Regulatory and Supervisory Frameworks under CPS in Nigeria

By Chinelo Anohu-Amazu
Director General
National Pension Commission – Nigeria
Reform commenced in 2004

- To address myriad of challenges in the Defined Benefits Scheme
- To provide pensions to employees of many private sector institutions that did not have any form of pension arrangements
- To provide old age income to the self-employed and persons working in the informal sector

Reform Features

- Contributory Pension Scheme (CPS) was introduced for both Public and Private Sectors
- Established a system with uniform rules for both public and private sectors
- Set up a pension system that is sustainable and provides a stable, predictable and adequate source of retirement income in Nigeria
- Established National Pension Commission to direct and oversee the overall policy on Pension Matters in Nigeria
- Workers are now able to contribute (save) and receive their retirement benefits as and when due
- DB Scheme Streamlined for those exempted from the CPS
The System
- Defined Contribution Scheme – introduced by an Act
- Employee driven based on individual Retirement Savings Account – RSA
- Mandatory for organisations with at least 5 employees
- Private Sector Managed – PFA and PFC
- Planned Withdrawal of Savings – Programmed Withdrawal or Life Annuity
- Life Insurance Cover – death in active service
- Strong Regulatory Framework

The Operators
- The Business of a PFA is to administer and manage RSAs
- PFC holds Pension Funds and Assets on Trust
- Separation of PFA/PFC, Conditional licence & Directors’ undertakings

The Regulator
- All regulations guided by international best practices
- Supervisory approach though licensing, monitoring, analyses, correction, intervention & communication
- Focus on Integrity and Professional Credentials of Owners & Management so as to limit Agency & Systemic Risks
Institutional Framework

PenCom
- Regulates & Supervises all Pension Matters in Nigeria
- Maintains Database of All Pension Matters
- Enforces Compliance, Sanctions & Penalties

PFA
- Registration
- RSA Admin
- Reporting to PenCom
- Investments
- Effective Customer Support Services
- Retirement Benefits Admin

CPFA
- Registration
- Pension Assets Admin
- Reporting to PenCom
- Investments
- Retirement Benefits Admin

PFC
- Custody of Pension Assets
- Executes PFA Transactions
- Undertakes Related Activities for PFA

PTAD
- Coordinates the Activities of Pensions Offices in Federal Public Service and FCT for those Exempted from CPS

Employer
- Remits Monthly Contributions

28 October, 2015
Regulatory and Supervisory Philosophies

**Regulatory Philosophy**
- Regulation is rule-based & limits oriented
- Consultative in rule making
- Continuously challenging and refining practices to remain effective & efficient
- Balance the burden and benefits of regulations

**Supervisory Philosophy**
- Board & Management of licensed entities have the ultimate responsibility for their institutions
- Market forces allowed to promote competition in the industry
- Promote effective risk management & best practices
- Supervision is proactive & risk-based
- Extensive disclosure requirements
Implementing the CPS - Updates

- Initially licensed 26 PFAs, 7 CPFAs and 5 PFCs
  - Presently reduced to 21 PFAs, 7 CPFAs and 4 PFCs due to mergers and acquisitions
- Number of registered contributors was 6.7 million as at August 2015
  - This represents about 7.1% of total working population in Nigeria and 3.8% of total population
- 26 States of the Federation had adopted the scheme and are at different stages of implementation while the remaining 10 States are at bill stage
- At least 200,000 private sector employers of labour are implementing the CPS
- Over 130,224 had retired under the Scheme as at June 2015 and are currently receiving pensions as and when due
- Total pension fund assets had grown to over N5 trillion ($25.25 Billion) as at August, 2015
  - Average monthly contributions of N30 billion ($152.25 million)
  - The assets were equivalent to 5.84% of the Nigerian rebased GDP
- 60% of the total pension fund assets belongs to the private sector
Implementing the CPS – Pension Asset Growth

The dip in the proportion of Pension Assets to GDP in 2010 reflected the rebasing of Nigeria’s GDP.
Issues that Pension Reform Act, 2014 was meant to Address

- **Coverage**
  - Limited to Public Sector (FGN & FCT) and Private Sector organizations with at least 5 employees
  - Informal Sector – not covered, but can participate voluntarily
  - Non-mandatory to States and Local Governments

- **Compliance with CPS**
  - Lack of comprehensive database of employers of labour to enforce compliance by the Private Sector particularly the Small and Medium Scale Enterprises (SMEs)
  - Many employers view employer’s portion of the contribution as additional operational cost

