MEDIA STATEMENT

ISSUED BY THE ROAD ACCIDENT FUND

16 SEPTEMBER 2024

MEDIA BRIEFING – RAF FINANCIAL OUTCOMES 2023-2024

RAF PERFORMANCE: CONTEXT AND AGSA OUTCOMES

1. In 2019, the Road Accident Fund (RAF) Board was appointed and tasked with turning the organisation around. The RAF was confronted with a myriad of challenges at the time, key amongst which was the risk to its financial and operational sustainability. It is important to indicate that these were not contemporary challenges which started in 2019, but in fact date back to the Fund's establishment on 01 May 1946, as a compulsory insurance scheme under the Motor Vehicle Assurance Act 29 of 1942. The Fund's legislative framework has undergone six amendments over the years, with no less than seven commissions of enquiries being established to enquire into the structural defects in its funding and operating models.
2. Following the 1998 white paper, The Satchwell Commission was subsequently established in order to avert what was clearly considered a crisis at the time. The problem statement for the commission was:
    - The system at the time was **financially unsustainable, and measures needed to be taken to achieve a system that would be affordable and stable in the long term and yet be able to offer a reasonable set of benefits.**

- The system needed to be made more efficient, thus **reducing the high cost** at that time in terms of time, effort and expertise incurred in the process of delivering the benefits.
- The system had to be more effective, thus avoiding the shortcomings, anomalies and **inequities** at that time.

3. The RAF 2020–2025 Strategic plan was therefore developed to effect the turnaround and to finally put the Fund on a sustainable financial and operational path. The following were some of the challenges the RAF 2020/25 Strategic Plan intended to address:

4. Judge Fisher reminded South Africa of this fact in a reportable judgement delivered on the 29 July 2024, where she noted that, "***from the history, long and past, and more recent, it is clear that it cannot be in dispute that the current Board, as many of its predecessors, inherited a Fund which was insolvent. Bertelsmann J in Ketsekele v Road Accident Fund remarked that whomsoever should manage RAF is "saddled with an inheritas damnosa"- a cursed inheritance that would be doomed to failure."***

5. The RAF had at the time a growing deficit on the amount owed to claimants on settled claims which had peaked at over R16.2 billion for the reporting period 31 March 2020.this was growing at an alarming rate and was projected to increase to over R51 billion by 31 March 2023 if nothing was done to alter the operational trajectory of the RAF.

6. Furthermore, Professor Hennie Klopper had just finalised a study he conducted in the Gauteng division of the Pretoria's court roll in 2018. The study found that 86% of cases on the court roll were RAF matters and that only 1 % of these matters ultimately proceed to trial, the rest were settled on the doorsteps of court. As a Consequent the RAF was not only facing an existential crisis from the increasing liability on settled claims, but also from spiralling legal costs, these costs had increased from R240 million in the 1998/99 financial year to just over R10 billion in the 2018/19 financial year and were projected to increase to R30 billion as at 2024/25. At the core of the problem was the RAF's approach to claims litigation. In fact in May 2015, Judge E Bertelsmann described it as follows, "***The Fund's approach to litigation constitutes a serious dereliction of its duties to road accident victims, the public and the courts."***

