Bright Africa 2020 Pension Industry

Modernising pension policies to future-proof long-term savings

This research highlights how African demographics are evolving and the impact of this on long-term savings.

Powered by RISCURA

Foreword

Since its inception in 2013, Bright Africa has taken various forms depending, in part, on the availability of meaningful data in any given year. Overall, the intention has been to set the scene for investment into Africa, primarily by institutional investors, by looking at the drivers and enablers of investments, and the challenges and changes apparent in the current investment landscape. It is an ongoing research endeavour presented by RisCura together with external resources and data, and showcases our unique, on the ground perspective.

The economic, health and social disruptions caused by the COVID-19 pandemic have been far-reaching and have naturally impacted the investment scene. There is much to consider and no doubt there will be even more when further data becomes available. The pandemic has also accelerated what was already a fast-changing environment, where information can quickly become out of date. To avoid this, as well as the information becoming too much to digest, we have decided to break the research into discrete reports to be released over the next few months. These will cover:

- Private Equity
- Pension Funds
- Listed Equity
- Sovereign Bonds
- Real Estate

About Bright Africa

Bright Africa was first launched in 2013 and is RisCura's research resource that seeks to answer investors' questions by providing insight into Africa.

About RisCura

RisCura is a purpose-driven global investment firm that offers investors unique insights and guidance to help shape the future world we all want to live in whilst still achieving and exceeding financial goals for its clients.

RisCura is known for its leading focus on liability-driven investing, responsible investment practices, investment transparency, reliable valuations, independent risk assessments, world-class performance standards and excellent returns, which has brought about a major systemic shift in the African investment landscape. Through constantly exploring new ways to invest with care and meet the needs of clients, RisCura finds unique investment opportunities for its clients.

Today RisCura advises clients with combined assets of more than $150bn. The company strives to steer global capital towards investments that benefit society and the planet in the long run.

RisCura has won numerous industry awards. The firm has a big Africa-focus: with a footprint in South Africa, United Kingdom, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia and Ireland.

For more information about its investment services and approach, visit the RisCura website: https://www.riscura.com

Introduction

The latest Bright Africa Pensions research highlights how African demographics are evolving and the impact of this on long-term savings. There is no doubt that Africa's population is and will remain the world's largest youthful cohort for a long-time to come, so serious thought, planning and innovation are urgently required to address the risk of individuals outliving their retirement savings.

Research conducted by Albouy and Nogues (2019) shows that globally, life expectancy measured at age 65, has grown from 13.3 years in 1970-1975 to 16.6 years in 2010-2015 and is expected to reach 21.8 years in 2095-2100. Africa is also ageing, though at different paces depending on the region. The estimates for the elderly (continent-wide) are astounding.

Estimated at 13.1 million people aged 65 or more in 1975, this figure increased to 41.3 million people in 2015 and is expected to reach 150.6 million people in 2050 and 652.4 million people in 2100. It is critical for savings to take place for this cohort and more importantly, for savings to sustainably grow in tandem with this inevitable demographic transition.

We have also looked at how long-term pools of savings are growing and transitioning their asset allocations to attune to the ever-changing social and economic environment. African pension funds are the largest pool of institutional capital on the continent, with an estimated AUM of approximately USD 350bn. Although slow, we are witnessing a progressive rebalancing of long-term savings away from domestic fixed income to equities and alternative investments.

The rebalancing of asset allocations is taking place as a result of sensible reforms underway by a number of pensions and social security regulators, in consultation with capital market authorities. As Africa (along with the result of the world) charts a way forward post-COVID-19, a common narrative across many African countries is the awareness that current pensions policy and regulation need to modernise to future-proof long-term savings, particularly because of changing demographics.

