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Q1 2021

Pension Mag

Psychological

pitfalls detrimental to
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Investment Policy

Statement – It's not Just a Statement,
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DIRECTOR GENERAL'S NOTE



Dear Reader

Welcome to the 2021 first issue of the ZAPF Magazine. In this issue we look at various pension issues concerning the industry being guided by the theme; The Future of Saving: The Role of Pension Systems. Pension Funds are crucial in any economy as they play a big role in the development of the economy.

Pension fund systems play a pivotal role in encouraging financial innovation and stimulating the modernization of capital markets. As Pension Funds grow in size and relative importance new instruments are developed to meet their needs and to fill perceived gaps in the market. As the Zimbabwe market, we need explore and come up with new instruments to meet the industry needs.

Psychological Pitfalls Detrimental To Investment Success, another important aspect

in our pension systems. The article looks at the Common Psychological Traps, Consequences of Psychological Biases for Pension Funds and How to Manage Psychological Biases.

We look at other pension system through the articles; Investment Policy Statement (IPS) – It's not Just a Statement, It's a Policy Matter! Pension Fund Trustees must know that it is regulation to have an IPS in place. Ownership of an IPS is one of the most important fiduciary responsibilities of Trustees.

Contribution of the Zimbabwe Stock Exchange to the growth of the Pension Industry and pension systems. One of the key functions of the ZSE is to provide an investment platform for long-term savings and over the years Pension Funds have accounted for more than 50% of the investments on the Zimbabwe Stock Exchange.

Corporate Governance is also important

in pension systems. We look at the article, Good Corporate Governance tenets key to sustainable long-term returns. Corporate governance is fundamental in the financial markets as investors especially long-term institutional investors are more concerned about the long-term sustainability of corporate operations and long-term investment wealth creation. Pension Funds need to constantly introspect, evolve, and develop strategies that improve the sustainable and efficient upholding of the highest standards of good corporate governance and foster the principles in board strategy and management decisions.

We also feature an article from Zimra that enlightens the Pensions industry on tax compliance.

Happy reading!

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BY ZSE

The Zimbabwe Stock Exchange (ZSE), having been established around 1894 has stood the test of time over the years, and remains the backbone of the country's capital markets.

The diversity of the underlying security issuers has enabled the ZSE to remain an avenue for long term capital creation and investment destination for institutional and individual investors over the years.

The profile and stature of the ZSE has, as expected, changed over the years, but today the current 56 listed entities represent the breadth of the Zimbabwean economy from primary extraction industries to service firms.

One of the key functions of the ZSE is to provide an investment platform for long-term savings.

Over the years, Pension Funds have accounted for more than 50% of the investments on the Zimbabwe Stock Exchange.

As of 30 September 2020, the value of investments in quoted equities was ZWL\$29,92 billion, a 706.47% increase compared to ZWL\$3,71 billion as at 30 September 2019.

The distribution of Pension Fund assets as at 30 September 2020 also show quoted equities as the second largest asset held by the pension funds.



Source: Insurance and Pensions Commission Pensions Industry Report, 3rd quarter 30 September 2020

With the country experiencing high levels of inflation from 2018 which resulted in some of the Pension Funds' fixed income investments losing value in real terms, investing on the ZSE has been a good way to hedge against loss of value. For example, the ZSE All Share Index was up 1,046%, far above inflation which ended the year 2020 at 349%.

The automation of the ZSE in 2015 through the launch of the Automated Trading System ("ATS") ushered in convenience and flexibility in the market.

In 2019, the ZSE launched Direct Market Access (DMA) to enable both Fund Managers and Institutional Investors to enter their orders directly into the ATS through a client binding

Pension funds' investments through the lenses of the ZSE



Terminal without manual intervention by the stockbroker.

This makes it easier for the Pension Fund industry to gain access to the market, and in addition, the rebate system through Non Member Institutions makes it cost effective for Pension Funds to invest.

In addition to being an investment platform for Pension Funds, ZSE also provides a listing platform where pension funds can list securities such as Exchange Traded Funds (ETF) and Real Estate Investment Trusts (REITs).

Both products aid in providing liquidity to pension fund assets and also deepening of the market. ETFs can be used to gain exposure to different asset classes such as commodities and currencies and access to international markets as well.

REITs will greatly assist Pension Funds to reduce exposure to real estate and also increase the liquidity of the asset class.

The Launch of the Victoria Falls Stock Exchange (VFEX), a subsidiary of the Zimbabwe Stock Exchange provides opportunities to diversify investment portfolios and hedge against exchange rate risk.

VFEX trades in United States Dollars and is meant to attract both local and international issuers.

The ZSE also provides market information such as daily prices and indices that allow Pension Funds to value their assets.

In addition the ZSE indices

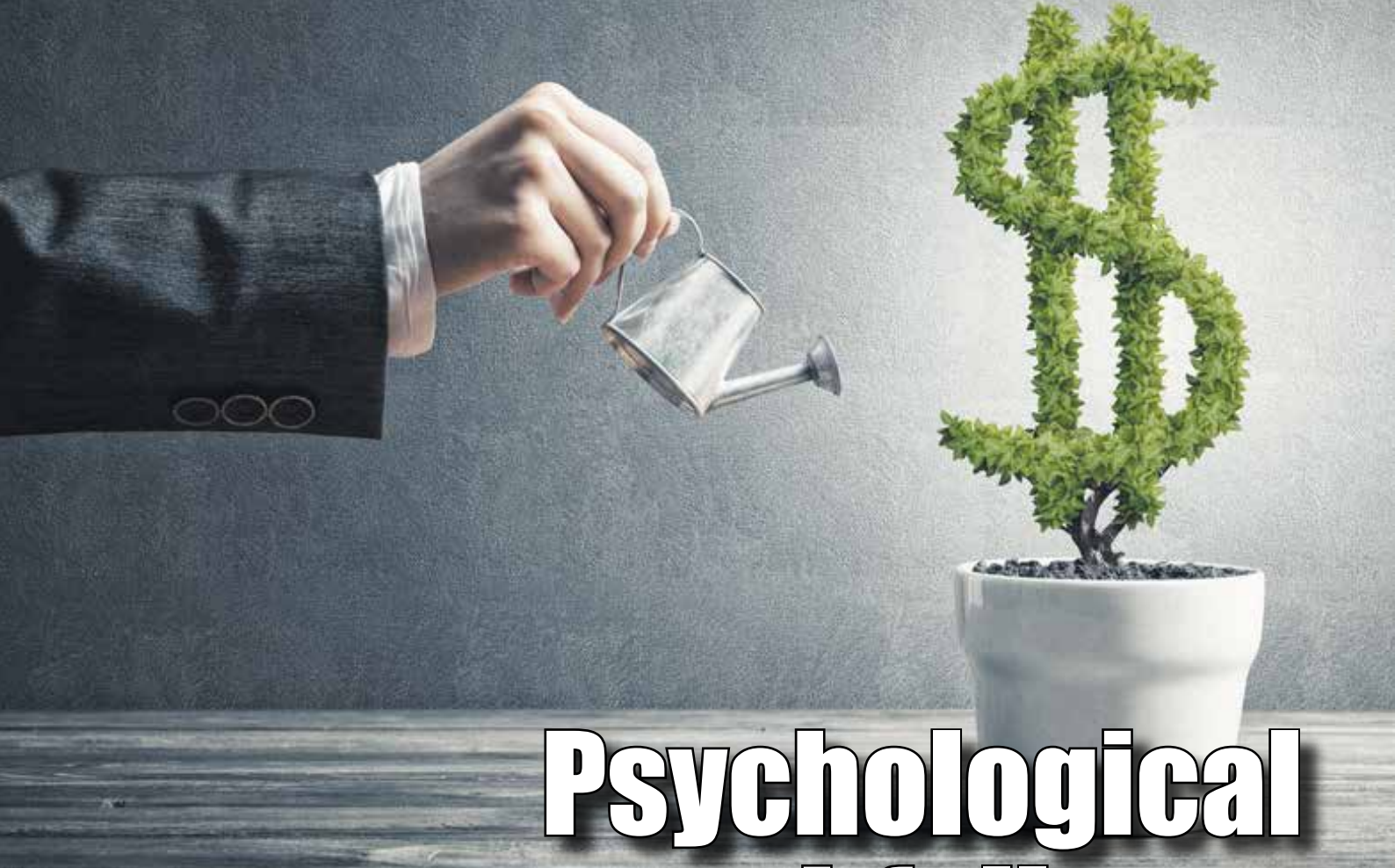
assist Pension Funds to gauge the performance of asset managers. With the launch of the ZSE Training service in February 2020, which offers specialised training on various capital market areas, Pension Funds can gain a better understanding of the ZSE listing rules and new products and services.

