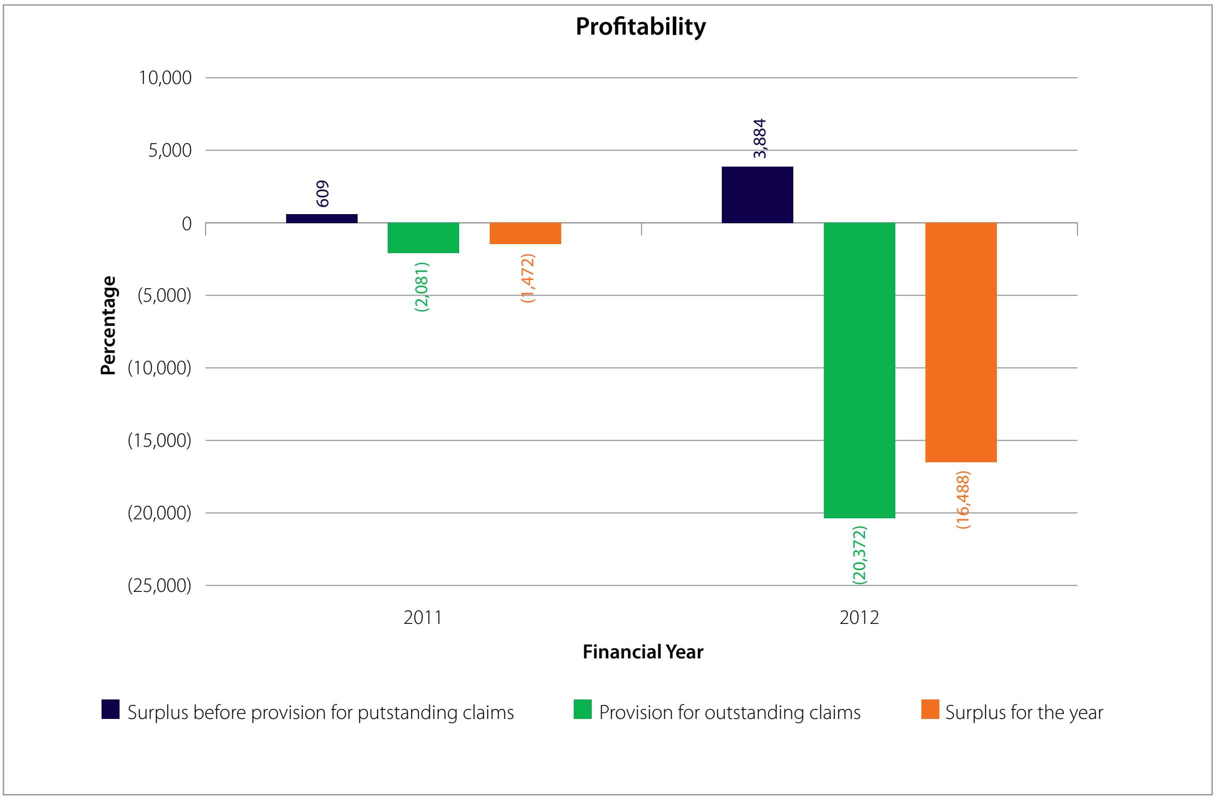

*Graph 3.35 – Claims finalised per staff member*

### 3.2.7 Profitability

The RAF recorded a net deficit for the 2012 financial year of R16,5 billion (2011: net deficit R1,5 billion) *(Graph 3.36)*. This was mainly due to the significant increase in the provision for outstanding claims of R20,4 billion. Although savings in operating and HR costs were accomplished, and a higher than expected fuel levy was realised, this only contributed to a net surplus of R3,9 billion before provision for outstanding claims.

The efforts to reduce the claims backlog resulted in claims expenditure, including the provision of R32,6 billion (2011: R15 billion), being far higher than revenues accrued from fuel levies of R17 billion (2011: R14,5 billion).

Cash and cash equivalents increased from R1,1 billion during the previous financial year to R4,2 billion at the end of the reporting period. A high cash balance accumulated at the end of the period compared to the budget due to lower than expected cash claims payments. The overall decline over the previous financial year was caused by the growth in the claims provision.




*Graph 3.36 – Profitability of the Fund*

### 3.2.8 Financial Health

#### *3.2.8.1 Solvency and Capitalisation*

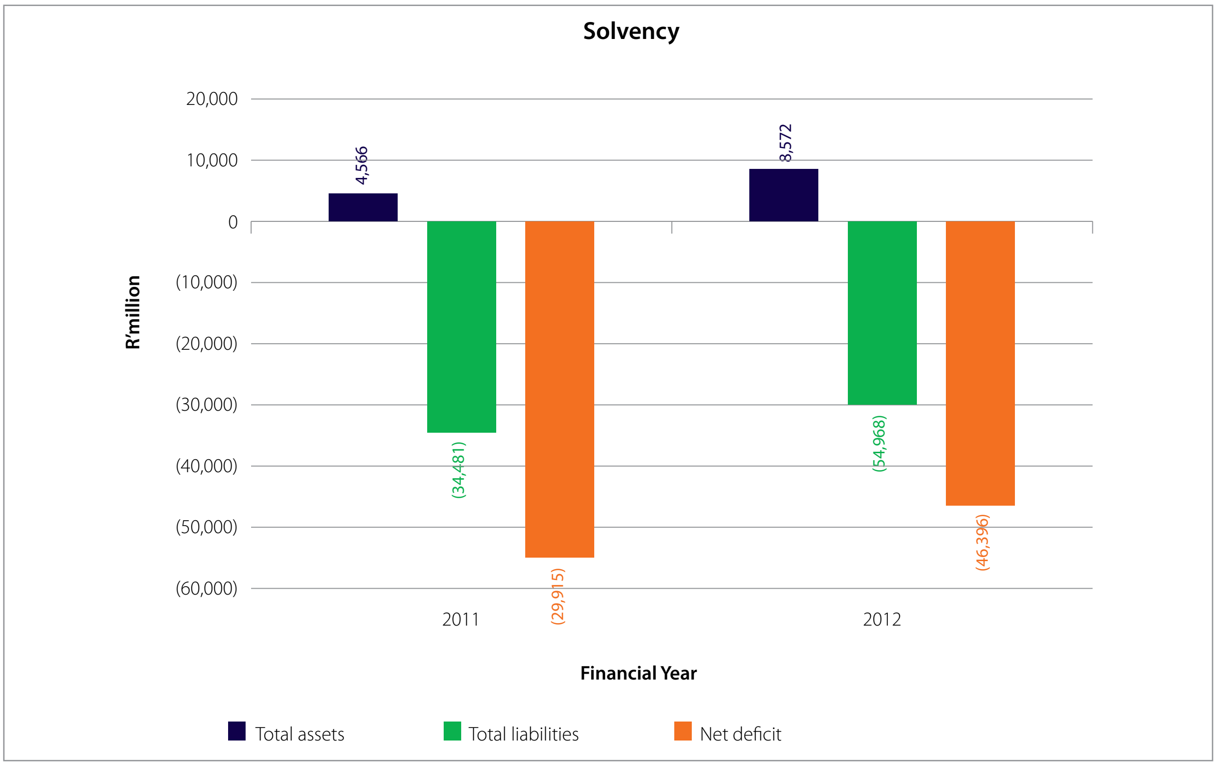
The RAF remains grossly under-capitalised with liabilities exceeding assets by R46,4 billion (2011: R29,9 billion) *(Graph 3.37)*. The only assets of substance, other than cash, is land and buildings worth R103 million. Similar organisations to the RAF elsewhere in the world have, as one of their major assets, investments that cover as much as 110% of the full outstanding liability.

Several discussions took place between the RAF and National Treasury during the reporting period. National Treasury intends to continue to fund the RAF on a pay-as-you-go basis.

The net deficit of the RAF has continued to grow *(Graph 3.37)* despite the increase in fuel levy received from National Treasury. The increase in the RAF Fuel Levy is not scientifically determined and it is clear that there is no correlation between this and the increase in the need to settle claims.

The total assets balance is higher due to higher cash balances and net fuel levy receivable. The total liabilities are higher mainly as a result of the increase in provision for outstanding claims. Overall, the net deficit has deteriorated further compared to the previous reporting period. Although the RAF has achieved a net surplus before provision for outstanding claims, the net deficit is higher due to the increase in the provision for outstanding claims.

Solvency must be viewed in conjunction with the movement in the liability for claims incurred but not reported, as outlined in section 3.2.9.




*Graph 3.37 – Solvency of the Fund*

### 3.2.9 Liability for Outstanding Claims

Consistent with previous years, the RAF makes use of external actuaries to estimate the provision for outstanding claims. The actuaries estimated that the RAF could still expect to pay an estimated total amount of R72,6 billion (in March 2012 monetary terms) in respect of accidents that occurred prior to 1 April 2012. If the RAF held assets of R72,6 billion, this, together with interest earned on the assets, was estimated to be sufficient to cover these future payments. The R72,6 billion is the total estimated discounted liability for outstanding claims.

This estimated liability was determined by separately considering the following three components:

- Pre-Amendment Act claims (non-undertakings);
- Post-Amendment Act claims (non-undertakings); and
- Undertaking payments.

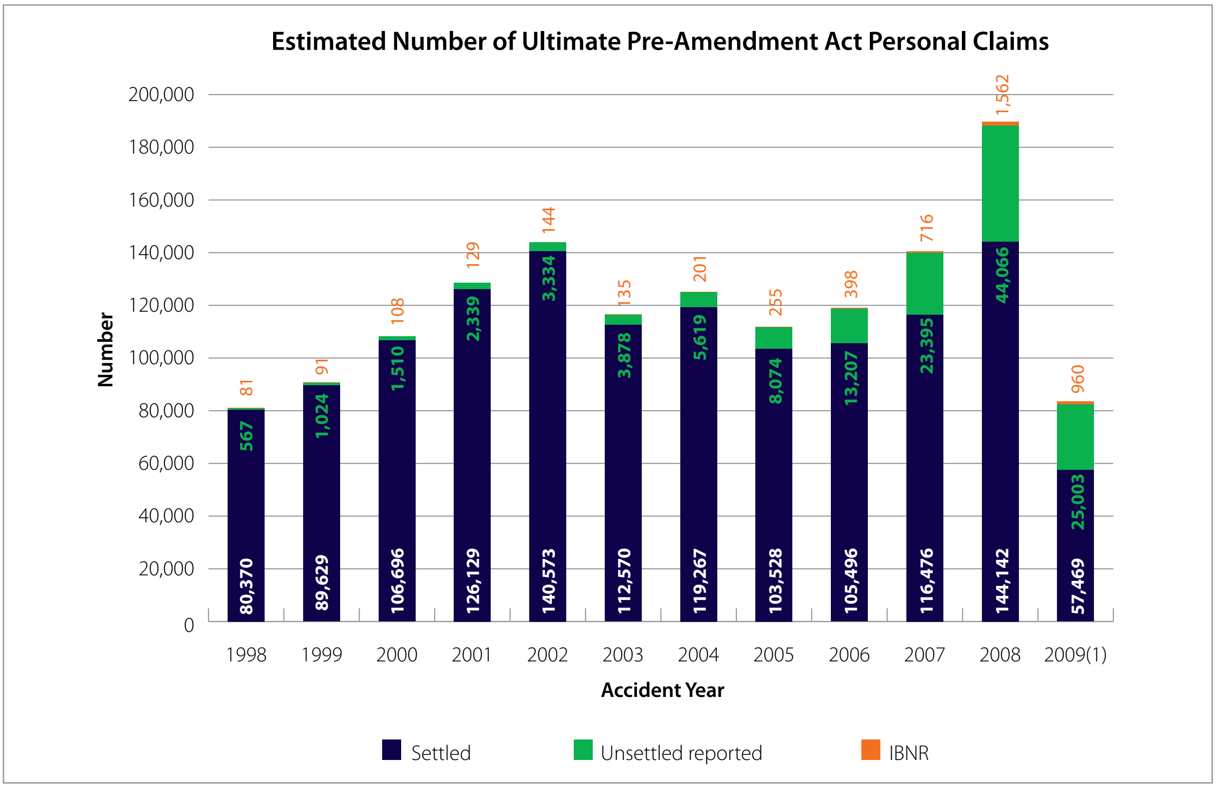
The estimated discounted liability in respect of pre-Amendment Act claims (R29,1 billion) constituted 40% of the total estimated discounted liability (R72,6 billion), whereas the estimated discounted liability in respect of post-Amendment Act claims (R39,1 billion) constituted 54% of the total estimated discounted liability. The remaining 6% was in respect of undertakings.

The accounting treatment of the total liability for outstanding claims is explored further in Notes 12, 33 and 35 of the Financial Statements for the year under review.

The expected future payments in respect of pre-Amendment Act claims were estimated by first estimating the number of outstanding claims for each accident year, grouping these claims into eight homogeneous groups (supplier claims and seven groups of personal claims) and then multiplying the estimated outstanding number of claims in each group by the average amount (in March 2012 monetary terms) expected to be paid per claim. These average amounts per group differed per accident year because, on average, larger claims take longer to settle. On the assumption that the investment return on notional assets could have been equal to claims inflation, the total estimated discounted liability equals the liability in March 2012 money terms, which is R72,6 billion.

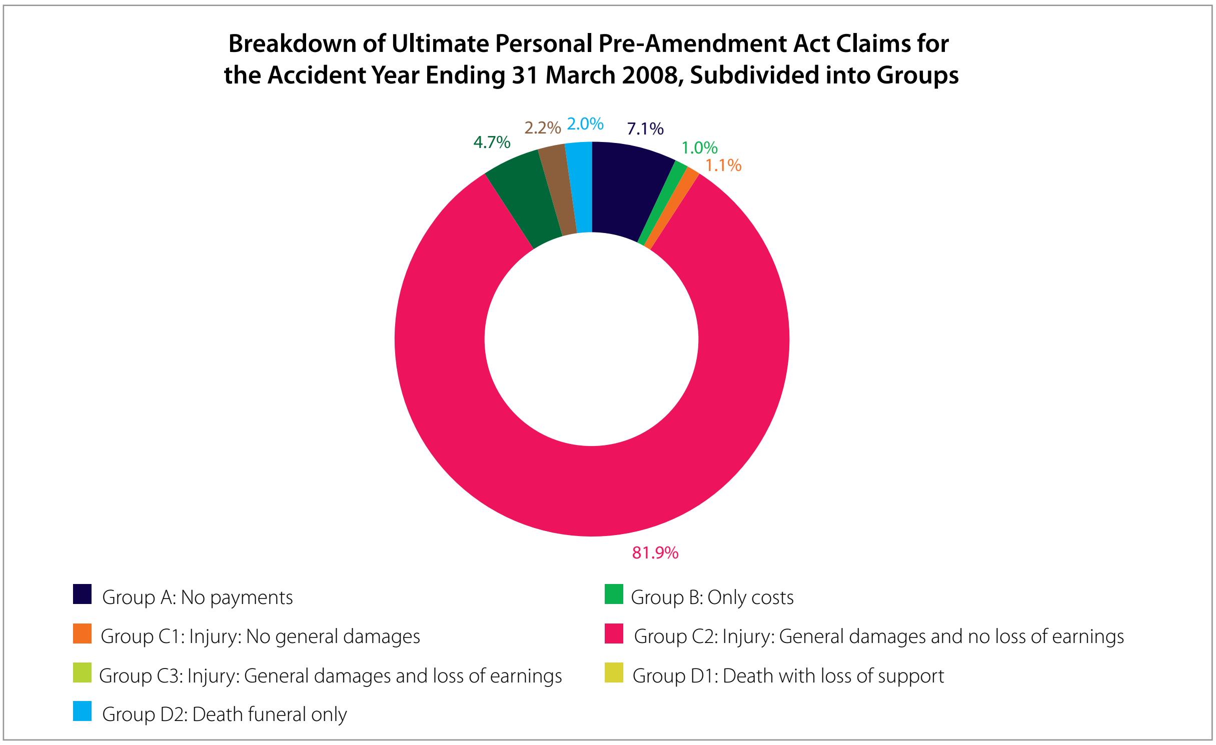
*Graph 3.38* shows the estimated number of outstanding personal pre-Amendment Act claims for each accident year, split up into settled claims, unsettled reported claims and incurred but not reported ("IBNR") claims. The estimated number of personal pre-Amendment

Act claims shown in the graph for 2009(1) represents only the four months from April to July 2008, before the introduction of the Amendment Act. The estimated ultimate number of claims for the accident year ending 31 March 2008 and for the four months ending July 2008 was significantly higher than that of previous accident years.



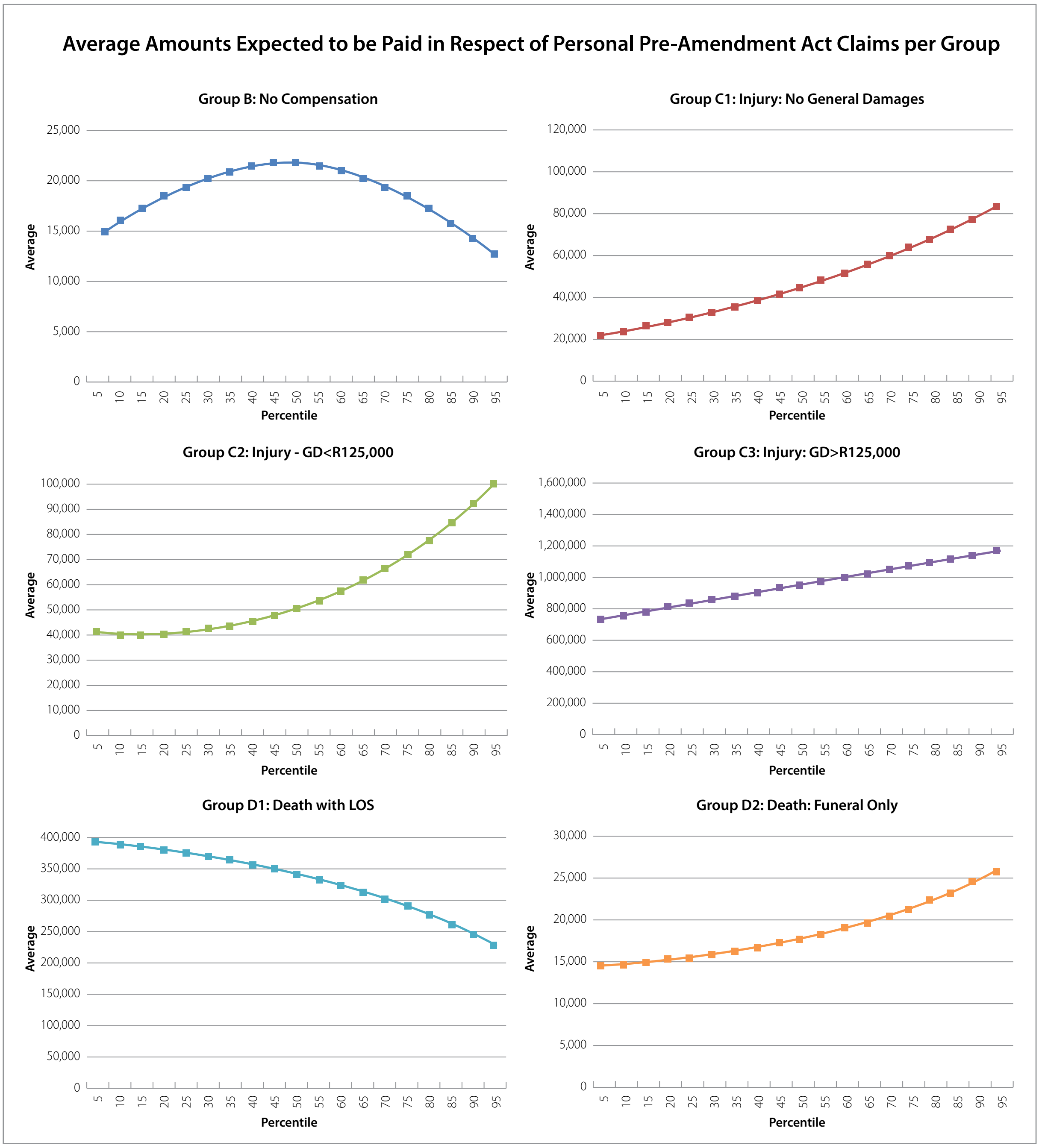

*Graph 3.38 – Estimated ultimate pre-Amendment Act personal claims*

The estimated number of ultimate personal pre-Amendment Act claims for the last full accident year prior to the RAF Amendment Act, i.e. for the accident year ending 31 March 2008, is expected to fall into the groups as shown in *Graph 3.39*.




*Graph 3.39 – Ultimate pre-Amendment Act claims by type*

The average amounts expected to be paid in respect of personal pre-Amendment Act claims falling into each of these groups are different for each accident year (as larger claims take on average longer to finalise). For example, the average amounts (in March 2012 money terms) were estimated to be as follows for the different groups (where the x-axis denotes the chronological order (time between accident date and settlement date) *(Graph 3.40)*.



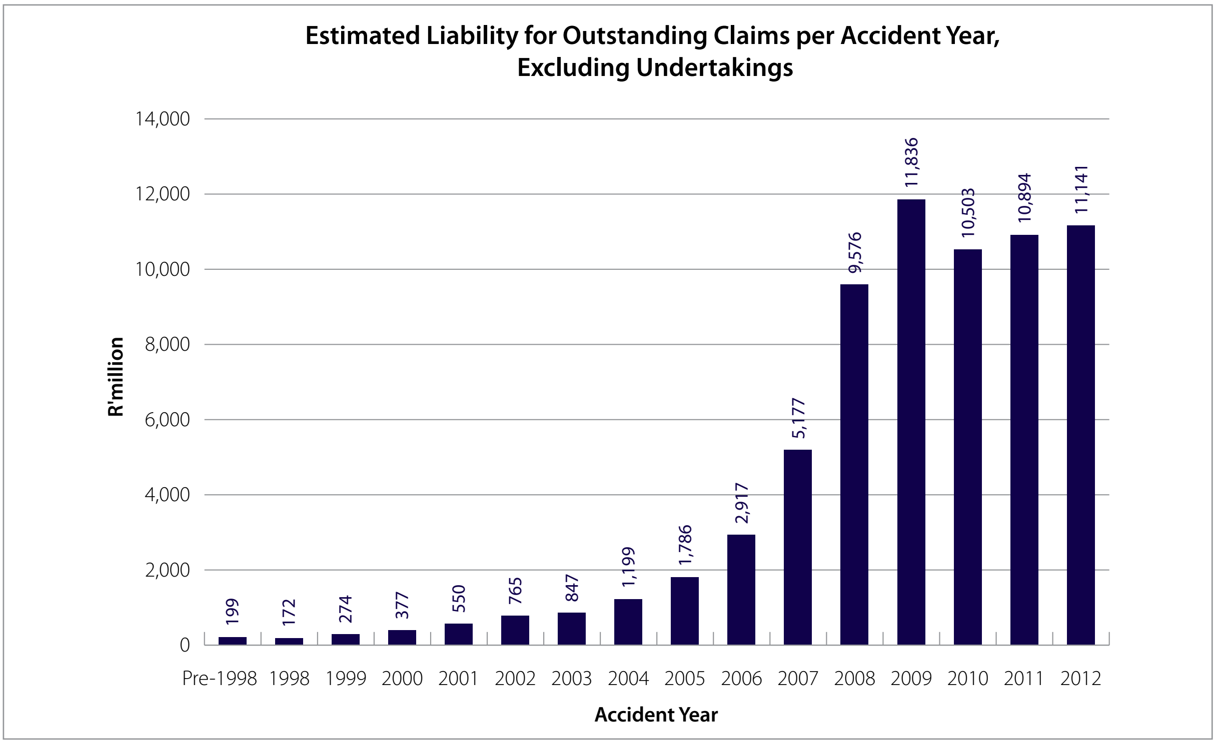

*Graph 3.40 – Average amounts expected to be paid - personal pre-Amendment Act claims*

Most other statistics pertaining to claim payments in this Annual Report are broken down into "heads of damage" as opposed to the "groups" breakdown used for estimating the liability of outstanding claims. Claims falling into any "group" could have payments in respect of different "heads of damage". The table below demonstrates the relationship between the "groups" and the "heads of damage". For example, for the accident year ending March 2007, ultimate payments (excluding undertakings) are expected to be R15,847 million. This is expected to be broken down as follows (amounts in R'million):

| Group: | B | C1 | C2 | C3 | D1 | D2 | Supplier | Total |
|---|---|---|---|---|---|---|---|---|
| Heads: | R'million | R'million | R'million | R'million | R'million | R'million | R'million | R'million |
| Medical | 0 | 27 | 137 | 438 | 4 | 94 | 378 | **1,077** |
| Loss of earnings | 0 | 39 | 539 | 3,455 | 26 | 2 | 0 | **4,062** |
| Loss of support | 0 | 0 | 0 | 0 | 534 | 0 | 0 | **534** |
| Funeral | 0 | 0 | 0 | 0 | 2 | 275 | 0 | **278** |
| General damages | 0 | 0 | 4,257 | 2,320 | 12 | 1 | 0 | **6,590** |
| RAF legal | 19 | 9 | 709 | 424 | 41 | 101 | 6 | **1,309** |
| Claimant legal | 17 | 11 | 1,194 | 606 | 49 | 153 | 16 | **2,047** |
| Other | 0 | 0 | -14 | -28 | -7 | 0 | 0 | **-49** |
| **Total** | **36** | **86** | **6,823** | **7,214** | **661** | **627** | **400** | **15,847** |

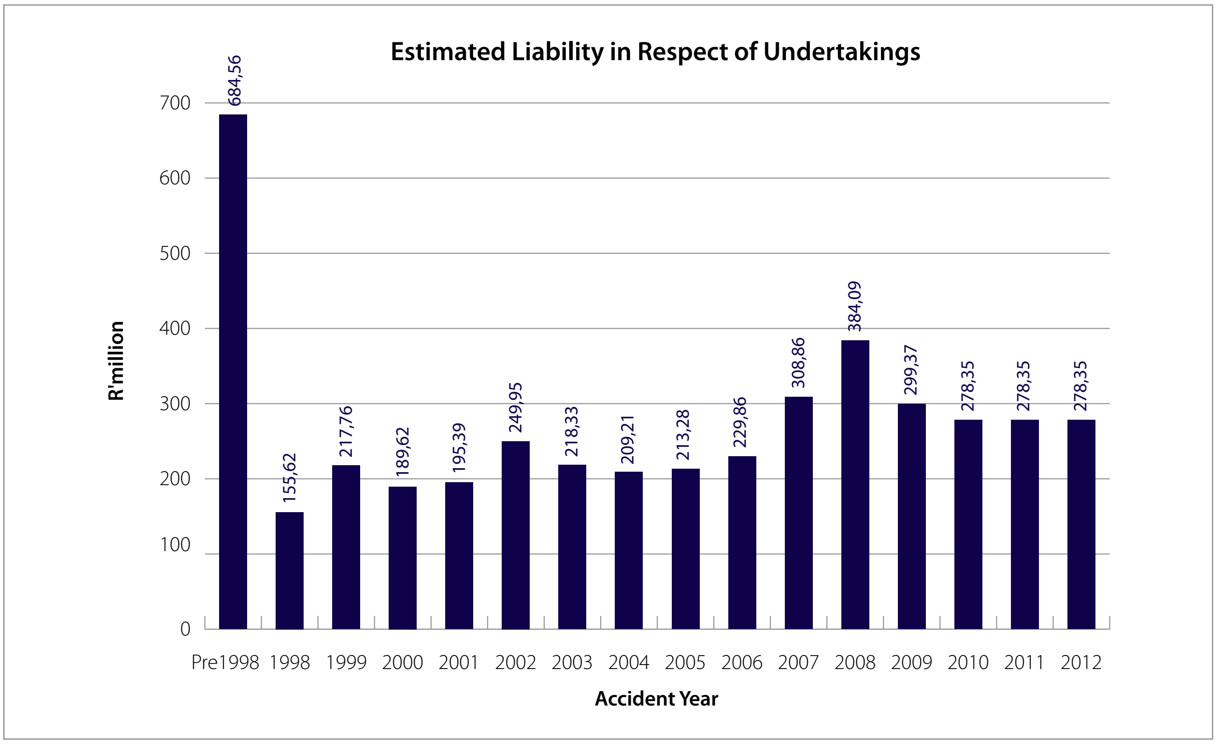
Trends with regard to payments in respect of post-Amendment Act claims have not developed sufficiently to independently produce reliable estimates. However, experience to date shows that the ultimate number of post-Amendment Act claims is expected to be similar to what would have been expected if the Amendment Act was applied to the data for the 2007 accident year. The estimate for the liability in respect of post-Amendment Act claims has been based on the estimated total amount that would have been paid in respect of claims for the 2007 accident year, if the Amendment Act had applied to these claims. The liability in respect of post-Amendment Act accident intervals was then taken as this estimated ultimate amount minus amounts already paid.

The discounted provision in respect of outstanding claims (excluding the provision for outstanding liability in respect of undertakings issued) was estimated to be R68,2 billion, made up as per *Graph 3.41* for the different accident years. It is clear that the liability is largely constituted of a provision for claims over the last five accident years which have still to materialise.




*Graph 3.41 – Estimated liability for outstanding claims, excluding undertakings*

The discounted provision in respect of outstanding undertaking payments was estimated to be R4,391 million, made up as shown in *Graph 3.42* for the different accident years.




*Graph 3.42 – Estimated liability for undertakings*

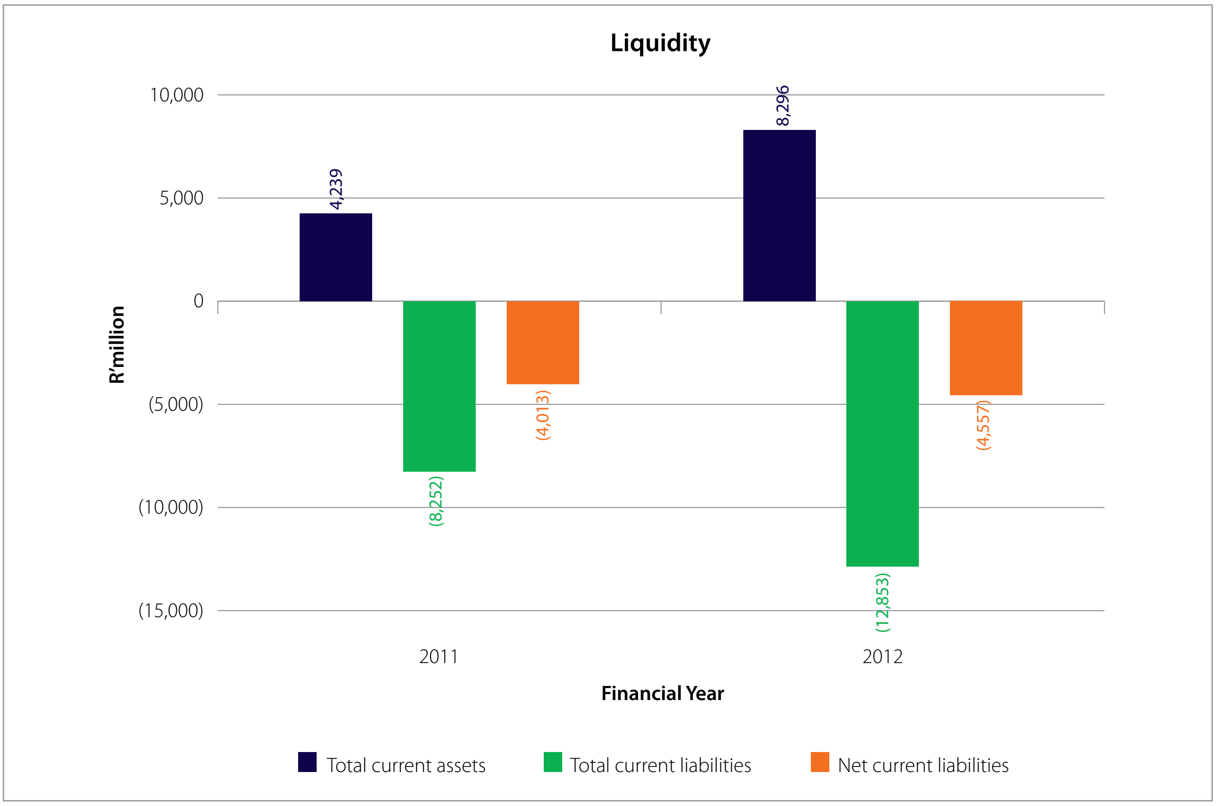
### 3.2.10 Liquidity and Cash Holdings

As at 31 March 2012, current liabilities of the RAF exceeded current assets by R4,6 billion (2011: R4 billion) *(Graph 3.43)*.

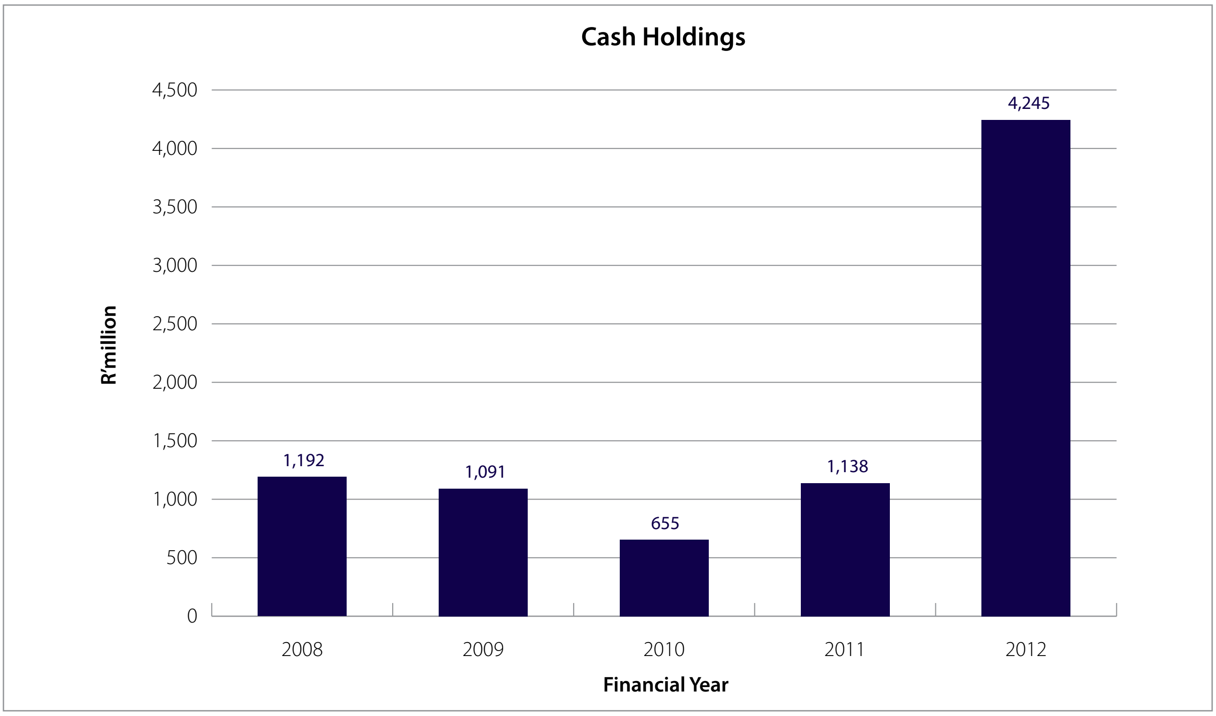
Liquidity is managed on a day-to-day basis and claims are paid as and when cash is available. The cash reserve built up in the 12 months of the reporting period in relation to previous financial years – as a result of lower than expected claims payments, as well as an increase in fuel levies to a level that is 9% higher than expected – is indicated in *Graph 3.43*. An increase in claims payments is expected in the new financial year as a result of block settlements, which could have a negative impact on the RAF's cash flow over the longer term. However, the situation will be managed pro-actively. The shortfall between actual claims paid and the budget at year-end was R2,2 billion or 15%.

The ideal scenario is to have cash holdings sufficient to pay claims for at least two months in advance at any given point in time. From *Graph 3.43*, it is evident that the RAF cash resources are not sustainable.

While the results reflect improved liquidity of R4.2 billion for the period (2011: R1.1 billion), the high cash balance that had accumulated by the end of the reporting period was due to lower than expected claims payments and a higher fuel levy income *(Graph 3.44)*, and is therefore temporary in nature.




*Graph 3.43 – Liquidity of the Fund*




*Graph 3.44 – Cash holdings of the Fund*

## 3.3 Support Functions

### 3.3.1 Customer Service Network

#### *3.3.1.1 Introduction*

In 2008, the RAF initiated a Customer Service Network ("CSN") to address areas that impacted negatively on the delivery of its mandate.

