THE POTENTIAL FOR CENTRALISATION OF UNCLAIMED FINANCIAL ASSETS IN SOUTH AFRICA

(Africa Centre proposal)

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1. Introduction

This paper sets out:

- The size and nature of unclaimed assets in South Africa, with comparative information from the United Kingdom, Ireland, Kenya, and Australia.
- The Financial Sector Conduct Authority's (FSCA) position on unclaimed assets in South Africa.
- How South Africa could implement and manage a centralised fund for unclaimed assets.
- How such a fund could invest for developmental impact while protecting claimants' interests.

The focus of this paper is on retirement and broader financial-sector assets that have become "unclaimed" or "dormant" due to lost contact, incomplete records, or member inactivity.

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2. Size and nature of unclaimed assets by country

2.1 South Africa

Size and types of assets

The FSCA has repeatedly highlighted the scale of unclaimed assets in South Africa, particularly in retirement funds. Public statements and industry commentary place **unclaimed retirement benefits at around R90 billion**, spread across pension and provident funds, preservation funds, and other retirement vehicles.

The FSCA's 2022 Discussion Paper on a Framework for Unclaimed Financial Assets and its March 2024 response paper recognises that the problem extends beyond retirement funds to include insurance, collective investment schemes, bank accounts and other financial products.

Key drivers

- **Fragmented industry:** Thousands of separate funds and institutions each running their own tracing processes.

- **Weak historic records:** Legacy funds, paper records, and employer transitions have led to incomplete or missing member data.
- **Labour mobility and migrant workforces:** Members move jobs, provinces or countries; contact details and addresses are not updated.
- **Member awareness:** Many members do not know that they have preserved benefits or paid-up policies in their name.

2.2 United Kingdom

The UK operates a **Dormant Assets Scheme**, administered primarily through **Reclaim Fund Ltd (RFL)**, a not-for-profit public body that receives dormant assets from financial institutions and passes surplus funds to social and community causes while retaining sufficient reserves to meet claims.

- Since inception, **around £2.1 billion** has been transferred into the scheme from banks and other firms, with **around £1.1 billion** distributed to good causes, and a capital buffer retained to cover future claims (figures from RFL and government communications).
- The total stock of unclaimed assets across the UK financial system (not all centralised) has been estimated in the **hundreds of billions of pounds**, including pensions, investments, insurance and bank accounts; only some of this is currently brought into the Dormant Assets Scheme.

Nature of assets in scope for the Dormant Assets Scheme includes dormant bank and building society accounts, certain investment and insurance products, and, in later extensions, other asset classes such as securities and distributions. Pension assets are only partially covered, as the UK has its own regulatory processes around unclaimed pensions.

2.3 Ireland

Ireland operates a **Dormant Accounts Fund (DAF)** under the Dormant Accounts Acts. Assets are transferred into the fund when they meet dormancy criteria, which are typically:

- **15 years** of inactivity for bank and building society accounts.
- **5 years** for unclaimed life assurance policy proceeds after maturity.

The fund is managed by the **National Treasury Management Agency (NTMA)** on behalf of the State. While the precise current total varies over time, the fund has held **hundreds of millions of Euros** in dormant assets since its establishment, with yearly inflows and outflows as assets are reclaimed or allocated to programmes.
Assets represent balances from dormant deposit accounts and unclaimed insurance proceeds rather than strictly retirement benefits, but they are functionally similar “orphaned” financial claims.

2.4 Kenya
Kenya’s **Unclaimed Financial Assets Authority (UFAA)** was established to receive and manage unclaimed assets across the financial sector. Assets include:

- Unclaimed bank balances.
- Unpaid dividends and shares.
- Unclaimed insurance proceeds.
- Retirement benefits and other financial products.

The UFAA manages these assets through the **Unclaimed Assets Trust Fund**, with unclaimed assets held and continually remitted by institutions.

2.5 Australia
Australia does not have a single “unclaimed assets fund”, but has two major centralised systems:
2.5.1 Australian Taxation Office (ATO) – unclaimed superannuation
The ATO holds **lost and unclaimed superannuation**, transferred from super funds when:

- Members are uncontactable or accounts are small and inactive; or
- Legislative criteria for transfer are met.

The ATO has reported **around AUD 17.8 billion** in lost or unclaimed superannuation held on behalf of members. These are retirement savings belonging to individuals but effectively centralised with the tax authority until claimed.
2.5.2 Australian Securities & Investments Commission (ASIC) – unclaimed money
ASIC maintains an **Unclaimed Money** system for:

- Dormant bank accounts.
- Unclaimed life insurance moneys.

- Certain investment balances and other financial assets.