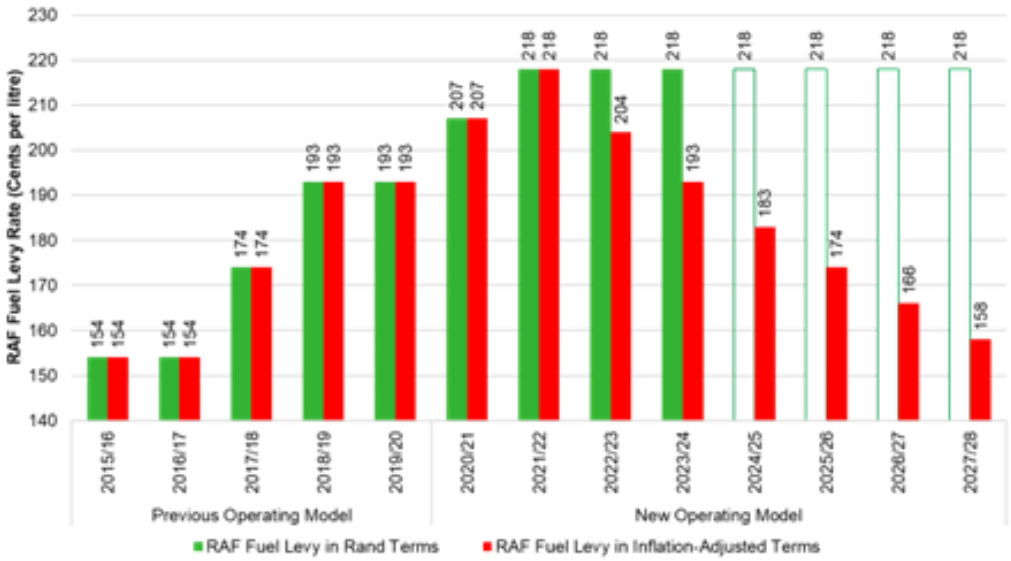
7. He went on to refer to Daniels v Road Accident Fund (8853/2010) [2011] where the court had found that, ***"The evidence, judged in historical context, suggests that the delays in conceding liability in principle are a means by the Fund to manage cashflow issues. The Fund admits as much. He concluded that, "The Fund's legal representatives were as complicit in operating this scam as were those of the plaintiff"***

8. As Judge Fisher correctly held in Adv M Van Antwerpen obo Scholtz Vs Road Accident Fund, ***"The RAF is a component of a central, State-run social security scheme".*** Therefore, at the core of the RAF's challenges is a delictually based social security scheme that cannot exclude the rich. It is simply unsustainable for the state to maintain a system where claimants have to litigate to get access to social benefits. It is for this reason that we had proposed a RAF adjudicator as part of the solution to unburden the courts.

   The following are some of the key results;

   <u>Revenue</u>

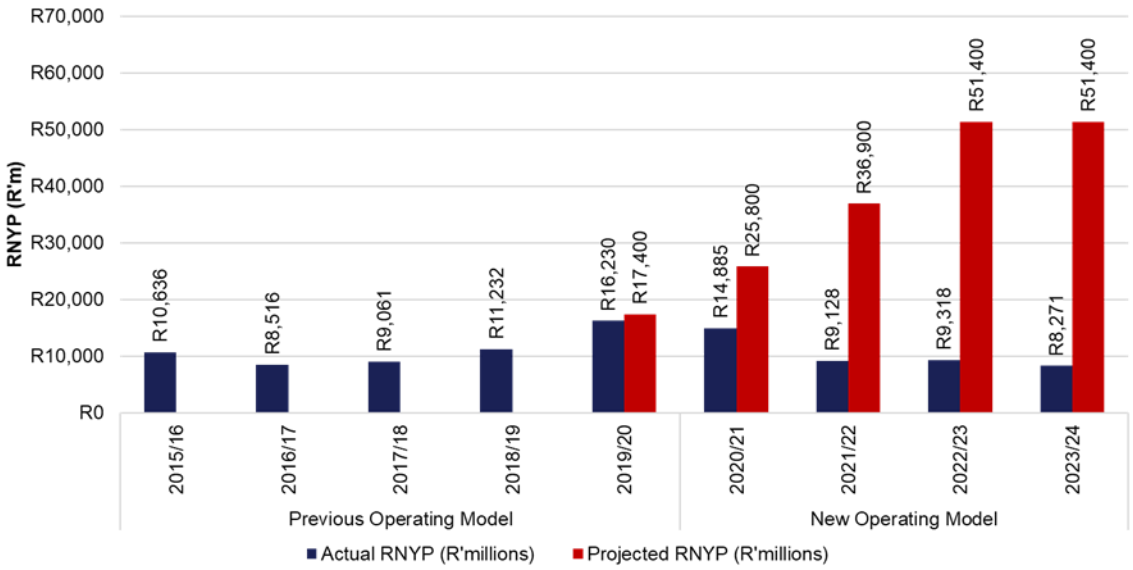
   The RAF's fuel levy remained stagnant 218 cents for the third successive year, as illustrated in graph below, this represents a reduction to 193 cents for the 2023/24 in real terms after adjusting for inflation.



