

EXPLOITING THE ANNUITIES MARKET IN GHANA – KEY CONSIDERATIONS FOR SUCCESS

1

**BY: E. AMARTEY-VONDEE
DIRECTOR (RESEARCH & PLANNING)
NATIONAL PENSION REG. AUTHORITY**

OUTLINE OF PRESENTATION



2

- 1. INTRODUCTION**
- 2. OVERVIEW OF THE INSURANCE INDUSTRY**
- 3. ANNUITIES & THEIR FEATURES**
- 4. TYPES OF ANNUITIES**
- 5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES**
- 6. DEVELOPING THE ANNUITY MARKET – THE REGULATOR’S ROLE**
- 7. ANNUITY PRODUCT DEVELOPMENT**

OUTLINE OF PRESENTATION



3

8. THE PENSIONS INDUSTRY

9. GHANA'S PENSIONS INDUSTRY

10. PENSIONS ACT'S PROVISION FOR ANNUITIES

11. THE CHALLENGES

12. THE WAY FORWARD

13. CONCLUSION

1. INTRODUCTION



4

- Insurance is a risk transfer mechanism achieved through risk pooling.
- This brings out two fundamental characteristics of any insurance arrangement:
 - ❖ Transfer/Shifting of the burden of loss arising out of risk from an individual to a group.
 - ❖ Members of the group share the losses that arise on some equitable basis.
- ❖ The main benefits of insurance is the financial security it provides, and the peace of mind enjoyed arising from that financial security.

2. OVERVIEW OF THE INSURANCE INDUSTRY



5

- Globally insurance premium stood at US \$ 5 trillion as at the end of 2018. (Source: Swiss Re)
- This represented about 6% of Global GDP.
- The US remains the largest insurance market followed by China and Japan.
- Africa contributed about 1.5% of this total premium.
- South Africa accounts for more than 60% of the premium generated in Africa.
- Excluding South Africa, the average insurance penetration rate in Africa is about 1%, compared to a global figure of about 6%.

2. OVERVIEW OF THE INSURANCE INDUSTRY



6

- Total Assets of the Insurance Industry in Ghana for 2018 amounted to GHS 6.2 billion.
- The Life Sector contributed GHS 3.1 billion and Non-Life GHS 2.4 billion., and Reinsurance GHS 0.7 billion.
- The total premium for the Insurance Industry in Ghana for 2018 was GHS 2. 9 billion.
- Life contributed GHS 1.3 billion, Non-Life GHS 1.3 billion and Reinsurance GHS 0.3 billion in premiums.
- The proportion of Ghanaians with Insurance cover is 30%.

3. ANNUITIES & THEIR FEATURES



7

- The word Annuity comes from the Latin word: Annuitas.
- An Annuity is a financial contract that pays out a periodic amount for as long as the annuitant is alive, in exchange for an initial premium.
- An Annuity can also be seen as a contractual financial product that is designed to accept and grow funds from an individual, and upon annuitisation, pay out a stream of income to the individual at a later point in time.
- The series of payments are guaranteed at fixed intervals for a number of years or the lifetime of one or more individuals.

3. ANNUITIES & THEIR FEATURES



8

- There are Fixed Rate Annuities and Variable Rate Annuities.
- Fixed Rate Annuity: The primary goal is to save money for the long-term.
 - ❖ It entails periodic (monthly) premiums
 - ❖ There is a specified date of maturity when funds can be withdrawn
 - ❖ The payout amount is guaranteed based on the rate available/agreed upon at the time of purchase
- Variable Rate Annuities: There is no determined rate of compensation
 - ❖ The rate of return fluctuates with the market

4. TYPES OF ANNUITIES



9

The Principal Types of Annuities are:

- **Level Annuity** which provides a constant nominal money income for the remaining life of the Annuitant.
- **Escalating Annuity** where the Annuitant benefits from an annual increase in the annuity paid.
- **Index-Linked Annuity** which provides a growing income in line with rises in the CPI.
- **Investment-Linked Annuity** where the premiums are invested in a mutual fund and part of the profits are allocated as bonus to the annuitant every year.

5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES



A: ACCUMULATION ANNUITY FEATURES

- Premium can be single or multiple.
- Interest credited periodically, but declared in advance.
- Contract may state guaranteed interest rate for an initial period.
- $\text{Account Value} = \text{Accumulate Value of Premium} + \text{Interest Credited} - \text{Charges}$
- Maturity date: Date of Retirement
- Death Before Retirement: Pay Account Value to Beneficiary

5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES



A: ACCUMULATION ANNUITIES FEATURES

- **Actuarial Requirements:** Must hold reserves no less than Account Value.
- **Non-forfeiture:** If contract can be surrendered prior to maturity, a minimum amount must be set to be payable to the contract holder.
- **Pricing Considerations:** Main pricing parameter is the credited interest rate.
- **Spread = Earned Rate – Credited Rate.** Spread must be sufficient to cover expenses and profit.
- **Investment Requirement:** Interest guarantees are best matched by fixed-income assets. If contract can be surrendered prior to maturity, assets must be sufficiently liquid to pay benefits when due.