The ZSE also launched the Zimbabwe Receivables Marketplace (ZRM) in September 2020, which offers an opportunity to pension funds to diversify their money market portfolio by investing in short term receivables. ZRM provides a platform where Suppliers of quality Buyers (corporates such as Delta Corporation) can discount their receivables to access working capital earlier. ZRM works as follows:

Going forward, the ZSE remains committed to offering an investment, capital raising and information platform for Pension Funds.

For any further information, you can contact:





Psychological pitfalls detrimental to investment success

By Welcome Mavingire

Introduction

Investing, just like its sister 'economics', is not perfect science. It may involve a lot of mathematics and financial models but the fact that at the end of the day, humans still make the decisions makes it susceptible to all the emotions, feelings, preferences and prejudices associated with normal beings beyond mere numbers. For instance, it is common for one to invest in a company just because they "like" the promoters, managers or the product despite it being overpriced or the investment case not making sense. The opposite is also true; a very good investment opportunity can be rejected simply because someone crossed paths with the promoters in the past or they don't look presentable!

Whether one is an investment professional or a layman, we are all susceptible to psychological biases which can have an adverse effect on long-term investment success. What is, however, more important is to be aware of these and deliberately seek how to minimise their influence on our decisions. Whilst most may sound familiar to a pension fund trustee in Zimbabwe, we can take comfort in numbers as studies have shown that such biases are also common even in more sophisticated financial markets.

Common Psychological Traps

Driving whilst constantly looking in the rear-view mirror – It is often said history repeats

itself; the reason being that we should learn from history. However, this does not necessarily mean that it always repeats itself in exactly the same manner as the previous episode. Always looking at the past results in decisions driven by past regret and becomes more pronounced where it involves a past traumatic event, which psychologists call the "snake-bite effect". The snake may have been long dead but if not careful one can be so haunted by its presence in a prior life that they miss out on more lucrative opportunities that lie ahead.

Excessive fear of losses – Instead of being

simply risk-averse, which entails looking at the risk-return profile of an investment and selecting the one giving the best combination, human beings tend to exhibit loss aversion to the extent to avoiding any potential gains in the process. By nature, every investment involves the risk of potential loss but its only by assuming such risks and managing them that one makes a return. A myopic view of this risk normally manifests where an investor tends to classify some investment losses as "permanent" and others "temporary". To a pension fund member retiring on a particular date, there is no difference between the two. As such, a 5% loss coming from a bad

*By nature,
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investment written off is the same as a 5% drop in the value of listed equities! An understanding of this will help investment decision-makers evaluate all investment decisions in the context of the total portfolio, whether it results in a drop in value or total loss of an investment.

Avoiding the unfamiliar – By nature, the human being tends to shy away from anything outside their comfort zone. The default position is always to maintain the status quo, otherwise known as the “do-nothing-and-defend-it” strategy. This becomes an issue where investment decision-makers tend to underplay any new information that may contradict their previously-held views and positions. Psychologists use terms such as anchoring, confirmation bias or conservatism bias to describe such behaviours. The result is that one would rush to resist any new ideas, products or even regulatory directives even before taking time to understand them. Instead of embracing any changes, the focus becomes on trying to find any plausible reason why the new changes will not work. Alternatively, they only look for evidence that confirms their previous belief’s.

Shooting the messenger – The tendency among human beings is to only listen positively or negatively to a message based on who is saying, ignoring the message itself. Related to this is how the message is delivered. This often results in people making an investment decision, not based on its own merits, but how eloquently it is presented.

Being Mr Know-It-All – Human beings by nature tend to think highly of themselves to the extent that they believe their views to be the most correct. Such tendency, termed overconfidence, is more prevalent among professionals. It’s common to see a medical doctor, after some cursory involvement in investments, to start viewing themselves as experts in investments better than a Fund Manager who has spent his whole career in the field. Accepting that we do not know some things helps us listen more attentively and make better and more objective decisions.

Consequences of Psychological Biases for Pension Funds

Sub-optimal investment decisions – Due to the various psychological biases, the pension fund trustee or investment manager may either end up making bad investment decisions without proper analysis or missing out on certain investment opportunities that would have improved the risk-adjusted returns for the Fund. Indeed not all investment opportunities result in superior returns but avoiding taking investment decisions on emotional grounds often result in missed opportunities.

Lack of diversification – Biases such as loss aversion often result in excessive risk exposure by the Fund through concentrated positions in “familiar” asset classes. The popular excuse for lack of diversification is often that there are not enough investment choices in the market. Ironically, by avoiding taking on new investment options on the basis that it’s riskier and remaining over-invested in a particular asset class, the Fund is being exposed to even more risk. Finance theory suggests that the best way to earn higher returns without a proportionate increase in risk exposure is through diversification, hence the larger the number of unrelated assets in a portfolio, the better its risk-return profile.

Slow to react – Biases such as anchoring, where one tends to stick to pre-conceived view despite new evidence, often results in one being slow to react or take action where required. For instance, if an investor “likes” a certain company based on good returns in the past, even if it starts making losses the tendency is to view this as temporary even to the extent of holding and watching a share price going down until a company goes into liquidation.

Following the crowd – The safest way

of avoiding making bold decisions is to do what everyone else is doing, termed herding behaviour. Whilst this is the safe for an investment decision-maker, it may be detrimental to the Fund in the long-run. For instance, even where a Fund Manager may be convinced on a certain investment opportunity or action against the crowd, the fear is always that if he or she gets it wrong the consequences are likely to be dire whereas if you lose “like everyone else”, it’s likely to be acceptable.

How to Manage Psychological Biases

Be aware – The first step in avoiding any cognitive biases is to be conscious of such. That way, one would leave a possibility that maybe their decisions are based on emotions and consider alternative views.

