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Introduction

Nigeria’s pension legal framework has undergone multiple changes since the first legislative act on pension in 1951 called the Pension Ordinance, which had retroactive effect from 01 January 1946. The last major change was in 2004 with the enactment of the Pensions Reform Act (PRA 2004), which introduced the Contributory Pension Scheme (CPS) and made it mandatory for employers and employees in both the public and private sectors to contribute towards the retirement benefits of employees.

The current pension regime has been designed to maximise the potential of the Contributory Pension Scheme, making provision for the establishment of the National Pension Commission and establishing guidelines for the activities of key players within the Pension Industry.

However, in order to further secure pension fund assets and drive industry growth, a review was made and passed into law in July 2014.
The review of the Pension Reform Act 2004
The review of the Pension Reform Act 2004

The review of the Pension Reform Act 2004 introduced several changes within the pension industry which have key implications for industry stakeholders:

- **Lower Employer Eligibility Requirements**
  - Employers with less than 3 employees and self-employed persons entitled to participate under the scheme
    - Increased contributor enrolment and pension compliance
    - Increased assets under management

- **Setup of Pension Protection Fund**
  - Establishment of a Pension Protection Fund to serve as a hedge for the funding of minimum pension guarantee
    - Pool of funds to provide eligible retirees with a minimum monthly pension
    - Increased cost of operations for key players due to the introduction of an annual pension protection levy

- **Increase in Contribution Rates**
  - Increase in contributions rate from 15% to 18%. A minimum of 10% and 8% for employer and employee respectively. However, employers who choose to bear the full contributions are required to make a minimum contribution of 20%
    - Increased contributions and assets under management
    - Increased staff cost resulting in loss of employment for employees whose employers cannot bear the additional cost
    - Reduction in disposable income plummeting consumption levels and impacting the consumer goods industry
    - Reduced consumption resulting in reduced taxable income for government further impacting the provision of infrastructure
    - Fewer funds available to engage the informal sector in gainful employment

- **Stiffer Penalties for the contraventions of the Pension Reform Act**
  - Curbing of unethical practices and the diversion of pension funds
  - Protection against loss of pension funds
The review of the Pension Reform Act 2004

- PFAs can now invest pension funds in foreign investments albeit within the confines of PenCom guidelines
  - Several investment options available for PFAs

- Introduction of tax exempt status for pension fund investment income
  - Increased voluntary contributions
  - Increased assets under management

- Retirement savings account holders can now withdraw a maximum of 25% of their pension assets as equity contribution towards payment of a residential mortgage
  - Reduced assets under management
  - Increased voluntary contributions
The Nigerian pension industry dynamic levers
Amidst fears that Government may nationalise pension assets to fund budget deficits, and trade unions clamouring for additional pension contributor protection laws, PwC believes that several competitive and dynamic levers will further shape the formation of the Nigerian Pension Industry.

Pension Fund Operators who understand these levers can take advantage of the many growth opportunities that abound within the industry and introduce various innovative products and services to increase their market shares.

The impact of these levers are analysed below:

**Globalisation**

- Entry of foreign players and large financial services organisations due to the industry’s high returns on investment
- Employment of expatriates to bridge the professional skills’ gap
The Nigerian Pension Industry

**The Nigerian pension industry dynamic levers**

### Market coverage
- PFAs adopting new strategies to engage the underserved formal sector market
- Specific products and services targeting the unreached informal sector to cater to its unique needs
- Wider market coverage triggered by the introduction of digital technologies
- PenCom introducing several policies and guidelines to provide the enabling regulatory environment to accelerate market coverage

### Contributor behaviour
- Increase in voluntary contributions due to rising trust in the Contributory Pension Scheme
- Contributors' brand consciousness impacting choice of PFA
- Increased financial literacy leading to demand for better service quality
- Use of social media platforms; influencing and shifting balance of power to contributors

### Demography
- Large labour force accounting for 54% of Nigeria’s population who require pension products and services tailored to their age profiles and risk appetites
- Nigeria’s young which are 44% of total population driving the future demand for long term financial planning, savings and investment products
The Nigerian pension industry dynamic levers

**Insurance**
- Reduction in assets under management due to retirees opting for annuity as opposed to programmed withdrawal

**Industrialisation**
- Pollution as a result of industrialization creating health risks leading to increased demand for life and health insurance type products linked to pension contributions

**Consolidation**
- Mergers and acquisitions within the industry to take advantage of economies of scale

**Competitive rivalry**
- PFAs developing clear client value propositions and targeting specific contributor market segments as the race for leading market share intensifies

**Technology**
- Technological advancements bringing in several non-traditional players who will provide platforms for pension products and services
- Application of analytic tools allowing the industry better understand contributor trends, a prerequisite for the multi-fund structure regime

The Nigerian Pension Industry
PwC
The future pension industry landscape

The advent of personalised pension advisory services, a precursor of Defined Ambition Pension Schemes

The opening of the transfer window allowing contributors to move their retirement savings accounts between PFAs

Fierce competition with brand quality, innovation and quality service delivery being critical for the survival of most PFAs

The creation of shared service centres to handle back office operations

Mergers and acquisitions with many foreign players seeking to invest in the industry

Retirement savings used as equity for mortgages

The introduction of biometric technology to register contributors and update current records

Trade unions clamouring for pension contributor protection laws

The introduction of guidelines by the Regulator on the creation of the Pension Protection Fund which would either adopt or create a Pension Protection Fund Manager

The introduction of a multi-pillar pension scheme which would include the mandatory contributory pension scheme, supplementary industry-wide pension schemes, voluntary pension schemes and additional corporate pension schemes for independent professionals such as medical specialists

The Nigerian Pension Industry
PwC
Taking hold of the advantage

Securing the future will require PFOs taking advantage of the opportunities that abound within the industry.