<u>RAF Levy Overtime</u>

Requested but Not Yet Paid (RNYP)/ Amount owed to Claimants on settled claims

As illustrated in graph below, the RNYP has continued to steadily decline. After its peak of R16.2 billion in 2019/20 financial year, it has now declined to R8.3 billion in the 2023/24 financial year, this is significant when considered against the backdrop of actuarial projections of R51 billion if the RAF had continued on the previous operating model.



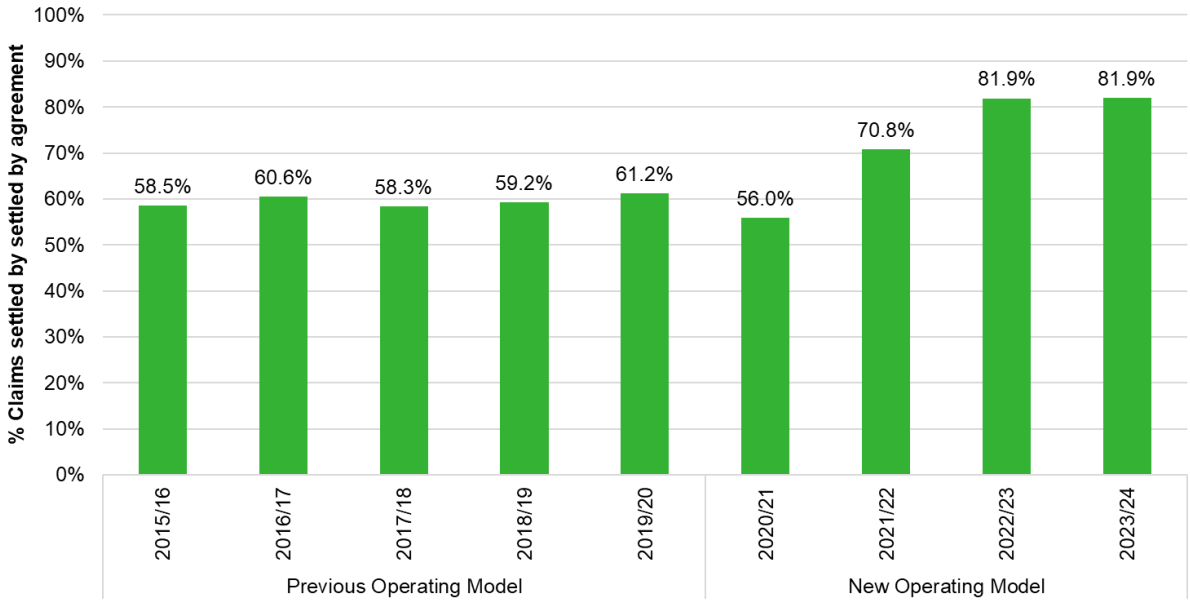
The 1992 Melamet commission of enquiry report predicted that, "***a stage may be reached when there will be irresistible opposition from the motorists to the increase in the fuel levy used to provide the necessary income to finance the full cover that is provided by the Fund."***

The fact that, contrary to the Melamet's prediction, the Fund has continued to reduce its debts to claimants and managed to pay R45 billion towards claims expenditure for the 2023/24 financial year is testament to the impact of the 2020/25 strategy. However, this is not sustainable because the challenges the RAF faces require legislative changes.

Claims Administration

As alluded above, the claims administration legacy of the RAF has been to administer claims through litigation. The only way to sustainably reduce legal costs is focusing on improving claims handling. To this

end, some of the key targets in the 2020-25 strategy are settlement of claims within 120 days, reducing the backlog of claims older than 3 years and reducing legal costs. the focus on claims administration has resulted in the RAF achieving its target on settlement of claims within 120 days. As shown in graph below, the number of settlements through agreement have increased from 58% in 2015/16 FY to 82% in 2023/24 FY, these are matters that would have ended up clogging our courts and increasing legal costs.



On legal costs, the graph below illustrates the legal costs crisis that has been averted. The legal costs would have exceeded the fuel levy by 31 March 2028. Instead by the RAF has cumulatively saved R24 billion in the past four years on legal costs.


