URBRA
UGANDA RETIREMENT BENEFITS REGULATORY AUTHORITY

MONTHLY SECTOR BULLETIN

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PROTECTING MEMBERS' SAVINGS:

URBRA's contribution to a sustainable Retirement Benefits Sector

In execution of its mandate, the Authority exercises supervision putting emphasis on discipline, sustainability and transparency. A sound Retirement Benefits system is based on discipline: Everyone must stick to the rules of the game. Licensed entities must beware of slackening discipline and refrain from allowing deviations from the URBRA Act and established Regulations.

The future is unknown and the ensuing risks to the sustainability of the sector are considerable. Identifying and preventing risks, and applying a customised approach to timely resolution of any problems is critical.

The Authority works to ensure that schemes are sufficiently transparent about what their members can expect to get. Transparency rules out surprises and thus enhances confidence among participants. This is a major principle in the Authority's supervisory approach.

After all, people must trust that savings and entitlements accumulated during their active life are safe and are available upon retirement.

Sustainability goes hand in hand with transparency. Buffers are therefore essential to a sound Retirement Benefits System. The Authority on this premise employs a Risk-based Supervision Approach to enhance operational efficiency, and deter risks before they occur.

SECTOR DEVELOPMENTS

Sector Performance: Total sector assets as at December 2017 amounted to UGX 10.04 trillion.

Public Service Pension Scheme: Cabinet approved the Principles for drafting a Bill to reform the Public Service Pension Scheme.

Employees. National Social Security Fund: Cabinet approved proposals to amend the National Social Security Fund (NSSF) Act.

URBRA's Approach to Supervision: Risk assessments of market participants strengthening operational efficency.

Extension of Coverage: The Authority developed proposals for extending coverage to the self employed.

WHAT'S INSIDE

...URBRA protecting your savings...

NEWS

DEVELOPMENTS IN THE RETIREMENT BENEFITS SECTOR

Sector Performance:

By the end of December 2017, total sector assets amounted to UGX 10.04 trillion. The compound asset growth rate for the last four years was 15.46% mainly influenced by contributions, investment earnings from government bonds, deposits, and listed equity.

This was a commendable performance given the declining interest rate environment and depressed equity market conditions witnessed in 2017.

Public Service Pension Scheme:

Systemic reforms including Implementation of Electronic Document Management System (EDMS) Module of the Integrated Personnel and Payroll System (IPPS), full decentralization of Pension and Gratuity Management, and Biometric Validation Exercise were completed.

This year, Cabinet approved the Principles for drafting a Bill to reform the Public Service Pension Scheme into a Contributory Scheme.

National Social Security Fund:

In March 2018, Cabinet approved proposals to amend the National Social Security Fund (NSSF) Act that will see those employed in both the formal and informal sectors save with the Fund, provide for introduction of new benefits, improve governance, among others. However, mobilisation that can effectively reach employment- and community structures and additional costs to small businesses may distort the labor market. Incentives will therefore be critical to encourage participation.

Regulation and Supervision of the sector:

The Authority introduced a new approach where analysis of performance extends beyond profitability to governance measurements.

The Authority undertakes assessment of schemes' financial position, asset quality, structure of income, expenses and compliance with regulatory requirements.

Risk assessments of every market participant are conducted and the necessary supervisory measures to strengthen internal control systems, governance and administration are instituted.

Extension of Coverage:

The Authority developed proposals for a scalable and sustainable strategy for extending voluntary pension coverage to the self-empoyed and the informal sector Among them is the establishment of a sound regulatory framework for micro-pensions and introduction of appropriate products for different income groups.

NEWS

WHAT GOOD GOVERNANCE
IN RETIREMENT BENEFITS SCHEMES LOOKS LIKE

Good governance in the form of knowledgeable and engaged Trustee boards has become ever more important in the complex regulatory, commercial, economic and social environment in which schemes operate. What constitutes good governance and is expected of scheme Trustees is clarified in the URBRA Act, Regulations and Guidelines.

Trustees oversee the administration and investment process. Even though they are not expected to be experts, their responsibilities require them to understand the basic investment principles, so that they can exercise good judgement in their approval of administration and investment policies and processes.

This is not a small task given the challenges and complexities of investment markets. As Fiduciaries, they assume the responsibility to oversee a pool of investment assets on behalf of members. In effect, it is incumbent upon them to put members' interests at the front of their minds.

The Authority conducts Trustee training to ensure compliance with the URBRA Act, established Regulations and Guidelines, and suggests a number of best practices to enhance Scheme governance:

- Trustee boards with diversity of membership;
- Boards that meet regularly and are led by an effective Chair;
- Regular evaluation of Trustee competence and Board performance;
- High standards of integrity and competence, particularly investment knowledge, supported by regular training and adequate time for continuous development;
- Mechanisms for managing conflicts of interest;
- Strong and regular engagement with the scheme sponsor;
- Structured investment and risk assessment policies and processes;
- Regular monitoring and reviews of service provider performance.