1. Pension coverage and Africa's informal economy

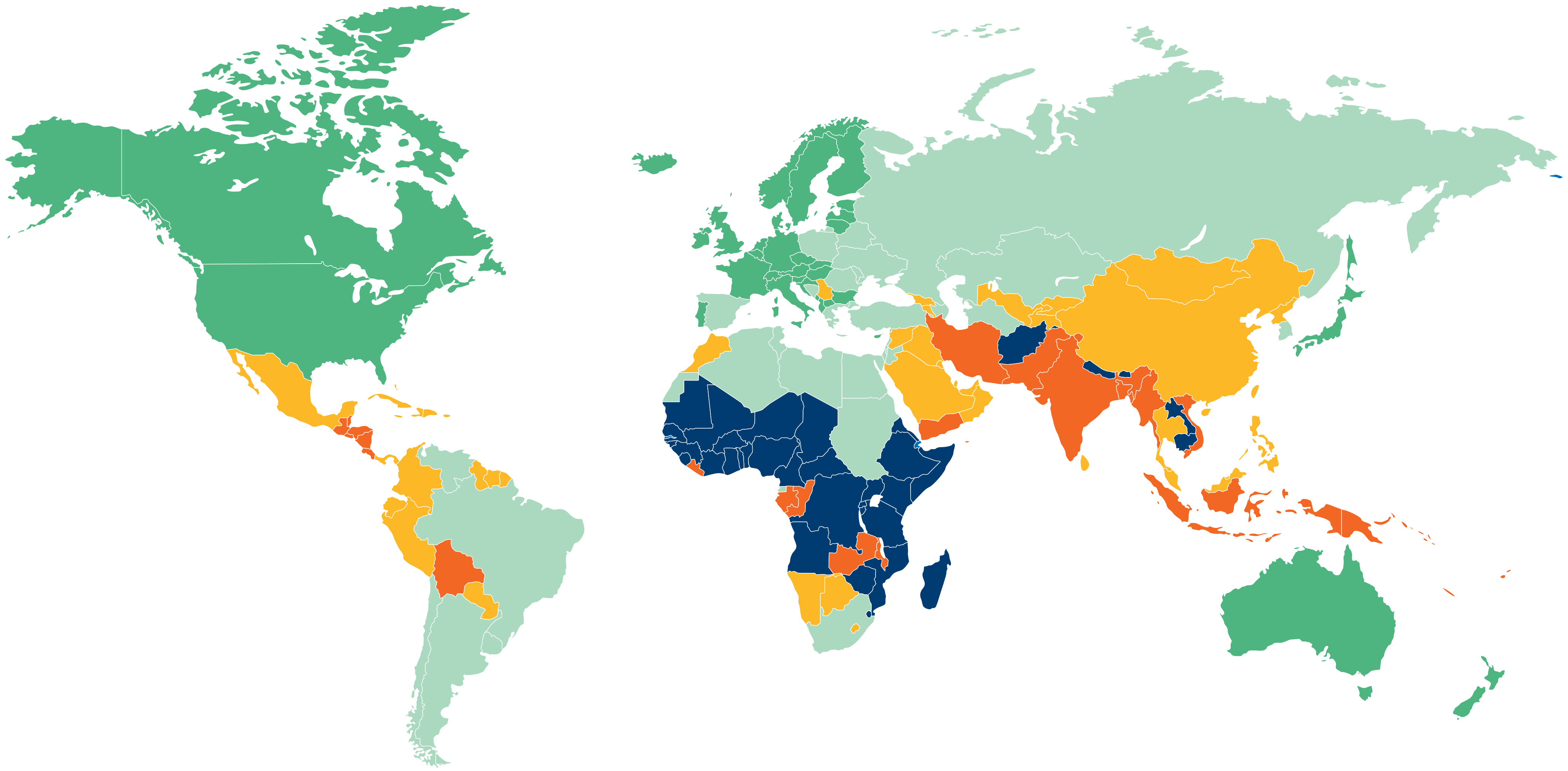
Most people in Africa lack social protection. A common narrative across the continent is that social protection is only possible for the small percentages of populations in formal employment. A large informal sector has created a dual challenge. Not only are workers in informal employment difficult to target, but they also only contribute slightly, if at all, to overall tax collection.

> *According to the International Labour Organization (ILO), two billion of the world's employed population aged 15 and over work informally; for Africa of total employment numbers, 85.8% are informally employed.*

Informal sector employment does however contribute to Africa's economic productivity. The agricultural sector, which predominantly employs seasonal workers informally, remains a high proportional contributor to Gross Domestic Product (GDP) for most African countries. Clearly, this presents limitations to traditional long-term savings products, like pensions.

Share of informal employement in total employment

Including and excluding agriculture (percentages, 2016)



LESS THAN 20% | 20% - 49% | 50% - 74% | 75% - 89% | 90% AND OVER

Source: International Labour Office, Bureau of Statistics, 2018

A 2016 study by the National Bureau of Statistics (Nigeria) on the contribution to GDP of the formal vs. informal sectors found that the informal sector accounted for 92% of agriculture GDP in 2015. In Nigeria, only 10.5 % of the workforce is formally employed and covered by the Contributory Pension Scheme (CPS) of the National Pension Commission (PenCom). Nigeria, Africa's largest economy and most populous country, is proactively looking to solve this dilemma. These metrics point to a situation that if not urgently tackled will result in most Nigerians having negligible lifetime savings and possibly spending their old-age in abject poverty.