In view of the aforementioned, the CSN aims to:

- Improve the RAF's visibility and increase all road users' accessibility to the organisation;
- Ensure direct and early involvement in the rehabilitation of road accident victims;
- Proactively gather road accident victim and customer information to reduce the time taken to lodge claims and improve processing; and
- Improve customer and stakeholder perceptions of the RAF.

#### *3.3.1.2 Accessibility and Visibility*

Since the inception of the CSN, the RAF has markedly increased the number of physical touch points around the country. During the year under review, the CSN has expanded its human resource capacity by recruiting over 160 staff and establishing a capability that is responsible for the collection of claimant information post the scene of the accident. This capability is known as the Mobile RAF. Currently, there are 16 Mobile RAF officers based in Johannesburg, Pretoria, Durban and Cape Town. Due to the success of the pilot initiative, the Mobile RAF concept will be expanded with an intake of additional officers who will be located in all provinces in the country to assist with the collection of information and any claims-related documentation.

Through the expanded CSN, enormous strides were made in increasing the number of direct claimants. This increase translated into 29,060 claims originated directly through the CSN in the financial year. Of the registered direct claims, 35% were personal claims, with the remainder being supplier claims. Overall, direct personal claims, originated through the network, accounted for more than 21% of the total number of personal claims lodged with the RAF.

Additional programmes to improve accessibility and visibility included, among other, Community Outreach Programmes to bring the RAF's service offering to the more remote locations in the country. These programmes, in partnership with other stakeholders, were aimed at:

- Educating and informing local communities of the RAF's claims processes and procedures;
- Assisting road accident victims to originate and submit claims to the RAF; and
- Providing a 'face-to-face' channel to victims enquiring about the status of claims submitted.

There are numerous initiatives that are currently under way to grow and optimise the existing CSN network. These include, but are not limited to:

- Implementing and standardising business processes across the network;
- Optimising the management of direct claims;
- Realigning the current Hospital Service Centres with the National Health Insurance;
- Implementing an accident information management capability in the Call Centre; and
- Improving business reporting and management.

The CSN also has a Mass Accidents Burial Programme, which allows the RAF to:

- Pay funeral undertakers on behalf of the families for burial-related costs, e.g. caskets, storage and transportation of the deceased;
- Assist survivors with origination of personal claims (medical, general damages and loss of earnings); and
- Assist dependants with origination of a loss of support claim.

During the year under review, the RAF covered several mass accidents and in the process proactively assisted 446 families with the burial of their loved ones. Some of the high-profile accidents covered included the following:

- Harrismith (Free State) taxi accident, where 32 people died;
- Accident in Frankfort (Free State), where 18 people died; and an
- Accident on the N4 in Mpumalanga, where 9 Mozambican nationals died.

### 3.3.1.3 Rehabilitation of Road Accident Victims

The RAF intensified its Patient Outreach Programme ("POP"), which provides care to road accident victims who have suffered permanent injuries and require medical attention for life. The programme provides:

- Regular home visits to assess victims' needs and make recommendations;
- Caregivers for quadriplegic and paraplegic accident victims;
- Home renovations to accommodate road accident victims; and
- Wheelchairs, prostheses and other necessities.

During the year under review, the POP:

- Increased the number of Case Managers to 29, comprising 14 Field Case Managers and 15 Hospital Case Managers;
- Expanded the total number of victims receiving care to 13,934, of whom 13,843 are active patients receiving constant medical attention; and
- Increased the total number of home visits to 1,849.

The table below indicates expenditure on rehabilitation during the 2011/12 financial year.

| Description | Cost |
|---|---|
| Prostheses | R24,509,204 |
| Caregivers | R19,465,673 |
| Home alterations | R1,938,389 |
| Wheelchairs | R1,626,366 |
| Other necessities | R843,632 |
| **Total** | **R48,383,264** |

### 3.3.1.4 Expansion of Geographic Footprint

One of the RAF's major initiatives is the expansion of its geographic footprint, allowing the organisation to serve accident victims directly (through a presence at various hospitals), rather than via an intermediary. It is anticipated that this initiative will reduce costs, speed up the claims process and assist in the elimination of fraudulent claims.

| Geographic footprint | 2011/12 | 2016/17 |
|---|---|---|
| Provincial Offices | 6 | 9 |
| Hospital Service Centres | 75 | 105 |
| Community Service Centres | 1 | 9 |
| Mobile Service Centres | - | 9 |
| **Total** | **82** | **132** |

#### 3.3.1.5.1 New Systems and Processes

The approach to "re-invent the wheel" in developing new systems and processes was not followed, but rather to implement proven solutions that are in use in organisations similar to the RAF, such as the Accident Compensation Corporation (New Zealand) ("ACC") and the Transport Accident Commission (Australia) ("TAC"), as well as corporates such as Macquarie, Northern Rock, ING and Legal & General, who are arguably leaders in their market segments. The operational improvements will in fact see the organisation transforming itself into an efficient service provider through:

- **Streamlined business processes:** The larger customer footprint ("CSN"), an effective and efficient claims processing ability and cutting-edge technology aim to improve the overall customer experience, while streamlining business processes.
- **Efficient systems:** Integrated and efficient claims payment and financial systems which will contribute to improving the turnaround time for the payment of claims.
- **Customer-centric staff:** Appropriately skilled staff will be empowered to deal with claimants, whether at the scene of accidents, in hospitals or in the Fund's call centres.
- **Dynamic leadership:** The RAF will continue to invest in growing leaders who are diverse in facilitating organisational transformation and will contribute to a successful turnaround of the RAF.
- **Improved customer-centricity:** The improved footprint, the deliberate intent of the RAF to obtain a greater number of direct claims and greater focus on service delivery, will see more effort being made to improve customer-centricity.
- **Faster payment turnaround time:** The internal operational efficiencies, motivation for more sustainable funding and better systems will all contribute equally to improving the organisation's turnaround time from date of accident to payment date.

- **Focus on rehabilitation:** The RAF's intent to place greater emphasis on patient rehabilitation, thereby ensuring that such patients become economically active sooner, and thereby reducing the longer-term financial obligation of the RAF.
- **Road safety awareness:** Road accidents represent the RAF's key cost driver, and the RAF's active role in accident prevention should ultimately result in a reduction in the number of claims lodged.
- **Fair and equitable compensation:** Amendments to the current RAF Act and the impending no-fault system will see customers receiving fair and equitable compensation.
- **Communication:** The RAF's engagement with strategic partners will see the expansion of its footprint in a manner which is both economical and mutually beneficial to all parties.
- **Change management:** The RAF will make deliberate efforts to ensure effective change management throughout the period of transition that the organisation is going through to ensure a seamless transition.
- **RAF brand:** The re-branding of the RAF and communication and marketing of its brand will see improvement in the organisation's reputation.

Core elements of the strategy are outlined in the diagram below:

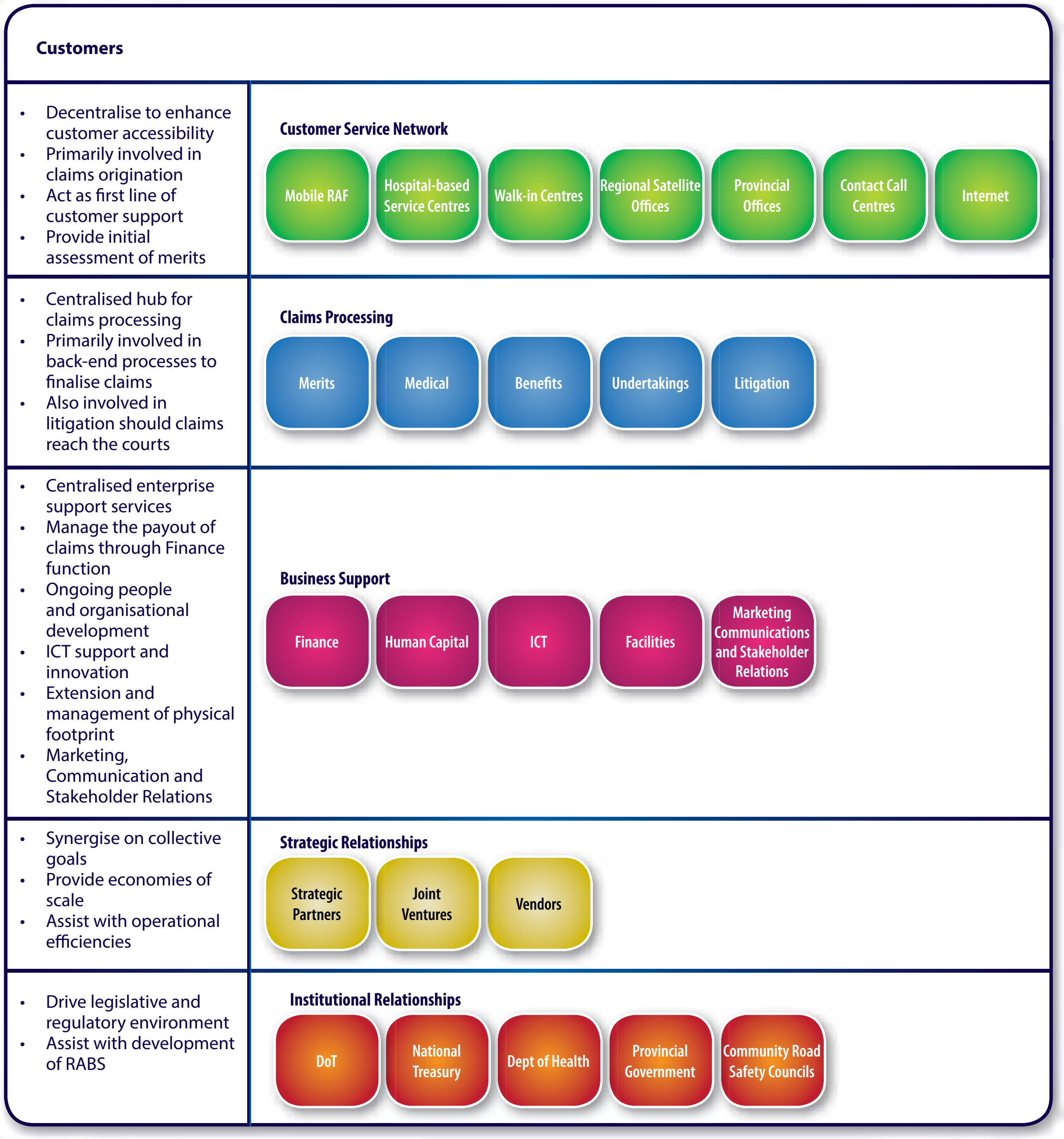



*Figure 3.7 – New operating model for the RAF*

### 3.3.1.5.2 Value Chain

The different components of the new value chain are depicted in the diagram below:

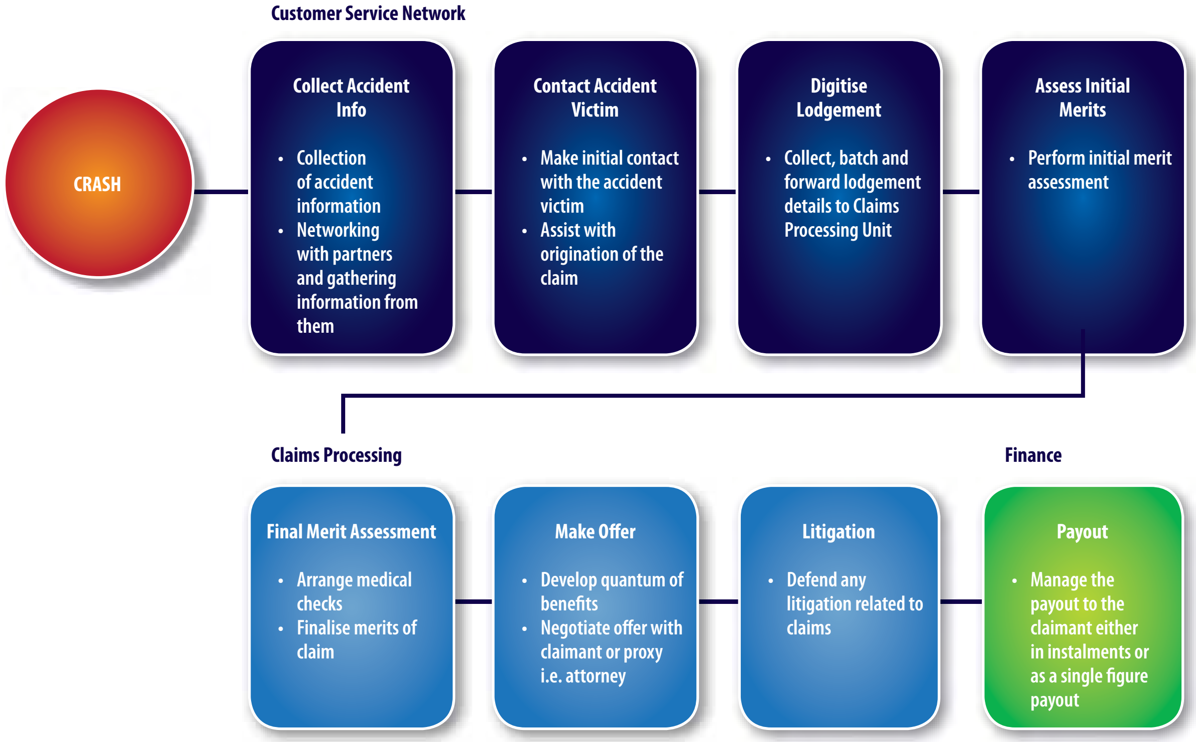



*Figure 3.8 – New core processes for the RAF*

### 3.3.1.5.3 Transition

The operational improvements will require the RAF to change the constitution and location of its workforce and transform its processes, including claims processing. The implementation of the operational improvements has proved to be challenging. This has also had human resource implications and new risks, which are addressed under Human Capital.

This transition is described in more detail in the figure below.

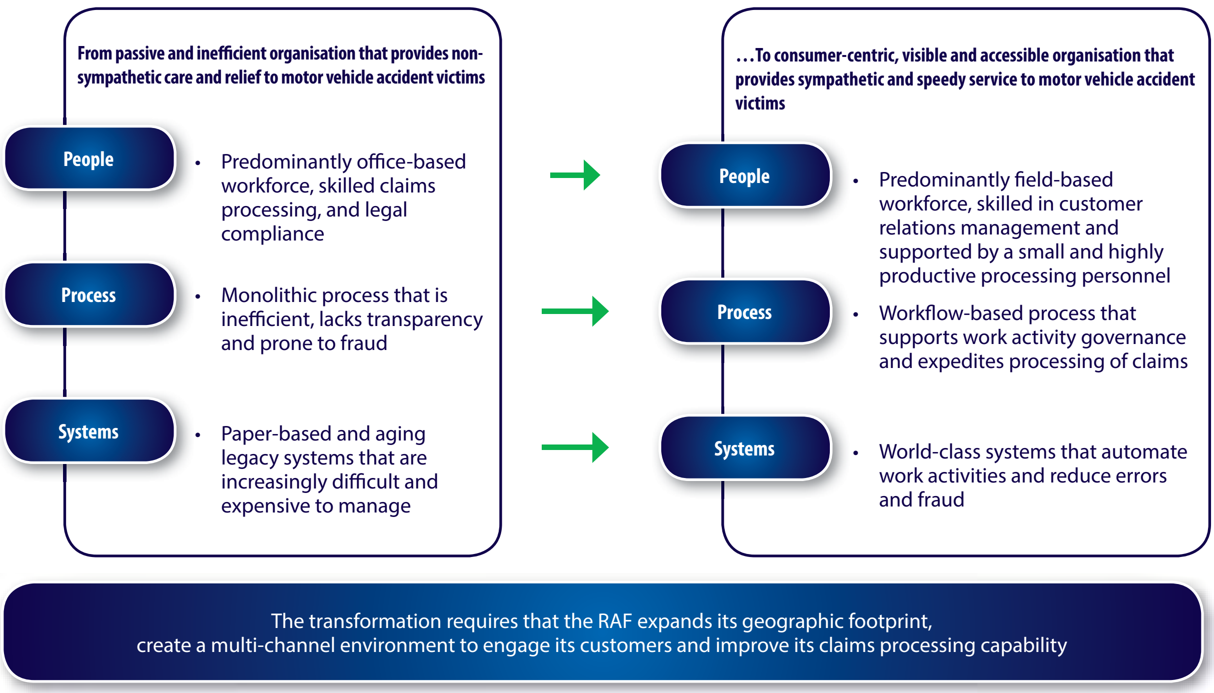



*Figure 3.9 – Summary of differences between the current and new business model*

### 3.3.2 Information and Communication Technology

During the year under review, the Information, Communication and Technology ("ICT") systems were stable with a focus on optimisation and innovation. The three-year programme focusing on stabilisation, optimisation and innovation paid dividends. The focus for the year ahead remains on improving the optimisation of ICT systems and increased levels of innovation.

As part of the Optimisation Strategy, ICT adopted the King III governance framework. ICT governance responsibility has been delegated to the Transformation Sub-Committee of the RAF Board. In line with King III, the following governance forums are being established: Architecture Board, Change Management Committee and an ICT Steering Committee.

The early adoption of "Cloud Computing" technology has proved beneficial to the RAF. The centralisation of all data allows improved access and security of data. RAF applications and services are accessible from all RAF Offices, Hospital Service Centres and RAF Mobile Service Centres. This has enabled better service to claimants and facilitated the "RAF on the Road" programme.

The Cloud Computing Strategy, together with the "Office in a Box" innovation resulted in the quick deployment of Hospital-based Service Centres. The ICT Department was acknowledged for this through an International Technology Innovation Award. The introduction of mobile Access Point Name ("APN") technology resulted in an increased geographic footprint for RAF applications and services, and RAF Mobile Service Centres have coverage in almost 98% of South Africa, using this mobile backbone.

The introduction of a Voice-Over Internet Protocol ("VOIP") telephony solution and a "PABX in a cloud" solution will enable RAF Offices to be seamlessly connected to each other. This will also lead to significant cost savings, as all inter-branch calls will use the RAF internal network infrastructure.

The introduction of "Manage Printing" will bring with it significant cost savings and lead to a "greener" RAF. This programme monitors all printing within the organisation and all print instructions are defaulted to double-sided printing (duplex). The optimised fleet of print equipment results in better usage of consumables and also reduces power, as a multi-purpose device that has faxing, scanning, copying and printing functionality.

Several skills building exercises were held for ICT personnel in support of the complex RAF ICT environment. A team of 16 staff members engaged in a formal international programme to study International ICT Best Practices and build ICT skills.

In support of government's National Skills Development Programme, the RAF annually offers learnership and internship opportunities for students. Ten ICT interns were provided with the opportunity to develop ICT skills and experience during the year under review.

### 3.3.3 Human Capital

#### *3.3.3.1 Key Focus Areas*

The King III Report contains several references to governance matters affecting human resources ("HR"), either directly or indirectly. While certain HR issues are addressed very explicitly, such as performance management, employment equity ("EE"), and succession planning, there are many other areas outlined in King III that should be considered by the HR Department. The RAF recognises that good governance is essential for sound HR practices and the improvement of business performance in an increasingly competitive local and global economic market. As such, the RAF developed its HR Strategy to ensure that its business objectives and plans are achieved within this operating environment. The HR delivery model provides guidelines for employees to act in a manner that enhances the performance objectives of the organisation. Likewise, the Performance Management System is instrumental in ensuring that each employee understands the organisation's objectives.

One of the key HR achievements for the year under review was the roll-out of the Performance Management System across all levels of the organisation. This system is aimed at continuously managing the organisational performance, as well as personal performance and personal development.

The second major focus was to provide support in respect of the RAF's transformation process, including extensive consultation with organised labour. It has become imperative for the Human Capital Department to come up with both a strategic and operational plan on how the Department intends to provide an enabling environment for the organisation to achieve its strategic and operational objectives, also taking into consideration the transition from the old business model to the NOM.

### *3.3.3.2 Employee Benefits*

*3.3.3.2.1 Medical Aid*

The RAF conditions of service require that each employee be a member of one of the RAF's accredited medical aids, i.e. Bonitas or Discovery. The necessary deductions are made from employees' salaries and paid over to the medical schemes on their behalf.

*3.3.3.2.2 RAF Pension Fund*

The RAF has in place a pension fund for all employees. The current fund is based on a defined contribution model where employees are not guaranteed a specific sum at the time of retirement, since this is dependent on the performance of financial markets.

### *3.3.3.3 Change Management*

Change Management, as part of the transformation process, is the effective management of change within a business such that Executive leaders, Managers and front-line employees work in concert to successfully implement processes, technology or organisational changes. Change Management is a total effort, as it requires more than a state of mind, a set of team behaviours, or organisational policies. In brief, Change Management cannot exist unless individual attitudes and mindsets, team behaviours, and organisational values collectively support it.

The RAF's Change Management Strategy was introduced in the previous reporting period, following a comprehensive consultative process and the signing of a Memorandum of Agreement ("MoA") between the Executive team and the National Office Bearers of the South African Transport and Allied Workers Union ("SATAWU"). The strategy is intended to pave the way for an efficient and effective operating model by:

- Minimising the impact on productivity;
- Avoiding unnecessary turnover or loss of valued employees;
- Eliminating any adverse impact on customers;
- Equipping employees to deal with any uncertainties on the journey; and
- Achieving the desired business outcomes as quickly as possible.

Implementation and roll-out of the strategy commenced during the review period, and the Fund embarked on a number of communication interventions to bolster the culture and people change capacity to become transformational leaders. The following interventions are highlighted:

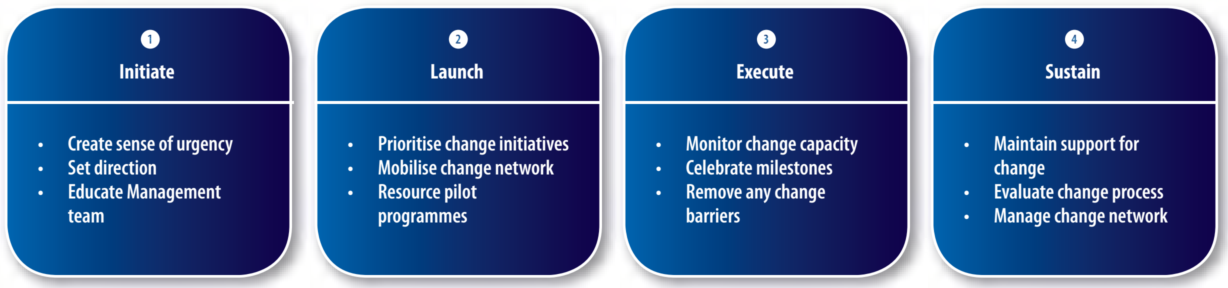



*Figure 3.10 – The RAF Change Process*

The HR Department successfully partnered and supported the following interventions:

*Management Coaching*

The coaching intervention was aimed at Executives and Senior Managers, with the objectives being to:

- Focus on solutions, not on problems or causes of problems;
- Identify in/out of control issues – what one can do something about, rather than what one cannot do anything about;
- Build on success – if something works, do more of it;
- Illuminate resources – identify relevant skills that can be applied to the solution;
- Find new perspectives – change the focus of awareness to identify different options and possibilities;
- Focus operationally – contracting linked to deliverables;
- Focus on dealing with ongoing change;
- Learn to deal with own position/change; and
- Learn to deal with subordinates' position/change.

The coaching approach included:

- Identifying challenges;
- Identifying development needs – pre/during/post;
- Enabling learning implementation;
- Challenging in a safe space;
- Review of contracted goals;
- Debating solutions;
- Undertaking change-related or reflective exercises; and
- Understanding how to use these same exercises with the team.

*The Change Network*

To facilitate change within the RAF, a network of Change Champions was appointed. These Champions are all members of the RAF staff selected from different levels within the organisation and with different levels of experience and qualifications. They are supported by the Human Capital Department, the Marketing, Communications and Stakeholder Relations Department and the RAF Project Management Office ("PMO").

The vision of this network is to enable the RAF to position itself as a flexible, customer-centric organisation that can provide a swift and efficient benefit service throughout South Africa. Its mission is to work as a team of effective change agents who will build internal capacity to manage change, foster high performance and create a cohort of employees and Managers who effectively and efficiently deliver the RAF's mandate to the South African population and beyond.

*Objectives:*

- To manage change effectively and entrench good practices that will sustain change and establish the foundation for RABS;
- To help develop, disseminate and embed a unique customer service value proposition for the RAF;
- To help staff to build inter-departmental relationships aimed at improving businesses performance;
- To build employees' morale and to grow employees' confidence in RAF's leadership, people, systems and culture; and
- To improve effective communication across the RAF and open up communication with customers and stakeholders.

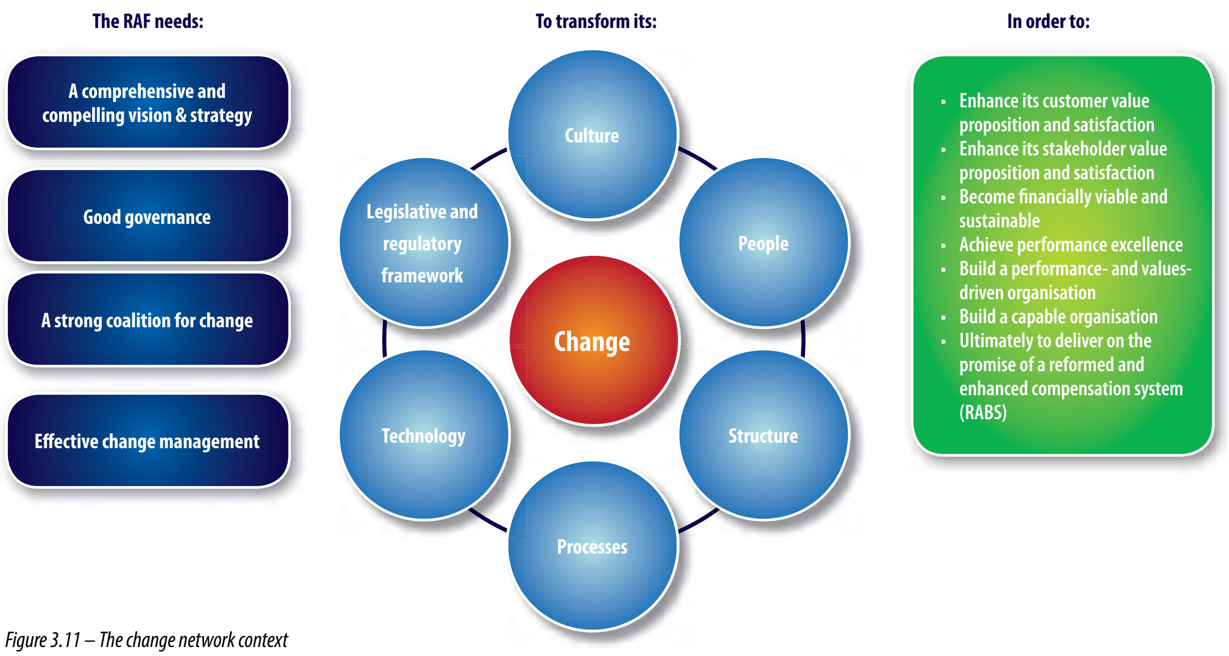



*Figure 3.11 – The change network context*

*The Importance of a Change Network*

Change networks are effective at mitigating the risks associated with change, which can include:

- Employee resistance to change;
- A dysfunctional culture;
- Lack of Line Management support and accountability;
- Poor internal communication;
- Inadequate leadership skills and visibility;
- Management alignment on key priorities;
- Losing momentum from labour and political stakeholders;
- Maintaining motivation when things go wrong;
- Managing change fatigue;
- Implementing and sustaining change initiatives; and
- Tight time frames to deliver.

*RAF Change Champions*

The RAF Change Champions have been tasked to act as local leaders connected to the wider organisation and, as such, to assist in establishing effective two-way communications. They will be assisting colleagues to reflect on issues within the change process and to deal with anxieties and concerns, as well as successes and exciting challenges. In addition, they will work with Managers to ensure that everyone receives relevant communication and understands the content. Responses will be fed back into the change management process. They will also explain and build the business case for change through group and one-on-one discussions. Colleagues will be assisted to grow their understanding of, and behaviours related to delivering an effective service for claimants. Finally, Change Champions will work with Managers and colleagues to implement practical business improvement projects aimed at the RAF's sustainability through:

- Implementation of policies to support the change process and transition period;
- Stakeholder management in respect of the RAF's internal strategic partner, SATAWU, as well as external stakeholders; and
- Strengthening the established Transformation Committee consisting of the Executive team and the National Office Bearers ("NOBs") of SATAWU.

### *3.3.3.4 Performance Management*

The RAF is on a journey to entrench a performance culture that fosters accountability and customer-centricity. As stated, the overriding purpose of the RAF's Performance Management Strategy is to enable the management of team and individual performance to ensure achievement of the RAF's strategic objectives.

Continued development and upgrading of the ERP SAP Performance Management System solution facilitated the process of monitoring, measuring and rewarding the performance of employees, towards enhancing efficiency and effectiveness and improving service delivery within the RAF.

This was coupled with "courage performance conversations" and performance training on the principles and methodology of the balanced scorecard for new and current employees.

A total of 1,406 of RAF employees were contracted for the financial year ending March 2012.

### *3.3.3.5 Remuneration Philosophy*

In the near future, the remuneration of employees within the RAF will reflect the dynamics of the market and context in which the organisation operates. It will at all times align to the strategic direction and specific value drivers of the business. Remuneration will play a critical role in attracting, motivating and retaining high-performing individuals. Remuneration will also reinforce, encourage and promote superior performance. Through variable remuneration linked to value drivers, superior performance will be recognised and rewarded, whilst poor performance and under-achievement will be addressed in a developmental fashion to work out "poor performance". Remuneration will never be a stand-alone management process, but will rather be fully integrated into other management processes, such as the performance management process, and other HR policies.

"Recognition and Reward" is one of the RAF's key strategies to foster a high-performance culture with engaged employees. Performance-related remuneration forms the cornerstone of the Fund's reward philosophy, supported by a robust performance management system.

*3.3.3.5.1 Short-Term Incentive*

RAF staff receives an incentive bonus which is related to the achievement of financial targets and other non-financial objectives. The incentive bonus represents a percentage of the Total Guarantee Package allocated to each level or category of employees. The discretionary bonus is a discretionary amount that bears some relationship to the individual's performance.

*3.3.3.5.2 Annual Remuneration Reviews*

In order for the Fund to maintain appropriate remuneration competitiveness vis-à-vis the labour market, remuneration will be reviewed on an annual basis. The organisation has an agreement with SATAWU to negotiate annual salary increases on behalf of its members. Annual salary increases are paid in April of each year in line with the organisation's financial year-end. The percentage annual salary increase is mandated by the RAF Board. The RAF has introduced a performance-based salary increase for the Management team and this process will be introduced to the entire organisation in the near future.

### *3.3.3.6 Talent Management*

The RAFs vision is to become an "Employer of Choice" and an "Equal Opportunities Employer". Effective talent management facilitates operational continuity and sustainability by ensuring that the right people, with the right skills are in the right job at the right time to ensure successful business results.

The RAF is in the process of creating a talent framework and talent mindset including:

- Succession management;
- Establishing talent as a foundation business process;
- Developing a leadership team that inculcates and practices a talent mindset;
- Establishing a talent management system and framework that is credible, sustainable and that adds value to the business;
- Establishing a pool of talented and competent individuals at all levels of the organisation; and
- Developing, deploying and retaining talented individuals as depicted below.

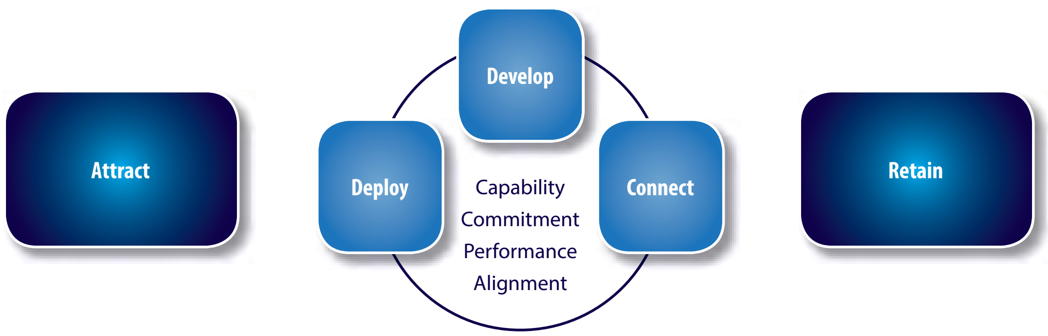



*Figure 3.12 – Talent management framework*

In addition, the RAF is busy developing pragmatic selection methods in order to reduce attrition within the organisation. The organisation is also equipping employees with the skills, knowledge and competencies required to undertake current and future tasks required by the organisation to attain its goals (skills gap bridging), and developing "intellectual capital" to meet present and future needs, since the human capital of any organisation is a major source of competitive advantage.

This will be achieved by:

- Integrating all HR activities, including recruitment, rewards, training and development and performance management into the Talent Management Strategy;
- Using the HR Management System and technologies to support talent management activities; and
- Establishing talent forums to make strategic decisions regarding attracting, developing and deploying key talent and ensuring that succession planning is in place for mission-critical positions.

This approach translates into:

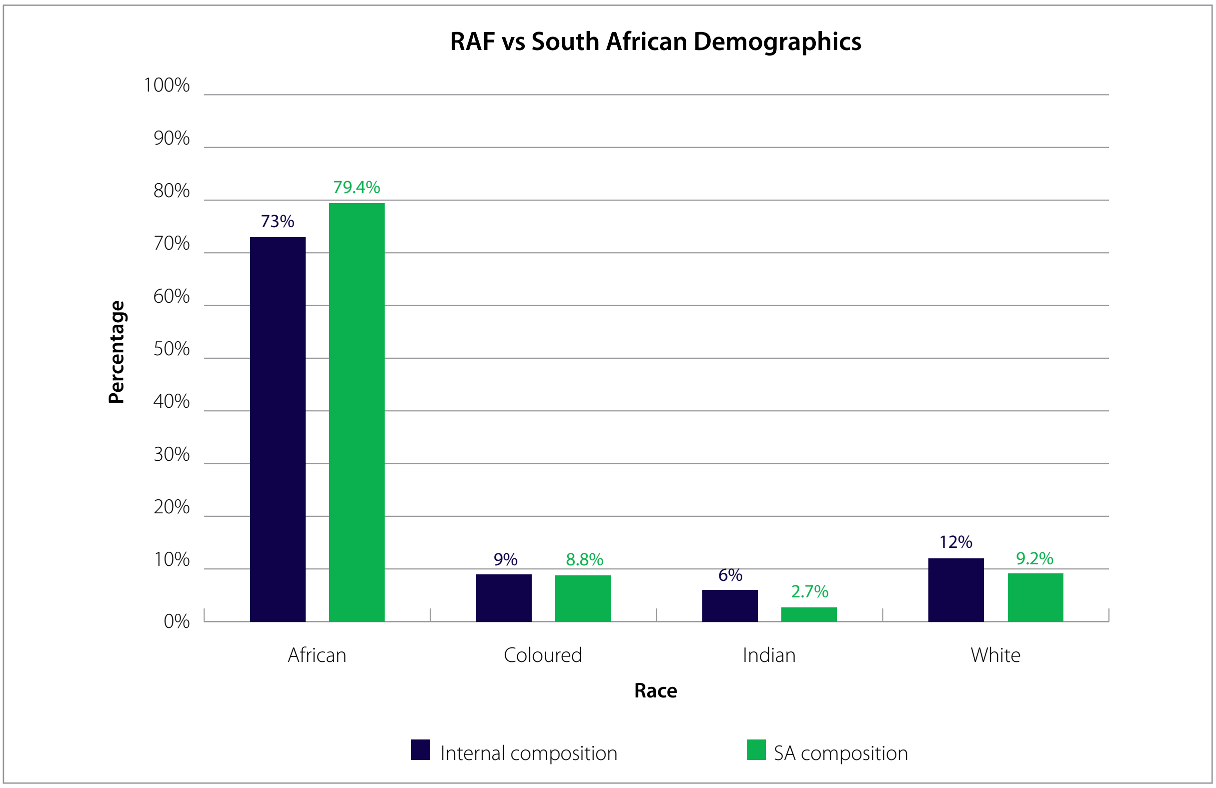
- Maximum utilisation of capability;
- Optimum alignment and engagement with the business; and
- Improved performance and commitment.