Collective decision-making – People tend to be more rational and less emotional when deciding in the context of a group than individually. Further, where decision-making is made by a committee where everyone has an opportunity to share their views, this tends to result in diverse opinions which may eliminate any individual psychological biases. For this reason, it is often encouraged that in the context of a pension fund trustees meeting, the Chairman should not dominate deliberations and be skilled enough to allow different members to voice different opinions, in the process neutralising any biases.

Engage independent advisors – Independent advisors with no vested interests, historical biases or emotional association with the Fund tend to be more rational and may help decision-makers get rid of any psychological biases. Advisors tend to base their recommendations on research, facts and figures hence are less prone to psychological influences.

Conclusion

Human beings, by nature, are more emotional beings than rational beings. However, that fact is difficult for most of us to recognise and it’s easier to point to someone being irrational than ourselves. It’s only by allowing diverse opinions and recognising that one could be wrong that we can allow for more rational and balanced investment decision-making. It is out of this realisation that behavioural finance is now gaining more prominence as an area of academic study and a cornerstone of an increasing number of investing philosophies. The more we can understand our biases, the better we are able to manage them and the more likely to improve our investment decision-making.

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The Role Of Pension Fund

As pension funds grow they become the dominant class of institutional investors and can acquire an important collective voice in corporate affairs.

By Tinotenda Gakanje

Pension systems may be defined as a form of institutional investors, which collect, pool and invest funds contributed by sponsors and beneficiaries to provide for the future pension entitlements of beneficiaries. There are different pension fund systems globally but the most common are defined benefit schemes and defined contribution schemes. The difference between the two being that on defined benefit scheme the benefit is guaranteed, with a set benefit on retirement. Whereas on a defined contribution scheme is based on how much has been contributed to your pension pot and the growth of those contributed funds over time.

The main role of a pension fund is to help individuals save for their old age and protect the value of their pensions. In the process, the pension funds can contribute a lot to the economy in a number of ways. Provision of retirement income in the light of the ageing population pensions serve as a means of saving towards the future after the employees' normal working life. By sharing risks effectively both along time and across individuals, pension funds also support innovation and growth. Pension systems are therefore crucial for any economy either developed or developing.

Pension fund activities induce capital and financial market development through their substituting and complementary roles with other financial institutions, specifically commercial and investment banks. Pension schemes help improve the financial markets; this is evident in many stock exchanges in various countries where pension schemes are among the largest institutional investors in the exchange. They accumulate large amounts of resources, providing long-term capital and stability to capital markets in general and the stock market in particular. In the last few years, new investment instruments have been developed to meet the needs of pension funds and to fill perceived gaps in the market.

Pension funds have also been seen to influence corporate governance in the economy. As pension funds grow they become the dominant class of institutional investors and can acquire an important collective voice



in corporate affairs. They strengthen the role of independent non-executive directors and can exert influence without running into conflicts of interest and can economize on monitoring.

Pension fund systems can also play a big part in encouraging financial innovation and stimulating the modernization of capital markets. As pension funds grow in size and relative importance new instruments are developed to meet their needs and to fill perceived gaps in the market. For example, a number of new areas of investment (non-traditional investments) have been coming through to cater for the needs of the different pension funds. Pension funds can act as catalysts for the development of efficient

trading and settlement systems, including the adoption of modern accounting and auditing standards and the promotion of meaningful information disclosure. Thus, the development of pension funds is good for a country's financial innovation, modernization of the infrastructure for security exchanges and the establishment of a sound settlement system.

Furthermore, pension schemes help governments to develop infrastructure. For instance, there has been an increase in real estate development in the last few years so as to provide a hedge against inflation and currency depreciation as a way of preserving

Systems In The Economy

value. Such investments in the property sector, for example development of office parks, malls e.t.c help in the provision of the requisite infrastructural development critical for the development of any country.

Pension funds also support the financial services sector through the allocation of savings, investment in securities and other financial assets both locally and foreign, payment of annuities and provision of forms of insurance, domestic borrowing by various governments, as well as improving the liquidity of various intermediaries who are custodians of the fund. Pension fund investments are also expected to increase the availability of long-term funds and enhance competition in the capital markets.

Another role played by pension fund systems is that they can drive economic growth by providing financial support to the real economy and therefore help establish financial markets and improve the efficiency and depth of information.

This is crucial for macroeconomic development. Thus pension funds also play a crucial role in financial intermediation by providing a mechanism for pooling of funds and subdivision of shares. Pooling and diversification is a fundamental characteristic of pension funds, given their size and consequent economies of scale. In addition, pension funds reduce the cost of transacting by negotiating lower transactions costs and custodial fees, and professional asset management costs are shared among many households and are markedly reduced as a consequence. They also provide ways to transfer economic resources, manage uncertainty and control risk, manage uncertainty and control risk.

In conclusion, it is apparent that pension funds are crucial in any economy as they play a big role in the development of the economy. Pension schemes help governments to develop infrastructure, eradicate poverty, reduce financial services costs and improve the financial system. Such instruments in turn create jobs and spill over to other sectors of the economy. Pension funds have also been seen to influence corporate governance in the economy.

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Regulatory Update



By IPEC

Following the presentation of the 2021 National Budget Statement by the Minister of Finance and Economic Development, the Commission was tasked to spearhead the development of a compensation framework for the distribution of the US\$75 million set aside by Government to compensate pensioners for the loss of value arising from the 2019 currency reform.

The Commission engaged the industry and its various stakeholders with a view of coming-up with a concrete and all-inclusive framework to distribute the US\$75 million allocated in a fair and equitable manner.

For the avoidance of doubt, the framework does not cover the 2009 loss of value as the matter is being addressed separately. The Commission has received some proposals, which are under consideration with the draft framework to be circulated in due course.

Noting the need to expand retirement options and

mitigate the weaknesses of level guaranteed annuities in the current inflationary environment, which has resulted in level annuities not fully serving the intended purposes, the Commission drafted an income drawdown framework and circulated it to the industry for comments.

The framework sets out the principles for offering the drawdowns and provide transitional arrangements for players that already offer the income drawdown arrangement. Comments have started trickling in and will be sieved for consideration into the final framework.

The Commission has noted an increase in the number of suspended pensioners since the start of the Covid-19 pandemic, and upon enquiring on the reasons, we noted that pensioners were failing to submit their certificates of existence due to travel restrictions.

In order to respond to the prevailing circumstances and avoid causing pensioners undue financial hardship, the

Commission issued Circular 7 of 2021 directing the industry to relook into policies governing the submission of certificates of existence to ensure equitable treatment of pensioners and at the same time adhering to the Covid-19 related regulations.

Noting the complexity of the Insurance and Pensions industry and the information asymmetry that may be between policyholders and pension fund members on one hand and insurers and pension funds on the other, IPEC issued a Treating Customers Fairly (TCF) Framework to the insurance and pensions industry. This is meant to enhance consumer protection. The framework is to be operationalised on 01 June 2021 and will be applicable to all insurance and pension service providers.

The Commission has embarked on various projects as it moves towards enhancing levels of compliance with regulatory frameworks by the industry. Key among these, is the separation exercise, which commenced in 2020. The main objective of the exercise is to ensure compliance with the requirements of Section 29 of the Insurance Act [Chapter 24:07] and Section 16 of the Pension and Provident Funds Act [Chapter 24:09]. The project is expected to be completed by the 31st of March 2021. Entities that are not compliant will provide implementation plans on how to address the anomalies identified through the exercise.

