PROTECTING AND GROWING YOUR WEALTH

By Max Marx

In this feature, we take a look at wealth creation and the protection of high net-worth individuals (HNWI) assets. With so many financial products available both locally and internationally how does one know what to invest in, when to invest and how much of one's assets should be allocated to a particular investment product?

There are equities, bonds, cash, funds, private equity funds and property, among others, to invest in and a host of investment platforms or wrappers through which to invest – such as unit trusts, endowments, trusts, section 12J investments, structured products, cash, money market instruments and the like – some more tax efficient than others.

This feature also takes a look at trusts; offshore investing; estate planning; minimising tax liability; and the issues surrounding advisor fees.

One thing the experts agree on - Finding a trusted financial advisor with a deep understanding of the complex financial landscape is the key to growing and protecting one's wealth.

Investing – what you need to know

The first things to ask when it comes to investing is what is the purpose of creating and protecting your wealth, what are your long-term investment objectives and what are you trying to achieve?

Steven Nathan, CEO of 10X Investments, says that before investing, investors need to understand their financial needs, their time horizon for investing, how long they want their capital to last, how much they need per year to live on, and what kind of investments will serve their long-term goals.

"If for example, an investor needs R5 million a year to live on, and has R100 million to invest, then a 5% return on investment per year above the rate of inflation is required. An investor then needs to look at optimising his/her portfolio to meet that need, deciding what proportion of assets should be allocated to shares, property, bonds or cash. The decision to invest in higher or lower-risk investments or a combination of both depends on his/her investment objective."

"It is much more challenging today to achieve similar returns to what one could achieve before the 2008 global financial crisis", says Reyneke van Wyk, Stonehage Fleming Head of Investment Management South Africa. "Today one needs to assume a much higher degree of risk to achieve the same returns," he says adding that protecting the purchasing power of capital over the long term is best achieved through investing in inflation-beating assets like equities, while one can mitigate against short-term volatility by investing in lower-risk cash and fixed income asset classes.

Nathan adds that if one's investment horizon is five years or longer, then one's portfolio should own a high proportion of growth assets like equity and property as these offer higher returns while being more volatile in the shorter term. "There is lower downside risk with growth assets in longer-term because equity markets tend to give good returns over the longer term."

Asset diversification and positioning your portfolio more conservatively is the way to protect against short-term volatility, says Bryn Hatty, Stonehage Fleming Chief Investment Officer - South Africa. "A proper risk analysis is essential to ensure that investors understand their risk needs and tolerance."

Daniel Kibel, Founder of CM Trading, says a well-diversified portfolio should have investments in a wide array of industries from online trading, through bitcoin to gold.

Tax efficiency, says Vimal Chagan, Divisional Director: Investment Propositions, Individual Arrangements at Liberty Group, can be achieved through determining the appropriate wrapper or legal structure investors should use for their investments, which also determines access to these. For example, an endowment is a tax-efficient investment wrapper for high-income earners. Upon death, the money is passed directly on to one's beneficiaries and doesn't go through the estate, so does not attract executor fees. "On the downside, endowments are a minimum five-year structure, so it is not good for people who need access to their money in the short-term."

Sheldon Friedericksen, Fedgroup's Chief Financial Officer, says during times of economic downturn, one should invest in sectors that have the best chance of recovery and offer the potential of a good return on investment in the longer term.

Nathan adds that investors would do well to avoid advisors who try and convince them to invest in speculative investments or investments they don't understand.

Citadel Wealth Management chief economist Maarten Ackerman says during times of uncertainty and negative news reports, investors often get nervous and make the mistake of selling their investments instead of taking the time to look at the reality of the fundamentals, whether in the market or the economy. Ackerman adds that after the long bull run we've had, it's time for investors to add some more protected investments to their portfolios. Hedge funds, he says, are good at protecting against volatility.

