



RETIREMENT FUNDS INSTITUTE OF NAMIBIA



REFIN REVIEW

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OUR RETIREMENT
RESPONSIBILITY

ED'S CORNER

HOW CAN RETIREMENT FUNDS USE SOCIAL MEDIA ON MEMBER COMMUNICATION?

By: Angela Thomas

Retirement funds remain high on the policy agenda of Namibia. Ageing populations and fiscal pressures have led both the public and private sectors to reform their retirement fund systems substantially, raising retirement ages and adjusting retirement promises. Most of these reforms are expected to lead to a growing role for private retirement funds, and in particular defined contribution fully funded arrangements, where risks are borne directly by the individual. For some retirement fund markets, there is a marked trend among private sector employers to close defined benefit schemes for future cohorts of workers. The overall result is that in a growing number of countries the success of funded defined contribution systems will be the determining factor in the adequacy and sustainability of old-age incomes for future retirees.

Despite the importance of this paradigm shift, retirement funds remain a particularly complex and emotive subject for consumers globally, including Namibia. Moreover, financial literacy levels remain generally low, which undermines the ability of individuals to manage their defined contribution accounts.

As a result, policymakers face a major public policy challenge to ensure that people are adequately informed about changes in the retirement fund system, the impact of those changes on their retirement benefits, and the options they face to improve their financial well-being in retirement, hence the need to incorporate social media.

As reflected in the Namibia Financial Institutions Supervisory Authority's (NAMFISA) Standards No. RF.S.5.13, which deals with the "Requirements of a communications strategy to be adopted by the board", as drafted in 2018, communication strategies, along with social media, should be developed to explain public policy clearly (particularly where mandatory savings are involved), including retirement fund reform, the retirement fund environment, increased individual responsibility, and demographic changes that require individuals to save more. This will help to maintain confidence and transparency in the retirement fund system and thereby encourage individual saving for retirement.

Additionally, social media also needs to be complemented by financial education initiatives, which are aimed more specifically at raising financial literacy levels among the general population, including school programmes designed to prepare future cohorts of workers for the retirement fund system. Effective, broad-based social media is critical to ensure the success of retirement fund reforms, especially those involving the introduction of defined contribution systems. As maintained by NAMFISA's Standard No. RF.S.5.19, on "Matters to be communicated to members and employers", drafted in 2018, social media can have a wide range of purposes, including building political and social consensus for the reform, increasing trust and confidence in the new retirement fund system, and helping individuals understand changes in the retirement fund system and their implications, enabling them to take appropriate actions.

Moreover, social media can also be used on an ongoing basis, for example, to raise awareness about the need to save for retirement, to encourage active consumer engagement with their retirement funds and to respond to market conditions that might undermine the individual's confidence in defined contribution, such as a financial crisis.

Key messages from social media are usually designed and delivered by a government department or agency, often in collaboration with key stakeholders, such as regulators, private providers as well as employers and unions. The design of the key message depends on its goals and target audience. The objectives of each key message should highlight the relevant stage of reform reached, for example advance announcement, phased implementation, and post-implementation changes. Key messages should be largely informative (e.g., setting out the individual's rights, responsibilities and choices), and should be aimed at seeking to change individual views (e.g., support a retirement fund reform) or they may be targeted at changing individual behavior and engagement (e.g. to increase contributions to retirement fund plans).

Three main challenges exist, with respect to social media initiatives, in retirement funds. First, the perceived or actual complexity of the topic, alongside the low level of financial awareness, literacy, and capability. Second, the responsibility of consumers, especially among the more vulnerable groups. Finally, the lack of interest in the topic for a large part of the population (especially the young). Thus, it is crucial to analyze and evaluate the objectives, the design, the monitoring and evaluation processes, and the communication channels used by organizations that offer the retirement fund service.

