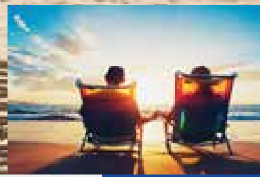
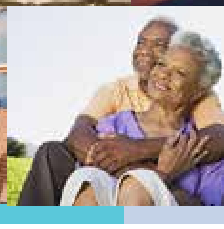
Kustaafu

FROM THE COUNCIL

ARBS
ASSOCIATION OF RETIREMENT BENEFITS SCHEMES



ISSUE No. 6 May 2018



Welcome

Welcome to a special ARBS focus issue of our ARBS Newsletter.

In this issue we look at, What ARBS has done, What ARBS is doing and What ARBS intends to do.

What has ARBS done?

TDPK
ARBS has been at the forefront in the provision and the development of the Trustee Development Program Kenya (TDPK) to ensure optimal delivery of this crucia;l training.

Regulation
ARBS has regularly lobbied the regulators through different channels on matters that affect the schemes and the industry in general for the benefit of its membersw and the industry in general.

Member Information
ARBS through different media and forums seeks to inform the its members and public on matters affecting the industry
Notable activities

- Drafting of NSSF Act 2013, notably inclusion of contracting out, gover-nance standards etc
- Follow up on Umbrella Scheme Regulations
- Input in drafting of RBA Market Conduct Guidelines
- Submission to National Treasury on overall review of Income Tax Act
- Submission to National Treasury on development of National Retirement Benefits Policy
- Quarterly Consultative Meetings with RBA
- Litigation regarding Public Procurement and Asset Disposal Act
- Annual submissions to National Budget
- Membership of RBA Research Panel

OUR VISION
"To be the first point of reference for all retirement benefits matters and a key facilitator of rapid development of a vibrant retirement benefits industry for all Kenyans".

OUR MISSION
"To be a strong, effective and recognized forum to represent and promote the interests of member schemes and other stakeholders through innovative advocacy and education"

OUR GOALS
Central to the services to members are:

1. Member Education Programme
2. Lobbying for changes
3. Communication on industry changes
4. Problem solving assistance

What is ARBS involved with now?

TDPK

ARBS has led TDPK curriculum and material review. The most crucial phase was completed during a workshop that entailed expert review of the curriculum. Various industry players were in attendance; the regulator, service providers, the College of Insurance and ARBS.

Regulation

- ARBS is driving efforts to achieve early resolution of litigation regarding PPDA, Umbrella Scheme Regulations etc
- ARBS is pressing RBA to uindertake full review of the Retirement Benefits Act and Regulations
- ARBS is playing a key role on development of RBA Market Conduct Guidelines or Guideline on Good Governance practices (GGG).
- ARBS is following up on the PPAD Act appeal and it is liaising with the regulator to make sure the best interests of the parties is achieved including an out of court settlement.
- ARBS is following up on proposals submitted to National Treasury in its review of the Inmcome Tax Act

Member Information

- ARBS organises breakfast meetings on a quarterly basis, to discuss topical and emerging issues in the pension sector so as to keep members up to date
- ARBS has provided a platform for its member to liaise and get education on new investment platforms like private equity and infrastructure financing.
- ARBS is in the process of developing a framework that will highlight the risks in regards to fraud so that players can pay attention to protective measures and also for the regulator to understand the problem and related risks
- ARBS has introduced periodical Newsletters and plans to develop these further
- ARBS is revising its Guide to Best Practice

What is in the pipeline for ARBS?

ARBS Strategic Plan 2016 – 2020 includes fairly ambitious goals such as:

- Development of TDPK refresher programmes
- Development of ADPK for in house and external Administrators
- Development of e-learning programmes
- Development of Trustees' toolkit
- Development of fully fledged ARBS Secretariat equipped to undertake research, and provide wide range of services to members
- Development of template TDRs and related Deeds

Feature

THIS IS HOW TO OPTIMISE PENSION RETURNS

By SIMON WAFUBWA

As the retirement sector regulator works on guidelines to enhance accountability and transparency by pension schemes to protect members' contributions, it will be critical for trustees to establish an investment strategy that meets the set objectives.

