



THE ASSOCIATION FOR THE PROTECTION OF ROAD ACCIDENT VICTIMS

A VOLUNTARY ASSOCIATION NOT FOR GAIN INCORPORATED IN TERMS OF THE COMMON LAW

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Open letter to all Stakeholders

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RE : OVERVIEW OF FINANCIAL PERFORMANCE OF THE RAF

A. RAF Performance as reported by the Board and Management:

The RAF 2023/24 Annual Report has the objective “to provide stakeholders with an integrated view of the RAF’s organisational, operational and financial performance for the financial year 1 April 2023 to 31 March 2024”.

The foreword by the Chairperson stated that” During the period under review, the RAF Board diligently fulfilled its mandate, maintaining high standards of performance.”

The Chief Executive Officer’s overview, inter alia, included the following statements:

B. Organisational Performance:

- i. “The 2020-2025 strategic plan was premised on effecting this radical change, presenting a complete departure from the litigious and financially wasteful model. It focused on the investigation and timeous settlement of claims, and on reducing claims-related and administrative costs. These initiatives saw a significant reduction in administrative costs, including legal, assessor and actuarial costs.”
- ii. “The RAF’s performance against its predetermined objectives has steadily improved from 57% in 2019/20 to 85% in 2023/24. Importantly, the Auditor-General of South Africa’s (AGSA’s) 2023/24 audit report “did not identify any material findings on the reported performance information of outcome 1 (a transformed and sustainable RAF) and outcome 2 (system modernisation). The report further notes that the RAF achieved 92% of planned targets for outcome 1.”
- iii. There has been significant improvement in the validation and verification of claims within 60 days, with 98.2% of claims being validated and verified within the prescribed period against a target of 80%.

iv. “To address financial sustainability challenges, the RAF developed a standard formula to ensure fairness in the quantification of claims, particularly for loss of earnings, loss of support and general damages. The formula aims to streamline and standardise the calculation of settlement values, minimising discrepancies and ensuring equitable compensation for all claimants.”

C. Financial Performance:

Investment income grew by more than 145% in the period under review despite the fuel levy remaining unchanged at 218 cents per liter for the third successive financial year.

D. Claims Performance:

- i. There has been a steady decrease in new claims registered since 2020: from 303,695 to 79,377 in 2023/24.
- ii. The average value settled per claim has increased by less than 10% over the past three years, reflecting stable growth compared to a 70% increase from R138,000 in 2019/20 to R235,000 in 2020/21.
- iii. The rate of increase of outstanding claims reduced to 2.82% compared to 2022/23 and offers not yet requested increased by 12%. The ratio of legal costs to compensation decreased from 17% to 15% over the same period, meaning that 85% of the R45.6 billion was paid to victims of motor vehicle accidents – a significant improvement compared to the legal cost-to-compensation ratio of 70% in 2019/20.

E. How the RAF achieved the significant improvement in their Financial Position:

To place the above statements in context, we have to consider information in previous annual reports. A new RAF CEO and Board was appointed during the 2019/20 financial year. The CEO’s overview in the 2019/20 Annual Report ended his with the following paragraph: “I am fully aware of the fact that the RAF has been technically insolvent since 1981 and has been a subject of nine commissions of enquiry dating back to the 1940s. However, I am confident that we have now initiated a process to finally put the RAF on a financially sustainable path.”

The Statement of Financial Position, as at 31 March has shown the following (R’million):

Year	2020	2021	2022	2023	2024
Assets	10 657	15 663	12 314	11 878	12 774
Liabilities	332’391	31’497	27’713	35’702	36’320
Outstanding Claims	330 640	29 572	25 965	34 194	34 774
Other Liabilities	1 751	1 925	1 748	1 508	1 546

Deficit	321 734	15 834	15 399	23 824	23 546
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So how has the new Board and CEO put the RAF on a financially sustainable path – reducing the deficit from R321.7 billion to R23.5 billion? The short answer is that they achieved this through the following three actions:

1. **By a change in Accounting Policy:** The RAF 2020/21 Annual Report made the following change in accounting policy: *“Following an investigation into the claims liability, which at the reporting period ended 31 March 2020 was R330 billion, the Board concluded that applying the IFRS 4 Insurance Contracts standard to the Social Benefit activities did not result in reliable and relevant information. That is to say, the RAF is a Social Benefit Fund, and not an insurance company which manages insurance contracts. Furthermore, the Fund does not collect a risk-based premium from road users, and it is not a fully funded Fund.”*

The R330 billion was hence restated as R27 billion. Until 2020, the Outstanding Claims Liability represented the estimated amounts payable by the RAF in respect of accidents that occurred before the reporting date. The R330 billion thus reflected the present value of future payments that the RAF was expected to pay in respect of accidents that occurred before 31 March 2020. From 2021 onwards, the RAF refused to recognise this liability. The R27 billion comprised of R16.3 billion for claims requested for payment but where the physical transaction has not taken place plus R10.7 billion where a court order specifies the amount payable or where an offer has been accepted but the physical payment has not been loaded on their payment system. The remaining R303 billion is ignored.

