Good pension governance is key to the success of African pension funds

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1. Pension Governance – In a Nutshell

- Pension governance refers to the roles and responsibilities of the parties involved in the administration of a pension plan to fulfil their fiduciary obligation (OSFI, 2017)
- The principal goal of pension governance is to minimize the potential agency conflicts that may arise between pension beneficiaries and those responsible for the pension management
- Similar to corporations, ineffective pension governance will produce poor outcomes for stakeholders (Drucker,1976; Ambachtsheer, 2016)
- Good governance by pension asset owners results in a long-term risk-adjusted value creation (Clark & Urwin, 2007)

Pension Governance – In a Nutshell

- Trustees have to consider the different types of beneficiaries relevant to each pension scheme, including deferred beneficiaries and pensioners
- Place the benefit of the plan participants and beneficiaries above that of the sponsor of the pension scheme stakeholders, even if the trustee is employed by or appointed to the board of the pension scheme by the scheme's sponsor
- Build and maintain the trust of diverse stakeholders. i.e. pension participants, sponsoring institution, government, regulator, unions and market participants

Benefit of Good Pension Governance

- Only effectively governed pension funds can make logical connections between creating value for their own stakeholders and acting as proactive, knowledgeable long-term investors
- The following benefits can be accrued from strengthening pension governance:
  - Trust amongst all stakeholders, reducing the need for prescriptive regulation
  - Encourages more effective corporate governance in companies the pension is invested in
  - Superior performance is linked to strong governance (Clark and Urwin, 2007; Mercer, 2006)
  - Good pension governance can also spare the industry the cost of overregulation and facilitate supervision by authorities

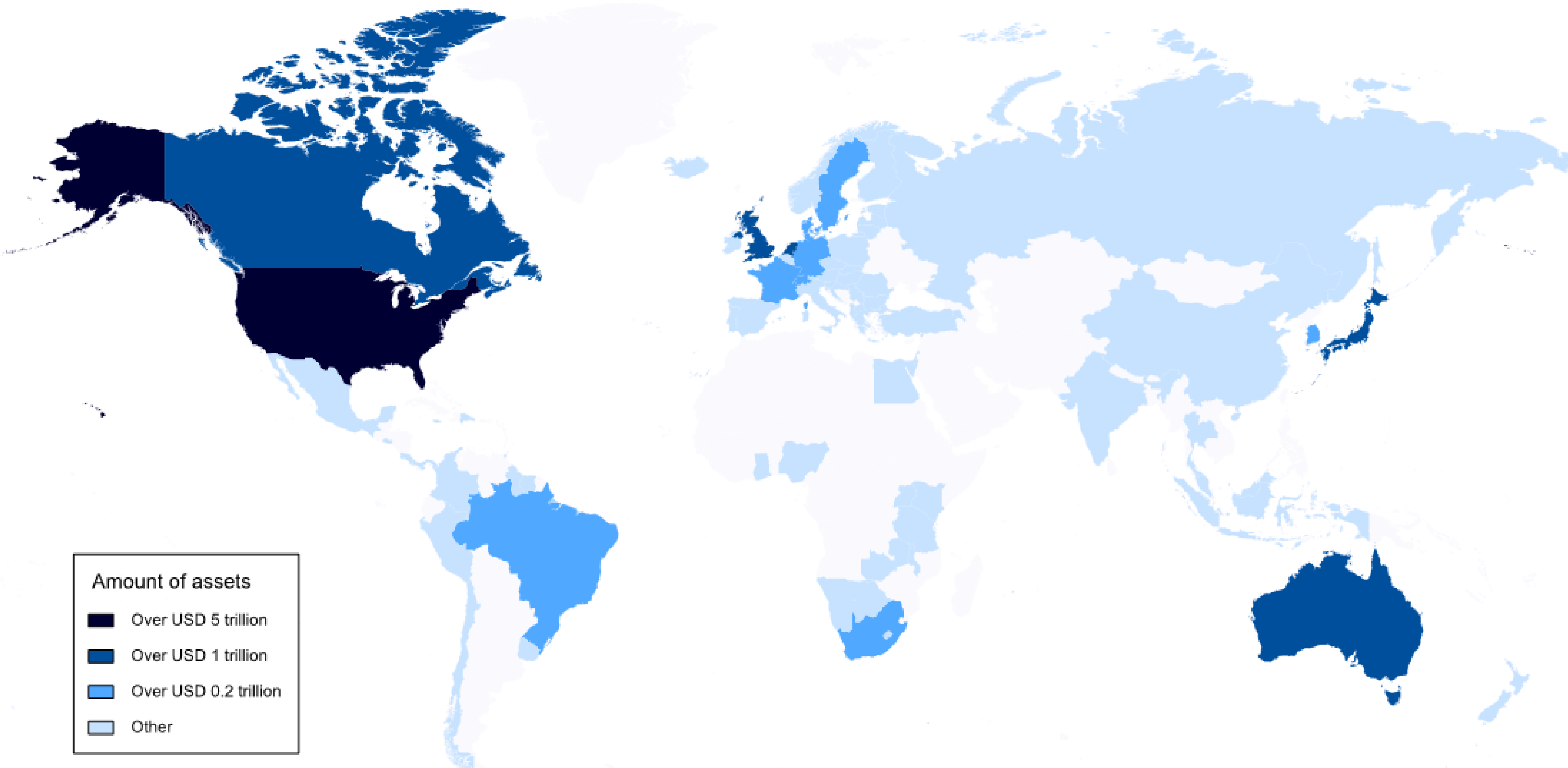
2. Three Pillars of Good Pension Governance - ALI