With regards to AML/CFT, the Commission is doing the institutional and sectorial risk assessments guided by the submissions received from industry. However, there are some entities that are yet to their institutional risk assessments, which affects the accuracy of the Commission's report on sectorial risk assessment. The Commission calls upon institutions that have not responded to make such submissions. Plans are in place for coming up with a reporting template, through which regulated entities are expected to

populate regularly.

The industry compliance level with prescribed asset investments has continued to be worryingly low, with the industry average compliance ratio of 6.40% against the regulatory minimum requirement of 20%. The Commission and the Government expect the industry to comply with the regulatory minimum requirement. With a view of striking a balance between compliance and preservation of value, a Working Group comprising the industry and IPEC staff was established to come up with a practical way of ensuring that compliance was achieved while at the same time preserving value.

The Covid-19 pandemic has brought about so many challenges that resulted in businesses being challenged to revamp their operations to be in sync with the new normal.

Driven by the need to ensure that the industry continues to settle claim and pay benefits even during the lockdown, the Commission issued Circular 1 of 2021 on 4 January 2021, calling for industry players to activate Business Continuity Plans in response to the lockdown measures, which were announced.

The call for remote working, comes with various risks as online systems are tested, thus heightening the need to continuously encourage the industry crafts and implements risk management strategies to curtail threats that systems and business processes will be exposed to.

In the last quarter of 2020, Statutory Instrument 280 of 2020, which allowed the Insurance and Pensions industry to receive premiums/contributions in foreign currency and settling of claims in the same was issued. Noting that industry players had already started receiving business in foreign currency, the Commission issued guidance through Circular 3 of 2021 on how entities were supposed to report forex denominated business when submitting regulatory returns.

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25 Years Of Innovation To An Otherwise Waning Pensions Industry



Mr. Richard Muirimi Group Managing Director

Comarton Group



The Zimbabwean economy has gone through two cycles of annihilation of insurance and pension values. The first cycle began in 1997 and culminated in the destructive hyper-inflationary era, pre-adoption of the multi-currency system in 2009. The introduction of multi-currency in 2009, brought about some semblance of confidence in the Pensions and Insurance Industry with a number of Pension Funds beginning to rebuild their asset bases in real currency. Fast forward eleven years later we are faced with a similarish problem.

Value addition through innovation

As the old adage goes, "Once bitten twice shy". In 2007 Comarton Consultants (Private) Limited (Comarton) assisted Pension Funds under our management to launch the Comarton Managed Pension Funds Investments Consortium (Consortium) as a body corporate leading to the appointment of an appropriate Board of Directors (made up of Chairpersons of participant Pension Funds who in fact make all the decisions). One of the cardinal principles of the formation of the Consortium was to look at investments that would help the economy while significantly enhancing member reserves within a relatively short horizon in an effort to ameliorate member losses on account of currency reforms. This thrust led to the provision of seed capital in 2011 for Brainworks Limited (now Arden Capital Limited), then a private equity fund.

Arden Capital Limited

Arden Capital Limited is a Mauritian diversified investment holding company, listed on the Johannesburg Stock Exchange (JSE), with an exclusive focus on Zimbabwe. Arden Capital Limited invests in assets that are consumer-facing and cash-generative. The substantial existing investment portfolio currently offers exposure to prominent Zimbabwe-based assets in hospitality (African Sun Limited), real estate (Dawn Properties now a division within African Sun) and oil logistics (FML Oil).

The Arden Capital Limited investment has resulted in Pension Funds under our management holding 35% of their assets in what we consider a real currency in Southern Africa. The expected upward movement in the share price, on the JSE, will mean higher FOREX receipts by the participating Pension Funds and indeed the country itself; when the shares are traded and this will enable the Pension Funds to potentially pay part of the monthly pensions and other benefits in foreign currency as and when this is officially permitted.

Members reserve values have already benefitted phenomenally to the tune of 2,900% on account of the requirement to change the Rand values to USD and then ZWD on a monthly basis for reporting in the local currency benchmarked on the Foreign Currency Auction rate.

We made great strides therefore in maintaining the purchasing power of both member reserves and monthly pensions on our portfolio.



The Eastern Highlands Macadamia Nuts Estate Development Project

It is our considered view after long analysis and research under our actuarial arm that the most practical way; in the Zimbabwean circumstances to ensure sustainable, dependable and reliable pensions for retirees is to increase the portion of Fund assets in hard currency. The Consortium has therefore not stopped with the Arden Capital Limited investment.

The Consortium is considering another private equity investment which will guarantee the Pension Funds foreign currency revenue for a period up to 40 years.

There is an observed shift to Macadamia Nut/Avocado estate development in Chipinge with the trees expected to generate pure forex for 40 years once they mature. The Consortium has since signed an exclusive agreement with an entity, which owns vast tracts of land, to convert 3,600 hectares of the land to Macadamia Nuts and Avocado in Chipinge. The initial development shall be over 2,000 hectares split into 1,400 ha macadamia nut and 600 ha avocado; with an establishment period over five years at the rate of 400 ha per year.

The Estate Development will be undertaken by an agricultural development and consultancy joint venture company set-up and registered by the Consortium and the entity, while Pension Funds and an Insurance company, through the Consortium, will be the funders. The agricultural development and consultancy joint venture company, CC Agricultural Development (Private) Limited (CCAD) was incorporated on 28 March 2019. The entity has agreed to a shareholding of 29% in CCAD in lieu of their land and existing infrastructure while Pension Funds and the Insurance company, through the Consortium, own 71% of CCAD for the funding, management and development. The Ministry of Lands, Agriculture, Water, Climate and Rural Resettlement has accorded the project National project status.



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for which we are most grateful as we await the Ministry of Finance and Economic to grant the project Prescribed Asset status.

While the Pension Funds and the Insurance Company's shareholding has been structured through the Consortium, the actual share certificates depicting the shareholding in CCAD will bear the names of the Pension Funds and the Insurance company such that any dividends accruing and indeed the actual ownership of the shares is directly registered under each participating entity.

The project, which envisages that within five years (from planting) the fruit trees shall be producing export crops, will guarantee CCAD shareholders and Zimbabwe at large; annual foreign currency revenue for a period of 40 years. The forex proceeds would be deposited in the investors' existing Nostro FCAs.

All these efforts being pursued with the member and pensioner in mind. These investments are open to all Pension Funds in Zimbabwe provided they become a members of the Consortium.

Primary Healthcare For The Marginalised Pensioner

Normally employers pay 75% to 85% of medical aid premiums with the balance of 25% to 15% being funded by the employee. This arrangement, however, falls away when the employee retires, with the employee (retiree) left to fund the full premium. With the levels of pensions

obtainable in the market especially after the vagaries of hyper-inflation pre-2009, the majority of retirees cannot afford the premiums. Sadly, this is when the retiree needs medical aid the most.

Our actuarial research has shown that as much as 72% of total life medical expenses are expended between the ages of 52 and death, for standard lives.

After extensive consultation with Atchison Actuarial Services Company (Private) Limited; our actuarial subsidiary company and following advice from Comarton Consultants (Private) Limited, the Consortium Board resolved to introduce a primary healthcare services package for the benefit of pensioners of pension funds participating in the Consortium effective 1 February 2015.

