



Dialogues

# Supervisory Issues Related to Closing the Retirement Protection Gap

26 November 2020

# Speakers & Presenters

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**Moderator**  
Carolyn Barsulai

Access to Insurance Initiative  
(A2ii)



**International Organisation of  
Pension Supervisors**  
Dariusz Stańko

Head of Secretariat,  
IOPS



**National Bank of Slovakia**  
Júlia Čillíková

Executive Director for Regulations &  
Financial Consumer Protection,  
National bank of Slovakia



# Speakers & Presenters

## Case Studies

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**Retirement Benefits  
Authority (RBA)**  
Nzomo Mutuku

CEO  
Retirement Benefits Authority  
(RBA), Kenya

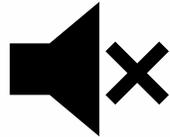
**National Commission of the Retirement Savings System (CONSAR)**  
Juan Gabriel García Vadillo

Director of Operations, CONSAR, Mexico

# Housekeeping rules



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Please **MUTE** yourself whilst you are not speaking



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**“RAISE HAND”** when wishing to speak or ask a question



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# Supervisory Issues Related to Closing the Retirement Protection Gap

**Júlia Čillíková**

Coordinator for Pension Issues

Executive Director for Regulations & Financial Consumer Protection at National bank of Slovakia

[Julia.cillikova@nbs.sk](mailto:Julia.cillikova@nbs.sk)

26 November 2020

# WHO? WHAT? WHY?



Organisation for Economic Co-operation and Development



# Public vs. Private pensions

**Purpose of the webinar**

**Pension schemes in post-COVID era**

**Incentives vs. Structural Reforms**

# Closing Retirement Protection Gap

## 1/2

### Impacts of current developments to pension schemes

#### Key factors

- Employment developments
- Labour market changes
- Search for yield
- Solvency of defined pension schemes

# Closing Retirement Protection Gap

## 2/2

### Policy considerations

- Risk sharing between pension schemes
- Capacity to access additional funding
- Pension policy reforms continuity

# Housekeeping Ideas for Further Discussion

**Be interactive**

**Next steps**

- Best Practice
- Questionnaire
- Examples

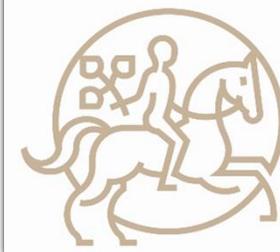


**IAIS**

INTERNATIONAL ASSOCIATION OF  
INSURANCE SUPERVISORS



access to insurance initiative



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**Júlia Čillíková** [Julia.cillikova@nbs.sk](mailto:julia.cillikova@nbs.sk)

# Pension Income Gap: Role of Supervisors

Dariusz Stańko

Head of IOPS Secretariat

[dariusz.stanko@oecd.org](mailto:dariusz.stanko@oecd.org)

# Contents

- Income at retirement and pension income gap
- Areas that may affect income at retirement – focus on private pensions:
  - Policy areas
  - Supervisory areas
- Impact of Covid-19 on private pensions
- Conclusions

# International Organisation of Pension Supervisors



- 90 Members and observers in 89 jurisdictions;
- is a **standard-setting body** on pension supervisory matters and regulating issues related to pension supervision;
- promotes **international co-operation** on pension supervision and facilitating contact between pension supervisors and other relevant parties;
- provides a **worldwide forum** for policy dialogue and exchange of information on pension supervision;
- participates in the work of relevant **international bodies** in the area of pensions, including joint activities to improve statistical collection and analysis;
- promotes, conducts and facilitates the distribution and communication of **research, and collecting information** in co-operation with relevant international bodies.

# Income at retirement

- Typical measure of retirement financial well-being: replacement rate RR calculated as retirement income/ last salary
  - retirement income usually from various pillars (public, corporate, individual pensions)
  - variations (individual RR, average RR)
- European “(g)old standard” 70%.
- Now RR decreasing rapidly (20-30%?) due to
  - demographic changes (fertility, life span)
  - low interest rates (linked to demography)
  - indexation rules (price vs wage)
  - changing (or not improving) labour market structure (informality, zig-economy)
  - Covid-19 and any other systemic shocks (climate change?)

