Position Paper

Comments of Development Initiatives Network (DIN) regarding the Draft Framework and Guidelines on the Micro Pension Plan

Submitted to the National Pension Commission (PENCOM) on 26 May 2018

Development Initiatives Network (DIN) is an independent nonprofit working to achieve and sustain financial wellbeing for all Nigerians. Our priority is financial empowerment through financial literacy and financial consumer protection. In addition, we are involved in collaborative partnerships aimed at delivering enterprise education to specific targets such as youths, women and SMEs. Our activities emphasize policy analysis, campaigns and special events. We have been affiliated to the International Network on Financial Education (INFE) since 2011.

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1.0. Opening

On 23 October 2012, the Federal Government launched the National Financial Inclusion Strategy (NFIS) with a view to transforming Nigeria into a high financial access and usage economy. The overall target is that by 2020, 80% of adults will use at least one formal financial product.

To this end, the NFIS includes short, medium and long-term penetration targets for specific financial products. For pensions, it is a baseline of 10% of the adult population in 2010. This would have risen to 22% by 2015 and finally attain 40% by 2020.

But what is revealed in the *2016 Annual Report on the National Financial Inclusion Strategy Implementation (Financial Inclusion Secretariat, 2017)*, is that pensions penetration targets are proving difficult to achieve. The situation has been described in these terms:

> *"From 2015 to 2016, the percentage of adult Nigerians registered with a regulated pension scheme increased from 7.5 to 7.9 per cent. In absolute terms, 7.6 million adult Nigerians were registered with a regulated pension scheme at the end of 2016, compared to 7.2 million adult Nigerians as at the end of 2015. While the trend had been positive since 2010, the achieved value remained far below the 2016 target of a 25.6 per cent pension penetration among the Nigerian adults."*

Against this background, we fully support the introduction of a Micro Pension Plan, which aims to bring into the pensions net those who are not currently mandated to participate in contributory pensions schemes, namely, the self-employed or those working in organizations with less than three employees.

2.0 Specific Comments on the Draft Framework and Guidelines on the Micro Pension Plan, (the "Draft Guidelines")

We consider the following to be positive attributes of the Draft Guidelines:

i. *Support for youth financial inclusion*
Persons aged 15 years and above but under 18 years (with parental consent) can participate in a micro pension plan, (see, Paragraph 6.1.2).

ii. *Use of technology-driven platforms*
The internet and mobile phones can be used for registrations, collection of contributions, customer service and benefits administration, (see, Paragraphs 6.2.b, 6.3.d & 7.3.ii).

iii. *Flexible procedures and convenience of the contributor*

This is demonstrated by the following provisions:

a) The wide range of approved means of identification for Know-Your Customer (KYC) formalities, *(see, Paragraphs 6.3.h & 6.3.i).*

b) Enshrining contributors' right to make contributions incrementally in recognition of their income generation patterns, *(see, Paragraph 6.3.b).*

c) Contributors' entitlement to contingent withdrawals even before retirement, *(see, Paragraphs 6.3.c. & 6.5.2).*

d) Fixed time limit of two days for the processing and payment of contingent withdrawals, *(see, Paragraph 6.5.2.iv).*

e) Contributors' entitlement to guaranteed minimum pensions in the case of retirement benefits, *(see, Paragraph 6.5.3).*

f) Choice of accessing retirement benefits either through programmed withdrawals or life annuities, *(see, Paragraph 6.5.3.iv).*

g) Payment of contingent balances or retirement benefits to a named beneficiary is permitted, *(see, Paragraph 6.5.3.viii).*

i. *Incorporation of anti-fraud and security measures*

Approval of biometrics capture and unique PIN generation for contributors, *(see, Paragraph 6.2).*

ii. *Affordable pricing*

Pension fund administrators (PFAs) can only charge contributors a maximum of N50/month provided the total monthly contributions exceed N4,000, *(see, Paragraph 6.3.g).*