Incorporating environmental, social and governance (ESG) factors into investment decisions, therefore, is key. These include corruption, politics, climate change, working conditions, health and safety.

The meaning of responsible investment and the understanding of how it is best practiced is varied, fast evolving and dynamic. In Kenya, there is little or no responsible investment, translating to poor appreciation of ESG within the pension funds' decision makers.

The challenge lies in how to expand the market through supportive legal frameworks, availability of responsible investment products or securities to allow trustees to deliberately increase short- and long-term investment performance.

> "KENYA'S GUARANTEED FUNDS AND SEGREGATED FUNDS ON AVERAGE DELIVERED APPROXIMATELY 10 % AND 18.7%, RESPECTIVELY."

SEGREGATED FUNDS

Last year, Kenya's guaranteed funds and segregated funds on average delivered approximately 10 per cent and 18.7 per cent, respectively.

Despite the strong economic growth prospects for 2018, it is important to factor in variables such as efficiency of the fund manager, risk profile, macroeconomic environment, asset allocation and investment policy or framework. Trustees must not only select investments that produce returns at an appropriate level but equally apply measures that take into account the nature and term of the underlying liabilities.

Adaptation and implementation of responsible investment strategies is the best route to attaining

this. Responsible investment aims at incorporating ESG into decisions to better manage risk and generate long-term sustainable returns.
While the aspect of responsible investment is relatively new to Kenya, it is important for trustees, investors or policy makers to understand that incorporating environmental risk factor is part of investors' fiduciary duty to stakeholders.

PENSION FUNDS
We can replicate efforts made by South Africa in terms of guiding principles set out in the 2011 Pension Funds Act Regulation 28 that requires trustees to include ESG in their investment mandates and portfolios.
Kenya has developed a strong savings pool through its pension funds and investment schemes with all registered local retail collective investment schemes as well as pension funds and institutional investment funds, asset holdings totalling Sh18 trillion last year.
A deep understanding of sustainable investment translates to improved understanding of current investment value and insights into future trends and value. A good investment framework also works to find opportunities to achieve superior risk-adjusted returns for beneficiaries, particularly over the long-term.
It is a fundamental principle that trustees always act with utmost good faith and in the best interest of the fund and its beneficiaries.

GOOD FAITH
Time has come for a paradigm shift in the management of retirement schemes through applying risk management models, identifying and pursuing strategic objectives.
Successful implementation of an ESG framework is pegged on the principles of responsible investment. Research- and report-related engagement, training and monitoring and performance indicators are some of the requisite tools. These should be considered and marked against standards and codes of good practice regarding responsible investment.
Institutional investors have a duty to act in the best long-term interest of beneficiaries. Trustees who pay attention to ESG stand a high chance of improving governance of pension funds and more accurately value funds' assets, liabilities and long-term performance.
Implementing the principles will lead to increased returns and deflated risk.

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Why Kenyan Millennials may not retire

By Erick Omondi

Millennials – generally defined as those born between 1980 and 1999 – are thought to be an experiential generation, who despite the high cost of living, would frivolously spend their hard – earned monies, with little or no considerations to save for retirement, which we say, is a couple of decades away. We crave for instant gratification, the cost notwithstanding. We put on a flamboyant façade, eclipsing the grim reality of our financial struggles. We want to be "forever young" and dread the inexorable old age that keeps beckoning, especially one that would disrupt our profligate lifestyle. Although every millennial's dream is to live comfortably and financially secure when they retire, going by the current statistics, this might be a mirage for majority.