# Impact of COVID-19 on private pension systems

- decreased values of **pension investments** with increased liquidity and counterparty risks;
- worsened **funding positions** of DB pension schemes;
- decreased values of **DC balances**;
- worsened **liquidity positions** of pension schemes;
- risk of **locking in investment losses** by some members;
- reduced **ability** of some employers and employees to continue paying their pension contributions;
- **operational disruptions** as a result of working remotely;
- increased risk of **pension scams, frauds and cyber-attacks** for pension scheme members;
- shrinking members' **trust and confidence** in the system as a long-term retirement savings vehicle.

# Pension gap

- OECD definition ([Pensions at a Glance, 2013](#)) sees pension gap as an extra effort needed to achieve the average OECD replacement rate:
  - “The pension gap measures how much people would have to contribute to voluntary, private pensions to lift overall replacement rates from the national, mandatory level to the average for OECD countries.”
- In this presentation I use my own working definition, i.e. gap understood as a difference between income at retirement and actual expenditures at retirement...
  - ...but it can also relate to gender (gap in income between women and men) or time (gap in income between current and future pensioners) aspects...
  - ... one could also think about pension gap as a difference between desired, expected, or indispensable/minimum/poverty line income at retirement and the actual one

# Areas impacting income at retirement from private pension systems

## ■ Policy areas

- Role public and private pensions (e.g. Iceland), level of redistribution (DB vs DC, guarantees – e.g. minimum pension), interaction with social policy (safety nets, social assistance vs non-contributory pensions – e.g. Chile)
- Participation (mandatory, semi-mandatory – autoenrollment, industrial arrangements e.g. Netherlands, voluntary with/without incentives)
- Industrial organisation (market structure and incentives for pension entities, their legal structure, collective vs individualised, decisions' complexity faced by members, for-profit vs non-for-profit, life-cycle funds and target-date funds, active-passive investment management)
- Tax incentives (perception by public, targeting)
- Financial education, financial literacy campaigns (costs, effectiveness, robustness over time)
- Labour market (the key for public pensions and developing countries)

# Areas impacting income at retirement from private pension systems

- Supervisory areas (non-exhaustive list)
  - Security/solvency (e.g. capital requirements) of pension entity and quality of its corporate governance (e.g. fit and proper requirements), especially for risk/investment management. Apart from monitoring compliance also providing guidelines – especially important for trustee-based systems
  - Investment (e.g. prudent person vs investment limits, NB limits/assets often political decision) – non-traditional assets (e.g. infrastructure, private equity, SPVs - Namibia), diversification of demographic risk (foreign investments)
  - Information disclosure & consumer protection (e.g. ombudsmen, claims setting, lost pensions)
  - Clarity of communication with members (e.g. pension projections – Belgium, Netherlands, Chile, or benefit statements –EIOPA)
  - Other areas if mandated: market conduct, market development, financial education

# Areas impacting income at retirement from private pension systems

- Supervisory measures, recent trends
  - switching to RBS (risk-based supervision, e.g. [IOPS RBS Toolkit](#)) to increase efficiency of supervisory resources
  - focus on improving costs (e.g. marketing, fee auctions – Chile) and member outcomes risk-adjusted returns (e.g. benchmarking - Australia)
  - use of technology (mobiles, Internet) and behavioural science (e.g. framing of messages, encouraging microsavings) to increase pension coverage and voluntary savings (e.g. Mexico, Kenya), contributions sought at “output” (consumption) rather than “input” (wages) phase
  - response to COVID-19 (see [IOPS Statement on pension supervisory actions to mitigate the consequences of the Covid-19 crisis](#))

# Conclusions

- There is no magic way to create wealth. Income at retirement depends predominantly on country's economic growth and its labour market, i.e. demography and public governance (quality of the state as organiser and arbiter of economic activities).
- However, within the existing constraints and institutions, efficiency of pension system can be improved (or worsen!) by policy measures with regard to pension system.
- Supervisors have an important role, too. Not only by providing stability to pension markets and security to pension market participants, but also by improving efficiency of pension saving process (cutting costs, improving risk-adjusted returns, facilitating processes, encouraging participation).