- **Accountability**
  - Maintaining the trust and buy in of stakeholders
  - Accessibility of annual reports and other information to stakeholders
  - Transparency of policies and objectives
- **Leadership**
  - Quality of the people involved, both at management and board levels
  - Professional talent, integrity and honesty
  - Without leadership, even the soundest pension framework can fail
- **Independence**
  - Ability to make independent decisions solely based on pension mission
  - Arm’s length relationship with the plan sponsor
  - Independence does not mean complete isolation

3. Global Pension Assets

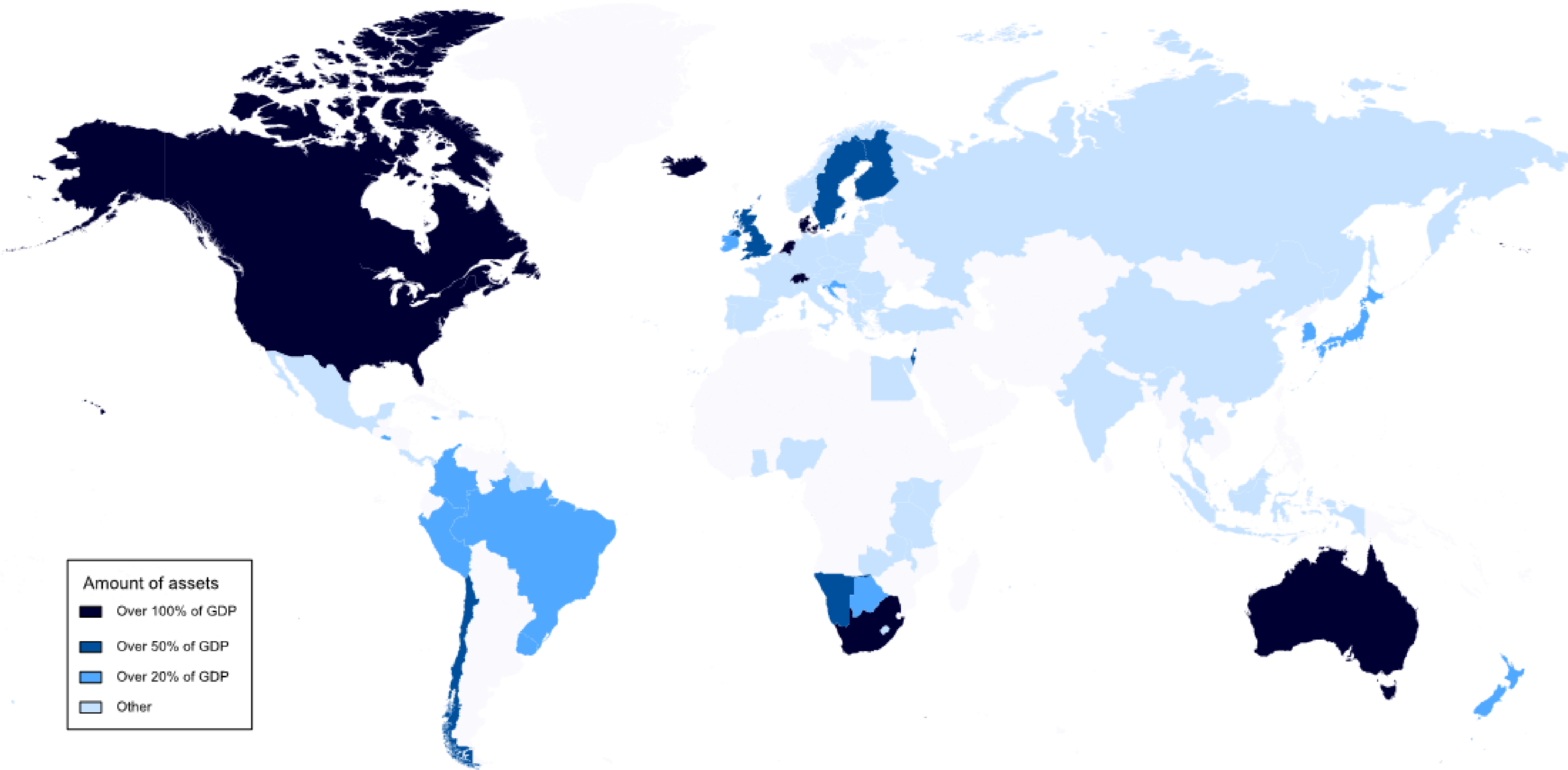
- In 22 of the world's largest pension markets, pension assets under management are valued at USD 36.4 trillion, accounting for 62% of these countries GDP in 2016 (Willis Towers Watson,2017)
- Pension fund assets in Africa are estimated at USD 334bn and growing
- Botswana, Namibia, Nigeria and South Africa represent roughly 90% of pension assets in Africa
- For Botswana, pension fund assets amounted to USD 7 billion in 2016, accounting for 44% of the local economy
- The importance of a good pension governance therefore cannot be underestimated as it not only affect the plan beneficiaries and sponsors but the general economy

Global Pension Assets – USD (2017)