Finding the right financial advisor is key

To help navigate through the minefield of investing, choosing the right financial advisor that understands your risk tolerance and financial needs is critical, says Reyneke van Wyk of Stonehage Fleming. "Advisor independence is important and it's critical that the advisor's interests are aligned with the client interests and that where an investment advisor is incentivised to use certain products, that the conflict of interest is disclosed and well managed."

With most HNWIs having offshore investments,

are used. Clients can often end up paying active management fees for managers that largely track the index."

Steven Nathan, 10X Investments CEO, says financial advisors should have some form of financial planning qualification, at the very least a Certified Financial Planner or Advanced Certified Financial Planner qualification.

Investors also need to decide whether they need an active or passive investment manager, says Craig Turton, Head of the Wealth Creation Team at Chartered Wealth Solutions. "An active manager actively makes investment decisions aimed at beating a market index and looks for investment opportunities. A passive manager mimics/matches a market index."

Ernest Mazansky, Director: Werksmans Tax, says a financial advisor should be tax aware and have a reasonable grounding in the aspects of tax law that affects off-shore investing and estate planning, even though their speciality is advising on financial strategies and products. "But detailed tax advice should be left to a tax specialist."

Investment products in the market and what to consider

"There are interesting opportunities available to high net worth investors", says Reyneke van Wyk of Stonehage Fleming. "We're seeing larger allocations to private equity funds, less- liquid assets that should produce good long-term growth."

Citadel Wealth Management chief economist Maarten Ackerman says that in light of the expected downturn in the markets after the long bull run, Citadel is looking to invest in low-beta companies that do well irrespective of the economic cycle or a recession such as food retailers and pharmaceutical companies.

advisors must have global investment management experience, an international network and preferably a strong offshore presence, says van Wyk. "Also critical is that the advisor aims to reduce the client's Total Expense Ratio (the total cost of investing including all charges through the value chain). It helps for an organisation to have the necessary scale to access institution fee classes (a lower fee class for larger amounts invested in a fund). The investment platform an advisor suggests should be safe, unconstrained to allocate across major asset classes globally, cost-effective and offer a comprehensive service. An advisor must also ensure that when an investor's capital is allocated to active managers, best-of-breed global managers with a tried and tested skillset

Stonehage Fleming's Bryn Hatty says Section 12J investments - a government initiative that offers attractive tax incentives to those investing in specific projects aimed at growing the economy - are a good option, but that the tax consideration should be secondary to the investment decision which must stand on its own and be a good investment proposition.

Banks also offer HNWI interesting investment opportunities, says Liberty's Vimal Chagan. "We see banks inviting their HNW clients to co-invest in certain

business opportunities." He adds that HNWIs can also take advantage of off-shore investment opportunities that are not readily available in South Africa. Investing in other alternative asset classes such as forestry and infrastructure are also possible.

"Another investment strategy that is often not spoken about are investments in index funds. Data shows that over the last 20 to 30 years, active fund managers on average underperformed the index, mainly because of their fees. Furthermore, the probability of active fund managers consistently choosing the right share and including it in one's portfolio at the right weighting is quite low."

HNWIs are also investing in structured portfolios to help diversify their investments, says Sheldon Friedericksen, Fedgroup's CFO. "Their structured portfolios include impact farming investments like the sustainable projects operated by Fedgroup. It's about having a sustainable investment that gives you a solid return but at the same time is having a positive socio-economic impact," he says.

10X Investments CEO Steven Nathan says the only investment that gives a guaranteed return is an inflation-linked government bond. "Your capital grows at the rate of inflation, and the bond offers a guaranteed return – albeit only around 2% – above inflation. Most HNWIs seek returns of inflation plus 5-6%."

Passion investments such as art, wine, watches and cars also form part of the HNWIs portfolio, says Ackerman, but are not very liquid and should not be too big a part of an investment portfolio.

Other investment opportunities, says Daniel Kibel of CM Trading, are online trading which offers the advantage of high liquidity; indices trading - which gives access to the European, US and Asian markets; commodities - which provide the opportunity to diversify beyond traditional securities and are easy to invest in, requiring no professional knowledge; gold – which has historically maintained its value and is used to hedge against a decline in the US dollar and against rising inflation; online real estate – one of the most lucrative investment channels today; with cloud technology, Internet of Things and Virtual Reality also interesting investments to consider. Kibel adds that cryptocurrencies are well-suited to those interested in technology and currency markets.