# **A new approach on Voluntary Savings**

**México digital strategy for voluntary savings**

**26 November 2020**

**Juan García V**

Regulatory and Financial Inclusion Deputy  
jgarcia@consar.gob.mx

# Mobile Ecosystem

## Technology for Financial Inclusion

Mobile app that allows users take control of their pension account and provides online services

**Available free for Android, IOS and in 11 countries**



**4.6 million  
downloads**



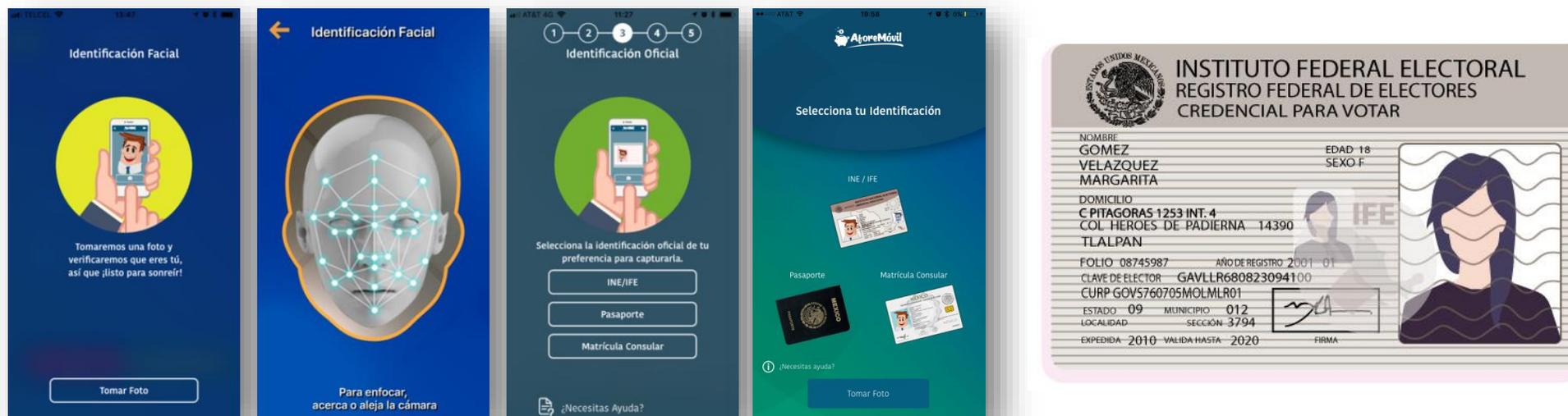
# Mobile Ecosystem

## Technology for Financial Inclusion



Ensuring the identity of the user  
**Face Biometric Authentication**

To connect and have access to their information users must take a SELFIE and a photo of a national ID to compare the biometric factors (face recognition).



# Financial Inclusion and Voluntary Savings

Smartphones and mobile apps have enhanced financial inclusion and voluntary savings.

Digital channels have been the ones with the highest penetration and accelerated growth, which is convenient considering the new generation of savers: millennials.

In the month of Afore Mobile's launch (August 2017), one thousand eight hundred (1,800) Voluntary Savings deposits were received

3 years later, through the APP more than 1 million deposits were made. Operations through Afore Móvil multiplied more than 500 times.

# Saving are difficult

How difficult it is to save?

- It is proven that you prefer the immediate benefit instead of a better benefit in the future.
- México, aware of this behavioral barrier, managed to establish an alliance that led to the creation of the “GanAhorro” program, the first rewards program in Latin America focused on pension fund savings.
- This program enables the user to buy their favorite products such as donuts, flowers, phone or game cards and receive free savings for the Retirement.

# GanAhorro program

- Through “GanAhorro”, Mexican workers can buy their favorite products at the price they already know and a percentage, ranging from 1% to 30%, of their payment is sent to their Pension Found account as voluntary savings.
- Every month more products and services have been incorporated to this program, the like AMAZON, Uber, Uber EATS and Cabify.
- Since September 2019 and until the end of October there have already been more than **13,900 users who have used GanAhorro** to make their day-to-day purchases, satisfy their tastes or needs.

# GanAhorro program

- More than **40 thousand USD** (829 thousand pesos) of voluntary savings have been delivered free of charge to the Pension Fund accounts of these users.

Behavioral economics

Use of Innovation and new technology

Social Responsibility (people first)

Experience in other sectors

Key Alliances



# That is not all

- Through more than 16 thousand saving points in the country we have succeeded on increasing voluntary savings in more than 46% compared to the last year.



## That is not all

- More than 3 million users for digital platforms to save from Mexico and overseas.



