



Circular 15 of 2024

12 November 2024

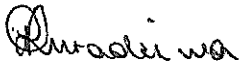
To: Zimbabwe Association of Pension Funds (ZAPF)
Life Offices Association of Zimbabwe (LOA)
Insurance Brokers Association of Zimbabwe (IBAZ)
Pension Fund Administrators
Stand Alone Pension Funds

STANDARD FOR THE ESTABLISHMENT AND REGISTRATION OF PENSION AND PROVIDENT FUNDS

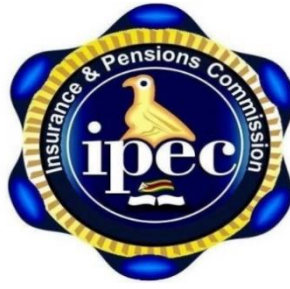
1. Section 8 of the Pensions and Provident Funds Act [*Chapter 24:32*] requires all pension funds to be fully registered and that all applications for new registration of pension funds be lodged with the Commission. The provision came into force to address the governance gaps that existed in pension and provident funds.
2. In line with its mandate of protecting the interests of fund members and their beneficiaries, the Insurance and Pensions Commission has, therefore, developed a standard in terms of Section 5(1) of the Pensions and Provident Funds Act [*Chapter 24:32*]. The standard provides guidance to the industry on how pension and provident funds should be registered by setting out principles to be adhered to.

3. The guideline is attached to the Circular for your attention and implementation. The Guideline becomes operational from the date of issuance.
4. Be guided accordingly.

Yours sincerely,


Grace Muradzikwa

COMMISSIONER OF INSURANCE, PENSIONS AND PROVIDENT FUNDS



STANDARD FOR THE ESTABLISHMENT AND REGISTRATION OF PENSION AND PROVIDENT FUNDS

PREAMBLE

This Standard is issued in terms of Section 5(f) of the Pensions and Provident Funds Act [*Chapter 24:32*], which empowers the Commission to issue statements of prudent norms for the proper administration and management of funds. This guideline shall be read with all the other legislation pertaining to Pensions business in Zimbabwe, including Circulars and directives issued by IPEC.

1. Background

- 1.1 One of the primary functions of the Commission, in terms of section 4(1) (b) of the Insurance and Pensions Commission Act [Chapter 24:21], is to register pension and provident funds in terms of the Pension and Provident Funds Act [Chapter 24:32] (the Act) and, subject to that Act, to regulate and monitor their compliance, governance, and investments.
- 1.2 Section 8 of the Act provides for the registration requirements and the matters to be considered when reviewing the applications for fund registration. One of the key requirements is that a fund should be based on sound financial principles and the fund's rules consistent with the Act.
- 1.3 The Commission's analysis of applications for registration is aimed at ensuring that the process of establishing and administering funds is compliant with applicable laws, regulations, and international best practices.

2. Purpose of the Standard

The standard aims to provide minimum and key requirements for the prudential analysis of applications for registration.

3. Scope

This Guideline applies to every registered fund and to every person who wishes to register a fund. The guidance provided in this Guideline is also to be considered in the process of establishing a fund, analysing fund rules and/or policy documents that are submitted at the application stage or subsequently in response to IPEC directives or other factors.

4. Legislative Framework

- 4.1 This Guideline is guided primarily by the Pension and Provident Funds Act [Chapter 24:32], Pension and Provident Fund Regulations (Regulations), and International best practice.

- 4.2 Other key pieces of legislation such as the Money Laundering and Proceeds of Crime Act [Chapter 09:24], Labour Act [Chapter 28:01] and the Insurance Act [Chapter 24:07] should also be considered.
- 4.3 Phrases and terms defined in applicable legislative frameworks shall be assigned the meaning given in the particular framework.
- 4.4 Circulars, Directives and Guidelines issued by IPEC and other relevant regulatory bodies such as the Reserve Bank of Zimbabwe are also applicable.

5. Transitional Provisions

- 5.1. The guideline becomes operational with effect from date of issuance.
- 5.2. Funds that existed before the effective date shall be given a period of 12 months to conduct an assessment against the expectations stated in this standard and align their fund design and rules to this Standard.

Factors

6. Definition and Key Characteristics of a Fund Based on Sound Financial Principles

- 6.1. Sound financial principles establish a foundation for modelling resilient and stable funds thus ensuring the security of member benefits.
- 6.2. If a fund is well designed, it should deliver, at reasonable cost to the fund member, a pension that provides a high degree of retirement income security. Fund benefits should provide an adequate replacement income for the remaining life of the fund member (and possibly also a spouse or partner) and should remove the risk that the member outlives his or her resources. A well-designed plan should, therefore, be designed from desired outputs (pension benefits) to required inputs (contributions).