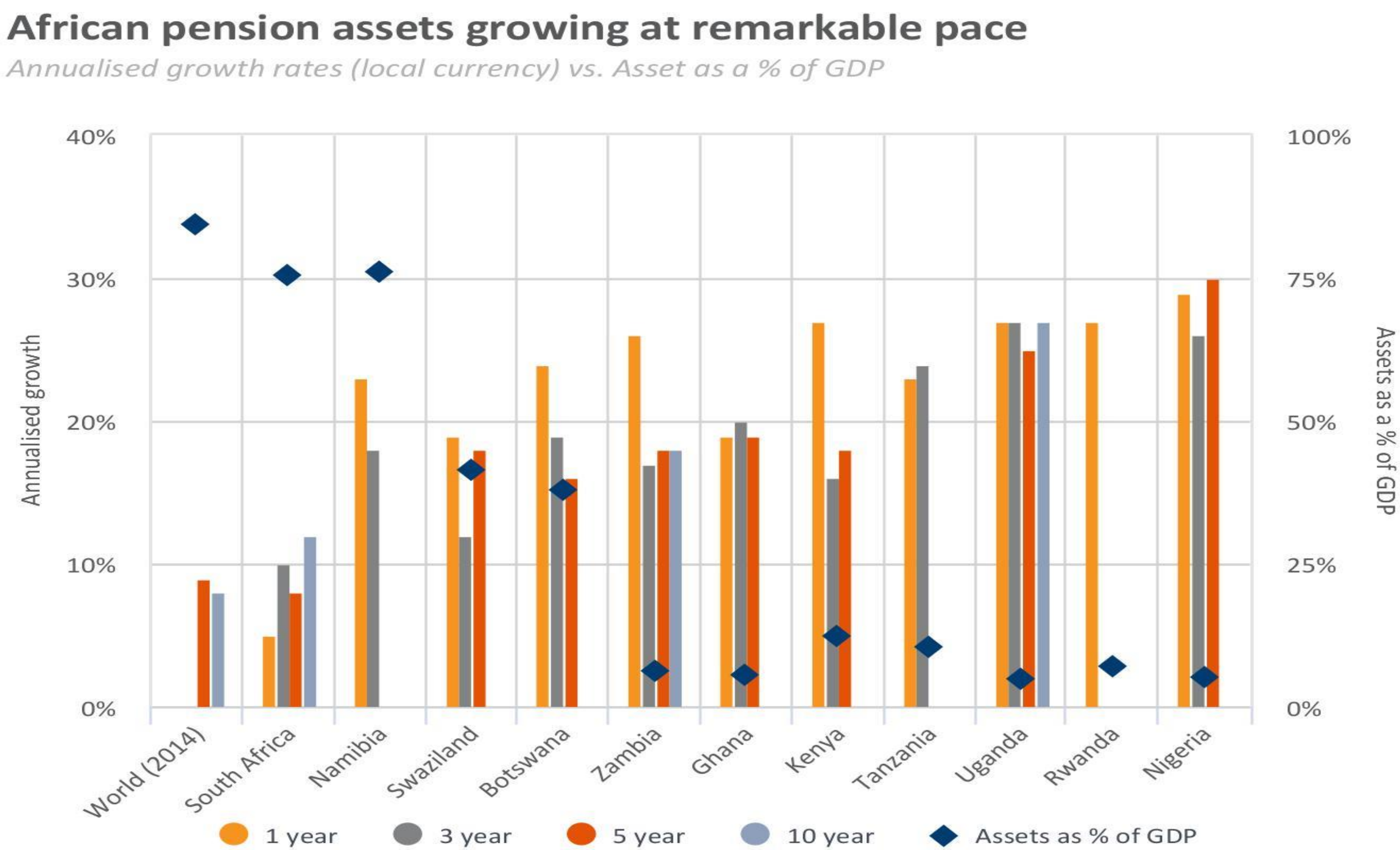
Source: OECD Global Pension Statistics.

Global Pension Assets – % of GDP (2017)



Source: OECD Global Pension Statistics.