## OUR GOAL:

**Make saving for the Retirement Fund easy,  
accessible and fun!**



## Access to Insurance (A2i) and IAIS Webinar

### *Supervisory Issues Related to Closing the Retirement Protection Gap*

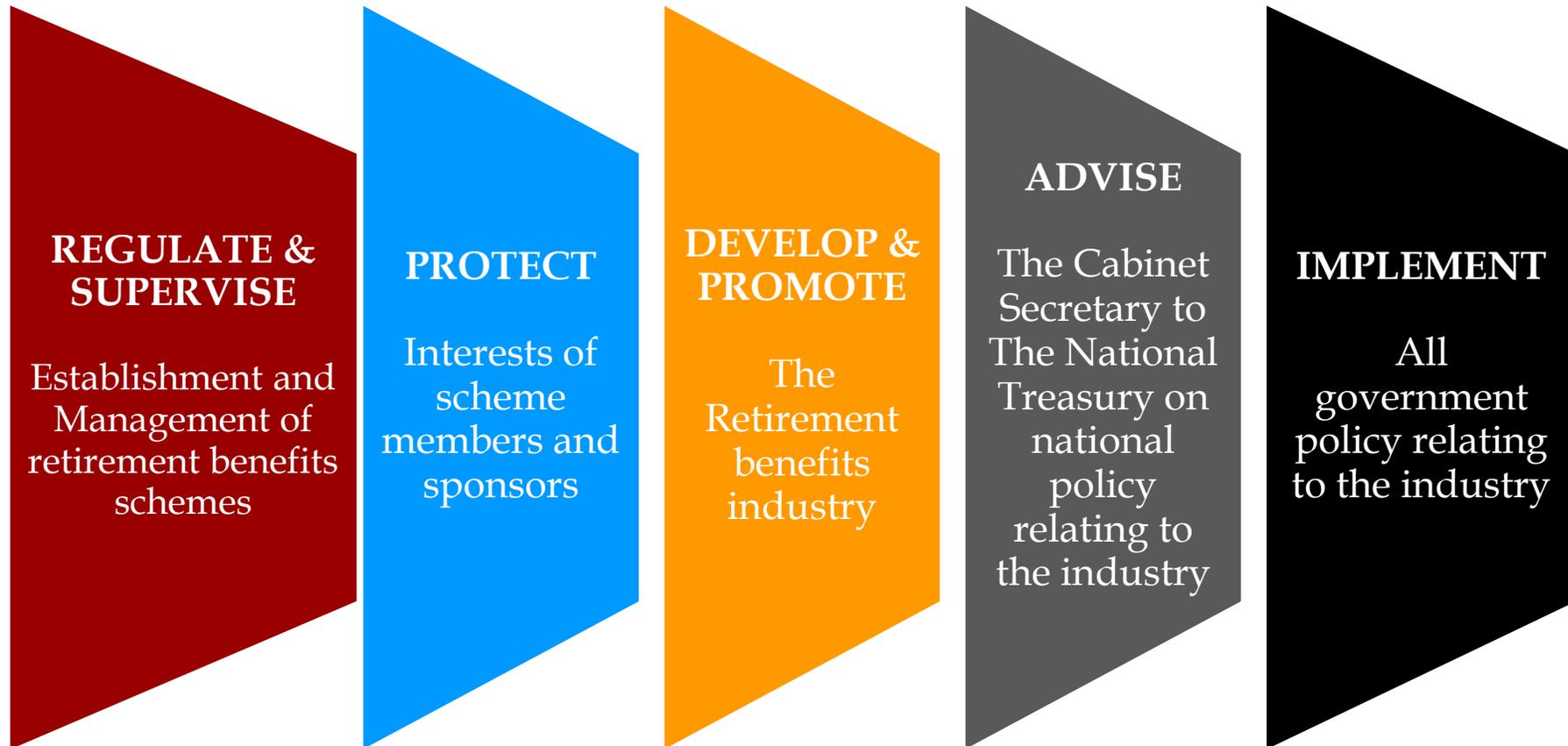
*Nzomo Mutuku  
Chief Executive Officer  
Retirement Benefits Authority  
Kenya*