Van Wyk says Stonehage Fleming does not invest client funds into cryptocurrencies as the company follows a 'stay rich' rather than 'get rich' approach for their clients and invests only in quality assets whose intrinsic value can be determined.

Off-shore investing

Before investors consider offshore investing, they need to assess their investment portfolio with their investment advisor, says Maarten Ackerman of Citadel Wealth Management. "Their investment strategy is driven by whether they need cash from their portfolio or whether they just want to invest for longer-term growth. When it comes to offshore investing, Citadel looks at the sales revenues of companies, those that have diversified interests around the world.

It makes sense to match an investor's short- to- medium-term liabilities with investment in a domestic portfolio, which they can draw from, says Stonehage Fleming's Reyneke van Wyk, and then invest any surplus assets offshore.

When diversifying assets across jurisdictions, be aware of the exchange control regulations. "The foreign exchange Control Act only allows individuals to take one million Rands worth of discretionary funds off-shore a year and R10 million capital off-shore a year, says Sheldon Friedericksen of Fedgroup. "They also need to understand the tax consequences as South Africans are taxed on their worldwide assets. Investors should also be aware of any restrictions in the countries they're investing in and know those countries forex rules."

Steven Nathan of 10X Investments suggests that where a person spends half their time abroad, half their income should be linked to the dollar. He warns that offshore investing is more expensive, attracting higher fees. "A tax clearance certificate is required to take your money off-shore," he adds.

Estate Planning and Estate Duty

With more South Africans investing part of their wealth offshore, and family members living out of South Africa, multi-jurisdictional estate planning has

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become increasingly challenging, according to Ken Newport, Fiduciary and Tax Specialist at Sanlam Private Wealth. "Each country has its own succession and inheritance tax laws and there may be a mismatch of factors used to determine tax liabilities in different jurisdictions. This means some assets may be taxed in a particular country, others not, while others may be taxed twice. Some countries have entered into double tax treaties – which say that if you pay tax in SA, you don't have to pay tax in the US for example - to try and resolve these issues."

Fedgroup's Sheldon Friedericksen says it's advisable to check in which jurisdictions double tax treaties apply. Newport adds that succession laws also impact estate planning. "For example, under South African law, immovable property forming part of a worldwide estate of a person domiciled in South Africa can be bequeathed to any person without restriction. In other jurisdictions, immovable property may vest in the children of the deceased even though the will states the asset has been left to a third party. Spousal exemption also doesn't always apply in all jurisdictions. Where a South African holds US assets, only the first US$60,000 will be exempt from US estate tax unless the surviving spouse is a US citizen."

Steven Nathan of 10X Investments says if one wants to invest in the US stock market, for tax efficiency, it's better to take one's money out of South Africa and then invest, rather than buying an S&P 500 Index fund listed on the JSE. "South Africans investing outside South Africa aren't taxed on the Rand depreciation, only on the dollar gain."

Elana Nel, Stonehage Fleming, Director specialising in Tax Advisory, says estate duty for South African residents is payable on worldwide assets except where exemptions exist. "People use the spousal exemption to minimise estate duties payable in SA. Unlimited assets can be bequeathed to a spouse free from estate duty. Everyone also has a general abatement of R3.5 million. If this abatement was not used by the deceased spouse, it rolls over to the surviving spouse who then has R7 million worth of assets that are free from estate duty."

She adds that trusts are also used to reduce estate duty as only assets in one's personal estate is subject to estate duty, although this may include a loan account in the trust. "If one's assets are bequeathed to a trust on the death of a surviving spouse, there won't be any future estate duty on that. The changing tax climate relating to trusts must, however, be taken into account before a decision to bequeath assets to a trust is reached."