7. Benefit and Administration Model

- 7.1. The Act provides that a fund may be established as a Defined Benefit Category (DB), Defined Contribution Category (DC) or Hybrid Fund Category. As pension benefits are normally financed from contributions, it is important to determine the type of benefit that will be provided under the fund to fully appreciate the cost implications i.e. level of contributions that will be required to sustain the type of benefit.
- 7.2. Further, the Act provides for different administration models which are Insured fund model and Self-administered model. The selected administration model should enable the fund to comply with the Expenses framework, investment guidelines and all statutory requirements governing financial reporting and corporate governance.
- 7.3. Therefore, a fund should adopt an administration model that enables it to meet the associated costs of such a model. The administration model should also be commensurate with the fund size in terms of membership as well as the envisaged benefit structure.

8. Minimum Membership

- 8.1. A fund's membership size has a significant impact on contributions and the level of contributions ultimately impacts the asset classes that a fund can invest into, thus, the size of the fund asset base. In order to meet the requirement of section 8, a fund must consider its membership size in determining whether to be established as a separate fund or to participate in an umbrella fund.
- 8.2. If a fund's membership is less than 100, it is recommended that it becomes a participating employer under an umbrella fund in order to enjoy cost advantages through economies of scale.

9. Financial Soundness

- 9.1. Before registration of a fund, the employer or administrator should carry an assessment and certify the status and financial soundness of the proposed fund. The assessment should include, (but not limited to), the following considerations:-
- a. The going concern status of the sponsoring employer.
 - b. The rate of contributions to be made by the employer and the member. The contributions must be disaggregated to define the actual contributions earmarked for pension benefits and administrative expenses.
 - c. The targeted level or type of benefits. The benefits should be assessed against the contributions to determine the extent to which the contributions and estimated investment income will meet the cost of the target benefit.
 - d. Statutory Requirements- A fund's administration model should enable the fund to meet statutory requirements including requirements for financial reporting, valuations and corporate governance. The associated costs in terms of financial and human resources required to ensure compliance with the statutory requirements should be considered in determining the benefit and administration model. A fund should not adopt a model that will result in high compliance costs which cannot be fully funded by the allowable deduction towards expenses. The fund will be expected to meet the expenses thresholds as guided by the Expenses Framework, in line with the requirements of the elected administration model.

10. Fitness And Probity Standards For Board Of Fund Members

- 10.1. The fitness and probity assessment of a board of fund is done in terms of section 22 of the Pensions and Provident Funds Act [*Chapter 24:32*] as read with regulations or guidelines issued by the Commission.

- 10.2. Board members are subjected to minimum suitability (or non-suitability) standards so as to ensure a high level of integrity, competence, experience, and professionalism in the administration of a fund.
- 10.3. The Commission mandates that as the governing body of a fund, the board should collectively have the necessary skills and knowledge to oversee all the functions performed in the administration of a fund.
- 10.4. As such a registering fund should comply with the prescribed minimum standards for the fitness and probity assessment of the board of fund.
- 10.5. Depending on the nature of the fund and the administration model, a fund shall have a board of fund with at least five members and a maximum of nine members of which half is elected by the employees and the other half elected by the employer.
- 10.6. A registering fund shall appoint an independent expert trustee as per the requirements of section 22(2) of the Act.
- 10.7. Regarding the qualifications of the board of fund members, a registering fund shall take note of the following:
 - a) That every board member is a fit and proper person with due regard to his/ her experience, conscientiousness and integrity to be entrusted with the responsibilities of the office.
 - b) That a board member's minimum qualification should be at Diploma level.
 - c) That the board member should be conversant with the rules of the fund, the law relating to pensions and trusts, principles relating to financial management of funds, investment of assets and risk management among other things.
- 10.8. A registering fund shall take into cognisance of the term of office of the board of fund. The term of office should not exceed a period of ten years whether continuous or otherwise.

- 10.9. The elected board members shall be mandated to undergo training on core skills within six months of appointment failure of which shall result in disqualification.
- 10.10. The board should set up the sub-committees required in terms of the Risk management and Corporate governance guideline for the pensions industry.
- 10.11. Further, depending on the administration model a fund will be required to establish and maintain the following control functions:
- a) Risk Management function
 - b) Compliance Function, and
 - c) Internal audit function
- 10.12. A fund wishing to be established outside of an umbrella arrangement should evaluate and satisfy that in terms of membership and asset base, it will have the capacity to meet the above stated governance requirements.

11. Online Access To Regulations And Circulars

- 11.1. Access to online regulations and circulars is available on <https://ipec.co.zw/acts-and-regulations-2/> .

12. Alignment

All registered funds are directed to align their administration model with the requirements provided in this standard within a period of twelve months from the date of issuance of this Standard.