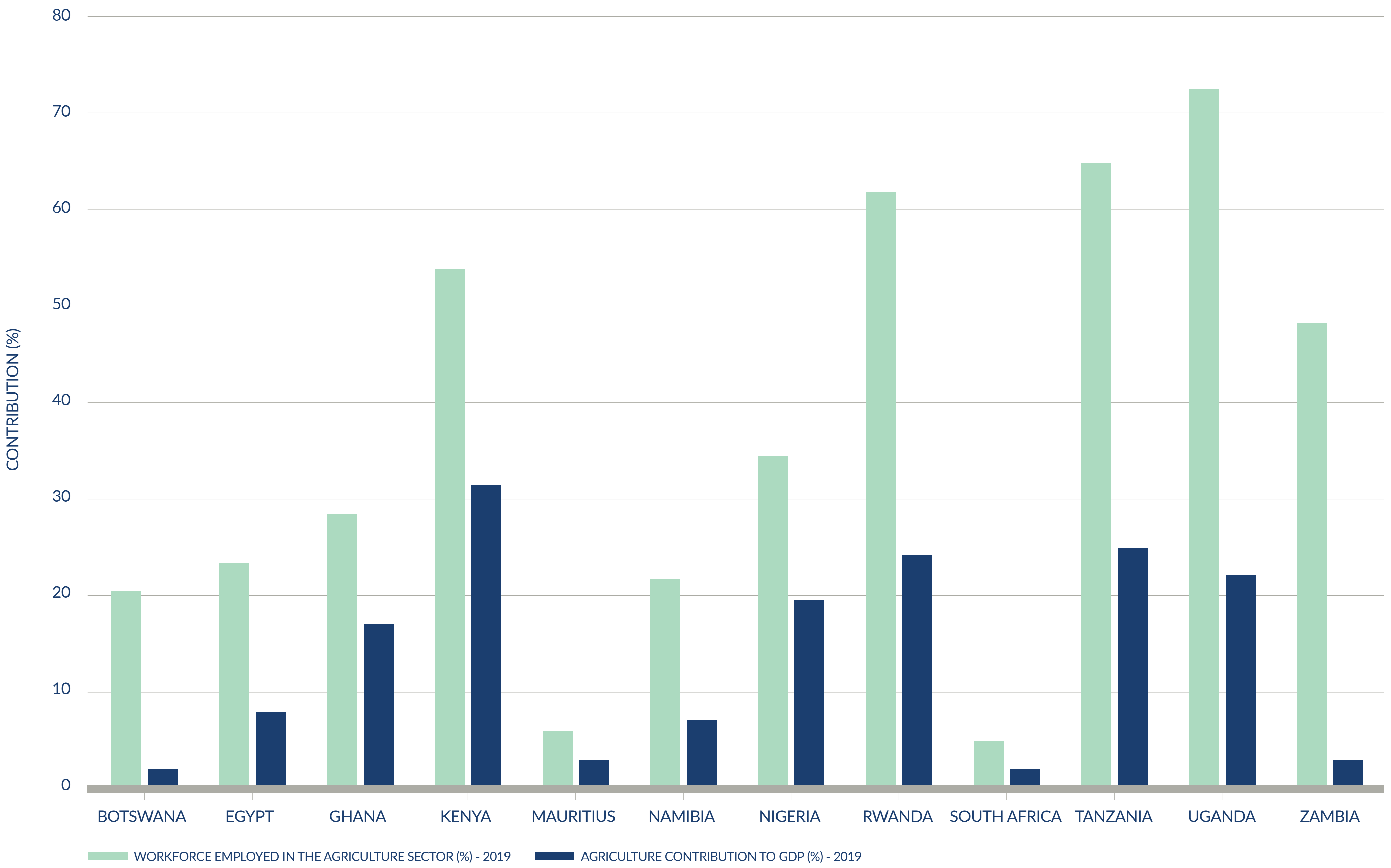
> *Nigeria can serve as an important litmus test for other African countries that are contemplating innovative alternative pension savings for their respective informal sectors.*

Several countries including Rwanda, Nigeria, Kenya, Ghana, South Africa and Uganda are at various stages of crafting inclusive and affordable micro-pension schemes targeting their large informal sector workforce. PenCom wants to cover 30% of the working population under the Contributory Pension Scheme (CPS) by 2024. The Micro Pension Scheme is an important tool in achieving this.

Statistics provided by PenCom speak to an encouraging start:

	March 2020	September 2020
RSA FUND V (Value NGN mn) [a]	9.60	32
Total RSA Registrations [b]	8,998,580	9,039,748
Population age 15-59, both sexes combined [c]	107,194,000	
Penetration [b]/[c]	<1%	

Agricultural sector employment and contribution to GDP



Source: AVCA, RisCura analysis

Below is the population pyramid of Africa as modelled by the United Nations Department of Economic and Social Affairs: Population Dynamics. With 59.8%% of Africa's current population under the age of 24 and only 3.4% of the current population of the age of 65, current policies on savings in Africa may be lulled into a false sense of security, given Africa's current youthful cohort.