### *3.3.3.7 Employment Equity*

In terms of the Employment Equity Act, the RAF is a "designated employer", and as such, is obliged to provide annual employment equity ("EE") reports on or before 1 October each year. To ensure that the RAF meets both provincial and national EE targets, individual regional targets were set. What remains to be done, taking into account the numerical goals and targets set in the recently submitted report, is to revise both the national and regional plans.

In terms of its EE Plan, designed to achieve progress towards EE in the workplace, the RAF progressed well at most levels. Although two black female Executives were employed during the period, the Fund is still challenged in meeting the target for black women at this level. An alternative approach would be an aggressive development programme for female employees already at Management and Senior Management level to prepare them for possible Executive appointments.

*Graph 3.46* illustrates the internal versus external demographics.

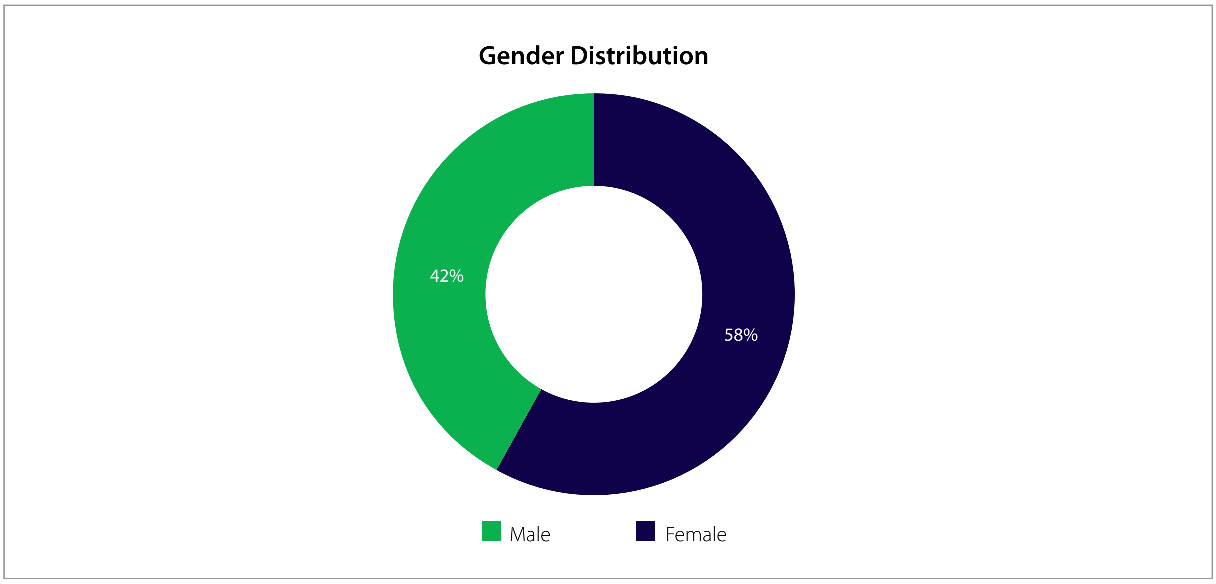



*Graph 3.45 – RAF vs South African demographics*

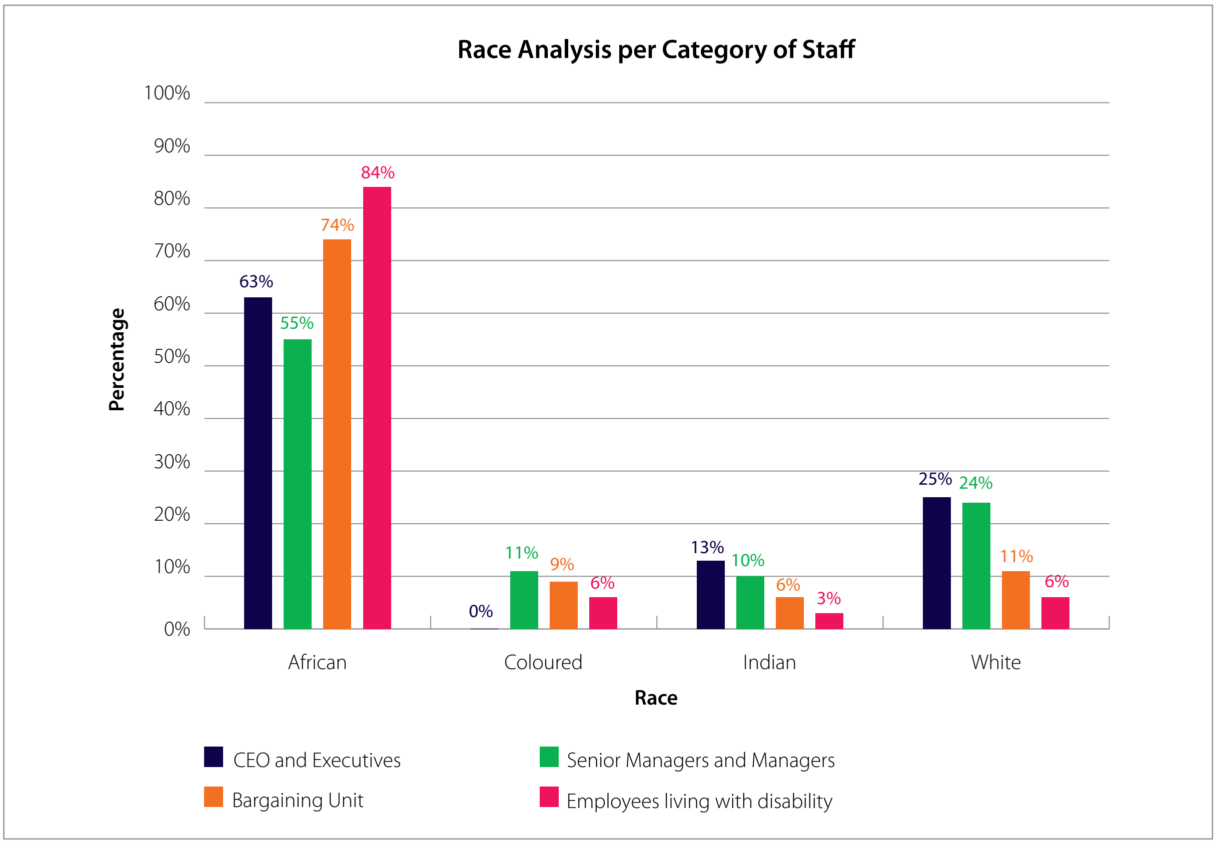
### *3.3.3.8 Staff Composition*

The following table and graphs outline the RAF's staff composition and gender analysis.

| | African | | African Total | Coloured | | Coloured Total | Indian | | Indian Total | White | | White Total | Grand Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Female | Male | | Female | Male | | Female | Male | | Female | Male | | |
| Executives | 3 | 2 | 5 | - | - | - | - | 1 | 1 | 1 | 1 | 2 | 8 |
| Senior Managers | 4 | 7 | 11 | - | 3 | 3 | 3 | 1 | 4 | 1 | 6 | 7 | 25 |
| Managers | 21 | 23 | 44 | 5 | 3 | 8 | - | 6 | 6 | 7 | 10 | 17 | 75 |
| Bargaining Unit | 731 | 561 | 1,292 | 96 | 53 | 149 | 70 | 35 | 105 | 126 | 64 | 190 | 1,736 |
| **Grand Total** | **759** | **593** | **1,352** | **101** | **59** | **160** | **73** | **43** | **116** | **135** | **81** | **216** | **1,844** |

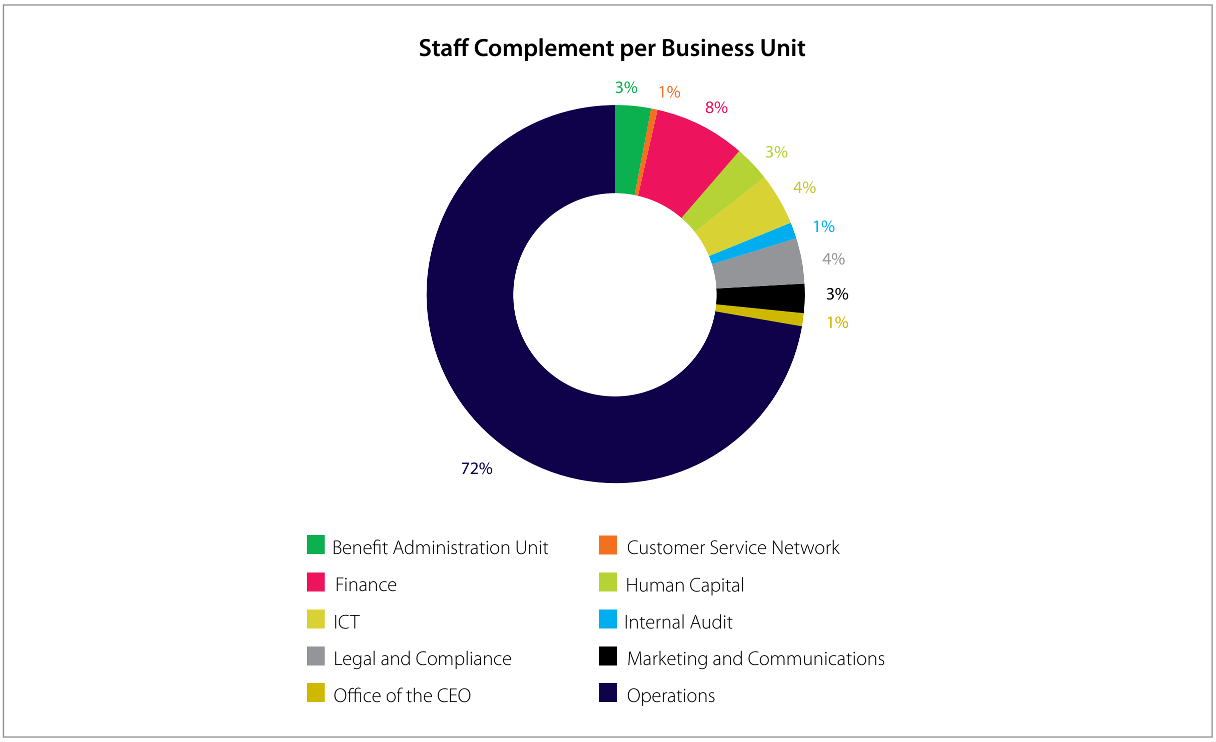



*Graph 3.46 – RAF gender distribution*



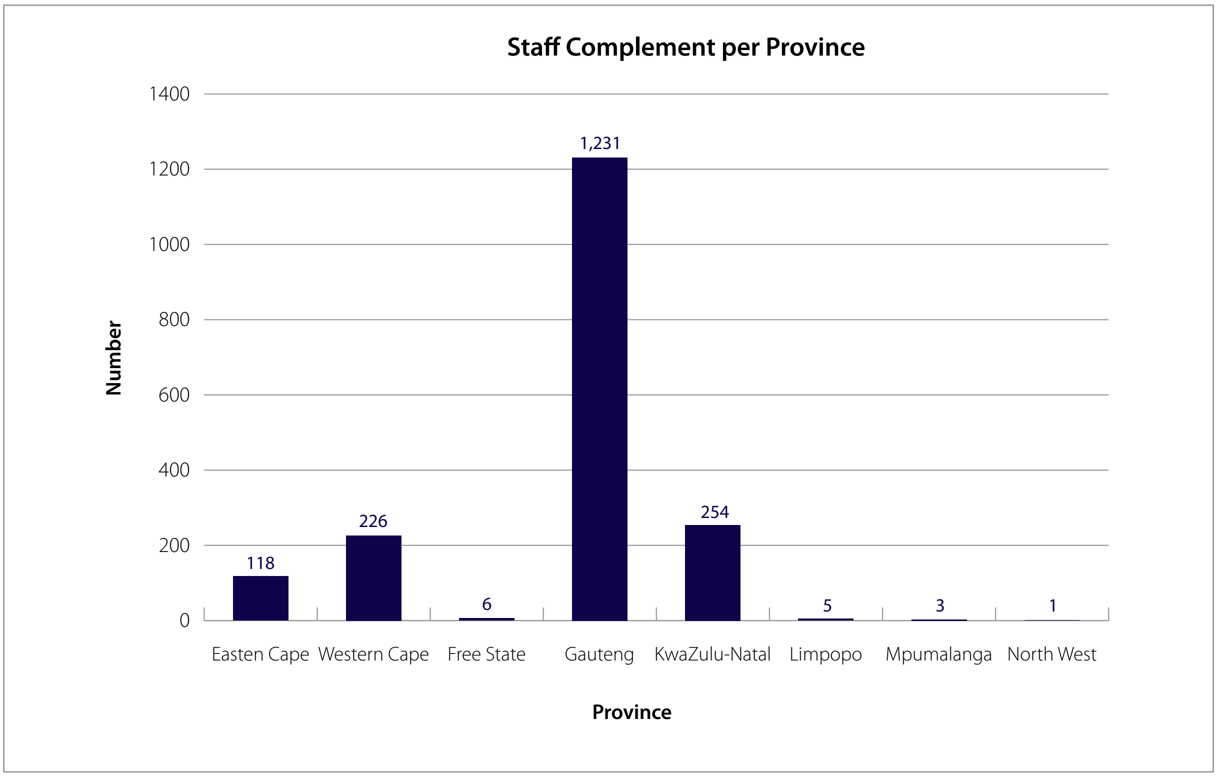

*Graph 3.47 – Race per category of staff*

The RAF's staff complement, grouped by business unit and by region, as at 31 March 2012 is reflected in *Graphs 3.48* and *3.49*.




*Graph 3.48 – Staff complement per business unit*

The RAF had 1,844 permanent employees as at 31 March 2012 (2011: 1,872). Of these, 72% fall within the core business unit, namely Claims Operations *(Graph 3.48)*.




*Graph 3.49 – Staff complement per province*

### *3.3.4.9 Staff Turnover*

During the year under review, the RAF had an average turnover in staff of 7.9% due to terminations in the following categories:

| Staff Turnover | |
|---|---|
| **Terminations** | **Numbers** |
| Resign – Salary/benefits | 111 |
| Dismissal | 8 |
| Abscondments (AWOL) | 1 |
| Death | 11 |
| Disability | 6 |
| Early retirement | 1 |
| Expiry of contract | 2 |
| Resign – Management conflict | 1 |
| Resign – Personal problems | 1 |
| Retirement | 3 |
| **Grand Total** | **145** |

Staff turnover is further divided to show statistics by age group, gender and race:

| Age Group | Terminations | Staff Complement | Turnover Rate |
|---|---|---|---|
| <25 | 2 | 29 | 6.9% |
| 26-34 | 42 | 601 | 7.0% |
| 35-44 | 77 | 895 | 8.6% |
| 45-54 | 18 | 248 | 7.3% |
| 55+ | 6 | 71 | 8.5% |
| **Average Total** | **145** | **1,844** | **7.9%** |

| Gender | Terminations | Staff Complement | Turnover Rate |
|---|---|---|---|
| Female | 64 | 1,068 | 6.0% |
| Male | 81 | 776 | 10.4% |
| **Average Total** | **145** | **1,844** | **7.9%** |

| Race | Terminations | Staff Complement | Turnover Rates |
|---|---|---|---|
| African | 106 | 1,352 | 7.8% |
| Coloured | 12 | 160 | 7.5% |
| Indian | 7 | 116 | 6.0% |
| White | 20 | 216 | 9.3% |
| **Average Total** | 145 | 1,844 | 7.9% |

### *3.3.3.10 Learning and Development*

The Learning and Development business unit established a solid foundation during the 2009 financial year. The emphasis for the 2012 financial year was to build on this foundation, and a number of planned initiatives were implemented to promote learning and development within the organisation. Below follows an overview of the key projects that were implemented during this reporting period:

#### *3.3.3.10.1 Learning Academy*

The RAF Virtual Learning Academy was established in August 2009. The academy is an organisational entity dedicated to turning business-related learning into action. During the previous reporting period, additional services, such as a library and a Career and Assessment Centre were established. The library for now focuses on legal publications, but will start to incorporate other business-related publications in the next financial year. The Career and Assessment Centre provides a host of assessment, succession planning and career coaching services. During this review period, Learning and Development trainers became accredited through the Services SETA to offer professional assessments. The Centre is in the process of introducing Medical Training, which is inclusive of the American Medical Association ("AMA") IC 10 codes.

### *3.3.3.10.2 Leadership Development*

The RAF's Leadership Strategy and Model considers leadership competence at different levels of organisational complexity and translates leadership competence into three areas, namely leading self, leading others and leading business. The Leadership Framework identifies the key competencies required to support the development of employees and addresses the way in which the RAF works, as well as the manner in which employees achieve their targets and objectives. The Leadership Competence Model is conceptually illustrated as follows:

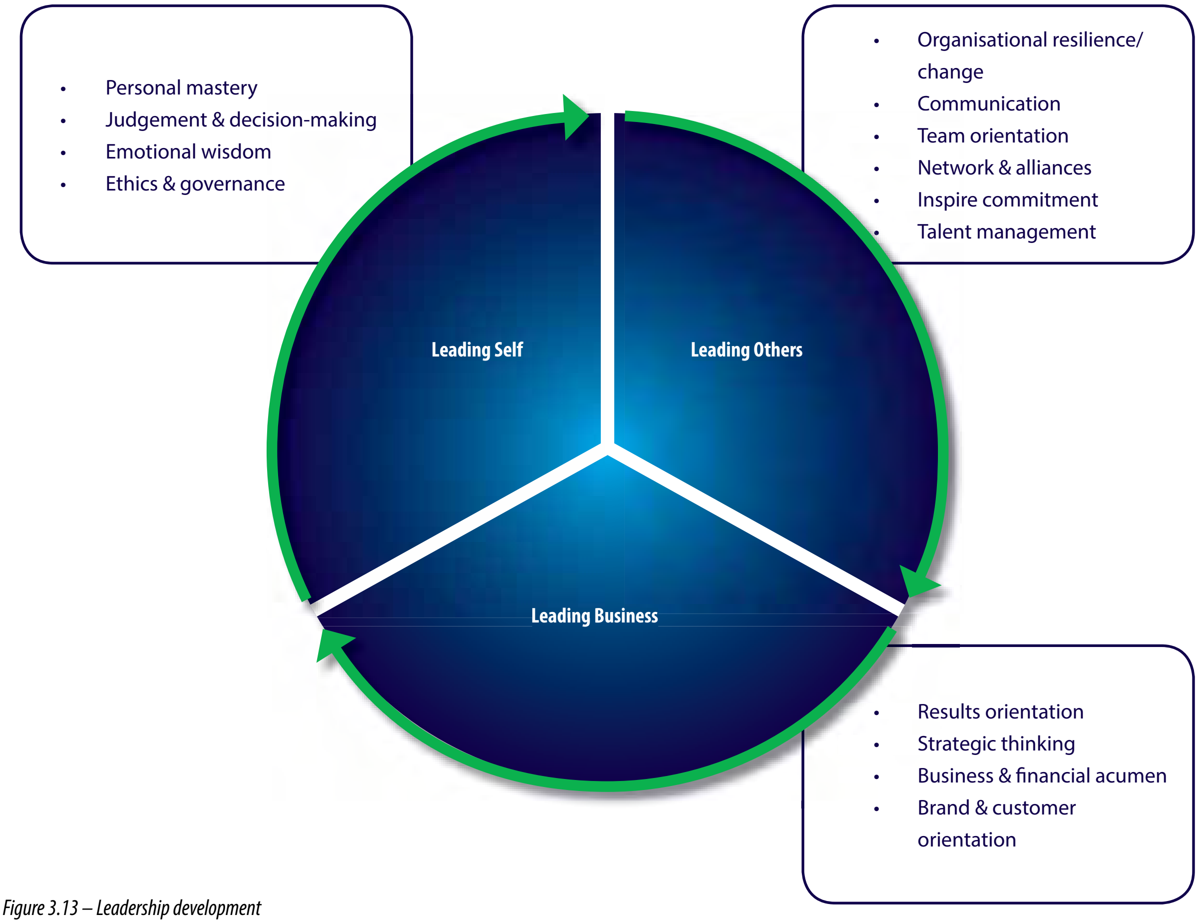



*Figure 3.13 – Leadership development*

The model further:

- Supports the organisation by providing concrete examples of the ways of working within the organisation;
- Communicates a clear understanding of the organisational values;
- Identifies the required development areas in order to support a more targeted training and development plan;
- Offers clear examples of how the context/environment assists or impedes the development of behaviours;
- Ensures consistency in the evaluation of employees throughout the RAF; and
- Provides for a common language in the identification of tomorrow's leaders and sourcing within the organisation.

The following elements of this model were implemented during the year under review:

- **Supervisory Development Programme:** 59 employees at supervisory level completed a seven-module programme.
- **Coaching Programme for Senior Managers:** A number of Senior Managers are busy with a coaching programme to address leadership development gaps.
- **Leadership for Women:** Five females in Senior Management positions attended a Leadership Development workshop specifically aimed at women.
- **Management Development Programme:** 30 Managers attended the Management Development Programme.
- **Female Development Programme:** 16 female Supervisors and Managers completed this programme.
- **Other Leadership Development Initiatives:** During the year under review, two other programmes aimed at employees in Management positions were also implemented, namely Personal Mastery for Leaders and a programme relating to Strategy, King III & Risk Management. Resilience training was rolled out during the reporting period and the organisation is in the process of rolling out Customer Service Training for all staff members.
- **Adult Basic Education and Training ("ABET"):** ABET was rolled out for employees with no qualifications.

*3.3.3.10.3 Skills Development*

The National Skills Development Strategy ("NSDSIII") was launched in August 2010. Central to the strategy are partnerships between employers, public education institutions, private training providers and SETAs, to ensure that cross-sectoral and inter-sectoral needs are addressed. The RAF aligned itself with the strategy through:

- The better use of workplace-based skills development opportunities by optimising the current personal development process within the RAF. The process will in future also be aligned to the performance management review cycle.
- Building career and vocational guidance through the launch of career coaching sessions and by presenting the RAF at various career exhibitions; and
- Addressing the shortage of actuarial skills within the sector in partnership with the Insurance Sector Education and Training Authority ("INSETA") and the South African Actuaries Development Programme ("SAADP").

One of the visions of NSDSIII is to build career and vocational guidance; therefore the RAF is embarking on attending various career exhibitions.

*3.3.3.10.4 Internships and Learnerships*

The RAF continued to participate in a number of Learnership and Internship Programmes to provide valuable learning and work experience to previously disadvantaged individuals. These were undertaken in terms of a three-way agreement between the RAF, service providers and the INSETA.

*3.3.3.10.5 Learning Management System*

Learning and Development is in the process of introducing a Learning Management System ("LMS"), which will serve as a learning portal for the organisation. The LMS will enable employees to:

- Complete their PDPs electronically;
- Access e-Books;
- Undertake e-Learning; and
- Schedule their own training.

*3.3.3.10.6 Operational Toolkit*

The Operational Toolkit was successfully launched in 2011 and continued to be updated on a quarterly basis. One of the innovations is the introduction of competence assessments for core business. This was rolled out in April 2011. The purpose of the assessment is to ensure levels of competence after training and not merely focusing on the transfer of knowledge.

The Operational Toolkit consists of a number of tools and documents to ensure the standardisation and optimisation of operations. The toolkit will enable employees to provide better service delivery.

### *3.3.3.11 Employee Wellness Service*

The RAF's Employee Wellness Service ("EWS") provides an integrated approach to employee health and wellness services, as outlined by the Department of Public Service Administration ("DPSA"). The programme is designed to reduce behavioural crises associated with personal problems; assist Management in demonstrating concerns for the well-being of employees; create a supportive and non-discriminatory environment; reduce absenteeism; and enhance productivity.

During the year under review, the utilisation of the Department's services has increased and the focus has increasingly been on proactive management. The RAF has entered into a partnership with an independent service provider, which provides a 24/7 counselling service to the organisation's employees and their immediate family members. The utilisation of this service reflected a slight decline in the last quarter of the 2010/11 calendar year. However, the RAF utilisation is still above the service provider average and there has been in-house utilisation of psycho-social and disease management counselling. New trends relating to Post Traumatic Stress Disorder ("PTSD") emerged in the period. Trends reflect the increase in awareness and appreciation of staff on the availability of the health and wellbeing services. The RAF EWS was benchmarked against other workplace programmes and was found to be above average.

## Integrated EWS Model

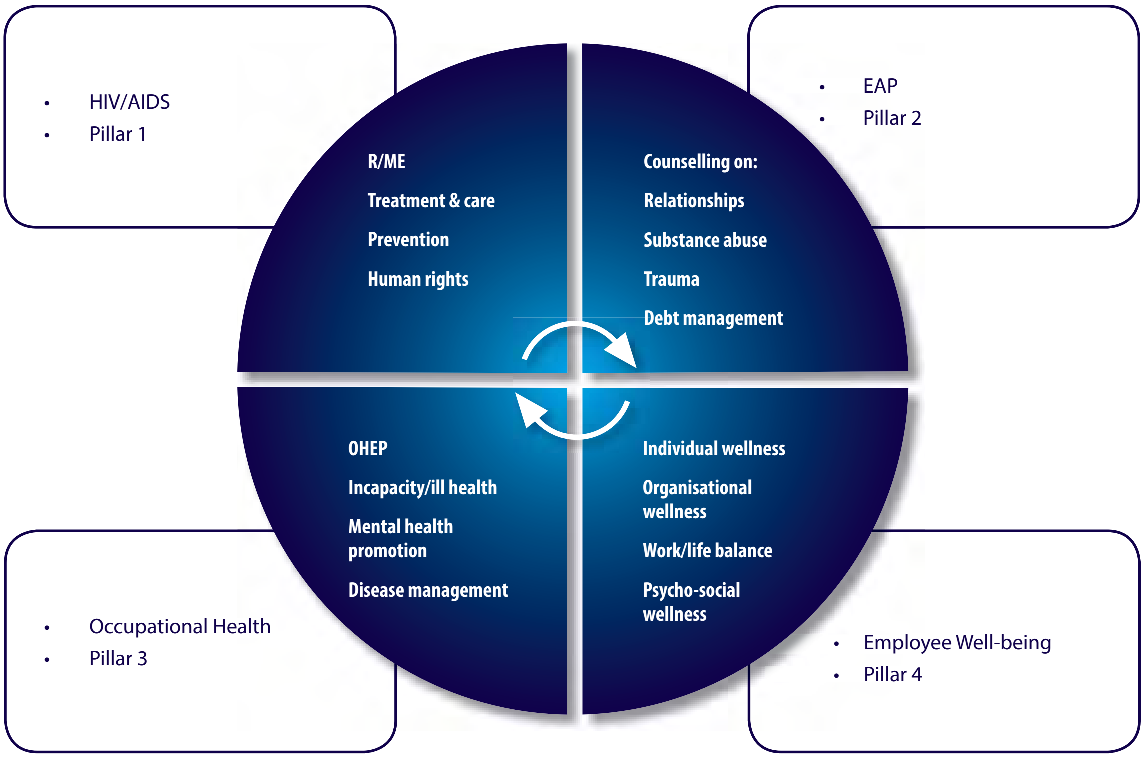



*Figure 3.14 – The EWS model*

*3.3.3.11.1 The Objectives of EWS*

The EWS is designed to:

- Promote a workplace wellness programme;
- Create awareness, provide care and support on HIV/AIDS and other life-threatening deceases;
- Reduce behavioural crisis associated with personal problems;
- Assist Management in demonstrating concerns for the well-being of employees by offering a service to assist employees when struggling to cope with personal issues;
- Create a supportive and non-discriminatory environment;
- Reduce absenteeism; and
- Enhance productivity.

*3.3.3.11.2 EWS HIV/AIDS Programmes*

The HIV/AIDS Programme forms one of the most important pillars of the EWS Model. Like other organisations, the RAF has started to experience the impact of HIV/AIDS. During the reporting period, Voluntary Counselling and Testing ("VCT") sessions were held and 45% employees were tested. This rate of participation is above normal workplace standards. Although stigma in the workplace remains a challenge, the high rate of participation reflects the fact that the RAF is embracing employees who are living with HIV and these employees have confidence in the services provided by EWS.

In addition, EWS provides combined counselling and advisory services to employees and Management, while others are referred to a service provider, both as a formal referral and self-referral. The table below outlines the primary problems experienced by employees.

| Branches | Head Office | Pretoria | Jhb | Durban | Cape Town | East London |
|---|---|---|---|---|---|---|
| Stress/depression | 10 | 6 | 19 | 9 | 4 | 0 |
| Money management | 1 | 1 | 9 | 2 | 0 | 0 |
| Organisational issues | 7 | 6 | 4 | 1 | 3 | 0 |
| Loss issues | 5 | 6 | 2 | 4 | 1 | 0 |
| Relationship issues | 12 | 2 | 3 | 5 | 4 | 0 |
| Threatening/suicide | 0 | 0 | 3 | 0 | 0 | 0 |
| Trauma debriefing | 0 | 1 | 2 | 0 | 0 | 0 |
| Addictive issues | 0 | 1 | 4 | 1 | 1 | 0 |
| HIV disclosure | 1 | 0 | 3 | 1 | 0 | 0 |
| Physical health problems | 21 | 9 | 2 | 4 | 1 | 0 |
| Physical/disease management | 42 | 26 | 35 | 21 | 6 | 0 |
| Other (anxiety/phobia) | 0 | 1 | 0 | 0 | 1 | 0 |
| **Total** | **98** | **58** | **84** | **48** | **21** | **0** |

Summary of service provider utilisation by % during the 2011/12 financial year.

| 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|
| 19.6% | 25.1% | 27.9% | 25.1 % |

Summary of the health risk assessment outcomes conducted by Discovery Health 2011.

| Lifestyle Health Risk | Head Office | Pretoria | Jhb | Durban | Cape Town | East London |
|---|---|---|---|---|---|---|
| Smoke status | 15% | 13% | 15% | 17% | 15 % | 17% |
| Alcohol consumption | 5% | 5% | 5% | 9% | 6% | 9% |
| Blood pressure | 20% | 21% | 22% | 25% | 25% | 25% |
| High glucose | 24% | 30% | 27 % | 27% | 24% | 27 % |
| Cholesterol | 30% | 30% | 29% | 30% | 29% | 30% |
| Chronic diseases | 23% | 23% | 23% | 23% | 23% | 23% |

*3.3.3.11.3 National Days of Importance*

The RAF participated in the following national days of importance during the year under review:

- A Candle-lighting Ceremony, attended by sporting heroes, successfully commemorated those lost to HIV/AIDS;
- Women's Day was celebrated at all branches;
- Heritage Day was observed at all branches and included various colourful activities;
- Awareness of Sexually Transmitted Infections ("STIs") was created on Valentine's Day with the distribution of valentine cards containing condoms; and
- World AIDS Day was commemorated at all branches, with guest speakers and Industrial Theatre performances.

*3.3.3.11.4 Sports*

Sport at the RAF is viewed as an integral part of the strategy for employee health and well-being, as well as a tool to unite the diverse population of the organisation. The RAF National Sports Tournament was held successfully in Bloemfontein in November 2011. A national team was selected by SAFA, Netball SA and Volleyball SA to participate in an Inter-fund Tournament in Durban towards the end of April 2012. Sport not only unites the RAF employees, but capacitates them in leadership and other skills. The Inter-fund Tournament included participation by other SADC countries, such as Botswana, Namibia and Swaziland.

*3.3.3.11.5 Psychology of Customer Services*

Due to the nature of the organisation's business and the situations experienced by its clients, the RAF's customers are often traumatised, emotional or even hostile. It is imperative that RAF staff, in particular those in front-line positions, are able to deal with these claimants and/or family members appropriately. Hospital-based consultants witness trauma directly and indirectly on a daily basis; yet few are trained to deal with their own emotions. Against this background, a service provider was contracted to provide guidance in the psychology of customer services and bi-monthly trauma debriefings for hospital-based consultants. Feedback on the initiative was extremely positive.

*3.3.3.11.6 Personal Transformation*

During the review period, the EWS incorporated a personal transformation component in its programmes. This is a three-level workshop provided by a service provider and designed to assist individuals in all aspects of their lives, thus improving productivity and performance. A total of 14 employees completed two levels of the workshop prior to financial year-end.

*3.3.3.11.7 Disability Programme*

The RAF has 37 employees who are living with disabilities ranging from muscular-skeletal to neural disabilities, and a large number of these employees are survivors of road accidents. In December 2011, the RAF celebrated National Disability Day, which was integrated into the World Aids Day commemoration.

*3.3.3.11.8 Occupational Health and Safety*

The EWS plays an advisory and co-ordination role in respect of the Occupational Health and Safety Committee to ensure that the RAF adheres to the Occupational Health and Safety Act.

*3.3.3.11.9 Transformation*

Although the EWS is not part of the Transformation Forum, the Change Management Strategy was developed in conjunction with ICAS in order to mitigate the adverse effects of change as far as possible. Conversely, this has ensured that the EWS is better informed to respond to the needs of RAF employees.

### 3.3.4 Risk Management

In the King III Report on Governance, Chapter 4 is specifically dedicated to risk management. As a public entity, the RAF is required in terms of section 51 of the PFMA, to implement and maintain effective, efficient and transparent systems of financial and risk management, as well as internal controls.

The RAF has adopted an Enterprise-wide Risk Management approach to manage its risks. Risk Management methodologies are applied in strategy setting, planning, projects, decision-making and all other business processes. Progressive risk maturity is evident in the organisation.

Risk governance structures are fully operational and a dedicated Risk Management function is in place and is mainly responsible for:

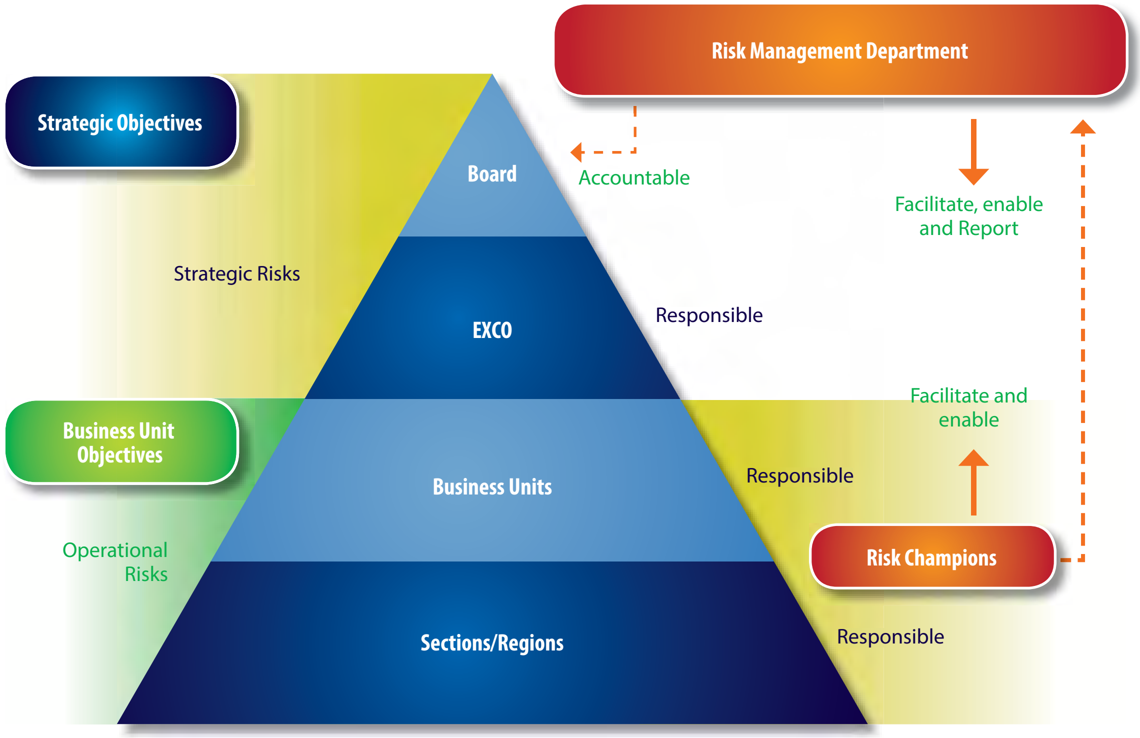
- Exercising specialist expertise to assist the RAF to embed risk management and leverage its benefits to enhance performance;
- Assisting the Board and the CEO in discharging their duties in terms of risk management within the RAF;
- Interacting regularly on strategic risk matters with the Board and appropriate Board Committees and Executive Management;
- Ensuring that risk management in the RAF is in line with the Risk Management Policy and Plan;
- Formulating the Risk Management methodology most suitable to the RAF, and continuously conducting research into best practices;
- Facilitating the risk assessment process and preparing and updating the RAF risk registers;
- Conducting an independent risk assessment for all business units and activities of the organisation, at least annually, and the continuous assessment of emerging risks;
- Providing assurance as to the adequacy and effectiveness of the risk management process;
- Reporting to the CEO and the Risk Management Committee on the effectiveness of the risk management process, as well as the risk profile of the RAF;
- Ensuring that Risk Management Strategies adopted are implemented, adequate and effective; and
- Evaluating the adequacy and effectiveness of internal controls designed to mitigate risks.

