

The background of the book cover is a photograph of an elderly woman from behind, wearing a bright green patterned sari and a black crop top. She is standing on a concrete step in front of a blue-painted wall and a wooden door. The wall has some peeling paint and a small red mark. The woman is looking down at something in her hand.

SAVING THE NEXT BILLION FROM OLD AGE POVERTY

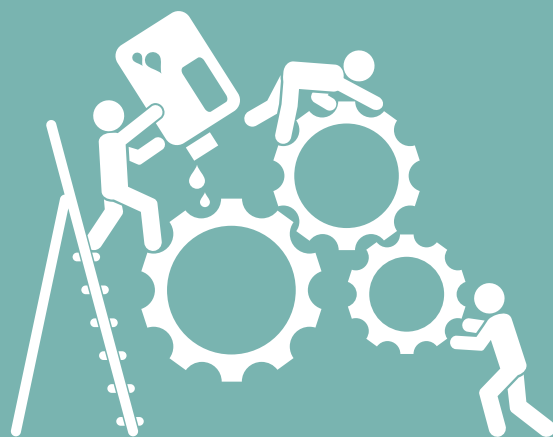
global lessons for local action

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ISSUES, EXPERIENCES AND SOLUTIONS IN
**SAVING THE NEXT BILLION
FROM OLD AGE POVERTY**

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INTRODUCTION

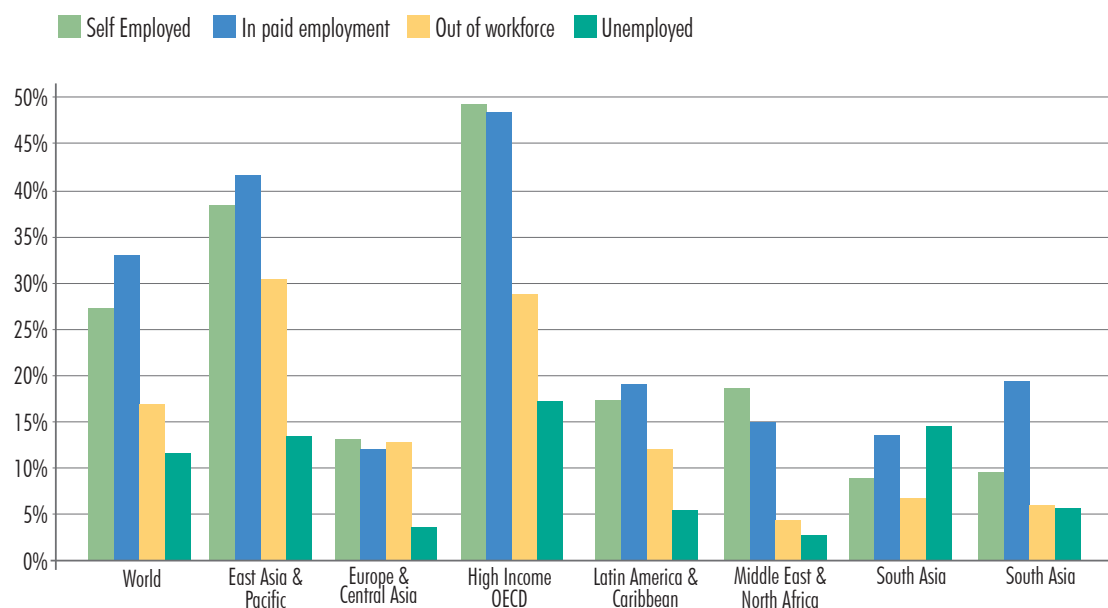
This chapter sets out the motivation for the book and provides an overview of the key issues. It then highlights the main lessons from the country and thematic chapters. It ends with a call to action: to seize the opportunity and prevent the growing number of persons who will face old age poverty as a result of rising life expectancy, falling birthrates, a breakdown of family support in old age and the legacy of broad-based pension exclusion. At the heart of the book project is the realization that the development successes and rising living standards we all hope for will lead to an even greater challenge for those focused on ensuring a decent old age for their citizens.