2. **By seeing themselves as an entity paying social benefits as opposed to an entity settling claims for realistic amounts:** The RAF measures their performance on how they can minimise short-term payments without having regard to how this will affect the long-term financial position. They concentrate on reducing legal and expert costs – even though this will lead to much higher settlements. The RAF seems to believe that they can reduce payments by not registering all claims (Board Notice 271 of 2022) delaying offers and not defending claims – thereby postponing payment until default judgement is obtained. By not defending claims but rather wait for Court Orders before making payments, they significantly increase the overall liability. However, due to the change in accounting policy discussed in (1) above, this increased liability is hidden.
3. **By not taking responsibility for the long-term Financial Position of the RAF:** In 2020 it was estimated that total payments in respect of accidents that occurred during the year 1 April 2019 to 31 March 2020 would have been R69.7 billion. If it was known at that stage that the amounts payable in respect of these claims were to be determined by Default Judgements without the RAF defending the matters, the estimate would have been significantly higher. How much higher? The annual reports since 2021 gave no indication of how much the RAF

expects to pay for accidents that have already occurred. The CEO recently mentioned a liability of R500 billion – but it seems as if they believe that by not estimating or reporting such a liability, it will disappear.

The R330 billion thus could have been a significant underestimation. Considering the current expertise of the RAF Board and Management, it can be argued that they should not manage long-term financial position of the RAF – **but someone should**. Government cannot simply turn a blind eye to the fact that the RAF only concentrates on making payments without having any regard to the long-term Financial Position of the RAF.

F. Evaluating the statements made by the RAF Board and Management

The true underlying cost of providing RAF benefits depends on the performance of the RAF. Evaluating their performance is difficult without an estimate of the Outstanding Claims Liability. Apart from estimating the true cost, it will also show how the average cost per claim has changed over time. As the last estimate of the Outstanding Claims Liability was made in 2020, a reliable evaluation of the performance of the RAF cannot be made. The performance can only be evaluated by relying on the figures provided in the RAF Annual Reports.

The average amounts shown in the RAF Annual reports have some limitations. Firstly, it seems to show the average cost per payment for each head of damage (e.g. average payment for loss of earnings, general damages, etc) and not the average cost per claim. It also seems to include payments in respect of claims that have only been partially settled. Changes in administrative processes can also influence the number of payments per claim. For example, if the number of payments per claim increases, then the average payment may be decreasing even if the average paid per claim increases. The actual number of “claims” used in showing average annual amounts for Personal claims (i.e. ignoring Supplier claims) in the RAF Annual reports have increased as follows as a percentage of the number of claims finalised shown for each year:

Year	2020	2021	2022	2023	2024
# Payments	150 370	86 502	128 545	131 024	110 299
# Claims Finalised	80 370	27 890	41 149	37 678	26 808
Payments / Claim	1.87	3.10	3.12	3.48	4.11

The calculated average amounts shown for later years, as shown in the Annual Reports. could thus well be underestimating the true average of the amount per claim relative to earlier years. However, the reader of the Annual Reports only has the information shown in these reports available to evaluate the performance of the RAF. Below we discuss the eight comments made by the CEO by assuming that the figures shown in the Annual Reports are correct.