The RAF differentiates between strategic and operational risks. Strategic risks are identified by the RAF Board as being those risks which threaten the achievement of the RAF's strategic goals and objectives, while operational risks are identified within each business unit as being those risks which are operational in nature and potentially threaten the achievement of business unit objectives.

An annual risk assessment is conducted for both strategic and operational risks, and is aligned with the strategic planning process of the RAF. The risks are documented utilising risk management software, and monitored on an ongoing basis in relation to risk mitigation strategies, relevance of existing risks and the identification and addition of new risks.

Quarterly reporting to the Risk Management Committee includes the updated strategic risk register, business unit reports in terms of the Enterprise-wide Risk Management Framework and any other areas of risk of interest to the Risk Management Committee.

## Risk Management in the RAF



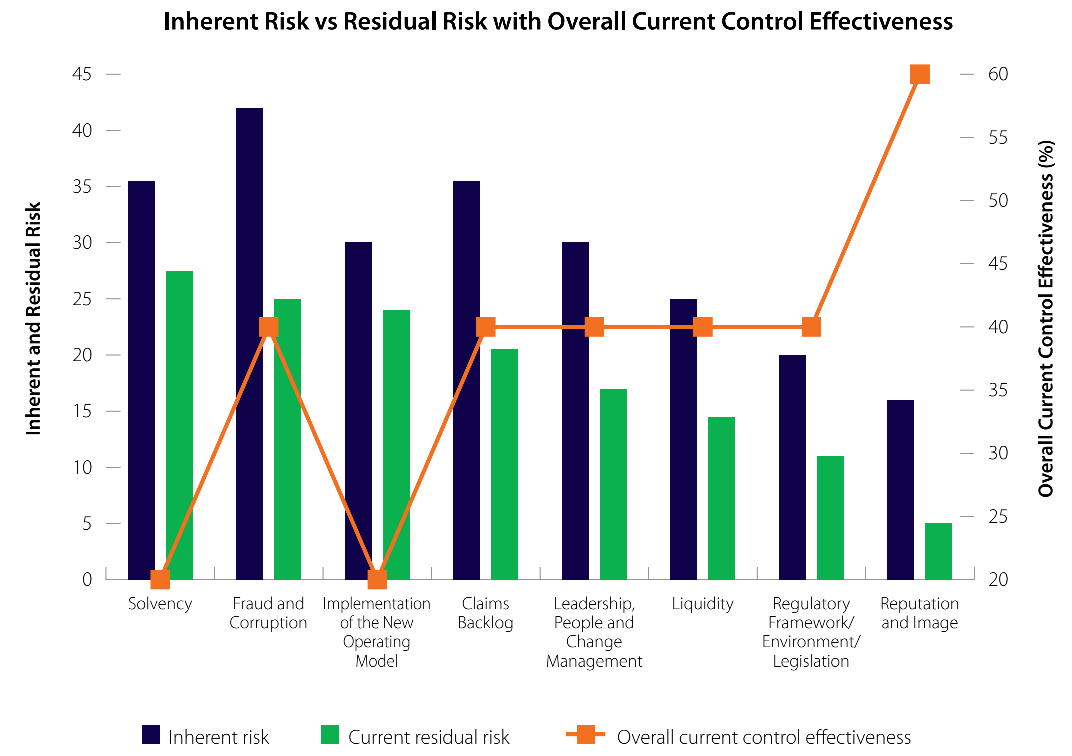

- The **RAF Board** is accountable for risk management.
- The **EXCO** and management are responsible for risk management.
- The **Risk Management Department** facilitates risk management processes in the RAF.
- **Business Unit Risk Champions** facilitate risk identification and are enablers of the risk management process.
- **Staff** are responsible for identifying risks and implementing treatment strategies to deal with these risks.

*Figure 3.15 – Enterprise-wide risk management approach*

Risk categories utilised by the RAF in its Enterprise-wide Risk Management Framework include:

- Strategic risks;
- Project risks;
- Compliance risks;
- Financial Management and Accounting risks;
- Core Business/Operational risks;
- Customer Services risks;
- Information and Communication Technology risks;
- Reputation and Image risks;
- Social and Corporate Responsibility risks; and
- People risks.

The Board identified eight key strategic risks to the RAF for the 2012 financial year. *Graph 3.50* below depicts these strategic risks with the residual and inherent values of each risk having been evaluated as at the end of the first quarter of the 2012 financial year.




*Graph 3.50 – RAF risk control effectiveness*

## 3.3.5 Forensics

### *3.3.5.1 Reducing Fraud and Corruption*

Regrettably, fraud continues to represent a significant risk to the RAF's assets, service delivery, efficiency and reputation. Policies and controls to detect and prevent fraud are in place and are regularly updated, yet these efforts are ultimately circumvented by individuals, colluding groups of stakeholders and organised criminal syndicates. The methods for defrauding the RAF take many forms, including:

- Exaggerating injuries so as to inflate claims;
- Lodging claims when the individual was not involved in a motor vehicle accident; and
- False information furnished as to earnings prior to the person being involved in the accident.

The combating of fraud is governed by a Fraud Policy and Prevention Framework that mandates the Forensic Investigation Department to investigate all allegations of fraud and other irregularities committed within or against the RAF. A Whistle-Blowing Policy is in place that encourages staff to report instances of suspected fraud anonymously. The RAF's fraud hotline allows all allegations of fraud to be made confidentially and, if desired, anonymously and each report is fully investigated.

The Fraud Policy and Prevention Framework is underpinned by a multi-faceted approach adopted by the Forensic Investigation Department to deal with incidents of fraud and other irregularities. This includes not only the investigation of suspected fraud and other irregularities, but also fraud detection, deterrence, prevention and awareness.

## RAF Fraud Prevention Plan


*Figure 3.16 – Fraud prevention model*

The RAF believes that it has a responsibility to the Executive Authority and all stakeholders to uphold the highest ethical standards possible. Its core values of Ubuntu, freedom to succeed and pride in what it does, sets the standard that the RAF expects to attain when dealing with customers, suppliers, employees and the Executive Authority. A zero tolerance approach to fraudulent and corrupt activities has been adopted, and the RAF has, in its Fraud Policy, declared its intention to vigorously pursue any party, by all legal means available, that engages in such activities or attempts to do so.

The RAF has, through its joint venture with the National Prosecuting Authority ("NPA") and the South African Police Service ("SAPS"), gained convictions in 1,196 criminal matters of fraud against the organisation since 1 April 2007 to the end of the reporting period.

The RAF appreciates that in order to safeguard against future potential financial loss, a proactive approach must be followed to prevent the occurrence or recurrence of fraud. Hence, several fraud reduction initiatives will be undertaken over the next three years, including:

- An increased focus on rooting out fraudulent claims through improved claims processes and systems, thereby identifying and escalating potential fraudulent activity early in the claims process, and preventing excessive costs and resources being devoted to these matters;
- Improving and tightening system security within the organisation, making it more difficult for employees or any external individuals to commit fraud; and
- Ongoing campaigns to educate the public about fraud and encourage employees and members of the public to report fraudulent activity.

## Action taken against perpetrators

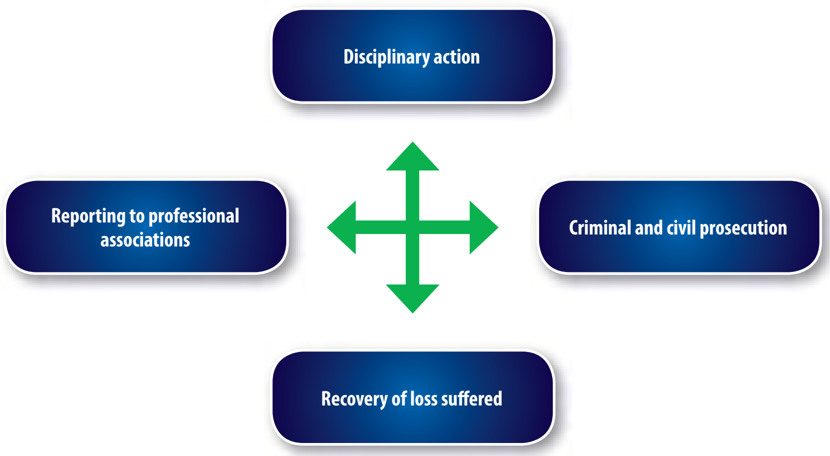



*Figure 3.17 – Action taken against perpetrators of fraud*

In order to determine whether the various initiatives are having the desired impact, independent fraud risk audits will be conducted annually that will assist in identifying the potential risk factors, as well as determining the potential financial impact of any fraudulent activity. Progress will be measured against the RAF's ability to reduce this risk.

The RAF recognises the importance of reducing fraudulent activity within the organisation and understands that significant priority should be given to any initiatives dealing with this.

Statistics obtained from the RAF Forensic Investigation Department for the period 1 April 2011 to 31 March 2012, reflected in the following table, reveal the extent of fraud and the RAF's commitment to root out fraud in the motor vehicle accident ("MVA") environment.

| Actions | Quantity |
|---|---|
| No. of files received | 8,933 |
| No. of files finalised | 6,782 |
| No. of files where fraud was detected | 3,160 |
| No. of statements obtained | 3,227 |
| No. of SAPS cases registered | 1,255 |
| No. of arrests | 502 |
| No. of convictions | 244 |
| Claimed value of fraud identified | R461,758,646 |
| Days spent in court | 242 |
| Estimated amount of claims where fraud was identified, but already paid out | R15,473,418.93 |

## 3.3.6 Marketing, Communications and Stakeholder Relations

### *3.3.6.1 Marketing, Communications and Stakeholder Relations Initiatives*

#### *3.3.6.1.1 "RAF on the Road" – Taking the Service to the People*

During the year under review, the Marketing, Communications and Stakeholder Relations Department continued its endeavours to position the RAF as a caring and trustworthy brand, which provides appropriate cover to all road users within the borders of South Africa; rehabilitates and compensates persons injured as a result of motor vehicle accidents in a timely and caring manner; and actively supports the safe use of all South African roads.

A number of new strategies and channels were utilised to create greater awareness regarding the Fund itself, as well as its service offering. One such campaign, dubbed "RAF on the Road", was met with great enthusiasm by potential and existing community members. The primary objective of this national campaign is to bridge the gap between the RAF and its customers. Going out on the road to educate communities about the RAF's service offering, assisting with the status of claims, making settlement offers, issuing medical undertakings certificates and inviting eligible community members to lodge direct claims are the RAF's way of empowering accident victims to take control of a process that would otherwise seem intimidating.

Avoiding added third-party fees, reducing costs and maximising compensation by lodging direct claims with the RAF is fast becoming the preferred option for claimants, as the interactive nature of the campaign allows customers to understand the process completely. In so doing, the RAF is also striving to improve lives, forge a safer future and return communities touched by adversity to social sustainability.

Unfortunately, during these community outreach campaigns, the RAF also detected a number of fraudulent cases involving claim settlements made to lawyers, which never reached the intended beneficiaries. These have been referred to the RAF's Forensic Investigation Department, which will conduct the necessary investigations. The new financial year will see a full roll-out of the "RAF on the Road" campaign, which will cover every province.

#### *3.3.6.1.2 Marketing Platforms*

The 2011/12 financial year saw the RAF participating in and/or sponsoring major sporting events, such as the Comrades Marathon, the 702/Discovery Walk the Talk and the Oliver and Adelaide Tambo Liberation Walk. As pedestrians and runners represent vulnerable road user groupings, these platforms were utilised to spread the message of road safety to both participants and audiences alike.

In addition, the RAF undertook activations and/or exhibition stands at a number of large events, among other, the Rand Easter Show, the Soweto Arts Festival, the ACSA Disability Expo, October Transport Month, the Tourism Indaba, and for the first time, RAF branding was visible at large rugby and soccer stadiums.

Other marketing achievements included, but were not limited to, the following:

- The roll-out of the new corporate identity to RAF regional offices, with Hospital Service Centres being next in line;
- Vehicle rebranding;
- Advertising – both regional (in all 11 official languages) and national;
- A Festive Season road safety message on television in collaboration with the DoT;
- A marked increase in promotions and activations, reaching more communities via more events compared to any of the previous years;
- A marked increase in community engagements;
- A "Living the Values" campaign, which will be rolled out further in the new financial year;
- Ongoing customer service training;
- A hard-hitting anti-fraud and corruption campaign; and
- Research aimed at improving image and reputation, as well as improved customer service levels and customer satisfaction.

Going forward, marketing efforts will be aimed at communicating the Fund's key competitive advantage, i.e. motivating customers to claim directly from the Fund. The benefit of claiming directly and the importance of customers realising the advantages of doing so are a critical contributor in meeting the RAF's strategic objective of reducing the high levels of legal costs that the Fund is currently incurring. Most importantly, the RAF's service delivery and customer satisfaction levels should increase as more of the organisation's monies will end up in the hands of the intended beneficiaries – the road accident victims and their families.

### *3.3.6.2 Communications*

The Communications unit continued to render support to all business functions by ensuring that both internal and external stakeholders were kept abreast of general developments and those pertaining to the change management process in particular. Various communications platforms were introduced during the year, such as a quarterly staff newsletter, *Road Ahead*, a CEO's Blog, a Let's Talk forum (which affords staff the opportunity to pose questions and receive answers), a Leadership Forum, Managers' briefing sessions, road shows, etc.

The primary objective of this unit is to continuously and effectively communicate with and inform internal and external stakeholders in order to foster positive and mutually beneficial stakeholder relations. Strategic thrusts entail:

- Providing strategic leadership and effective feedback systems in all RAF communications;
- Managing perceptions and reputation variables through effective communication;
- Strengthening and managing the RAF communication system for effectiveness and proper alignment;
- Building media relations and dealing with media queries;
- Increasing awareness around the RAF's core service offering;
- Applying communication methods and practices to enhance marketing, communication and stakeholder relations activities; and
- Building partnerships with strategic stakeholders in pursuit of the RAF's strategic intent.

The RAF has adopted a multi-media approach, relying on the synergy of the message in the different media and the different media touch points that the primary target market (i.e. all users of South African roads) comes into contact with on a day-to-day basis.

The media strategy involves a co-ordination between broadcast media, print and activations. Used together, different types of advertising complement one another and increase the chances of the audience receiving the message many times and acting on it.

The year also saw an increase in positive media coverage, especially pertaining to the RAF's endeavours to curb fraud and corruption.

### *3.3.6.3 Stakeholder Relations*

The RAF views "stakeholders" as those individuals, groups of individuals or organisations that affect and/or could be affected by the RAF's activities, products or services and associated performance with regard to the issues to be addressed by the engagement.

According to King III, "constructive stakeholder engagement" is "aimed at ultimately promoting enhanced levels of corporate governance. It enables the company and the stakeholders to share their perspectives in the interests of the company. Constructive engagement with stakeholders could provide companies with valuable information about stakeholders' views, external events, market conditions, technological advances and trends or issues. This can assist companies to anticipate, understand and respond to external changes more efficiently, thereby enabling the company to deal with challenges more effectively."

Successful engagement and communication are both core to the RAF being able to meet its vision, to leverage the relationships the organisation has with stakeholders to achieve greater strategic alignment, influence and delivery for the RAF, as well as manage its reputation internally and externally.

During the year under review, stakeholder engagements meant actively planning, managing and monitoring the way in which the RAF interacts and builds relationships; providing a clarity of the organisation's role and remit; understanding stakeholder needs and interests; consulting, listening and providing feedback in a positive and helpful way; and providing a fast and efficient, quality service by ensuring effective communication and a positive attitude to stakeholders.

*3.3.6.3.1 Reputational Risk*

It is important to note that stakeholder engagements are intrinsically linked to reputational risk. Reputational risk is concerned with any activity or issue which could potentially negatively impact on the reputation of the RAF and its service delivery. All staff members have a part to play in enhancing the profile of the Fund and protecting its reputation. It is important for all staff to be aware of any potential reputational risks emerging from their relationships with stakeholders. King III defines "corporate reputation" as follows: "Stakeholders' overall assessments (and therefore aggregate perceptions) of companies, result in the formation of corporate reputations. Reputation is based on how well a company performs compared with the legitimate interests and expectations of stakeholders."

Stakeholder engagement within the context of the RAF is the process used to engage relevant stakeholders for the clear purpose of achieving accepted outcomes. It could also be recognised as a fundamental accountability mechanism, since it obliges the RAF to involve stakeholders in identifying, understanding and responding to sustainability issues and concerns, and to report, explain and be answerable to stakeholders for decisions, actions and performance.

Therefore, effective management of the organisation's stakeholder relations can enhance the profile of the RAF and its reputation through the development of a culture of service delivery and responsiveness; open and transparent working; and understanding the needs and interests of stakeholders. Reputational risk is managed through the RAF's corporate governance processes.

*3.3.6.3.2 Stakeholder Groupings*

During the reporting period, the RAF's stakeholders were grouped in accordance with their level of impact and influence on the organisation. Through stakeholder relations, the RAF aimed to strengthen support for its strategic objectives, minimise and manage opposition and interference and enhance Shareholder and Board objectives.

Important stakeholder groupings during the year included, but were not limited to, the Shareholder (the Minister of Transport) and various representatives from the DoT; the Minister of Finance, National Treasury and Director-General of Treasury; the Director-General of the Department of Health; the Chief Justice and Director-General of the Department of Justice; Provincial Departments (most notably Transport and Health); the Transport Portfolio Committee; members of the legal and medical fraternities; emergency services; the media; members of the general public; public entities; and other private sector partners within the Transport industry.

During the year under review, the RAF based its stakeholder engagements on one or more of the following principles:

- Inclusivity: Inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability. It is also a commitment to being accountable to those on whom the RAF has an impact and who have an impact on it, and to enable their participation in identifying issues and finding solutions. It is about engaging at all levels, including the organisation's governance, to achieve better outcomes. According to King III, "A stakeholder-inclusive corporate governance approach recognises that a company has many stakeholders that can affect the company in the achievement of its strategy and long-term sustained growth."
- Materiality: The materiality process determines the most relevant and significant issues for the RAF and its stakeholders, recognising that materiality may be stakeholder-specific, i.e. some issues will be material to some stakeholders, but not to others.
- Responsiveness: Responsiveness includes the decisions, actions, performance and communications related to those material issues.
- Subject matter: The subject matter is the issues that are relevant to the purpose of the stakeholder engagement. An issue should be considered material if it influences or is likely to influence the decisions, actions and behaviour of one or more stakeholders and/ or the RAF itself.

The Stakeholder Relations Management business unit also focused on aligning quality stakeholder engagement with the RAF's strategic intent. In addition, stakeholder engagements revolved around issues material to the organisation and/or its stakeholders.

In keeping with "The Year of the Customer" theme, the RAF remains committed to being recognised as a more stakeholder-centric organisation. The Fund recognise that managing its relationships with its key stakeholders is integral to all its processes and interactions, as each employee has an important role to play in delivering on the RAF's mandate.

Stakeholder relations during the reporting period were aimed at the following outcomes:

- More equitable and sustainable social development by giving those who have a right to be heard the opportunity to be considered in decision-making processes;
- Enabling better management of risk and reputation;
- Allowing for the pooling of resources (knowledge, people, money and technology) to solve problems and reach objectives that cannot be reached by single organisations;
- Enabling understanding of the complex operating environments, including market developments and cultural dynamics;
- Enabling learning from stakeholders, resulting in product and process improvements;
- Informing, educating and influencing stakeholders to improve their decisions and actions that will have an impact on the RAF and on society; and
- Contributing to the development of trust-based and transparent stakeholder relationships.

### *3.3.6.4 Corporate Social Investment*

#### *3.3.6.4.1 Integrated Community Development Projects*

During the year under review, the RAF apportioned its Corporate Social Investment ("CSI") budget to a vast number of worthy social and environmental initiatives. As the primary focus area for CSI, the RAF identified a number of national projects of an integrated community development nature in the geographic areas where the RAF has a physical presence. Programmes entailed one or more of the following components:

- Sustainable development;
- Environmental development;
- Social justice and equity; and
- Economic development.

Underlying this focus is the RAF's stated policy to support projects that will not only enhance the Fund's core business, but also contribute to the overall improvement of quality of life of South Africa's citizens. In essence, during the year under review, the Fund aimed for initiatives with broad-based stakeholder support, and avoided those typified as handouts that have proved to be unsustainable.

### *3.3.6.4.2 Forging Partnerships*

Against this background, the RAF opted to focus on South Africa's key economic and road transportation corridor, namely the N3 Toll Route between Gauteng and KwaZulu-Natal. The N3 carries large volumes of freight, both imports and exports, serving the economy of South Africa and its neighbours to the north of the country. It is also a corridor popular with travellers wishing to access the many holiday destinations along its entire route and to reach destinations along the KwaZulu-Natal coast.

Traffic volumes on the N3 have increased by almost 2.6% over 2011, now reaching up to 9,300 vehicles daily. In peak periods, such as Easter, the corridor can carry up to 4,000 vehicles per hour. The proportion of heavy vehicle traffic has increased to nearly 33.1% of all traffic on this road. The route serves almost 5,000 trucks daily, representing 40 million tons per annum.

This mix of traffic, i.e. slow heavily laden trucks, passenger buses and taxis, and fast-travelling private cars, is often a deadly cocktail. The mix is made even deadlier by driver behaviour, vehicle condition (or vehicle fitness), road condition and visibility, especially at night or in bad weather.

The N3 and its facilities have a direct bearing on the lives and livelihoods of the numerous rural and urban communities along the entire route. Therefore, this corridor not only met the RAF's primary criteria above, but proved suitable to address the RAF's secondary and even tertiary CSI focus areas, as outlined below.

In addition to the projects outlined in the previous financial year, which are of a continuous nature, a number of other CSI projects were embarked upon, which are briefly outlined below:

### *3.3.6.4.3 Education and Training*

Some of the key principles guiding CSI initiatives are designed to balance the RAF's interests with the country's development needs, and to align the RAF with national socio-economic imperatives. The first funding guideline is to invest in projects with a developmental focus, intended to build capacity and enhance quality of life.

*The QASA Driving Ambitions Project*

The RAF was made aware of a most deserving project in which the RAF, as good corporate citizen, could invest some of its CSI funds.

The QuadPara Association of South Africa (QASA), a non-governmental organisation based in KwaZulu-Natal, developed the Driving Ambitions project. This aims to teach disabled persons, who have the necessary agility and ability, to drive a motor vehicle.

Physical disability often results in impairment of mobility, and consequently exclusion from society and meaningful economic activity. In South Africa, people with disabilities have historically been socially and economically isolated. Since the RAF has a mandate to rehabilitate persons injured as a result of motor vehicle crashes, and the QASA driving project includes crash victims who suffer from a disability as a consequence of vehicle accidents, this was seen as a most deserving project for funding.

Seeing this project as worthy and deserving in line with the RAF's sustainable development objectives, the organisation contributed some CSI funding to QASA in 2011. The Fund sees the outcome as securing a measure of independence for these disabled people and likely to provide them with decent work in the mainstream economy.

*Mason Lincoln Special School – Improving Lives*

The understanding that physical disability can lead to paralysing despair has made acts of human decency an integral part of the RAF's CSI projects. During the 2011/12 financial year, the RAF responded to the specific qualities of the physically challenged, but intellectually sound learners at the Mason Lincoln Special School in V section, Umlazi, KwaZulu-Natal, by providing and overseeing essential school refurbishments to the value of R1 million.

Mason Lincoln Special School provides a mainstream education curriculum for physically challenged learners in an environment that is structurally modified for their specific requirements. Some 40% of the learners are road accident victims. The school's most pressing needs were identified and the RAF is currently intimately involved in the renovation of the school. The Durban RAF branch maintains direct contact with the school to assess its development impact, medical skills development and rehabilitation.

Globally, people with disabilities experience poorer health, lower education levels, reduced economic participation and greater poverty than the able-bodied. This is partly because people with disabilities face barriers in accessing services, including health, education, employment, transport and information. These difficulties are exacerbated in less advantaged communities. The RAF is showcasing the Mason Lincoln Special School as a successful model in improving the lives of road accident survivors, while highlighting the need for continued and improved support for people with disabilities.

*Trauma Unit: Leratong Hospital*

Road crash victims who suffer serious injuries require immediate medical attention, within the so-called "Platinum 15 minutes". Leratong is a regional hospital in the western part of Gauteng Province, serving mainly previously disadvantaged people. Its catchment area comprises around 1,5 million people. Although it has a bed capacity of 800, its lack of equipment, especially in the trauma ward, limits its ability to properly serve the community. At times only a portion of the bed capacity is fully used.

The Leratong Hospital has become notorious for its lack of trauma equipment, and has been dubbed "one of the worst hospitals" in Gauteng. This situation has resulted in the hospital constantly losing doctors and nurses, and it has become difficult to attract skilled staff to the emergency and resuscitation unit. Worse still, the lack of equipment means that patients have to be referred to other emergency facilities. Often the "Platinum 15 minutes", required to save a patient's life, is lost in the process.

At present, Leratong Hospital attends to an average of 500 road accident victims every month. The trauma unit deals with 75 000 patients per year. The RAF saw this situation as requiring immediate attention, as it deals directly with the Fund's core business and the fifth pillar of the Decade of Action Resolutions, i.e. Post-crash Care.

By partnering with several other stakeholders, a significant portion of the RAF's CSI funding was invested in the upgrade of Leratong Hospital's trauma ward. The Fund takes pride in having assisted to improve emergency care at the hospital, particularly since the contribution serves to benefit those who fall victim to motor vehicle crashes, as per the organisation's social role of "restoring accident victims to health."

*Conservation of the Environment*

The RAF's Board of Directors is enjoined by *inter alia* the King III Code to see the organisation remain a responsible corporate citizen. Part of this responsibility is to invest in the wellbeing of the natural environment. In this regard, one of the most prominent programmes undertaken during 2011 was the N3TC Litter Campaign.

Keeping the N3 toll route between Cedara and Heidelberg clean is an ongoing commitment, with litter collection along this route amounting to an average of R2,5 million per annum. Litter not only contributes to pollution of the natural water resources in the area, thereby impacting on the quality of water supplied to communities, but perhaps more importantly, can endanger the lives of other road users and therefore impacts on road safety. Alarmingly, much of the litter along the route comprises empty liquor containers, pointing to

the fact that road users regularly consume alcohol while driving, which is no doubt a direct cause of the many incidents and accidents on the N3.

The Fund's anti-litter campaign, in partnership with N3TC, included a multi-faceted communications programme combined with education of the road using public. Over the 2011 Easter weekend and during the Comrades event some 120,000 paper litterbags were distributed at toll plazas, along with RAF brochures. N3TC's *Mobility* magazine carried an article on litter awareness which was supported by the booth attendants wearing lime-green caps with the same message. Some 30,000 copies of the magazine were distributed at the toll plazas.

The combined communication-education campaign further involved print advertisements, static signs at key locations along the route and prominent messaging on the tollbooths. RAF branding was prominent on all media, from the litterbags and the magazine article to toll booth and roadside signage. Many of these activities were repeated during the December holidays.

For its part, the N3TC utilised a dedicated litter vehicle, the "Litter Buggee" for the collection of litter along the toll route. In addition, 45 litter collectors walked the route and route maintenance contractors did general litter collection twice a month. The litter was taken to contractor yards where it was separated into different categories for recycling. At present, only tyres are not recycled, but taken to approved dumpsites.

In addition to more than 3,500 truck drivers and hundreds of buses and taxis, the campaign reached 85,000 motorists and some 40,000 school children over the 2011 Easter weekend.

*Health Assistance to Masibambisane*

The health of the nation's inhabitants strikes at the very heart of what the RAF stands for. A key part of the RAF's mandate is not only the provision of financial cover, but also the rehabilitation of road accident victims. The RAF therefore sees it as incumbent upon itself to invest directly and indirectly in the lives of citizens who are disadvantaged by circumstance.

In this vein the RAF assisted numerous other healthcare providers serving a wide range of needs in particularly disadvantaged communities. In response to an appeal from the Masibambisane Home-based Care and Support Groups in Mdantsane in the Eastern Cape, the RAF made a financial contribution, which benefited almost 800 orphaned and vulnerable children, 112 people with disabilities, 60 bedridden patients and almost 200 chronically ill people. Masibambisane Support Groups also take care of more than 340 people living with HIV/Aids and numerous child-headed families and foster parents.

### *3.3.6.5 Road Accident Prevention Programmes*

#### *3.3.6.5.1 Influencing Road Behaviour*

The year saw an increased effort in road safety campaigns aimed at positive behaviour change within identified high risk groupings. In line with the Millennium Development Goals outlined by the United Nations ("UN") General Assembly in a resolution to improve global road safety, the UN proclaimed 2011 – 2020 the Decade of Action for Road Safety. South Africa is proud to be one of the member countries committed to the Decade of Action. To this end, the RAF and its partners have endeavoured to reduce road fatalities by 50% by 2015. This implies that a decrease of 15% in fatalities is required per annum, and if this goal is to be achieved, 27,000 lives will be saved over the next five years.

The RAF believes that behavioural changes are initiated by youth education. To deepen its educational impact, the RAF invested substantial funds and functional effort in various road safety initiatives during the year under review. The organisation's pedestrian crossing and scholar patrol uniform project involved the painting of pedestrian crossings outside primary schools, the issuing of scholar patrol uniforms and training of children countrywide on the proper use of their roads.

By investing in the leaders of tomorrow, the RAF is inculcating awareness of the need for a safe and sustainable South Africa. In working together with other stakeholders to prevent road accidents, the organisation hopes to reduce its liabilities as well as the need for post-crash rehabilitation. To this end, the RAF was a key contributor to both the National Road Safety Debate and the Participatory Education Techniques competitions, which involved learners from all over South Africa.

Both these initiatives were national programmes, targeting secondary school learners, with the aim of increasing awareness of road safety risk factors and preventative measures among the participating learners, the communities from which they hail and those in the audience.

In addition, the RAF again participated in a vast number of road accident prevention campaigns and activities during the reporting period, including, but not limited to:

- The establishment of Community Road Safety Councils;
- Involvement in the development of an Incident Management System ("IMS") policy framework for South Africa;
- Involvement in the development of a National Road Safety policy framework;
- Support for post-crash care initiatives in line with the fifth pillar of the Decade of Action for Road Safety 2011 – 2020;
- Support for Shareholder initiatives, such as one million vehicle checks per month nationally, ongoing alcohol and speed and seatbelt enforcement;
- Representation on various road safety forums, such as LETCOM, the Road Safety Expert Forum and SADC Transport Forums;
- World Remembrance Day;
- Various National Road Safety Prayer Days across various provinces;
- Festive Season and Easter road safety campaigns; and
- Road Safety conferences.

#### *3.3.6.6 Compliance with the Promotion of Access to Information Act*

The Promotion of Access to Information Act (Act No. 2 of 2000) ("PAIA") is legislation that allows access to any information held by the State, and any information held by private bodies that is required for the exercise or protection of any rights. It was passed for the specific purpose of giving effect to the constitutional right of access to information. The Act provides a legislative framework that is designed to foster a culture of transparency and accountability, thus enabling society to fully exercise and protect all of the rights enshrined in the Constitution.

The Stakeholder Relations business unit is responsible for managing the organisation's administrative compliance with this Act. All requests for information are channelled through this business unit and training programmes are in progress to familiarise the entire organisation with the prescripts of the Act.

## 3.4 Reducing the RAF's Environmental Impact

Environmental impact monitoring is not only a corporate governance issue, but an indication of the RAF's firm commitment to sustainable development. Some of the general practices to reduce environmental impact are the following:

- Electrical timer switches set to 20:00 are used to switch off all building lighting, other than key security lighting;
- Computer users are encouraged to switch off their computers at night and over weekends to reduce energy usage and in turn greenhouse gas ("GHG") emissions;
- Most PCs have been replaced with Thin Client technology, which is more energy efficient;
- Fleet vehicles are carefully maintained to ensure maximum engine efficiency, and fuel consumption is carefully monitored;
- Most incandescent light bulbs have been replaced with energy-saving compact fluorescent lights ("CFLs");
- Dedicated recycling bins are in place for the disposal of CFL bulbs, which contain mercury;
- The Reduce, Reuse and Recycle ("RRR") principle has been adopted;
- Progress is being made in the move from a paper-based to a paperless environment for external clients, whilst internally paper use has been reduced by more than 60%;
- Sappi "War on Waste" bins are provided at all offices to facilitate paper recycling, which reduces paper disposal at landfill sites and in turn the release of methane into the atmosphere;
- Printer cartridges are recycled to further reduce waste; and
- The RAF is committed to a "green design" approach in its offices countrywide.

## 3.5 Performance against Strategic Objectives for the 2012 Financial Year

The RAF is aligned with government's planning and performance management approach and international best practice, with an emphasis on service delivery. Strategic focus is on achieving outcomes within this service delivery social security context. This planning approach emphasised the need for the RAF to set and achieve clear, measurable outcomes for each strategic objective.

The Annual Performance Plan has performance indicators and targets that the Fund will endeavour to achieve in the upcoming budget year. The performance indicators were aligned across the Fund's annual plans, budgets, and Integrated Annual Report. The Fund is aligned with government's shift to an outcomes-based monitoring and evaluation approach with a focus on result-based management. Result-based management provides a lifecycle to Management that integrates strategy, people, resources, processes and measurements to improve decision-making, transparency and accountability.

**What we aim to change?**
The developmental results of achieving specific outcomes

**What we wish to achieve?**
The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs

**What we produce or deliver?**
The final products, or goods and services produced for delivery

**What we do?**
The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes

**What we use to do the work?**
The resources that contribute to the production and delivery of outputs

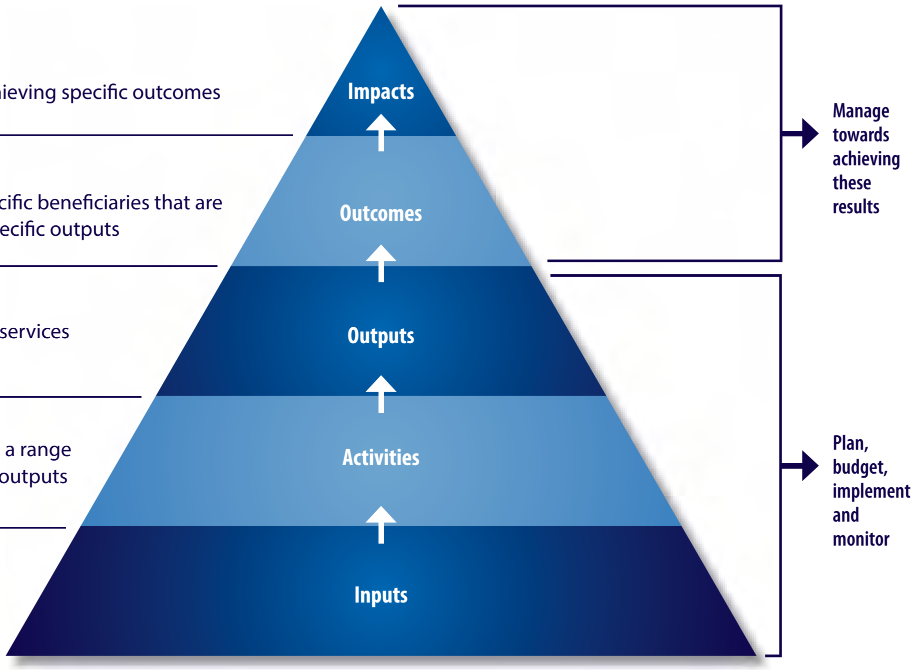



*Figure 3.18 – The RAF performance management approach*

The RAF concluded a Performance Agreement with the Minister of Transport in terms of which the performance objectives and targets, listed in the schedule on p126, were agreed upon. Like any other business, the RAF is affected by general economic conditions and other environmental factors, and by the extent to which it manages its costs effectively. Despite difficult operating conditions, almost all targets were achieved.

The RAF's performance against strategic objectives as presented below was subject to an independent assurance by the Auditor-General of South Africa.