Global Pension Assets - Africa



Source: RISCURA, 2015

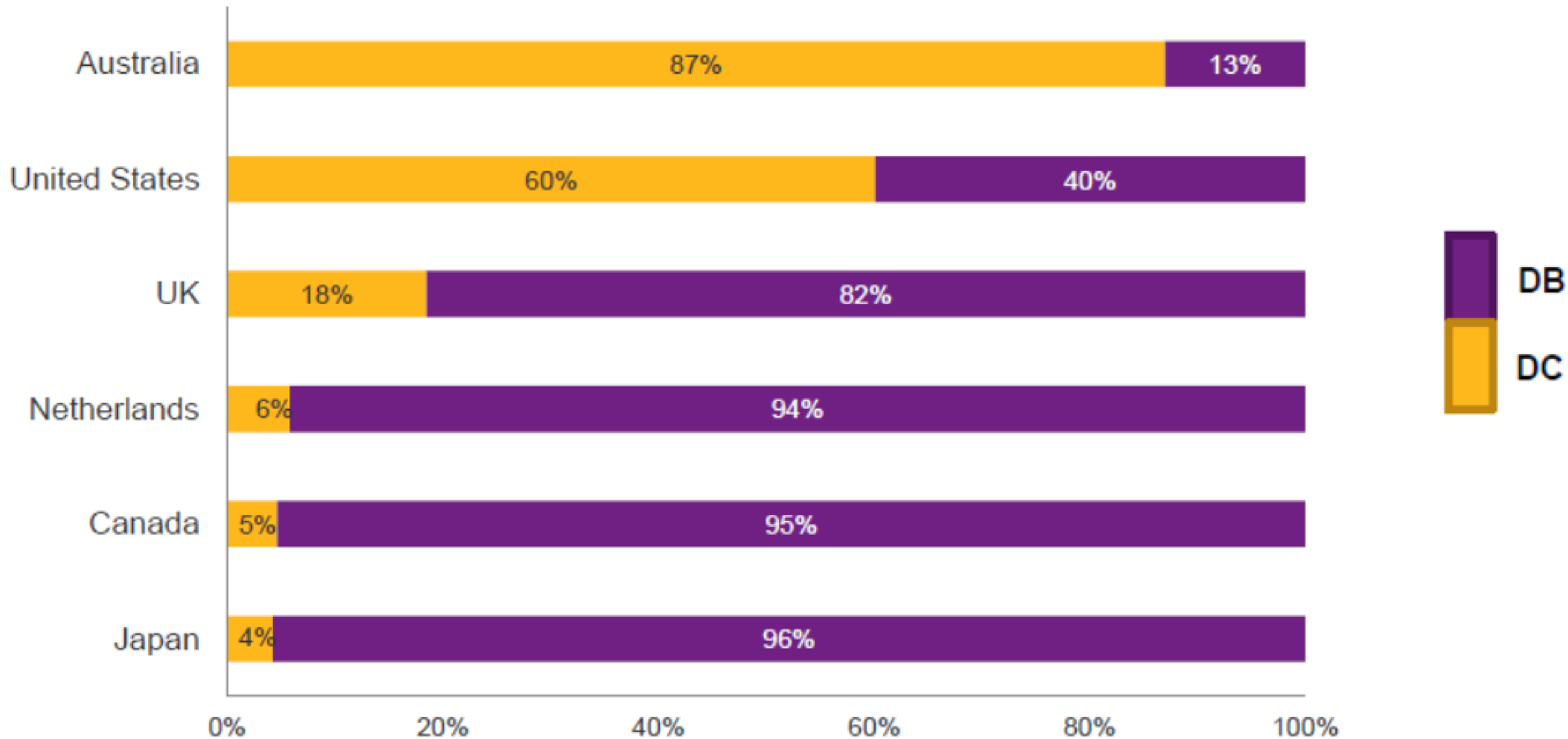
4. Growth in Defined Contribution Plans - Africa & DM

- Over the last ten years, defined contribution (DC) assets have grown at a higher rate (5.6% per annum) than defined benefit assets (2.6%) - Willis Towers Watson, 2017

  Reasons:

  - plan sponsors/governments and union leaders willingness to adopt pension plans independence
  - operating costs of DC plans are generally lower than DB plans
  - increased workforce mobility associated with demographic and industrial change (portability is favoured)
  - pension under-funding persistence due to a decline in long-term interest rates
- DC plan assets currently represent 48.4% in seven of the largest pension plan markets
- The above has consequently brought governance practices of DC plan in to focus

Pension Plans – Developed Markets (2016)