Furthermore, it remains critical to identify examples of good practice and to draw attention to experience that, with hindsight, reveals flaws in planning and strategy. The objective is to help media practitioners to plan communication strategies, together with campaigns, carefully to set goals that are realistic and well-targeted, and which produce outcomes that can be measured and evaluated in a meaningful way. Undoubtedly, a significant influence on the potential success of a communication/social media strategy is the organizer's knowledge and understanding of the target audience and awareness of the communication requirements of different population categories, according to demographic and/or behavioral characteristics, otherwise also information partly collected from compulsory beneficiary nomination forms (NAMFISA's RF.S.5.9) or minimum information that must be furnished to a fund by an employer (NAMFISA's RF.S.5.3).

In closing, beyond social media, good communication and effective information disclosure to plan members is essential in defined contribution plans. In general, the individual bears increased risk in these plans and is required to make a variety of complex financial decisions (how much to save, in which funds, which retirement income product to choose, etc). In addition, the Namibian government is increasingly recognizing that social media, disclosure rules and other consumer protection policies need to be supported by a financial literacy campaign that educates the public about all applicable sources of retirement income and other essential financial matters, such as debt, savings, and insurance. This translates to closer coordination between social media and on-going financial literacy programmes for the population, as well as financial knowledge courses in schools and other education establishments.

OUTGOING CHAIRPERSON'S MESSAGE

Sabrina Jacobs

As I sit down to pen this message to you our dear readers, my thoughts are scattered yet they all seem to steer into one direction. Thoughts of how a singular event has altered the lives of every human being over the past 24 months. A period that we can certainly call the most uncertain time in our modern existence. I don't think anyone can deny that the peaks and troughs of the pandemic caused psychological stress, great grief, anguish and anxiety for many. 2021 continued with the struggles of 2020 albeit to a lesser extent and many of us have lost loved ones and close friends in the fight against Covid-19. Our industry has not been immune to the spread of the disease, and we continue to work with our membership base to ensure that we deliver on our mandate and exceed your expectations.

Since its inception, the institute operated on a flat organizational structure, with a staff compliment of two employees. The institute's strategy, Destination 2023, as well as the everchanging legislative environment necessitated the enhancement of the institute's human capital structure. The aim was to ensure that measurable improvements in governance are made, that the assessment and achievement of strategic and operational goals are prioritised and that we bolster the value addition to our membership base.

In light of this, key appointments were made to strengthen our capacity. In April 2021, Maria Nakale joined the team as Executive Director, responsible for the overall management of the institute and is the driver of the implementation and review of RFIN's strategic goals. Sydwill Scholtz joined the RFIN team as Operations and Admin Manager in September 2021. Uejaa Kazondunge joined as Training and Marketing Officer in August 2021. She is responsible for coordinating the training and marketing initiatives of the Institute. Maria Nande (Office Administrator) tendered her resignation and left the employ of RFIN at the end of January 2022.

On Board level, we bid farewell to Mrs. Anna Mbandi who served on the Board from 2018 to the AGM of 2021. At the same AGM we welcomed Ms. Saima Pokolo and Mr. Ramon Hansen as duly elected Directors on the RFIN Board, effective November 2021 until the AGM of 2024.

So yes, the RFIN team is different indeed. But not only that, the team is re-energised and all have a passion for serving our dynamic industry!

The annual conference has always been a highlight on the RFIN calendar. This platform provides an opportunity for role players in the industry to gather, network, discuss pertinent issues facing the industry and take stock of how we all can better serve our industry. Traditionally held as an in-person event, the raging pandemic did not spare our planning, hence the 14th annual conference was delivered in hybrid mode, part physical attendance and part virtual attendance, under the theme "The Perfect storm is here! How does it affect the Retirement Fund Industry and how do we navigate it?".

We were honoured to have the Right Honourable Prime Minister, Saara Kuukongelwa-Amadhila as our keynote speaker. An event of this magnitude fosters collaboration and I am grateful for everyone's response to our calls for support. Thank you all for your contributions and for making our flagship event a success. We have received positive feedback from those in attendance regarding the topics covered and look forward to making this event even bigger and better in the very near future!

