



# KenGen Staff Retirement Benefits Scheme

## Code of Corporate Governance

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# KENGEN STAFF RETIREMENT BENEFITS SCHEME

## THE CODE OF CORPORATE GOVERNANCE

It is a uniform code of governance to provide a firm foundation for good corporate governance and be applicable across all corporations as a means of strengthening Governance in Boards

The results show that the governance of the retirement benefit schemes has improved over the years and led to significant growth in the assets of the schemes but there is need to continuously review the rules to match the dynamic financial and economic environment.

Specifically, policy makers are advised to focus on large schemes that have co-fund managers, devise governance regulations for investment in alternative assets, review the governance structures of the service providers, devise a framework for accounting for pension fund reserves, seek more involvement of members in governance of the schemes and devise rules of governance for cross border schemes.

Governance in the context of retirement benefit schemes is complemented by independent “commercial” trustees who include administrators (responsible for record keeping and ensuring compliance with regulations), custodians (who keep custody of the assets) and fund managers (who invest), actuaries (who evaluate the long-term risk possibilities and asset-liability structure of the scheme), legal advisers and auditors.

Pension governance guidelines in Kenya

Essence of the guideline	Specific Implementation rules
Maintain a Trust Deed	<ul style="list-style-type: none"> <li>Documents the rules relating to entry, existence in the scheme and exit.</li> <li>Trust deed must be aligned with the Retirement Benefits Act and must be amended when the regulations change.</li> <li>Must be endorsed by an attorney and copy filed with the regulator.</li> </ul>
Separation of operational and oversight responsibilities	<ul style="list-style-type: none"> <li>Trustees are appointed by members and sponsors to oversee service providers and act in the interest of members and sponsors.</li> <li>Trustees appoint service providers who are accredited by the regulator.</li> <li>Separation of administration, fund management, custody of assets, actuarial services and auditing.</li> <li>Trustees to review reports from administrators, custodians and fund managers on quarterly basis.</li> <li>Investment policy statement to be made by consultants, independent of the fund managers.</li> <li>Specifies the number of members in the board.</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>Annual reports to members</li> <li>Elections to be held in open and transparent manner</li> <li>Organizing for and holding annual general meetings</li> </ul>

Trustee development	<ul style="list-style-type: none"> <li>• Train trustees to effectively undertake their mandate</li> <li>• Conflict of interest</li> </ul>
Conflict of interest	<ul style="list-style-type: none"> <li>• Schemes to have a policy to address the identification, monitoring and dealing with conflict of interest</li> </ul>
Proper and fit tests for trustees	<ul style="list-style-type: none"> <li>• Trustees should be competent and should not have had a criminal record.</li> <li>• Three year term limit for trustees</li> </ul>
Independence of the scheme from the sponsor	<ul style="list-style-type: none"> <li>• The scheme should be registered and incorporated independent of the sponsor</li> <li>• Sponsor should submit contributions to the scheme on monthly basis</li> <li>• Members benefits should not be attached as collateral or guarantee by the employer</li> </ul>
Financial independence of the scheme	<ul style="list-style-type: none"> <li>• Scheme assets should not be used as collateral</li> <li>• Separate financial statements and reports should be prepared</li> </ul>
Continuous risk management	<ul style="list-style-type: none"> <li>• Implementation of risk based supervision for schemes</li> </ul>
Transparency	<ul style="list-style-type: none"> <li>• Communication to the members on important matters and the implications that these matters have</li> <li>• Provide member statements on annual basis</li> </ul>

## COMPLIANCE WITH GOVERNANCE REGULATIONS

- The trust deed should be in compliance with the changes in regulations, industry dynamics and changing worker demographics.
- The Trustees should have expertise on review of investment environment, evaluation of risk return relationships that are more useful in a retirement benefit scheme arrangement.
- The schemes should engage external consultants and advisors as recommended by the industry regulator as conflicts of interest cannot be overruled in some of the appointments.
- The Trustees should receive reports from the service providers on a quarterly basis
- The Trustee training and development program should be implemented jointly by the industry regulator and association to make them more aware of their roles.
- Annual financial reports and statements should be submitted to the Scheme members and also the members to be made aware of the importance of the savings they make in retirement benefit schemes.
- Trustee elections and appointments are conducted in accordance with the regulations
- The rules on the operation of schemes as independent entities are enforced and both the sponsor's and member's rights are represented in the board of trustees.



## EMERGING ISSUES IN GOVERNANCE

1. Coordination of the investment management function where a large scheme has co-fund managers
2. Investment in alternative assets
3. Governance practices of the service providers
4. Examination of solvency risk of the service providers
5. Reserves maintained by the retirement benefit schemes
6. Participation of members in the governance of retirement benefit schemes
7. Conflict of interest
8. Governance of schemes where the employer has operations in other countries
9. Focus on lay trustees
10. Governance of schemes that have converted from defined contribution to defined benefit design

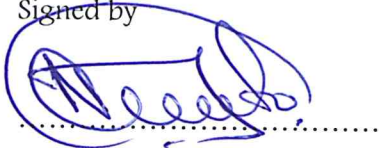
## RECOMMENDATIONS

It is essential that Trustees implement the schemes' trust deeds in a flexible manner and amend it to suit changing conditions such as increased working life and changes in regulations. Additionally, policy makers should continuously review governance regulations to ensure that they are strong, adaptive to different situations and inventive.

Since members of the schemes seem dis engaged with the scheme's governance, trustees should find creative ways of engrossing them. Such communication can include correspondence using both formal and informal means. Policy makers should also consider encouraging the development of corporate trusteeship as it will be more cost effective to smaller schemes and will give better results in place of a board of trustees with lay members.

Lastly, policy makers are advised to proactively scrutinize the identified emerging issues in the governance of retirement benefit schemes for the posterity of the industry.

Signed by



TRUST SECRETARY

Date

1.1.2017