When it comes to foreign estate duty or inheritance tax, one needs to consider carefully how one invests, says Nel. "Depending on the jurisdiction of the equity, direct investing in foreign equity could result in inheritance tax in the jurisdiction of the equity, whereas an investment in a fund domiciled elsewhere, but holding the same equities, could be exempt from such inheritance tax. Where an inheritance tax is payable in another jurisdiction, one will receive credit in SA for the foreign inheritance tax paid."

Ernest Mazansky, Director: Werksmans Tax says for off-shore estate and tax planning, one needs to be aware of the tax laws in the countries one wants to invest in. "For example, holding assets in one's own name in the UK or US exposes one to UK inheritance tax (the rate is much higher than SA estate duty) or US Federal Estate Tax."
He advises investors to deal with their on-shore and off-shore estates separately but in relation to one another. "South African residents are taxed on their worldwide income, capital gains and estate

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duty. Whether assets are on-shore or off-shore, one effectively pays the same amount of tax. However, some off-shore products allow one to defer tax and even avoid paying annual income tax, allowing the income to 'roll up' into a capital gain, where CGT has a lower rate than income tax."

Wills

A well-drafted will ensures an estate is disposed of most efficiently, says Ernest Mazansky, Director at Werksmans Tax. "It should contain a degree of flexibility, to give executors some room for manoeuvre to cater for circumstances at the time of death. It should also contain rules governing a situation where an heir might predecease a testator, or an entire family loses their lives."

He adds that most countries recognise a foreign will and while most European countries don't understand the concept of trusts, there are international treaties in terms of which their law recognises them. "One would usually locate a trust to hold passive offshore investments in a jurisdiction which recognises trusts and where succession laws like forced heirship rules won't be a problem.

Elana Nel of Stonehage Fleming says people sometimes use generation skipping, leaving their estate to their grandchildren instead of their children, to save their children from having to pay estate duty and CGT on inherited assets, especially when the children are elderly. "With foreign assets and South African heirs living offshore, exchange control regulations must be taken into account."

Hilary Dudley, Managing Director: Citadel Fiduciary at Citadel Investment Services, recommends having a single will for all worldwide assets as it avoids the risks of inadvertently revoking a will that results in assets in that jurisdiction devolving intestate. "We deviate from that principle where clients hold immovable property offshore because property laws offshore differ from those in SA and its best to employ the services of a specialist in a foreign jurisdiction."

Ken Newport of Sanlam Private Wealth says in some jurisdictions a separate will may be a sensible solution, but this doesn't always solve all the issues. "A will drafted in one jurisdiction may not be recognised as valid in another. Doctrines of automatic evocation in certain jurisdictions by marriage or civil partnership or even by the birth of a first child should be considered."

Tax efficient investments

The easiest way to get a tax benefit is to purchase an endowment or a product wrapped through a life insurance company, says Fedgroup's Sheldon Friedericksen. "The 30% tax rate can be a significant saving for HNWIs in the 45% marginal tax bracket." He adds that there are restrictions though on how much investment life companies will accept in these endowments depending on the insurance companies' current circumstances.

Citadel's Maarten Ackerman says whether investing in one's personal name, through a trust or an endowment, one needs proper tax planning to look at what tax one will pay on income, capital gains or dividends."

RDR seeks to ensure fair treatment of financial industry customers

The Financial Sector Conduct Authority's (FSCA), formerly the Financial Services Board (FSB) has proposed several regulatory reforms regarding the distribution of financial products and the provisions of financial advice.

The Retail Distribution Review (RDR) was published in November 2014 and proposed comprehensive structural interventions in the commission-based insurance and risk business and fee-based investment industry. "It aims to improve disclosure to clients and mitigating conflicts of interest and poor financial outcomes for clients," says Caroline da Silva, Divisional Executive: Regulatory Policy.
"The fees charged to clients by financial advisors have historically been determined by the asset or fund manager of the fund the advisor is

investing into. This is one practice we want to stop. Asset managers should not be determining those fees. Investment advisors should be negotiating a fee with their customers, independently of asset managers. We want customers to agree and consent to those fees and have an advisor demonstrate the value he/she is adding to get those advice fees."