As per actuarial forecasts, the Consortium Self-Insurance Pool CSIP has generated significant surplus that is in excess of US \$700 000 as at 31 December 2020. Part of the surplus generated on the (CSIP) is utilized to pay Doctors in advance for providing services, based on a fixed expected cost per person covered per month (capitation). The services provided include: GP Consultations and reviews, Provision of first line drugs and mini-procedures.

The Consortium identified a network of doctors known as Rapha Healthcare Systems (Rapha) who are providing the primary healthcare services backed by a specifically

developed IT system. Rapha has doctors in all major centres around the country.

This program has come as a relief to the majority of pensioners, although naturally the pensioners are demanding more in terms of the service offering. Neither the former employer nor the pensioner pay for these services which we know to be crucial to all pensioners in this country.

We at Comarton, will not rest on our laurels in coming up with initiatives which will guarantee sustenance of pensioners. We strongly believe that the economy will come right at some point and these initiatives will place Pension Funds under our management on a far much firmer footing.

IT Services

Through our subsidiary company, Comarsoft Solutions (Private) Limited, our service provision is leveraged on robust and modernised Information Technology systems that are designed to meet international standards. All our IT Software solutions are home-grown and in-house developed with "source codes" fully owned by Comarsoft. One of our key IT Systems is a sophisticated Integrated Pensions Management Software Solution "Pensions Manager" with three standalone but auto-linked packages namely the Pensions Administration, Pensions Payroll and Pensions Accounting packages. The solution, just like all our IT solutions, presents stakeholders with highly secure data storage and data integrity, efficient data processing, business intelligence reports, great transparency through automated communication facilities and integration options with other systems.

Over the years we have also developed various other IT solutions well tried and tested by large business organisations and government institutions in Zimbabwe and abroad. These include a fully-fledged Group and Individual Life Assurance System, A Health Care System, Corporate Accounting and Payroll Systems, Stock Broking back office system and a Reserving System for General insurance companies among others. All our systems are at various stages of conversion into Web based platforms; responding to the COVID 19 imposed requirement for society to be able to access systems from home.

In developing our IT Solutions we are motivated by the need to provide a relief to the Zimbabwean Business fraternity which has continuously experienced challenges, losses and inconveniences trying to secure IT solutions from outside Zimbabwe. We hope to play a significant part in fulfilling the Government's initiative towards promoting home-grown solutions that are customised to our unique economic circumstances. Our services also include data analysis and migration, networking and hardware maintenance, data hosting as well as User Requirements documentation.

We celebrated our 25th year in operation in July 2020 and we are still going strong.

In our next article we shall provide capacities of our subsidiary company Atchison Actuarial Services, who have now established themselves as Zimbabwe's actuarial partner of choice.



Income Drawdown Products In Zimbabwe March 2021



1. Outline of article

In this article I would like to look at the concept and practical aspects related to the payment of a pension in the form of a pension drawdown.

2. Pension history

In the days before pensions an older worker would rely on his family to provide for him in his old age or, like King Lear, he would end up homeless and destitute relying on the generosity of strangers.

There is evidence that pensions existed in ancient Greece from a surviving speech written in about 400 BC by the professional speech writer Lysias in which he defends himself against the accusation that he is no longer eligible for a pension.

Mathematical advances in the 1600's made the pricing of benefits payable on death and benefits payable until death practicable and thus, the field of actuarial science was born. For the first time, it was possible to estimate and make specific financial provision for specific individuals in a group. The 20th century saw the changing face of economies which included the development of large pension funds. These promised benefits related to a member's salary and required the services of administrators, investment managers, lawyers, actuaries and

other individuals. Pensions were in the form of an annuity which over time lost in value and so the with-profits annuity became more common than the level annuity.

As an incentive to employees and employers alike to provide for themselves on retirement and not on the state, governments offered tax advantages both to the pre-retirement savings and post retirement income as well as to investment income earned on capital invested.

With creeping inflation in most economies employers began to shy away from the risk of increasing costs and look to ways to save money and thus the defined contribution scheme was born.

As a further step in order to complete the move from defined benefits the concept of drawdowns was conceived as a pure DC benefit.

3. Concept behind the product

The concept is very similar to a personal decision to save and then make use of one's savings, with the advantages of the protection of legislation, employer contributions and tax relief. There is no strain in the event of longevity or death and the advice required to predict this cost for a group of individuals is not required as it is for traditional annuities. It is however still a grouped product.

4. Advantages for the member

Advantages over personal savings accounts and investments result from economies of scale as well as tax relief.

The economies of scale should lead to professional input which in turn reduces administration and investment fees and produces higher investment returns. Advantages over traditional annuities are the control of how much income you

take and when (subject to legislation and administration requirements).

It is designed to be a flexible product and the capital remaining on death will be payable to dependants or beneficiaries (also subject to legislation) and does not revert to the general pool.

The administration includes record keeping, complying with legislation, obtaining suitable advice on investments, calculating the distribution of returns to members and communication with members.

There is always a downside to any product. The investments might not perform as well as anticipated, expenses might be higher than expected, longevity or higher drawdowns might exhaust the capital before the member dies.

5. Advantages for the employer

There are issues where pensions are paid by the fund as there is additional work in keeping track of each member's personal choices of drawdown and beneficiaries and hence additional costs to the fund. However, there are no particular advantages or disadvantages to the employer where the pension promise is outsourced on retirement or the promise is a drawdown benefit.

6. Advantages for the provider

Provision of drawdown products expands their public profile and raises public awareness of them as a pension provider. The need for reserve capital is reduced as the promise to the member is not a fixed amount. Additional skills and staff will be required to meet the needs of the additional record keeping required, however the cost of these may be met by additional charges to member's balances.

7. Pitfalls

There are two things to remember:

Money in = Money out

There is no such thing as a free lunch, somebody pays.

Income drawdown can be useful in some circumstances, for example where a member is planning to carry on working part-time or wishes to leave assets to his dependants and beneficiaries.

The ongoing administration costs may be higher than for traditional annuities and if so higher returns are required to meet these. This may be done by investing in the stock market which makes income drawdown a volatile choice and exposes the individual to investment risks.

As time progresses and money is taken from capital to provide the regular payments, the ability to provide investment income decreases which implies less capital to invest for future returns.....

For these reasons, income drawdown is more suitable for members either with a large pension capital or with other regular income to provide for economic stability when the investment returns are insufficient to provide the necessary income during retirement.

8. The draft ipec framework

This is designed to provide structure to a product which will expand member options on retirement within the legal framework and at the same time provide protection to all parties involved.

It seeks to provide principles to guide the industry when offering income drawdown arrangements.

The key requirements for the provider are that they should:

- segregate the funds of the income drawdown arrangement from those of other members of the fund;
- have the technical, infrastructure and administrative capacity to manage the income drawdown arrangement;
- provide sound advisory services on the income drawdown arrangement;
- charge expenses and fees which are

reasonable and fair, remain reasonably stable over time and not have an erosional effect on the balance of an individual member's balance.