## Finance Perspective

| National Objective | RAF Strategic Outcome | RAF Strategic Objectives | Measure | |
|---|---|---|---|---|
| Management of transport costs and infrastructure development to contribute to AsgiSA | Manage RAF solvency | Financial sustainability<br>Operational efficiencies and effectiveness | Net deficit at 31 March 2012 to be lower than or equal to the target amount | |
| | Ensure that the RAF is appropriately funded by timeously submitting the Fuel Levy increase application to National Treasury, using the Revenue Requirement Model. | Financial sustainability<br>Operational efficiencies and effectiveness | Date of submission of RAF Fuel Levy increase proposal to National Treasury | |
| Efficient administration of the organisation | Manage RAF costs | Financial sustainability<br>Operational efficiencies and effectiveness | Total RAF legal, claimant legal, administration and human resources costs, as a percentage of fuel levy income to be lower than or equal to the target amount | |

## Customer Perspective

| National Objective | RAF Strategic Outcome | RAF Strategic Objectives | Measure | |
|---|---|---|---|---|
| Efficient administration of the organisation | Increase the RAF footprint across the country | Financial sustainability<br>Operational efficiencies and effectiveness | Number of claims originating from the Customer Service Network (hospitals, mobile units, etc.) | |
| | Improve stakeholder communication | Financial sustainability<br>Operational efficiencies and effectiveness | Commence communication with RAF stakeholders in accordance with the clearly defined Integrated Marketing, Communications and Stakeholder Relations Management Strategy by target date | |
| Decade of Action for Road Safety | Promote road safety awareness | Financial sustainability<br>Operational efficiencies and effectiveness | Amount spent on road safety awareness campaigns to be greater than or equal to the target | |

| | Target Full Year | Actual Achieved | Difference | Reason for Variance |
|---|---|---|---|---|
| | (R44,974 bn) | R46,395 bn | R1,420 bn | The RAF remains grossly under-capitalised with liabilities exceeding assets by R46,395 billion (2011: R29,914 billion). The only assets of substance that the RAF owns, other than cash, is land and buildings worth R103 million. The net deficit of the RAF has been growing despite the increase in the fuel levy awarded by National Treasury. The fuel levy does not correlate with the increasing need to settle claims, nor does it correlate with the social security the Fund is required to provide. The provision for outstanding claims increased to R53,919 billion (2011: R33,547 billion) and this is the primary reason for the large liability recorded. On a positive note, the asset base has grown, albeit off a smaller base, than the liability over the past 5 years. |
| | 30/09/2011 | 30/09/2011 | On target | The date of submission of a proposal to National Treasury of 30 September 2011 to ensure that the RAF is appropriately funded in terms of the Revenue Requirement Model, was met. |
| | 27% | 27% | On target | The RAF focuses on cost-reduction in order to improve productivity. The cost-to-income ratio has decreased to 27% (2011: 30%). Administration costs are 6% (2011: 7%), the RAF's legal and expert costs decreased to 7% (2011: 8%), and claimants' legal and expert costs decreased to 14% (2011:15%). |

| | Target Full Year | Actual Achieved | Difference | Reason for Variance |
|---|---|---|---|---|
| | 25,000 | 29,060 | 4,060 | Various interventions were implemented through the Customer Service Network to increase the number of direct claims, which resulted in a positive variance of 4,060 in excess of the target. These interventions included, but were not limited to the origination of claims at mass accidents, the inception of 10 more hospital service points (bringing the total of hospital service points to 75) and participating in a number of community-based events to educate, create awareness and originate claims. |
| | Corporate social investment, stakeholder engagement and road safety engagement plans and activities as at 31 March 2012 (as approved) | Corporate social investment, stakeholder engagement and road safety engagement plans and activities as at 31 March 2012 (as approved) | On target | Achieved as per the approved Integrated Marketing, Communications and Stakeholder Relations Management Strategy 2011/12, which included the Corporate Social Investment, Stakeholder Engagement and Road Safety Engagement Plans. |
| | To increase the amount spent by 10% on the number of targeted road safety campaigns greater than or equal to the target | R2,495,563.56 | 52% | Total spend for Road Safety Awareness Projects amounted to R2,495,563.56. The expenditure on both these components pertained to the Shareholder's request for support of the Decade of Action for Road Safety 2011-2020 initiatives. The Fund was requested to focus its initiatives on the promotion of road safety awareness, as well as post-crash care (emergency care and rehabilitation of road accident victims). With regard to road safety awareness, and in partnership with the Marketing business unit, a national television campaign promoting road safety was launched during the 2011 Festive Season, in support of the Shareholder, to the value of R2 million. With regard to post-crash care, the Fund committed to revamp the trauma unit of one of Gauteng's largest hospitals, Leratong, to the value of R1,3 million. In addition, the Fund committed to revamp Mason Lincoln Special School for children living with disabilities. Some 40% of these children are survivors of road accidents. The amount committed was R1 million. Furthermore, the budget was not exceeded for the combined 2011/12 Corporate Social Investment (CSI) and Road Safety Awareness projects. |

## Process Perspective

| National Objective | RAF Strategic Outcome | RAF Strategic Objectives | Measure | |
|---|---|---|---|---|
| Management of transport costs and infrastructure development to contribute to AsgiSA | Increase the RAF footprint across the country | Financial sustainability | Number of new customer service centres opened | |
| | | Operational efficiencies and effectiveness | | |
| Efficient administration of the organisation | Commence the roll-out of the new RAF Operating Model | Financial sustainability | Date by which elements of the New Operating Model begin to be rolled out | |
| | | Operational efficiencies and effectiveness | | |
| | Process claims efficiently | Financial sustainability | Total number of claims finalised for the financial year ended 31 March 2012 to be greater than or equal to the target | |
| | Personal claims finalised | Operational efficiencies and effectiveness | | |
| | Supplier claims finalised | | | |
| | | | Total | |

| | Target Full Year | Actual achieved | Difference | Reason for variance |
|---|---|---|---|---|
| | • Provincial Service Centres (PSC): 9 | 0 | -9 | In terms of a RAF Board resolution dated 1 February 2012, the Customer Service Network expansion was postponed until the backlog of claims has been substantially reduced and a revised Customer Service Network model is piloted and refined. This implies that no new customer service centres will be opened within the financial year over and above the existing total of 5 PSC, 75 HSC and 1 CSC. The wording of the target intended to read a "total of 9 PSC, 85 HSC, 2 MSP and 2 CSC at the end of the financial year" and was not intended to suggest that the targets were in addition to what existed. |
| | • Hospital Service Centres (HSC): 85 | 0 | -85 | |
| | • Mobile Service Points (MSP): 2 | 0 | -2 | |
| | • Community Service Centres (CSC): 2 | 0 | -2 | |
| | Pilot of the CSN in terms of the following elements of NOM: Number of vacancies filled in the CSN is 166 and | 124 | Partialy achieved (-42) | To provide adequate human resources by migrating staff into the CSN to pilot the CSN Nelspruit Project. Elements of the New Operating Model as it is rolled out were submitted for clarification purposes. Furthermore, in terms of a RAF Board resolution dated 1 February 2012, the Customer Service Network expansion was postponed until the backlog of accumulated claims has been substantially reduced and a revised Customer Service Network model is piloted and refined. |
| | Fully implemented contact centre with general enquiries cell, medical and accident information cells. The general enquiries cell was scheduled to be implemented by 31 March 2012 | General enquiries cell to be implemented by 31 March 2012 | On target | The general enquiries cell was implemented by 31 March 2012. Note: The elements of the New Operating Model in terms of the staff and the number of vacancies filled and implementation of the contact centre as scheduled is submitted for purposes of clarification. |
| | Fully operational Fineos system | 22,898 claims processed, 67 staff operational and business processes in place | Partially achieved | The implementation of Fineos was partially achieved. Fineos is operational in the live production environment, has business processes in place, and processed 22,898 claims during the financial year, with 67 staff members operating on the system. IT infrastructure in terms of hardware and software to implement the scanning solution in all regions was procured, successfully tested and is in place. RAF staff in all regions were trained on the application of the scanning solution. The scanning solution was not implemented in all regions as a result of the RAF Board resolution dated 1 February 2012, as the focus is on reducing the backlog. |
| | 177,475 | <br>46,949<br>102,518 | | Claims younger than one year formed 35% to 42% of the total number of claims processed. Claims are more complex and the assessment of serious injury for claims of general damages can take up to 18 months, hence claims cannot be settled quickly. A number of personal claims within the backlog are litigated and are subjected to court processes. Management has implemented interventions to maximise claim settlements, such as implementing a backlog project. The impact of the Mvumvu judgement on pre-Amendment Act claims is that a huge number of claims cannot be settled until the legislative changes have been effected. |
| | 177,475 | 149,467 | -28,008 | |

## Innovation and Learning Perspective

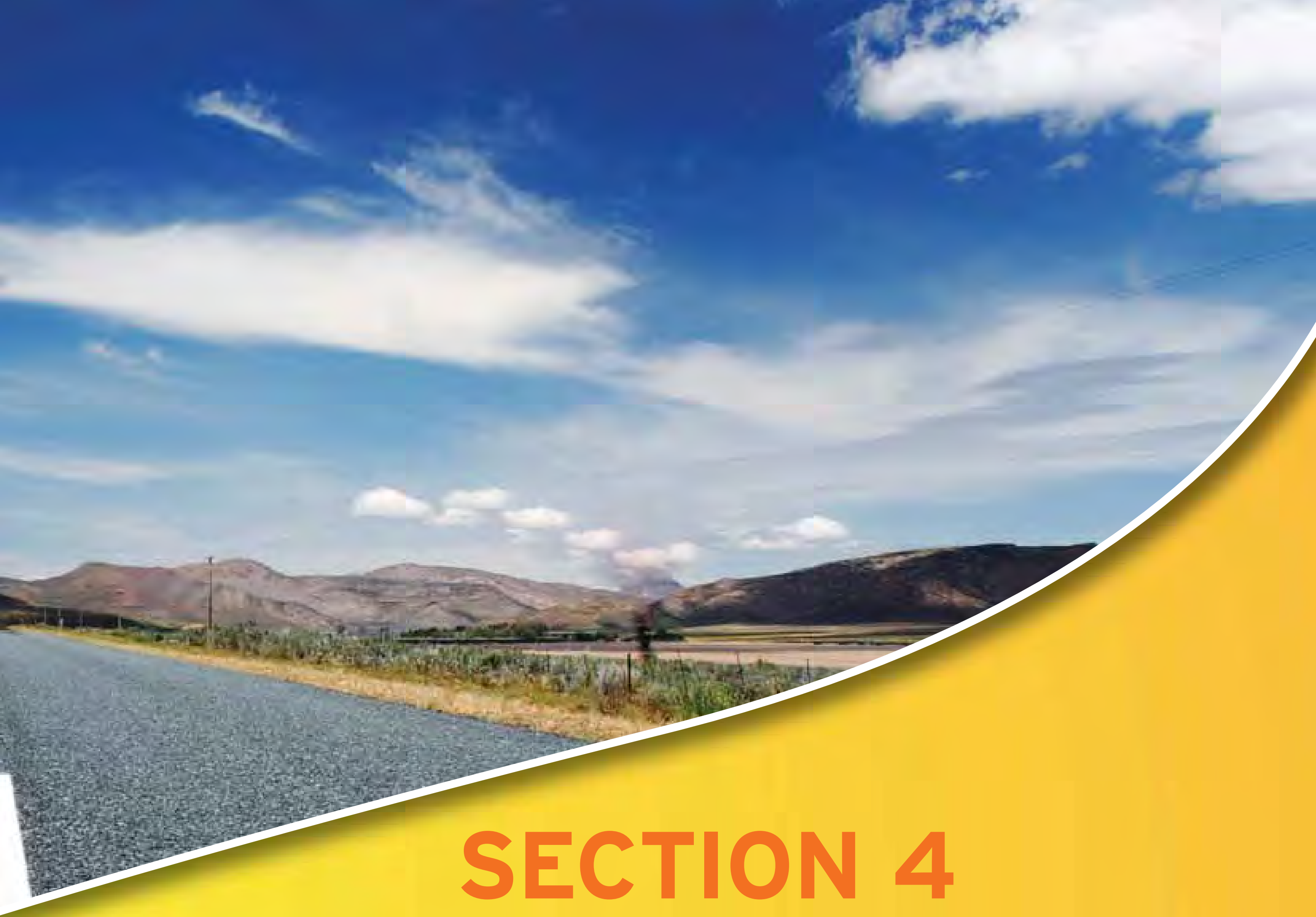
| National Objective | RAF Strategic Outcome | RAF Strategic Objectives | Measure | |
|---|---|---|---|---|
| Management of transport costs and infrastructure development to contribute to AsgiSA/Black Economic Empowerment/Employment Equity and Corporate Social Investment | Submit proposals/comments to DoT on the No-Fault system | Legislative enablement | Date of submission of proposals/comments | |
| | | Financial sustainability | | |
| | | Operational efficiencies and effectiveness | | |
| | Increase BEE procurement | Operational efficiencies and effectiveness | Discretionary BEE spending on administration, RAF legal and experts' costs as a percentage of the total administration, RAF legal and experts' costs to be greater than or equal to the target | |
| | Improve employment equity among staff | Operational efficiencies and effectiveness | Number of African, Coloured and Indian staff members as a percentage of the total staff complement to be greater than or equal to the target | |
| | Build capacity among staff | Operational efficiencies and effectiveness | Amount spent on training of staff and learnerships as a percentage of the total staff cost to be greater than or equal to the target | |
| | Provide employment opportunities for people with disabilities | Operational efficiencies and effectiveness | Number of staff members with disabilities as a percentage of the total staff complement to be greater than or equal to the target | |
| | Invest in social development | Financial sustainability | Amount spent on corporate social investment to be greater than or equal to the target | |
| | | Operational efficiencies and effectiveness | | |

NB – management will put in place measures to ensure that targets not achieved are met.

Legend

- Target achieved or exceeded
- Target partially achieved
- Target not achieved

| | Target Full Year | Actual achieved | Difference | Reason for variance |
|---|---|---|---|---|
| | Per dates set by DoT | Dates set by DoT | On target | Dates set by DoT were met in terms of meetings, consultations, submissions and comments on the no-fault system of administration. |
| | 54% which was adjusted to 60% to align with the DoT BEE procurement target | 100% | 67% | Discretionary BEE spending on administration, RAF legal and experts costs as a percentage of the total administration, RAF legal and experts costs achieved was 100% and accounted for R995,445,418.15. Due to the Fund's focus on promoting BEE in line with the BBBEE Act and the relevant supply chain management policies, performance targets were exceeded by 67%. The Fund aligned its strategic performance targets for BEE spend with both the DoT and national objectives of no less that 60%. |
| | +1% | -3% | -4% | The baseline for employment equity among staff achieved for the previous financial year was 88%. The employment equity among staff achieved for the 2011/12 financial year was 85% which is 3% below target. The target was not achieved due to the higher turnover of historically disadvantaged individuals (HDI) staff during the transition of the Fund, which is illustrated by the higher number of HDI terminations of 134 and a lower number of HDI appointments of 66 staff. |
| | 2% | 1.38% | -0.62% | The amount spent on training of staff and learnerships is R8,256,688.95. As a percentage of the total, staff cost of R599,357,680.25 was below target by -0.62%. Training interventions were curtailed in line with the RAF Board's resolution dated 1 February 2012 on the cessation of further Customer Service Network expansion until such time as the backlog has reduced. |
| | 40 | 33 | -7 | Number of staff members with disabilities as a percentage of the total staff complement was below target by 7, as it is difficult to attract people to apply for positions vacant within the Fund during the transition process. Also, there has been a moratorium on external appointments for two years. |
| | R1,5m | R3,145,000 | 178.40% | Total spend for Corporate Social Investment (CSI) amounted to R3,150,000.00. The expenditure pertained to the Shareholder's request for support of the Decade of Action for Road Safety 2011-2020 initiatives. In line with the pillars of this initiative and the RAF vision, the RAF was requested to focus its initiatives on the promotion of road safety awareness, as well as post-crash care (emergency care and rehabilitation of road accident victims).<br><br>With regard to road safety awareness, and in partnership with the Marketing business unit, a national television campaign was launched promoting road safety during the 2011 Festive Season, in support of the Shareholder, to the value of R2 million.<br><br>With regard to post-crash care, the RAF committed to revamp the trauma unit of one of Gauteng's largest hospitals, Leratong, to the value of R1,3 million. In addition, the RAF committed to revamp Mason Lincoln Special School for children living with disabilities where some 40% of the children are survivors of road accidents. The amount committed was R1 million.<br><br>Furthermore, the budget was not exceeded for the combined 2011/12 CSI and Road Safety Awareness projects. |



# SECTION 4

## Annual Financial Statements



### Annual Financial Statements for the Financial Year ended 31 March 2012

The reports and statements set out below comprise the Annual Financial Statements prepared in accordance with section 55(1)b of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) ("PFMA").

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE ROAD ACCIDENT FUND

## Report on the Financial Statements

### Introduction

1. I have audited the Financial Statements of the Road Accident Fund set out on pages 144 to 183, which comprise the Statement of Financial Position as at 31 March 2012, the Statement of Financial Performance, Statement of Changes in Net Assets and the Cash Flow Statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting Authority's Responsibility for the Financial Statements

2. The Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's Responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Road Accident Fund as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

### Emphasis of Matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Going Concern

8. The Accounting Authority's report on page 139 and Note 36 to the financial statements indicate that the Road Accident Fund incurred a net loss of R16 487 million during the year ended 31 March 2012 and, as of that date, the entity's total liabilities exceeded its total assets by R46 395 million. These conditions, along with other matters as set forth in the Accounting Authority's report and Note 36, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

## Report on other Legal and Regulatory Requirements

9. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

## Predetermined Objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the Annual Performance Report as set out on pages 124 to 131 of the Annual Report.

11. The reported Performance Against Predetermined Objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the Annual Performance Report relates to whether it is presented in accordance with the National Treasury Annual Reporting Principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for Managing Programme Performance Information*.

    The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

12. There were no material findings on the Annual Performance Report concerning the usefulness and reliability of the information.

## Additional Matter

13. Although no material findings concerning the usefulness and reliability of the performance information were identified in the Annual Performance Report, I draw attention to the following matter below.

## Achievement of Planned Targets

14. Of the total number of planned targets for the selected programmes, only five targets were achieved during the year under review. This represents 47% of total planned that were not achieved during the year under review.

## Compliance with Laws and Regulations

15. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

## Expenditure Management

16. The accounting authority did not take adequate steps to prevent fruitless and wasteful expenditure as required by Section 51(1) (b) (ii) of the PFMA.

## Internal Control

17. I considered internal control relevant to my audit of the Financial Statements, the Annual Performance Report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this Report.

## Leadership

18. Management have not implemented adequate processes to prevent and detect fruitless and wasteful expenditure.

Auditor-General

Pretoria

31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# AUDIT COMMITTEE REPORT

The Audit Committee is pleased to present its report for the financial year ended 31 March 2012.

The Audit Committee is an independent statutory committee appointed by the Board of the RAF. Further duties are delegated to the Audit Committee by the Board of the RAF. This report includes both these sets of duties and responsibilities.

## 1. Audit Committee Terms of Reference

The Audit Committee has adopted formal terms of reference as its Audit Committee Charter, which has been approved by the Board of the RAF. The Committee has conducted its affairs in compliance with this Charter and has discharged its responsibilities as contained therein. The Charter is available on request.

## 2. Audit Committee Members and Meeting Attendance

The Audit Committee is independent and consists of eight Non-Executive Directors. It meets at least four times per year, as specified in terms of the Audit Committee Charter.

The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Audit Executive, external auditors and other assurance providers (legal, compliance, risk, health and safety) attend meetings by invitation only.

During the year under review nine meetings were held.

| Audit Committee | 26 April 2011 | 17 May 2011 | 21 June 2011 | 26 July 2011 | 27 July 2011 | 3 August 2011 | 24 October 2011 | 24 November 2011 | 27 January 2012 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| T Moyo (Chairperson until 27 October 2011) | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| LED Hlatshwayo (Chairperson appointed 27 October 2011) | N/A | N/A | N/A | N/A | N/A | N/A | √ | √ | √ | 3 |
| MJ Ralefatane | √ | √ | √ | √ | √ | √ | √ | √ | √ | 9 |
| JN Masekoameng | √ | √ | √ | √ | √ | √ | √ | x | √ | 8 |
| NZ Qunta | √ | √ | √ | x | √ | √ | x | √ | √ | 7 |
| DS Qocha | √ | √ | √ | x | √ | √ | √ | √ | √ | 8 |
| DK Smith (From 27 October 2011) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | x | √ | 1 |
| T Tenza (DG's representative) | √ | √ | √ | √ | x | x | √ | √ | x | 6 |
| CEO (*Ex officio*) | √ | √ | √ | √ | x | x | √ | √ | √ | 7 |

* *Apologies were tendered for meetings not attended*

## 3. Roles and Responsibilities

### 3.1 Statutory Duties

The Audit Committee's roles and responsibilities include its statutory duties as per the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA"), as well as the National Treasury Regulations issued in terms of the PFMA and the responsibilities assigned to it by the Board. The Audit Committee executed its duties in terms of the requirements of King III and in instances where King III requirements have not been applied, explanations are outlined in the Corporate Governance Statement included elsewhere in this Integrated Annual Report.

The Committee was responsible for performing its duties as set out in the Audit Committee Charter, which included reviewing the following:

- The effectiveness of the RAF's internal control systems;
- The risk areas of the RAF's operations to be covered in the scope of the internal and external audits;
- The accounting and auditing concerns identified as a result of the internal or external audits;
- The RAF's compliance with legal and regulatory provisions, in particular the Road Accident Fund Act, 1996 (Act No. 56 of 1996); the PFMA, as well as the National Treasury Regulations;
- The activities of the Internal Audit Department, including its work programmes, co-ordination with the External Auditors, the reports of significant investigations and the responses of Management to specific recommendations;
- The independence and objectivity of the External Auditors;

- The review of the Financial Statements with specific attention to:
  - Underlying accounting policies or changes thereto;
  - Major estimates and managerial judgements;
  - Significant adjustments flowing from the year-end audit;
  - Compliance with effective South African Standards of Generally Recognised Accounting Practices (GRAP), the PFMA and other statutory precepts; and
  - The appropriateness of the going concern assumption.

The Audit Committee also undertook the following activities during the year under review:

- Reviewing and approving the Internal Audit Department's Charter and Internal Audit Plan;
- Conducting investigations within its Terms of Reference; and
- Encouraging communication between Members of the Board, Senior and Executive Management, the Internal Audit Department; and the External Audit partner.

### 3.1.1 External Auditors

The Audit Committee has satisfied itself that the External Auditors were appointed in line with Chapter 6, Part 4, Sections 58, 59, 60 and 61 of the PFMA.

The Audit Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2012 financial year.

### 3.1.2 Financial Statements and Accounting Policies

The Audit Committee has evaluated the Accounting Policies and Financial Statements of the RAF for the year ended 31 March 2012 and concluded that they comply, in all material respects, with the requirements of the PFMA, and were prepared in accordance with the effective South African Standards of GRAP issued by the Accounting Standards Board ("the ASB").

An Audit Committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the RAF. No matters of significance were raised in the past financial year.

### 3.1.3 Internal Financial Controls

The Audit Committee has overseen a process by which Internal Audit performed a written assessment of the effectiveness of the RAF's system of internal control.

The Audit Committee's assessment of the internal controls in the claims environment is that the systems, although enhanced, should still be improved. Despite this, and based on the information and explanations given by Management and the Internal Audit Department, together with discussions held with the Auditor-General of South Africa on the result of their audits, the Audit Committee is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the Financial Statements, and accountability for the assets and liabilities is maintained.

Based on the results of the formal documented review of the design, implementation and effectiveness of the RAF's system of internal financial controls conducted by the Internal Audit function during the 2012 financial year and, in addition, considering information and explanations given by Management and discussions with the External Auditor on the results of their audit, the Audit Committee is of the opinion that the RAF's system of internal financial controls is effective and forms a sound basis for the preparation of reliable Financial Statements.

### 3.1.4 Whistle-blowing

The Audit Committee receives and deals with any concern or complaints, whether from within or outside the RAF, relating to the accounting practices and Internal Audit of the RAF, the content or auditing of the RAF's Financial Statements, the internal financial controls of the RAF and related matters.

## 3.2 Duties Assigned by the Board

In addition to the statutory duties of the Audit Committee, as reported above, the Board has determined further functions for the Audit Committee to perform, as set out in the Audit Committee Charter. These functions include the following:

### 3.2.1 Integrated Reporting and Combined Assurance

The Audit Committee fulfils an oversight role regarding the RAF's Integrated Report and the reporting process, including the system of internal financial control. It is responsible for ensuring that the RAF's Internal Audit function is independent and has the necessary resources, standing and authority within the RAF to enable it to discharge its duties. Furthermore, the Audit Committee oversees co-operation between the Internal and External Auditors, and serves as a link between the Board and these functions.

### 3.2.1 Integrated Reporting and Combined Assurance (continued)

The Audit Committee considered the RAF's sustainability information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to the Audit Committee Members, and for consistency with the Annual Financial Statements. The Audit Committee discussed the sustainability information with Management and has considered the conclusion of the Auditor-General of South Africa. The Audit Committee is satisfied that the sustainability information is reliable and consistent with the financial results.

The Office of the Auditor-General of South Africa performed an assurance engagement on annual performance indicators included under the heading Performance Against Objectives that forms part of the RAF's integrated sustainability reporting. The Audit Committee determined the scope of this assurance engagement. It is envisaged that such assurance of sustainability information will become more encompassing in line with the recommendations of King III.

### 3.2.2 Going Concern

The Audit Committee reviewed a documented assessment by Management of the going concern premise before agreeing that the adoption of the going concern premise is appropriate in preparing the Financial Statements.

### 3.2.3 Governance of Risk

The Board has assigned oversight of the RAF's risk management function to the Risk Management Committee. The Chairperson of the Audit Committee was also the Chairperson of the Risk Committee up to 27 October 2011. A new Chairperson was appointed on 27 October 2011. Some members of the Audit Committee are also members of the Risk Committee to ensure that information relevant to these Committees is transferred regularly. The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risk as it relates to financial reporting.

### 3.2.4 Internal Audit

The Audit Committee is responsible for ensuring that the RAF's Internal Audit function is independent and has the necessary resources, standing and authority within the RAF to enable it to discharge its duties. Furthermore, the Audit Committee oversees co-operation between the Internal and External Auditors, and serves as a link between the Board and these functions.

The Audit Committee considered and recommended the Internal Audit Charter for approval by the Board. The Internal Audit function's Annual Audit Plan was approved by the Audit Committee.

The Internal Audit function reports centrally, with the responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the RAF's operations. The Chief Audit Executive is responsible for reporting the findings of the Internal Audit work against the agreed Internal Audit Plan to the Audit Committee on a regular basis.

The Chief Audit Executive has direct access to the Audit Committee, primarily through its Chairperson. The Audit Committee is also responsible for the assessment of the performance of the Head of Internal Audit and the Internal Audit function.

During the year, the Committee met with the External Auditors and with the Chief Audit Executive without Management being present. The Audit Committee is satisfied that it has complied with its legal, regulatory and other responsibilities.

### 3.2.5 Evaluation of the Expertise and Experience of the Chief Financial Officer and Finance Function

The Audit Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience.

The Audit Committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of Management responsible for the finance function.

Mr LED Hlatshwayo
Chairperson of the Audit Committee
Date: 31 July 2012

# REPORT OF THE BOARD OF DIRECTORS

## 1. Introduction

The Board of Directors presents its report which forms part of the Annual Financial Statements of the Road Accident Fund ("RAF") for the year ended 31 March 2012 to the Minister of Transport, who is the Executive Authority in terms of Section 55(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), (as amended by Act No. 29 of 1999) ("PFMA").

The RAF, as established by the Road Accident Fund Act, 1996 (Act No. 56 of 1996), ("RAF Act"), is listed as a National Public Entity in accordance with schedule 3A of the PFMA. The Board of Directors acts as the Accounting Authority in terms of the PFMA.

## 2. Board of Directors and Secretary of the Road Accident Fund

The Board of Directors and Corporate Secretary at the date of this report were as follows:

### Board of Directors, Non-Executive Board Members

Dr NM Bhengu (Chairperson)
Mr V Mahlangu (Vice-Chairperson)
Mr T Moyo
Mr JN Masekoameng
Adv. MJ Ralefatane
Adv. DS Qocha
Ms NZ Qunta
Mr DK Smith
Ms A Steyn
Mr LED Hlatshwayo (Appointed 27 October 2011)
Mr T Tenza (Director-General Designee)*

* *The Director-General of the Department of Transport or any other Senior Officer in the Department of Transport, designated by him or her for a particular purpose, serves as an* ex officio *member of the Board.*

### Chief Executive Officer

Dr E Watson (from 1 July 2012)

### Chief Financial Officer

Ms LJ Fosu (from 1 May 2011)

### Corporate Secretary

Ms JR Cornelius

## 3. Review of Activities

### Principal Activities and Results

To provide appropriate cover to all road users within the borders of South Africa; to rehabilitate persons injured, compensate for injuries or death and indemnify wrongdoers as a result of motor vehicle accidents in a timely, caring and sustainable manner; and to support the safe use of our roads.

The detailed review of the results of the RAF for the year ended 31 March 2012 is included under the Historical Review and the Review of Operations in this Annual Report.

## 4. Solvency and Going Concern

The going concern basis was used in preparing the Annual Financial Statements. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. In the past, the RAF received financial support from National Treasury in the form of cash injections over and above the normal Fuel Levy income, as and when it faced liquidity problems. During the 2006 financial year, the RAF received a cash injection of R2,502 billion and in the 2009 financial year it received R2,550 billion. The Board and Management are committed to implementing plans to contain the growing deficit caused by the rising provision for outstanding claims.

As part of these plans, the RAF has engaged National Treasury and the Department of Transport in discussions to resolve the short-, medium- and long-term funding position of the RAF.

The following table depicts the total assets and the total liabilities of the RAF over the past five years:

| | 2012<br>R'000 | 2011<br>R'000 | 2010<br>R'000 | 2009<br>R'000 | 2008<br>R'000 |
|---|---|---|---|---|---|
| Total assets | 8,572,315 | 4,566,637 | 3,878,585 | 3,395,738 | 3,296,916 |
| Total liabilities | (54,967,863) | (34,481,626) | (32,308,577) | (43,231,115) | (31,124,667) |
| | (46,395,548) | (29,914,989) | (28,429,992) | (39,835,377) | (27,827,751) |

From the table above it is clear that the RAF has not been solvent for a number of years. The net deficit has increased by R16,480,559 in the 2012 financial year.

## 5. Events Subsequent to the Reporting Date

No undisclosed material events have taken place between the Statement of Financial Position date and the authorisation of the Annual Financial Statements.

## 6. Accounting Policies

During the current year, a number of new Generally Recognised Accounting Practices ("GRAP") standards were applied for the first time. A list of these standards, as well as a description of the impact, is detailed in Note 2. The application of these standards did not have a significant impact on the Financial Statements.

The Annual Financial Statements are prepared in accordance with the prescribed South African Standards of GRAP issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 7. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure of R22,107,510 (2011: R26,267,048) relating to interest and sheriff costs, has been disclosed in Note 25 to the Annual Financial Statements.

Interest and sheriff costs – As per the definition of the PFMA, fruitless and wasteful expenditure means "expenditure which was made in vain and could have been avoided had reasonable care been exercised". The amounts listed are costs incurred in the settlement process of claims influenced by the external legal processes and time limits legally enforced on the RAF in the settlement of claims. A portion of the mentioned costs could not be regarded as "fruitless and wasteful", as in certain instances, it is physically impossible to comply with the time limits that are in place, i.e. where a writ can be issued against the RAF immediately after a claimant's legal cost bill has been taxed. It must be highlighted that the RAF operates in a highly litigious environment where legal processes place huge demands on its operations.

Disciplinary action has been taken against staff members as a result of negligence resulting in the payment of sheriff and interest costs, as well as duplicate payments. During the financial year, people were disciplined resulting in 24 final written warnings, 40 written warnings and 92 verbal warnings being issued.

## 8. Addresses

The Road Accident Fund's Head Office and postal addresses are as follows:

| Head Office: | Postal address: | Website address: |
|---|---|---|
| 2 Eco Glades Office Park<br>420 Witch-Hazel Avenue<br>Centurion | Private Bag X2003<br>Menlyn<br>0063 | www.raf.co.za |

The Annual Financial Statements set out on pages 144 to 183, which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 July 2012 and were signed on its behalf by:

Dr NM Bhengu
Chairperson of the Board of Directors
Date: 31 July 2012

Dr E Watson
Chief Executive Officer
Date: 31 July 2012

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

The Annual Financial Statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice ("GRAP") including any interpretations, guidelines and directives issued by the Accounting Standards Board ("ASB").

The Public Finance Management Act ("PFMA") requires the Accounting Authority to ensure that the Road Accident Fund ("RAF") keeps full and proper records of its financial affairs. The Financial Statements should fairly present the state of affairs of the RAF, its financial results, its performance against predetermined objectives and its financial position at the end of the year in terms of the effective South African Standards of GRAP.

The Financial Statements are the responsibility of the Board of Directors. The External Auditors are responsible for independently auditing and reporting on the Financial Statements.

These Financial Statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates, and have been prepared on the going concern basis.

The Board of Directors has reviewed the RAF's cash flow forecast for the year ending 31 March 2013 and considered the risks and challenges for the future. In light of this review and the current financial position, the Board is satisfied that the RAF has adequate resources or has access to adequate resources to continue in operational existence for the short-term future.

To enable the Directors to meet the above-mentioned responsibilities, the RAF Board of Directors sets standards and implements systems of internal control. The controls are designed to provide cost-effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed.

Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout the RAF focus on those critical risk areas identified by operational risk management and confirmed by Executive Management. Both Management and the Internal Audit Department closely monitor the controls and actions taken to correct deficiencies as they are identified.

Based on the information and explanations given by Management and the Internal Audit Department, and discussions held with the Auditor-General of South Africa on the result of their audits, the Board of Directors is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the Financial Statements, and accountability for the assets and liabilities is maintained.

Nothing significant has come to the attention of the Directors to indicate that any material breakdown has occurred in the functioning of these controls, procedures and systems during the year under review.

In the opinion of the Directors, based on the information available to date, the Financial Statements fairly present the financial position of the RAF at 31 March 2012 and the results of its operations and cash flow information for the year.

The Financial Statements of the RAF for the year ended 31 March 2012, which have been prepared on the going concern basis, have been approved by the Board of Directors and signed on its behalf by:

**Dr NM Bhengu**
Chairperson of the Board of Directors
Date: 31 July 2012

# CORPORATE SECRETARY'S CERTIFICATION

I hereby certify that the RAF has lodged all returns as required by the Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended by Act No. 29 of 1999.

