

ACTUARIAL STUDY ON PENSION BUSINESS IN KENYA

PRESENTED TO AKI LIFE COMPANIES ON
27TH APRIL 2023



Actuarial Services (E.A) Ltd.

Pension | Insurance | Financial | Investment | Risk | Health | I.T

PRESENTATION STRUCTURE

- Objectives of the study
- Industry Experience
- Data Analysis
- Industry proposals
- Recommendations
- Conclusions

OBJECTIVES OF THE STUDY

- AKI appointed ACTSERV to conduct an actuarial study on pensions business in Kenya.
- The specific objectives in relation to the study were:
 - a) To demonstrate the impact of the one-year transfer window on guaranteed funds and make recommendations on the most preferable transfer window.
 - b) To conduct an in depth study of the size of both the annuity and income draw down book for the industry and their growth over the past five-year period.

OBJECTIVES OF THE STUDY (2)

- c) To demonstrate and compare the profitability of annuity and income draw down products for a life insurance company and give recommendations on strategies that would improve the profitability of each product.
- d) To conduct an in-depth study of the post-retirement medical products currently available in the industry, growth prospects, any challenges, and recommendations of how the product can be improved.

Impact of Reduced Transfer Period on Guaranteed Funds

Challenges

- a) Liquidity challenge where assets have to be liquidated in order to meet a transfer request.
- b) Change in investment structure for some small-sized and medium-sized funds.
- c) Reduced interest rate and fund growth for funds that are making the transfers out.

INDUSTRY EXPERIENCE (2)

Merits

- a) Protection of policyholders from low-interest rates and poor administration services.
- b) Fast-tracked growth for funds that are receiving the transfers as they get more amounts to invest within a shorter period.
- c) Ease of claiming processes for members.
- d) Ease of accounting for fund managers.

INDUSTRY EXPERIENCE (3)

Annuity Product

- The annuity book has a slow rate of growth because claims are deducted from premiums collected and they adopt a conservative investment policy that translates to lower interest rates.
- However, in cases where the inflows are higher than the outflows, the annuity books will grow rapidly.
- There is a capital strain to insurer in cases where they are reserving at a lower interest rate than the discount rate used in pricing.

INDUSTRY EXPERIENCE (4)

- Annuities expose the shareholders to loss in cases where the liabilities exceed the assets as they have to pump in funds to cater for the deficit.
- Annuities have high administrative costs because they require several teams to meet the requirements for provision.

INDUSTRY EXPERIENCE (5)

Comparison Between Annuities and Income Draw down

➤ **To Providers:**

- a) Income draw downs are safer as they do not have the elements of reinvestment and longevity risks that characterize annuities.
- b) Annuities may require a high reserve ratio and conservative investment as opposed to income draw downs thus translating into lower profitability to insurers.
- c) Where the actual experience of an annuity product matches its pricing assumptions, it may be more profitable than IDD's.

INDUSTRY EXPERIENCE (6)

➤ To the Policyholders:

- a) Annuities are safer as the policyholder is not the one who bears the investment and longevity risks, except in the case of index-linked annuities.
- b) Annuities offer a guaranteed income during their term as opposed to IDD's. For IDD's the income is based on the investment income, drawdown rate and a member's lifespan.
- c) IDD's offer members the opportunity of earning a higher interest rate and being shorter-term products, they are less volatile to inflation risks.

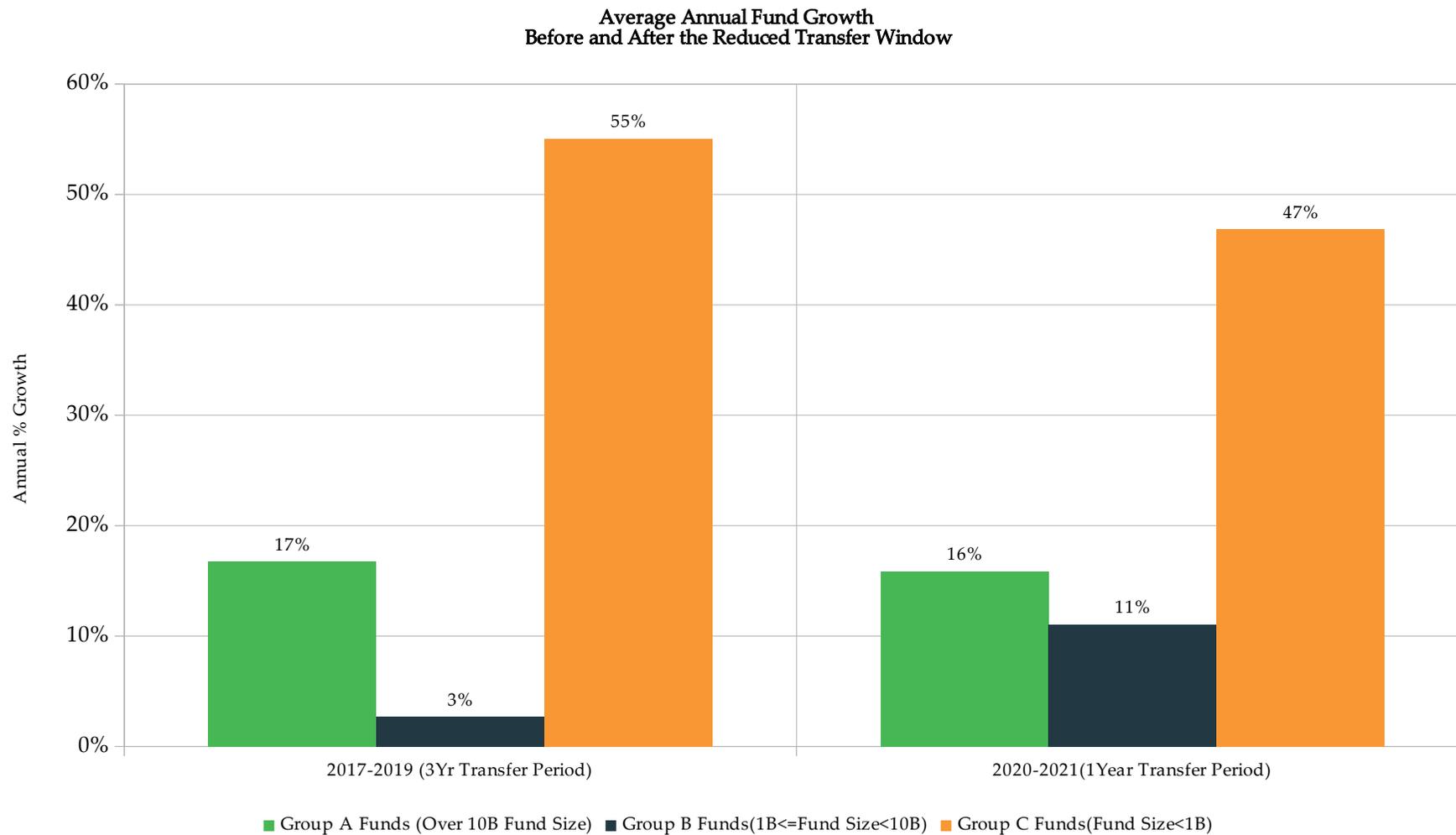
Post Retirement Medical Products

- There are very few insurance companies that have set up the Post Retirement Medical Plans. Moreover, the few registered plans have had little to no uptake.
- PRMP is a good incentive for pension schemes.
- It will serve best people with more than 10 years to retirement as they get to save more. However, the regulator has made a provision to allow members to utilize up to 10% of their retirement savings to enhance their post retirement medical savings.

