



Retirement Benefit Schemes: Risk Review and Management considering the impact of Covid-19

A look on global pension systems over the years have witnessed continued reforms in many countries owing to increased use of pension programmes managed by the private sector. Globally, pension systems and structure is in a constant state of flux driven by shifting objectives, moving reform needs, and a changing enabling environment.

The Corona Virus Disease 2019 (COVID-19) continues to expand its global impact on individuals, businesses, communities and governments and, as a result, changing the nature of how business is being conducted. Businesses are navigating through numerous interrelated issues affecting operations, employee welfare, cash and liquidity. The dynamic nature of this pandemic makes it hard to assess what will happen next.

Pension schemes are reliant on sponsors' contributions to the schemes therefore liquidity risks are intensified since the sponsor may be forced to let go of some employees or advise employees to take unpaid leave hence affecting the contributions made to the scheme

Here we present resources for our clients on how we are adapting to support them and resources for pension managers to ensure that they are able to adapt and manage the schemes effectively through these challenging times.

In Kenya, the pandemic has brought about several uncertainties in the operating environment, some of which include:

- Social distancing which is cumbersome to implement, including the closure of some businesses
- The night curfew, which has affected the business operating hours.
- Containment, so far within three counties.
- Uncertainty in regulation both from the national and from the county government.
- Likelihood of the situation going on for the till third quarter of the year since the cure for the virus is not available yet.
- Increase in County lockdown from the proposed 30 days

Retirement Benefits Authority through a communique dated 23 April 2020, issued updates on issues affecting the industry in light of COVID-19 pandemic and suggested strategies that member firm needs to consider in ensuring that the Scheme operations continue.

This communique is to assist the pension schemes manage financial and liquidity risks. The Authority has given waiver of penalties on late submission of audited accounts as well as human capital risks to give ample time for scheme staff to prepare and approve audited accounts when navigating through the change in working environment.

In addition, the considerations for the contribution for the employer and the employee will be based on the exact contribution: where employee is earning full, reduced or unpaid leave or the employer is seeking to vary contribution rates, temporarily suspend contributions or discontinue contribution. This enables the scheme to not only meet its contributions' obligations effectively but also make prudent investment decisions by making sound and viable investments with the contributions collected.

Liquidity Risks

Many pension plans face a breach of short and long-term risk budgets or limits after the Coronavirus outbreak as a result of:

- » Reduced inflows
 - Decrease or delay in monthly contribution
 - Staff redundancy by the sponsor
 - Member's salary pay cut or suspension
 - Mass layoffs of staff
- » Accelerated outflows
 - Early retirement of staff
 - Death of members from the Covid-19
- » Illiquid investments

Investment Risks

Most pension schemes have investments in capital markets, private equity and property and as a result exposed to investment risks. The investments risks are as a result of:

i. Capital Markets and Private Equity

- Erosion in value of shares
- Market interest risks
- Inflation
- Liquidity

ii. Property

- Shift in demand patterns for real estate
- Exit of expatriates tenants leading to low occupancy
- Inappropriate investment strategies such as purchasing new property

Human Capital Risk

Human capital is an organizations biggest asset as it determines whether it succeeds or not. As a result it is paramount to monitor risk associated with human capital. Some of these risks are as a result of:

- Loss of staff to the virus
- Increased staff medical costs
- Lost work time as a result of staff being ill or challenges of working remotely
- Staff demotivation as a result of uncertainty
- Reduced productivity due to working from home
- Catastrophic workplace events such as employees infecting one another with the virus

Cyber Security Risks

There is a spike in phishing attacks, Malspams and ransomware attacks as attackers are using COVID-19 as bait to impersonate brands thereby misleading employees and customers.

This will likely result in more infected personal computers and phones. Not only are businesses being targeted, end users who download COVID-19 related applications are also being tricked into downloading ransomware disguised as legitimate applications. The root of these risks are:

- Increase use of video conferencing
- Security misconfiguration in VPNs thereby exposing sensitive information on the internet and also exposing the devices to Denial of Service (DoS) attacks.
- Some users may utilise personal computers to perform official duties which could also pose a great amount of risk to organisations.
- Potential delays in cyber-attack detection and response



C. Supporting the management of pension schemes during COVID 19: Navigating through the new normal

Pension schemes should take proactive steps to safeguard their smooth operation taking into consideration the underlying environment. An immediate but continuous approach to ensuring that risks are mitigated and that the scheme's objectives are met is of essence. Below are some of the strategies that the schemes could consider.