Unprecedented numbers in the future will have the opportunity to live to old-age – and yet, we are not well positioned to deliver adequate coverage of decent pensions to the elderly, with only 25% of adults worldwide currently saving for old-age (Demirgüç-Kunt, Klapper and Panos, 2016). As Figure 1 shows, even the best performing regions still face huge challenges. Those with the lowest coverage – even if they have some of the youngest populations – will need to use every available innovation and solution if they are to deliver a decent old-age for their people.

Figure 1

The global distribution of saving for old-age by employment status.

Saving for old age around the world and labour market status



Source: (Demirgüç-Kunt, Klapper and Panos, 2016 using weighted averages from Global Findex (2015) data)

Formal pension and social security arrangements in most countries are typically restricted to workers in formal employment – salaried employees in government service or private corporations who register to pay tax and social security. As a result, many advanced OECD countries have achieved nearly universal pension coverage simply because formal employment constitutes nearly 100% of their overall workforce. Coverage of self-employed persons in developed economies is much more variable – though some are driven into the pensions fold through a combination of tax incentives, easy access, and strong compliance and enforcement mechanisms.

Pension coverage in most developing countries on the other hand, where labour markets are predominantly informal, can be as low as 5 to 20 percent. Their remaining workforce, including owners and employees of small and micro enterprises, farmers, small shopkeepers, daily wage earners, street vendors, home help, unpaid workers, self-employed professionals, home-makers and non-salaried citizens more generally are typically excluded from formal pension arrangements. Many in this group face several formidable lifecycle challenges – often compounded not only by a scarcity of money and many urgent needs for their modest, unpredictable incomes, but also by a scarcity of time – a particularly challenging combination when a scarcity of either can make good long-term decision-making difficult (Mullainathan and Shafir, 2013). However, these states are not fixed – and for many, there is a high degree of turbulence over their working life including spells of formal employment, informal employment and unemployment, with some good years (with a good harvest for example), some bad years (with a bad harvest or a health shock).

One of the challenges that the book sets out to solve is how to try and stitch together these different periods in and out of the labour market and across the formal and informal sectors so that they can be combined into something meaningful – so that perhaps 20 years of savings can be aggregated over a 40-year working life – rather than be lost in extra years without savings, or split across multiple providers and products, none of which delivers life-changing outcomes. Whilst the concept of the ‘traditional’ OECD-style retirement from 65 with an income until death may not be feasible in most cases, the ideas in this book help to show how people can afford retirement, one year, or even one day at a time – and thus change a trajectory that currently leads too often to working until death, or existing in abject poverty when someone is too old or weak to work.

In this context, this book brings together two critical constituencies and pieces of the pension inclusion and coverage expansion puzzle: an obviously strong policy and regulatory commitment across countries to achieving comprehensive pension coverage, especially among non-salaried citizens with modest incomes, and an array of replicable tools and powerful ideas from the financial inclusion community that can be usefully applied to achieve meaningful pension coverage outcomes.

The chapters in this volume show how the transformative developments in financial inclusion can be married to pension inclusion using the existing deep knowledge of how to make modern finance work in the interests of the poor. This combination, of financial

inclusion innovations and infrastructure helping to solve the ‘how’ of linking people with pensions, with the experience from pension experts ensuring that the ‘what’ they are enrolled into is a good quality pension, can help provide solutions that will work for the poor and informal sector that have never previously existed. To put it in the language of the chapter on Mexico’s experience by Tuesta and Hoyo, putting these two elements together will deliver both access and usage – which together are necessary to achieve an inclusive pension system. And as the case-studies in the chapter on digital pensions by Khanna, Marathe and Bhardwaj show, technology could be a powerful “glue” that binds these elements into a simple, single window pension solution for the excluded poor.

