

**COMMISSION**

## Summary of Findings

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Presentation by Mr Cuthbert Munjoma

Director Pensions

# PRESENTATION OUTLINE



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- Factors Causing Loss of Value

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- Causal Effect on Assets & Liabilities

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- Criteria for Determining Prejudice

4

- Recommended Compensation

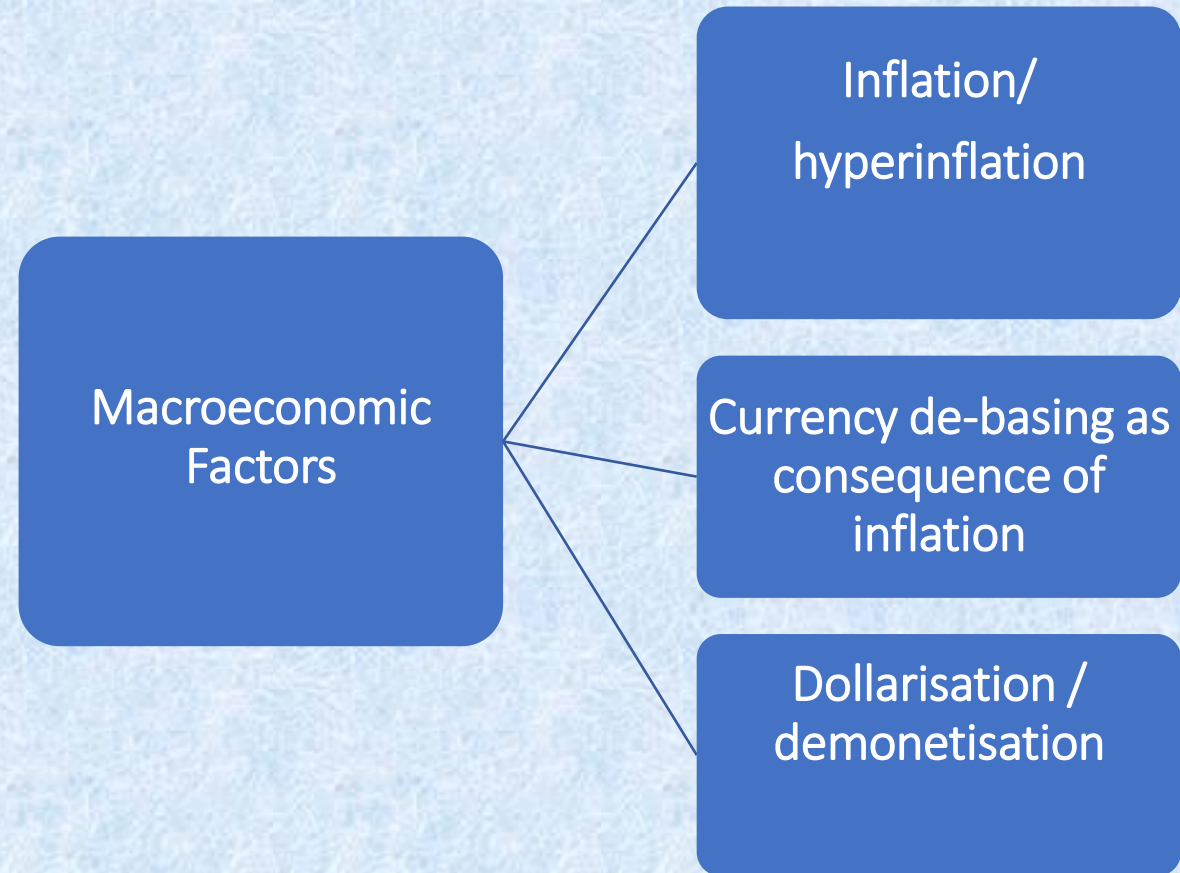
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- Sources of Funding Compensation

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- Concluding Remarks

# FACTORS CAUSING LOSS OF VALUE





# MACROECONOMIC FACTORS...



## Impact of inflation

- Salaries not keeping pace with inflation
- Payment of salaries in kind - fuel coupons or food hampers
- FAS salaries from 2006 to 2009 were insignificant causing loss of value to DB members.
- Erosion of value of contributions premiums and benefits
- Loss of value to all categories of pension fund members and policyholders
- Lapses and Surrenders and commutations
- Products Terminations and Closures

# IMPACT OF INFLATION ON ASSETS



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Negative real return on fixed income securities – 2001 to 2009

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Investment in bonds averaged less than 4% total portfolio

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85% of assets invested in listed equities and property – 2001 to 2009

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Private equity hovered around 3-4% over the period 2001 to 2009