She adds that it will remove any conflict of interest advisors find themselves in as a result of getting fees from a fund manager and frees them to choose a fund that's in the best interest of a client.

The proposals also require full transparency when it comes to fee disclosure. If for example, a fee is 2%, the advisor must disclose what proportion is going to him/her, how much to the asset manager, and how much to administration and any other hidden fees. The proposals also require product suppliers to take some responsibility for the risks posed to customers through the distribution of their products.

Another significant proposed change regards savings and investment schemes. The RDR seeks to stop the earning of commission on savings and investment insurance policies, in favour of brokers charging fees. Da Silva says there has been quite a lot of pushback from the industry on this proposal and the FSCA is in consultation with industry stakeholders to achieve the best possible outcome for all.

FCSA would also like to see the payment of 100% upfront commissions to insurance brokers on the projected life of a policy done away with, in favour of 50% upfront commission and 50% paid over time. Da Silva says when clients cancel a policy within the first two years, commission can be clawed back, but after two years it cannot and remains the property of the advisor, which is lost commission to the insurer and offset against the customer's policy.

"The 100% upfront commission rule also means advisors continuously have to find new business every month to bring in income and remain sustainable leading advisors to sell 'new and better' policies to existing clients so they can earn 100% upfront commission from them."

Industry response to fees and FSCA's proposed changes

The investment industry makes a lot of money charging fees, says Steven Nathan, CEO of 10X Investment. "Most financial advisors charge fees of around 1% of asset value, while fund managers are charging fees of 1.5% - 2% and there are hidden fees, so one needs to be careful when investing.

"If for example, an investment advisor illustrates you a 10% ROI, but inflation is 5.0%, you're only getting 5.0% ROI and that excludes the fees." Nathan suggests getting quotes from a variety of advisors and product providers to check their fees.

Fedgroup's Sheldon Friedericksen says a change in behaviour and how advisors currently operate will be a good thing. "People have bad experiences with products that aren't always the best for them at the time or may become the wrong product as their circumstances change." He warns though that while a change in behaviour is welcome, a change in legislation could decimate independent financial advisors in South Africa. "We really need independent financial advisors in South Africa because financial literacy is so poor. If legislative requirements destroy the industry, who is going to independently advise the people who really need it?"

Retirement advice

Steven Nathan, CEO of 10X investments, says the main difference between a retirement investment and non-retirement investment is the tax. "One can make tax-free contributions to a retirement annuity or provident fund. There is no capital gains tax or income tax on the growth of these investments. Those saving for retirement can deduct up to 27.5% of total remuneration tax-free but this is capped at R350,000 a year. All HNWIs should invest R350,000 into a retirement product annually to avoid being taxed at 45%."

At retirement, one can take out R500,000 tax free. By investing one's retirement savings into a living annuity, one can avoid paying 20% estate duty, adds Nathan. "And with a living annuity, when you die, the money can be passed on to one's beneficiaries without having to pay estate duty. The only downside is you can't withdraw all your money at once from a living annuity."

If one has a retirement annuity, at age 55 one can take out one third in cash and the rest has to be invested in either a living or guaranteed annuity.

Trusts

There is still room for setting up trusts today, says Ernest Mazansky, Director: Werksmans Tax. "One must consider whether one needs it from a general planning point of view and a cost perspective. People set up trusts for potential estate duty savings, asset protection, orderly transfer to the next generation and confidentiality of one's affairs."

Mazansky says that while establishing a trust in SA is not that expensive, establishing off-shore trusts are quite costly. "My rule of thumb is that an offshore trust might not be viable unless it is going to hold at least R50 million of assets. One must ensure that the jurisdiction where the trust is being established has good trusts laws and the courts are experienced in dealing with trust matters."

