



Planning for the future*

*Case Study: South African XBRL
Retirement Fund Initiative*

*connectedthinking

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Background



As with most financial services industries, the retirement industry is often faced with a raft of new legislation and the challenge of satisfying reporting requirements. During the past one and a half years, PricewaterhouseCoopers South Africa (PwC) has participated in the envisioning and implementation of the South African XBRL Retirement Fund Digital Supply Chain Initiative.

The initiative was born out of need to be able to provide our clients with a cost-effective, efficient, leading edge technology solution that would enable them to satisfy pending changes in the legislation around retirement fund reporting requirements in South Africa.

This initiative brought together South Africa's 'best of breed' companies in all the relevant industry sectors: Alexander Forbes Financial Services (Alexander Forbes), the country's largest privately administered retirement fund administrators, FRS Financial Reporting Solutions Pty Ltd (FRS), a specialist XBRL and financial reporting software company, the Financial Services Board (FSB), South Africa's local retirement fund regulator and PwC.

Joint Venture Participants / Parties



The Regulator

The FSB regulates the Non-Banking financial industry in South Africa. The FSB is an independent institution, established by statute with the objective of promoting sound and efficient financial institutions and practices. In their role as regulator, it is the FSB's responsibility to analyse the financial reports of the registered retirement funds for compliance and sound financial management. In order to do this, the FSB must comb through each and every retirement fund's financial report and manually re-capture and extract the information they need – a very time consuming and labour intensive task that also makes the information vulnerable to errors and mistakes.

The FSB's decision to introduce XBRL as the format for electronic submission for financial statements was threefold:

- The first objective was to enhance the overall efficiency of financial statement processing. The current high level of manual work often resulted in 'mistyping' of data and therefore limiting the value of the information. By reducing the levels of non-challenging work, the aim was to motivate employees to increase efficiency in the data collection function.
- The second objective was to enhance the effectiveness of the regulatory function. Data re-keying is not a conducive environment for optimum effectiveness. New ways of collecting the data were required to add value to the information while safeguarding the integrity and accuracy of the information.

- The Government of South Africa enacted the Electronic Communications and Transactions Act of 2002. The Act is aimed at enabling and facilitating electronic communications and transactions in the public interest. By embarking on the digital route, the FSB had a third objective of being pro-active in their effort to comply with the regulations of this act.

The FSB acknowledged that it did not use available technologies as effectively or efficiently as possible. The traditional (and labour intensive) method of manual capturing and information extraction from the financial statements was very time consuming and prone to manual input errors.

At the time of the project kick-off, the FSB received annual financial statements from around 3,300 private retirement funds. However, pending legislation in South Africa will soon add an additional 11,000 underwritten funds to the pool of retirement funds required to submit their annual financial statements to the FSB. The mere volume of the statements would have made it impossible for the FSB to cope with the additional workload given its current staff compliment and its current manual accounting process.

Increasing the staff complement was not an option as it would inevitably have resulted in not only increased salary costs (that could possibly have a significant impact on levies the regulator charges to each fund) but also related increases in hardware and support requirements. Within the current budgetary constraints, this was not a viable alternative. This forced the FSB to consider other alternatives of getting the information – enter

the digital age of digital reporting technology.

By utilising XBRL technology, the aim was to put the FSB in a position whereby it could receive the financial reports and information from the retirement funds in a digital format, thereby reducing (and perhaps ultimately eliminating) the need for manual intervention in capturing of the financial data and reducing the risks of errors and omissions. Furthermore, the FSB should also be able to contain additional costs by containing the number of new staff appointments.

The Client

One of PwC's clients, Alexander Forbes, has embraced the concept of digital reporting using XBRL technologies. Alexander Forbes is a leading independent international provider of financial and risk services, listed on the Johannesburg Securities Exchange (JSE), and has been ranked in the world's top 10 risk and benefit consultants. With over 6,000 employees, the company has subsidiaries and associates in more than 30 countries throughout Africa, Asia, Latin America and Europe.