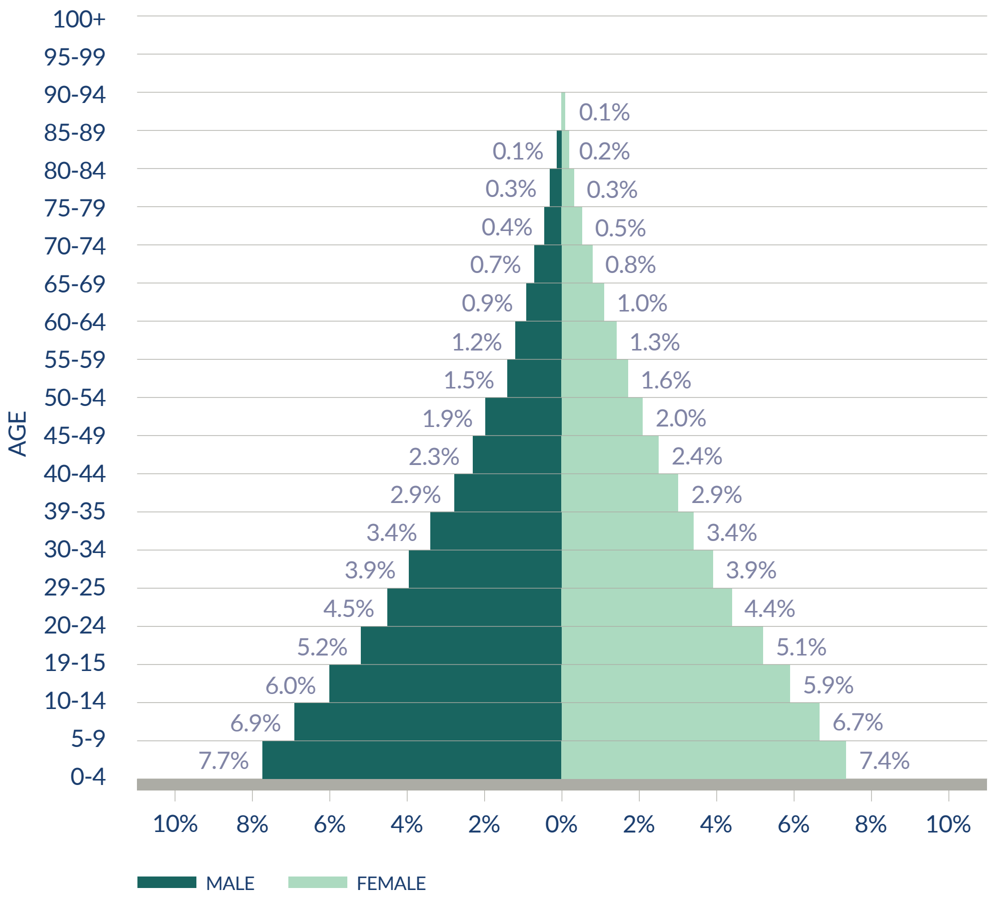
However, it is important to fully consider the changing demographics of Africa. With medical advances, better nutrition, and overall improvements in the general standard of living, Africans are living longer. The continent's current youthful cohort will represent a sizeable number of individuals who need to draw on savings during their retirement. Without progressive reform to the pensions and savings environment, (particularly for those in the informal sector), governments across Africa are likely to face mounting pressure to provide appropriate social welfare. Currently, the global population of +60-year-olds is slightly over 1 billion, with Africa contributing 74 million (7%). By 2060, the global population of +60-year-olds will be approximately 2,3 billion (x2 growth), with Africa contributing 300 million (13%) of the total.

To avert fiscal and social stress, policy-making on pensions and social security in Africa needs to quickly move to enable affordable, convenient, and secure micro-pension products to be established.

Technology (fintech) is proving to be a key enabler of financial inclusion and pension provision in Africa. Countries like Rwanda are demonstrating that national projects incorporating national identification, technology, and high mobile-phone penetration, can be harmonised towards financial inclusion and a broad-based adoption of savings products. The United Nations Population Division records Rwanda's current population at 12.9 million, with 7.2 million aged between 15 – 59 (by definition, the economically active population cohort).