1. Risk Management

- Create a risk management plan that is inclusive of the risk related to the pandemic
- Be audit ready and document compliant with the different relevant regulators such as Kenya Revenue Authority, Retirement Benefits Authority, and Unclaimed Financial Assets Authority.
- Continue to motivate staff across all areas and levels
- Review insurance policies in place (in cases of business interruption) and liaise with the insurers
- Allow for speedy decision making during planning and execution
- Develop stakeholder specific communication plans, including what their requirements are and the best methods of two-way communication to ensure there are open communication channels between key personnel across the organisation to identify risks and issues.
- Seek advice on the financial impact of COVID-19 on the sponsor and understand steps being taken by the sponsor to mitigate that impact. Additionally, assess with their advisers on the steps to take (if any).
- The scheme administrator and other service providers should be contacted to see what contingencies they have in place to ensure they can continue to operate the scheme

2. Corporate Governance

- Document all key decisions made which impact finances, operations, stakeholders and ensuring that it is approved by the Board for implementation. Clearly communicate to employees.
- Review and refresh business continuity plans and establish a core team overseen by the Trust Secretary to provide the framework and strategic guidance, supported by an extended team to address the specific actions
- Consider re-prioritising other business initiatives and timing to allow capacity for response to the coronavirus
- Notify members how and when you will communicate with them and create avenues for people to raise concerns. This may include website information and direct information on email, hotline
- Develop key-targeted messages to show the duty of care the organisation has for all stakeholders. There should be timely and concise communications with the latest updates and information
- Constantly communicate with your members
- Putting up health and safety measures for tenants in leased premises

3. Finance

- Urgently review cash flow forecasts and develop several cash flow scenarios (adjusting any underlying assumptions to reflect current environment) to determine how long you can sustain operations using fund/grant income or whether reserve funds would need to be drawn down

- Monitor debts and borrowings and assess whether any facilities can be refinanced
- Forecast and create a response plan for any shortfall in supplies required to service the community and consider alternative sourcing options
- Discuss with critical suppliers' extensions to payment terms
- Consider adjustments to staff pay to reflect business impact, including a short term reduction in pay or deferring payment to free up cash flows
- In Management of property, review the business model and marketing strategy of the rental units which may include considering lowering the monthly rent to attract more tenants as well as opening up completed units for rental

4. Human Resource and Administration

- Have clear and definitive policies in place to protect the health, safety and wellbeing of staff
- Stay up to date with government directives
- Understand your legal position and policies with respect to staff employment and leave entitlements
- Review responsible/key positions and establish deputies in case of unavailability. Establish essential staffing model and explore virtual working environment for staff and volunteers to work remotely if possible by providing work enablers for working from home
- Ensure staff contact details and emergency contact information is up to date
- Emphasise the importance of identifying symptoms and staying at home if any symptoms are shown by staff who have been exposed to the virus
- Reviewing your medical covers and getting in touch with the health providers to understand what is covered and not and how to mitigate the same if employees are infected
- Continue to motivate staff

5. Cyber Security

- Update their Business Recovery Plans
- (BCPs) and remote working policies/practices whilst prioritizing cyber security during post COVID-19 re-strategizing process.
- Appropriate policies and procedures should be in place to ensure members who seek to transfer benefits are aware of the potential for scams.
- Ensure VPN services are safe and reliable. There should be a lot more scrutiny against these services.
- Employees should be advised against using personal computers for official purposes.
- Evaluate the security defences in place and explore the use of co-sourcing with external consultants
- All Board meeting and deliberation to be carried out in a secure platform

6. Pension Administration

**As per guidelines highlighted in the 3rd communique issued by the regulator RBA*



D. Pension Industry highlights from the Budget Statement FY 2020/2021 delivered to the National Assembly on 11th June 2020 by Hon. (Amb.) Ukur Yatani, EGH, Cabinet Secretary for the National Treasury and Planning, Republic of Kenya

The CS made several other proposals in his speech:

1. Risk Management

- Public pension reforms aimed to give retirees a monthly pension rather than a monthly salary as has been the case in the past. In addition to this, the CS has indicated that plans are in place to clear pension payment backlogs by the end of 2020 to pave way for a modernised pension management system, incorporating the formal and informal sectors.
- Development of a National Retirement Benefits Policy to secure the rights of pension contributors and beneficiaries. The Government is also working on the establishment of a National Micro-Pension Scheme to create a model that combines long term savings with short-term needs
- Retirement Benefit Authority Act will impose a penalty to Pension Schemes who fail to submit actuarial valuation reports to the Authority within the specified timeline.

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