The Retirement Benefits Authority (RBA) and industry players have made plausible efforts in drumming up awareness on pension products and services; leading to a rise in coverage from 15% to 20% of employed citizens over the last 5 years, according to date from RBA. However, relative to growing numbers of the workforce population, this may not be a good enough coverage.

Even as the total pension assets inch towards the trillion mark, the 20% pension coverage significantly lags other African Countries like Egypt and South Africa with a coverage estimated at above 80%. More than 12 Million working Kenyans are not enrolled in any formal pension plan, and worse still, about 10 Million who are not employed may not be saving for their retirement. This points to a potential social risk that needs to be nipped in the bud.

Looking at millennials, on one hand, we have the lot living from hand to mouth – the unemployed. For them, there are far more important competing needs than saving for retirement. With current unemployment rates at a high of 39.1%, there is almost no disposable income to set aside for retirement saving. I believe this can be addressed through existing government policies on job creation.

My focus today, however, is on the working millennials, a vast majority of whom are not enrolled in any pension scheme.

The Achilles Heel and its Remedy

Consumerism

Most are driven by a consumerism culture with little propensity to save. There is always an intricate balance between saving for retirement which is 40 years away or so, and paying oneself now. Most working millennials would find themselves sliding into the pool party of instant gratification, as recently well coined by a betting jackpot winner, tumia pesa ikuzoee (make acquaintance with money by spending it). Espousing a saving culture, both short and long term, is crucial for securing financial freedom. Saving for the next Dubai holiday or to buy a house is as important as saving for one's retirement. We must try and kill the insatiable hunger to measure up to "peers", making our social media pages appealing while stealing from our own future.

Assuming one works from age of 25, they are likely to have paychecks for 35 years. Should they live for another 30 years post – retirement, assuming one retires at age 60, with no more paychecks; they would have to totally rely on retirement savings alongside other income generating investments, if any. It therefore means that starting to save now, even if it's a pittance is critical. The power of compounding and a long investment horizon, will help us accumulate enough to take care of us when we retire. Otherwise we might just never retire.

Legislation

Besides millennials' averseness to saving, whenever they do, they break into the vault every time they change jobs, to purchase the next top – of – the – range phone or car or a fix a temporal financial challenge. Surveys have shown that most millennials expect to work for at least five employers in their lifetime.

There might be some merit in introducing regulation barring access of at least 50% of entire retirement savings until retirement age. An Income Replacement Ratio (IRR) of 60 % is considered the absolute minimum for one to maintain their pre-retirement lifestyle. Although millennials may have a longer horizon to retirement, the constant withdrawals and relatively low contribution rates would still result to a significantly low IRR.

Furthermore, a paternalistic approach, by making retirement savings mandatory for all employed citizens, would help the millions of employed non – retirement – saving millennials build a sizeable nest egg for their retirement.

Communication

We are digital natives. We prefer succinct and fast communication. We abhor processes and red tape. We therefore would prefer to be able to see at a glance our retirement savings by swiping on our iPhones and not have to ask for statements. It should also be easy to predict how much it will be in 30 years on a mobile app. Brief pop – ups like, "did you know that saving 5,000 monthly for 30 years assuming an annual return of 10% would earn you 11.3 Million at retirement?" would intrigue one to save more. An icing on the cake, would be adding a personal finance management tool, helping us to plan and analyse our income, expenses, savings and investments, all in one app. The Zamara App exemplifies this. The retirement benefits sector players thus ought to be nimble to adapt to the ever-changing needs of millennials.

Furthermore, since fundamental saving needs are generally common, there is need to develop financial products that are holistic rather than focussing on one saving need (retirement). The word retirement is a distant and cacophonous sound to most millennials. It would thus be fitting to blend it in the melody of other words such as investment and financial planning. Circulation of short videos demonstrating success stories of such saving and investment plans and "how to" illustrations through social media platforms would reach the non – TV watching and non – newspaper reading selfie generation.

My submission may not be exhaustive but I hope, in Shakespearean language, it helps us know where sits the wind.