

## **Summary Record IOPS African Regional Workshop on Pension Supervision February 5-6 2008, Dakar, Senegal**

The IOPS held its first regional, outreach meeting in Dakar, Senegal on 5-6<sup>th</sup> February 2008. The event brought together high level representatives from a range of African countries as well as international IOPS executives and consultants to discuss current challenges and progress achieved in the development of robust and efficient pension supervisory systems in the African region.

The meeting was opened by **Mr. Alpha Ndiaye, President of the Supervisory and Regulatory Commission of Social Security Institutions of Senegal (COSRISS)**. Mr. Ndiaye updated the audience as to the developments in the pension system in Senegal, explaining that parametric reform has been undertaken for the two social security systems (Fonds Nationale des Retraites du Sénégal – FNR - for private sector workers and IRPES for public sector employees), which are now out of deficit, and that the government aims to introduce a DC based, individual account style voluntary supplementary pensions. The main challenges for Mr. Ndiaye and his team at COSRISS include explaining such pension reform to the population and gaining support and confidence, establishing investments and other parameters (including whether withdrawals should be allowed from pension accounts to purchasing housing, what investments should be allowed given under-developed domestic capital markets), and the issues of the supervisory structure (whether pensions require a separate supervisory agency). As in all developing countries, extending pension coverage to the informal sector is also a major issue (with coverage levels currently only around 10%). Mr. Ndiaye saw the IOPS workshop as an excellent opportunity to discuss these and other issues with supervisory colleagues from the region, and will continue to follow IOPS work closely.

He was followed by **Mr. Ross Jones, President of IOPS, and Deputy Chairman of Australian Prudential Regulatory Authority (APRA)**. Mr. Jones was very encouraged to see for this first meeting so many countries from the region represented here. The attendance of senior officials and pension experts from the supervisory authorities of seven countries of the African continent (Kenya, Nigeria, Senegal, South Africa, Zambia, Botswana and Malawi) - the majority being already the IOPS Members - testifies to the crucial importance that the pension reform occupies on the international public policy agenda. He pointed out that an increasing number of African countries have recently initiated major parametric and systemic reform of their pension systems and is beginning to adopt diversified approaches to pension provision in order to strengthen retirement security of their workforce. Many other authorities are in the process of formulating serious reform proposals and are exploring ways to encourage more saving over the long run. In undertaking the overhaul of their pension systems, governments are pursuing policy objectives including cutting government expenditure for unfunded pension liabilities. They are also aiming at alleviating and preventing post-retirement poverty - an extremely important issue in the region given that households are not infrequently headed by a retiree and that urbanization is putting pressure on family support. The promotion of savings to develop financial markets and stimulate economic growth and stability in general are also long-term considerations.

Although the structure and challenges to the pension systems in each country may differ, with countries correspondingly adopting different reform agendas, increased reliance on private pensions savings as a part of national retirement systems constitutes a trend globally. The pace of reform differs from country to country, ranging from the introduction of individual DC accounts in Nigeria, to extending pension coverage to the informal sector in Botswana; exploring ways to overhaul the civil service pension scheme in Kenya; to improving pension fund governance and reforming taxation of retirement funds in South Africa. Many countries - including Botswana, Kenya, Zambia - are reviewing their national social security and severance schemes to make them less expensive to administer and more sustainable for retirees in the long run. A major component of these announced reforms is the need to improve the quality and effectiveness of the supervisory oversight of the burgeoning private pension system. Hence the focus of this workshop and the hope that lessons and experiences can be shared between participants.

The meeting was Chaired by *Mr. Edward Odundo of the Retirement Benefits Authority in Kenya, and Vice Chairman of the IOPS Technical Committee.*

**Session 1** addressed the issue of the ‘**Implementation of efficient and effective supervisory regimes**’, with *Mr. John Ashcroft, former President and now a consultant to the IOPS* looking at the ‘philosophy’ behind regulation and supervision, stepping back and considering what supervisory agencies were trying to achieve, what is special about pensions, highlighting the UK ‘Better Regulation Executive Principles’ (including Targeting, Proportionality, Consistency, Transparency and Accountability), with the focus on education, enabling and enforcement.

He was followed by *Mr. Jeff Carmichael, IOPS consultant*, presenting the ideal powers required by a supervisory agency and stressing the need for these to be consistent with the agency’s overarching objective. It was also noted that it may be useful for some powers to be granted, even if they are not intended to be used, as this gives the authority flexibility and an additional tool in ‘threatening’ action. Discussion centred on enforcement powers and how to ensure that the supervisory agency could follow up and make sure that legal and regulatory requirements were being followed. Stress was also placed on the supervisory authority having the ability to issue secondary legislation (such as directives, guidance etc.), thereby avoiding the slow and tortuous process of returning to parliament or getting Ministerial approval for changes to the pension regulatory environment – and on having the ability to prosecute, similarly avoiding lengthy delays with courts.