INDUSTRY EXPERIENCE (8)

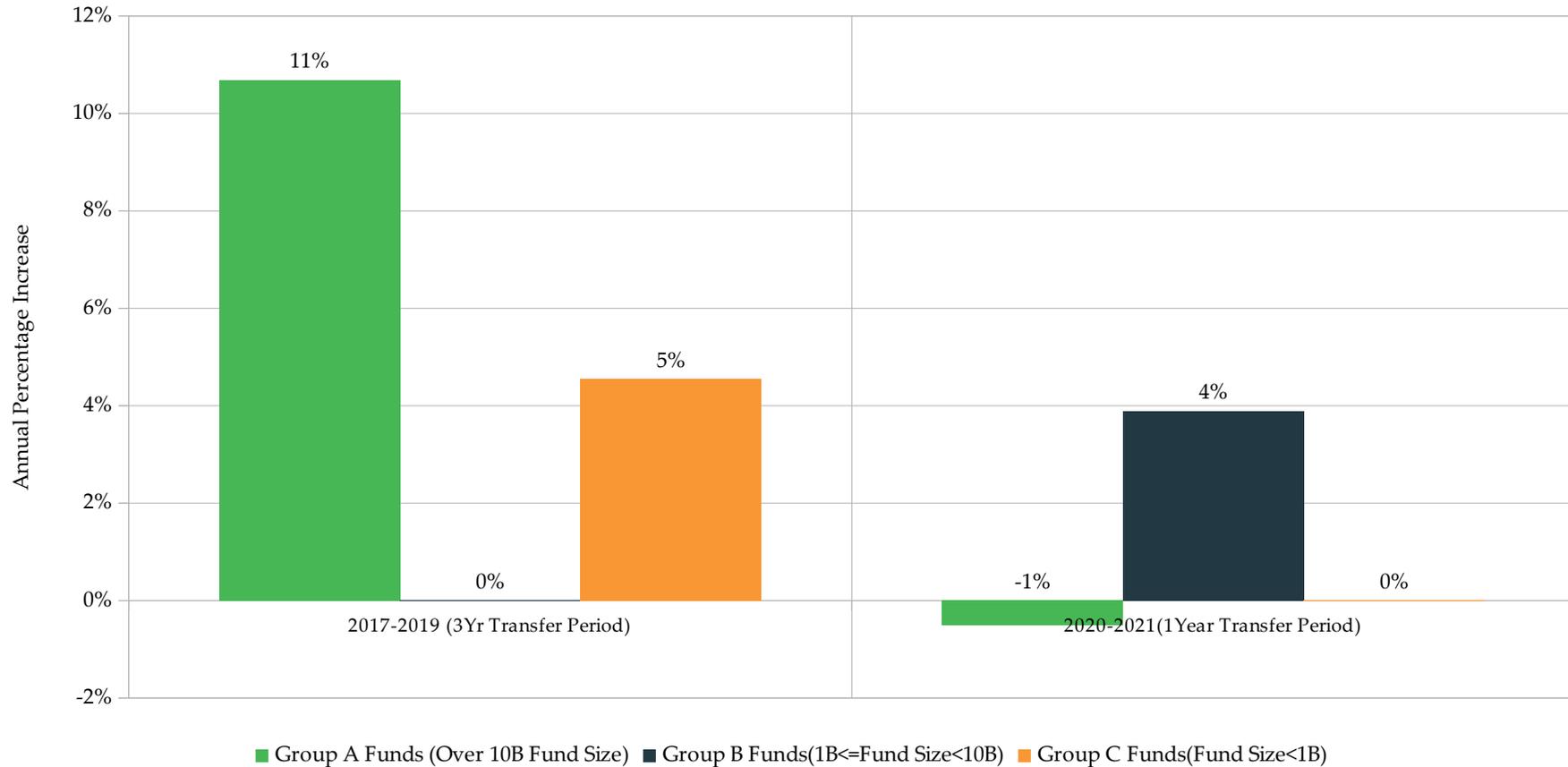
- Some reasons for the low uptake included:
 - a) Lack of awareness in the general public.
 - b) Competing interests with other products.
 - c) Most schemes are still amending their trust deeds or up-scaling / modifying their systems to cater for the PRMF aspect.

