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Micro-Pensions – Ultimate Solution to Old-Age Poverty for those in the Informal Sector?

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The IMF puts our informal sector contribution to GDP, based on 2010-2014 surveys, at a staggering 50%. Fast forward that to post-COVID-19-induced lockdowns and ensuing company closures, a strong case can be made that the informal sector contribution to total GDP can only have grown higher. This is especially so when one takes into account that Covid-19 arrived at our borders when we were already witnessing an economy that was severely under pressure and struggling to navigate the headwinds of a hyper-inflationary environment.

Even with the 2010-2014 figures, we are a respectable position six amongst Sub-Saharan countries in the rankings of informal sector contribution to GDP. Nigeria holds the first position with a commanding 70% informal sector contribution to total GDP. Tanzania is a distance behind together with Angola, Benin, Gabon, and of course, the motherland.

It comes as no surprise then that Nigeria is quite far down the road in developing a robust micro-pensions environment that is designed to cater for those in its informal sectors. While the other top five countries have not done that much in this space, instead Kenya, Rwanda, Uganda and Ghana have made some note-worthy strides in establishing a regulatory framework under which those in the informal sector can also save for their retirement needs. Outside of Africa, India, Indonesia, the Solomon Islands, Fiji, Vietnam and Jamaica have similar and fast-developing micro-pensions environments.

Poverty Alleviation

Across all these countries, in and outside of Africa, there is a common thread following which the micro-pensions environments are being modelled. They all seem to be following the model that is guided by the thinking of Dutch micro-pensions technocrats. Another common thread around all these initiatives is the financial and technical support their researches and pilot programmes are getting from United Nations agencies and other non-governmental organisations. Poverty eradication is top on the UN's SDGs and this is one specific area through which they think that goal can be achieved.

Micro-pensions seek to specifically address poverty amongst the most

vulnerable of our society – the elderly. A typical micro-pension product is designed as a defined contribution plan providing for small, frequent but irregular, contributions that are collected in a convenient way built in pooled individual accounts. It is designed taking into account income seasonality, competing spending priorities, cash-flow needs, and alternative investment options.

As with the rest of the world, our old age population is women-heavy. What makes our situation different though is that in our case these elderly women, even in their old age, still have big families to cater and fend for – mostly being grandchildren left orphaned after their parents succumbed to the scourge of HIV and AIDS. This just makes the need for us to act speedily the only responsible, and right, thing to do. With only under 10% of our working population in the formal sector belonging to a pension fund of one form or another our situation is a lot more precarious and warrants an even more accelerated intervention. It becomes even a much bigger crisis when one reminds themselves that this working population is only 10% of the total number of those that are economically active – our unofficial unemployment rate is north of 80% while the National Statistics agency reports a reading of only 16.93% as of 2019. The huge discrepancy is certainly in the technical definition of “unemployment” with those in the informal sector and not actively seeking alternative employment not being considered unemployed by the national statistician. That just underscores the importance that the informal sector is playing in the economy.

Financial Inclusivity

Informal sector workers do not formally retire as in the case of employees in the organized sector. However, there is still a need for them to prepare for the reduction in earnings capacity that accompanies old age primarily resulting from a decline in health. It is also crucial to provide a pension arrangement peculiar to their economic profile due to their low and irregular incomes.

While even as recent as ten years ago it would have been almost impossible to roll out a cost-effective, all-inclusive, micro-pension programme that targets

those in the informal sector, the exponential growth in cell phone ownership, mobile network penetration, and mobile payments technology adoption makes it now very much possible.

A robust nation-wide micro-pension drive requires an expansive ecosystem that has different strategic players taking up very critical roles in the entire value delivery system. The financial services industry needs to design the solutions. Mobile payments technology providers have an all-critical role to play in crafting the most cost-effective systems and channels for payment of contributions and receipt of benefits. Mobile network providers would strategically be responsible for raising awareness, facilitation of the application and registration process, customer servicing, on-going communication and two-way engagements between members and providers. The viability of this initiative requires scale to successfully keep the costs low. To this end, only administrators who can command the right memberships would need to administer the member records. To achieve that, there could be a need for all these different role players to forge strategic partnerships. Public Private Partnerships (PPPs) need also be considered to further cost-effectively distribute at a national scale.