Legal Costs
(Projections)
R100000000 000
R90000000 000
R80000000 000
R70000000 000
R60000000 000
R50000000 000
R40000000 000
R30000000 000
R20000000 000
R10000000 000
R 0
2018/19
2019/20
2020/21
2021/22
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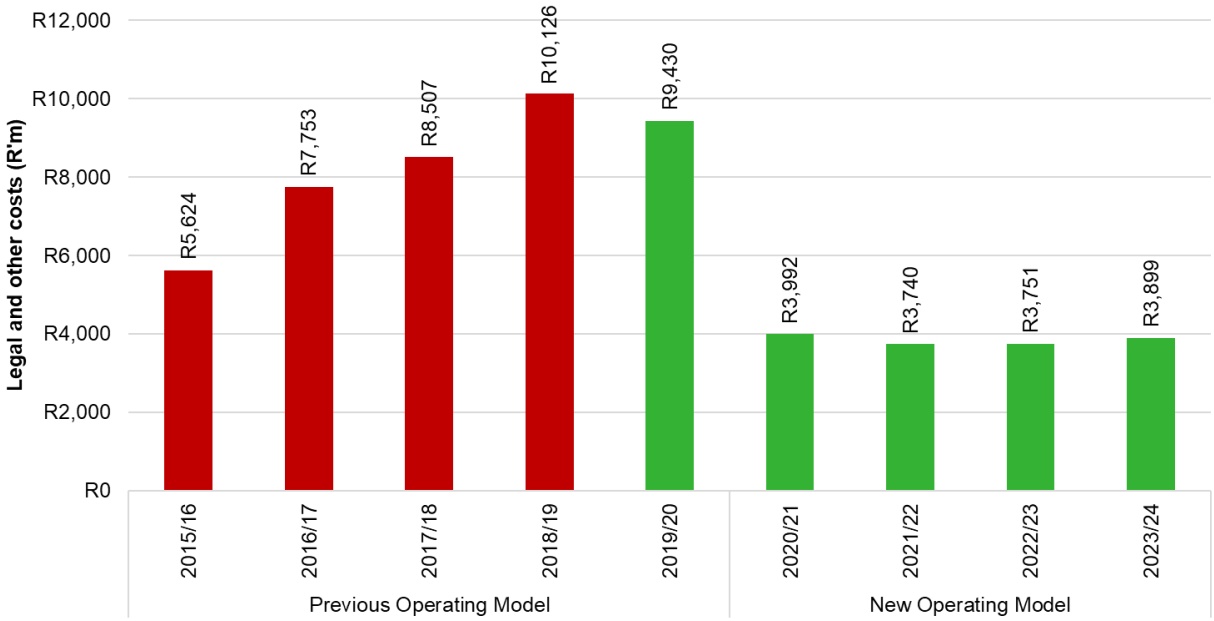
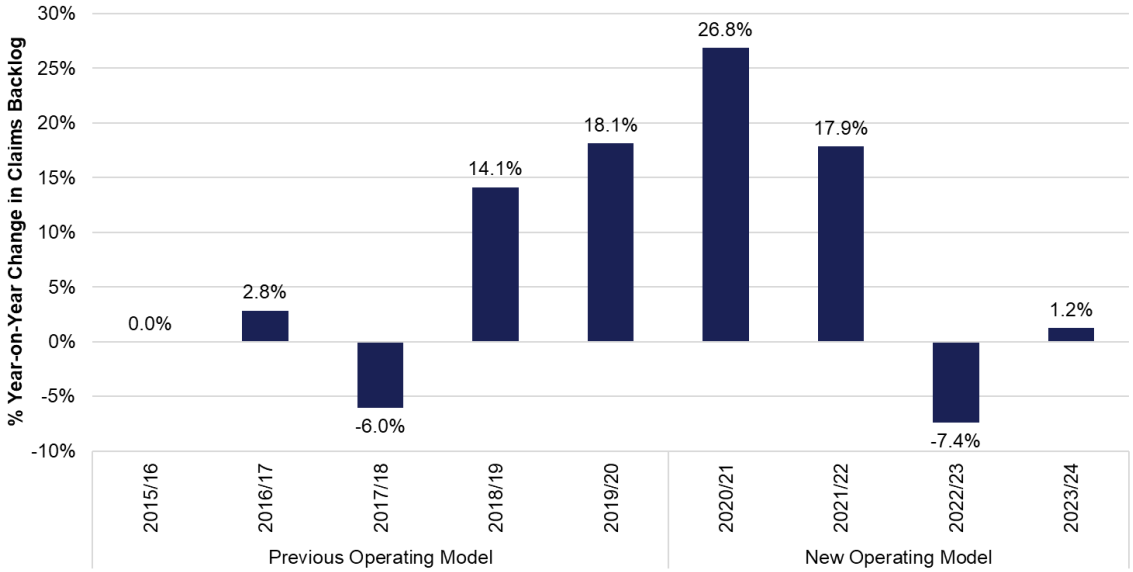
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31