Ms JR Cornelius
Corporate Secretary
Date: 31 July 2012

# STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2012

| | Note(s) | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 3 | 4,245,050 | 1,137,636 |
| Transfers receivable from fuel levies | 4 | 3,884,349 | 2,950,173 |
| Interest receivable | 5 | 18,686 | 4,317 |
| Other financial assets | 6 | 144,927 | 144,546 |
| Consumable stock | 7 | 2,609 | 2,365 |
| | | **8,295,621** | **4,239,037** |
| **Non-current Assets** | | | |
| Property, plant and equipment | 8 | 214,037 | 236,147 |
| Intangible assets | 9 | 62,657 | 91,453 |
| | | **276,694** | **327,600** |
| **Total Assets** | | **8,572,315** | **4,566,637** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Payables and accruals | 10 | 84,388 | 87,009 |
| Financial liabilities measured at amortised cost | 11 | 323,762 | 526,560 |
| Provision for outstanding claims* | 12 | 11,840,060 | 7,351,272 |
| Other provisions | 13 | 604,499 | 287,989 |
| | | **12,852,709** | **8,252,830** |
| **Non-current Liabilities** | | | |
| Financial liabilities measured at amortised cost | 11 | 531 | 1,410 |
| Provision for outstanding claims* | 12 | 42,078,643 | 26,195,778 |
| Employee benefits | 14 | 35,980 | 31,608 |
| | | **42,115,154** | **26,228,796** |
| **Total Liabilities** | | **54,967,863** | **34,481,626** |
| **Net Deficit** | | **(46,395,548)** | **(29,914,989)** |
| **Net Deficit** | | | |
| **Reserves** | | | |
| Revaluation reserve | 8 | 72,249 | 65,486 |
| Accumulated deficit | | (46,467,797) | (29,980,475) |
| **Total Net Deficit** | | **(46,395,548)** | **(29,914,989)** |

* *Refer to the CEO's Report, Note 12 and Note 35 for details on the provision for outstanding claims.*

# STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2012

| | Note(s) | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Revenue from Non-exchange Transactions** | | | |
| Net fuel levies | 15 | 16,989,071 | 14,474,058 |
| **Revenue from Exchange Transactions** | | | |
| Other income | 16 | 1,664 | 2,269 |
| Reinsurance revenue | 17 | 79 | 10,135 |
| Investment income | 18 | 112,883 | 39,760 |
| | | 114,626 | 52,164 |
| **Less Expenses** | | | |
| Claims expenditure | 19 | 32,587,268 | 15,022,198 |
| Reinsurance premiums | 20 | 22,847 | 27,690 |
| Employee costs | 21 | 655,245 | 620,803 |
| Administrative expenses | 22 | 238,406 | 224,431 |
| Depreciation, amortisation and impairment | 23 | 63,654 | 59,555 |
| Finance costs | 24 | 23,599 | 43,288 |
| **Deficit for the Year** | | (16,487,322) | (1,471,743) |

# STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 March 2012

| | Revaluation reserve R'000 | Accumulated deficit R'000 | Total net assets R'000 |
|---|---|---|---|
| Opening balance as previously reported | 78,740 | (42,408,732) | (42,329,992) |
| Change in accounting policy | - | 13,900,000 | 13,900,000 |
| **Balance at 31 March 2010** | **78,740** | **(28,508,732)** | **(28,429,992 )** |
| Changes in net assets | | | |
| Devaluation of land | (1,989) | - | (1,989) |
| Devaluation of building | (11,265) | - | (11,265) |
| Deficit for the year | - | (1,471,743) | (1,471,743) |
| Total changes | (13,254) | (1,471,743) | (1,484,997) |
| **Balance at 31 March 2011** | **65,486** | **(29,980,475)** | **(29,914,989)** |
| Changes in net assets | | | |
| Revaluation of land | 1,015 | - | 1,015 |
| Revaluation of building | 5,748 | - | 5,748 |
| Deficit for the year | - | (16,487,322) | (16,487,322) |
| Total changes | 6,763 | (16,487,322) | (16,480,559) |
| **Balance at 31 March 2012** | **72,249** | **(46,467,797)** | **(46,395,548)** |

# CASH FLOW STATEMENT

for the year ended 31 March 2012

| | Note(s) | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| **Receipts** | | | |
| Fuel Levies | | 16,371,405 | 14,287,161 |
| Investment income | | 98,514 | 39,763 |
| Reinsurance claims received | | 79 | 10,135 |
| Other income | | 1,664 | 439 |
| | | 16,471,662 | 14,337,498 |
| **Payments** | | | |
| Employee costs | | (655,245) | (620,803) |
| Claims expenditure | | (12,506,556) | (12,785,919) |
| Finance costs | | (23,599) | (43,288) |
| Reinsurance premiums | | (22,847) | (27,690) |
| Other expenditure | | (149,593) | (333,893) |
| | | (13,357,840) | (13,811,593) |
| **Net Cash Flows from Operating Activities** | 26 | **3,113,822** | **525,905** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant and equipment | 8 | (4,482) | (26,887) |
| Proceeds on disposal of property, plant and equipment | 8 | - | 1,830 |
| Purchase of other intangible assets | 9 | (1,926) | (18,378) |
| **Net Cash Flows from Investing Activities** | | **(6,408)** | **(43,435)** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | | **3,107,414** | **482,470** |
| Cash and cash equivalents at the beginning of the year | | 1,137,636 | 655,166 |
| **Cash and Cash Equivalents at the End of the Year** | 3 | **4,245,050** | **1,137,636** |

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2012

## Accounting Policies

### 1. Basis of Presentation

*Statement of Compliance*

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice ("GRAP"), including any interpretations, guidelines and directives issued by the Accounting Standards Board ("ASB").

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost conventions, unless specified otherwise.

These accounting policies are consistent with the previous reporting period, except where specifically indicated.

### 1.1 Reporting Entity

The Road Accident Fund ("RAF") is an entity domiciled in South Africa. The address of the RAF's Head Office is 2 Eco Glades Office Park, 420 Witch-Hazel Avenue, Centurion. The RAF's primary business is to provide cover to all users of South African roads, local or foreign, against injuries or death they may sustain as a result of the wrongful driving of motor vehicles within the borders of the country. The cover provided is in the form of a social security insurance in that the benefits are enjoyed by the whole population, including foreigners and illegal immigrants, even though the contribution towards the cover may be made primarily by the economically active members of society. The full responsibilities of the RAF are contained in the Road Accident Fund Act, 1996 (Act No. 56 of 1996), as amended.

The Financial Statements were approved by the Board of Directors on 31 July 2012.

### 1.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except for land and buildings which are carried at their revalued amounts, and outstanding claims liabilities and fuel levy debtors which are presented at their present values.

The methods used to measure fair values are outlined in Note 1.7.

### 1.3 Functional and Presentation Currency

These Financial Statements are presented in South African Rand ("ZAR"), which is the RAF's functional currency. All financial information presented in ZAR has been rounded to the nearest thousand.

### 1.4 Use of Estimates and Judgements

In preparing the Annual Financial Statements, Management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

*Critical Accounting Estimates and Assumptions in Applying Accounting Policies*

Information is provided below about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements.

*Revenue Recognition on the Road Accident Fund Levy*

Effective as from 1 April 2006, the responsibility for the collection of the RAF Fuel Levy was devolved from the Central Energy Fund ("CEF") to the South African Revenue Service ("SARS").

The changes to the Customs and Excise Act, 1964 (Act No. 91 of 1964) have introduced new provisions that require the fuel companies to pay 50% of the RAF Fuel Levy at the end of the month following the month of removal of the fuel from the refinery, and the remaining 50% at the end of the following month.

The effect of these provisions is that cash receipts of RAF levies do not correspond with the accrual of the fuel levy revenue by the RAF. This particularly impacts the year-end revenue receivable raised from the RAF Fuel Levy. In order to correctly accrue for the revenue for the period, Management makes an estimate as to what the expected RAF Fuel Levy income should be based on historical evidence.

### *Diesel Refunds*

Diesel refunds are concessions deducted from the RAF Fuel Levies received. Diesel concessions are granted to certain sectors of the economy on the basis of the level of certain use by the diesel consumer in primary production activities.

In terms of section 5(2) of the RAF Act, after being amended by the Revenue Laws Amendment Act, 2005 (Act No. 31 of 2005), the RAF receives the RAF Fuel Levy net of diesel refund after it has been collected by SARS.

Diesel refunds affect the amount of revenue to be recognised and cannot be measured accurately at the point of revenue recognition. Consequently, estimates are made by Management as to what the value of the diesel refunds will be. The estimates are based on historical evidence, and Management formulates a percentage that is applied to the RAF Fuel Levy. The percentage range for diesel refunds for the current year is 8% to 9% of the gross fuel levy for the year.

### *Outstanding Claims Provision*

The estimation of the ultimate liability arising from claims incurred, but not settled at the reporting date, is the RAF's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the RAF will ultimately pay for such claims. The provision for outstanding claims is actuarially determined on an annual basis. The measurement of the obligations in respect of this liability requires actuarial estimates and valuations. An actuary is engaged to perform these calculations. More detail on the actuarial assumptions can be found in Notes 1.6 and 12.

### *Post-retirement Employee Benefits*

The RAF provides a defined benefit pension plan and a post-retirement medical plan to some of its employees. The measurement of the obligations (and assets) in respect of this liability requires actuarial estimates and valuations. An actuary is engaged to perform these calculations. More detail on the actuarial assumptions can be found in Notes 1.12 and 14.

### *Revaluation of Land and Buildings*

Land and buildings held for administrative purposes are carried at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by an independent valuer on a yearly basis such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. The fair value of land and buildings measured using the valuation model is based on market values. The market value of property is determined by taking into account the market rentals that are paid in the immediate area. The applicable relevant market rental is used to determine potential income. Thereafter, the relevant expenditure is deducted to determine the net income and with a relevant capitalisation rate, the market value if calculated.

## 1.5 Translation of Foreign Currencies

### *Foreign Currency Transactions*

Transactions in foreign currencies are translated to the functional currency of the RAF at the prevailing exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Foreign exchange gains and losses that relate to items that meet the definition of a financial instrument are presented in the Statement of Financial Performance within "finance income or cost". All other foreign exchange gains and losses are presented in the Statement of Financial Performance within "net foreign exchange gains/(losses)".

## 1.6 Insurance Contracts

Contracts under which the RAF accepts significant insurance risk from another party (the claimant) by agreeing to compensate the claimant if a specified uncertain future event (the insured event) adversely affects the claimant are classified as insurance contracts. The RAF accepts insurance risk as it is mandated by legislation to compensate victims of road accidents for injuries suffered as a result of motor vehicle accidents.

### *Claims Incurred*

Claims incurred comprise claims and related expenses incurred during the year and changes in the provisions for outstanding claims, including related external expenses, together with any other adjustments to claims from previous years.

### *Outstanding Claims Provision*

Provision is made at the year-end for the estimated cost of claims incurred, but not yet settled at the reporting date. Claims outstanding are determined as accurately as possible on the basis of a number of factors, which include previous experience in claims patterns, claims settlement patterns and trends in claims frequency.

Further, the outstanding claims provision is calculated taking the following elements into account:

- Estimates of additional claims payments that may be required on claims that have already been reported to the RAF and are still open;
- Estimates of additional claims payments that may be required on claims that have already been reported to the RAF and are closed, but could be reopened in the future; and
- Estimates of external claims handling expenses, i.e. legal and medical experts, assessors and other experts – excluding the RAF's overhead administrative costs.

The estimates of the outstanding claims provision were produced on a "going concern" basis, and the outstanding claims estimate is reflected in the Financial Statements at a discounted value, based on expected monetary values at the expected time of payment of those claims. Reserves for internal or indirect claim handling expenses (e.g. administration costs) are specifically excluded from the estimates.

The outstanding claims provision is calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provision and having due regard to collectability.

### *Contingent Liability for Claims IBNR*

The cost of claims incurred but not yet reported (commonly referred to as "Claims IBNR") to the RAF will be disclosed as a contingent liability as the obligating event (lodging of the claim) has not yet happened.

### *Reinsurance Contracts Held*

The RAF procures reinsurance cover for the purposes of limiting its net loss potential. The reinsurance policies do not release the RAF from its direct obligations to its claimants, as the duty to compensate the claimants remains with the RAF in spite of the fact that the reinsurance cover has been procured.

The contracts entered into by the RAF with reinsurers, under which the RAF is compensated for losses on one or more "contracts" issued by the RAF and that meet the classification requirements for the insurance contracts above, are classified as reinsurance contracts held. Only the rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for reinsurance cover are recognised as expenses on a basis that is consistent with the recognition basis for premiums on other similar insurance contracts. Reinsurance premiums are charged to the Statement of Financial Performance over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the RAF in respect of its rights under such contracts. Any difference between the premium due to the reinsurer and the reinsurance asset recognised is included in surplus or deficit in the period in which the reinsurance premium is due.

The RAF does not recognise reinsurance assets, except for claims which have already been lodged with reinsurers and liability acknowledged, due to uncertainty regarding the successful realisation of the claims.

## 1.7 Financial Instruments

### *Initial Recognition and Measurement*

Financial instruments are initially recognised when the entity becomes a party to the contract. The entity has adopted trade date accounting for "regular way" purchases or sales of financial assets. The trade date is the date that the entity commits to purchase or sell an asset.

The entity determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial instruments are initially measured at fair value plus transaction costs, except that transaction costs in respect of financial instruments classified at fair value through surplus or deficit are expensed immediately. Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial instrument, i.e. those costs that would not have been incurred had the instrument not been acquired.

### *Classification*

The entity's classification of financial assets and financial liabilities is as follows:

| Description of asset/liability | Classification |
|---|---|
| Advance payment i.r.o. suppliers' claims | Loans and receivables |
| Employee debtors/loans and bursaries | Loans and receivables |
| Sundry debtors | Loans and receivables |
| Claims debtors | Loans and receivables |
| Other deposits | Loans and receivables |
| Cash and cash equivalents* | Loans and receivables |
| Rent-a-Captive insurance | Short-term investment |
| Claims recognised, but not yet paid at year-end | Other liabilities |
| Trade and other creditors | Other liabilities |

* *Cash and cash equivalents include cash-in-hand, deposits held at call and other short-term, highly liquid investments with original maturities of three months or less.*

### *Subsequent Measurement*

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost less impairment losses.

Gains and losses are recognised in the Statement of Financial Performance when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less accumulated impairment losses.

*Other Liabilities*

Liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, liabilities that are not carried at fair value through surplus or deficit are measured at amortised cost, using the effective interest method.

Gains and losses are recognised in the Statement of Financial Performance when the liabilities are derecognised, as well as through the amortisation process.

*Short-term Investment*

After initial recognition, the short-term investment is measured at amortised cost using the effective interest rate method, less accumulated impairment losses.

Gains and losses are recognised in the Statement of Financial Performance when the short-term investment is derecognised or impaired, as well as through the amortisation process.

## 1.7 Financial Instruments (continued)

### *Determination of Fair Values*

A number of the RAF's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

*Derecognition of Financial Assets and Financial Liabilities*

Financial assets or parts thereof are derecognised when:

- The right to receive the cash flows has expired;
- The right to receive the cash flows is retained, but an obligation to pay them to a third party under a "pass-through" arrangement is assumed; or
- The entity transfers the right to receive the cash flows, and also transfers either all the risks and rewards, or control over the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

*Impairment of Financial Assets*

At each end of the reporting period, the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

*Assets Carried at Amortised Cost*

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses) discounted at the asset's original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The entity assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for finance assets that are not individually significant. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the entity will not be able to collect all of the amounts due under the original terms of the sale. The carrying amount of the receivable is reduced through use of an allowance account and is recognised in surplus or deficit. Impaired debts are derecognised when they are assessed as uncollectable.

If, in a subsequent period, the amount of the impairment decreases and the decrease relates objectively to an event occurring after the impairment, it is reversed to the extent that the carrying value does not exceed the amortised cost. Any subsequent reversal of an impairment loss is recognised in surplus or deficit. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

## 1.8 Property, Plant and Equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- The cost of the item can be measured reliably.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment, which can only be used in connection with an item of property, plant and equipment, are accounted for as property, plant and equipment.

Major inspection costs, which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above, are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land and buildings held for administrative purposes are carried at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by an independent valuer on a yearly basis, such that the carrying amounts do not differ materially from those that would be determined using fair values at reporting date. The fair value of land and buildings measured using the valuation model is based on market values. The market value of property is determined by taking into account the market rentals that are paid in the immediate area. The applicable relevant market rental is used to determine potential income. Thereafter the relevant expenditure is deducted to determine the net income and with a relevant capitalisation rate, the market value if calculated.

When an item of land and buildings is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset, so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of land and buildings is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment is depreciated on the straight-line basis over its expected useful life to its estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

| 2012 | Average useful life | 2011 | Average useful life |
|---|---|---|---|
| Buildings | 30 years | Buildings | 30 years |
| Office furniture | 15 years | Office furniture | 15 years |
| Motor vehicles | 5 years | Motor vehicles | 5 years |
| Office equipment | 10 years | Office equipment | 10 years |
| Computer equipment | 7 years | Computer equipment | 7 years |
| Leasehold improvements | 3 years | Leasehold improvements | 3 years |

## 1.8 Property, Plant and Equipment (continued)

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit, unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of, or when no further economic benefits or service potential are expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## 1.9 Intangible Assets

An asset is identified as an intangible asset when it:

- Is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- Arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when:

- It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- The cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

For an intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- It is technically feasible to complete the asset so that it will be available for use or sale;
- There is an intention to complete and use or sell it;
- There is an ability to use or sell it;
- It will generate probable future economic benefits or service potential;
- There are available technical, financial and other resources to complete the development and to use or sell the asset; and/or
- The expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets, amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values.

The estimated useful life for the current and comparative period is as follows:

| 2012 | Useful life | 2011 | Useful life |
|---|---|---|---|
| Computer software | 5 years | Computer software | 5 years |

Intangible assets are derecognised:

- On disposal; or
- When no future economic benefits or service potential are expected from their use or disposal.

## 1.10 Consumable Stock

Inventories comprise consumable stock, which is measured at the lower of cost and net realisable value. The cost of the consumable stock is measured on the weighted average principle, and includes expenditure incurred in acquiring the consumable stock and other direct costs incurred in bringing it to its existing location and condition.

The cost of consumable stock consists of all costs of purchase, costs of conversion and other costs incurred in bringing the consumable stock to its present location and condition.

The cost of consumable stock of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

## 1.11 Impairment of Non-financial Assets

### *Non-cash Generating, Non-financial Assets*

Cash-generating assets are assets held with the primary objective of generating a commercial return. Non-cash generating assets are assets other than cash-generating assets.

Where the asset is a non-cash generating asset, the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach – Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach – The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

## 1.12 Employee Benefits

### *Short-term Employee Benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the RAF has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### *Defined Contribution Plans*

A defined contribution plan is a post-employment benefit plan under which the RAF pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in surplus or deficit when they are due.

## 1.12 Employee Benefits (continued)

### *Defined Benefit Plans*

*Defined Benefit Pension Plan*

The RAF's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on similar government bonds that have maturity dates approximating the terms of the RAF's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the RAF, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in surplus or deficit on a straight-line basis over the average period until the benefits vest. To the extent that the benefits vest immediately, the expense is recognised immediately in surplus or deficit.

*Post-retirement Medical Obligations*

The RAF provides post-retirement healthcare benefits to its retirees based on the following subsidy policy:

- An employee who joined the RAF before 1 May 1998 will pay 50% of the total healthcare contribution and the RAF the balance. The entitlement to post-retirement healthcare benefits is based on the employee remaining in service up to retirement age.
- An employee who joined the RAF from 1 May 1998 will, after retirement, pay 100% of the total healthcare contribution. Therefore, the RAF will have no further obligation with regard to these employees' healthcare benefits upon retirement.

The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations of these obligations are carried out by independent actuaries.

*Recognition of Actuarial Gains and Losses on Defined Benefit Obligations*

A portion of actuarial gains and losses is recognised as surplus or deficit in the period if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at the date before deducting plan assets; or
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised is the excess referred to above, divided by the expected remaining working lives of the employees participating in the plan.

This policy is applied for both the defined benefit pension plan and the post-retirement medical obligations.

*Termination Benefits*

Termination benefits are recognised as an expense when the RAF is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the RAF has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

## 1.13 Provisions and Contingent Liabilities

Provisions are recognised when:

- The entity has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Provisions are not recognised for future operating deficit.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- Has a detailed formal plan for the restructuring, identifying at least:
  - The activity/operating unit or part of an activity/operating unit concerned;
  - The principal locations affected;
  - The location, function and approximate number of employees who will be compensated for services being terminated;
  - The expenditures that will be undertaken;
  - When the plan will be implemented; and
- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- The amount that would be recognised as a provision; or
- The amount initially recognised less cumulative amortisation.

The definition of a contingent liability is as follows:

- A possible obligation depending on whether some uncertain future event occurs; or
- A present obligation, but payment is not probable or the amount cannot be measured reliably.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in Note 33.

### 1.14 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue comprises mainly fuel levies, government grants/transfer payments, investment income and insurance income.

#### *Revenue from Non-exchange Transactions*

*Fuel Levies*

The main income received by the RAF is a levy that is based on fuel sales known as the "RAF Fuel Levy". The RAF Fuel Levy income is a charge levied on fuel throughout the country and the quantum of the RAF Fuel Levy per litre is determined by National Treasury. The RAF Fuel Levy amendments are communicated through the Budget Speech.

The RAF recognises revenue from fuel levies when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the RAF.

Revenue is measured at the fair value of the consideration received or receivable.

*Revenue from Non-exchange Transactions (continued)*

*Government Grants/Transfer Payments*

The RAF recognises revenue from the transfer payments when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the RAF and the conditions relating to the transfer payment have been complied with.

Revenue from non-exchange transactions arise when the RAF either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from non-exchange transactions, including revenue from government grants, is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount (i.e. where all conditions have been met).

*Revenue from Exchange Transactions*

*Investment Income*

Investment income comprises interest income on funds invested. Interest income for financial assets not classified at fair value through surplus or deficit is recognised on a time-proportion basis using the effective interest method.

*Reinsurance Income*

Reinsurance income comprises settlements by reinsurance companies in respect of insured events that are covered by the reinsurance policy.

*Other Income*

Other income comprises fees that are collected for published tenders, vending machines and parking fees received from employees.

## 1.15 Lease Payments

Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## 1.16 Finance Costs

Finance costs comprise interest charged on outstanding creditors, interest charged in the claims handling process, unwinding of the discount on provisions and impairment losses recognised on financial assets. Interest charged is recognised in surplus or deficit using the effective interest method.

## 1.17 Tax

*Income Tax Expense*

The RAF is exempt from taxation in terms of the provision of Section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962) and Section 16 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996).

## 1.18 Related Parties

The RAF operates in an economic environment currently dominated by entities directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government that influenced the RAF or *vice versa* will be considered to be related parties.

Key Management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. The RAF regards all individuals from the level of Executive Management up to the Board of Directors as key Management per the definition.

Close family members of key Management personnel are considered to be those family members who may be expected to influence, or be influenced by key Management individuals in their dealings with the entity.

## 1.19 Irregular, Fruitless and Wasteful Expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA; or
- Any national legislation providing for procurement in that national government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

Any irregular, fruitless and wasteful expenditure is charged against surplus or deficit in the period in which it is incurred.

# 2. New Standards and Interpretations

## 2.1 Standards and Interpretations Early Adopted

The following standards have been approved by the Minister with a future effective date and the RAF decided to early adopt these standards in earlier years:

- *GRAP 21: Impairment of Non-cash Generating Assets*

The objective of this standard is to prescribe the procedures that an entity applies to determine whether a non-cash generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity would reverse an impairment loss and prescribe disclosures. The effective date is 1 April 2012.

- *GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)*

The objective of this standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners. The effective date is 1 April 2012.

- *GRAP 26: Impairment of Cash-generating Assets*

The objective of this standard is to prescribe the procedure that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity should reverse an impairment loss and prescribes disclosures. The effective date is 1 April 2012.

- *GRAP 103: Heritage Assets*

The objective of this standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements. The effective date is 1 April 2012. This standard has no impact on the entity, because it does not hold any heritage assets.

## 2.2 Standards with Future Effective Date Not Yet Adopted

Standards issued with a future effective date are those standards which have been issued with future effective dates and that have not been early adopted in the current financial year.

- *GRAP 24: Presentation of Budget Information in Financial Statements*

This standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the Financial Statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this standard will ensure that entities discharge their accountability obligations and enhance the transparency of their Financial Statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, their financial performance in achieving the budgeted results.

This standard will result in additional disclosure being presented.

The effective date is 1 April 2012.

## 2.3 Standards Issued But Not Yet Effective

Standards issued, but not yet effective up to date of issuance of the RAF's Financial Statements are listed below. As at the date of this report, the Minister had not yet announced an effective date for these standards.

- *GRAP 18: Segment Reporting*

The objective of this standard is to establish principles for reporting financial information by segments. This standard is unlikely to have an impact on the entity.

- *GRAP 25: Employee Benefits*

The objective of this standard is to prescribe the accounting and disclosure for employee benefits. This standard requires an entity to recognise:

(a) A liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
(b) An expense when the entity consumes the economic benefits or service potential arising from service providers by an employee in exchange for employee benefits.

The impact of the standard will result in the recognition of actuarial losses or gains that arose in the year, instead of the current accounting policy which defers the recognition. This will result in an increase or decrease in the obligations on recognition of the cumulative unrecognised gains and losses.

- *GRAP 104: Financial Instruments*

The objective of this standard is to establish principles for recognising, measuring, presenting and disclosing Financial Statements.

This standard will introduce some relatively significant changes when compared to IAS 39, especially in the way financial assets are classified and treated. However, the impact on the Fund's Financial Statements is not expected to be significant due to the relatively simple types of financial instruments held by the Fund. The precise impact is still being assessed, but as this standard does not yet have an effective date, there is no intention to early adopt it in the foreseeable future.

- *GRAP 105: Transfer of Function between Entities under Common Control*

This standard provides the accounting treatment for transfers of functions between entities under common control. The standard is only expected to have an impact on the RAF in respect of any future transfers of functions. This standard does not yet have an effective date.

- *GRAP 106: Transfer of Function between Entities not under Common Control*

This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the RAF will enter into any such transactions in the foreseeable future. This standard does not yet have an effective date.

- *GRAP 107: Mergers*

This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the Financial Statements of the Fund in the foreseeable future. This standard does not yet have an effective date.

## 3. Cash and Cash Equivalents

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Cash and cash equivalents include the following: | | |
| Short-term call deposits | 4,112,400 | 1,113,400 |
| Current accounts | 111,053 | 2,639 |
| Deposit accounts | 21,564 | 21,564 |
| Cash on hand | 33 | 33 |
| **Total** | **4,245,050** | **1,137,636** |
| Cash and cash equivalents held by the entity that are not available for use (Refer to Note 33). | 21,564 | 21,564 |

The effective interest rate on call deposits in 2012 was 5.06% (2011: 5.55%).

The RAF's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 30.

The level of cash at hand increased due to the fact that less claims than anticipated had been settled. The situation is temporary as the RAF is putting measures in place to increase the number of claims settled.

## 4. Transfers Receivable from Fuel Levies

The RAF Levies are recovered directly from the oil refineries by the South African Revenue Service ("SARS") and are paid into the National Revenue Fund. SARS pays the funds into the National Revenue Fund after certain deductions are made in terms of Section 47 of the Customs and Excise Act, 1964 (Act No. 91 of 1964), Section 5 of the RAF Act, as well as Schedule No. 6 to the Customs and Excise Act, 1964. National Treasury then pays these levies from the National Revenue Fund to the RAF.

Approximately 50% of the levies due are payable by the refineries at the end of the month following the month of removal from the refinery, and the remaining 50% at the end of the following month.

This amount is reduced by any bad debts that the refineries have sustained and the net amount is recognised by the RAF.

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Fuel Levy receivable | 3,884,349 | 2,950,173 |

## 5. Interest Receivable

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Interest receivable from money market investments (Short-term call deposits) | 18,686 | 4,317 |

## 6. Other Financial Assets

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Short-term Investments** | | |
| Rent-a-captive insurance | 109,726 | 106,227 |
| The balance above is reserved with different insurance companies through an insurance broker, for use in cases where claims above R100 million are lodged. This policy may be terminated by the RAF or the insured at any time on giving 30 days written notice. The policy is also renewable on an annual basis and therefore deemed short-term in nature. | | |
| Advance payment i.r.o. supplier claims and other | 19,383 | 21,359 |
| Employee debtors/loans and bursaries | 898 | 312 |
| Sundry debtors | 4,465 | 3,080 |
| Other deposits/cash collateral provided | 342 | 341 |
| Claims debtors | 10,113 | 13,227 |
| **Total Loans and Receivables** | **35,201** | **38,319** |
| **Total Other Financial Assets** | **144,927** | **144,546** |
| **Current Assets** | | |
| Short-term investment | 109,726 | 106,227 |
| Loans and receivables | 35,201 | 38,319 |
| | **144,927** | **144,546** |

The Board of Directors considers the carrying amount of other financial assets to approximate fair value.

## 7. Consumable Stock

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Consumable stock | 2,609 | 2,365 |

## 8. Property, Plant and Equipment

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation R'000 | Accumulated Depreciation R'000 | Carrying Value R'000 | Cost / Valuation R'000 | Accumulated Depreciation R'000 | Carrying Value R'000 |
| Land | 17,148 | - | 17,148 | 16,133 | - | 16,133 |
| Buildings | 86,068 | (3) | 86,065 | 82,867 | - | 82,867 |
| Leasehold improvements | 16,294 | (12,037) | 4,257 | 16,294 | (6,606) | 9,688 |
| Motor vehicles | 11,854 | (6,689) | 5,165 | 11,502 | (4,587) | 6,915 |
| Office equipment | 32,144 | (17,756) | 14,388 | 31,805 | (14,342) | 17,463 |
| Office furniture | 25,907 | (12,758) | 13,149 | 26,898 | (12,342) | 14,556 |
| Computer equipment | 190,807 | (116,942) | 73,865 | 192,762 | (104,237) | 88,525 |
| **Total** | **380,222** | **(166,185)** | **214,037** | **378,261** | **(142,114)** | **236,147** |

| | Opening Balance R'000 | Additions R'000 | Disposals R'000 | Revaluations R'000 | Accumulated Depreciation of Disposed Assets R'000 | Depreciation R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **Reconciliation of Property, Plant and Equipment – 2012** | | | | | | | |
| Land | 16,133 | - | - | 1,015 | - | - | 17,148 |
| Buildings | 82,867 | 215 | - | 5,748 | - | (2,765) | 86,065 |
| Office furniture | 14,556 | 366 | (1,357) | - | 1,016 | (1,432) | 13,149 |
| Motor vehicles | 6,915 | 352 | - | - | - | (2,102) | 5,165 |
| Office equipment | 17,463 | 460 | (122) | - | 122 | (3,535) | 14,388 |
| Computer equipment | 88,525 | 3,089 | (5,043) | - | 4,961 | (17,667) | 73,865 |
| Leasehold improvements | 9,688 | - | - | - | - | (5,431) | 4,257 |
| | **236,147** | **4,482** | **(6,522)** | **6,763** | **6,099** | **(32,932)** | **214,037** |
| **Reconciliation of Property, Plant and Equipment – 2011** | | | | | | | |
| Land | 18,122 | - | - | (1,989) | - | - | 16,133 |
| Buildings | 97,378 | - | - | (11,265) | - | (3,246) | 82,867 |
| Office furniture | 15,322 | 705 | - | - | - | (1,471) | 14,556 |
| Motor vehicles | 8,849 | 198 | (4,067) | - | 4,067 | (2,132) | 6,915 |
| Office equipment | 13,163 | 7,502 | - | - | - | (3,202) | 17,463 |
| Computer equipment | 90,238 | 15,528 | - | - | - | (17,241) | 88,525 |
| Leasehold improvements | 11,500 | 2,954 | - | - | - | (4,766) | 9,688 |
| | **254,572** | **26,887** | **(4,067)** | **(13,254)** | **4,067** | **(32,058)** | **236,147** |

### Revaluations

The effective date of the revaluation was 31 March 2012. The revaluation was performed by an independent valuer, Mr J Goosen (Professional Associated Valuer), of Corporate Valuations CC. Corporate Valuations CC is not connected to the RAF.

Land and buildings are revalued independently every year, in terms of the RAF Policy.

The valuation was performed using the income capitalisation method to determine the market value by discounting the future income flow to a present value. A discount rate of 10% was used to discount the income.

## 9. Intangible Assets

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation R '000 | Accumulated Amortisation R '000 | Carrying Value R '000 | Cost / Valuation R '000 | Accumulated Amortisation R '000 | Carrying Value R '000 |
| Computer software | 156,867 | (94,210) | 62,657 | 154,941 | (63,488) | 91,453 |

| | Opening Balance R '000 | Additions R '000 | Amortisation R '000 | Total R '000 |
|---|---|---|---|---|
| **Reconciliation of Intangible Assets – 2012** | | | | |
| Computer software | 91,453 | 1,926 | (30,722) | 62,657 |
| **Reconciliation of Intangible Assets – 2011** | | | | |
| Computer software | 100,572 | 18,378 | (27,497) | 91,453 |

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **10. Payables and Accruals** | | |
| Accrual for overtime | 441 | 3,442 |
| Accrual for leave | 30,981 | 32,864 |
| Accrual for 13th cheque | 8,291 | 8,573 |
| Accrual for performance bonuses | 44,675 | 42,130 |
| | **84,388** | **87,009** |

The significant reduction of overtime between the last financial year and the current financial year is as a result of controls put in place to manage the usage of overtime.

## 11. Financial Liabilities Measured at Amortised Cost

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Financial Liabilities Measured at Amortised Cost** | | |
| Trade and other creditors | 154,506 | 66,363 |
| Claim amounts finalised but not paid at year-end | 169,256 | 460,197 |
| Unrecognised portion of straight-lined leases | 531 | 1,410 |
| | **324,293** | **527,970** |
| **Non-current Liabilities** | | |
| Financial liabilities measured at amortised cost | 531 | 1,410 |
| **Current Liabilities** | | |
| Financial liabilities measured at amortised cost | 323,762 | 526,560 |
| | **324,293** | **527,970** |

## 12. Provision for Outstanding Claims

| | Opening Balance R'000 | Provisions Made During the Year R'000 | Utilised During the Year R'000 | Total Provision for Outstanding Claims R'000 | Claims IBNR | Total Claims Liability Including IBNR |
|---|---|---|---|---|---|---|
| **Reconciliation of Provision for Outstanding Claims – 2012** | | | | | | |
| Provision for outstanding claims | 33,547,050 | 32,587,268 | (12,215,615) | 53,918,703 | 18,688,860 | 72,607,563 |
| **Reconciliation of Provision for Outstanding Claims – 2011** | | | | | | |
| Provision for outstanding claims | 31,465,998 | 15,022,198 | (1, 941,146) | 33,547,050 | 14,100,000 | 47,647,050 |

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Current liabilities | 11,840,060 | 7,351,272 |
| Non-current liabilities | 42,078,643 | 26,195,778 |
| | **53,918,703** | **33,547,050** |

The valuation methodology used in 2012 is consistent with the methodology used in the prior year, although the basis was strengthened significantly to take account of the fact that actual experience in the 2012 financial year appeared to be significantly worse than what was expected when the previous valuation was performed.

The discounted outstanding claims liability as at 31 March 2012, net of reinsurance, was estimated to be R72,6 billion (2011: R47,7 billion). This R72,6 billion should be interpreted as the expected monetary amount that, together with notional investment income on this amount, would be sufficient to cover future payments in respect of accidents that occurred prior to 1 April 2012. The estimate of the outstanding claims liability increased by R24,9 billion from the March 2011 estimate.

### Definitions as per GRAP 19:

- **Provision:** A liability of uncertain timing or amount.
- **Liability:** Present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
- **Obligating event:** An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
- **Contingent liability:** A possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably.

From the above definitions, there is no doubt that all the claims reported to the RAF and registered by the RAF constitute a liability. However, what is not certain is when will it be paid and how much will be paid based on the environment within which the RAF operates. Hence, the valuation amount relating to reported claims is classified as provision for outstanding claims and is as such recognised in the Statement of Financial Position as at the reporting period. The provision amount recognised in the Statement of Financial Position as at 31 March 2012 amounts to R54 billion.

With regard to the IBNR, the claims are neither reported to the RAF nor registered by the RAF, therefore no assessments have been made in terms of the RAF Act to determine whether the RAF has an obligation or not. Therefore, there is no obligating event. The obligating event is still depending on the assessments being done in terms of the RAF Act. From this, there is no doubt that the valuation amount to the extent that it relates to IBNR should not be recognised in the Statement of Financial Position, but be disclosed by way of note as contingent liability until it meets the definition of a provision. The IBNR amount disclosed as a contingent liability amounts to R18,7 billion.

It was further estimated that, had the Amendment Act not been introduced, the liability would have been approximately R9,4 billion higher (i.e. a total liability of approximately R63,3 billion). If the actual future experience is as expected, the outstanding claims liability is expected to increase at a lower rate than claims inflation during the next five years as the effect of the Amendment Act filters through. Thereafter, it is expected to increase with claims inflation, as well as any increase in the number of accidents.

## Method Used in Determining the Provision for Outstanding Claims

The calculation of the provision for outstanding claims was divided into the following components:

1. Pre-Amendment Act claims;
2. Post-Amendment Act claims; and
3. Undertakings.

## Method Used to Estimate Liability for Pre-Amendment Act Claims

Non-undertaking, non-supplier claims were subdivided into the following groups:

- **Group A:** Nil claims: Claims with no compensation payments and no expense payments;
- **Group B:** Small claims: Claims with no compensation but some expenses;
- **Group C:** Injury claims, further split into the following:
  - **Group C1:** Injury claims with no general damages, but some past medical or loss of earnings;
  - **Group C2:** Injury claims with general damages below R125,000 (in 2010 terms);
  - **Group C3:** Injury claims with general damages in excess of R125,000 (in 2010 terms);
- **Group D:** Death claims, further split into the following:
  - **Group D1:** Death claims with loss of support; and
  - **Group D2:** Death claims with only funeral costs, but no loss of support.