The product design should

- "cap" individual drawdowns at 15% of the remaining capital balance (no uncapped drawdowns may be offered);
- ensure that a member can draw down their retirement pot up to a minimum age of 80 years and the minimum drawdown period allowable is ten (10) years from the date of commencement of the drawdown;
- allow for the drawdown to be paid monthly, quarterly, or bi-annually;
- provide a three-month cool off period from date of signing consent to join the fund in order to rescind their initial decision and be given an option to take a growth annuity instead of an income drawdown arrangement;
- provide for the transfer benefits to another provider offering a drawdown product whether or not current pension provider offers the product;
- that no minimum required capital sum is required;
- provide for the continuation of the income drawdown arrangement, purchase of a with profits annuity or payment of the capital balance to the beneficiaries on the death of the member.

Conversion from a drawdown to a traditional with-profits annuity is permitted if the provider of the arrangement is winding up the arrangement.*

* It is unclear whether the member may convert to a with-profits annuity at any other time.

Adequate communication with members of pension schemes at the time of taking the income drawdown option, on an ongoing basis and at the termination of the agreement. This should include:

- The capital balance in the income drawdown fund;
- A summary of all income drawdown payments made;

- A summary of all fees and expenses charged against their income drawdown fund;
- Any other information as deemed necessary or as may be prescribed from time to time.

* Logical items to include are: the starting and final capital balances in their income drawdown fund and the interest earned during the year. This assists the member to assess the relevance of the income and expenditure

* Items which would further enhance the member's understanding are: at least 2 options for withdrawal percentages (conservative and maximum) and a term to exhaustion.

At the time of signing for the product the following information is also required:

- Investment options available to the member for the income drawdown arrangement;
- Historical performance, if any, of the assets into which the income drawdown policyholders/members will be invested;
- Documented rules of how the income drawdown arrangement works which rules should clearly indicate the charges or fees associated with the income drawdown arrangement.

At termination of the income drawdown arrangement, either on request by the member or as a decision of the insurer, the termination charges applicable including the taxation implications must be provided.

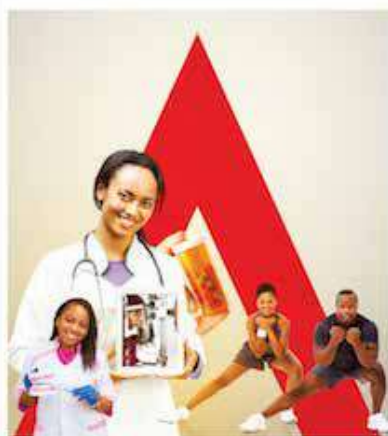
9. Final comment

The decision to opt for a drawdown pension is an important one. Members should check they are making the right decision for their circumstances, that they understand all their options and the risks they are taking on.

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Tax compliance for Pension Funds

BY Zimra

Pension Funds play a critical role in assessment and collection of taxes from remuneration earned by employees and pensioners.

Pay As You Earn (PAYE) is collected under the Final Deduction System where the employer has the obligation to determine and collect the tax without recourse to ZIMRA for any further assessment.

Adhering to the legal requirements regarding submission of returns and payment of taxes ensures efficiency and effectiveness in management of business operations.

Taxation and Pension Funds

Pension funds are employers for purposes of collecting PAYE. They are required to collect the tax and remit it to Zimra on various items of remuneration earned by their own staff and the pensioners.

Like all other employers, they are required to prepare and submit the ITF16 return by the 30th of every January of the year in respect of previous year of assessment. Receipts and accruals of Pension Funds are exempt from income tax. However, they are still required to register for Income Tax and submit returns.

The transfer of money to any pension fund or to beneficiaries of such a fund is not subject to Intermediated Money Transfer Tax.

The services of a fund administrator as defined in the Pension and Provident Funds Act [Chapter 24:09], to the extent that those

services are rendered to or on behalf of a pension fund registered in terms of the Pension and Provident Funds Act [Chapter 24:09] are exempt from VAT.

Tax Directives

In order to expedite the process of employees receiving their pension or terminal benefits on time, Zimra no longer requires the employer or pension funds to apply for a tax directive.

The companies or pension funds are now empowered to do the tax computation on benefits from Pension fund, Benefit fund and Retirement annuity fund, pay the members and then remit the tax to ZIMRA.

Employers and pension funds should ensure that they correctly compute the tax due on the pension's fund, benefit fund and Retirement annuity fund. To assist in the calculations of tax due below are amendments of specified amounts on pension contribution, performance award, retrenchment packages and Pension commutation or Annuity from 2019 to 2021.

Changes in Momentary Thresholds

Over the years there have been changes to monetary thresholds in the Income Tax Act. The summary below shows the amounts applicable for the period 2019 to 2021.

NOTE

- The PAYE due on the pension's benefits is submitted on P2 Form by the 10th of the following month.
- On death of a member of the Pension fund, benefit fund and Retirement annuity fund

The transfer of money to any pension fund or to beneficiaries of such a fund is not subject to Intermediated Money Transfer Tax.

the total lump-sum is tax free.

- Any pension granted to the employee who is over the age of 55 years is fully exempt.

Payment of Tax in Foreign Currency

The legislation requires that where amounts from employment income, trade and investment are received or accrued in foreign currency the tax should also be paid in foreign currency.

With effect from 27th November 2020 it became permissible to charge and to tender foreign currency in payment of certain insurance services as specified in Statutory Instrument 280 of 2020. In that regard where such is applied by the pension funds it is also expected that applicable taxes are collected and remitted in foreign currency.

Costs of Non-Compliance

Complying with tax requirements may seem to be costly for some but if one considers the costs of non-compliance the costs outweigh compliance costs. There are penalties charged for late or non-payment of taxes. Non-payment of taxes may attract 100% penalties depending on circumstances. Late payment of taxes attracts interest at 25% per annum for Zimbabwe Dollar taxes and 10% per annum for foreign currency taxes. In addition, resources and time will be expended in correcting non-compliance at a rate higher than when complying. It is good corporate governance and citizenry to pay taxes in full and on time.

Non-compliance reduces the funds available to government which affects service delivery and other social services provided including health, education, infrastructure among other things.

Therefore paying taxes is participation in developing the country.

INCOME TAX ACT (SECTION)	PROVISION	2019 Jan - July	2019 Aug - Dec	2020 Jan - July	2020 Aug - Dec	2021
Section 15(2)(i)(ii)	Arrear pension contributions	\$1,800	\$14,400	\$18,000		\$80,000
3 rd Schedule paragraph 6[h1]	Pension commutation or Annuity	\$10,000 or 1/3 of the package up to max of \$60,000	\$50,000 or 1/3 of the package up to max of \$240,000 w.e.f 20/9/19	\$50,000 or 1/3 of the package up to max of \$240,000		\$800,000 or 1/3 of the package up to max of \$3,600,000
Pension Contributions						
Sixth Schedule, para 10 (b)	Deductions- ordinary pension fund on or after 1960	\$5,400	\$43,200	\$54,000		\$240,000
Sixth Schedule, para 14 (a)	Deductions-ordinary pension fund changed rules prior to 1960	\$5,400	\$43,200	\$54,000		\$240,000
Sixth Schedule, para 14 (b)	Deductions- ordinary pension fund changed rules prior to 1960	\$5,400	\$43,200	\$54,000		\$240,000
Sixth Schedule, para 15 (b)	Deductions- ordinary pension fund changed rules prior to 1960	\$5,400	\$43,200	\$54,000		\$240,000
Sixth Schedule, para 16 (b)	Contributions to Retirement annuity fund	\$5,400	\$43,200	\$54,000		\$240,000
Sixth Schedule, para 17(2)(b)(ii) A	Contributions to more than one pension fund	\$2,700	\$21,600	\$27,000		\$192,000
Sixth Schedule, para 17(2)(b)(ii) B	Contributions to a fund before 1960	\$3,600	\$28,800	\$36,000		\$192,000
Sixth Schedule, para 17(2) proviso	Contributions to more than one fund before 1960	\$5,400	\$43,200	\$54,000		\$240,000
Lump-sum payments						
1 st Schedule para 1(1)	(in the definition of "annuity on retirement") Lump sum payment	1,800	14,400	18,000		144,000
1 st Schedule para 3(a)(i)	Lump sum payments from benefit fund with changed rules	\$1,800	\$14,400	\$18,000		\$144,000
1 st Schedule para 4(a)	Lump sum payments from fund with new rules	\$1,800	\$14,400	\$18,000		\$144,000
1 st Schedule para 7(a) and (b)	Lump sum payment from pension	\$1,800	\$14,400	\$18,000		\$144,000
1 st Schedule para 8(a) and (b)	Lump sum payments from pension fund with new rules	\$1,800	\$14,400	\$18,000		\$144,000

