

MONTHLY SECTOR BULLETIN

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PROTECTING SAVINGS: URBRA works to embed risk-based supervision in its business culture

In 2018, the Authority started risk assessments of licensees focusing on the early identification of risks. The key objective is to reduce the risk of loss to members through timely risk assessments and to promote awareness of, and transparency in, the new approach to supervision.

The risk-based supervision framework employed involves three steps:

- Risk assessment – The Authority employs early warning risk indicators as a first screening tool to identify which scheme may have problems meeting the minimum soundness requirements or complying with the URBRA Act. Early warning risk indicators are critical factors with the potential to significantly impact the financial health of the scheme. After considering the results of a review of these indicators, in-depth analysis is undertaken. This analysis enables confirmation or modification of initial risk assessments, and as necessary, to assess the quality of risk management undertaken by the licensees and to assign a net risk rating. The outcome

of this step is risk profiling for the scheme.

- Regulatory response – Once the risk profile for each plan is established, we then determine what supervisory activities to undertake based on those profiles. Supervisory actions are based on the probability (high or low) of an adverse event occurring and the potential impact (high or low) of that event.
- Risk monitoring – which involves solutions that will improve the security of member benefits, and also monitors plans to ensure that the actions taken to mitigate the identified risks are achieving the expected results.

Using the Risk-Based Supervision Framework, the Authority views risk-based supervision as an iterative process. As it works with the various licensees, it gets a better understanding of their risk profile.

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...URBRA protecting
your savings...



RATIONALE FOR RETIREMENT FINANCING: FACTORS SHAPING INTRODUCTION OF LIFE TERM INCOME STREAMS

As the population ages, the pool of retirees will also gradually expand, necessitating conversion of savings into monthly income to provide means of surviving in old age. The Retirement Benefits Sector should, in effect be concerned about:

- Longevity protection: the ability to meet basic costs of living throughout life;
- Asset protection: security and wealth protection;
- Liquidity and flexibility: unexpected lifestyle changes and expenses rise during retirement, necessitating some liquidity;
- Health care: providing for medical and long-term care needs;
- Inflation protection: the impact of inflation becomes more pronounced as people grow older.

Life term income streams for retirees are shaped by three broad factors:

- the policy and regulatory environment, which affects the incentives that firms need to provide appropriate products and services, and for retirees to opt for life-term products;
- **demand** for the products and services that firms provide;
- the **competitive response** of firms to market demand - in other words, the ability of retirement product providers to meet the demand for products and services.

A critical determinant of viable life-term retirement income solutions is dependent on Government's influence at the de-accumulation phase through the impact of its policies and laws. A good de-accumulation phase, one which provides the legal framework and appropriate opportunities and incentives for firms to invest in retirement products, and for members to elect to take-on the products is the key to sustainable progress in attacking old age poverty. Any options for out of plan (products) or in Plan products therefore require Government to tackle the three factors mentioned above.



GOVERNANCE: WHAT IT MEANS FOR RETIREMENT BENEFITS SCHEMES

Scheme governance is the decision making structure and supporting policies and procedures that enable a scheme to achieve its objectives.

The Board of Trustees as decision making structure should be well constituted in terms of the required technical expertise, and knowledge on the different key areas of investment, audit/governance, administration and communication.

Supporting policies and procedures such as trust deed and rules, prudent investment policy, communication policies and procedure, and policies and procedure for regulatory filings should be in place and complied with.

Scheme obligations are generated from three (3) sets of inter-related rules of common law rules, legislated rules and terms of the schemes (scheme rules, service level agreements, etc.). For effective governance schemes ought to be able to meet their obligations ranging from benefits payable, service providers' costs, operational costs and any other legitimate costs.

Scheme governance is centered on structures and processes for overseeing, managing and administering the Retirement Benefits Scheme to ensure that fiduciary and other obligations of the scheme are met.