5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES



A: PAY-OUT ANNUITY FEATURES

- **Primary Purpose:** Provide income to annuitant over a period of time, including lifetime income.
- **May be purchased by paying a lump sum premium, or may arise from maturity of an Accumulation Annuity ('annuitisation')**
- **Forms of Payout:**
 - ❖ **Life**
 - ❖ **Period-certain and Life**
 - ❖ **Joint Life**

5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES



A: PAY-OUT ANNUITY FEATURES

- Lifetime guaranteed income can only be provided by an insurance company, using the principle of pooling-of-risk
- Under pooling-of-risk, the total premium is pooled so that those who die earlier subsidise those who die later
- Consequently, there can be no cash surrender benefit upon death for a life payout annuity.
- Actuarial Requirements: Must hold reserves, no less than the present value of remaining Payments.
- Non-forfeiture: Not applicable for life payout annuity. For period Certain, or life with period-certain, may pay lump sum upon death during certain period, but only for remainder of period certain.

5. FEATURES OF ACCUMULATION & PAYOUT ANNUITIES



A: PAY-OUT ANNUITY FEATURES

- **Pricing Considerations:** Pricing parameters are mortality and interest
- **Investment Requirements:** Interest guarantees are best matched by long fixed income assets
- **Since life payout annuities cannot be surrendered for cash, they present less liquidity risk**

6. DEVELOPING THE ANNUITY MARKET – THE REGULATOR’S ROLE



➤ Consumer Considerations:

Filing and approval of products

- ❖ Is insurance company making false promises concerning future credited rates any other guarantees?
- ❖ Will insurance company pay the benefits when due?
- ❖ Is the annuity contract suitable for the needs of the particular consumer?

➤ Actuarial Considerations:

- ❖ Are sufficient reserves being held?
- ❖ Is the company pricing its products properly?

6. DEVELOPING THE ANNUITY MARKET – THE REGULATOR’S ROLE



- Investment Considerations:
 - ❖ Is the company investing the premiums prudently, to match the nature of its guarantees?
- Solvency:
 - ❖ Is the company solvent (Assets > Liabilities)
 - ❖ Even if it is technically solvent, does the company have sufficient Surplus, should the reserves be sufficient in a stress situation?

7. ANNUITY PRODUCT DEVELOPMENT



17

- What is the Target Market
- What are the Target Market's needs, Likes or Dislikes?
How do you know?
- How will you sell your product (distribution channels)?
- How well can you administer the product?
- Profitability Analysis?

8. THE PENSIONS INDUSTRY



18

- In 2017, Global Assets of Pension Funds were worth US\$ 29.2 trillion (1000 billion) - (Source: OECD Global Pension Statistics)
- Countries with the largest Pension Assets included the following:
 - ❖ USA - US \$ 16.2 trillion
 - ❖ UK - US \$ 2.9 trillion
 - ❖ Australia - US \$ 1.7 trillion
 - ❖ Netherlands - US \$ 1.6 trillion
 - ❖ Canada - US \$ 1.4 trillion
 - ❖ Japan and Switzerland had assets in excess of US \$ 1 trillion.

8. THE PENSIONS INDUSTRY



19

In relation to Gross Domestic Product, the following is significant:

<u>COUNTRY</u>	<u>% OF GDP</u>
Australia	120.4
Canada	82.8
Chile	72.0
Denmark	204.6
Netherlands	182.5
Switzerland	147.8
UK	105.5
USA	83.7

8. THE PENSIONS INDUSTRY



20

Examples relating to developing countries include the following:

<u>COUNTRY</u>	<u>% OF GDP</u>
Egypt	1.7
Malawi	11.8
Namibia	91.7
Nigeria	6.5

- Globally, the Assets of the Pension Funds were mainly invested in Bills, Bonds and Equities in excess of 50% of the Assets.
- The investments were done either directly in these assets, or through Collective Investment Schemes.

9. GHANA'S PENSION INDUSTRY



21

Ghana runs a three-tier Pension System comprising:

- A Basic National Social Security Scheme (BNSSS) - (1st Tier)
- An Occupational Pension Scheme - (2nd Tier)
- Provident Fund / Personal Pension Scheme - (3rd Tier)

9. GHANA'S PENSION INDUSTRY



- The BNSSS is mandatory for all employees in both the public and private sectors of the economy, but optional for the self-employed, and administered by SSNIT.
- The Benefits offered under the SSNIT Scheme are:
 - ❖ Old-age Pension which is based on the average of the best three years of a Contributor's salary, and paid on monthly basis;
 - ❖ a Survivors Benefit, and
 - ❖ an Invalidity Benefit.