The reason for subdividing non-supplier claims into these groups was to obtain homogeneous groups. The claims in the different groups have very different characteristics. Estimates of future payments based on historical data are better if homogeneous groups are used.

The liability in respect of the pre-Amendment Act claims was estimated as follows:

- Firstly, the number of ultimate and hence the number of outstanding claims for each accident interval was estimated.
- Secondly, it was estimated how many of the outstanding non-supplier claims (both reported and IBNR) are expected to fall into each group.
- Then, the average amount expected to be paid on outstanding claims in each group was estimated, taking into account that past experience showed that, on average, larger claims in each group took longer to finalise than smaller claims.
- The outstanding liability was then estimated by multiplying the estimated number of outstanding claims in each group by the average amounts for the respective groups, for each accident year.
- Amounts already paid in respect of open claims were then deducted and further amounts payable in respect of finalised claims were then estimated and added. These additional payments were also taken into account in determining the average amounts.
- The liability of all open limited passenger claims that occurred prior to 1 August 2008 became unlimited (referred to as the Mvumvu liability) and was also added.

## Method Used to Estimate Liability for Post-Amendment Act Claims

Payments in respect of post-Amendment Act claims have not developed sufficiently to independently produce reliable estimates. However, experience to date shows that the number of post-Amendment Act claims is similar to what would have been expected if the Amendment Act had been applied to the 2007 accident year. The estimate for the liability in respect of post-Amendment Act claims has been based on the estimated total amount that would have been paid in respect of claims for the 2007 accident year if the Amendment Act had applied to these claims. Then the liability in respect of post-Amendment Act accident intervals was estimated, allowing for amounts already paid.

## Method Used to Estimate Liability for Undertakings

Considering historical payments, it seems as if undertaking payments in respect of accidents up to 2003 have stabilised. For these accident years, the RAF estimated the liability for future payments by multiplying the annual amounts paid (taken as amounts paid during the 2012 financial year, in March 2012 monetary terms) with an annuity factor based on the average age of claimants receiving these benefits and a net discount rate of 0% per year. The result therefore shows future payments in current monetary terms.

For accident years 2001 to 2003, current annual payments ranged between R1,277 and R1,523 per estimated ultimate number of Group C3 claims (average R1,443). For pre-Amendment Act claims in respect of accident years 2004 to 2009, it was assumed that ultimate annual undertaking payments would be a similar factor (R1,443) of ultimate Group C3 claims. For post-Amendment Act claims, it was assumed that ultimate undertaking payments would have been equal to R1,082 (75% of R1,443, to allow for an assumed saving of 25% due to the introduced medical tariffs following the Amendment Act) of assumed ultimate Group C3 claims.

## 12. Provision for Outstanding Claims (continued)

### Discounted and Undiscounted Provisions

The method outlined above leads to an estimate of R53,9 billion for outstanding payments (in March 2012 monetary terms) in respect of accidents prior to 1 April 2012. The table below summarises the overall results, based on future claims inflation of 8% per year (2% above assumed CPI of 6%) and a discount rate of 8% per year (2% above assumed CPI of 6%) – further assuming past payment patterns will be repeated in future. (Note that the undiscounted liability for undertakings is shown in March 2012 terms without allowing for future inflation. This is done because the RAF is of the opinion that an undiscounted liability in respect of undertakings is meaningless, considering the long-term nature of undertakings.)

| | March 2012 Monetary Terms R'million | Discounted Liability R'million | Undiscounted Liability R'million |
|---|---|---|---|
| Pre-Amendment Act | 28,243 | 28,243 | 34,212 |
| Post-Amendment Act | 22,600 | 22,600 | 30,962 |
| Undertakings | 3,076 | 3,076 | 3,076 |
| **Total** | **53,919** | **53,919** | **68,250** |

The discounted liability for supplier claims included in the above is R91 million (2011: R423 million including IBNR).

### Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are:

- The proportion of the number of claims falling into each of the defined groups (taking into account that some groups take on average longer to finalise) will remain similar to the past experience.
- The average amount payable per claim in each defined group (taking into account that larger claims take on average longer to finalise) will remain similar to the past experience, allowing for claims inflation of 2% above price inflation.
- The number of post-Amendment Act claims: The actual number registered to date was lower than expected. There is some uncertainty as to whether the ultimate claims will be lower than expected, or whether they will just be served later. In this light, the RAF changed some of its assumptions regarding the post-Amendment Act claims resulting in a lower liability than would have been the case under previous assumptions.
- Payments in respect of undertakings will follow similar patterns as in the recent past.

### Movement in Outstanding Claims Liability Including IBNR

| | Provision for Outstanding Claims R'bn | Claims IBNR R'bn | Total R'bn |
|---|---|---|---|
| **Balance at 31 March 2010** | (31,5) | (13,9) | (45,4) |
| New claims in respect of the prior year | (8,0) | 8,0 | - |
| New claims in respect of the current year | (1,8) | - | (1,8) |
| Claims not yet reported in the current year | - | (7,2) | (7,2) |
| Amount paid during the year | 13,0 | - | 13,0 |
| Unwinding of interest rate | (2,2) | (1,0) | (3,2) |
| Experience deviation | (3,0) | - | (3,0) |
| **Balance at 31 March 2011** | (33,5) | (14,1) | (47,6) |
| New claims in respect of the prior year | (8,3) | 8,3 | - |
| New claims in respect of the current year | (2,3) | - | (2,3) |
| Claims not yet reported in the current year | - | (9,1) | (9,1) |
| Amount paid during the year | 12,5 | - | 12,5 |
| Unwinding of interest rate | (3,0) | (1,1) | (4,1) |
| Experience deviation | (12,9) | (1,0) | (13,9) |
| Method and basis changes | (6,4) | (1,7) | (8,1) |
| **Balance at 31 March 2012** | (53,9) | (18,7) | (72,6) |

## Explanation of the Main Reasons for the Increase in the Provision for Outstanding Claims

The liability increased by R20,4 billion in the current financial year. During the same period, the RAF paid R12,5 billion of claims, which resulted in a commensurate decrease in the liability. The effect of restating the discounted liability in 2012 money terms is referred to as "unwinding the discount rate" and results in an increase of R3 billion.

There was a significant increase in the liability due to experience variance:

- Although claims settled during the financial year were more or less in line with expectations, the estimates for outstanding claims were significantly increased. The average provision per outstanding claim therefore increased beyond what would have been expected. This accounted for about R3,4 billion of the pre-Amendment Act experience deviation.
- Payments on claims that were deemed to be settled at the previous valuation were much higher than what was provided for at the previous valuation. These payments were largely unexpected. It also caused an increase in the average amounts at which it is assumed that outstanding claims will be settled in future. This accounts for about R3,9 billion of the pre-Amendment Act experience deviation.
- Some claims that were previously classified as "settled" were re-opened and the RAF now provides for future payments on these claims. This accounted for about R1 billion of the pre-Amendment Act experience deviation.
- The knock-on effect that the pre-Amendment Act liability has on the post-Amendment Act liability accounts for further experience deviation of R5,5 billion.
- The balance of experience deviations can be attributed to other small effects.

Investigations made into the payments made on settled claims and on claims assumed to have been settled (which have subsequently been re-opened) revealed that the extent of such claims required a revision of the valuation methodology. The portion of the reserve that provides for such payments was increased by R4 billion.

Previously, a discount rate of CPI+3% was used to arrive at the discounted liability. For this valuation, the discount rate used was CPI+2%, resulting in an additional liability of R2,9 billion.

## Sensitivity Analysis

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. Should the materiality level of an individual variable change, however, an assessment of reasonable possible changes to that variable in the future may be required.

The RAF believes that the stated discount liability of R53,9 billion is reasonable. It was calculated on a best estimate basis. The actual payments will differ from the estimated liability, because the estimate was based on certain variables and assumptions. The sensitivity of some of the assumptions is shown below:

### *Allocation of Number of Claims Falling into Different Groups*

The "Group C3 – Injury claims with general damages as well as loss of earnings" has the highest expected average amounts, while the "Group A – Nil Claims" has no payments. If 10% of the assumed outstanding "Group A" claims are reallocated to "Group C3", the estimated discounted liability would increase by 2.1% from R53,9 billion to R55 billion.

### *Average Amounts*

If actual average amounts rose to 5% higher than the estimated average amounts, the estimated discounted liability would simply increase by 5% from R53,9 billion to R56,6 billion.

## Claims Inflation and Discounting

An interest rate of 2% above inflation was used to estimate the discounted liability. Claims inflation was assumed to be 2% above inflation, i.e. the same as the discount rate. The result is not as sensitive to the nominal claims inflation and nominal discount rate as it is to the claims inflation relative to the discount rate.

It should be noted that the above sensitivity test only revealed the estimated increase in liability if actual experience is worse than expected. The percentage decrease in liability would be similar if actual experience is better than expected.

## Undertakings

An annuity factor based on the life expectancy of the persons receiving the benefits was used to calculate the liability in respect of undertakings. If these persons live 10% longer than expected, the liability would increase by 10%, or R308 million.

## 13. Other Provisions

### Fuel/Diesel Refund

In terms of legislation, the RAF has an obligation to refund a portion of 80c/l (2011: 72c/l) relating to the diesel usage in other sectors where vehicles are not used, in the RAF Fuel Levy to different economic sectors. The provision is calculated based on actual claims from these sectors processed through SARS. The provision is settled on a quarterly basis with the provision at year-end being based on the last quarter's results. These results are generally finalised after year-end and after all rebates have been taken into account.

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Opening balance | 287,989 | 274,519 |
| Increase in the provision charged to income | 1,547,076 | 1,189,044 |
| Provision utilised | (1,230,566) | (1,175,574) |
| **Total** | **604,499** | **287,989** |

## 14. Employment Benefit Obligations

### 14.1 Post-employment Pension Benefit

The RAF operates a pension fund which provides benefits on both defined benefit and defined contribution plans for permanent staff. This fund is administered on behalf of the RAF by pension fund administrators and is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

The Pension Funds Act requires a statutory actuarial valuation every three (3) years.

The defined benefit plan fund was actuarially valued, using the projected unit credit method as at 31 March 2012. The valuation revealed that the assets of the Fund represent 184.6% (2011: 173.8%) of the liabilities. This is after minimum withdrawal values have been provided for in terms of the Pension Funds Second Amendment Act, 2001, for existing members from a date 12 months after the surplus apportionment date (31 March 2003).

The RAF has carried out a surplus apportionment exercise. As the surplus apportionment has not yet been approved by the Financial Services Board ("FSB"), the RAF has not recognised an asset in respect of the surplus.

The assets of the plan mainly consist of investments. The investments are broadly in: equities (42.7%), cash (26.2%), bonds (18.0%) and international (13.1%).

The average remaining working lives of employees on the plan is 12 years and actuarial gains and losses exceeding the 10% corridor have been recognised over this period.

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Staff Costs** | | |
| **Defined Benefit Plan Expense** | | |
| - Current service costs | 177 | 173 |
| - Interest costs | 3,948 | 3,721 |
| - Expected return on plan assets | (7,471) | (7,426) |
| - Actuarial (gain)/loss recognised in the current year | (1,190) | 4,055 |
| - Movement in unrecognised post-employment benefit asset | 11,817 | 170 |
| **Total Expensed in the Statement of Financial Performance** | **7,281** | **693** |
| | | |
| **The Amount Included in the Statement of Financial Position Arising from the Defined Benefit Plan is:** | | |
| Present value of plan liability: End of year | (44,567) | (44,777) |
| Fair value of plan assets: End of year | 82,277 | 77,839 |
| Unrecognised actuarial loss: End of year | 3,113 | 3,113 |
| Unrecognised post-employment benefit asset | (40,823) | (36,175) |

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Movements in the Net Asset/(liability) Recognised in the Statement of Financial Position** | | |
| Amount charged to the Statement of Financial Performance | (7,281) | (693) |
| Contributions received by the Fund | 7,281 | 693 |
| **Closing Balance** | - | - |
| | | |
| **Actual Return on Plan Assets** | | |
| Expected return on plan assets | 7,471 | 7,426 |
| Actuarial gain/(loss) on plan assets | 632 | (1,971) |
| **Actual Return on Plan Assets** | **8,103** | **5,455** |
| | | |
| **The Principal Actuarial Assumptions used for Accounting Purposes:** | | |
| Discount rate pre-retirement | 8.54% | 9.15% |
| Price inflation | 5.94% | 6.29% |
| Salary escalation | 7.94% | 8.29% |
| Pension increases | 4.20% | 4.54% |
| Post-retirement rate | 4.21% | 4.54% |
| Expected return on fund assets | 9.54% | 10.04% |
| Pre-retirement mortality | N/A | SA56-65 tables |

### *Other Assumptions*

*Post-retirement Mortality*

PA(90) rated down by one year.

*Proportions Married*

100% of all future pensioners married at retirement, husband 3 years older than the wife.

*Expected Return on Assets*

A blended average of the projected long-term real returns for the various asset classes with allowance being made for price inflation, fees and tax is used to determine the expected return on assets.

| | Period | R'000 |
|---|---|---|
| Present value of the obligation | 2012 | (44,567) |
| | 2011 | (44,777) |
| Fair value of plan assets | 2012 | 82,277 |
| | 2011 | 77,839 |
| Surplus/(deficit) | 2012 | 37,710 |
| | 2011 | 33,062 |
| Expected contributions to the plan during the subsequent financial period | 2013 | 69,329 |

The next actuarial valuation for the defined benefit plan is due on 31 March 2013.

## 14.2 Post-employment Medical Obligations

The RAF operates a post-employment medical benefit scheme that covers employees who were appointed prior to 1 May 1998.

The latest valuation of the RAF's liability in respect of post-retirement benefits for the financial year-end was performed on 31 March 2012 and it will be valued at annual intervals thereafter.

25 current pensioners qualify for this benefit and approximately 10% of employees are prospectively entitled to this benefit. The initial liability and future increases thereof are charged to surplus or deficit.

No plan assets are shown, as the medical benefits are unfunded.

## 14.2 Post-employment Medical Obligations (continued)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **The Amounts Recognised in the Statement of Financial Position:** | | |
| Present value of plan liability: End of year | (39,863) | (33,802) |
| Unrecognised actuarial (gain): End of year | 3,883 | 2,194 |
| **Net Liability** | **(35,980)** | **(31,608)** |
| **Changes in the Present Value of the Defined Benefit Obligation:** | | |
| Net past service (liability): Beginning of the year | (31,608) | (28,123) |
| Contributions received by the fund | 469 | 426 |
| Amount charged to the Statement of Financial Performance | (4,841) | (3,911) |
| **Closing Balance** | **(35,980)** | **(31,608)** |
| **The Amount Included in the Statement of Financial Position Arising from the Defined Benefit Plan:** | | |
| Current service cost | 1,770 | 1,488 |
| Interest cost | 3,071 | 2,423 |
| **Total Included in Employee Related Costs** | **4,841** | **3,911** |
| **The Principal Actuarial Assumptions Used for Accounting Purposes:** | | |
| **Assumptions Used at the Reporting Date:** | | |
| Discount rate | 8.54% | 9.15% |
| Healthcare cost inflation | 7.94% | 8.15% |
| Real discount rate | 0.55% | 0.92% |
| Expected average retirement age | 59 | 59.4 |
| Spouse age gap | 3 years | 3 years |
| Normal retirement age | 60 | 60 |
| Proportion married at retirement | 80% | 80% |
| Continuation at retirement | 100% | 100% |

*Other Assumptions*

*Mortality: Pre-expected Retirement Age*

SA1985-90 light

*Mortality: Post-expected Retirement Age*

PA(90)-1

*Expected return on assets*

There are currently no plan assets set aside in respect of the post-employment healthcare liability. Therefore, no assumption specific to the assets has been made.

| | The value of the accrued contractual liability as at 31 March for each of the years is as follows: | |
|---|---|---|
| | **Period** | **R'000** |
| Present value of the obligation | 2012 | 39,863 |
| | 2011 | 33,802 |
| Expected contributions to the plan during the subsequent financial period | 2013 | 958,000 |

*Sensitivity Analysis*

| Assumption | Variation | % change in past-service contractual Liability |
|---|---|---|
| Healthcare cost inflation | +0.5% | +10.9% |
| | -0.5% | -9.7% |
| Mortality | +1 year | -3.3% |
| | -1 year | +3.5% |
| Resignation rate | No early retirement | -6.3% |
| | No withdrawal | +15.4% |

| | Note(s) | 2012 R'000 | 2011 R'000 |
|---|---|---|---|

## 15. Net Fuel Levies

| | | | |
|---|---|---|---|
| Gross fuel levies | | 18,536,147 | 15,663,102 |
| Less: diesel rebate | | (1,547,076) | (1,189,044) |
| **Total** | | **16,989,071** | **14,474,058** |

## 16. Other Income

| | | | |
|---|---|---|---|
| Recoveries | | 1,578 | 153 |
| Foreign exchange gains | | 86 | 286 |
| Profit on sale of property, plant and equipment | | - | 1,830 |
| **Total** | | **1,664** | **2,269** |

Recoveries relate to minor recoveries that do not form part of the normal business of the RAF, such as bad debts recovered, parking income and SETA refunds.

## 17. Reinsurance Revenue

| | | | |
|---|---|---|---|
| Revenue received in terms of high-value claims insured by reinsurance companies and commutation offers received from same | | **79** | **10,135** |

The number of claims above the reinsurance retention limit of R100 million per incident/accident was reduced. This had an impact on the recoverable claims; hence, the reduction of the reinsurance revenue from the prior financial year to the current financial year.

## 18. Investment Income

| | | | |
|---|---|---|---|
| Interest received from money market investments | | 108,369 | 36,259 |
| Interest received from rent-a-captive insurance | | 4,510 | 3,479 |
| Interest received – other | | 4 | 22 |
| **Total** | | **112,883** | **39,760** |

## 19. Claims Expenditure

| | | | |
|---|---|---|---|
| Claims paid | | 12,506,556 | 12,785,919 |
| Claims finalised and not paid | | 169,256 | 460,197 |
| Reversal of claims finalised not paid | | (460,197) | (304,970) |
| Net increase in claims provision | | 20,371,653 | 2,081,052 |
| **Total** | | **32,587,268** | **15,022,198** |

## 20. Reinsurance Premiums

| | | | |
|---|---|---|---|
| Paid to reinsurers during the year | | 22,847 | 27,690 |

## 21. Employee-related Costs

| | | | |
|---|---|---|---|
| **Total Staff Costs** | | **655,245** | **620,803** |
| **Included in Staff Costs are:** | | | |
| Contributions to the defined benefit plan | 14 | 7,281 | 693 |
| Contributions to the defined contribution plan | | 45,816 | 49,261 |
| Contributions to the post-retirement healthcare benefit | 14 | 4,841 | 3,911 |

As at 31 March 2012, 1,844 staff members were employed by the RAF (2011: 1,872).

| | 2012 R'000 | 2011 R'000 |
|---|---|---|

## 22. Administrative Expenses

| **Administrative Expenses include:** | 2012 R'000 | 2011 R'000 |
|---|---|---|
| External Audit fees | 6,130 | 4,852 |
| Directors' fees | 4,824 | 3,522 |
| Directors' expenses | 2,743 | 1,881 |
| Operating lease rental – buildings* | 37,069 | 38,301 |
| Operating lease rental – equipment | - | 31 |
| Loss on sale of property, plant and equipment | 424 | - |
| Other expenses | 187,216 | 175,844 |
| **Total** | **238,406** | **224,431** |

| **Other Expenses include, among other, the following:** | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Professional services | 23,694 | 7,054 |
| Computer services | 53,627 | 53,146 |
| Telephone, stationery, postage and consumables | 21,133 | 20,696 |
| Operating costs – offices | 26,636 | 27,587 |
| Subsistence and travel | 11,670 | 12,573 |
| Maintenance | 11,003 | 15,333 |
| Marketing | 12,949 | 9,177 |
| Forensic and fraud combat services | 8,640 | 9,028 |
| Legal fees on corporate matters | 1,641 | 4,569 |
| Storage | 2,059 | 1,724 |
| Short-term insurance premiums | 4,018 | 1,186 |
| Advertisements | 3,753 | 10,617 |

* *The RAF occupies a number of office premises which are under long-term operating leases. These lease agreements range over periods varying between one to five years and are subject to escalation of 8% to 10% per annum.*

## 23. Depreciation and Amortisation

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Buildings | 2,765 | 3,246 |
| Motor vehicles | 2,102 | 2,132 |
| Office equipment | 3,535 | 3,202 |
| Office furniture | 1,432 | 1,471 |
| Computer equipment | 17,667 | 17,241 |
| Leasehold improvements | 5,431 | 4,766 |
| **Total Depreciation** | **32,932** | **32,058** |
| Intangible assets | 30,722 | 27,497 |
| **Total Depreciation and Amortisation** | **63,654** | **59,555** |

## 24. Finance Costs

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Foreign exchange losses | 271 | 4,465 |
| Interest charged by creditors | 80 | 3 |
| Interest charged on claims | 23,248 | 38,820 |
| **Total** | **23,599** | **43,288** |

| | 2012 R'000 | 2011 R'000 |
|---|---|---|

## 25. Fruitless and Wasteful Expenditure

| | | |
|---|---|---|
| Interest and sheriff costs | 22,108 | 26,267 |

Interest and sheriff costs – As per the definition of the PFMA, fruitless and wasteful expenditure means "expenditure which was made in vain and could have been avoided had reasonable care been exercised". The amounts listed are costs incurred in the settlement process of claims influenced by the external legal processes and time limits legally enforced on the RAF in the settlement of claims. A portion of the mentioned costs could not be regarded as "fruitless and wasteful" as in certain instances, it is physically impossible to comply with the time limits that are in place, i.e. where a writ can be issued against the RAF immediately after a claimant legal cost bill has been taxed. It must be highlighted that the RAF operates in a highly litigious environment where legal processes place huge demands on its operations.

Disciplinary action has been taken against staff members as a result of negligence resulting in the payment of sheriff and interest costs, as well as duplicate payments. During the financial year, people have been disciplined resulting in 24 final written warnings, 40 written warnings and 92 verbal warnings being issued.

## 26. Cash Generated from Operations

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Deficit | (16,487,322) | (1,471,743) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 63,654 | 59,555 |
| Deficit/(surplus) on sale of assets | 424 | (1,830) |
| Increase in provision for employee benefits | 4,372 | 3,485 |
| Increase in provision for outstanding claims | 20,371,653 | 2,081,052 |
| (Decrease)/increase in provisions | 316,510 | 13,470 |
| **Changes in Working Capital:** | | |
| Consumable stock | (244) | 143 |
| Trade and other receivables from exchange transactions | (381) | (32,906) |
| Transfers receivable from fuel levies | (934,176) | (200,364) |
| Interest receivable | (14,369) | - |
| Payables and accruals | (206,299) | 75,043 |
| | **3,113,822** | **525,905** |

## 27. Related Parties

The RAF is an entity created by statute with the Minister of Transport being the Executive Authority representing the government of South Africa. The RAF is a Schedule 3A Public Entity in terms of the PFMA. The related party disclosures are in terms of the requirements of IPSAS 20. The related parties of the RAF mainly consist of Departments, State-Owned Entities ("SOE's"), other public entities in the national sphere of government and key Management personnel of the RAF, or its Executive Authority and close family members of related parties. The list of public entities in the national sphere of government is provided by National Treasury on their website www.treasury.gov.za. National Treasury also provides the names of subsidiaries of public entities.

Although the RAF transacted with other public entities within the national sphere of government, none of the related parties identified influenced or was influenced by the RAF during the reporting period and therefore no related party transactions with other entities in the national sphere of government are disclosed. All these transactions took place at arm's length.

The following transactions were concluded with key Management of the RAF in terms of employment contracts entered into with the RAF.

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Key Management Compensation** | 22,696 | 15,969 |

## 28. Board and Executive Members' Emoluments

### Non-Executive Directors

The Executive Authority approves the remuneration of the Board. Remuneration of Non-Executive Directors is benchmarked against the norms for organisations of similar size and in line with the guidelines issued by the Executive Authority. Non-Executive Directors receive a fixed monthly remuneration.

### Executive Remuneration

The CEO makes recommendations to the Board concerning the remuneration of Executives and approves the remuneration of Executive Management ("EXCO") members including that of the CEO. Factors influencing the remuneration of the EXCO members include level of skill, experience, and contribution to organisational performance.

The RAF introduced a performance-based remuneration for its Management staff by linking annual salary increases to individual contributions. Management receives an annual increase based on a combination of Consumer Price Index ("CPI") and individual performance. The organisation conducts an annual salary survey/benchmark to ensure that Management rewards and remuneration are market-related and kept at levels that will assist the RAF in retaining and attracting key leadership skills. The RAF aims to remunerate in line with the 50$^{th}$ percentile (median) of the market to recruit and retain the Management team to lead the organisation. Over and above the basic salary, staff members receive a performance incentive as a percentage of their total cost of employment.

All EXCO members are on a three (3) year fixed-term contract of employment.

| Executive Management | Office Held | Term | Salary R'000 | Leave Pay R'000 | Performance Bonus R'000 | Pension Contributions R'000 | Medical Contributions R'000 | Total Employment Cost 2012 R'000 |
|---|---|---|---|---|---|---|---|---|
| JRD Modise | Chief Executive Officer | 01-Apr-11 to 31-Dec-11 | 3,522 | 956 | 4,767* | 342 | 41 | **9,628** |
| A Gernandt | Chief Operations Officer | 01-Apr-11 to 31-Mar-12 | 1,844 | - | 336 | 209 | 53 | **2,442** |
| MI Mvelase | Executive Customer Services Network | 01-Apr-11 to 31-Mar-12 | 1,450 | - | 238 | 150 | - | **1,838** |
| DJ Hlabangane | Executive Human Resources | 01-Apr-11 to 31-Mar-12 | 1,083 | - | 197 | 109 | 44 | **1,433** |
| SS Ramessur | Chief Information Officer | 01-Apr-11 to 31-Mar-12 | 1,261 | - | 274 | 151 | 53 | **1,739** |
| LM Steele | Executive Legal and Compliance | 01-Apr-11 to 31-Mar-12 | 1,171 | - | 237 | 119 | - | **1,527** |
| AAA Seedat | Acting Chief Financial Officer | 01-Apr-11 to 30-Apr-11 | 77 | - | - | 8 | 4 | **89** |
| LJ Fosu | Chief Financial Officer | 01-May-11 to 31-Mar-12 | 1,558 | - | - | 155 | 41 | **1,754** |
| RD Stewart | Acting Executive Marketing and Communications | 01-May-11 to 31-Aug-11 | 281 | - | - | 32 | 6 | **319** |
| NA Jafta | Executive Marketing, Communications and Stakeholder Relations | 11-Aug-11 to 31-Mar-12 | 691 | - | - | 70 | 15 | **776** |
| MP Moiloa | Executive Benefits Administration Unit | 01-Apr-11 to 31-Jan-12 | 1,041 | - | - | 95 | 15 | **1,151** |
| **Total** | | | 13,979 | 956 | 6,049 | 1,440 | 272 | 22,696 |

* *The performance bonus comprises the performance bonuses for the 2010/11 and 2011/12 financial years. The 2011/12 financial year was paid before the end of the financial year to the expiry of Mr Modise's contract and his subsequent departure prior to the financial year-end (i.e. 31 December 2011).*

| Executive Management | Office Held | Term | Salary R'000 | Leave Pay R'000 | Performance Bonus R'000 | Pension Contributions R'000 | Medical Contributions R'000 | Total Employment Cost 2011 R'000 |
|---|---|---|---|---|---|---|---|---|
| JRD Modise | Chief Executive Officer | 01-Apr-10 to 31 Mar 11 | 4,172 | - | 2,068 | 417 | 51 | **6,708** |
| A Gernandt | Chief Operations Officer | 01-Apr-10 to 31-Mar-11 | 1,693 | - | 342 | 192 | 48 | **2,275** |
| MI Mvelase | Executive Marketing and Communications | 01-Apr-10 to 31-Mar-11 | 1,104 | - | 229 | 107 | - | **1,440** |
| DJ Hlabangane | Executive Human Resources | 01-Apr-10 to 31-Mar-11 | 994 | - | 215 | 99 | 41 | **1,349** |
| SS Ramessur | Chief Information Officer | 01-Apr-10 to 31-Mar-11 | 1,160 | - | 255 | 136 | 49 | **1,600** |
| LM Steele | Executive Legal and Compliance | 01-Apr-10 to 31-Mar-11 | 1,075 | - | 189 | 110 | - | **1,374** |
| AAA Seedat | Acting Chief Financial Officer | 01-Apr-10 to 31-Mar-11 | 814 | - | 273 | 87 | 49 | **1,223** |
| **Total** | | | **11,012** | **-** | **3,571** | **1,148** | **238** | **15,969** |

*Non-executive Board Members*

| Board Members | Office Held | Term | Annual Fee 2012 R'000 | Annual Fee 2011 R'000 |
|---|---|---|---|---|
| NM Bhengu (Chairperson) | Board Member | 01-Apr-11 to 31-Mar-12 | 690 | 328 |
| V Mahlangu (Vice-Chairperson) | Board Member | 01-Apr-11 to 31-Mar-12 | 529 | 290 |
| JN Masekoameng | Board Member | 01-Apr-11 to 31-Mar-12 | 459 | 219 |
| DS Qocha | Board Member | 01-Apr-11 to 31-Mar-12 | 459 | 219 |
| NZ Qunta | Board Member | 01-Apr-11 to 31-Mar-12 | 459 | 219 |
| MJ Ralefatane | Board Member | 01-Apr-11 to 31-Mar-12 | 505 | 241 |
| DK Smith | Board Member | 01-Apr-11 to 31-Mar-12 | 505 | 241 |
| A Steyn | Board Member | 01-Apr-11 to 31-Mar-12 | 459 | 219 |
| T Moyo | Board Member | 01-Apr-11 to 31-Mar-12 | 505 | 241 |
| LED Hlatshwayo | Board Member | 01-Oct-11 to 31-Mar-12 | 254 | - |
| **Total** | | | **4,824** | **2,217** |

| | Total Employment Cost 2012 R'000 | Total Employment Cost 2011 R'000 |
|---|---|---|
| *Summary* | | |
| Non-executive Board Members | 4,824 | 2,217 |
| Non-executive Advisory Committee Members | - | 1,306 |
| Executive Management | 22,696 | 15,969 |

## 29. Taxation

The RAF is exempt from taxation in terms of the provision of Section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962) and Section 16 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996).

## 30. Risk Management

### Overview

The RAF is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risks are credit risk, liquidity risk and market risk (which comprises interest rate risk, currency risk and other price risk). The risks that the RAF primarily faces due to the nature of its assets and liabilities are liquidity risk, interest rate risk and currency risk.

### Market Risk

Market risk is the risk of changes in market prices, such as foreign exchange rates and interest rates, that will affect the RAF's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

The RAF's activities expose it primarily to the financial risks of changes in foreign exchange rates for formal contracts that it has entered into. The RAF has entered into a contract with a foreign company to deliver a claims management information technology system. This service and some of the related hardware are subject to foreign exchange fluctuations that are covered by forward currency contracts.

The RAF is also exposed to foreign exchange fluctuations where claims from foreigners have been lodged, and damages for future medical expenses and loss of earnings or support are claimed in a foreign currency. When such claims are settled, the RAF pays the compensation as soon as possible after settlement date so as to minimise the risk of foreign exchange fluctuations.

### Liquidity Risk

Liquidity risk is the risk that the RAF will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the RAF's short-, medium- and long-term funding and liquidity management requirements. The RAF manages liquidity risk by maintaining sufficient cash reserves and by matching financial assets and liabilities as far as is practical.

Reinsurance is also used to manage liquidity risk.

The following table analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | Weighted Average Effective Interest Rate | On Demand R'000 | 1-3 Months R'000 | 1-5 Years R'000 | Total R'000 |
|---|---|---|---|---|---|
| **At 31 March 2012** | | | | | |
| Trade and other creditors | - | (154,506) | - | - | (154,506) |
| Claims creditors | - | (169,256) | - | - | (169,256) |
| Cash and cash equivalents | 5.06% | 4,245,050 | - | - | 4,245,050 |
| Rent-a-captive insurance | 5.43% | 109,726 | - | - | 109,726 |
| **At 31 March 2011** | | | | | |
| Trade and other creditors | - | (66,363) | - | - | (66,363) |
| Claims creditors | - | (460,197) | - | - | (460,197) |
| Cash and cash equivalents | 5.55% | 1,137,636 | - | - | 1,137,636 |
| Rent-a-captive insurance | 6.15% | 106,227 | - | - | 106,227 |

## Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The RAF is exposed to interest rate risk as it invests funds in the money market at floating interest rates. As at 31 March 2012, no derivative financial instruments were used to manage the RAF's exposure to interest rate risk.

All liquid funds are invested with registered South African banking institutions with maturities of 90 days or less, thereby minimising interest rate risk.

Interest rates of interest bearing debts are linked to the prime overdraft rate.

The interest rate applicable on study loans and bursaries is equivalent to the official rate of interest for determining a fringe benefit as approved by the Minister of Finance from time to time. The interest rate applicable to the payments of interest on capital and legal costs is determined by the Prescribed Rate of Interest Act, 1975 (Act No. 55 of 1975).

## Interest Rate Risk Sensitivity Analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts, the sensitivity is solely associated with the former as the carrying amounts of the latter are not directly affected by changes in the interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the RAF's deficit for the year ended 31 March 2012 would decrease/(increase) by R13.6 million (2011: decrease/(increase) by R 3.6 million). This is mainly attributable to the RAF's exposure to interest rates on its floating rate investments. The sensitivity analysis has been determined based on the exposure to interest rates for the RAF's non-derivative instruments at the financial reporting date. The analysis was prepared assuming that the investments at year-end were constant throughout the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key Management personnel and represents Management's assessment of the reasonably possible change in interest rates.

## Credit Risk

The RAF has exposure to credit risk, which is the risk of financial loss to the RAF if a counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the RAF is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due with respect to claims debtors;
- Amounts due with respect to study loans and bursaries (this risk is very minimal as the amounts are immaterial);
- The ultimate amount due from the self funding claims re-insurance policy (Note 6); and
- Fuel levy debtors.

The nature of the RAF's exposure to credit risk, as well as the policies and processes for managing the credit risk have not changed significantly from the prior period.

Potential concentrations of credit risk consist mainly of short-term cash. Money market instrument operations are only entered into with well established and reputable financial institutions.

It is the RAF's policy to grant bursaries and study loans to employees in the fields of study that are relevant only to the RAF's line of business. Monthly instalments are deducted directly from payroll in relation to study loans.

The rent-a-captive insurance includes an amount set aside as a self-funding Claims Reinsurance Policy. This policy will be utilised to fund the first R100 million of the retention amount of the Claims Reinsurance Policy in the event of a catastrophic claim being instituted against the RAF. The deposit amount represents the balance of the special experience account, an account the insurer maintains for the purposes of recording this policy. The insurer is a well-established and reputable financial institution.

Under the terms of reinsurance agreements, reinsurers agree to reimburse the settled amount in the event that a gross claim is paid. The RAF, however, remains liable to its claimants regardless of whether the reinsurer meets the obligations it has assumed. Consequently the RAF is exposed to credit risk.

The RAF monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

The carrying amounts of financial assets and reinsurance assets included in the Statement of Financial Position represent the RAF's exposure to credit risk in relation to these assets. At 31 March 2012, the RAF did not consider there to be a significant concentration of credit risk which had not been adequately provided for.

## Credit Risk (continued)

| | Total Asset R'000 | Doubtful Debt and Discounting R'000 | Recoverable R'000 |
|---|---|---|---|
| **Credit Risk Analysis 2012** | | | |
| **Counterparty Categories** | | | |
| Fuel levy debtors | 3,884,349 | - | 3,884,349 |
| Sundry debtors | 4,465 | - | 4,465 |
| Claims debtors | 12,058 | (1,945) | 10,113 |
| Other receivables | 21,266 | (643) | 20,623 |
| Cash and cash equivalents | 4,245,050 | - | 4,245,050 |
| Rent-a-captive insurance | 109,726 | - | 109,726 |
| | **8,276,914** | **(2,588)** | **8,274,326** |
| **Credit Risk Analysis 2011** | | | |
| **Counterparty Categories** | | | |
| Fuel levy debtors | 2,950,173 | - | 2,950,173 |
| Sundry debtors | 3,716 | (636) | 3,080 |
| Claims debtors | 14,129 | (902) | 13,227 |
| Other receivables | 22,768 | (756) | 22,012 |
| Cash and cash equivalents | 1,137,636 | - | 1,137,636 |
| Rent-a-captive insurance | 106,227 | - | 106,227 |
| | **4,234,649** | **(2,294)** | **4,232,355** |

### Currency Risk

The financial items that are exposed to currency risk at the reporting date are claims that have not been paid to foreign claimants yet, as well as the exposure on the acquisition of intangible assets in foreign currencies. The engaging of forward cover is considered on a case-by-case basis if the period between making an offer and final payment is material. As at 31 March 2012, no derivative financial instruments were used to manage the RAF's exposure to foreign currency risk, only fixed-term forward cover contracts were utilised.