G. Organisational Performance:

i. “... **significant reduction in administrative costs** ...”. The CEO’s comments of a “*departure from the litigious and financially wasteful model*” implies that their task was to improve on the 2020 figures. The 2021 figures would have been distorted by the COVID lockdown. In this section we compare the combined 2021 – 2024 figures with the 2020 figures. Average amounts were shown to be as follows in the Annual Reports:

	2020	2021	2022	2023	2024	2021-2025 Average
All claims	138 010	235 141	254 531	261 721	286 825	259 823
Personal claims	279 950	396 218	330 249	346 149	406 400	365 723
Supplier claims	11 120	19 698	21 602	22 405	16 684	19 984
General damages	482 291	516 097	508 147	531 803	565 055	532 064
Loss of earnings	826 007	1 084 369	969 098	1 050 476	1 110 815	1 050 672
Loss of support	450 307	639 006	589 333	644 348	632 671	626 701
Medical compensation	18 568	32 546	40 093	39 030	29 700	35 027
Funeral costs	18 521	17 448	17 453	16 579	15 380	16 588
RAF's legal costs	38 048	25 820	30 641	30 512	27 985	29 123
Claimants' legal costs	176 463	192 098	192 214	178 258	182 983	185 698

Note that the average RAF legal costs have decreased by R8 478 from R38 048 in 2020 to R29 123 for 2021 – 2024. The RAF statement by the CEO that there has been a significant reduction administrative costs thus seems correct. However, note that this has led to an increase of R171 047 (from R279 950 to R365 723) in average amounts for Personal claims. **Would it not have been worth it to rather incur this R 8 478 administrative expenses per claim in order not to over-settle claims by an average of R171 047?**

- ii. The “... **Auditor-General 2023/24 audit report** “speaks for itself and clearly states that the financial statements do not fairly represent the financial position of the RAF.

- iii. “...**improvement in the validation and verification of claims within 60 days**”. Note that the number of Personal claims registered and finalised have decreased as follows:

	2020	2021	2022	2023	2024	2021-2025 Average
Registered	102 086	51 306	35 210	40 107	18 256	36 220
Finalised	80 370	27 890	41 149	37 678	26 808	33 381

The number of claims registered has decreased significantly from 102 086 in 2020 to 18 256 in 2024. To verify a larger **percentage** of claims still implies a large reduction in the number of claims verified. The 2020 target seems to have been 80% of 102 086 – that is 81 668. It seems as if the RAF only verified 17 946 (98.2% of 18 256) in 2024. This dismal performance is probably because claims are apparently piling up and not being registered.

- iv. “... **the RAF developed a standard formula .. aimed to streamline and standardise the calculation of settlement values...** “. We note that the RAF had an Invitation to Bid (RAF/2023/00029) “to develop standard formulae for calculation of loss of earnings, loss of support and general damages”. However, the bid specifications seemed as if these had to be implemented in 2024. No further details were provided about this project. It seemed as if this project might have been abandoned – as the RAF requested comments for a new approach to be developed (which would have been unnecessary if the formulae specified in the 2023 Invitation to Bid was developed).” Furthermore, this new request for comments, seems to require a change in legislation. The role of the RAF is to manage and pay claims. If they reduce their own task to only be the payment of claims, neglecting defending claims and not taking responsibility for the long-term financial position of the RAF, the ratio for proposing new legislation (RAF Amendment Bill) remains questionable especially considering the difficulty in determining their outstanding claims liability.

H. Financial Performance:

“**Investment income grew by more than 145%....**” This simply shows that the RAF has cash available to pay claims – and need not continue to postpone payments the way they do at present.

I. Claims Performance:

i. ***“There has been a steady decrease in new claims registered since 2020: from 303,695 to 79,377 in 2023/24.”***

This is unfortunately true, mainly due the adoption of the Board Notice 271 of 2022 and one hopes that the RAF will rectify the matter by not letting claims pile up or be turned away. Note that these figures include Supplier claims. A supplier claim is completely different from a Personal claim and the two should not be combined when measuring performance.

ii. ***“The average value settled per claim has increased by less than 10% over the past three years, reflecting stable growth compared to a 70% increase from R138,000 in 2019/20 to R235,000 in 2020/21.”*** The 2021 increase of 70% was partly due to the COVID lockdown. One would have hoped that the RAF would have been able to revert to pre-COVID levels and not increase the averages even further. Hopefully this dismal performance can be reverted. Again, combining Supplier claims with Personal claims gives a distorted picture.

iii. ***“The rate of increase of outstanding claims reduced ...”***: The above figures clearly show that the reduced rate of increase is due to the reduction in registering claims and not due to efficiency in finalising claims. It seems as if the CEO chooses wording that even tries to make a dismal performance look good.

The Chief Executive Officer’s overview in the RAF 2023/4 annual report can create an impression of decreasing real average claim amounts, saved legal & expert costs and faster settlement, while closer scrutiny reveals the opposite.

In 1858, **Abraham Lincoln** made the following famous statement: “You can fool all the people some of the time and some of the people all the time, but you cannot fool all the people all the time.”

Yours Truly,