Legal and other costs (R'm)
R12,000
R10,000
R8,000
R6,000
R4,000
R2,000
R0
R5,624
R7,753
R8,507
R10,126
R9,430
R3,992
R3,740
R3,751
R3,899
2015/16
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
Previous Operating Model
New Operating Model

The **claims backlog** remains a challenge. As shown in graph below, the growth rate has steadily reduced.

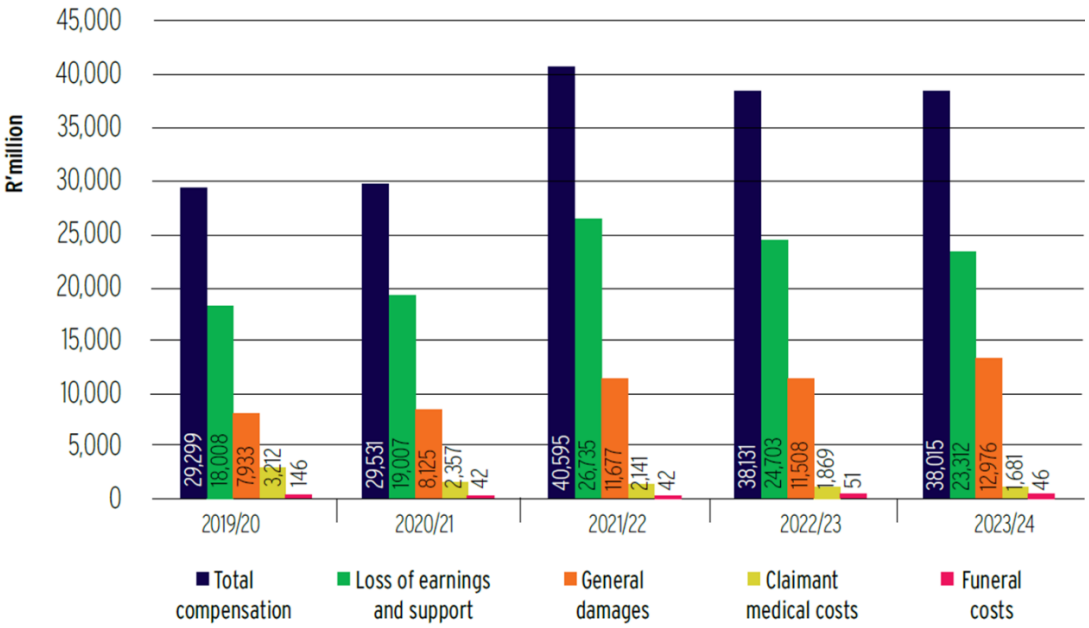


We have always maintained that the finalisation of claims is highly dependent on the quality of claims lodged. Our claims report indicates that almost 80% of claims submitted for lodgement do not have sufficient information and documentation to enable the RAF to investigate the claims. The introduction of the minimum requirement was to remedy this gap.

Contrary to claims that the RAF introduced onerous claims requirements, some of the main reasons for non-compliant claims rejected by the RAF includes amongst others the following;

- No certified copy of the deceased / injured ID document;
- No certified copy of the claimants ID or
- RAF form 1 not fully completed.