Experience of Reduced Transfer Period on Fund Growth



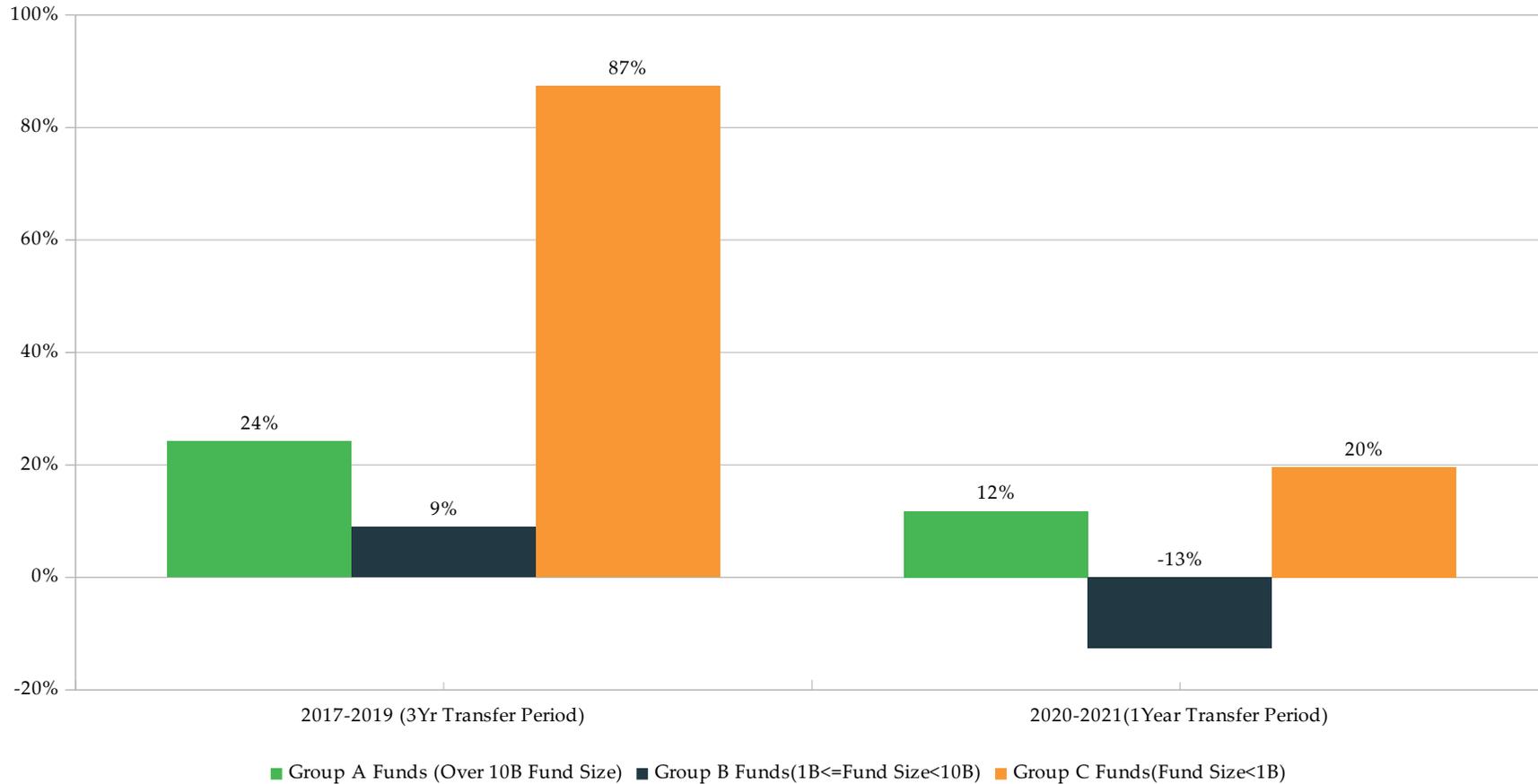
Experience of Reduced Transfer Period on Membership

Membership Statistics Before and After Reduced Transfer Period



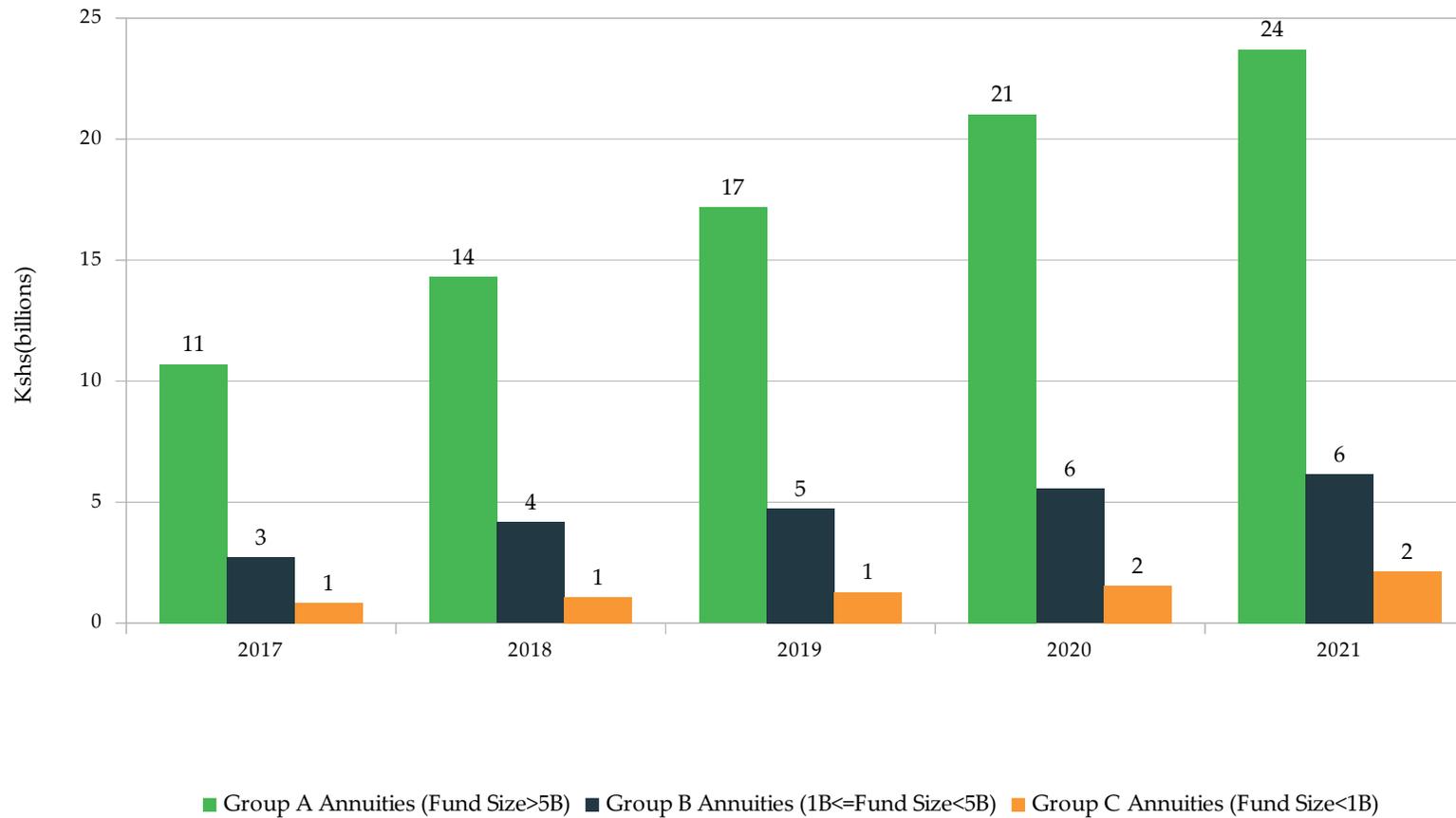
Experience of Reduced Transfer Period on Investment Income

Annual Average Growth in Investment Income Before and After Reduced Transfer Period