As a large, privately-administered retirement fund administrator, Alexander Forbes handles a multitude of retirement funds for a wide range of customers. Just like each customer, each retirement fund is unique, with its own rules, different trustees and auditors, and unique circumstances. This uniqueness is reflected in each fund's accounting processes and in the financial reporting processes.

While the traditional accounting process and financial statement preparation for the retirement funds can best be described as manual,

this approach as noted above is time-consuming, expensive and prone to errors. Each fund's financial statement is composed manually with several different people performing the daily fund administration and preparation of the accounting data. These people would typically reconcile primary ledger entries with the source ledgers and administration systems, but more often than not their efforts are related to their supervisor's and their own knowledge level and experience., making their unintentional manipulation of information vulnerable to inaccuracies. Consequently, the accounting data and reports reflected the aggregation of these best efforts. Historically this was acceptable because the preference in reporting within the regulation guidelines was different, the financial results of the funds were disclosed differently, there wasn't a standard methodology for the work. Given their mostly manual methodology, mistakes and the huge time and costs involved were viewed as "unavoidable". But was that really the case?

Being a forward-looking company, Alexander Forbes is continually on the lookout for ways to improve its business processes, and the preparation of financial statements is considered just another business process. In order to improve the overall efficiency and



the effectiveness of the financial statement preparation process, the company had to consider:

- Whether there was a way to move from a "Slow Close" scenario to a "Straight Through Reporting" scenario?
- What were the options available to the company and what were the issues facing them?
- Whether the company would be able to tackle such an effort by themselves, or whether they would need outside help and assistance?

The Enabler

In order to enable the digital transmission of retirement fund reports, the participants to the retirement fund initiative based their approach on the XBRL enabled technology of FRS. FRS was founded in 1996 by a team of IT and accounting professionals. Their goal was to develop proprietary technologies that would re-engineer the financial information supply chain and automate the generation of financial reports. By combining their intellectual capital of accounting expertise and industry knowledge, FRS was able to develop a technology and a methodology that is unique in the 'accounting industry'.

The major problem with the preparation of financial statements (or any other kind of financial reporting) is the time required to sort out the accounting data before it can be used in the preparation of financial statements or be audited. Therefore, the ultimate question is whether the capturing of accounting data and the preparation of the (financial) reports can be automated and standardised?



The FRS philosophy of capturing and digitally tagging the accounting data is revolutionary in its approach. FRS argued that accounting is a science rather than an art, and that the basic building blocks of accounting transactions are the same – irrespective of the company. This approach enables an apples-to-apples comparison of financial information. For example, when an entity purchases a new vehicle, it should be recorded in the same fashion, all over the world. To make this approach a reality, FRS created an ‘accounting engine’ called Virtual Chartered Accountant (or VCA). VCA focuses on the recording of financial information with a single, global, IFRS-compliant accounting language. This solution is based on a standard and expanded chart of accounts that can be either linked to, or embedded, in the ERP systems’ chart of accounts. Once the original transactions are recorded, VCA’s technology allows for a tag to be generated for each transaction. The end result is an ERP system with tagged transactions, as opposed to tagging ‘the trial balance or general ledger account totals’ after the fact.

The development of any kind of XBRL compliant report is thereby reduced to an exercise of identifying the required tagged information, developing an instance document, and printing a MS Word report or submitting a digital XML file.

This proprietary solution/technology, from recording to reporting, represents a major concept shift that will profoundly influence financial reporting over the next few years. Once information has been recorded in sufficient detail to capture the complete essence of each transaction, any number of financial reports, in any format, and in compliance with virtually any requirement anywhere in the world, can be generated quickly and easily without the time-consuming and expensive process of re-analysing and re-formatting information.