Liberty's Vimal Chagan agrees. He says the costs and fees involved and constant tax advice needed only make investing in an off-shore trust worth

it if someone has a few million dollars to invest. "While trusts can potentially minimise estate duties, there are fiscal disadvantages to trusts that are often imposed with a view to countering estate duty benefits. For example, trusts pay CGT at a much higher rate than individuals do and there are deemed donation issues if one makes an interest-free loan to trusts. One also needs to be aware of the taxation implications if one wishes to transfer assets to a trust. Engaging the services of a trust specialist is highly recommended."

Hilary Dudley, Managing Director: Citadel Fiduciary at Citadel Investment Services, recommends clients utilise trusts for estate planning and orderly devolution of assets, where an heir is not capable of managing money or has physical or mental challenges. She recommends minor heirs inheritances be held in a testamentary trust. "If not specified in a will that a minor heir's inheritance is to be held in trust, it gets paid to the Guardians Fund administered by the Master of the Court. We've found that it can hard to access funds from there."

Faeeza Khan, Liberty's Legal Marketing Specialist, says trusts are no longer an advantageous tax vehicle like they used to be many years ago.

More about trusts

Dudley and Khan offer the following advice on trusts, tax, the new law and creating off-shore trusts:

- Trusts are regarded as a legal person and because trusts don't die, their assets are not subject to estate duty. They can protect assets from an individual's creditors. Any loan account owing by a trust to the founder is an asset in the founder's estate, subject to estate duty on their death and can be attached by creditors.
- Trusts are taxed at 45% on retained income.
- Capital gains tax (CGT) in a trust is effectively 36% as opposed to the maximum effective rate of 18% for an individual. A useful way to manage tax on retained income in a trust is by using an endowment wrapper as an investment option as it only attracts 30% income tax and 12% CGT in terms of the Five Fund Taxation approach.

Trusts and the Law

Section 7C of the Income Tax Act came into effect on 1 March 2017. In terms of s7C, all loans to trusts are deemed to earn interest at the official rate (currently 7.75%), even if no interest was actually charged by the founder, or a lesser interest rate was charged. This was extended to loans to companies under certain circumstances, with effect from mid-July 2017. Khan points out that Section 7C is not applicable to all loans made to companies – only where there is a connected person between the trust/company and lender.

This deemed interest on the loan to the trust or company is not regarded as taxable income in the hands of the lender, but instead as a donation and is subject to donations tax - 20% for donations under R30-million and 25% for those over R30-million. Individuals can, however, make up to R100,000 donation annually tax-free, which can be used to offset against the amount of the donation.

It is the founder's decision not to charge actual interest on the loan to the trust and pay 20% donations tax, or rather to charge interest and pay income tax on interest earned, which is then taxable at up to 45% of taxable income, with the interest exemption being applicable.

Offshore trusts

South Africans can't use their local trusts to invest directly offshore because the Exchange Control regulations don't allow it. Local trusts can obtain offshore exposure only by means of an asset swap arrangement.

Offshore trusts must be managed offshore to avoid being taxed by SARS.

Situs tax is the general term for

exposure to estate duty when you die on assets held in foreign jurisdictions, in the UK known as inheritance tax, and in the US, as federal estate tax. The double tax treaties ensure one isn't double taxed, but according to Dudley, an issue is the different tax rates on estate duty – 20% - 25% in SA, and 40% estate duty in the US and UK. One solution to avoiding Situs tax is to hold one's offshore assets in a trust. Some types of assets like certain unit trusts don't attract Situs tax.

Tax haven

The expression 'tax haven' today is a pejorative term which notes a country with tax secrecy and such countries are all but non-existent, says Ernest Mazansky, Director: Werksmans Tax. "Today one has low tax, or even no tax jurisdictions, which are highly regulated and respectable, including the Channel Islands and there is no reason why one should not hold a trust or company in those jurisdictions. "What has changed," says Mazanzky, "are domestic rules to ensure that the trust is not used to avoid or defer local income tax. A major recent development is the international exchange of information rules. This means tax authorities in Guernsey, for example, will advise SARS of assets and income relating to a SA resident and his/her trust there."