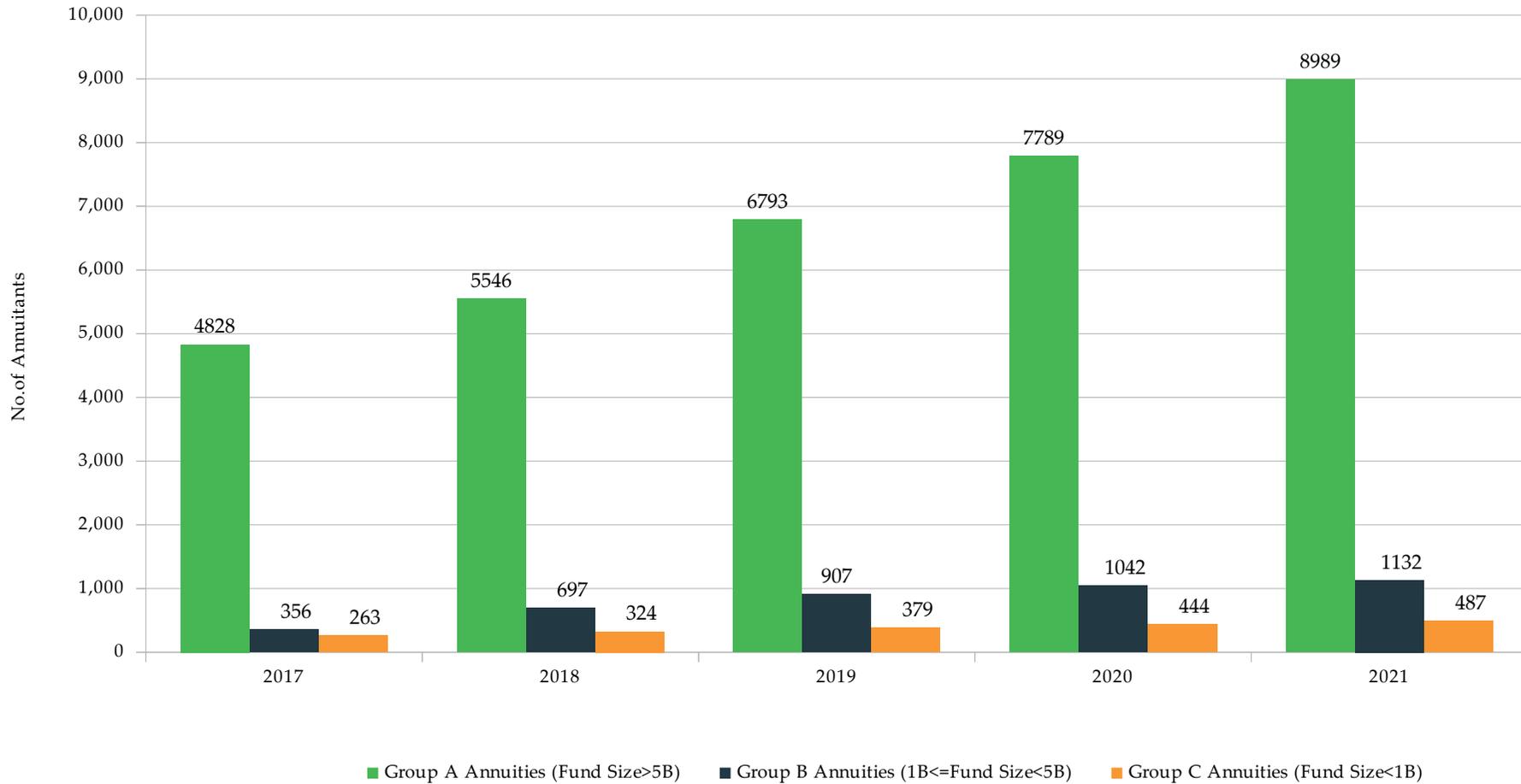
Annuity – Product Size

Trend in Annuity Product Growth for the years 2017-2021



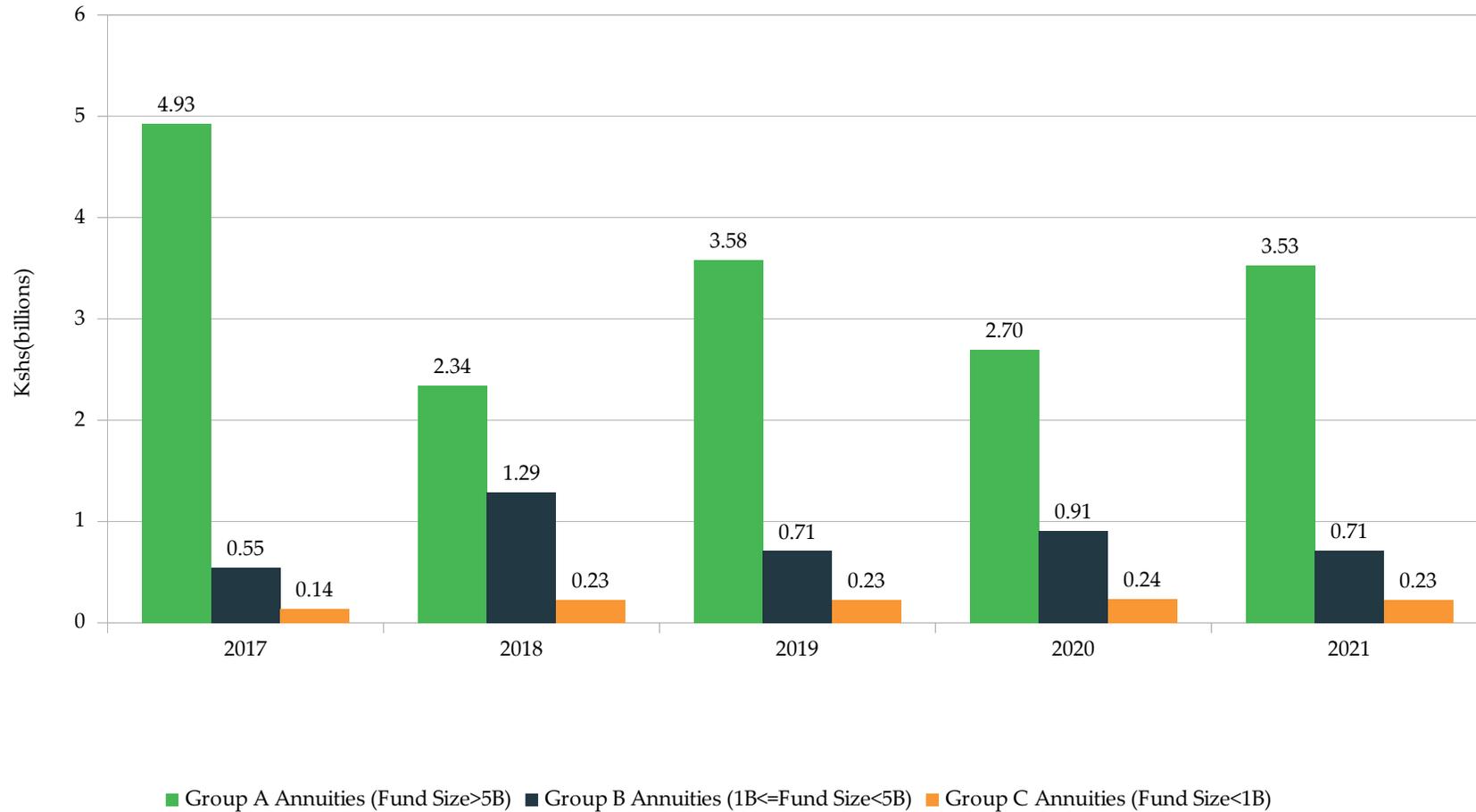
Annuity – Membership

Annuitants Statistics over the Years 2017-2021



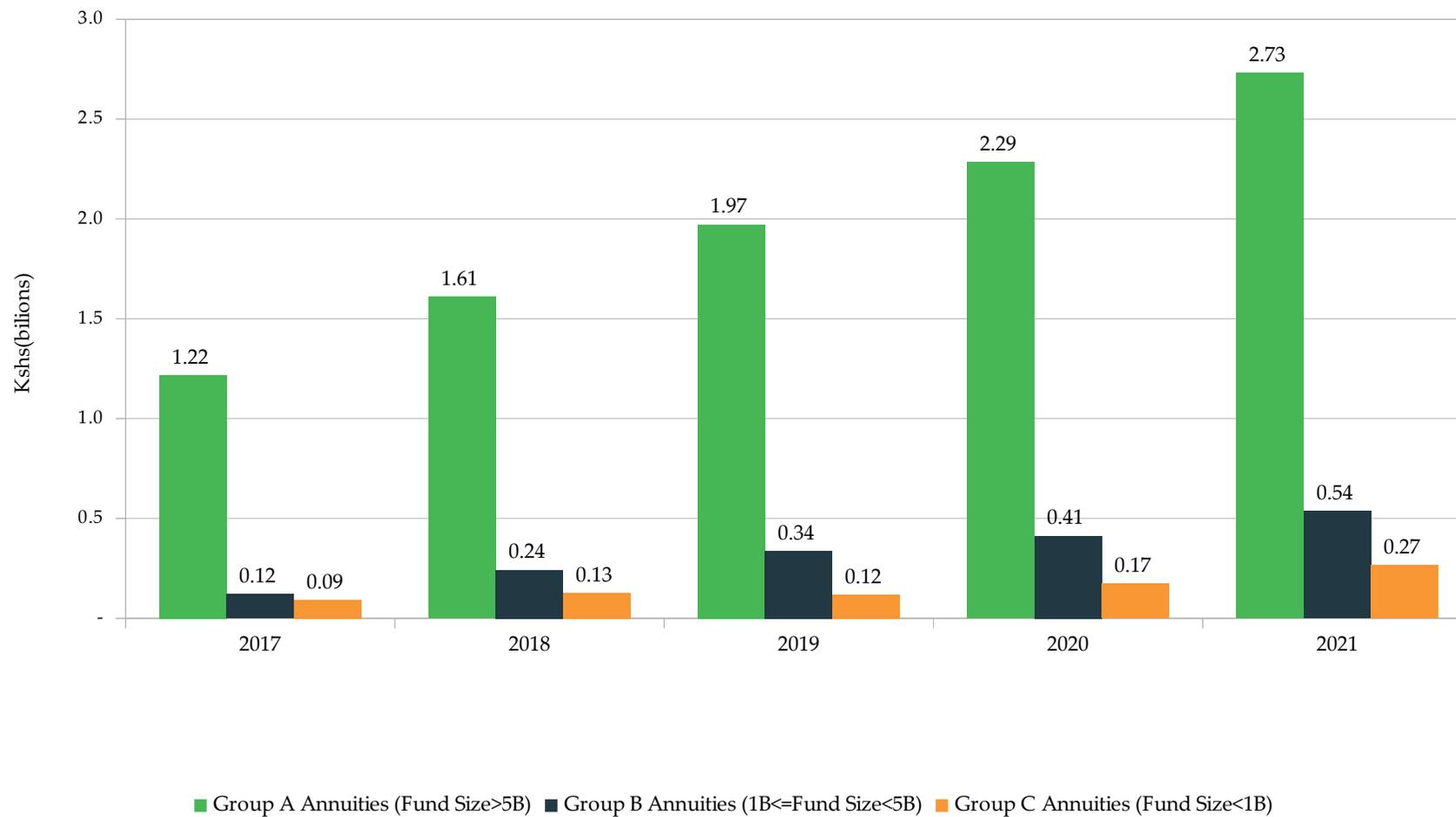
Annuity – Premium Growth

Average Annual Premium Growth Over the Years 2017-2021



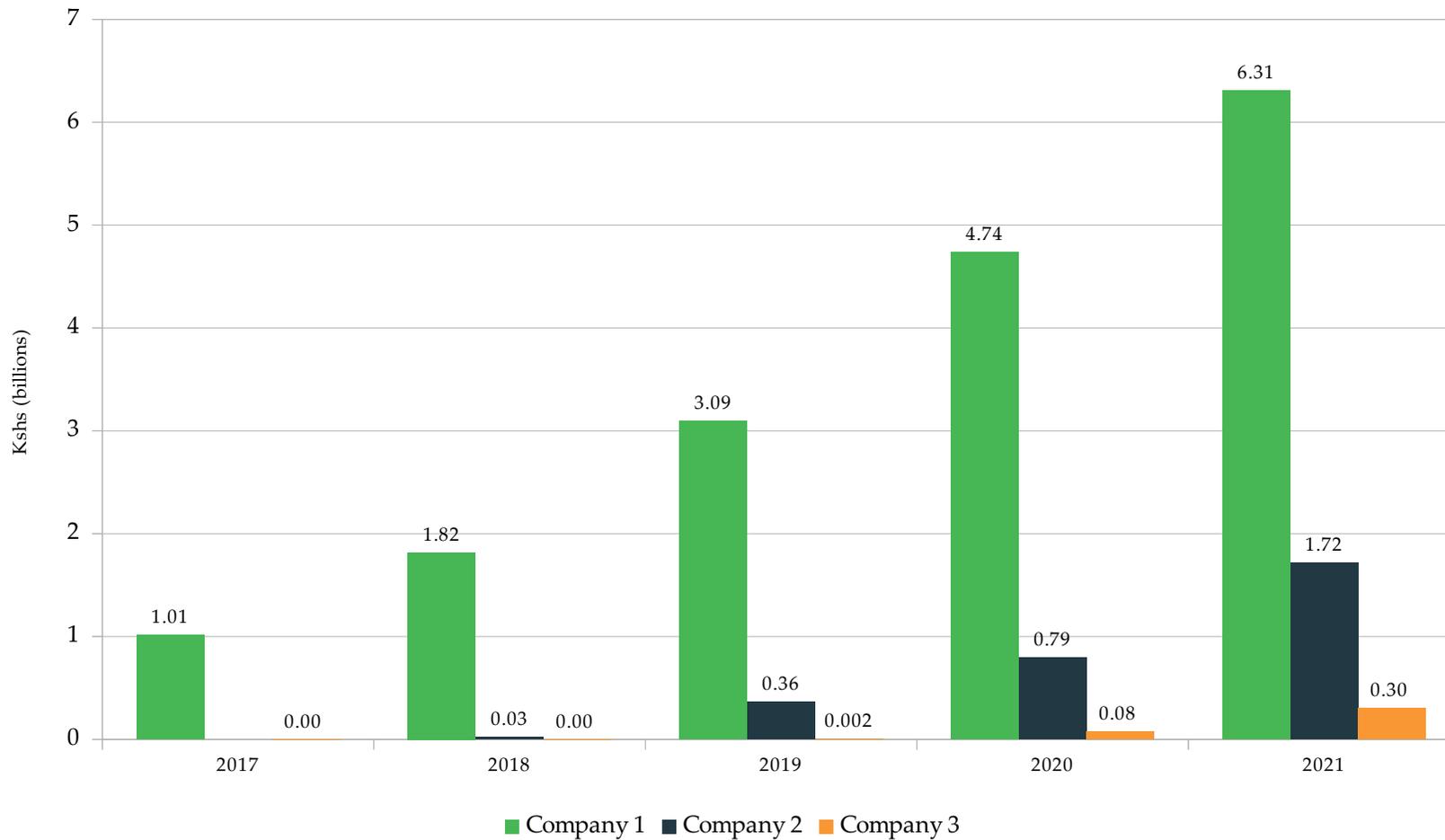
Annuity – Withdrawals

Trend in Annual Withdrawals Over the Years 2017-2021

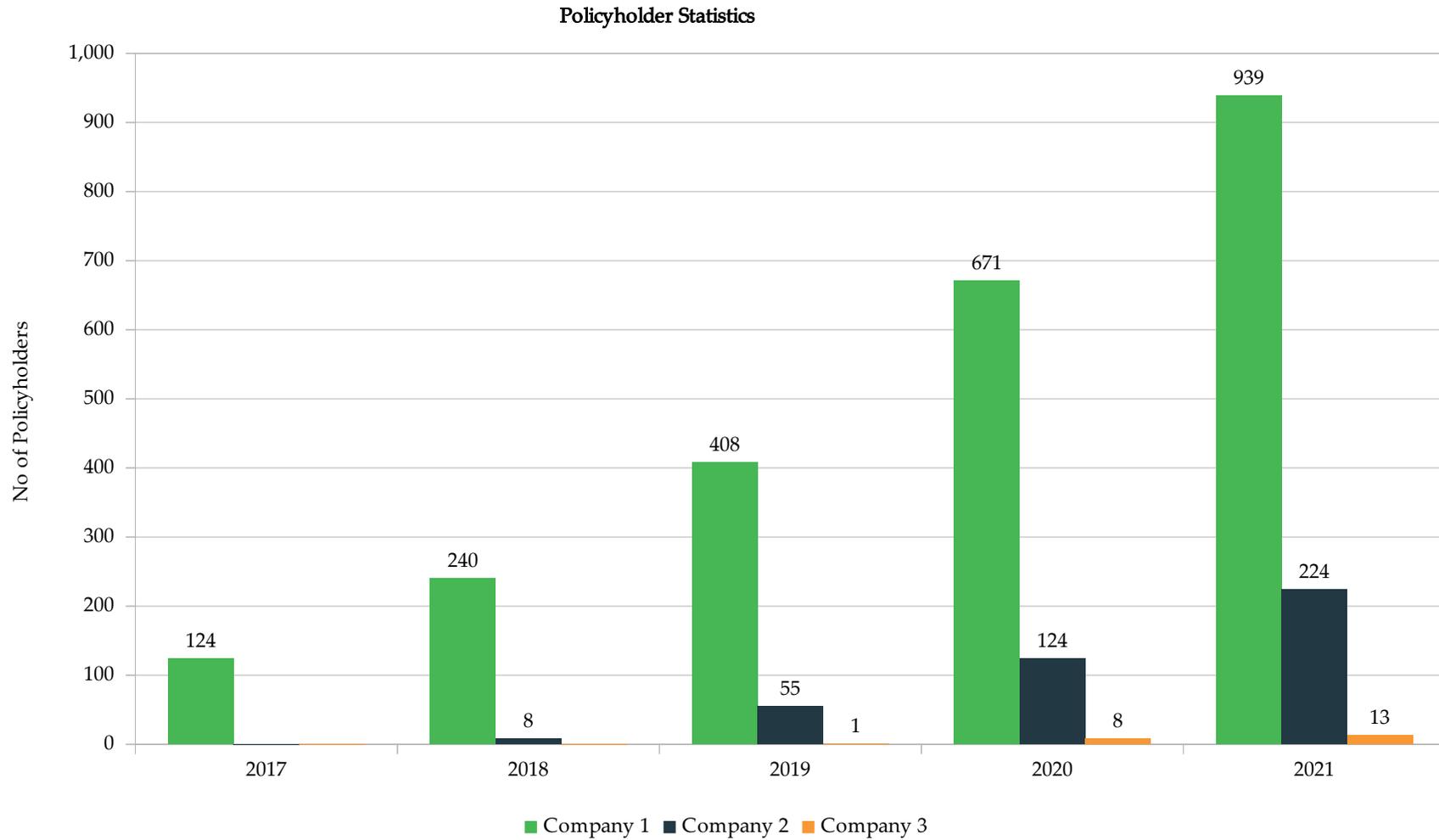


IDD -Fund Size

IDD Growth Over The Years 2017-2021

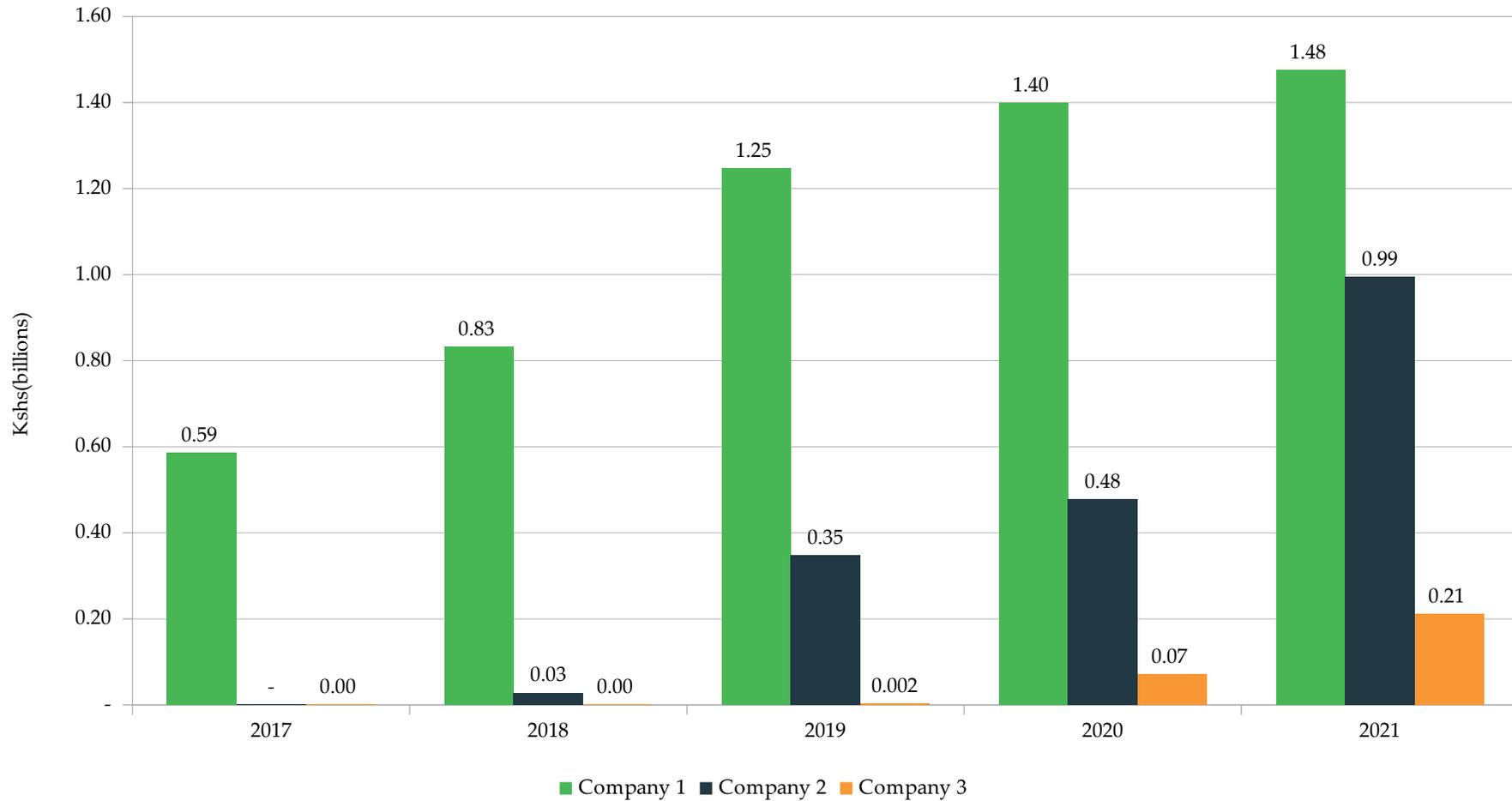


IDD – Membership



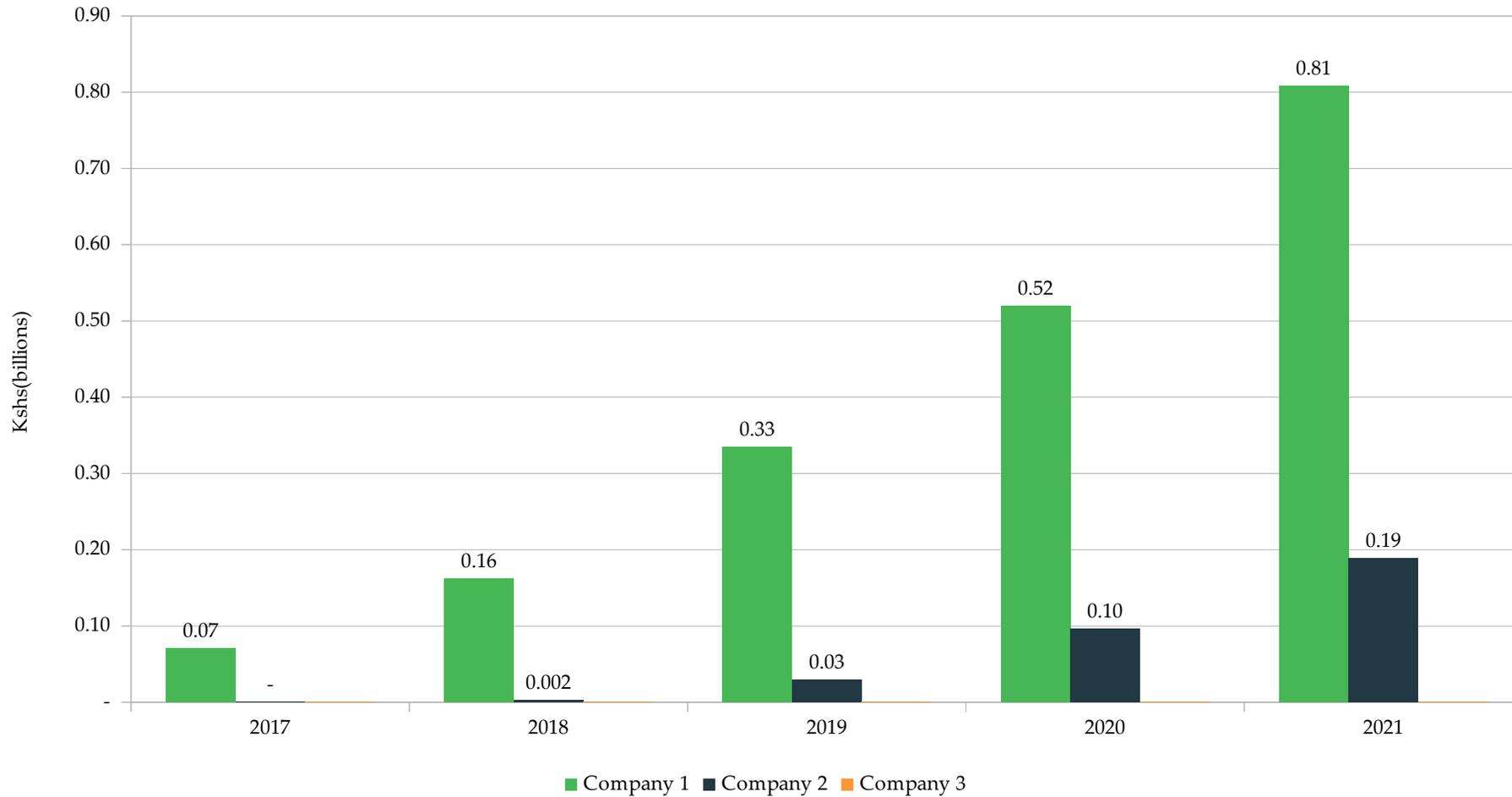
IDD – Initial Invested Amounts

Trend in IDD Initial Invested Amounts over the Years 2017-2021



IDD – Drawdowns

Trend in IDD drawdowns over the years 2017-2021



To Regulator

- Extend the transfer window to protect the insurers where the scheme transferring out makes up a huge portion of their total fund size.
- The regulator to provide more guidelines on the operation of scheme transfers.

To Providers

- Distribution of installment transfer payments in a way that they can be catered for by call deposits.
- Use of liquid assets to process a transfer claim first before considering the option of liquidating other assets.

To Fund managers

- Fund managers can explore the option of moving assets as opposed to liquidating them at a loss

INSURERS' PROPOSALS - Annuities

To Government

- Increase tax exemptions for annuitants.

To Regulator