# MACROECONOMIC FACTORS...



## Impact of Currency De-basing

Removal of 25 zeros between August 2006 to February 2009

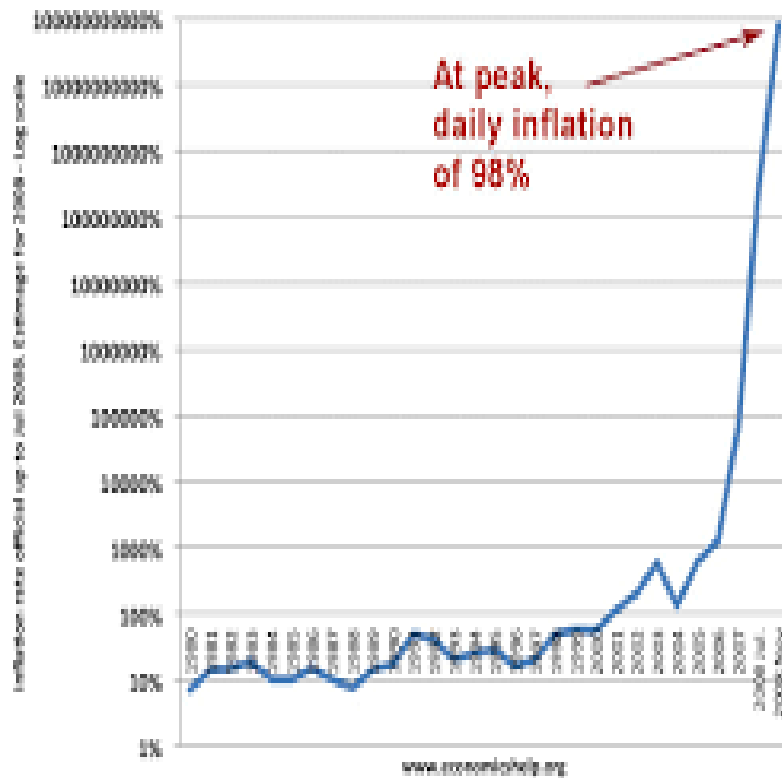
Automatic extinguishing of insurance and pension liabilities without actual payments - zerorisation of ZW\$ accumulations

Lapses, surrenders and commutations due to Currency De-basing

Wiped out the negligible nominal investment amounts in bonds that had remained up to 2006.

Generational transfer of benefits in the absence of ring-fencing or indexation. Transfer of assets from policyholders to shareholders as most insurers did not separate assets

Zimbabwe hyper-Inflation rate





# MACROECONOMIC FACTORS...



## Impact of Dollarisation



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Lack of Policy Guidance on treatment of long-term savings contracts on dollarisation of the economy – conflicted industry players devised own ways of converting values

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Pensioners got as little as \$0.08 as conversion values in lieu of some policies. Amounts between US\$10 and US\$40 paid as final settlement in lieu of education policies, endowment policies or retirement annuities

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Official demonetisation of the Zimbabwe dollar done 6 years later at unofficial UN Exchange rate of US\$1:ZW\$35 quadrillion when there was official rate US\$1:ZW\$140.7 billion.

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Entire industry received demonetisation proceeds amounting to US\$132 thousand. Individuals received a maximum of USD5

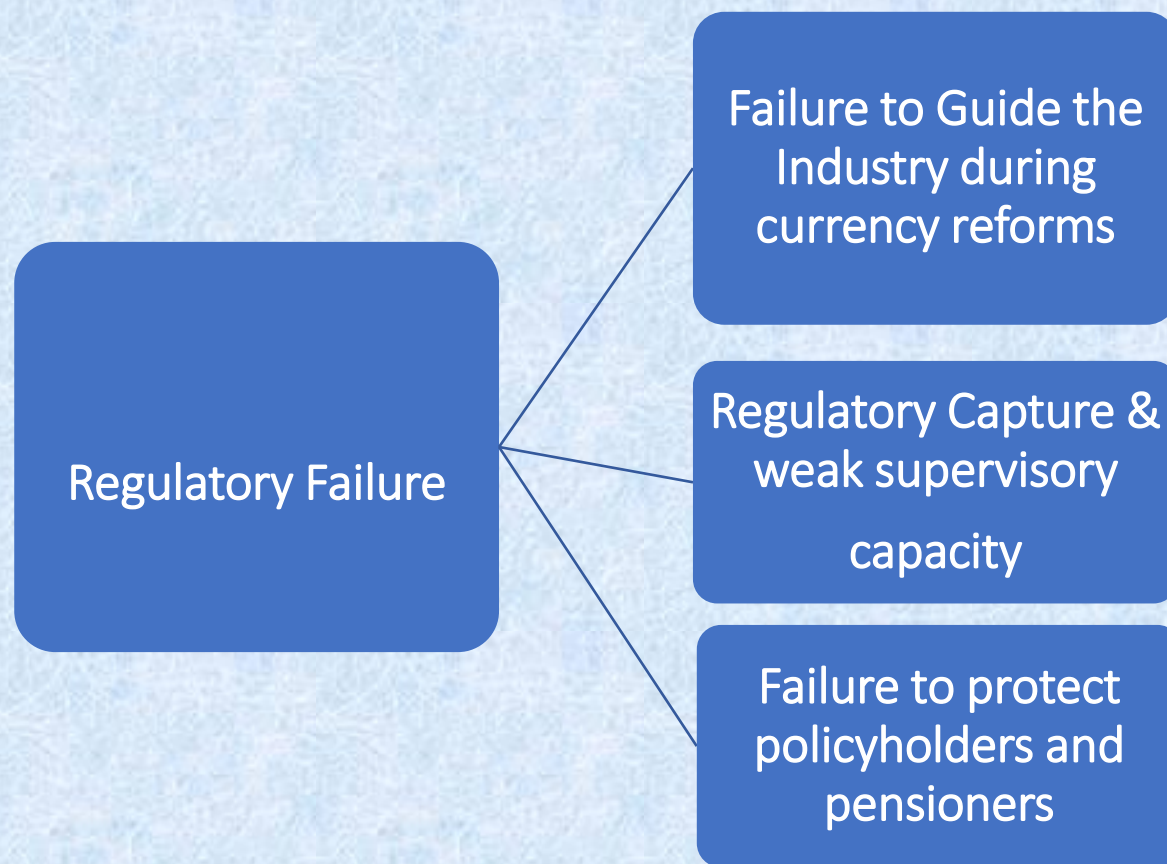
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Dollarisation revealed loss of value that had since occurred prior to 2009