3.0 Recommendations

i. *Highlight importance of pension literacy and education*

The success of micro pensions in Nigeria will ultimately be decided by the extent to which there is consumer acceptance and buy-in. We strongly believe that improving pension literacy and education will be critical. However, the Draft Guidelines as presently crafted only make a passing reference to this key strategy. We recommend that improving pension literacy and education should be highlighted and made a cross-cutting responsibility of all stakeholders and it should certainly not be limited to PENCOM, *(see, Paragraph 5.3.1.c)* and the PFAs, *(see, Paragraph 5.4.1.h).*

ii. *Listing supporters as key stakeholders*

The classes of stakeholders should not be confined to the micro pension contributors, PENCOM, PFAs and the Pension Fund Custodians (PFCs), *(see, Paragraph 5.0*). This is because there are other supporters such as consumer rights advocates, nonprofits and professional, trade and business associations that can equally play valuable roles especially as it relates to improving public awareness and education about micro pensions. We recommend that such supporters should be recognized in the Draft Guidelines as key stakeholders.

iii. *Adopt mandatory gender and age analysis of returns*

We strongly support equal opportunities and access in all financial markets. However, the gender gap in the pensions sector is well documented. For example, in 2016, 71% of holders of a retirement savings account were men with just 29% being women *(Financial Inclusion Secretariat, 2017)*. In order to ensure that such a wide disparity does not recur with micro pensions, PFAs should be mandated to continuously undertake gender analysis of all micro pension registrations and to incorporate the results in the returns that they are required to submit to PENCOM, (*see, Paragraphs 5.4.1.g & 6.7.1).* Similarly, we recommend that there should be mandatory analysis of micro pensions uptake based on age with the results being included in the statutory returns to PENCOM. Such data will also be useful in clarifying intervention points for pension literacy and education programmes.

iv. *Elaborate on complaints handling and redress*

The Draft Guidelines cursorily deal with complaints handling and redress by simply providing that PENCOM will be responsible for resolving issues arising between contributors and pensions operators such as the PFAs and PFCs, *(see, Paragraph 5.3.1.d).* However, we hold the view that in an environment in which building consumer trust and confidence is paramount, the Draft Guidelines should also elaborate on the basic features of complaints handling in the micro pensions field. These include but should not be limited to prescribing specific time limits for responses, explaining how contributors can escalate their complaints and when there can be resort to alternative dispute resolution (ADR). Also, in the interests of full transparency, the mandatory publication of complaints handling statistics by PENCOM, PFAs and PFCs should be adopted as a best practice in the Draft Guidelines.

v. *Clarifying the relevance and role of agents*

From the Draft Guidelines, the management, custody and investment of micro pension funds are the responsibilities of the licensed pensions operators, that is, the PFAS and PFCs. However, we strongly believe that an agency model is essential to achieving nationwide coverage. Unfortunately, the Draft Guidelines do not cover this issue. We

recommend that there should at least be recognition of the need for the agency model in the Draft Guidelines. Such agents will be key stakeholders and detailed agency regulations can be subsequently released by PENCOM after industry-wide consultations.

4.0 Concluding Remarks

The results of the *First National Baseline Survey on Financial Literacy (Central Bank of Nigeria, 2015)* amplify the challenge that will be faced in changing financial knowledge, attitudes, behaviour and practices in Nigeria on how to plan for old age. Regarding this question, only 4.2% of the respondents mentioned pensions. The majority, that is, 32.8% considered education of children as their main plan/strategy followed by 25.4% relying on farming/agriculture. We are of the opinion that PENCOM, PFAs and PFCs on their own cannot bring about the much-desired transformation of the pensions market through the introduction of micro pensions. Rather we recommend that they should also embrace agency partnerships. Secondly, they should collaborate with relevant supporters (for example, nonprofits working in the field of financial literacy) to design and implement pensions literacy and education programmes that target key population groups.

A useful starting point is to refer to the six financial capability market segments identified in the Financial Literacy Baseline survey *(see, Table 1)* so as to gain a better understanding of their demographic characteristics, size, geographical distribution and media usage practices. This will help to identify how best to educate each market segment about micro pensions through their preferred media channels.

Table 1 Financial Capability Market Segments