Some of the key **claims data** are as follows;

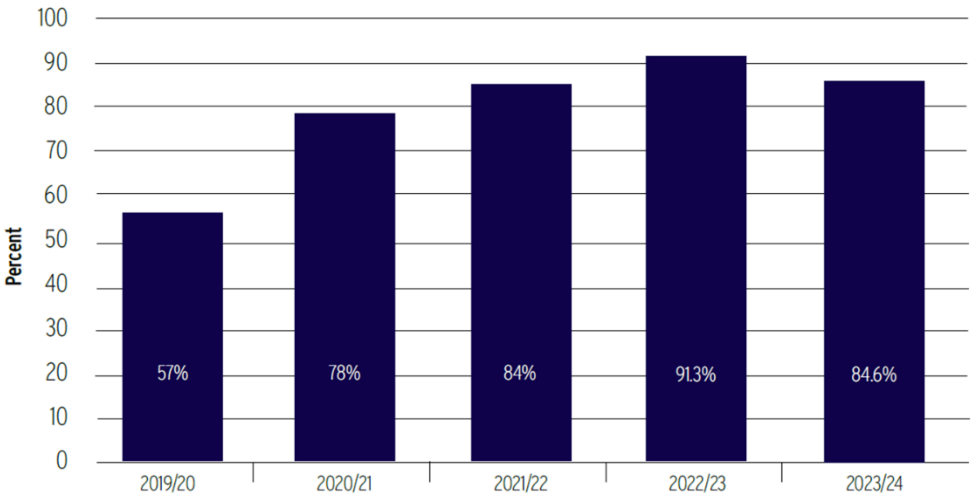


Customer Experience

The RAF launched a contact centre in the 2023/24 financial year, over 288 000 cases were registered with a resolution rate of 96%. The following platforms are now available for claimants to interact with the RAF; List them

Performance information

As illustrated in graph below, The RAF's performance against predetermined objectives for the 2023/24 FY was at 83%, much higher than the 57% in 2019/20 FY. The AGSA did not identify any material findings on performance information for the second consecutive year.


100
90
80
70
60
50
40
30
20
10
0
Percent
57%
78%
84%
91.3%
84.6%
2019/20
2020/21
2021/22
2022/23
2023/24

OVERALL AUDIT OUTCOMES

Outcome area	Movement	2023-24	2022-23	2021-22
Financial statements	➔			
Annual performance report				
• A transformed and sustainable RAF	➔			
• System modernisation	N/A			
Compliance with legislation				
• Financial statements, performance reports and annual reports	➔			
• Procurement and contract management	➔			
• Expenditure management	➔			
• Asset management	➔			
• Consequence management	➔			
• Strategic planning and performance management	➔			

Unqualified / No material findings	Qualified	Adverse	Disclaimed	Material findings	Not audited		

▲ Improvement	▼ Regression	➔ Unchanged			

The adverse opinion is mainly due to the disagreement in the claims liability accounting policy, there were no material findings other than the change in accounting policy matter.

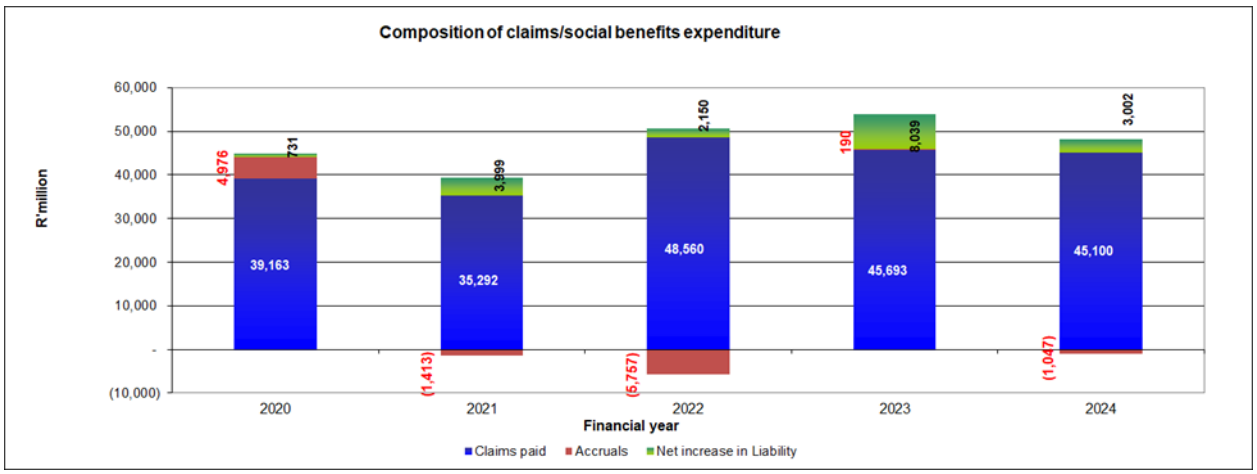
The RAF engaged meaningfully with the AGSA throughout the audit process and the Audit Report issued for the 2023/24 financial year is modified only as a result of the ongoing disagreement between the RAF and the AGSA regarding the accounting treatment of Claims Liabilities and Expenditure.