RFIN's ultimate mandate is to be the voice of the retirement funds industry, a mandate we respect and are humbled to be entrusted with. We are committed to you and will demonstrate this not only in words but through action and implementation. Whatever we do, we do for the industry and RFIN will offer the support that our members need.

There is a great need for us to steer this ship in the unclear waters we find ourselves in. As our environment changes around us, we need to continuously adapt and educate ourselves so that we can measure up to global standards of excellence. I encourage all members, principal officers, trustees, chairpersons and service providers to become active participants and involved contributors for the benefit of our industry.

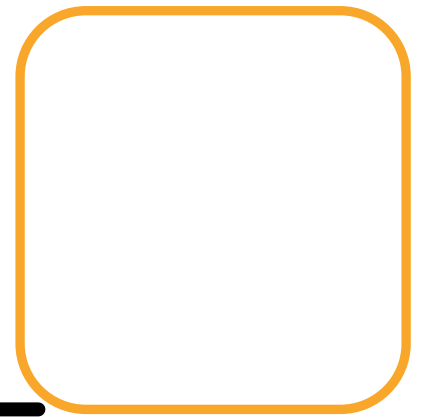
All of us who have fiduciary responsibilities must serve our fund members to the best of our abilities. Leaders ultimately are servants of the people. We must continue to protect our hard-earned assets and ensure that they yield the best possible returns come retirement. In this respect, RFIN will continue to ensure that we make ourselves heard, make you heard, that we ask the right questions and that we remain informed.

The Financial Institutions and Markets Act No 2 of 2021 was gazetted on 30 September 2021. RFIN has remained abreast with the regulatory and legislative activities and undertook a pro-active approach in obtaining valuable input from the industry in numerous sessions, geared towards working through the standards and regulation that are subordinate legislation to FIMA. The challenges that lay ahead of us are not insurmountable. The question that arises is "How do you eat an elephant?". Well... they say one bite at a time. FIMA and other "supervisory oversights" are that elephant. We will be ready to eat that proverbial elephant and will continue to engage you to ensure that you are ready!

In closing dear readers, we cannot exist without your trust and support. We call out to you to encourage your fellow captains of industry to join RFIN. Support of this magnitude can only ensure that we grow stronger as each day passes. As outgoing Chairperson of the Board, I'd like to thank all of you for your ongoing support, in this capacity and the next. I hope that you find this issue of our newsletter enjoyable and informative.



IMPACT OF COVID 19 ON RETIREMENT FUNDS' ASSETS & LIABILITIES



Not everyone agrees with all views voiced by Vladimir Lenin during his lifetime. However March 2020 showed us how true one famous quote from Lenin really is: "There are decades where nothing happens and there are weeks where decades happen". The world changed dramatically during the space of just one month. Two years later we are still trying to get back to how life was pre-March 2020.

From December 2019 onwards we read about a new virus that was spreading in East Asian countries, however for the first couple of months of 2020 we remained in denial even with news of the virus spreading to other areas of the globe. It was only in March 2020 that the world finally woke up to what it faced, a true pandemic of a global scale. This led to major lockdowns being implemented across the globe. Investment markets crashed across all sectors and business activities were massively curbed due to lockdown regulations.

These restrictions on business activities and general panic led to massively negative impacts. Unemployment soared as some employers closed down, while others were forced to retrench employees. Even companies who were able to survive and retain staff had to take actions, for example by putting employees on unpaid leave for months or cutting their salaries. The impact was especially bad for the informal sector and small businesses.

The pandemic created huge pressure on healthcare systems and both directly and indirectly caused deaths to soar. The loss of breadwinners and jobs increased poverty.

When considering changes to benefits, it helps to consider how they are provided. The International Labour Organisation (ILO) and the World Bank are two global organisations that advise governments on social security and pension reform.