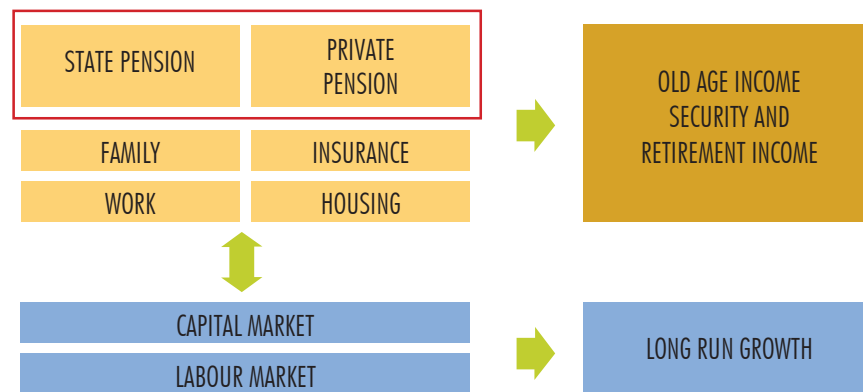
A guiding principle for the work is that no one source of retirement income will be sufficient to deliver a decent and secure old age. Whether one speaks of pension pillars, or tiers or sources of retirement income, an exclusive reliance on the public sector or the State will lead to excessive fiscal pressures and an unsustainable system – as seen in many EU countries – and prompting the EU’s own 2012 Pension White Paper to argue for greater diversification. Likewise, a reliance only on private contributory pensions can never deliver the broad coverage required to ensure universal freedom from poverty in old age. As the experience of Chile in 1981 and Mexico in 1997 shows, moving wholesale from public to private provision inevitably leads to a need to re-create sources of public pension provision to ensure an acceptable mix of outcomes. As Figure 2 shows, delivering old-age security and retirement income in fact relies on bringing together a wide range of different elements. Increasingly, as the demographic challenges of aging and lower birth rates persist, it is prudent policy at an individual and national level to try and bring together multiple solutions to fix the problem – to make a dent in a huge challenge by bringing together labour income along with savings and insurance, combining family support along with public and private pensions. Moreover, this mixed solution also helps to generate the assets that can help to deliver increased investment domestically and internationally, alongside protection for the life-time poor who may never be able to make sufficient contributions to short or long-term savings. However, at an individual level, creating a new way to save for a pension that is accessible and low-cost is an important source of personal risk-mitigation – since whilst a basic poverty-alleviating floor provided by the State may be a good idea, it is very difficult to use a solution that does not exist in all countries. So, until such ‘zero’ pillars are ubiquitous, pension policy makers need to give ordinary people the best possible tools to help themselves.

A key motivation for writing the book, and bringing together an unrivalled mix of academics, policy makers, regulators and practitioners, came from a growing realization that the financial inclusion and pension communities were not energetically bringing their insights together to create new solutions. Each area has a very active academic and policy debate. But scanning the literature, or the conference agendas, too often each area seemed to miss the cross-overs and synthesis of ideas that could make the whole more than the sum of the parts. For the financial inclusion agenda, there was admirable progress into how to get people into financial services – from basic bank accounts to insurance to innovative payment channels. But there was a much greater focus on using these advances

to help access to finance – and the ability to borrow to grow businesses – than to build assets through saving and pensions.¹ Likewise, the pension community was steeped in issues of optimal investment policies, default funds for those joining a pension plan and how to improve the payout phase – rather than focusing sufficiently on how to expand coverage to the millions, indeed billions, who do not currently have access to pensions. To be sure, all of these issues are important – indeed it helps to ensure that there is deep knowledge on what a good pension looks like. The thesis of this chapter and this book is that it is only when the ‘how’ of financial inclusion and the ‘what’ of good pensions are brought together in a way that is focused specifically on the challenge of delivering income in old-age, particularly to those in the informal sector, that systems can be engineered to tackle the problem of insufficient coverage of pensions globally.