- **Limited Quality Investment Outlets**
  - Mostly short term investments instruments
  - Many good companies not listed on the Stock Exchange
  - Dearth of instruments to facilitate implementation of initiatives for national development

- **Insufficient/Obsolete Punitive Measures to Curb Infractions**
  - No provision for fund guarantee/bridging shortfall due to financial losses
  - Investment income was not tax exempt
  - Agitations for improved rate of contribution by employers of labour

- Long waiting period to access RSA balances in case of lost of job – up to six months

- Provision was made for Minimum Pension Guarantee, but no provision for funding

28 October, 2015
Reform Initiatives

- Pension Reform Act, 2014 was enacted to address the implementation challenges
  - Repealed PRA, 2004
  - Operational from 1st July, 2014

Coverage

- Coverage expanded to States & Local Government Informal sector
  - Private organizations with less than 3 employees
  - Self employed persons
- Persons exempted from the Scheme may make voluntary contribution
- AES & CPFA now closed for new employees

Compliance

- Employers to open Transitional Retirement Savings Account (TRSA) on behalf of employees that fail to open RSA within 3 months of assumption of duty
- Empowerment of PenCom on its role to supervise States & LGs
- Strengthened Sanctions and penalties
- Issuance of Compliance Certificate
- Incentives
  - Apply a portion of RSA balance for equity participation in residential mortgage
- Supplementary efforts
  - Engagement of pension contributions recovery agents
  - Recovered contributions include interest penalty
Reform Initiatives

 Transparency & Accountability
- Conflict of interest issues now strictly sanctioned
- The Board reports directly to the President of the Federal Republic of Nigeria
- Board of the Commission now includes Trade Union Congress, Nigeria Stock Exchange and National Insurance Commission
- Enhances the protection of pension fund assets
- Issued a comprehensive regime of sanctions and penalties to operators

 Pension Fund Investments
- Retains offshore investment
  - Allowed, but still subject to the approval of Mr. President
- Maintains investible instruments
  - Investment in infrastructure through bonds and funds
  - Real Estate Development (including Housing)
  - Real sector financing through Corporate Debts
  - Alternative Assets (including Private Equity)
- Continuous industry wide capacity building to meet manpower needs
Reform Initiatives

- Contribution ratio reviewed
  - Minimum contribution rate: 18% of monthly emolument
  - Power to bargain contribution ratio with employer
  - Only income earned on voluntary contributions are subject to tax

- Pension fund investment income now tax exempt

- Employer may make additional benefits payment

- Benefits Administration
  - Some Public Sector Employees eligible to full terminal benefits
  - Access 25% balance of RSA after 4 months without employment

- Introduced Pension Protection Fund
  - To be funded by:
    - Annual Subvention of 1% of monthly wage of FGN employees
    - Annual Levy on PenCom and Pension Operators
    - Income from investment of the fund
  - Utilization of PPF:
    - Funding of Minimum Pension Guarantee (MPG)
    - Compensation for shortfall or financial losses from investment activities
    - Any other eligible purpose
Reform Initiatives – Micro Pension Plan

- Framework has been concluded to bring the informal sector on board through the Micro Pension Plan
- The Micro Pension Plan is expected to extend coverage of the Contributory Pension Scheme to the self-employed and the persons working in organisations with less than 3 employees
- The aim is to reduce old age poverty through the provision of old age income plans to all Nigerians
- The target is to extend coverage to a total of 20 million Nigerians by 2019 and 30 million by 2024
- Already collaborating with various stakeholders:
  o Commenced sensitisation of Trade Unions across the country
  o Building awareness across the value chain
    ▪ Talking to IT Solution providers, mobile money operators, etc
    ▪ Aiming to develop appropriate solutions with the right value proposition and service delivery operating model
The CPS has facilitated the development of:

- Corporate bond market
- Insurance market
  - Group Life Insurance
  - Life Annuities
- Alternative asset classes
  - Currently promoting co-investing from the diaspora
- Mortgage market
  - Nigeria Mortgage Refinancing Company’s N50 billion bond
  - PRA 2014 provides for a portion of the pension funds in an RSA to be utilized as equity contribution for payment of residential mortgage
  - Guidelines have been exposed to stakeholders for inputs prior to issuance
- Corporate governance in companies where pension funds have been invested
- Facilitated the establishment of additional qualified Rating Agencies
Thank you.