Celebrating Women in Insurance

We all have the capacity to do anything we put our minds to. Oftentimes we give up not because we cant but because someone else tells us we are not capable-It is therefore very important to remember that the only person who can tell you that you cannot do something is yourself so positive thinking is key to success. "A winner is a dreamer who never gives up"- Nelson Mandela - Rutendo Magorimbo



Rutendo Magorimbo
ZAPF Chairperson



Davidzo Chitengu
UNKI MINES PVT LTD



Tecla Garikayi
FIRST MUTUAL LIFE
ASSURANCE CO



Justina Machinya
MINERVA RISK
ADVISORS



Letwin Mawire
ZB LIFE ASSURANCE



Linda Hyde
PENTACT PVT LTD



**Loice Sango -
Kunyongana**
FIDELITY LIFE
ASSURANCE



Pedzisai Tapfumaneyi
ZB LIFE ASSURANCE



Rev. Vienna Mutezo
UNITED METHODIST
CHURCH



Showani Doma
OLD MUTUAL



Susan Mupanduki
OLD MUTUAL



Gladys Changara
NYARADZO LFE AS-
SURANCE



Josephine Macheka
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**Rumbidzai Ninga-
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MINERVA RISK
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Chipo Ndudzo
PROVIDENCE
HUMAN CAPITAL



Tatenda Gohwa
Nyakuedzwa
MINERVA RISK
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Abba Mutengerere
ZB LIFE ASSURANCE



Barbara Musariri
ZB LIFE ASSURANCE



Auxillia Gwatidzo
ZB LIFE ASSURANCE



Cynthia Tendai Mugwira
ZAPF Vice chairperson

"It is important for us women to take up space at the table however, it is more important for us women to make use of the space that we have taken up at the table to advance the cause for women and to advance other women. Do not just sit at that table, make good use of that table." Cynthia Tendai Mugwira



Melody Mkoko
ZB LIFE ASSURANCE



Linda Gava
ZB LIFE ASSURANCE



Juliet Chiweshe
ZB LIFE ASSURANCE



Janet Nhubu
ZB LIFE ASSURANCE



Hazel Nonyane
ZB LIFE ASSURANCE



Gondayi Sithole
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Abba Mutengerere
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Elizabeth Gundhla
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Lavender Masauso
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Sharon Paruwani
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Rejoice Mbabvu
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Lilly Masvikeni
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Normand Chirandu
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Pedzisai Tapfumanei
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Dudzai Arufayi
ZB LIFE ASSURANCE



Triphine Teta
ZB LIFE ASSURANCE



Angela Maglas
ZB LIFE ASSURANCE

Investment Policy Statement – It's not Just a Statement, It's a Policy Matter!



Gandy Gandidzanwa



Itai Mukadira

While almost every pension fund has one, not every fund is consistently and loyally abiding by the provisions of their Investment Policy Statement (IPS). It's certainly no news to most trustees that failure to diligently follow an investment policy statement is considered a breach of fiduciary responsibility, and yet their engagement with their IPSs at times makes it seem they are not alert to this principle.

The adoption of the IPS, although wide in our sector, has been

largely in response to regulatory requirements. The culture of crafting and taking full ownership of an IPS was not there prior to the onslaught of the regulatory provisions mandating every fund to have one in place. The industry has tended to then treat this simply as a compliance tick-box exercise to "satisfy the needs of the regulator". This is quite an unfortunate stance on what is globally otherwise considered a prudent standard good practice. The real challenge is that an IPS is worthless without the acknowledgement that its existence is necessary. Trustees need to

believe in the reason for its creation to give it real value.

An All-Critical Governance Document

IPSs have become, for many global institutional investors, not just statements but matters of policy that they follow in letter and spirit. An IPS must serve as a critical governance document, one that should be carefully crafted, periodically reviewed and updated, and diligently followed. If we are to put it rather bluntly, the only thing worse than not having an IPS is having one that is not followed.

Ownership of an IPS is one of the most important fiduciary responsibilities of trustees. They need to have a clear sense of the need to deeply understand its provisions and closely follow its terms. An IPS is only as good as the trustees' execution of its provisions.

Where there is disgruntlement, an IPS can be used by suing members in validating a breach of fiduciary responsibility. It should, therefore, be firmly and intentionally applied. Failure to comply with IPS provisions, either operational or substantive, can provide clear grounds for prosecution. Decisions inconsistent with provisions of the IPS could be the basis for claims against the trustees.

A Must-Have "Ulysses Contract"

An IPS provides a strong basis for consistent decision making over time. It also helps dilute the impact of sudden additions and departures of investment committee members, many of whom have vastly different understandings of fund composition and construction. It thus helps preserve institutional memory of a fund's investment objectives, strategies and processes.

A well- and thoughtfully-crafted IPS will certainly require steps that the trustees may not wish to take in a given situation. The irony is, it is exactly for this reason that a fund has to have an IPS in the first place. Managing investments without an IPS means failing to acknowledge that investing is an emotional endeavor. An IPS is a type of a "Ulysses contract" – a guiding framework you craft during calmer times to anchor back to during harsh periods and ensure that chaos does not prevail.


It is the embodiment of a calm, rational Board of Trustees who will need to remind a hysterical, irrational themselves what their priorities are at some point in the future, especially when markets are turbulent and emotions are high. Creating an IPS is essentially an act of admitting that "due to the vagaries of the markets, we are occasionally going to lose our minds at some point, and when that happens let's be guided by the provisions of the policy we created while composed". Simply recognizing that behavior is likely to be a huge component of future investment success.

Critical to mention here that, the mere creation of an IPS will not relieve trustees of liability; the IPS must be adhered to dutifully. Accordingly, keeping the policy up to date and documenting the trustees' compliance with the established policy are as important as having the policy itself.

Created For, and Owned By Trustees

Of course, trustees are not necessarily expected to prepare the IPSs themselves. However, the IPS should be prepared through the lenses that they look at investment markets, capturing their goals, aspirations and objectives. An IPS should reflect the collective investment beliefs of the trustees as this will guide the selection and monitoring criteria for assets and investment providers. Once crafted, an IPS is wholly owned, and is for total implementation, by the trustees.

