SUPERVISORY STRUCTURE AND PROCESSES OF THE NIGERIAN PENSION SYSTEM

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OUTLINE

- Background
- Structure of the Nigerian Pension System
- Supervisory Model
- Operational Structures
- IOPS Principles of Supervision
- Challenges
BACKGROUND

The Pension Reform Act 2004 (PRA) was enacted to address the following challenges/flaws:

- Huge pension deficits
- Unsustainable pay-as-you-go system
- Poor pension administrative structures
- Weak and fractured regulatory regime
A chance to start on a new slate:

- Took a cursory review of supervisory structures and trends around the world.
- Categorized supervisory approaches to pension systems following World Bank model - licensing, monitoring, analysis, intervention, correction, communication etc.
- Benchmarked International good practices through adherence to the IOPS Principles of Private Pension Supervision.
STRUCTURE OF THE NIGERIAN PENSION SYSTEM

- Three-year transitory period and Other Transitional Arrangements.
- Existing Schemes and Pension-In-Payment.
- The New Contributory Pension Scheme.
- Unified Regulatory and Supervisory Regime.
STRUCTURE OF THE NIGERIAN PENSION SYSTEM Contd.

The Contributory Pension Scheme

Based on individual Retirement Savings Accounts (RSAs).

Mandatory for employees in organizations with at least 5 employees.

Managed by the Private Sector - PFAs and PFCs.

Recognized Accrued Retirement Benefits.
STRUCTURE OF THE NEW NIGERIAN PENSION SYSTEM

Contributory Pension Scheme

Existing Schemes

CPFAs

Gratuity & Pension Payroll Schemes

PFAs

PFCs
SUPERVISORY MODEL

Supervisory Objectives

Central to all our Supervisory Processes is the Account Holder/Contributor

All Regulations to be Guided by International Best Practices, most especially the entry point LICENSING

Regulations being developed along disclosure oriented approach

Supervisory structures to be built in forward-looking manner
SUPERVISORY MODEL Contd.

Supervisory Perspective

- Focus on Integrity and Professional Credentials of Owners & Management so as to limit Agency & Systemic Risks.
- Extensive Licensing Procedures
- Stagger Entry to a Reasonable Number of Operators to Make In-Depth Oversight Practical
- Regulatory Spectrum (Decisive Choice)
SUPERVISORY MODEL Contd.

- Regulatory and Supervisory Framework
  - Consultative – monthly meeting with operators for inputs to policies, guidelines etc.
  - Free Entry and Free Exit
  - Supervisory Regime based on Risk Profile
  - Carry out Onsite and Offsite examinations and issue sanctions for non compliance.
  - Consumer protection assistance in resolving disputes against abuses by service providers.
THE COLLECTION PROCESS

1. Registration of Employee and issues bank acct no.
2. PFA issues RSA to Employee and issues bank acct no.
3. Enquiry received by NDB.
4. Notification of details of contributions received by PFA.
5. Notification of receipt of value and details per RSA.
6. Notification of receipt of value and details per RSA.
7. Notification of receipt of value and details per RSA.
8. Notification of receipt of value and details per RSA.
9. Notification of receipt of value and details per RSA.
10. Notification of details of contributions transmitted to PFA.
11. Transmittal of NDB.

Employee

Employer

PFA

PFC

National Data Bank

Inspectorate

Exceptional Report – No contribution or anomaly
THE SUPERVISORY MODEL

Electronic notification that information is incorrect

Periodic Returns from PFAs, CPFAs & PFCs

Information transfer

Information validation

Validation ok?

Data Base

Statistics and reports

Internal information sources: PFA, CPFA, PFC, Regulatory/Supervisory Bodies
EVALUATION OF IOPS PRINCIPLES

- The Enabling Law Assigns the Regulator clear and explicit objectives (Principle 1)
  - PRA Objective – to ensure that everyone who works gets his/her pension as and when due.

- The Enabling Law Grants the Regulator considerable degree of operational independence (Principle 2)
  - The Commission reports directly to the Presidency
  - The Board of the Commission is appointed for a fixed term
  - Supervisory acts can only be over-ruled by a court of law
  - The autonomy reduces administrative bottlenecks
EVALUATION OF IOPS PRINCIPLES Contd.

- Empowers the Commission to examine the books of any institution in Nigeria and to impose sanctions (Principle 4)
  - The Commission may request and obtain information from any institution
  - It may examine or cause to be examined, the books of any institution
  - It may impose monetary sanctions
  - It may adopt other forms of sanction i.e. naming and shaming

- Empowers the Commission to outsource functions to professionals, where necessary (Principle 3)
EVALUATION OF IOPS PRINCIPLES Contd.

- Risk Focused Supervision (Principles 5 & 6)
  - Adoption of Uniform Pension Rating system
  - Supervisory Regime based on Risk Profile of Operators

- Corporation with Other Regulatory Agencies (Principle 7)
  - Enquiries on fitness and properness of board and top management
  - Exposure of draft guidelines and regulations to operators for comments and criticism
  - Observer Status – (Financial Sector Regulatory Coordinators Committee meeting)
CHALLENGES

- Registration of contributors
  - Lack of reliable identification instrument
  - Incomplete documentation

- Enforcement in the private sector
  - Mostly informal
  - Difficult to locate address
  - Inadequate records
  - Contract/terms of employment not fully defined
  - Employer contributions viewed as additional burden
  - Adverse economic conditions
THANK YOU FOR LISTENING