To gauge interest, and for the business viability proof that the private sector may require before investing heavily in the sector, the government, with support from old age poverty-alleviation-driven NGOs, could pilot the concept. This would provide the much needed evidence-based confirmation for interest in old age pensions by the informal sector, financial viability, as well as help build a business case for the private sector.

There is still a chance that some fintechs though could try and go it alone. Judging by some of the early successes we are witnessing in the micro-insurance space, the thought of that happening too in the micro-pensions space cannot be considered unimaginable.

Of course, of all of this can only take place within a supportive and customised regulatory environment that speaks to the real retirement fund needs of the

informal sector community. We are aware that the pensions regulator has crafted draft regulation that is currently awaiting government approval. It will be interesting to see to what extent the regulation speaks specifically to the real nuances and special needs of the informal sector.

Trust Issues

There is a marked trust deficit that needs to be addressed if these initiatives are to gain traction. Twice in a decade now the financial services industry has been hit by economic environments that have decimated people's savings. Long term savers have been affected the most. To regain that lost trust, it is going to require a serious commitment. This is a special needs and highly suspicious sector that has traditionally shunned away from the formal financial services sector in favour of their own traditional and more community and family-based arrangements. Well established and trusted brands, working together with the government, will need to be at the forefront of reassuring people that their savings will be safe.

To reinforce the building of this trust, it is going to be required that even where technology would have the effect of minimising costs, that initially it be used together with instances of actual human interaction. People will gather a sense of security from knowing that there is a local office that they can go to should anything go wrong. While manning such offices would definitely bring an additional layer of costs it is certainly necessary. Maybe, a combination of mobile money agents of trusted service providers and usage of existing infrastructure of public utilities like the post office could help achieve that objective cost-effectively.

An easy, reliable, and transparent platform would further help engender trust. Down times will have to be very minimal if at all they are to happen – else people will just withdraw and stay away from the system when its reliability is questionable. Like with bank accounts, they would need to be able to check their balances 24/7 and be able to confirm them all the time.

The strong community culture is another asset that will play a crucial role in the rolling out of micro-pension plans. The strong sense of community creates a greater sense of trust. Working with communities, trade unions and community-based organisations in the cities and farmer organisations and churches in the villages would help strengthen adoption.

Clarity of Intent

Financial education and awareness campaigns on the benefits of saving for the time in retirement will need to be rolled out aggressively. There has to be a clear message from the government on what the national agenda is in this regard. Ability of the government to articulate, and provide clarity of plan, will be very pivotal to the successful rolling out of the pensions. Keeping in mind that the government should have a direct interest in the success of such an initiative, it should go all out to make sure that the message is clear, concise and effective. A pension-secure society means lower burden on the fiscus with respect to old age grants – allowing for the channelling of any such funds to developmental and infrastructural projects that have a direct and ripple effect on the economy. The government could further accelerate the trust-building phase by guaranteeing the capital amount on any contributions made over a fairly long period of time. If this period is made long enough, research has shown that the chances of liability biting on the government would be almost zero. So, effectively, it will be a commitment that will most likely not cost the government anything – and yet its effect on bringing people on board would be quite far reaching.

The regulatory framework will need to be seen to be robust enough to instil further confidence in the eyes of the target audience. It should be perceived to be fool-proof and capable of keeping at bay unscrupulous, opportunistic, and rogue service providers who would try to prey on people's pension savings. Equally, it should be considered flexible and accommodative enough for the needs and interests of this sector. Too restrictive a framework will fail to win the hearts and minds of those that it is seeking to serve. Crafting of such regulation requires an intentional mindset-shift from that usually applied in the crafting of regulation for the conventional pension funds space.

In pursuit of flexible but protective regulation, the regulator will need to look at what saving arrangements have traditionally worked among our people with absolutely no regulatory intervention at all. That can be quite informative to the regulator and help provide cues on how the regulation should look like if it is to be acceptable to, and effective for, those that it is aiming to serve. Our people have always been long term savers and have in the past managed a very simple and orderly system of saving and funeral assurance schemes through burial societies. They have also traditionally administered and managed lending circles – popularly known as “rounds”. Both of these ran successfully so with no government intervention or regulatory supervision at all.