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# FACTORS CAUSING LOSS OF VALUE....





# REGULATORY FACTORS FOR LOSS OF VALUE



## Impact of regulatory failure



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Archaic legal framework which was inadequate to effectively regulate the industry

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Industry used its own discretion on conversion of assets and liabilities which prejudiced policyholders and pensioners. Some funds converted values ZW\$ values to USD using services of non-qualified actuaries.

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Restrictive limits on cash withdrawals contributed to loss of value – 1/3 commutations

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Weak corporate governance and data integrity in the industry

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Perpetuation of predatory expense structures that were prejudicial to policyholders

# MICRO FACTORS – INSTITUTION SPECIFIC

Failure to separate  
policyholder, pension and  
shareholder assets

Generational transfer of  
benefits in the absence of  
ring-fencing or indexation

Prejudicial Conversion  
methods and processes

Product terminations, lapses  
and surrenders without regard  
to plight of policyholders

Weak corporate  
governance & Internal  
Controls

Predatory and  
cannibalistic expense  
structures

Outright Refusal to pay  
contracted benefits,  
including paid-up policies

Contribution arrears

Poor Record-Keeping

Actuarial deficits

Closure or Liquidation of  
Sponsoring Employers

Failure of Insurance  
companies and absence  
of a protection  
mechanism for  
policyholders of failed  
entities

# CRITERIA FOR DETERMINING PREJUDICE



## Product approach

### Pensions

- DB, DC, DBs that converted to DC and personal pension plans

### Life insurance

- with-profit, investment policies or cash accumulation policies, unit-linked policies and funeral policies





# CRITERIA FOR DETERMINING PREJUDICE....



## Key Consideration:

Assessing remittance of contributions to the fund/ premium payments

Payment of benefits according to contract terms/ fund rules

Conversion of premiums and contributions to USD using appropriate exchange rate

Reinstatement of terminated policies at original terms for paid up funeral policies

Policyholders to be given option to continue or get termination benefits on terminated funeral policies

Use of converted premiums/contributions to purchase a promised benefit with some adjustments for time value of money

Prejudice is the difference between recomputed benefits and what was paid

# RECOMMENDED COMPENSATION....



“compensation” – enhancement of benefits as an acknowledgement of loss not indemnification for the loss incurred

Compensation cohort and compensation date to be determined by IPEC

Estimated prejudice to be adjusted for time value of money and honoured

Recommended settlement currency for compensation - USD

IPEC to provide guidance on the compensation process & facilitate approval of compensation schemes

# SOURCES OF FUNDING



Re-distribution of surviving assets

Shareholders of life companies where evidence of transfer of assets from policyholders is proved

Surviving employers who were in contribution arrears

Surviving employers of DB funds that were in actuarial deficit

Government – to revisit demonetisation process, guarantor of parastatal related funds



## CONCLUDING REMARKS



- ❖ Importance of closing the long outstanding matter
- ❖ Need to be forward looking rather than backward looking
- ❖ Huge opportunity to reposition the role of the sector and unleash its potential
- ❖ Adjustments have been proposed to the COI recommended compensation
- ❖ Framework produced in consultation with the industry

## CONCLUDING REMARKS

“The most important thing to understand about your pension is it really counts on the day you put money in and the day you take money out” – Martin Lewis

“When you have insurance you know that you are secured against any unforeseen events in life, and this gives you complete peace of mind” – IFFCO TOKIO

“We have to restore confidence that the marketplace can deliver services as well as it can goods” – Ron Paul

“If everyone is moving forward together, then success takes care of itself” – Henry Ford



FORWARD *together*