**The Carrying Amounts of the RAF's Outstanding Foreign Currency Denominated Claims are:**

| | 2012 '000 | 2011 '000 |
|---|---|---|
| USD | 17,456 | 13,411 |
| GBP | 1,757 | 1,757 |
| EURO | 12,606 | 2,282 |

The following table details the RAF's sensitivity to a 10% increase and decrease in the South African Rand against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key Management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates.

### *Foreign Currency Sensitivity Analysis*

| | USD Impact R'000 | GBP Impact R'000 | EURO Impact R'000 | All foreign Currencies R'000 |
|---|---|---|---|---|
| 2012 | 13,403 | 2,157 | 12,913 | 28,472 |
| 2011 | 9,070 | 1,904 | 2,188 | 13,162 |

The sensitivity analysis includes only outstanding foreign currency denominated claims at reporting date and adjusts their translation at the period end for a 10% change in foreign currency rates. The figures above indicate an increase in surplus or deficit where the presentation currency strengthens 10% against the relevant currency. For a 10% weakening of the presentation currency against the relevant currency, there would be an equal and opposite impact on the surplus or deficit and the balances above would be negative.

## 31. Insurance Risk Management

### Overview

The RAF accepts insurance risk as it is mandated by legislation to compensate victims of road accidents for injuries suffered as a result of motor vehicle accidents. The RAF is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts. This note presents information about the RAF's exposure to insurance risk and the RAF's objectives, policies and processes for managing this risk.

The RAF has developed, implemented and maintained a sound and prudent Insurance Risk Management Strategy that encompasses all aspects of the RAF's operations including the reinsurance risk retention limits. Key aspects of the processes established to mitigate insurance risk include:

- The maintenance and use of sophisticated management information systems, which provide reliable and up-to-date data on the risks to which the business is exposed at any point in time;
- Actuarial models, using information derived from the management information systems to monitor claims patterns. Past experience and statistical methods are used as part of the process;
- Catastrophic accidents are modelled and the RAF's exposures are protected by arranging reinsurance to limit the losses arising from an individual event. The retention and limits are approved by the RAF's Board; and
- Only reinsurers with credit ratings equal to "AA", or in excess of, a minimum level determined by Management are accepted as participants in the RAF's reinsurance agreements.

### Reinsurance Income

The RAF enters into reinsurance treaties with major international reinsurance companies to cover catastrophic accidents. The RAF recovered R79,088 (2011: R10,134,641) from reinsurers during the current financial year in respect of claims settled by the RAF. The number of claims above the reinsurance retention limit of R100 million per incident/accident was reduced. This has an impact on the recoverable claims, hence the reduction of the reinsurance revenue from the prior financial year to the current financial year.

### Foreign Claims

The number of claims by foreign visitors to South Africa continues to rise as the volume of visitors to the country increases. As the bulk of these claims are paid in the applicable foreign currency and these claimants also enjoy unlimited benefits, foreigners' claims form a large proportion of high-value claims. At 31 March 2012, 14% (2011: 25%) of the value of the provision for outstanding claims in excess of R5 million was made up of claims by foreign nationals. It is important to note, however, that the actual claimed amount often exceeds the estimated value of the claim.

### Claims Reinsurance

In terms of section 4(1)(d) of the Road Accident Fund Act, 1996 (Act No. 56 of 1996) the RAF may procure reinsurance for any risk undertaken in accordance with this Act. Simultaneously section 51(1)(a)(i) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) states that a public entity must ensure that it has and maintains effective, efficient and transparent systems of financial and risk management.

The RAF, through its reinsurance brokers, procures reinsurance cover each year and negotiates reinsurance treaties for the RAF. The RAF's reinsurance treaties are all excess of loss agreements. Therefore the reinsurers indemnify the RAF for that part of the ultimate net loss (total amount paid) which exceeds the retention amount, as per the relevant treaty, subject to an indexation clause as contained in the treaties. The RAF will only accept terms provided by reinsurers with acceptable ratings. The ratings are done by Standard & Poor and AM & Best which are international quality rating companies. The RAF currently places its limited reinsurance cover with a South African company, AIG SA, and the unlimited cover is placed with reinsurers based in London. The current limited cover has a set retention level of R100 million and in terms of the treaty the reinsurer's liability is limited to pay up to R300 million per any one loss occurrence event, on account of each and every loss occurrence. The unlimited cover placed in the London reinsurance market provides for cover in excess of R400 million per any loss occurrence event, on account of each and every loss occurrence.

The RAF must report to reinsurers all losses (all claims arising from an accident) likely to exceed the notification amounts as specified in the respective reinsurance treaties.

In terms of the reinsurance treaties, the reinsurers indemnify the RAF for that part of the ultimate net loss (total amount paid), which exceeds the retention amounts as specified in the treaties, subject to the indexation clause.

The following table illustrates the notification amounts and retention amounts for the respective annual reinsurance treaties:

| Accident year | Notification amount | Retention amount |
|---|---|---|
| 1984/85 | R500,000 | R1,500,000 |
| 1985/86 | R500,000 | R1,500,000 |
| 1986/87 | R3,000,000 | R5,000,000 |
| 1987/88 | R3,000,000 | R5,000,000 |
| 1988/89 | R1,000,000 | R2,500,000 |
| 1989/90 | R1,000,000 | R3,000,000 |
| 1990/91 | R1,000,000 | R3,000,000 |
| 1991/92 | R1,000,000 | R4,000,000 |
| 1992/93 | R1,000,000 | R4,500,000 |
| 1993/94 | R2,000,000 | R4,500,000 |
| 1994/95 | R2,000,000 | R5,000,000 |
| 1995/96 | R2,000,000 | R5,000,000 |
| 1996/97 | R2,000,000 | R10,000,000 |
| 1997/98 | R5,000,000 | R10,000,000 |
| 1998/99 | R5,000,000 | R10,000,000 |
| 1999/00 | R7,500,000 | R15,000,000 |
| 2000/01 | R15,000,000 | R20,000,000 |
| 2001/02 | R15,000,000 | R20,000,000 |
| 2002/03 | R15,000,000 | R50,000,000 |
| 2003/04 | R15,000,000 | R50,000,000 |
| 2004/05 | R15,000,000 | R50,000,000 |
| 2005/06 | R15,000,000 | R100,000,000 |
| 2006/07 | R15,000,000 | R100,000,000 |
| 2007/08 | R15,000,000 | R100,000,000 |
| 2008/09 | R15,000,000 | R100,000,000 |
| 2009/10 | R15,000,000 | R100,000,000 |
| 2010/11 | R15,000,000 | R100,000,000 |
| 2011/12 | R15,000,000 | R100,000,000 |

The RAF monitors its reinsurance risk on a quarterly basis by reviewing and updating reports to reinsurers, which indicate the current status with regards to matters reported to reinsurers. Furthermore, regular reports are run against the RAF's database to identify potential reportable matters, as a pro-active measure.

## Directors' and Officers' Liability Insurance

The RAF manages the risks that the Directors and Officers of the RAF are exposed to, by way of Director's and Officers' liability.

The RAF's current Directors' and Officers' insurance cover is placed with two underwriters respectively.

The total limit of indemnity per claim is R250 million and to all in the aggregate.

The net total annual premium for this cover is R3,1 million.

## 32. Lease Commitments

The RAF leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

### The Future Aggregate Minimum Lease Payments Under Non-Cancelable Operating Leases are:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Up to one year | 8,718 | 39,612 |
| Two to five years | 2,134 | 10,655 |
| **Total Minimum Lease Payments** | **10,852** | **50,267** |

## 33. Contingencies

The RAF has contingent liabilities in respect of the following:

### Guarantees

The RAF has signed the following sureties prior to 31 March 2012:

| Description | Purpose | 2011 R'000 | 2012 R'000 |
|---|---|---|---|
| SA Mutual Life Assurance Society | Office accommodation Durban | 300 | 300 |
| Ryckloff Beleggings | Office accommodation Johannesburg | 2,700 | 3,950 |
| Gensec Property Services | Office accommodation Pretoria | - | 19 |
| Apexhi Properties Limited | Office accommodation Centurion | - | 82 |
| South African Post Office Limited | Office accommodation Port Elizabeth | - | 28 |
| Paramount Property Fund Ltd | Office accommodation Forensics Cape Town | - | 78 |
| Changing Tides (Pty) Ltd | Office accommodation Polokwane | - | 15 |
| Chessboard Trade and Invest 79 (Pty) Ltd | Office accommodation East London | - | 283 |
| Lichcrete CC | Office accommodation Lichtenburg | - | 3 |
| Joburg Skyscraper (Pty) Ltd | Office accommodation Johannesburg | - | 1,402 |
| Quantum Leap Investments 94 (Pty) Ltd | Office accommodation Newcastle | 5 | 5 |
| ZIG ZAG Properties (Pty) Ltd | Office accommodation Port Elizabeth | 18 | 18 |
| Faerie Glen Waterpark (Pty) Ltd | Office accommodation Highveld Centurion | 969 | 969 |
| Card facilities (fleet cards) | | 774 | 774 |
| **Total** | | **4,766** | **7,926** |

The RAF has ceded to Absa Bank Limited a Special Deposit Account with a balance of R21,563,769 as at 31 March 2012 as security for the guarantees issued, facilities and loans granted by Absa Bank Limited on behalf of the RAF.

### Security Furnished Pending Finalisation of Legal Proceedings

According to current legal processes and Court rules the RAF has furnished security to the amount of R158,516 in respect of legal proceedings pending.

The amount has been invested in terms of section 78(2A) of the Attorneys Act, 1979 in interest-bearing term deposit investment instruments at registered banking institutions for the benefit of the RAF.

### Claims Incurred but not yet Reported (IBNR)

| | |
|---|---|
| Estimated claims incurred but not yet reported 2012 | R18,688 million |
| Estimated claims incurred but not yet reported 2011 | R14,100 million |

The RAF estimates accidents that have occurred which could result in claims. These have not yet been lodged and could result in a claim. The reason that these are not accounted for as a provision is because the obligating event (lodging of the claim) has not yet taken place and is not within the control of the RAF.

## 33. Contingencies (continued)

### Other Contingent Liabilities

There are a number of outstanding Corporate Legal matters as follows:

- Constitutional Court – 7 matters
- Litigation by service providers – 7 matters
- Other – 20 matters

The provision for outstanding claims is calculated by the actuaries after taking into consideration relevant external litigation and other costs in order to settle the claims.

Because the system of compensation administered by the RAF is based on the law of delict requiring claimants to prove both fault and their damages, the RAF is continuously engaged in litigation. Whilst the provision calculated by the actuaries attempts to cover all these litigated claims, the inherent uncertainty of the outcome means that there may be additional contingent liabilities.

In addition, the RAF is involved in other commercial and labour-related litigious matters. The quantum of this exposure is not disclosed as these matters are *sub judice*.

## 34. Commitments

### Authorised Capital Expenditure

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Already Contracted for but not Provided for** | | |
| Intangible assets | 5,168 | - |
| **Not yet Contracted for and Authorised by Members** | | |
| Intangible assets | 19,037 | - |

This committed expenditure relates to intangible assets and will be financed by existing cash resources.

## 35. Change in Accounting Policy

During the year, the RAF changed its accounting policy with respect to the treatment of IBNR. The RAF now accounts for IBNR as a contingent liability. Prior to this change in policy, the RAF accounted for IBNR as a provision.

RAF believes the new policy is adequate as IBNR represents accidents/incidents that are neither reported, nor registered by the RAF at the valuation date. Such accidents/incidents are not assessed in terms of the RAF Act to determine whether they would constitute an RAF claim or not as at the valuation date.

The impact of the change in accounting policy on the Financial Statements has been a reduction of the provision for outstanding claims by an amount representing IBNR and disclosing the IBNR amount as a contingent liability.

The impact on each line item of the Financial Statements is shown below:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Statement of Financial Position** | | |
| Provision for outstanding claims | 18,688,860 | 14,100,000 |
| Opening accumulated surplus or deficit reduced by | (14,100,000) | (13,900,000) |
| **Statement of Financial Performance** | | |
| Claims expenditure reduced by | (4,588,860) | (200,000) |

## 36. Going concern

We draw attention to the fact that at 31 March 2012, the entity had an accumulated deficit of R46,468 million and that the entity's total liabilities exceeded its assets by R46,396 million.

The going concern basis was used in preparing the Annual Financial Statements. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. In the past, the RAF has received financial support from National Treasury in the form of cash injections over and above the normal fuel levy income as and when it faced liquidity problems. During the 2006 financial year it received a cash injection of R2,502 billion and in the 2009 financial year it received R2,550 billion. The Board and Management are committed to implementing plans to contain the growing deficit caused by the rising provision for outstanding claims.

## 37. Irregular Expenditure

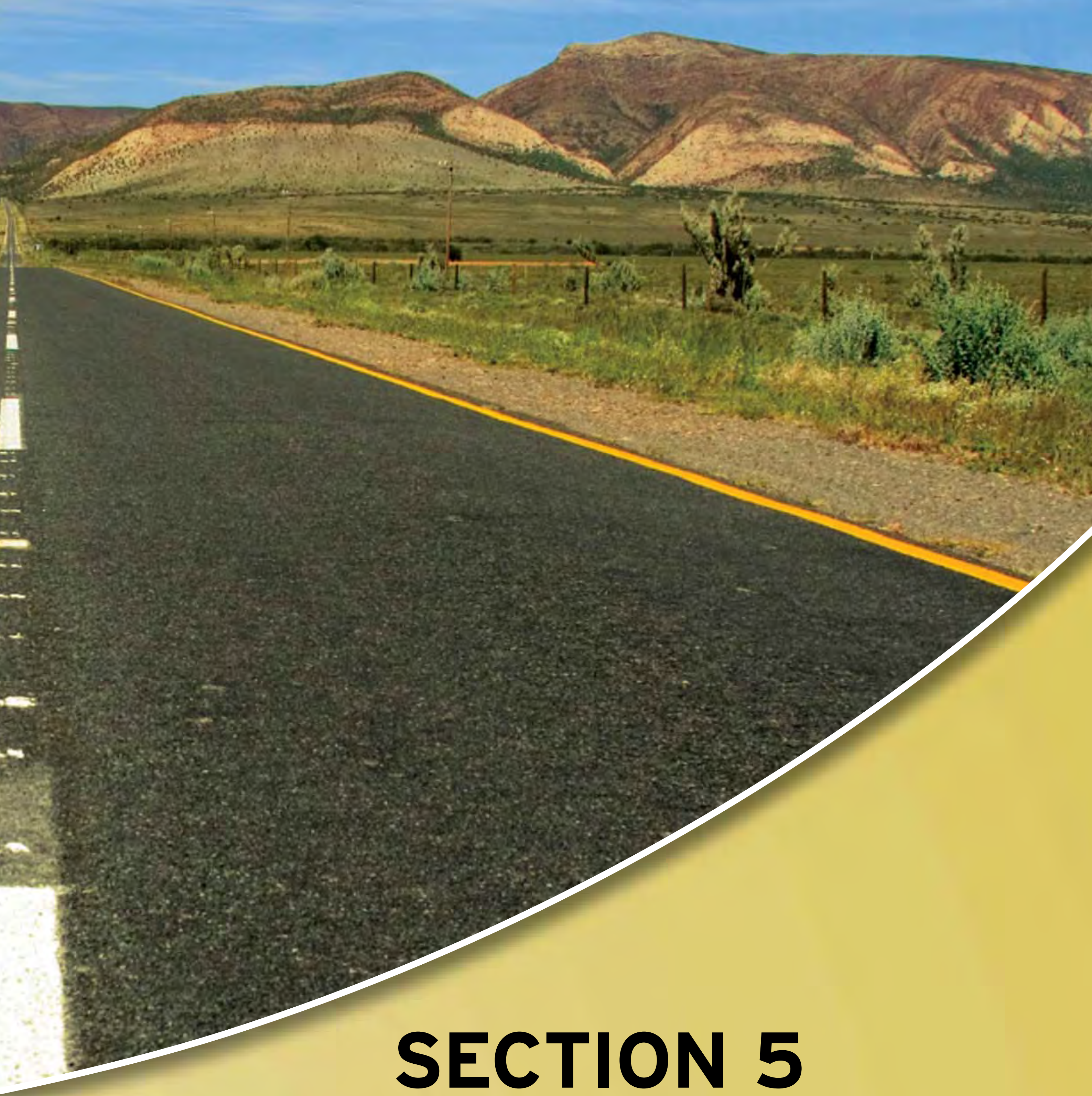
| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Irregular expenditure – current year | 7,042 | 14,529 |
| Irregular expenditure – condoned | 7,042 | - |

Non-compliance with supply chain management practices resulted in irregular expenditure being incurred.

## 38. Reconciliation Between Budget and Statement of Financial Performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the Statement of Financial Performance. This has been disclosed due to the fact that the budget is done on a cash basis and is therefore not directly comparable to the Annual Financial Statements:

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| Net deficit per Statement of Financial Performance | (16,487,322) | (1,471,743) |
| **Adjusted for:** | | |
| Fair value adjustments | 1,382 | 1,658 |
| Profit/(loss) on the sale of assets | (424) | 1,830 |
| Fruitless expenditure | 22,108 | 26,267 |
| Additional net fuel levies received | (1,389,456) | (1,344,908) |
| Additional other income received | (1,664) | (2,269) |
| Additional investment income received | (16,213) | (17,409) |
| Additional reinsurance revenue and recoveries | (79) | (10,135) |
| Higher/(lower) claims expenditure than expected | 17,093,487 | 5,358,801 |
| Savings in other expenses | (201,956) | (1,200,708) |
| Additional/(savings in) reinsurance premium paid | (5,153) | 1,846 |
| **Net (Deficit) Surplus per Approved Budget** | **(985,290)** | **1,343,230** |



# SECTION 5
## Additional Information

# ANNEXURE I

## Global Reporting Initiative (GRI) Index

An index to the Road Accident Fund Integrated Annual Report 2012, based on the Global Reporting Initiative (GRI) sustainability reporting guideline criteria, is provided in the table below.

| GRI Reference | Description | Reference in the Annual Report | Page |
|---|---|---|---|
| Strategy and analysis | Statement of senior decision-makers, description of impacts, risks and opportunities | Messages from the Chairperson and CEO | 30 |
| Organisational profile | Organisational profile, details and scale of organisation, ownership, significant changes introduced | RAF at a Glance<br>RAF Locations – Contact Information<br>Governing Structure<br>Messages from the Chairperson and CEO<br>Organisational Performance<br>Legal Framework | 6<br>190<br>6<br>30<br>124<br>54 |
| Report parameters | Report profile, scope and boundaries | Scope of the Report<br>RAF at a Glance<br>Strategic Objectives<br>Historical Review<br>Messages from the Chairperson and CEO<br>Leadership<br>Corporate Governance<br>Organisational Performance<br>Legal Framework<br>Support Functions<br>Performance against Strategic Objectives<br>Annual Financial Statements | 3<br>6<br>10<br>18<br>30<br>37<br>42<br>53<br>54<br>96<br>124<br>144 |
| Governance, commitments and engagements | Governance, commitments to external initiatives and stakeholder engagement | Vision, Mission and Core Values<br>Strategic Objectives<br>Historical Review<br>Leadership<br>Corporate Governance<br>Organisational Performance<br>Support Functions<br>Stakeholder Engagement | 9<br>10<br>18<br>37<br>42<br>53<br>96<br>117 |
| Management approach and key performance indicators | Economic performance, service offering, role and impact on SA economy, human resources | Historical Review<br>Message from the Chairperson and CEO<br>Organisational Performance<br>Support Functions<br>Performance against Strategic Objectives<br>Reducing the RAF's Environmental Impact<br>Annual Financial Statements | 18<br>30<br>53<br>96<br>124<br>124<br>144 |
| Environmental framework | Environmental impact | Reducing the RAF's Environmental Impact | 124 |
| Social performance indicators, labour practices and decent work | Employment, labour/management relations, occupational health and safety, training and skills | Human Capital | 100 |

# ANNEXURE II

## List of Abbreviations/Acronyms

| | |
|---|---|
| ABET | Adult Basic Education and Training |
| ACC | Accident Compensation Corporation (New Zealand) |
| AMA | American Medical Association's Guides to the Evaluation of Permanent Impairment |
| Amendment Act | RAF Amendment Act, 2005 (Act No. 10 of 2005) |
| APN | Access Point Name |
| ASB | Accounting Standards Board |
| ASGISA | Accelerated and Shared Growth Initiative for South Africa |
| AWOL | Absent Without Leave |
| BBBEE | Broad-based Black Economic Empowerment |
| BEE | Black Economic Empowerment |
| CA (SA) | Chartered Accountant (South Africa) |
| CAF | Confederation of African Football |
| CEF | Central Energy Fund |
| CEO | Chief Executive Officer |
| CFL | Compact Flourescent Lights |
| CFO | Chief Financial Officer |
| COIDA | Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993) |
| COO | Chief Operations Officer |
| CPI | Consumer Price Index |
| CSC | Community Service Centres |
| CSI | Corporate Social Investment |
| CSIR | Council for Scientific and Industrial Research |
| CSN | Customer Service Network |
| CSSS | Comprehensive Social Security System |
| DG | Director-General |
| DME | Department of Minerals and Energy |
| DoE | Department of Energy |
| DoH | Department of Health |
| DoT | Department of Transport |
| DPSA | Department of Public Service and Administration |
| DSML | Demand-side Management Levy |
| EBITDA | Earnings Before Interest, Tax, Depreciation and Amortisation |
| EE | Employment Equity |
| ERP | Enterprise Resource Planning |
| EWS | Employee Wellness Services |
| EXCO | Executive Management Committee |

## List of Abbreviations/Acronyms (continued)

| | |
|---|---|
| FASSA | Fellow of the Actuarial Society of South Africa |
| Fineos | Claims Management Solution |
| FSB | Financial Services Board |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GIBS | Gordon Institute of Business Science |
| GRAP | Generally Recognised Accounting Practices |
| GRI | Global Reporting Initiative |
| HDI | Historically Disadvantaged Individual |
| HR | Human Resources |
| HSC | Hospital Service Centres |
| IBNR | The number of claims incurred, but not yet reported |
| ICAS | Independent Counselling and Advisory Services |
| ICT | Information Communication Technology |
| IDIT | Inter-Departmental Task Team |
| IFRS | International Financial Reporting Standards |
| INSETA | Insurance Sector Education and Training Authority |
| IT | Information Technology |
| King III | King Code on Corporate Governance |
| KPI | Key Performance Indicator |
| LMS | Learning Management System |
| MBA | Masters in Business Administration |
| MoA | Memorandum of Agreement |
| MSP | Mobile Service Points |
| MVA | Motor Vehicle Accident |
| NAB | National Association of Broadcasters |
| NECSA | South African Nuclear Energy Corporation |
| NOB | National Office Bearer |
| NOM | New Operating Model |
| NPA | National Prosecuting Authority |
| NSDS | National Skills Development Strategy |
| OHEP | Occupational Health Exposure Plan |
| PAA | Public Audit Act, 2004 (Act No. 25 of 2004) |
| PAIA | Promotion of Access to Information Act, 2000 (Act No. 2 of 2000) |
| PDP | Personal Development Plan |
| PMO | Project Management Office |
| POP | Patient Outreach Programme |

| | |
|---|---|
| PFMA | Public Finance Management Act, 1999 (Act No. 1 of 1999) |
| PTSD | Post Traumatic Stress Disorder |
| QASA | QuadPara Association of South Africa |
| RABS | Road Accident Benefit Scheme |
| RAF | Road Accident Fund |
| RAF Act | Road Accident Fund Act, 1996, (Act No. 56 of 1996) |
| RAU | Rand Afrikaans University |
| REMCO | Remuneration and Human Resources Committee |
| RRM | Revenue Requirement Model |
| RRR | Reduce, Reuse and Recycle |
| RTMC | Road Traffic Management Corporation |
| SAADP | South African Actuaries Development Programme |
| SADC | Southern African Development Community |
| SAFA | South African Football Association |
| SANDF | South African National Defence Force |
| SAP | Enterprise Resource Planning System |
| SAPS | South African Police Service |
| SAPIA | South African Petroleum Industry Association |
| SARS | South African Revenue Services |
| SATAWU | South African Transport and Allied Workers Union |
| SCOPA | Standing Committee on Public Accounts |
| SETA's | Sector Education and Training Authorities |
| SOE 's | State Owned Entities |
| STI | Sexually Transmitted Infections |
| TAC | Transport Accident Commission |
| UN | United Nations |
| UNIN | University of the North (now University of Limpopo) |
| Unisa | University of South Africa |
| UP | University of Pretoria |
| VCT | Voluntary Counselling and Testing |
| VOIP | Voice-over-internet-protocol |
| WIPO | World Intellectual Property Organisation |
| Wits | University of Witwatersrand |
| ZAR | South African Rand |

# ANNEXURE III

## List of Contacts

*Satellite Offices*

| Location | Physical Address | City/Town | Province | Contact Number |
|---|---|---|---|---|
| Sanlam Centre | Bell Street, Office 25, Ground Floor | Nelspruit | Mpumalanga | 013 752 3075<br>083 637 0685 |
| TM Centre | 78 Harding Street, Shop 1B | Newcastle | KwaZulu-Natal | 034 312 7946<br>084 515 5465 |
| 21 Peace Street | 21 Peace Street | Tzaneen | Limpopo | 015 307 6489<br>082 764 8899 |
| Library Gardens | Cnr Grobler and Schoeman Street | Polokwane | Limpopo | 015 291 3951<br>083 641 9761 |
| Nedbank Building | Suite 105, Ryk Street | Welkom | Free State | 057 357 1198<br>083 637 0682 |
| Main Post Office Building | 259 Govan Mbeki Avenue | Port Elizabeth | Eastern Cape | 041 582 4244 |
| Golden Acre | Adderley Street | Cape Town | Western Cape | 083 326 1235 |
| Shop No 2 | 109 Scholtz Street | Lichtenburg | North West | 083 627 5318 |
| Corner House | 156 Govan Mbeki Avenue | Port Elizabeth | Eastern Cape | 084 403 8601 |
| Spooral Park | 1002 Lenchen Street | Centurion | Gauteng | 083 627 5318 |

*Hospital Service Centres*

| Hospital Name | Physical Address | City/Town | Province | Contact Number |
|---|---|---|---|---|
| Rob Ferreira | Cnr Madiba Drive and Piet Retief Street | Nelspruit | Mpumalanga | 013 741 3551/2 |
| Temba | Kabokweni Main Road | Temba | Mpumalanga | 013 741 3551/2 |
| Tonga | Tonga View, Kwalugedlana | Tonga | Mpumalanga | 013 741 3551/2 |
| Shongwe | Jeppes Reef Street | Shongwe | Mpumalanga | 013 741 3551/2 |
| Barberton | 1 Hospital Street | Barberton | Mpumalanga | 013 741 3551/2 |
| Standerton | Cnr Beyers Naudé and Kruger Streets | Standerton | Mpumalanga | 017 712 5872 |
| Witbank | President Mandela Street | Witbank | Mpumalanga | 013 653 2504 |
| Evander | Cnr Bologna Lausanne Street | Evander | Mpumalanga | 017 632 4480 |
| Mapulaneng | Graskop Road | Bushbuckridge | Mpumalanga | 013 741 3551 |
| Tintswalo | Acornhoek Street | Nelspruit | Mpumalanga | 013 741 3551 |
| Kwa-Mhlanga | 1128 Section C | Kwa-Mhlanga | Mpumalanga | 013 947 3659 |
| Middelburg | Cnr OR Tambo and Joubert Streets | Middelburg | Mpumalanga | 013 653 2504 |
| Mmametlhake | Mmametlhake Main Road, Napiri Section | Mmametlhake | Mpumalanga | 012 721 2391 |

| Hospital Name | Physical Address | City/Town | Province | Contact Number |
|---|---|---|---|---|
| Edendale | Old Edendale Road, Plessislaer | Pietermaritzburg | KwaZulu-Natal | 033 395 4033 |
| Addington | 16 Erskine Terrace, South Beach | Durban | KwaZulu-Natal | 031 332 3006<br>031 332 6565 |
| Prince Mshiyeni | Mangosuthu Highway, V Section | Umlazi | KwaZulu-Natal | 031 906 0881 |
| RK Khan | Road 336, RK Khan Circle, Croftdene | Chatsworth | KwaZulu-Natal | 031 403 2258/9 |
| Newcastle | 4 Hospital Street | Newcastle | KwaZulu-Natal | 034 312 4301 |
| Madadeni | Prince Shingane Street, Section 7 | Newcastle | KwaZulu-Natal | 034 312 4301 |
| Inkosi Albert Luthuli Memorial | 800 Bellair, Cato Manor | Durban | KwaZulu-Natal | 031 205 4586 |
| Greys Hospital | Townbush Road, Chase Valley | Pietermaritzburg | KwaZulu-Natal | 033 342 9023<br>033 342 7546 |
| King Edward VIII | Cnr Sydney and Francois Roads | Umbilo | KwaZulu-Natal | 031 205 4586 |
| Ladysmith | 36 Malcolm Road | Ladysmith | KwaZulu-Natal | 036 631 4586 |
| Ngwelezane | Thandayise Road, Ngwelezane Township | Empangeni | KwaZulu-Natal | 035 794 2693<br>035 794 2669 |
| Gordonia | Schröder Street | Upington | Northern Cape | 054 331 0007 |
| Kimberley | 144 Du Toitspan Road | Kimberley | Northern Cape | 053 802 2159 |
| Central Karoo | Visser Street | De Aar | Northern Cape | 053 631 2123 |
| Manne Dipico | Station Street | Colesberg | Northern Cape | 051 753 2151 |
| Polokwane | Cnr Hospital and Dorp Streets | Polokwane | Limpopo | 015 297 0450 |
| Mankweng | Houtbosdorp Street | Mankweng | Limpopo | 015 267 0234 |
| Voortrekker | 2 Geiser Street | Mokopane | Limpopo | 015 491 1419 |
| Mokopane | Dudu Mahwelereng, Zone 1 | Mahwelereng | Limpopo | 015 483 1419 |
| Tshilidzini | Thundamaria Street, Shayandima | Thohoyandou | Limpopo | 015 964 1169 |
| Elim | Castoba House, Old Admin Block | Elim | Limpopo | 015 556 3496 |
| Dilokong | Cnr R37 Road and Modikwa Mine | Burgersfort | Limpopo | 031 214 7270 |
| Maphutha Malatji | Maphutha Drive, Namakgale | Phalaborwa | Limpopo | 015 769 1520 |
| Nkhensani | Hospital Road | Giyani | Limpopo | 015 812 0039 |
| Bela Bela | 54 Chris Hani Drive | Bela Bela | Limpopo | 014 736 2121 |
| Stellenbosch | Merrimen Street | Stellenbosch | Western Cape | 021 883 3074 |
| Worcester | Murray Street | Worcester | Western Cape | 023 347 8976 |
| Robertson | Van Oudtshoorn Street | Robertson | Western Cape | 023 626 2710 |

*Hospital Service Centres (continued)*

| Hospital Name | Physical Address | City/Town | Province | Contact Number |
|---|---|---|---|---|
| Charlotte Maxeke, JHB Academic | 17 Jubilee Road, Parktown | Johannesburg | Gauteng | 011 642 6709 |
| Tembisa | Industrial Road, Olifantsfontein | Tembisa | Gauteng | 011 920 2831 |
| Jubilee | 92 Jubilee Road | Hammanskraal | Gauteng | 012 717 3151<br>012 717 2397 |
| Helen Joseph | 1 Perth Road, Auckland Park | Johannesburg | Gauteng | 011 482 8382<br>011 482 5036 |
| SAPEASA | 385 Tram Street | Brooklyn | Gauteng | 012 460 8366 |
| Dr George Mukhari | Admin Building, Medunsa Road | Ga-Rankuwa | Gauteng | 012 560 0420 |
| Netcare 911 | 49 New Road | Midrand | Gauteng | 011 923 2082 |
| Chris Hani Baragwanath | Cnr Chris Hani and Martinus Road | Johannesburg | Gauteng | 011 933 9336 |
| Tambo Memorial Hospital | Railway Street, Plantation | Boksburg | Gauteng | 011 892 1941 |
| Leratong | 1 Adcock Street, Chamdor | Krugersdorp | Gauteng | 011 410 4261 |
| Kalafong | 1 Klipspringer Street | Pretoria | Gauteng | 012 318 6400 |
| Tshwane District | Dr Savage Road | Pretoria | Gauteng | 012 354 5957 |
| Natalspruit | 46 Hospital Road, Sekhosana Section | Katlehong | Gauteng | 011 389 0500 |
| Uitenhage | Channer Street | Uitenhage | Eastern Cape | 041 995 1111 |
| Frere Hospital | Main Amalinda Street | East London | Eastern Cape | 043 722 5056 |
| Cecilia Makiwane | NU 9, Mdantsane | East London | Eastern Cape | 043 722 5056 |
| Livingstone | Standford Road, Korsten | Port Elizabeth | Eastern Cape | 041 451 0504 |
| Nelson Mandela | Burkingham Road, Central | Umthatha | Eastern Cape | 047 502 4716 |
| Dora Nginza | Spondo Street, Zwide | Port Elizabeth | Eastern Cape | 041 451 0504 |
| Tshepong | Benji Olifant Road, Uraniaville | Klerksdorp | North West | 018 465 2272 |
| Mafikeng | Cnr Danville and Lichtenburg Road | Mafikeng | North West | 018 383 2081 |
| JS Tabane | Cnr Heystek and Bosch Street | Rustenburg | North West | 014 590 5155 |
| Brits | Crocodile Street, Bojanala Region | Brits | North West | 012 252 1029 |
| Pelonomi | Dr Belcher Road, Hedendal | Bloemfontein | Free State | 051 432 9952 |
| Universitas | Paul Kruger Street | Bloemfontein | Free State | 051 432 9952 |
| Boitumelo | Smaaldeel Street | Kroonstad | Free State | 056 216 5200 |
| Bongani | Mothusi Way, Thabong, Welkom | Welkom | Free State | 057 357 1198 |
| Parys | Hospital Road | Parys | Free State | 056 811 2155 |

# DETAILS

## Head Office:

2 Eco Glades Office Park, 420 Witch-Hazel Avenue, Centurion,
P/Bag X178, Centurion, 0046
Tel: +27 12 621 1600/1622

## Menlyn Office:

Road Accident Fund Building,
38 Ida Street, Menlopark, Pretoria, 0081
P/Bag X2003, Menlyn, 0063
Tel: +27 12 429 5000

## Major Regions:

### Pretoria

Road Accident Fund Building,
38 Ida Street, Menlopark, Pretoria, 0081
PO Box 2743, Pretoria, 0001
**Tel:** +27 12 429 5000

### Pretoria (Customer Service Centre )

Middestad Building,
252 Andries (Thabo Sehume) Street, Pretoria, 0002
PO Box 2743, Pretoria, 0001
**Tel:** +27 12 429 5202

### Johannesburg

Marble Towers, 29th Floor, 212 Jeppe Street
(Cnr Jeppe & Von Wielligh Street), Johannesburg, 2001
P/Bag X02, Johannesburg, 2000
**Tel:** +27 11 223 0000

### East London

Metropolitan Building, 4th Floor,
Cnr Drury Lane & Caxton Street, East London, 5200
P/Bag X9000, East London, 5200
**Tel:** +27 43 702 7800

### Durban

The Embassy Building, 12th Floor,
199 Anton Lembede Street (previously Smith Street),
Durban, 4001
P/Bag X54371, Durban, 4000
**Tel:** +27 31 565 2800

### Cape Town

1 Thibault Square, 7th Floor, Long Street, Cape Town, 8001
PO Box 2443, Cape Town, 8000
**Tel:** +27 21 408 3300

## Other Customer Contact Centres:

Refer to Annexure III

**Customer Care Share Call Number:** 0860 23 55 23 • **Anonymous Fraud Hotline:** 0800 00 59 19
**Website:** www.raf.co.za • **Auditors:** Auditor-General of South Africa • **Bankers:** Standard Bank

Road Accident Fund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2 Eco Glades Office Park, 420 Witch-Hazel Avenue, Centurion
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