Fast-tracking the Process



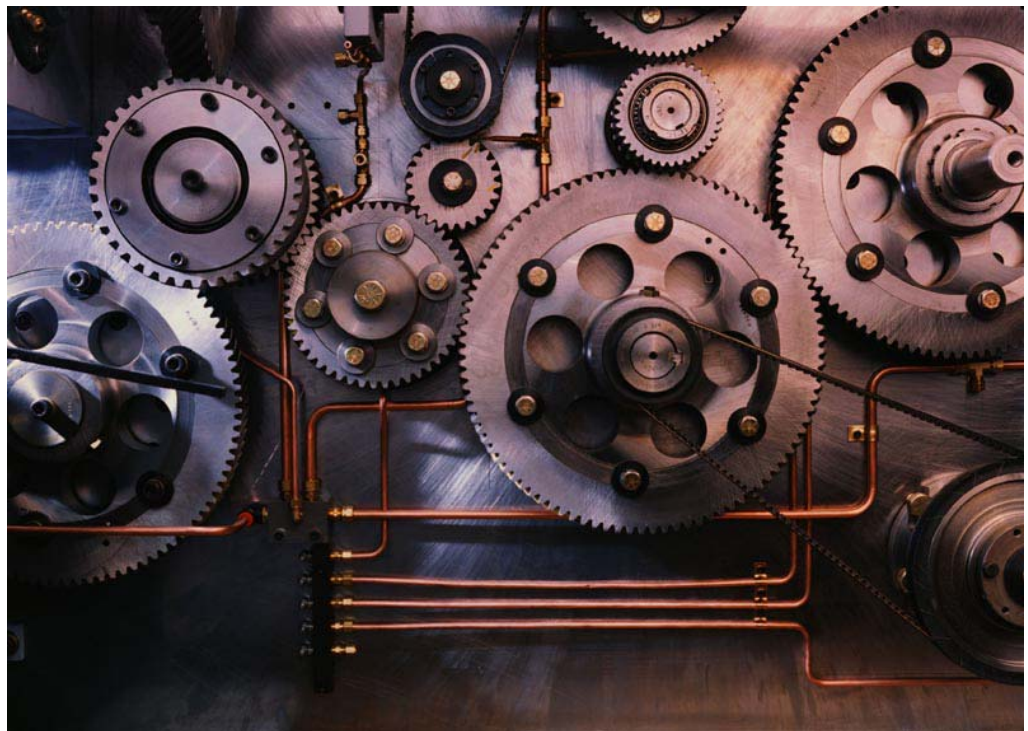
How then to change the concept? Firstly you would need to test what was previously accepted as the status quo. Secondly you would need to establish whether there is a better way to achieve the required results. Kick-starting the change process can be achieved by challenging existing assumptions:

- Is the accounting process and financial reporting really unique?
- Is the work being performed in the current fashion because that's the way it is, or just because it has never been challenged?
- What would happen if the accounting process were able to capture a similar type of transaction always in the same way - irrespective of the entity it belonged to.
- What would happen if the accounting process could be maintained and managed in a controlled environment, and always be subject to a specified process?

The aim is therefore to create a standardised accounting process, which in turn will bring about 'Straight Through Reporting' (STR). STR is an optimal processing environment for internal and external information management reporting. It is called 'straight through reporting' because it replaces the costly and less efficient processes with more efficient and effective processes that are less reliant on extensive human interaction, and therefore, making the information less vulnerable to mistakes. This optimal processing environment can be achieved through the use of non-proprietary

technologies such as XBRL. The objectives of such an automated process is:

- “Straight Through Processing” (or STP) in the accounting function.
- Be in a situation where business transactions are captured once, and then be able to re-use them to easily extract value-added reports/information without having to re-capture them.
- Management of the accounting information, rather than management of documents.
- To be in a situation where the accounting numbers can be used as information, not data.
- Standardisation of the financial processes, including the accounting function, the reporting function, the auditing function, and the analysis function.
- To be able to get accurate, consistent, comparable, high quality financial reporting with minimal effort with reduced costs in little or no time.



The Project



The Process

As a starting point, it was essential to firstly understand what the reporting requirements from a 'retirement fund' legal perspective were. Once there was a thorough understanding of these requirements, a unique retirement fund taxonomy was developed. From this taxonomy it was then possible to generate XBRL compliant instance documents.

This taxonomy identified around 1,600 different elements that the pension fund industry had to be able to provide from a legal perspective. The current data requirement of the FSB only expected 400 different elements from the pension funds. Therefore there was more information available from the initiative than the FSB's current requirements. The FSB decided that rather

than discarding the additional information, they could maintain the parts of information they believe will be of future value. This way they can start building up history for use at a future point in time.