- Consider setting minimum and maximum interest rates for annuities, say 6% and 11% respectively. This would protect the annuitants from low returns and minimize the investment risk for the insurer.

To Providers

- Constant study of the prevailing economic factors like interest and inflation rates in order to make accurate projections.

To Policyholder

- In order for their funds to last longer and access higher lump sum payouts after the minimum draw down period, a policyholder should draw down at a rate lower than the declared interest rate.

INSURERS' PROPOSALS- ANNUITIES VERSUS IDD_s

To Regulator

- Sensitize the general public on the two products (importance, risks and benefits) as this would assist in growing the market.

To Policyholders

- Both products are profitable in their own aspects. High income earners who have large retirement savings can consider taking both products on retirement to benefit from both high IDD returns and the guaranteed term of annuities. The low income earners can go for the annuity option where pension payments are guaranteed.

To Government

- Consider tax exemptions on contributions to encourage saving for PRMP.

To Regulator

- Publish more guidelines for claims payment and medical access.
- Enlighten the general public on PRMP benefits and risks during both the contribution phase and benefit access phase.

To Providers

- Consider a consortium of hospitals, with regulated charges that will offer medical services to the PRMP members.

INSURERS' PROPOSALS – PRMP (2)

To Schemes

- Consider purchasing a medical cover on a group basis as opposed to on an individual basis. This translates to lower premiums, because of the law of large numbers.