Appealing Immediate Membership Benefits

Another key aspect to designing the most appropriate regulatory framework would be informed by a research that the regulator could commission. The research would seek to understand what sort of design and ancillary benefits members would want included if the micro-pension schemes are to be attractive to them. There is nothing that beats listening to those whom the schemes are designed to benefit.

Some of the design elements would include provisions like; properly defining who qualifies for eligibility, acceptance of irregular contributions, and allowing for the splitting of contributions into short-term and long-term investment components – say a 50/50 split with the short-term component being accessible at any time to meet short term needs and the long-term one only accessible at retirement. No doubt, a plain vanilla retirement regulatory framework will not make it for this sector. Consideration will need to be made for including clauses that focus on providing immediate benefits for members. Inclusion of a micro-lending facility, using a member’s accumulated fund credits as collateral, could be just one of the many immediate benefits that members would value. Others would include lifestyle benefits that give members access to a range of benefits including loyalty benefits, access to exclusive opportunities and heavy discounts when shopping for goods and

services. Membership to a micro-pension scheme will need to be seen as prestigious if they are to be as attractive as they should be.

Conclusion

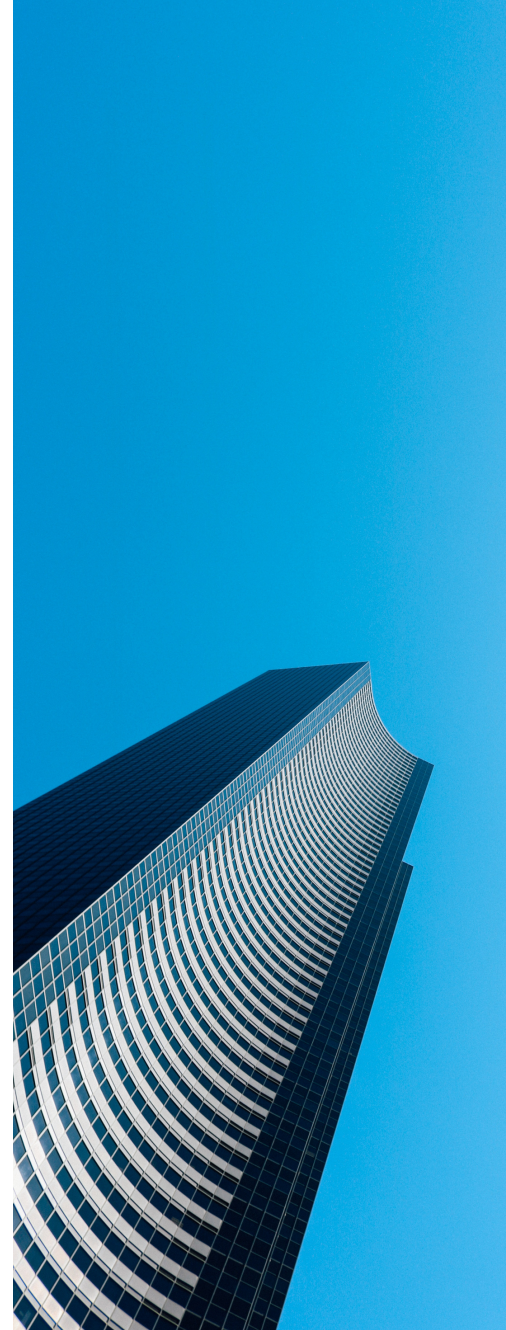
There is certainly a gap in our social fabric that has gone unaddressed for far too long. It cannot be that only those that are in formal employment are the only ones with a privilege and monopolistic entitlement to an income in retirement. We ought to start imagining a new world where our grandmothers do not necessarily need to rely on their grandchildren for upkeep. Furthermore, the changing social fabric demands that the elderly be able to fend more for themselves than in the past. Days for old age security motivation for fertility are over as that deep cultural sense of taking care of the elderly and the extended family is slowly fading away.



Our monthly publication is aimed at inviting conversations from like-minded individuals with a view to engaging in forward-thinking-led discussions on how we can collectively improve the state of our industry.

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