9. GHANA'S PENSION INDUSTRY



23

- **The Occupational Pension Scheme (2nd Tier) is:**
 - ❖ a mandatory, fully funded and privately managed, work-based Scheme,
 - ❖ designed primarily to give contributors a lump sum benefit to replace what was previously available under the SSNIT Scheme or the Cap 30 Scheme.

- **The Provident Fund Scheme (3rd-tier) is:**
 - ❖ a voluntary, fully funded and privately managed Scheme.
 - ❖ A Member who has attained the retirement age is entitled to the accrued benefits in a lump sum.

9. GHANA'S PENSION INDUSTRY



24

- The Personal Pension Scheme (3rd Tier) applies to individuals in the informal sector who are not covered by any pension scheme under the mandatory part of the three-tier pension scheme.
- The Scheme also applies to individuals who want to make voluntary contributions to enhance their pension benefits outside the mandatory schemes or Provident Fund Schemes.

9. GHANA'S PENSION INDUSTRY



25

GHANA'S PENSION ASSETS (GHC Billions)

YEAR	SSNIT FUNDS	PRIVATE FUNDS	% GDP
2012	4.28	0.81	6.75
2013	5.56	1.34	7.40
2014	7.43	2.58	8.82
2015	8.81	4.67	9.84
2016	8.41	6.79	9.05
2017	9.52	11.02	9.95
2018	9.24	13.01	

10. PENSIONS ACT'S PROVISION FOR ANNUITIES



26

The following Sections of the National Pensions Act (Act 766), and the accompanying Regulations are relevant:

- **Section 70 of the Act states: A Member of the BNSSS who retires compulsorily on attaining age 60, or retires voluntarily on attaining age 55 and has contributed to the BNSSS for a period of not less than 15 years in aggregate is entitled to a superannuation pension.**
- **The Superannuation Pension comes in the form of an annuity. The same applies to an Invalidity Pension.**
- **Regulation 26(7) states: Where a Pensioner who receives Superannuation Benefit dies prior to attaining the age of 75, a lump sum payment of the present value of the Member's unexpired pension till age of 75 years, shall be paid to the Member's nominated dependants.**

10. PENSIONS ACT'S PROVISION FOR ANNUITIES



27

- **The Act Section 63 (8 & 9):** An Employer shall remit the total contribution of 18 ½ % on behalf of a worker who does not qualify to join the BNSSS to the mandatory Occupational Pension Scheme. A percentage of the benefits accruing shall be utilised to purchase an annuity for life from a life insurance company licensed by the National Insurance Company with monthly or quarterly payments.
- **Regulation 126 (1, 4 & 5):** A contributor who is not covered under a mandatory pension scheme and retires shall utilise 75% of accrued benefits to purchase an annuity for life guaranteed for 15 years and payable monthly from a life insurance company licensed by the NIC.

10. PENSIONS ACT'S PROVISION FOR ANNUITIES



28

- **Act Section 109 (1-3): A self-employed person may join and pay contributions to a personal pension scheme. Contributions by self-employed persons in the informal sector who are not covered under the mandatory scheme shall be credited to two separate individual sub-accounts:**
 - ❖ **(a) the personal savings account, and**
 - ❖ **(b) the retirement account.**
- **The proceeds of the retirement account shall only be paid on retirement as monthly or quarterly pensions.**

- **The Total Number of Pension Schemes as at the end of 2018 was 256.**

11. THE CHALLENGES



29

- **Construction of the relevant Mortality Table for product pricing.**
- **Maintenance of a stable macroeconomic environment – for example: stable inflation, interest rates and currency.**
- **Non-availability of appropriate long-term investment instruments to provide positive real rates of return.**
- **Inadequate resources for extensive and intensive public education.**

12. THE WAY FORWARD



30

- **Collaboration between the Financial Regulators.**
- **Financial Literacy Programmes.**
- **Training and capacity building for industry practitioners.**
- **Expanding the investment universe for relevant asset classes.**
- **Tax incentives.**
- **Capacity building in annuity products design and administration.**
- **Robust automated administrative systems.**
- **Public education and marketing efforts.**
- **Strengthening and resourcing the regulatory regime.**

13. CONCLUSION



31

- **Development of the Annuities Market is essential, useful and necessary.**
- **Annuities, being an insurance product, means the Insurance Industry must be at the forefront of making the product available.**
- **The relevant Stakeholders, including the Industry Professionals, Practitioners, the Regulators, etc. must collaborate to make it happen.**
- **The issues of education and capacity building are critical.**



THANK YOU