Citadel invests in some funds registered in Guernsey, says Martin Ackerman. "There is no company tax or income tax there, but the day you sell units in that fund, you will need to pay CGT in South Africa. If individuals, CGT is 18% off the gain, but there is a R40,000 rebate that can be applied."

HNWIs require specialist insurance to meet their needs

Insurance is incredibly important in protecting wealth, says Lee-Ann Porter, Business Unit Manager- Private Broking at Aon South Africa.

"A lot of the risks HNWIs face are not covered by standard insurance policies so they should be looking at specialist brokers and insurers who understand the intricacies of complex asset portfolios and can deal with insuring classic cars, high-value vehicles, artworks, jewellery, wines, watches and the like."

She says Aon does a thorough risk analysis and formulates a risk management strategy for its clients. She recommends clients revalue their assets every two to three years, as they may change significantly in value in that time. "We also advise our clients to take out worldwide asset all-risks cover, which doesn't require one to itemise specific items such as watches or jewellery on the policy."

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Understanding Section 12J investments – a case study

Bright Light Solar VCC (Venture Capital Company) is a Section 12J investment company.

Section 12J of the Income Tax Act was created by the South African government to get investors to invest in SMEs who require access to equity finance. It did so by providing attractive tax incentives to those who invest in venture capital companies in certain sectors.

Kevin Shames, CEO of Bright Light Solar VCC, says investors can deduct the full costs of their investment in 12J companies against their taxable income in the year in which they invest. "So government is effectively funding 45% of a HNWI's investment in a 12J company."

Shames adds that 12J investments have the potential to offer really good ROI, but investors need to do their homework and not just invest in any company to get a tax break. "Investors need to understand the underlying business and the risks inherent in that business because not all 12J companies are created equal and there can be risks of operational failure."

Bright Light Solar VCC installs fully paid solar into the sectional title, commercial and industrial sectors. It raises money from investors, who buy shares in Bright Light Solar VCC, which then uses the proceeds to invest into qualifying companies – those who supply and install the solar panels. The solar panels remain the property of Bright Light Solar and its investors, and customers buy the electricity generated from the solar panels at a cost cheaper than they could buy it from Eskom or their local municipality.

Bright Light Solar pays dividends to investors every six months, starting with a dividend yield of about 8%. Investors don't pay tax on the dividend as Bright Light Solar deducts dividend withholding tax before paying the dividend. When investors sell their shares back to Bright Light, any capital gain will attract 18% CGT.

Bright Light Solar's share buy-back programme enables investors to divest from year six when they can sell their shares back to Bright Light Solar at about 95% of the value of their initial investment.

"The combination of the upfront tax deduction, the dividend, and the proceeds from the sale of their shares amounts to a 17.5% after-tax return on their investment upon exit."

She adds that insurers do however require clients to mitigate the risks against potential losses, such as keeping jewellery in a locked safe. "When it comes to risk mitigation, an insurer would advise clients on how to control and manage their exposure to risks. Examples are having one's home linked to an alarm company, having electric fencing and burglar proofing."

Henk Meintjes – Liberty's Head of Risk Products, advises that assets including artworks and jewellery be stipulated in the insurance policy. "Particularly if you want to have it insured when you use or wear it away from home. Most insurance companies have a Rand limit per item above which then must be stipulated. And if you regularly keep large amounts of cash in a safe at home, you should consult your adviser of insurer about that too, because it might not be covered in the event of theft or fire."

Meintjes is not aware of any products which cover land expropriation without compensation as there hasn't yet been a widescale need. "In principle though, it could be something that niche short-term insurers may well be able to add to their policies."

Fedgroup's Sheldon Friedericksen, says some HNWIs have the means to self-insure by paying money into an investment account each month. "What is often not considered though, is the need for third party liability so that one is covered if someone gets injured in one's car or at one's property. Short term insurance policies include third-party liability. For those who want to self-insure, they should consider third-party liability insurance as separate cover. ■

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