Representatives from several regional supervisory authorities then provided updates on reforms and developments in their pensions and supervisory systems. *Mr. Muhammed Ahmad (CEO) and Mr. Musa Ibrahim (Commissioner) from the National Pension Commission in Nigeria* provided an insightful update into the introduction of a new individual, DC pension system which started operation in their country in 2004. Responsibility for pension supervision was also transferred to a single agency. The speed of the introduction and pace of the reform has been unusual in Nigeria, with outstanding challenges including awareness and communication issues, informal sector participation and how to deal with legacy insurance funds.

*Mr. Patrick Mhango, Chief Examiner of Insurance and Pensions, from the Reserve Bank of Malawi* then informed the workshop of the current system of pension supervision in his country (being concentrated at the Central Bank) and plans for reforming the pension system following the introduction of a legal framework to cover existing market players. Participants were interested in the centralized supervisory structure and how this would be adapted to the introduction of supplementary pensions.

Finally *Mr. Edward Odundo, CEO, Retirement Benefits Authority in Kenya* then updated the group as to how the trust-based pension system in Kenya is being reformed and developed. Participants were impressed by the in-depth work carried out by Mr. Odundo and his team at the RBA, with lessons to be learnt, particularly regarding communicating with industry, participants and trustees.

**Session 2** focused on ‘**Reporting Requirements**’ and the information which supervisors need to receive to oversee the pension system effectively. *Mr. Jones* explained the experience of APRA in Australia, warning other authorities against moving to an electronic system of collection too quickly (which can result in high costs, poor data collection and quality), and strongly passed on the message to ‘consult, consult, consult’ with industry when deciding what data to collect, how often and in what format. *John Ashcroft* also had ‘lessons learnt’ to report from the UK experience, notably not requiring too much information in too short a time-frame. He agreed with Mr. Jones’s message to consult widely, but the UK experienced a smoother transition to electronic based reporting. He also pointed out the difference in the

use of data, some being more appropriate for education purposes with others a vital tool for enforcement. **Mr. Jurgen Boyd, Deputy Executive Officer of the Financial Services Board in South Africa**, then reported the experience from his country, where electronic reporting has also been introduced. As with the other authorities, one of the main challenges of the FSB has been to reduce the number of transgressions being reported, allowing for easier and more timely identification of major transgressions or problems.

The final **Session 3** looked at the ‘**Training of Trustees and Fiduciaries**’. **Mr. Nzomo Mutuku, Manager, Research & Development, Retirement Benefits Authority, Kenya**, provided an overview of the training undertaken by the RBA, which impressed participants and which all felt they could learn from. Around half of trustees in Kenya have now received training of some sort, although the RBA remain concerned that this is often too basic. In addition to providing regular training courses around the country, the supervisory authority attends pension fund AGMs and events such as employment conferences to explain its work and the role of trustees. They are looking at developing an on-line training service in future. As with the other speakers, the RBA is reluctant to impose minimum education requirements for trustees as this risks discriminating against member nominated representatives.

**John Ashcroft and Ross Jones** then presented contrasting experiences of training trustees in the UK (where the Pensions Regulator has develop and on-line ‘Trustee Toolkit’ training programme) and Australia (where APRA does not provide training but now licenses trustees and provides guidance as to what is expected in terms of good practice). The Pensions Regulator has found evidence of improved governance of pension schemes through the training of trustees and has had positive feedback from the use of the training programme, though further improvements are felt necessary. Meanwhile in Australia the licensing process has drastically reduced the number of trustees (from 1200 in 2004 to 300 in 2006), thereby improving the quality (as seen in less interventions required by APRA). However, a ‘box ticking’ mentality still pervades to some extent with training and other governance issues seen as requirements for licensing rather than an integral and on-going part of the management of the pension fund. It was also noted that an on-site inspection schedule was therefore needed to ensure that the licensing requirements were being fulfilled in practice.

Along with closing remarks from **Mr. Ndiaye and Mr. Jones**, the Chair of the meeting **Mr. Odundo**, expressed the satisfaction of all participants with the format and content of the event and thanked the representatives from all the authorities, as well as the numerous representatives from different organisations in Senegal, for participating so actively to make the meeting such as success. He reflected the desire of the group to meet regularly and welcomed the IOPS’s initiative to provide a platform for discussion and thereby the development of pensions across the African region.