PwC can assist in the 5 key areas that PFOs will need to address, which are: creating insight, growing revenue, improving efficiency, integrating successfully, and removing complexity.

<table>
<thead>
<tr>
<th>Area of concern</th>
<th>Why is it an issue now?</th>
<th>How we can assist</th>
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<tbody>
<tr>
<td>Create insight</td>
<td>The dearth of accurate analysis of past performance and the inability to make predicted view of future outcomes prevents PFOs from making the right decisions to improve business performance</td>
<td>We deliver diagnostic results to support integration, target setting, integrated business planning, performance reporting and analytics</td>
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<tr>
<td>Grow revenue</td>
<td>Consumer demographics, innovative new technologies, digital capabilities and business models have opened up new opportunities within the pension industry market. Converting these opportunities will increase RSA numbers</td>
<td>We assist Pension Fund Operators to:</td>
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<td></td>
<td></td>
<td>✓ Develop growth strategies and implementation plans</td>
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<td></td>
<td></td>
<td>✓ Select vehicles to deliver growth strategies</td>
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<tr>
<td>Improve efficiency</td>
<td>Support functions are critical in ensuring that organisations realise value from operations. Symptoms of inefficient operations include:</td>
<td>We work with clients in a number of ways, depending on the nature of their issues and the degree to which they have already undertaken some internal diagnosis or solution development</td>
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<td></td>
<td>✓ Inability to respond promptly to contributor enquiries and regulatory requirements</td>
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<td></td>
<td>✓ Cumbersome retiree payment processes</td>
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<td></td>
<td>✓ Inconsistent RSA statement delivery dates</td>
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<td></td>
<td>✓ Overlapping departmental functions</td>
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<tr>
<td>Integrate successfully</td>
<td>The race for leading market share will result in mergers and acquisitions with the key focus on raising value</td>
<td>We assess the synergies, costs and risks of a merger or acquisition. We then develop its business case and provide implementation support</td>
</tr>
<tr>
<td>Remove complexity</td>
<td>Removing complexity creates a Pension Fund Operator that is agile. Thus it can respond effectively to market and regulatory changes</td>
<td>We help by identifying areas of complexity in processes, people and culture, structures and operating models, as well as technology and data. We also help develop customer-focused process models to improve ways of working</td>
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</tbody>
</table>
PwC in action
### PwC in action - Nigeria

#### Development of a 5-year Corporate and Financial Plan

<table>
<thead>
<tr>
<th>Client need</th>
<th>The client wished to develop a 5-year corporate strategic plan to replace its plan which had lapsed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>What we delivered</td>
<td>PwC reviewed the expired strategic plan and measured the organisations performance against its set goals and objectives, identifying areas where performance was below expectations whilst proffering solutions. An environmental situational analysis was also done in order to provide the client with a better understanding of the macro-economic environment within which it operated. We conducted employee surveys and had interviews with management staff to determine the PFA’s corporate culture and proffer solutions on improvement of the culture to drive organisational performance. PwC planned and facilitated a strategic management retreat where the outcome of its analysis was presented and the organisation’s strategic focus was revalidated. The new Plan was developed with input from the retreat and detailed analysis.</td>
</tr>
<tr>
<td>Outcomes &amp; benefits</td>
<td>Through the analysis of the market opportunities, PwC formed a view around the scale of potential opportunities for the PFA within Nigeria and developed strategies on how best to tailor services and products to its customers as well as the factors to consider when offering such services. We identified and mapped out upcoming commercial areas that would best benefit the growth of the PFA and the competitive advantage measures to adopt.</td>
</tr>
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</table>

#### Set up of a Pension Fund Administrator

<table>
<thead>
<tr>
<th>Client need</th>
<th>The client required professional assistance to set up a Pension Fund Administrator.</th>
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<tbody>
<tr>
<td>What we delivered</td>
<td>PwC provided guidance to the client through the organisation setup phase and assisted in the development of all documents necessary to obtain an Approval-In-Principle (AIP) and subsequently an operating licence from the National Pensions Commission (PenCom). <strong>These documents included</strong> • 5-year business plan: This involved a comprehensive pension industry analysis and market assessment • Branch expansion policy • Enterprise-wide Risk Management and Internal Controls Framework • Organisation structure report • IT systems strategy • Succession plan for key officers of the company • Organisation-wide Policy and Procedure Manuals PwC was also involved in coordinating the recruitment process for key management staff as well as designing the staff compensation structure.</td>
</tr>
<tr>
<td>Outcomes &amp; benefits</td>
<td>The client met PenCom’s requirements for obtaining both its AIP and the operating license necessary to conduct pension fund administration in Nigeria.</td>
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</table>
### PwC in action - Nigeria