Population Pyramid Africa 2019

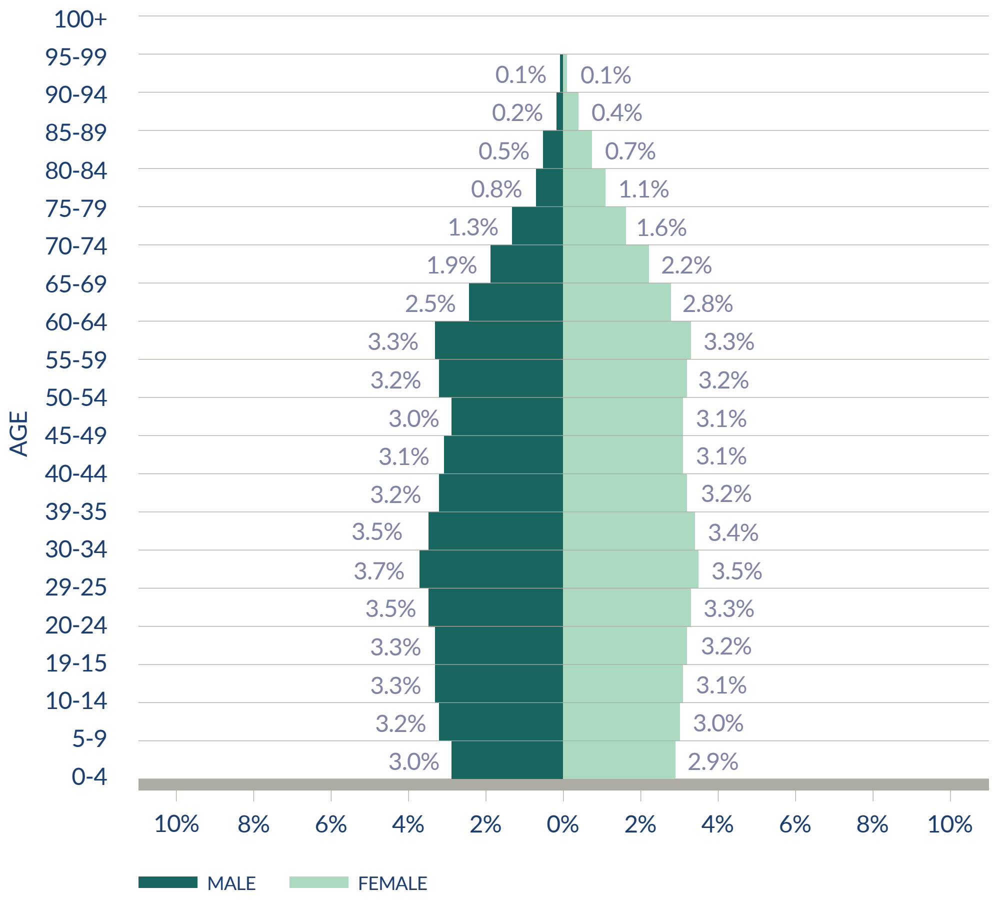
POPULATION 1,308,064,176



Source: United Nations Department of Economic and Social Affairs: Population Dynamics

Population Pyramid United States of America 2019

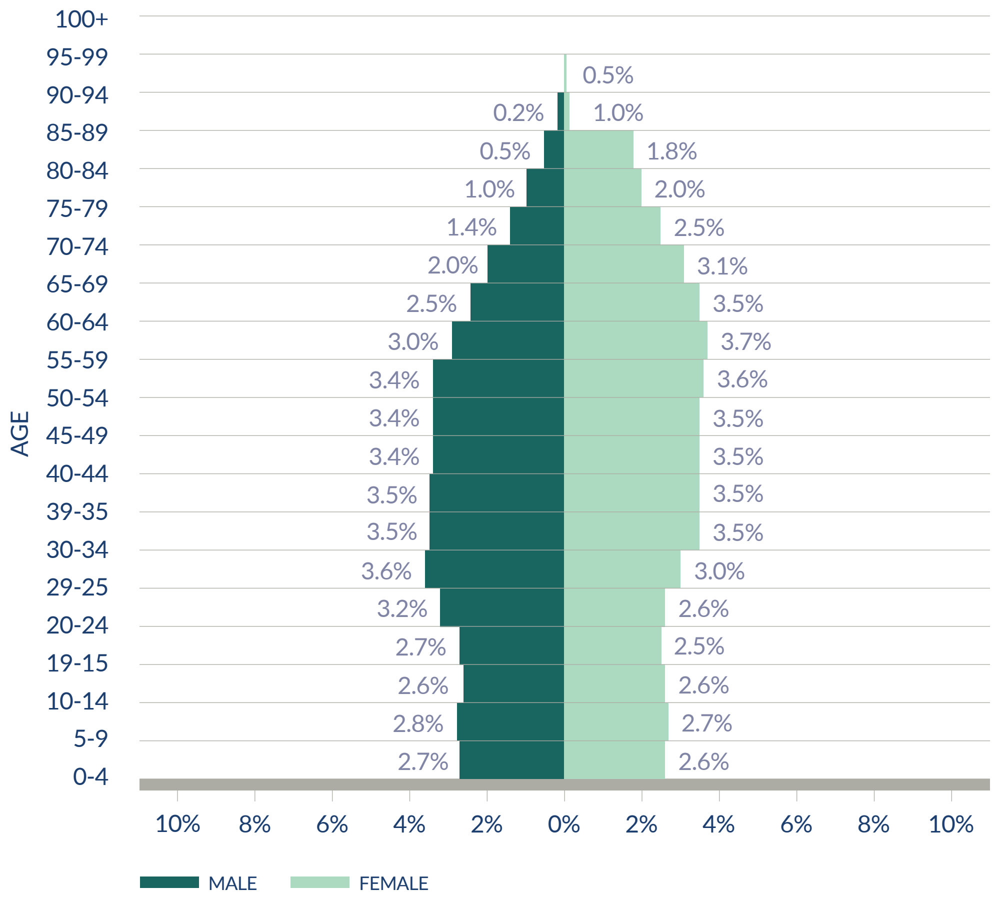
POPULATION 329,064,916



Source: United Nations Department of Economic and Social Affairs: Population Dynamics