SUMMARY OF KEY FINANCIAL RESULTS

	Note(s)	2024 R '000	2023 R '000
Revenue			
Revenue from Exchange Transactions			
Other income	17	5,011	1,499
Investment revenue	18	697,066	284,167
Reinsurance income		-	578
Total Revenue from Exchange Transactions		**702,077**	**286,244**
Revenue from Non-exchange Transactions			
Transfer revenue			
Net fuel levies	16	48,610,265	48,471,534
Total Revenue		**49,312,342**	**48,757,778**
Expenditure			
Claims expenditure	19	(47,054,846)	(53,921,862)
Depreciation and amortisation		(45,915)	(45,557)
Employee costs	21	(2,436,558)	(2,248,316)
Finance costs	22	(274,856)	(298,076)
Reinsurance premiums	20	(4,416)	(4,376)
General expenses	23	(1,085,400)	(668,252)
Loss on Disposal of Property, Plant and Equipment		(976)	-
Total Expenditure		**(50,902,967)**	**(57,186,439)**
Surplus/(Deficit) for the Year		**(1,590,625)**	**(8,428,661)**

Statement of Financial Position	31 March 2024	31 March 2023
	R'million	R'million
Assets		
Current Assets		
Cash and cash equivalents	815	630
Receivables from non-exchange transactions	10,709	10,736
Receivables from exchange transactions	50	30
Other financial assets	286	232
Consumable stock	6	5
	11,866	**11,632**
Non-current Assets		
Property, plant and equipment	169	172
Intangible assets	159	74
	328	**246**
Total Assets	**12,194**	**11,878**
Liabilities		
Current Liabilities		
Payables from exchange transactions	82	75
Other financial liabilities	147	135
Claims liabilities	36,149	34,194
Other provision	1,177	1,233
Operating lease liability	3	3
	37,558	**35,640**
Non-current Liabilities		
Employee benefit obligation	35	58
Operating lease liability	1	3
	36	**61**
Total Liabilities	**37,594**	**35,702**
Net Liabilities	**(25,400)**	**(23,823)**
Reserves		
Revaluation reserve	126	113
Accumulated deficit	(25,526)	(23,936)
Total Net Liabilities	**(25,400)**	**(23,823)**

The RAF recorded a deficit of R1.6 billion for the 2023/24 financial year (2022/23: deficit of R8.4 billion). This was largely due to the fact that we have not received an increase in the fuel levy over the past three years, whereas inflation has increased to 5.5%% during 2022/23. The deficit has also been impacted by the increase in claims liability when compared to the previous year. The increase in the claims liability during the 2023/24 financial year was mainly driven by a net increase of 12% in claims for which offers were made and not yet requested compared to the 2022/23 financial year. Our drive to reduce the backlog and settle claims within 120 days would have the resulting impact of increasing the claims offers not yet accepted and therefore also increasing the claims expenditure.



As illustrated in the table above, the value of claims paid has increased by 15% from R39 billion in 2020 to R 45 billion in 2024.

CONCLUSION

There is no doubt that the RAF is not out of the woods yet. The Fund still faces significant challenges. What is indisputable is that the 2020–25 Strategy presents the best opportunity to finally set the RAF on a sustainable financial and operational path. The focus should therefore be on optimising what works and managing the inherent risks that come with implementing a turnaround strategy.