



# DEFINING THE ADMINISTRATION MODELS

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# Presentation outline



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# Defining the Administration Model



## 3 Different Models

- ❖ **Insured Fund** – a fund under the administration of an insurance company administered through one or more policies of an insurance and whose assets are registered in the name of the insurer.
- ❖ **Self Administered Fund** – a fund that is administered by registered fund administrators and insurers whose assets are registered in the respective fund's name
- ❖ **Stand Alone Fund** – self administered funds which own and control their administration structures (own employees) for the purpose of operating the fund

# Advantages of each model



## Advantages of Insured Funds

- ❖ Low administration expenses
- ❖ Risk is transferred to the insurer (e.g in a guaranteed fund).
- ❖ Pooling of risks among investors/pension funds.
- ❖ Access to investments which a single fund might not have access
- ❖ Access to shared services, hence availability of diversified readily available skills.
- ❖ High liquidity – monetary values instead of real assets

# Advantages of each model



## Advantages of Self Administered Funds

- ❖ Low administration expenses
- ❖ Assets registered in the name of the fund, hence some control.
- ❖ Relatively ease of divisibility of assets among fund members, since assets are registered in the name of the fund.
- ❖ Relatively low bureaucracy in decision making.

# Advantages of each model



## Advantages of Stand Alone Funds

- ❖ Investors/funds are directly involved in the investment decision-making.
- ❖ Quick decision making, low bureaucracy.
- ❖ Assets registered in the name of the fund, hence direct link between investments and returns.
- ❖ Relatively ease of divisibility of assets among fund members.
- All returns from investments are apportioned to the members



# Disadvantages of each model



## Disadvantages of Insured Funds

- ❖ Bureaucracy in decision making.
- ❖ Funds have less control in the investment decision.
- ❖ Rigid or inflexible terms and conditions since new funds adopt already existing terms.
- ❖ Assets are registered in the name of the insurer, hence possible transfer of assets from policy holders to shareholders.
- ❖ Challenge in divisibility of assets among investors or even cascading to fund members.
- ❖ Opaqueness in apportionment of returns: not all returns are passed to the fund, as some are channeled towards the BSA which the fund may not access upon exit.
- ❖ Inherent conflict in choosing service providers, as mostly associated companies are preferred.

# Disadvantages of each model



## Disadvantages of Self Administered Funds

- ❖ Members bear the risk.
- ❖ High administration costs.



# Disadvantages of each model



## Disadvantages of Stand Alone Funds

- ❖ Compared to insured funds which have access to shared services, most services are outsourced.
- ❖ High administration costs, as there is need to employ fulltime staff.
- ❖ Limited skill set, access to expertise as actuarial come at an added cost hence most don't have inhouse actuaries.
- ❖ The members bear the risk whether its DB or DC.
- ❖ Onerous duties are placed on trustees and the principal officer.
- ❖ No separation of assets amongst participating employers.

# Key Considerations on administration models



Costs

Sustainability of the model

Security

The Role of trustees

# Key Considerations on administration models

## Costs

Major cost drivers

- ❖ Insured funds – Investment management costs and administration costs
- ❖ Self administered Funds - Investment management costs and administration costs
- ❖ Stand Alone Funds – Staff costs, board fees property expenses, licensing fees and investment management fees (where investments are outsourced)

# Key Considerations on administration models

## Costs

- Impact on accumulation of members particularly for DC funds
- Need to understand cost drivers so that you are able to MANAGE them.
- Seek greater clarity on what the fund is PAYING for. WHY those costs are incurred and what BENEFIT that activity has on the quality of the investment or service it results in.
- Understand the range of expenses contributing to the cost structure.
- Regular assessment of expense ratios

# Key Considerations on administration models



## Sustainability of the model

- ❖ Need to assess if selected model is still relevant, affordable and sustainable
- ❖ Need to ascertain if model is delivering adequate retirement benefits

# Key Considerations on administration models



## Security of the model

- ❖ Need to ascertain how secure are the system assets and entitlements
- ❖ Need to ascertain if model is delivering adequate retirement benefits



# Key Considerations on administration models



## Role of Trustees

The trustees of every registered fund shall be responsible for directing, controlling and supervising the operations of the fund in accordance with the Act and the rules of the fund, and for that purpose the trustees shall-

- ensure that members of the fund are adequately informed of their rights, benefits and duties in terms of the rules of the fund -
- take all reasonable steps to ensure that contributions to the fund are paid when they are due – as at 31 December 2021, contribution arrears for insured funds amounted to ZW300 million
- Every trustee shall, in the exercise of his or her powers and discharge of his or her duties-
- (a) take reasonable steps to protect the interests of members of the fund, especially in the event of-
  - (i) the amalgamation of or transfer of any business or
  - (ii) the division of the fund; or
  - (iii) the withdrawal of a participating employer or the termination or reduction of contributions by a participating employer;



**Thank you**