*November 26, 2020*

# Outline

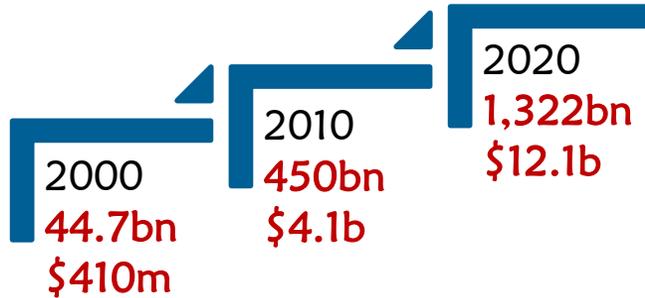
- Introduction –RBA Mandate
- Kenya’s Retirement Benefits Sector
- Covid-19: RBA’s Response
- Closing Pension Coverage Gap
- Closing the Pension Adequacy Gap
- Conclusion

## RBA Mandate



# Kenya Retirement Benefits Sector

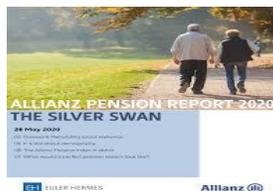
## Assets in Kshs. Billions



## Registered Service Providers

**Custodians: 11:**  
**Managers: 24**  
**Administrators: 31**

Kenya Pension System ranked No. 2 in Africa by: Allianz Pension Report 2020



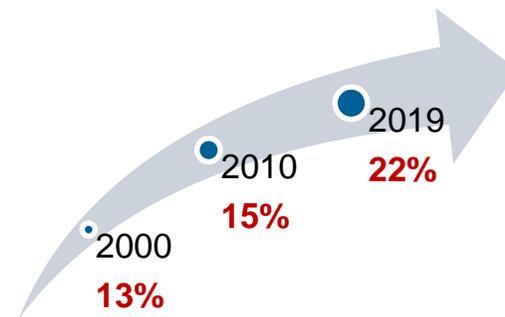
## Members: 3.2 Million



## Schemes: 1,258



## Coverage: % of Labour force



## Trustees

**Over 6000**  
**Min-3/4**  
**Max-9**

## Effects of Covid-19

- The Covid-19 outbreak has destabilized the global economic order by causing severe economic disruptions and slowdown in economic activities.
- Disruptions have directly and indirectly affected members and sponsors of pension schemes. There has been a decline in pension contributions due job losses or unpaid leaves.
- Employers/sponsors have applied to suspend contributions. In addition, most investments have recorded losses or diminished returns -*Over 43 schemes are affected with over 2bn (\$20m) worth of contributions.*
- The schemes funding levels has also been affected. Although the current average funding level of the DB schemes is 104.5%. *25 out of the 58 DB schemes are below the 100% funding level.*
- Covid-19, has thus further widened the pension gap both in terms of coverage & replacement rate
- There is need therefore innovative products to address the gap

## Innovations to Close Pension Coverage Gap

- The RBA Strategic Plan seeks to expand pension coverage among Kenyan workers from current 22% to 30% by 2024.
- Plan seeks to significantly reach out to informal sector workers and it is one of the key pillar in the SP 2019-2024.
- *The Kenya Economic Survey 2020* shows that **informal sector is leading sector in creating employment accounting for 83% of total recorded employment.**
- However, majority of the workers in the informal sector are not covered by pensions.
- Given the informal sector expansion and its contribution to the economy, it is important to provide pension coverage for its workers to secure their retirement.
- This calls for innovative products which are simple, flexible, affordable & available 24/7.
- Creativity & Innovation is therefore critical.

## Innovations to Close Coverage Gap Cont'd

Use of mobile money transfer platforms/pension apps. to extend coverage to the informal sector



- **Self-employed** – using mobile telephone, workers will be able to save for retirement with at least Sh200 (initial contribution).
- **Haba Haba na NSSF** – targeting transport sector. Sh100 a day social protection, provide retirement benefit, permanent disability cover, funeral expenses, sickness benefit.
- NSSF expect to recruit 500,000 informal sector workers this year.