#### Review of an Approved Existing Scheme

<table>
<thead>
<tr>
<th>Client need</th>
<th>What we delivered</th>
<th>Outcomes &amp; benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>The client required a diagnostic review of its existing defined benefit pension scheme to ascertain its sustainability and determine key areas for pension fund performance improvement.</td>
<td>PwC performed the diagnostic review and proffered advise on its target operational framework.</td>
<td>PwC identified the key areas for improvement and assisted the client in designing a transformation pathway required to achieve operational excellence.</td>
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</table>

#### Key activities undertaken included:

- Reviewed and evaluated the DB pension scheme as currently operated and identified areas for improvement in compliance with the Pension Reform Act 2014 and PenCom guidelines and regulations;
- Reviewed the governance risk & compliance framework and identified improvement opportunities;
- Advised on the modalities for the implementation of the Contributory Pension Scheme (CPS) for employees that will be migrated to the CPS;
- Provided case studies from other jurisdictions to guide and address the issues arising from the administration and management of the Defined Benefits Scheme;
- Advised on appropriate investment strategies for the organisation’s pension fund assets, including its real estate assets within the provisions of the PRA 2014 and PenCom guidelines and regulations.
### PwC in action - Regional

#### Investment Strategies Impact Assessment

<table>
<thead>
<tr>
<th>Client need</th>
<th>The client required an impact assessment of their investment strategies on potential retirees pension assets.</th>
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<tbody>
<tr>
<td>What we delivered</td>
<td>PwC conducted an investigation into the current investment strategies employed by the South African Pension Fund and the impact that these investment strategies (and other associated factors such as contributions rates) would have on the expected replacement ratio (RR) of members when they retire. The analysis was performed by constructing a suitable model to project the investment return on the underlying assets. The models took into account the expected return on the main asset classes, the volatility of the asset classes and the correlation between the returns on various asset classes. The Model allowed for calculation of:</td>
</tr>
<tr>
<td>• The expected net replacement ratio (NRR) at retirement, based on the current retirement age and contribution rate;</td>
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<td>• The sensitivity of the NRR to various factors;</td>
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<tr>
<td>• The probability distribution of the NRR (i.e. the range of values that the NRR can take on and its associated probabilities of occurrence).</td>
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<tr>
<td>Outcomes &amp; benefits</td>
<td>PwC presented the client with a robust model which clearly revealed the impact of the clients investment strategies. We advised on how to improve the existing investment strategies in order to obtain optimal yields on investment.</td>
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#### Asset Liability Modelling

<table>
<thead>
<tr>
<th>Client need</th>
<th>The public sector organisation sought a review of its asset liability management strategies.</th>
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<tbody>
<tr>
<td>What we delivered</td>
<td>PwC advised on the organisation’s asset liability management strategies, reviewed the cash flow schedules for the strategy and the asset valuations for a large South African city’s liability redemption funds. These funds were set up to manage assets and cash flows so as to ensure that the city’s liabilities with regards to bonds issued (COJo4, COJo5, etc.) were met as and when due on the South African Bond Exchange.</td>
</tr>
<tr>
<td>Outcomes &amp; benefits</td>
<td>PwC produced an asset liability model which showed the cash flows of a range of assets and derivatives to meet the city’s needs.</td>
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</table>
## PwC in action - Global

### Design of a Target Operating Model

| Client need | The organisation needed to modernise its delivery model at the same time as delivering a range of other mandated change activity. The client wanted to ensure that any new operating model would balance the needs of the members / customers, whilst also offering the tax payer best value for money.

PwC was engaged to define a Target Operating Model which would deliver against the client’s requirements whilst also taking account of the existing change programme and operating model constraints. |
|---|---|
| What we delivered | PwC worked with the senior management team to design a new Target Operating Model around an agreed set of principles, which included how to place members at the centre of the service, how to achieve cost savings, how to encourage members to channel shift to promote self-service, etc.

Once the Target Operating Model was accepted, three Interim Operating Models were produced to assist the client on its journey. These were designed to make the transition to the Target Operating Model both manageable and easy to understand by those affected by the change.

The Interim Operating Models were:

* Re-Organise: This stage focused on putting in place the right structure, moving people into newly created roles, retraining staff and performing a number of “quick win” changes to deliver immediate benefits and thus free up staff to help with the latter changes.

* Re-Tool: This model delivered better systems (greater calculation automation, enhanced system integration, reduced manual hand-offs, etc.) to staff delivering the service.

* Re-Cast: This model recast the service for members by delivering the capability for them to largely self-serve. |
| Outcomes & benefits | PwC presented the client with a tangible, well structured and ambitious Target Operating Model upon which to transform its business. All staff, from the senior team to those administering the scheme were bought on-board and are now actively working towards achieving the first Interim Operating Model. The model once implemented will deliver significant cost savings, reduce risk and errors and enhance the member’s experience of the service. |
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Creating the value that matters to you

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