Investment consultants' expertise and competence is very handy in the creation and crafting of an IPS.



There is a skill and an art that's required in crafting an IPS. The language used, the comprehensiveness of scope, the clarity of objectives, the articulation of constraints, the clearness of roles, responsibilities and accountability, the precision of execution approach, the robustness of the monitoring mechanism, and the thoroughness of ongoing review and evaluation of the policy all require the dexterity of a competent investment management expert.

In turn, investment consultants also benefit from the exercise of leading in the crafting of a fund's IPS because in the process they get a deeper understanding of the fund, its aspirations, fears, values, principles and risk tolerance as reflected through the trustees' choices and beliefs.

Drafting an IPS is quite an educational process too. Working through issues in the design process can help identify weaknesses in the fund's current risk management structure and refine the setting of objectives, potential investment strategies, and contribution and benefit policies.

Investment performance varies over time and should be evaluated frequently. Trustees, as fiduciaries, are charged with the all-important task of oversight. Of course, oversight does not mean to actively manage the investments, but to ensure that the policies are being followed diligently by those hired to manage them. An astute investment consultant will be sure to take care of this aspect of the trustees' demanding roles. With all that said, one clause that trustees should be certain not to leave out in the IPS is on monitoring and measuring the performance and value-add of its own trusted advisors, including and specifically so, the investment consultant.

Even where the trustees have investment management capabilities, or have a fully-fledged in-house investment management team, an independent investment consultant is critical to highlighting any blind spots that the trustees could not be alert to in their decision-making processes. It also significantly brings back logic and rationality where otherwise decisions would be made irrationally when emotions are high, for they certainly will be at times.

A Science and An Art

While the temptation is huge to load everything-investments into an IPS, trustees should steer away from producing a voluminous but incoherent policy document. A litmus test is that it should be detailed enough that it could be carried out by any competent third party such as a replacement investment consultant.

It must also be flexible enough that it

can be implemented in a complex and changing financial market and economic environment. Furthermore, it should be always up to date, consistent with industry best practices, reflective of the changing regulatory environment, and not so narrow as to unnecessarily constrain trustees from discharging their duties in a prudent and practical manner.

As much as an IPS is about the investment, it is also about governance. The IPS helps define all associated parties and their responsibilities. When all parties clearly understand their roles, they'll likely spend less time in committee meetings figuring out who is responsible for which action item. Trustees should therefore make sure that their IPS is focused on governance rather than regulatory compliance.

Stewardship Framework

Pension fund assets investing is a tremendous privilege, and one that comes with significant responsibility. It requires a fiduciary mindset, a willingness to thoroughly address all aspects of stewardship, and a robust investment governance framework.

In the words of the Oracle of Omaha:

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insight, or inside information. What's needed is a sound intellectual framework for decisions and the ability to keep emotions from corroding that framework" – Warren Buffett

One key requirement, even before an IPS is drafted, is that a fund must formally authorize the formation of an investment committee whose roles and responsibilities, together with those of other key stakeholders, are then captured in the IPS. Once the committee is set up, any failure to adhere to the provisions of the IPS in its operations is considered a breach of its duties. For instance, if the IPS states that the committee meets quarterly to review investments, it should not be meeting only semi-annually, else it will be in breach.

One of the key purposes that an IPS serves well is that of ensuring the investment committee actions are policy-driven rather than emotional. It also helps well in mitigating the impact of strong personalities within the committee membership.

Conclusion

Arguably one of the most important policies in any fund's governance artillery, one could even venture to say it is probably the one governance document that comes immediately below a fund's set of rules in the order of importance – making it imperative that we all apply it devotedly. Its importance needs even more pronouncing in the current age of defined contribution schemes where the members

Good Corporate Governance tenets key to sustainable long-term returns

By Old Mutual

Corporate governance is fundamental in the financial markets as investors especially long-term institutional investors are more concerned about the long-term sustainability of corporate operations and long-term investment wealth creation. The incorporation of good corporate governance principles in the analysis of capital market securities to augment existing traditional quantitative financial factors has now become a key investment tool. Corporate governance is a qualitative factor that directly impacts a company's financial performance, corporate brand image, shareholder and stakeholder returns and the integrity of capital markets. Corporate governance is broadly defined as the system by which a company is controlled and directed.

Corporate governance encompasses fostering a culture and work ethic that supports the delivery of strong and sustainable company performance. Good corporate governance is the foundation of a solid business strategy. Shareholders appoint directors and auditors of a company as an integral component of the governance framework. The board of directors is given authority and responsibility for decision-making and is accountable for the formulation and implementation of an effective business strategy and control environment to achieve long term value creation. The board appoints and oversees the performance of the company's senior executives and the succession planning process. Auditors are broadly mandated to ensure compliance with established corporate control procedures by examining, including but not limited to, operating practices, documentation and financial records. Corporate boards and company executives are mandated to act as long-term stewards of shareholders' investments in a corporation.

The corporate governance narrative is largely

underpinned by how a company is run with focus on the board of directors' composition; skills and gender diversity; management quality; accurate presentation of financial statements in line with international accounting standards and shareholder and stakeholder engagement. A properly constituted board of directors and board committees comprises of a non-executive independent chairman and a majority of non-executive independent directors. Board composition should reflect a diversity of thought, qualifications, experiences and knowledge that collectively, enable the board to perform its oversight

effective governance framework enhances investor confidence in the company's board of directors, management team, strategy, product offering and, overall, promotes the integrity of capital markets. Capital market participants, including investment managers, intermediaries and individuals are increasingly considering governance matters in asset selection, asset allocation, capital deployment and proxy voting at company meetings. Good corporate governance improves institutional accountability and operational effectiveness.

Inversely, unchecked corporate governance deficiencies in a company have the potential to turn into unexpected costs in the long run through but not limited to fraud, regulatory penalties and operational inefficiencies. Poor board oversight and management decisions risks fraudulent accounting processes and inefficient allocation of corporate resources. Ultimately poor corporate governance will most likely have a negative impact

on company profitability and sustainability of operations. The inefficiencies caused by weak governance statutes will most likely result in capital flight from companies and often, entities will probably find it difficult to regain lost, legacy related, investor trust and confidence. Corporates or entire market sectors that violate governance principles risk exclusion from the universe of investible assets.

function effectively. In addition, there should be gender balance on the board. Corporates are encouraged to fully and accurately disclose all governance matters, in addition to quantitative financial data, to enable market participants to make well informed investment decisions.

The perceived and actual behaviour of a corporate regarding governance statutes often determines the quantum of capital outlay potential and existing investors inject into and preserves in an investment. Investor trust and confidence earned by a company through the upholding of good corporate standards is an invaluable asset for attracting capital in a highly competitive investment market universe where market participants seek a safe, secure and sustainable investment home. In addition, a functional and

on company profitability and sustainability of operations. The inefficiencies caused by weak governance statutes will most likely result in capital flight from companies and often, entities will probably find it difficult to regain lost, legacy related, investor trust and confidence. Corporates or entire market sectors that violate governance principles risk exclusion from the universe of investible assets.

In conclusion, corporate governance is key in capital markets as investors tend to entrust capital with companies that uphold good governance principles. Corporates need to constantly introspect, evolve and develop strategies that improve the sustainable and efficient upholding of the highest standards of good corporate governance and foster the principles in board strategy and management decisions.





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