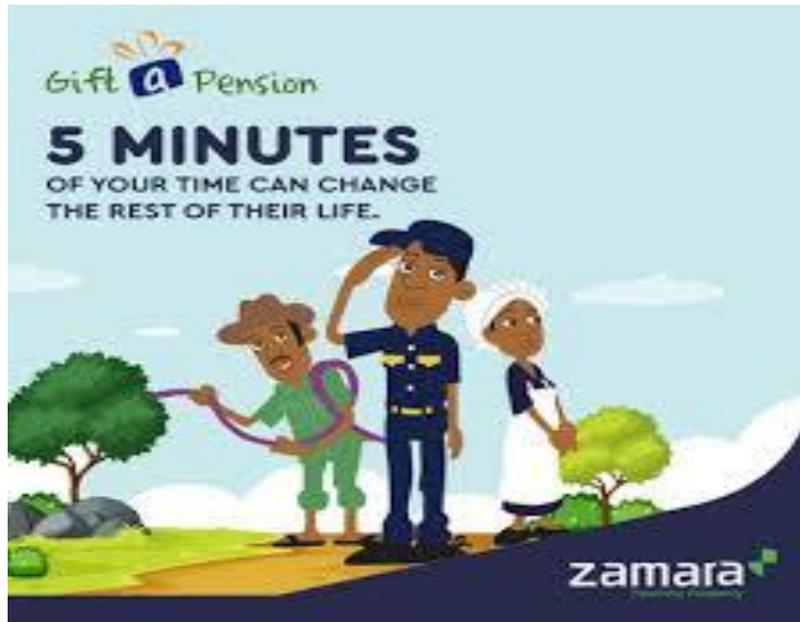
## Innovations to Close Coverage Gap Cont'd



- **Octagon Pension Services - Mobikeza** - allows contributors to make savings through their mobile telephone.
- Partnered with Sanlam & StanChart.
- This scheme targets youth, Jua Kali artisans as well as MSMEs.
- It brings flexibility in such a way that you can contribute as little or as much as you want.

## Innovations to Close Coverage Gap Cont'd

- Use of mobile money transfer platforms/pension apps to extend coverage to the informal sector [Equity Bank, Co-op Bank and Prudential]
- A simple, innovative, easy to access and fully digital personalized pension solution - Fahari Pension Plan
- Giftee is young, they start by saving as little as Kshs. 100 per week



## Evidence pension inadequacy in retirement

Unfinished House



Stalled Tractor



**“Upon retirement, the retiree used the lumpsum to build a house, purchase of a tractor and interlocking brick machine. The house is unfinished and hence is still putting up in the grass thatched house.**

**The tractor broke down and yet to be fixed. The tractor used to earn him Kshs. 8,000 daily by supplying water to residents. The interlocking bricks machine also broke down and is also just lying down not generating any income”**

## Closing pension adequacy gap

### **Automatic Enrolment:**

From Pensioners survey it is evidenced that most retirees worked for longer periods, the period of contribution to schemes were shorter owing to the various eligibility requirements. There is therefore need to either auto-enroll members or members be enrolled in schemes immediately they are employed without any additional qualification requirements.



## Closing pension adequacy gap Cont'd

### **Preservation of Benefits:**

Pensioners survey revealed that most of the respondents accessed their benefits whenever they changed jobs. Access of benefits before retirement adversely affects the adequacy of benefits in retirement and it defeats the purpose for saving for retirement. There is therefore need to amend the regulations to preserve the benefits until the early retirement age.

## Technology & Supervision

- Technology has enabled pensions sector to deal with a number of issues;
  - Grow pension coverage to informal sector workers via a mobile phone. This is simple, affordable and flexible.
  - Provision of an online whistle blower portal
  - Online communication with industry players,
  - RBA's requires the Authority to be creative and innovative.
- Responsive Supervisory Framework (SupTech)
  - SupTech. – has **digitised data, operational procedures, and automated regulatory process.**
  - Helps to proactively monitor a service providers' transactions or clients' data and promptly respond to a compliance violations.

## Conclusion

- Creativity & Innovation to help to close the retirement protection gap.
- Fostering Creativity and Innovation in the industry is therefore key in ensuring retirees have a decent life in retirement.
- We are aware of the risks Covid-19 has placed on retirement benefits industry both on the contributions and investment income.
- We are working with other financial regulators and The Government in safeguarding retirement benefits sector and mitigate the risk of the pandemic.

# Thank you

[www.rba.go.ke](http://www.rba.go.ke)

Toll-free line: 0800720300

Email: ([info@rba.go.ke](mailto:info@rba.go.ke) and [complaints@rba.go.ke](mailto:complaints@rba.go.ke))

Online complaints reporting (<http://portal.rba.go.ke/complaints/>)

Whistle blower portal (<http://portal.rba.go.ke/whistleblower/>)

Online submission of statutory returns for schemes and service providers



Facebook, Twitter, Instagram: - @RBAKenya & LinkedIn: Retirement Benefits Authority.

# Q&A Session

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