GOVERNMENT PLANS

COUNTRY-WIDE SAGE COVERAGE



In July 2010 the Ministry of Gender, Labour & Social Development (MGLSD) presented a proposal to Cabinet and received approval to implement a pilot Senior Citizen Grant (SCG) scheme in Uganda as part of the wider Expanding Social Protection (ESP) Programme.

The Expanding Social Protection Programme was designed to achieve two objectives: (i) To pilot the social grants through the Social Assistance Grants for Empowerment (SAGE) scheme, and (ii) To draw lessons from the pilot to develop the Uganda National Social Protection Policy, as a beginning point to build a social protection system for the country.

Over the past seven years, the Ministry of Gender, Labour & Social Development through the ESP Programme, has implemented the Senior Citizens Grants. The program targets all Ugandans with the main eligibility criteria being age and lack of access to another Government pension. Currently, the program covers at least 57 districts with beneficiaries receiving a monthly UGX 25,000 each.

World over, social protection is recognized as a critical element of the national development strategies and is recognized as key to reaching vulnerable, excluded sections of the population, thereby achieving inclusive, pro-poor, equitable development.



In a move to roll out the program to all districts in the Country starting next FY 2019/20, the qualification age for new beneficiaries is proposed for revision upwards. All SAGE beneficiaries already on payroll having met the earlier 65 years' age qualifier will however not be affected. The revision is to affect all new beneficiaries in the yet to be covered areas as they all will be required to have attained the 80 years of age minimum qualification criteria.

CEO's Corner



Mr. Martin Anthony Nsubuga
Ag. Chief Executive Officer

What is the Authority doing about ensuring cost effective long-term savings?

The need to create a more cost effective long-term saving industry is a primary preoccupation for us. Given the evidence that sub-scale schemes lead to sub-optimal member outcomes, our focus has been directed to better regulation and supervision to address the fundamental factors driving costs associated with scheme governance. We have also put

brokerage fees), direct investment in real estate (transfer & registration, lawyers and notarial fees,) and costs of holding the investment (maintenance, storage and insurance), disinvest (fees: transactions and brokerage fees) & Consultancy and advisory costs.

Questions of the month

emphasis transparency and disclosure to address the widespread problem where expenses are not shown as an expense but a reduction in the realized return.

Where do you draw the line between regulation of the Retirement Benefits Sector and running the economy?

The Retirement Benefits Sector contributes around 10-12% to the GDP and that means that the two are connected. Our side is to mobilize funds and to preserve them. In principle, we grow the domestic savings portfolio. We are also helping in developing different asset classes that can be used to enhance economic growth of the country.

About 40% of NSSFs assets are in Kenya, Tanzania and Rwanda; is this a good strategy?

The URBRA Act and established regulations consider East Africa as a

domestic market. So, apart from real estate, all other vehicles are permissible within the prescribed limits. In any case, it's prudent to diversify by allocating capital with varying mandates in the member countries.

NSSF is set to operate Special Purpose Vehicles to invest in government projects. Is this a wise move, which precautions should be taken?

The primary concern of URBRA is the creation of the right balance between risk and return. The rationale, objectives and sources of benefits, ownership and accountability for such projects must cater for the interests of members, an aspect that must be set out clearly at the inception of such projects.

SECTOR DEVELOPMENTS

SUPERVISION OF THE SECTOR:

The Authority has widened the scope of analysis to include examination and queries focusing on implicit (non disclosed) costs at time of investment (transaction and

REGULATION OF THE SECTOR:

- Retirement Benefits Sector Liberalisation Bill, 2011: The Bill was withdrawn from Parliament to allow further consultations with stakeholders.
- Public Service Pension Scheme (Amendment Bill):

Consultations with stakeholders are underway to collect feedback and input on proposals in the Bill.

- Trustee Training: The Authority trained Trustees on investment management in line with its plan of providing

education, guidance and tools to help trustees perform their roles.



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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.