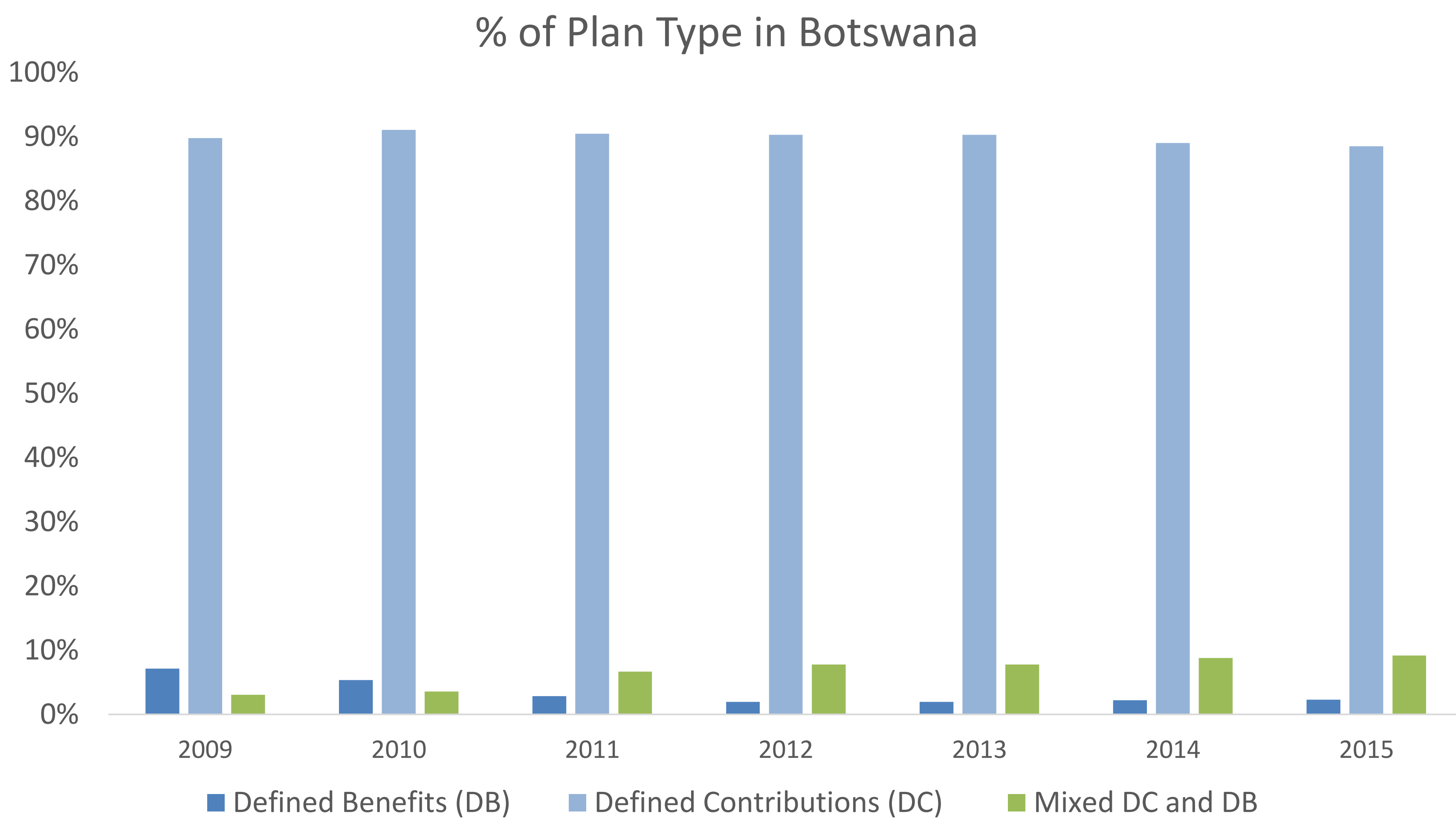


Source: Willis Towers Watson

Pension Plans - Africa

- Elsewhere in Africa, DC and DB plans are used at varying degrees
- SA is the largest pension market in Africa and has both DB (Defined Benefit) and DC pension schemes
- Namibia’s public pension plan, which is the largest in the country is a DB
- Nigeria is largely DC and membership to the country’s Contributory Pension Scheme is compulsory for all public and private employees
- In Botswana 90% of all pension plans are DC