Population Pyramid Europe 2019

POPULATION 747,182,815



Source: United Nations Department of Economic and Social Affairs: Population Dynamics

As of 30 June 2020, the Rwanda Utilities Regulatory Authority (RURA) recorded 9.8 million active mobile subscriptions (75% of the population). This serves as an important platform for the delivery of a broad range of financial services, including micro-savings products. Around three in five adults in Rwanda use mobile money, compared to just over one in three adults in Rwanda that use banking services. Digital financial services delivered via mobile platforms present the best means for fast-tracking financial inclusion and savings on the continent. The Rwanda Fin Scope Survey, 2020 provides ample anecdotal evidence to support this notion, where mobile money is the financial services facility closest to most of the population.

Average time taken to destination by provinces

In minutes:seconds

Destination	Kigali City	Southern Province	Western Province	Northern Province	Eastern Province	National Average
Umurenge Sacco	21:25	45:38	43:55	41:77	43:42	**38:86**
MTF's	22:74	48:68	47:18	47:01	47:96	**41:16**
Bank Branch	22:78	50:20	49:03	48:06	48:25	**42:85**
ATM	22:06	49:23	48:68	49:86	47:67	**41:21**
Mobile Money Agent	8:96	23:62	23:76	22:26	17:49	**18:78**

Source: Rwanda Fin Scope Survey, 2020

2. Africa's pension fund assets

The COVID-19 pandemic's impact on the global economy and the financial system has many significant implications for pension funds, particularly after the resurgent gains experienced by global pension funds during 2019. According to the OECD, assets in pension funds rebounded in 2019, following a decline in 2018, growing by 13.9% in the OECD area and by 11.3% in other reporting jurisdictions. Pension fund assets (for OECD countries) rose to US$32.3 trn in 2019, however, the impact of the COVID-19 pandemic on global capital markets reversed some of these gains. Amongst OECD countries, the US remains the largest market, with assets in pension funds and all retirement vehicles at the end of 2019 at US$18.8 trn. The United Kingdom was the second largest pensions market, at US$3.6 trn.

A common way to determine the significance of pension assets to a country's economy is the pension assets to GDP measure. Our review uses a sample of ten countries in Africa, representing approximately 81% of Africa's 2019 GDP as measured by the IMF, and comprises those countries with significant economic influence in each region.

Simply looking at pension assets to GDP can at times belie the significant progress being made in African countries to develop and formalise saving. As Africa's largest economy, Nigeria's pension assets to GDP appears paltry, at 6%, particularly when compared to countries like South Africa or Namibia, which report 66% and 87% respectively. Nigeria is however starting to see early gains from the progressive pension fund reforms that began in 2004. For example, in 2004, PenCom records reflect no contributions from the private sector to pensions. Significantly, 2014 marked the year private sector contributions surpassed public sector contributions, and now remain in parity or slightly outstripping public sector contributions. Using the current exchange rate (circa NGN381: US$1) the public sector's annual pension fund contributions in 2004 were circa US$41m; for 2019 total annual pension fund contributions from private and public sectors amounted to circa US$1,8 bn, with the private sector contributing 53% and public sector 47%. The average year-on-year growth of pension contributions in Nigeria (2014 – 2019) has been 5% per annum.

Although South Africa's 66% ratio of pension assets to GDP surpasses the average of 60% (per OECD Global Pension Fund Statistics, June 2020) most African countries' pension assets to GDP remain well below the 60% average.

Namibia consistently achieves the highest ratio in our Africa sample, now at approximately 87% from 80% in our previous edition of Bright Africa.

According to the 2019 annual report of the GIPF, Namibia's largest pension fund, the fund's long-term growth can be attributed to good investment returns due to a diversified investment strategy and a strong asset allocation process. Local asset requirements compel Namibian pension funds to hold 45% of contractual savings locally. As there are very few opportunities to invest in the Namibian Stock Exchange (NSE), this regulation enables Namibian pension funds to seek viable long-term opportunities, while avoiding and limiting potentially bad investments in the process.

The composition of African long-term assets mimics the global picture, where a few countries claim the largest proportion of long-term savings. In Africa, 95% of the assets are concentrated in South Africa, Nigeria, Kenya, Namibia, and Botswana. Within these countries, several large funds also tend to dominate. Examples include the GEPF in South Africa, the GIPF in Namibia, the Botswana Public Officers Pension Fund (BPOPF) in Botswana and the National Social Security Fund (NSSF) in Kenya. While in Nigeria assets are allocated across several Pension Fund Administrators (PFAs), there is a large concentration of pension assets with a few PFAs, with the top five PFAs accounting for 65% of pension fund assets.