The supply of XBRL based financial reports would start at Alexander Forbes. Due to the ground breaking nature of this initiative, there were some security and quality control concerns around the digital submission of the financial information. As part of the quality control effort the applicable pension fund auditor as well as the pension fund's trustees had to verify the reasonableness of the reports. The purpose of this verification is to ensure that the reports generated by the FRS tool are a true reflexion of the results and information within the IT/ERP system. Once such 'approval' has been obtained, the instance document is downloaded

into the FSB work-flow system, from where the applicable FSB people are notified of the submission via automatic e-mail.

The Challenges

The greatest challenge of this initiative has been the creation of the taxonomy and the identification of the data elements to be 'tagged'. For XBRL to be successful, all participants in the supply chain had to agree on the taxonomy. Once the taxonomy was finalised, the essential elements or data points that required tagging had to be identified and agreed upon. It is only after all the parties have agreed on the universe of data to be tagged and submitted, that the true power of XBRL can be realised.

A further major concern is the security aspect of digitally submitting sensitive data using Internet technologies. As an interim measure to ensure accurate submission of such information, Alexander Forbes is submitting both a paper based report and a digital report to the FSB for data verification purposes. An effort is currently under way to find a way to add some code to validate the instance file against the taxonomy.

Benefits

The South Africa Pension Fund XBRL initiative has resulted in several major benefits for both Alexander Forbes as well as the FSB, with more expected over the next few months as the project settles down and expands.

The Financial Services Board

On the receiving side of the supply chain, the FSB is now able

to receive the required pension fund information in a much less stressful and timely fashion. Their participation makes the FSB the first regulatory agency in South Africa (and one of only a handful in the world) that is able to receive digital financial reports with minimal human intervention.

Using the new methodology, the required data gets downloaded into the FSB's workflow system, in the format as required by the FSB. Once the data has been downloaded, automatic emails are generated and sent to the applicable person/department notifying them that new work has been received.

Although the FSB has not reaped the benefits of reduced staff due to the new efficiencies, such benefits are expected to become reality in the next few months. The FSB decided not to reduce the current staff compliment based on the results of the initial phase, but to keep the current staff levels in order to cope with the almost 11,000 new funds, which will be introduced into the supply chain in due course. In the interim, the current staff can be used for more value adding analysis functions, rather than mere data capturing.

Alexander Forbes

On the supply side of the supply chain Alexander Forbes has achieved their goal of becoming a digital supplier of financial information. They are the first retirement fund administrator in South Africa (if not the world) that is able to generate XBRL based reports and submit them to the overseeing regulatory agency. In fact, hundreds of XBRL reports have already been generated.

They have also progressed towards their goal of improving their internal efficiencies. Due to these internal efficiencies, Alexander Forbes is expecting savings of up to 30% in the bookkeeping staff requirements for the data capture and report preparation. Staff can therefore be freed for use in other value adding areas of the business.

Alexander Forbes has also used this opportunity to standardise their ledger profiles and transacting processes, and has developed a basic control infrastructure to ensure similar transactions are always transacted and recorded in a similar fashion. Hence forward all the reporting requirements will be built on accurate information. This has resulted inter alia in the automation of audit working papers, which are generated directly from the VCA product. This will ultimately improve the quality of the auditing of each retirement fund as well as limiting the costs of the statutory audits of such funds.

