

DESIGN ISSUES FOR PENSION LEGISLATION IN MALAWI

PRESENTATION TO THE IOPS WORKSHOP

Patrick Mhango
Reserve Bank of Malawi
5 February 2008
Dakar, Senegal



Outline



-
- Welcome to Malawi
 - Background info/Financial Sector Reforms
 - The Pension industry In Malawi
 - Key Design Issues
 - Conclusion

Welcome to Malawi



RBM

- Location
 - South Eastern Africa
- Bordered by:
 - Zambia,
 - Tanzania and
 - Mozambique
- Capital City: Lilongwe
- Population = 12 Million
- Economic activities:
 - Mostly Agrobased
 - Tobacco, Tea,
 - Maize
 - Mining : Uranium



Background Information

Financial Sector Reforms



- The Malawi government = financial sector regulatory reforms.
- Designed to create a stronger foundation for effective financial sector supervision by the RBM.
- Platform for prudent growth and innovation in the financial service industry, which will enable our financial institutions to contribute more to the economic growth and social development of the country.
- Being achieved through the introduction of a package of financial sector Bills.

Background Information

Overview of Reforms Package



RBM

- Financial Services Bill -
 - new bill, consolidates all supervisory powers and creates a comprehensive regulatory framework
 - creates Registrar of Financial Institutions =RBM
- Insurance Bill -
 - to repeal and modernise the current Insurance Act
- Banking Bill -
 - to repeal and align current the Banking Act with current developments

Background Information

Overview of Reforms Package ...cont'd



RBM

- Microfinance Bill -
 - new bill, to provide for regulation and supervision of microfinance service providers
- Financial Cooperatives Bill
 - new bill, to provide for regulation and supervision of Financial SACCOs
- Retirement Funds Bill
 - new bill, to provide a platform for regulating retirement funds and related service providers
- Broader pension reforms - next phase

The Pension Industry in Malawi

Structure and Set up



RBM

- About 600 private pension funds
- Offers both DB and DC plans
- One Umbrella fund
- Three Administrators
- No active supervision and regulation of the market
- Registration - Malawi Revenue Authority

The Pension Industry in Malawi

Current Status



- Pension coverage is low = absence of national policy
- With no formal social security scheme there is little security for retirees
- In 2005 Government and RBM started initiative to develop regulatory framework for supervision of pension funds
- Policy decision - Maintain status quo initially
 - Reforms later

Key Design Issues



-
- Five Key Design areas
 - Objective of supervision
 - Entry control
 - Regulatory matters
 - Prudential control
 - On going regulation

Key Design Issues

Objective of Supervision



RBM

To enhance the safety, soundness and prudent management of retirement funds

- *So that they can provide post-retirement income support, and other similar benefits, for fund members and beneficiaries !!!!*

Key Design issues

Entry Control



Registration of all schemes

- All schemes to register with Registrar of Financial Institutions
 - Basically to ensure that all schemes are properly and legally constituted.

Key Design issues

Entry Control....cont'd



- **Structural Matters**
- All retirement funds to be structured as trusts
- All funds - fund assets to be held by a custodian
- All funds to be treated as prudentially regulated financial institutions
 - more intensive and intrusive supervision
 - = need to protect the interest of the public

Key Design issues

Entry Control...cont'd



Licensing of other market players...cont'd

- Trustees, administrators, fund managers, custodians to be licensed
 - Must be fit and proper persons
 - in terms of expertise and integrity

Key Design Issues

Key Regulatory Matters



Contributions

- The need to provide guidelines on the monthly contributions to the fund
 - 14 days after end of month in question
- Failure by employer to remit contributions within the prescribed time will constitute an offence
- This is to curb the practice of abuse of contributions by fund employers

Key Design Issues

Key Regulatory Matters....



Fund rules

- Fund rules to be approved by the Registrar at the time of licensing
- Fund rules to be enforceable between trustees and fund members and between trustees and fund employer

Key Design Issues

Key Regulatory Matters....



Preservation of benefits

- Pension plans aim at securing the income and welfare of fund members when they retire
- They are not the typical investment schemes
- Fund benefits must therefore be preserved to only be paid out as post retirement income in form of a pension or annuity
- However, the Registrar must have powers to allow for early release of benefits under exceptional grounds e.g. ill health

Key Design Issues

Key Regulatory Matters...



Portability of retirement funds

- The legal framework must provide flexibility to allow members to transfer their assets from one fund to another fund of their choice.
- Similarly, this flexibility is also provided to members who change jobs
- This should however be controlled

Key Design Issues

Prudential Control



Investments

- Trustees must make investments at arms length
- The legal frame work must restrict investment of funds in areas of high risk to fund members.

Key Design Issues Prudential Control....



Information to members

- Trustees must provide regular information relating to:
 - the financial status of the fund, before and after joining the fund
 - fund member's entitlements upon request or as may be prescribed

Key Design Issues

Prudential Control....



- Legal framework must provide strict limitations on holding of employer assets or assets of employers' associates
 - 5% by value limit
- No lending or financial assistance to fund members
- No payments to fund employers
 - cost recovery for service provided permitted

Key Design Issues On Going Regulation



RBM

- Legal frame work must provide flexible regulatory powers thru issuance of regulations or directives

- Registrar's directives
 - Some of the matters that can be covered in Registrar's directives are:-
 - Contributions to retirement funds
 - Payment of benefits including the manner of calculating such benefits
 - Commutation of pension and annuities
 - Disclosure requirements for trustees
 - fit and proper person requirements
 - funding / solvency
 - actuarial involvement
 - payment standards for benefits
 - resourcing / outsourcing / risk management

Key Design Issues

Other



Tax treatment

- Taxation treatment of pension funds not tackled at this stage
- It will be a major issue in the next phase.

Conclusion



-
- Designing an effective regulatory framework requires careful consideration of all key elements of the equation
 - In Malawi we were lucky, we had the support of Dr Jeff Carmichael who provided us with invaluable guidance through out the exercise