In global terms, African pension assets are comparatively small, but growing. With aligned and proactive regulatory reform along with the ability to leverage digital and mobile technology to increase coverage, savings in Africa are set for compelling growth.

Global Pension Fund Statistics, June 2020

Region	Country	Currency	Currency Code	Year	AUM (USD) million	GDP (WB 2019) million	AUM as % GDP
Nigeria	Nigeria	Nigerian Naira	NGN	2019	26,535	448,120	6%
South Africa	South Africa	South African Rand	ZAR	2019	231,000	351,432	66%
Egypt	Egypt	Egyptian Pound	EGP	2018	4,921	303,175	2%
East Africa	Kenya	Kenyan Shilling	KES	2019	11,965	95,503	13%
	Tanzania	Tanzanian Shilling	TZS	2015	5,208	63,177	8%
Southern Africa (excl.) RSA	Mauritius	Mauritian Rupee	MUR	2019	3,194	14,180	23%
	Namibia	Namibian Dollar	NAD	2019	13,540	12,367	109%
	Botswana	Botswana Pula	BWP	2018	6,792	18,341	37%
	Zambia	Zambian Kwacha	ZMK	2018	432	23,065	2%
West Africa	Ghana	Ghanaian Cedi	GHS	2017	3,844	66,984	6%
					307,430	**1,396,343**	

Source: Regulatory annual reports, RisCura

3. Asset Allocation

In most OECD and many non-OECD countries, bonds and equities remain the two predominant asset classes for pension funds. For the selected pension funds within this report, South African, Botswanan, and Namibian asset allocations continue to reflect greater allocations to equities, more so than OECD countries. For the rest of the African countries, the picture continues to illustrate a skew to fixed income. Higher yield local currency government bonds remain comparatively more attractive than public equities for Nigeria, Zambia, and East African asset allocators. Regulation continues to be the single most important determinant of asset allocation decisions in African countries. Amendments to regulations to enable greater allocation to alternative assets remains a discussion point with many pensions' regulatory and supervisory authorities.

However, the development of the market may not be as rapid as changes in regulation. By way of example, in Kenya, the upper limit for exposure to private equity of 10%, was established in 2016. As of June 2020, the total allocation to private equity according to the published statistics from the Retirement Benefits Authority (RBA), remains at less than 1%. This speaks to the fact that asset allocation reflects several factors, including familiarity with alternative asset classes such as private equity, development of local capital markets, and availability of investment opportunities.

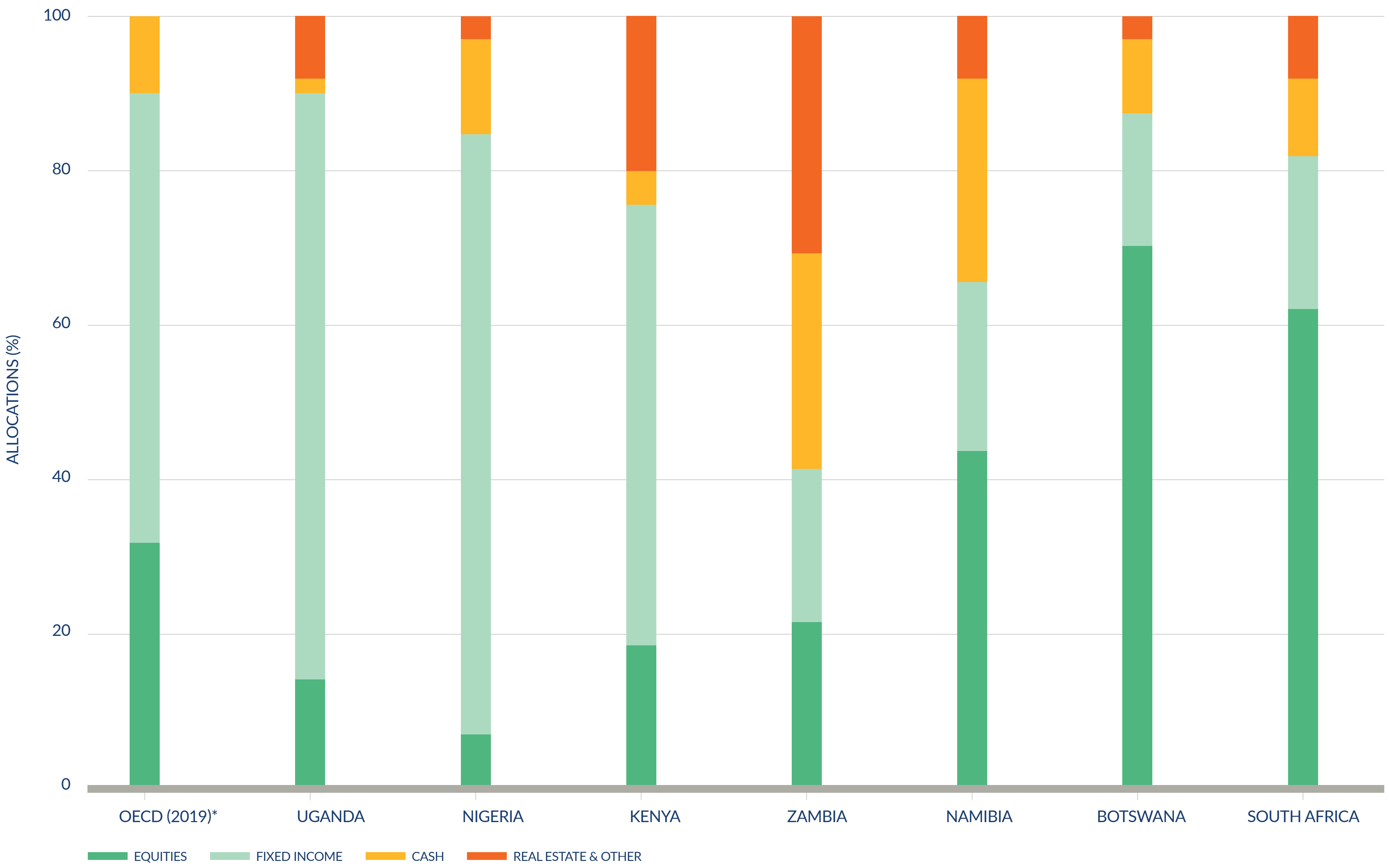
In many countries, assets are growing much faster than products are being brought to market, limiting investment opportunities if regulation does not allow for pension funds to invest outside of their own countries.