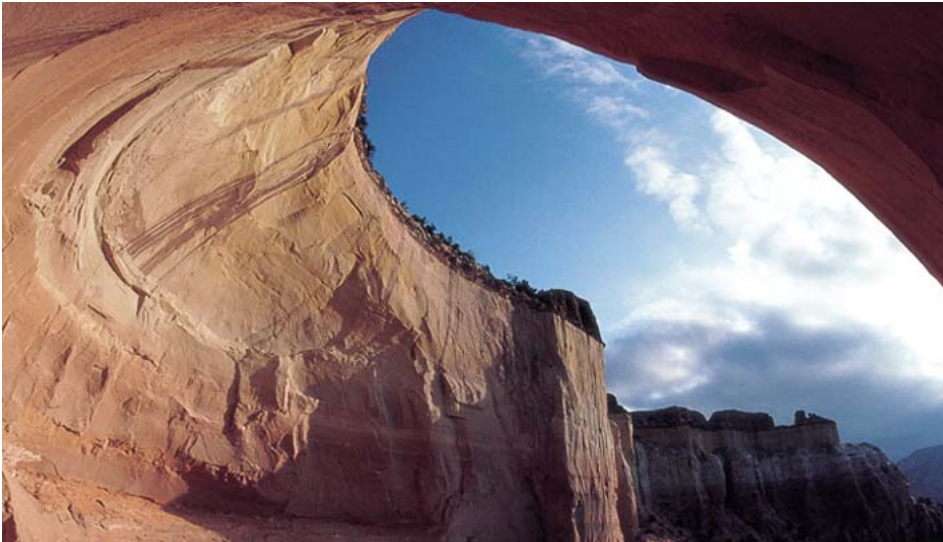
There was another benefit that flowed directly from the FRS approach to statutory financial reporting. Using their VCA backbone, Alexander Forbes' transactions are captured digitally

with tags. XBRL digital financial reports can now be generated as a by-product of the application. This shortens the entire financial process substantially, thereby achieving a high-level of straight through reporting. For example, the total time required to prepare and finalise a set of financial reports suitable for (digital) submission has been reduced from 5 days to a few minutes. There is now limited need for human intervention in taking the accounting data from the ERP system and massaging it into a statutory compliant financial report or digital report.

But, there was more to come. Because detailed transactions are tagged throughout their ERP system, Alexander Forbes is able to extract all sorts of management information using business intelligence tools by querying the digital data. This was not the case before. For example, for the first time, Alexander Forbes is able to determine accurately and reliably the average audit fee for their pension funds. Furthermore, they are now also able to determine, at the press of a button, what the average contributions of all the funds are, or what the composition and value of the investments of each of the funds is. Such internal management/business intelligence tools can be easily developed and built, and is merely another XML Schema/instance document. This illustrates the potential ability to use XBRL enabled technology not only for external reporting and submission, but also for internal reporting and decision-making support.



Conclusion



All the participants in the South-African XBRL Pension fund initiative have invested a great deal of resources, time and energy into addressing the issues noted above, as well as some other issues that will truly enable this e-government and e-business initiative. Such other issues include digital signatures, the use of business intelligence tools, data security, and industry change management.

The FRS team has devoted a substantial amount of time finalising the taxonomy and data elements in conjunction with key resources at Alexander Forbes and the FSB. Their statutory financial reporting tools are currently also being considered by other major South African pension fund administrators. This should certainly give 'critical mass' to the overall initiative.

PricewaterhouseCoopers SA, as the auditors of several Alexander Forbes' pension fund clients, is also evaluating

how to achieve efficiencies from the availability of digital data. We believe there should be ways to utilise the XBRL tagged data, within our own audit methodologies, to achieve a more efficient and possibly less costly audit. We also believe that digital submission and XBRL usage will result in greater transparency within the regulatory and business environments, as all the stakeholders will be able to more easily and quickly access relevant data.

At PricewaterhouseCoopers we see other regulators around the world beginning to embrace the use of XBRL (OPRA, the pension fund regulator in the United Kingdom is currently considering embarking on a similar initiative) and believe that our local initiative may prove to be one of the first of many successful digital supply chain success stories.

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Enhancing Business Reporting through XBRL Leadership

As a leader in creating reporting solutions that enhance and encourage trust in corporate reporting, PwC continues to lead and is strongly committed to eXtensible Business Reporting Language (XBRL).

We are a founding member of the consortium, XBRL International, which is developing and promoting this new standard for enhancing business-information exchange throughout the corporate reporting supply chain using the Internet. We are also at the forefront of bringing XBRL into the marketplace, using our corporate-reporting expertise and commercial solutions to help business-information producers and consumers re-engineer their processes to achieve greater efficiency and effectiveness.

To learn more about XBRL and how your organisation can improve its reporting processes, please visit www.pwc.com/XBRL.

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