ASIC has reported holding **around AUD 2.3 billion** in unclaimed money. Funds are paid into the Commonwealth's Consolidated Revenue Fund, and claimants can recover their money with prescribed interest.

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3. FSCA's position on unclaimed assets in South Africa

3.1 Purpose and policy stance

The FSCA's **Discussion Paper on a Framework for Unclaimed Financial Assets** (2022) and its **March 2024 response to comments** set out a potential policy direction.
Key elements of the FSCA's stated purpose:

- **Primary goal:** Reduce unclaimed assets by preventing new unclaimed balances arising and by **reuniting existing assets with rightful owners** as far as reasonably possible.
- **Consumer protection:** Ensure that unclaimed assets are managed fairly and transparently, with proper governance, reporting and oversight.
- **Market efficiency:** Address fragmentation, inconsistent practices and perverse incentives across the financial sector.

The FSCA is clear that unclaimed assets are and should remain the **private property of customers or beneficiaries**. Any framework must therefore respect ownership rights and prioritise the ability to reclaim funds, even after the transfer to a centralised structure.

3.2 Centralised Unclaimed Assets Fund (CUAF) concept

The FSCA has investigated the establishment of a **Central Unclaimed Assets Fund** (CUAF) as one element of the framework.
Key themes from comments and FSCA responses include:

- **The rationale for centralisation:**
    - Improve tracing and data-matching using shared infrastructure.
    - Standardise governance and reporting.
    - Achieve economies of scale in administration and investment.
- **Scope:** The proposed framework is cross-sectoral, covering retirement funds, insurers, CIS managers, banks and other

licensed entities; with the potential for a central fund to accept unclaimed assets from multiple product types.

- **Safeguards:** FSCA emphasises the need for strict governance, ringfencing of assets, and clear rules for claims and transfers.

3.3 Developmental use and investment debate

Stakeholders raised whether a central fund could support **infrastructure or developmental investments**, and whether “surplus” unclaimed assets could be used for broader societal benefit. The FSCA’s responses can be summarised as follows:

- The **core purpose** remains that of reuniting assets with owners and therefore a central fund is **not designed primarily as a pool for fiscal policy or development financing**.
- Any developmental or impact investment would need to be:
    - Consistent with fiduciary duties and consumer protection.
    - Structured such that claimants’ capital and reasonable returns are available when due.
    - Subject to clear governance, risk limits, and transparency.

The FSCA therefore does not rule out developmental use but positions it as **secondary and conditional** to the primary objective of protecting and paying claimants.

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4. How South Africa could implement a centralised unclaimed assets fund

4.1 Legal and institutional design

A credible central fund would need a **statutory basis**. Legislation (either stand-alone or integrated into existing financial sector laws) should:

- **Create the Central Unclaimed Assets Fund (CUAF)** as a distinct legal entity, with:
    - Separate legal personality.
    - Ringfenced assets not part of the fiscus.
- **Specify scope:** Define which unclaimed assets are eligible or required to be transferred (e.g. retirement benefits after a defined period, insurance proceeds, dormant accounts, CIS holdings).
- **Define dormancy criteria:** For each asset class:

    - Minimum period of inactivity.
    - Reasonable tracing attempts and notifications required before transfer.
- **Clarify ownership rights:** Unclaimed assets remain the property of underlying clients or beneficiaries while the CUAF holds them in trust.

An appropriate institutional home could be:

- A **new statutory corporation** similar to Reclaim Fund Ltd in the UK, or
- A **public trust** administered by a board of trustees under FSCA oversight.

The key is to avoid assets being absorbed into general government revenue, to preserve trust and legal clarity.

4.2 Governance and oversight

To ensure legitimacy and prudence:

- **Board composition:**
    - Independent chair.
    - Representation from regulators (FSCA, National Treasury, possibly SARB).
    - Representatives of consumers/beneficiaries and industry.
- **Regulatory oversight:**
    - Primary conduct and prudential oversight by FSCA (and, if appropriate, the Prudential Authority).
    - Regular, detailed reporting on:
        - Asset values by category.
        - Investment performance and risk.
        - Claims statistics and tracing efforts.
- **Audit and transparency:**
    - Annual external audit.
    - Public annual report and periodic parliamentary oversight.

Clear **governance policies** would cover conflicts of interest, investment decision processes, and the role of external asset managers.