Regulation is not staying stagnant. African regulators are alert to the transformative potential that technology presents for the continent. The current COVID-19 pandemic brought to light the need for African regulators to respond quickly to the rapidly evolving financial technology, or fintech, landscape. To that end, more African regulators appreciate the need to enable novel and emerging financial products and services to be created that may not meet all (current) regulatory requirements. Regulators in Africa are progressively adopting internationally recognised fintech regulatory sandbox regimes as a solution.

There are now regulatory sandboxes that have either launched or are in the design phase in South Africa, Kenya, Sierra Leone, Mauritius, Mozambique, Uganda, and Nigeria.

A sandbox allows financial institutions to test their products, services, or solutions in the market under a more relaxed regulatory environment but within a well-defined space and duration agreed with their regulators. In some jurisdictions, although sandboxes have not been established, regulators have nonetheless sought to put in place a supportive regulatory environment.

Pension fund asset allocations (2018/2019)



Source: Regulatory annual reports, RisCura

Conclusion

The prospect of a seismic growth in the elderly population on the continent and the fact that over 85% of working Africans are employed informally pose unique challenges to the African pension fund industry. However, progress is being made in tackling these issues. Regulators are reviewing legislation, governments are experimenting with unique solutions such as micro-pensions, asset allocations are changing to allow for greater long-term growth and across the continent, the high rate of mobile penetration is being viewed as a significant opportunity to innovate.

The road ahead will be thorny, and no doubt full of delays, but awareness of the problems is there, coupled with firm intentions to solve them.

Pension Funds Highlights

Powered by RISCURA

Africa's life expectancy on the rise

Life expectancy globally is expected to grow. Africa is also ageing and estimates for its elderly below are astounding.

13.1 million people aged 65 or more in **1975**

41.3 million people in **2015**

150.6 million people in **2050**

652.4 million people in **2100**

Fintech offers financial inclusion to Africa's informal economy

Technology (fintech) is proving to be a key enabler of financial inclusion and pension provision in Africa. Rwanda has a high mobile-phone penetration that serves as an important platform to access financial services, like micro-savings products.

9.8 MILLION Rwanda population

72 MILLION AGED between 15 economically active

9.8 MILLION active mobile subscriptions

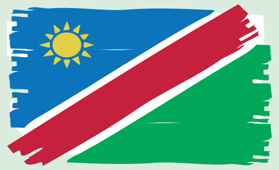
Pension assets to GDP (% as at 2019)

66% SOUTH AFRICA

6% NIGERIA

13% KENYA

23% MAURITIUS



109% NAMIBIA

*Local asset requirements compel Namibian pension funds to hold **45%** of contractual savings locally and enables Namibian pension funds to seek viable long-term opportunities, while avoiding and limiting potentially bad investments in the process.

Assets are growing much faster than investable products, limiting opportunities. Adopting internationally recognised fintech regulatory sandbox regimes to help create financial products that may not meet all (current) regulatory requirements are being adopted by:

- SOUTH AFRICA
- KENYA
- SIERRA LEONE
- MAURITIUS
- MOZAMBIQUE
- UGANDA
- NIGERIA