DISCUSSANT PAPER

RISK BASED SUPERVISION

Edward Odundo, Chief Executive

Retirement Benefits Authority - Kenya
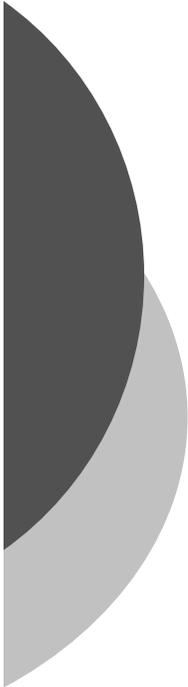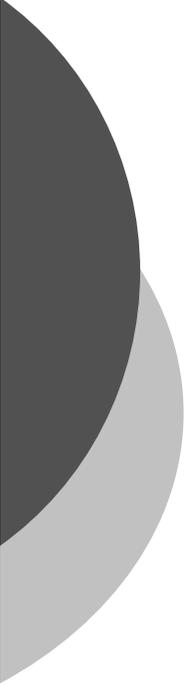
KENYAN EXPERIENCE IN RISK BASED SUPERVISION OF PENSIONS – I

o Kenya´s pension supervisor is a young institution supervising a relatively undeveloped pensions industry compared to the four countries covered in the two presentations.

The main focus of the current supervisory practice is to ensure compliance with the regulatory framework set up under the Retirement Benefits Act and Regulations.

# KENYAN EXPERIENCE IN RISK BASED SUPERVISION OF PENSIONS – II

- As noted from the presentation on the German RBS model it is important to critically analyse the effect of current supervisory practice and to identify the gaps.

- Findings suggest that there is strong justification for a risk based approach in Kenya despite differences from other countries that have adopted RBS
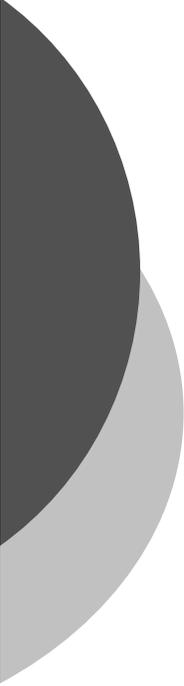
JUSTIFICATION FOR CONSIDERING A RISK BASED APPROACH FOR KENYA -I

- The justification for shifting to a risk based approach in Kenya not primarily financial market or regulatory developments as in other countries but include:

  (i) Increasing need for optimal resource allocation to supervision based on size and risk faced by each scheme, in particular as the number of schemes and needs of the pension industry increase.
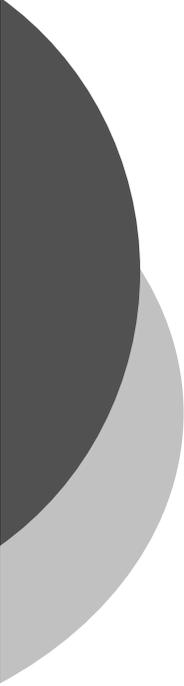
JUSTIFICATION FOR CONSIDERING A RISK BASED APPROACH FOR KENYA –I

(ii) Greater proactivity in supervision to ensure schemes that exhibit a risky and problematic profile are identified and issues resolved before they become more complex and accumulated.

(iii) Strengthening independence of schemes to identify their own risks and provide solutions in a timely manner.
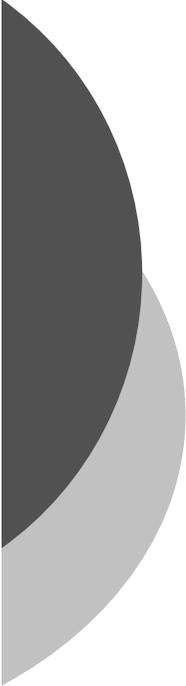
INITIATIVES TOWARD RISK BASED SUPERVISION IN KENYA

1) **Risk Identification:**

   Identification of inherent risks facing the schemes including a more detailed listing of risk parameters and possible mitigants.

2) **Review of current system and process functionality:**

   In order to assess the relevance of data received by the Authority from the schemes and service providers. Ability of supervisor systems to proceess neccessary data from schemes.
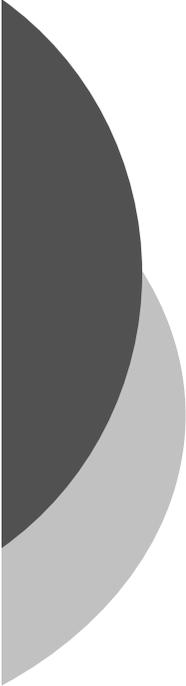
INITIATIVES TOWARD RBS II

3) Training of staff to appreciate the supervisory practice paradigm shift to RBS:

   The training ensures that it is an inclusive process and shall be instrumental in hastening the implementation process.

4) Examining International Experience in RBS:

   Chile, Netherlands, Australia.
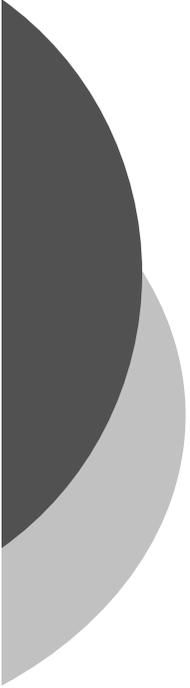
RISK ASSESSMENT CRITERIA

1. Counter-party default risk
2. Balance sheet and market risk
3. Operational risk
4. Liquidity risk
5. Legal and regulatory risk
6. Strategic Risk
7. Contagion and related party risk
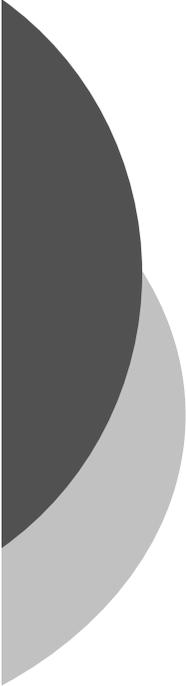
CHALLENGES

- Limited resource material on the implementation and effectiveness of RBS.

- Lack of Experiance from other Low Income Countries

- Suspicion by stakeholders about the motivation and impact of introduction of RBS.

- Expertise required in developing risk scoring methodology or system.

- Information system may not be responsive to monitoring of risk parameters e.g. inbuilt triggers.
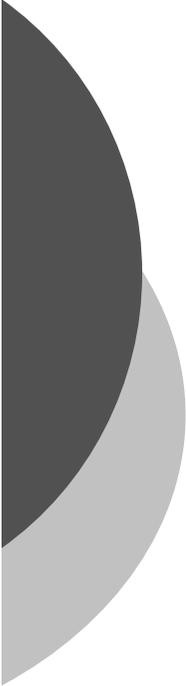
WAY FORWARD TOWARD IMPLEMENTATION

a) Identifying qualitative and quantitative risks, to be used in the initial risk scoring of schemes.

b) Developing methodology for risk measurement ´stress tests´ or ´value at risk´.

c) Developing standard procedures for choosing and applying interventions.

d) Amendment of legislation to support RBS.

e) Sensitising stakeholders about the new supervisory system