Pension Plans - Botswana



Source: NBFIRA Annual Statistical Bulletin

5. Challenges in Pension Governance

- Stewart and Yermo (2008) note that many of the problems in pension fund governance emerge from weaknesses in the governing board
- This is pervasive globally and in Africa
- Challenges African pension schemes are facing:
  - Board selection on the basis of representatives of stakeholders
  - Conflict of interests are not effectively identified and tackled
  - Small size, with the exception of few large plans, limit implementation of a robust pension governance
  - Lack of clearly defined policies and procedures
  - In some countries, trustees and fiduciaries generally lack the required expertise
  - Lack of self-assessment, including skills development and training

6. How African Pension Schemes Can Improve Governance

Accountability

- Allow for policy and decision-making procedures to be inspected by the regulator in order to maintain trust, transparency and buy in of stakeholders
- Adhere to regular reporting and disclosure procedures to all stakeholders in a transparent manner
- Make detailed annual reports accessible to members and stakeholders
- Adopt a code of ethics that will guide behaviours and actions
- Perform regular self-assessment
- Consider legal liability for actions which fail to be consistent with the obligations imposed on the board, including prudence

How African Pension Schemes Can Improve Governance

Leadership

- Employ the Suitability (“fit and proper”) criteria to ensure a high level of integrity, competence and professionalism among the trustees
- Pick the right chair who embodies good pension governance practices and able to build a strong board
- Clearly define pension mission statement with specific measurable objectives
- Follow a merit-based and timely board appointment process
- Have a trustee training and skill development program in place
- The pension mission and board’s responsibilities should be clearly defined
- Seek expert advice on matters requiring special skills/expertise

How African Pension Schemes Can Improve Governance

- Independence
  - Ensure the independence of the governing body from the plan sponsor
  - Arm’s length from the plan sponsor
  - Have a policy dealing with conflict of interest and accepting gifts/benefits
    - A policy dedicated to identifying and managing conflicts should be in place
    - Disclosure of conflicts is paramount, both actual and potential
  - Consider the composition of the pension board. Inclusion to the board should not be only on the basis of member status but rather about specific skills and expertise

7. Pension Governance Guidelines and Conduct Code

OECD Guidelines for Pension Fund Governance

1. Identification of responsibilities - there should be a clear identification and separation of operational and oversight responsibilities.
2. Governing body - every pension fund should have a governing body vested with the power to administer the pension fund.
3. Accountability - the governing body should be accountable to the pension plan members and beneficiaries
4. Suitability - membership in the governing body should be subject to minimum suitability (or non-suitability) standards.
5. Delegation and expert advice - the governing body may rely on the support of sub-committees and may delegate functions to internal staff
6. Auditor - an auditor, independent of the pension entity, the governing body, and the plan sponsor, should be appointed
7. Actuary - an actuary should be appointed by the appropriate body or authority for all defined benefit plans financed via pension funds.
8. Custodian - custody of the pension fund assets may be carried out by the pension entity, the financial institution that manages the pension fund, or by an independent custodian.
9. Risk-based internal controls - there should be adequate internal controls in place
10. Reporting - reporting channels between all the persons and entities involved in the governance of the pension fund should be established.
11. Disclosure - the governing body should disclose relevant information to all parties involved

Source: OECD, 2008

Pension Governance Guidelines and Conduct Code

CFA Code of Conduct for Pension Scheme Governing Body

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.
2. Act with prudence and reasonable care.
3. Act with skill, competence, and diligence.
4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing and refusing any gift that could reasonably be expected to affect their loyalty.
5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.
6. Deal fairly, objectively, and impartially with all participants and beneficiaries
7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.
8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.
9. Maintain confidentiality of scheme, participant, and beneficiary information.
10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Source: CFA Institute

THANK YOU