Each has their own model for how social security benefits and pensions should work. Over time these models have grown closer to other but there are still major ideological differences in respect of where the focus should be. This can be depicted as follows:

IOL	World Bank	Description
Tier 1	Pillar 0	
Tier 2	Pillar 1	
Tier 3	Pillar 2	
Tier 4	Pillar 3	
	Pillar 4	

To simplify their differences, the ILO approach is to focus on benefits provided by the state, while the World Bank approach is to focus on benefits provided by the private sector.

Some common themes were seen around the world. Some countries with compulsory preservation requirements allowed easier access to funds. More leeway has also been provided on compulsory contributions, either reducing the minimum levels or giving more time to pay them. More flexibility introduced was introduced e.g. in terms of choice of retirement ages or drawdown limits on living annuities.

Governments used non-contributory benefits/grants and payouts from contributory government funds to support people during the period of economic crisis.

Both countries have a long history of providing non-contributory social grants. Emergency income grants were paid in both countries to help those impacted by the economic crisis. These were especially supportive of informal sector workers.

Despite neither country having a national pension fund, National Social Security Funds also have a long history in both countries: namely the Unemployment Insurance Fund in South Africa and the Social Security Commission in Namibia.

Unemployment claims soared in both countries from March 2020 onwards. Both funds also paid support to employers to curb loss of employment.

The experience during 2020 and subsequent periods of the COVID pandemic led to increased calls for national pension funds to be introduced in both countries.

Many employers were forced to apply to temporarily reduce/cease contributions to retirement funds, which directly impacted on retirement savings. Members who can choose their contribution rate showed a trend of moving to contributing less. Funeral and life insurance premiums saw sharp increases due to increase claims, in turn reducing retirement savings. Retirement funds forced to disinvest from depleted markets to pay claims, locking in investment losses.

In South Africa and Namibia massive calls were made for more flexible rules on accessing retirement savings. This was following such changes in other countries, including in Eswatini (Swaziland).

In Eswatini in mid-2020 legislation changes were made to allow early access to retirement savings by members not exiting a retirement fund. However this required strict criteria to be met:

- Approval from regulator is required, must be justified.
- Amount is to be paid monthly, at lower of reduction in net salary and NS3 000 per month.
- Capped at 10% of each member's retirement savings.

South Africa changed its legislation to start phasing out provident funds from 1 March 2021, thereby introducing the concept of compulsory annuitisation. In late 2021 the South African government introduced a proposal around a "two pots" pension system, which has become very popular very quickly across society. In principle the proposal is to allocate one third of future contributions to a flexible access pot, while the other two thirds of future contributions would be allocated to a compulsory preservation pot with no access until retirement. The details are still to be finalised and this new pension law may take years to introduce, there are many opinions on the finer details of the proposal. It is hoped that the new pension law would increase pension coverage by allowing more access while improving pension benefits by introducing compulsory pension preservation.

Like South Africa, Namibia is rare in Africa for having no current requirement around compulsory pension preservation. Members can access 100% cash upon withdrawal. However regulations linked to the new Financial Institutions and Market Act imply a requirement that members of retirement funds preserve 75% of their retirement savings when they withdraw. This is similar to the requirement in Botswana and it seems surprising that there is no significant outcry in society about this planned major change as it is not linked to any increase in flexibility or increase in benefits to offset this new requirement.

Before the COVID pandemic, retirement funds were already experiencing challenges in proving that they are relevant for the majority of people in Africa. As trustees or service providers we need to ask ourselves continuously when considering retirement funds with which we are involved:

- Are benefits suitable?
- Are contributions affordable?
- Are funds sustainable?
- Are funds integrated with other benefit schemes?
- Are we covering everyone who we should be covering?
- Do members understand and trust their pension funds?

During 2020 and again in 2021 we learnt that low probability events can and by definition do occur. How can we build on the lessons that we have learnt? Have we been assessing risk properly? With recent developments we have to reflect on whether we have been addressing ESG (Environmental, Social and Governance) factors. Have we just been conducting box ticking exercises? A favourite quote from Spider-Man movies that most of us have heard is “with great power comes great responsibility”. Have our priorities been correct and have we been using the opportunities presented to make meaningful differences in the lives of our members and society as a whole?