4.3 Operational model

A practical operational model could adopt a **hub-and-spoke** approach:

- **Collection:**
  - Regulated entities must identify unclaimed assets using standardised criteria and processes.
  - After prescribed periods and after defined tracing actions, assets are transferred to the CUAF.
- **Data standards:**
  - Common data formats for member details, contributions, and benefit history.
  - Integration with national identification systems (e.g. Home Affairs, SARS) for tracing.
- **Tracing and claims:**
  - A centralised tracing programme using:
    - ID number matching.
    - Employer and union databases.
    - Public-facing online search portals.
  - A clear, simple claims process:
    - Identity verification.
    - Evidence of entitlement.
    - Payment within defined timelines, once verified.

The CUAF could also provide **support services** to institutions to improve pre-transfer tracing and reduce future unclaimed balances.

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5. Investment strategy and developmental impact

5.1 Investment principles

An investment framework should be built on these principles:

- **Capital preservation and liquidity:** The priority is to ensure sufficient assets and liquidity to meet all reasonably foreseeable claims.

- **Risk-appropriate returns:** Invest to maintain real value (where possible) and avoid undue erosion of benefits.
- **Segmentation:** Not all unclaimed assets are alike. Different cohorts (by age of claim, probability of reclamation, asset type) can support different risk profiles.
- **Transparency and prudence:** Clear risk limits, public reporting, and strict governance over any developmental investments.

5.2 Segmented portfolio design
A practical approach is to create **tiers** within the CUAF:

1. **Core Liquidity Pool**
   - **Purpose:** Meet near-term and high-probability claims.
   - **Assets:** Short-term government bonds, Treasury notes, money market instruments.
   - **Risk:** Very low; prioritising stability and liquidity.
2. **Matching Pool**
   - **Purpose:** Match expected future claims over a medium-term horizon.
   - **Assets:** Intermediate-term government bonds, high-grade corporate credit, other fixed income instruments.
   - **Risk:** Low-to-moderate; focus on reliable income and duration matching.
3. **Developmental / Impact Pool**
   - **Purpose:** Invest a limited, carefully calibrated portion of assets into developmental projects (e.g. infrastructure, social housing, renewable energy), while aiming for risk-adjusted financial returns.
   - **Assets:**
     - Infrastructure debt and project bonds with government or multilateral credit enhancement.
     - Listed or well-structured unlisted vehicles investing in affordable housing, renewable energy, logistics, and other strategic sectors.
   - **Risk controls:**
     - Strict limits (e.g. maximum percentage of total assets, and stricter caps for younger/higher-probability claim cohorts).
     - Preference for senior, secured instruments or those with guarantees.

        - Independent investment committee and external due diligence.

5.3 Safeguards for developmental investing

To align with the FSCA's consumer-protection focus and avoid any potential misallocation:

- **Independent investment governance:**
    - An investment committee with majority independent members and clear expertise in risk and development finance.
- **Policy-based allocation:**
    - Developmental assets must meet predefined financial and impact criteria.
- **Risk and performance reporting:**
    - Public disclosure of developmental portfolio composition, returns, and measured impact (e.g. jobs created, housing units, MW of renewables).
- **"Capital-first" discipline:**
    - Developmental investments must target commercially reasonable returns; concessionary, below-market returns should be permitted only if:
        - They do not compromise the ability to meet claims; and
        - There is explicit policy and oversight approval.

5.4 Possible model inspired by other countries

Drawing from the UK, Ireland and Kenya:

- **UK:** Reclaim Fund Ltd retains a capital buffer and passes surplus on to social causes. For South Africa, an comparable model could be:
    - CUAF holds all assets and invests prudently.
    - Once actuarial analysis confirms that a portion is extremely unlikely to be claimed (due to age and depth of dormancy), a defined share of returns (not capital) could be transferred to

a **Social Development Fund** managed by government or an independent body.

- **Ireland:** The Dormant Accounts Fund supports social inclusion projects while owners retain the right to reclaim funds. A similar legal structure can be used to ringfence capital but allocate some investment income for social priorities.
- **Kenya:** The Unclaimed Assets Trust Fund provides a precedent for a centralised trust structure that can support national development within a conservative portfolio, anchored by government securities.

South Africa can design a model most suitable to our context, while preserving **claimants' rights and financial security.**

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6. Conclusion

Unclaimed financial assets in South Africa represent a significant pool of capital, particularly in retirement funds. Countries such as the UK, Ireland, Kenya and Australia have already centralised large parts of these assets through statutory mechanisms, with varying degrees of developmental use.

The FSCA's priority is to **prevent and reduce unclaimed assets, protect consumers, and introduce a coherent, cross-sectoral framework**. A centralised fund, if established, can enhance tracing efficiency, governance and investment management. With robust legislation, governance, and a segmented investment strategy, South Africa could responsibly channel a portion of the investment returns (and deeply dormant capital) into developmental and infrastructure projects without undermining claimants' rights.