- Need for member education to sensitize on the product, its benefits and mode of access.
- Schemes can use scalable systems that will allow them to incorporate any regulatory changes and minimize costs.

RECOMMENDATIONS – GUARANTEED FUNDS

To AKI

- Consider carrying out a future study on the impact of the reduced transfer window on the guaranteed funds covering at least 5 years since the reduced transfer window came into effect.

To Regulator

- Collate and publish all existing guidelines on the following regarding scheme transfers; the reduced transfer window, commissions, minimum service period and asset transfers.

To Insurers

- Conduct independent analysis of each scheme transfer with the aim of finding out the reasons for leaving the fund, challenges encountered in processing the transfer, as well as any benefits gained from the transfer.

RECOMMENDATIONS – ANNUITIES

To Government

- Expand tax bands for annuitants. This would give annuitants more value from the payments they receive and motivate more people towards annuity purchase. However, we recognize it might not be easy to implement this in the short term with the current economic conditions in Kenya. Nevertheless, annuitants could benefit from more tax relief on their annuity payments.

To Providers

- Conduct increased member education on annuities. This would help in driving up the purchase of the product.

To Regulator

- Facilitate increased awareness to the general public on the IDD product. This will help in increasing the product uptake as well as enable members to make informed decisions.

To Providers

- Fast track the set up of IDD_s so as to diversify the retirement product offerings for their clients.
- Prepare separate reports for the IDD and DA products.
- Conduct increased member education on IDD_s. This would help in driving up the purchase of the product.

To Regulator

- Facilitate discussions with insurers on how the product can be offered to various categories of members.
- Sensitize the general public on the post retirement medical product.

To Schemes

- Employers can consider purchasing their post retirement medical covers from their pre-retirement medical insurer who is already well versed with the members.

CONCLUSIONS (1)

General Comments

- Further investigations will need to be carried out in future on IDD's and PRMP's due to lack of adequate historical data and information occasioned by the fact that they are relatively new in Kenya.
- While undertaking the study, we identified gaps in the data. We emphasize that maintaining adequate and accurate information separately for each of these products by the insurers is extremely important.

Guaranteed Funds

- There has been some impact of the change in the transfer period. However, it is still minimal and could not be adequately quantified from the data received.

CONCLUSIONS (2)

- Another study can be conducted say after 5 years of implementation of this change when there will be adequate data and experience by the guaranteed funds.

Annuities and Income Drawdown

- Some of the insurance companies treat IDD as investment products and thus set them up within asset management companies and not the pensions business.
- The uptake of the IDDs is still very low because of the low public awareness on the product and investment strategies.
- Conduct increased member education on annuities.

- There is need for increased member education on both products to enable members to make informed decisions.
- Data on profitability of each of these products was not readily available, hence we are not able to conclusively say which of the products is more profitable.
- Most insurance companies report on the IDD product together with the DA. The two items need to be reported separately to facilitate future analysis of the IDD product performance.

Post-retirement medical products

- No insurance company had a functional PRMS and those that have the product have little uptake. The main challenge being affordability.
- Member education will be very key to enhance implementation of this product.
- There is need for discussions among stakeholders to shed more light on the benefit access phase of the product.
- Introduction of tax incentives on the product would encourage more people to take up and thus assist in reducing the government's medical liability to its old age population.

CONCLUSIONS (5)

- We believe that this study forms a starting point for future investigations of these pension products. We have shared some of the concerns and recommendations from the insurance companies, if implemented it could probably lead to better uptake of these products.
- For more details, please refer to the draft report.

Thank
You



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