So what has been the impact of COVID on retirement fund assets and liabilities? The massive initial investment losses were largely recovered subsequently. The 2021 calendar year showed very positive performance. But markets were struggling before COVID so some positive performance was overdue and the overall volatility continues. Waves of COVID and lockdowns continue to make business activities and recovery difficult.

Insurers are still unsure of long term impact, we are starting to see increased risk benefit premiums in the pensions industry but not yet cheaper annuities.

We need to allow members sufficient flexibility BUT we also need to provide guidance. The fact that over 90% of people usually go for the default option in any scenario emphasizes the tremendous importance of designing appropriate defaults. Or should choice be limited, does the tremendously increased flexibility improve results for the average member or just add to costs?

Should more stable investment strategies be chosen, thereby deliberately sacrificing the potential upside? Smoothing of investment returns became a swear word to many in retirement funds, is it time to re-consider that approach.

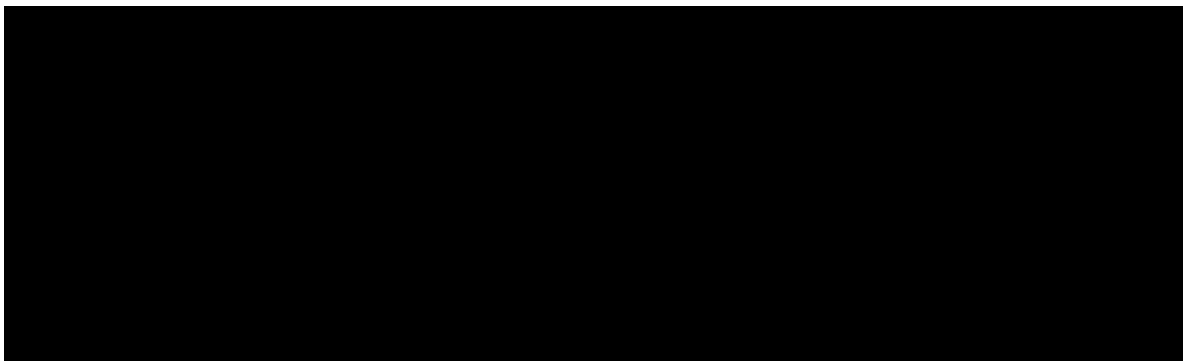
We have learnt the hard way again that certain practices should be the norm. Better cashflow management can be used to avoid unnecessary disinvestments during periods of poor market performance. Members should be allowed more flexibility to defer their retirement until investment markets improve. Ultimately the education of members is a crucial but challenging requirement; decisions made by members (e.g. choosing a living annuity versus a guaranteed life annuity) makes a big impact on their ultimate benefit outcome.



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RFIN 15th Annual Conference 2022



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CONFERENCE REPORT

RFIN 14th Annual Conference-2021

The Retirement Funds Institute of Namibia held its 14th Annual Conference under the theme: The Perfect storm is here! How does it affect the Retirement Funds Industry and how do we navigate it? on the 17-18 November 2021 at Safari Hotel in Windhoek.

The Keynote speaker, Rt.Hon.Saara Kuugongelwa Amadhila (Prime Minister) congratulated the Retirement Funds Institute of Namibia (RFIN) for hosting the conference for industry members to engage in constructive dialogue on issues facing the industry, economy, and share resolutions, best practices and ways to ensure that the industry remains resilient and optimize contribution to National economic growth and development.

"It is pleasing that the Namibian Retirement Funds Industry is stable and dynamic. Given the important role the retirement funds play, it is incumbent upon the government to ensure an effective regulatory environment for the industry for the protection of consumers and savers, and for the preservation of members investments invested into these entities" she said.