Good governance, particularly when in place throughout the life of a scheme, should lead to:

- Better assessment of risks (economic, covenant, operational, investment and funding) and the development of improved risk management strategies;
- More considered investment strategies and ultimately better investment returns and/or better alignment with the investment objectives of the scheme;
- Better value operational and investment costs;
- Better data regarding members and the trajectory of liabilities;
- Lower deficits and/or shorter recovery periods where deficits do exist;
- More security and certainty for scheme members and full payment of accrued benefits.

Trustees also need, collectively, to be capable of dealing with issues around:

- The strength of the employer covenant, which means being able to assess the strength of the company's balance sheet and cash position as well as spotting any potential changes in the position, particularly if there are any plans for a change of control as this has implications on contributions into a scheme;
- Actuarial concerns including the funding position of the scheme and longevity trends;
- The administration of the scheme and data quality; and
- Investment strategy and asset allocation.

DO YOU KNOW THE INVESTMENT COSTS OF YOUR SCHEME?

Investment costs incurred by schemes are expressed as either ad valorem costs (i.e. charges which are levied on funds invested and expressed as a percentage/ basis points of the fund under management), fixed/flat costs (such as regular fees, of a certain amount every month) or as contribution charges (where a percentage of each contribution made is deducted as a charge).

In some cases, investment costs are hidden in the investment returns, which are (incorrectly) reported net of costs rather than gross. Subject to constraints imposed by the level of disclosure, some schemes are unable to realise the lowest possible investment management costs.

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The following methodology may be of use in helping you understand what your scheme pays for investment management:

- Identify the specific services being provided and how you are paying for them at the overall portfolio level ("overlays") for example consultant fees, investment office fees and expenses, wrap fees and other portfolio fees. Be mindful of providers who promise that "everything is included."
- Identify fees you pay at scheme level for each investment vehicle i.e manager direct fees, performance fees etc. It is important to know and understand what fees are paid explicitly and what fees are embedded in the performance of the scheme. Also try to understand how fees are aggregated to reach fee breakpoints.
- Identify the activity and transaction related expenses that are assessed within each investment (or by each manager) such as trading and brokerage, prime brokers, custody, net of securities lending, if applicable. It is important to question your fund managers about how they strive for the best possible execution of trades to keep transaction and brokerage costs low.
- Identify the activities required for administrative over-sight and management (risk analytics and consolidated reporting) of the scheme portfolio including audit and legal, administrators, staffing and benefits as well as infrastructure and facilities.

CEO's Corner

Q&A on Costs incurred by Schemes

Mr. Martin Anthony Nsubuga
Ag. Chief Executive Officer

1) Why is investment performance so important for members?

Investment performance determines accumulation of retirement benefits; in fact, our estimates show that investment returns have potential to account for over 40% percent of benefits. However, costs can significantly eat-up benefits to members. Trustees must therefore ensure that risks, returns, and costs are balanced in ways that provide bottom-line performance.

2) What are the maximum fees, charges or expenses that are applicable to schemes?

The law does not set the rates. Fees, charges or expenses are determined by the market. The key cost determinants include the size, organisational form, and the degree and nature of outsourcing.

3) How do Trustees in the Retirement Benefits Sector react to such fees or expenses?

For all stakeholders, the primary goal is to act in the interest of members and their beneficiaries. It is therefore expected that only reasonable expenses are paid.

Poor performance can discredit trustees, lead to further scrutiny by the regulator, and loss of contracts for outsourced services. In any event, Trustees agree on fees payable before service level agreements are signed between schemes and service providers.

4) Who is responsible for determining maximum fees chargeable by schemes?

Fees are not regulated under the current law. Trustees have an important obligation to negotiate and prudently select and monitor service providers. After careful evaluation during the initial selection, they have the duty to monitor fees and expenses to determine whether they continue to be reasonable in light of the services provided. In effect, they must ensure that:

- All members receive value for money.
- All costs and charges borne by members are transparent and communicated clearly.

5) Do the fees vary with the type of scheme? E.g. do they charge the same fees for voluntary schemes and mandatory schemes?

Operating costs vary strongly between schemes, mainly due to scale effects as well as governance and administration. More specifically, unutilised economies of scale is the dominant factor explaining relatively high costs. These cost differences illustrate the importance of selecting the right organisational form. But as indicated, fees are negotiated by parties and hence they vary.

6) Can you share any strategies for minimising fees?

We believe in market driven fees where:

- Trustees are empowered to competitively select service providers;
- Fees disclosure during annual general meetings is a requirement, and;
- Trustees implement prudent investment policies which provides for a strict performance benchmark for fund managers;

  It is also important to build capacity for fund management, and to minimise expenses through consolidation of small schemes. This brings efficiency gains.

Do you have any questions regarding the sector?

Address them to the Chief Executive Officer:
ceo@urbra.go.ug
Responses will be provided in the subsquent publications

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This Monthly Publication is meant to keep stakeholders informed about the work of the Authority, best practice in Scheme governance, administration and sector developments. It also provides a Platform for the Chief Executive Officer to respond to stakeholders' questions and concerns.