She further added that although COVID-19 has negatively affected the economy, which led to disruptions in contributions, and earlier than planned withdrawals from the retirement funds, the industry must remain resilient to such shocks, for it to remain strong.

With percipient speakers, panelists and moderators, they focused on topics that talk to the evolving Retirement Funds Industry and impacts of COVID-19.

NAMFISA's Chief Executive Officer Mr. Matomola spoke on moving from the prescriptive-based towards risk-based supervision on pension funds – Regulator's perspective. The Purpose, Approach, Practicality, and Challenges. He noted that compliance-based supervision is performance based, inflexible, rigid rules unresponsive to regulatory needs, which focuses on point in time and on extent to which entities comply with rules, in this regard all entities enjoy equal supervisory attention.

While risk-based supervision is outcome based, flexible, principle-based rules responsive to urgent regulatory needs, identifies, and properly manages prudential and conduct risks posed by entities which focuses on understanding sector's unique features, targets scarce supervisory resources at entities most at risk.

"It should be noted that the principles of a risk-based approach are not confined to supervision but are also applied by the Authority in the exercise of other core functions such as enforcement" he concluded.

The Head of Unlisted Investments from 27Four Investment Mr. Ord presented on Unlisted Investments: The ideal situation benefits to portfolio construction and management within a pension fund, governance and risk management (role of independent fund administrators), responsible investing, role of pension funds in investing into real economy. He said private markets can offer a return premium, different sources of the return as well as local economic impact. He added that "Globally, retirement fund investing in private markets is well established, still evolving in smaller markets and there are key controls that are required to give the best chance of seeing the benefits of private markets".

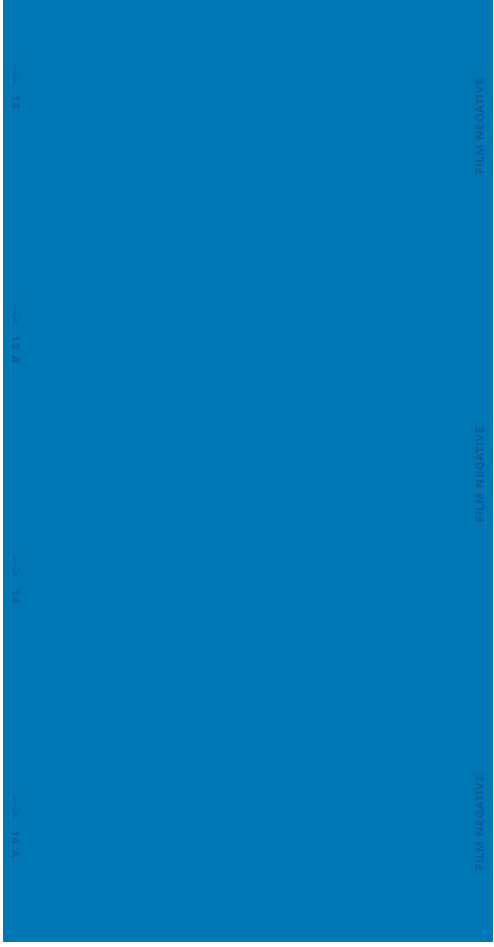
Mr. Walker who is a Principal Consulting Actuary at Old Mutual Corporate Consultants spoke on the Impact of COVI-19 on Retirement Plan's Assets and Liabilities. While Two Analysts from Allan Gray Mr. Tuyeni Akwenye and Mr. Stephan Bernard in their presentation on Key current and emerging risks facing the retirement funds industry noted the need to cater for an increasingly internationally mobile labor force, that needs whole life solution and no longer focusing on accumulation phase.

Mr. Laborn from Alexander Forbes Namibia Suite of Funds and Mr. Coetzee a Principal Officer at Standard Bank Namibia Retirement Fund debated on Umbrella Funds versus Standalone funds.

RFIN would like to thank all moderators, panelists, speakers, and sponsors (Mergence Unlisted Investment Managers (Namibia), Allan Gray and Ninety-One).



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