Figure 2

A diversified solution to deliver retirement income is most robust



Source: Authors

A further motivation for the book, and equally its timing, is that bringing together the ‘how’ and the ‘what’ is today making possible previously unattainable solutions. In the past, it was challenging or impossible to even identify people in the informal sector, let alone reach them and create a regular payment link into a pension plan at sufficiently low cost to make it worth their while. Even if this could be done once, it was extremely difficult to do it in a way that the pension would work with the reality of their labour market experience – spanning periods in the formal and informal sectors, in and out of the labour market, moving from a village to a city, or from one region to another. A few good years may lead to some savings. But the question was how to link those original savings with another period of relatively good income in five or ten years’ time –

¹ The access to finance agenda is of course critically important – and helping to create a viable business can be central to delivering income to reduce current poverty and set aside small amounts to save. But the contention is that the relative balance of debate in the financial inclusion space was too heavily focussed on access to finance issues and not enough on the asset building through saving and pensions. This is understandable since the challenges of getting someone into a financial system are profound enough before thinking about how to get them to join a multi-decadal saving or pension program. However, even with the growth of non-contributory ‘social pensions’, at least for certain targeted groups, to ensure a poverty-alleviation floor as an essential part of the overall mix of a pension system, such plans will never be able to bear the full weight of retirement income even for those on modest incomes whilst being fiscally sustainable – particularly in developing countries with a very wide range of demands on (scarce) fiscal resources.

particularly if those years were in a different job, industry or location. Even if this could be done, but if it were done at a cost of 2 to 3% of assets under management a year, it would eat up so much of the real returns (often only 3 to 4% a year on average) that saving in a bank deposit would make more sense than putting money into the pension fund. Without a low cost product and process architecture using digital solutions, any fiscal incentives by governments would at best mitigate the impact of the high costs of marketing and distribution to low income customers or subsidize excessive service charges by providers. If governments delivered incentives via tax-relief, these would inevitably flow to higher-income segments and fail to benefit those excluded from the tax net by virtue of income levels even though these cohorts would have a much stronger need for fiscal support in building a meaningful retirement income.

Another motivation for this book was that many developing countries, including those in South Asia and East Africa, are today more or less simultaneously contemplating or attempting new, contributions-led pension programs aimed at achieving broad based social protection to reduce vulnerability in old age for their excluded workforce. Many of these countries have some remarkable similarities to each other in terms of demography, economic strength, history, culture, legal and political structures. Hence, lessons from both success and failure in pension policy formulation, system design and implementation should be highly portable from one country to another within South Asia, Africa, Latin America or across the island nations in the Pacific and the Caribbean. For example, the drafting of pensions legislation by a country could greatly benefit from a study of the texts of legislations and a candid appraisal of their strengths and weaknesses by other countries. Going forward, it may indeed be feasible for developing countries to work in partnership on efforts to build a basic, poverty-alleviating floor to income. Against this backdrop, the book is also perhaps the first global platform for developing nations to share with each other (and learn from) their unique experiences and lessons from expanding voluntary pension coverage – especially among women and the more difficult to reach segments of the labour market.

The book is intended to create a bridge between the pension reform experiences of OECD countries, as well as the important interlinkages between pension inclusion and advancements in ID, IT, digital payments and financial inclusion. Indeed, one of the most exciting features is that the solutions being developed in developing countries are creating innovations that are outpacing some of the more traditional pension systems in higher income countries. They offer insights for how to make access quicker and cheaper and to help future-proof some developed market pension systems with high rates of pension coverage built on very formal labour markets from the implications of the potential ‘uberization’ of labour markets in the coming decades. In this regard, while this project emphasizes the ‘south-south’ dialogue, it also highlights the importance of a south-north flow of ideas and innovation.

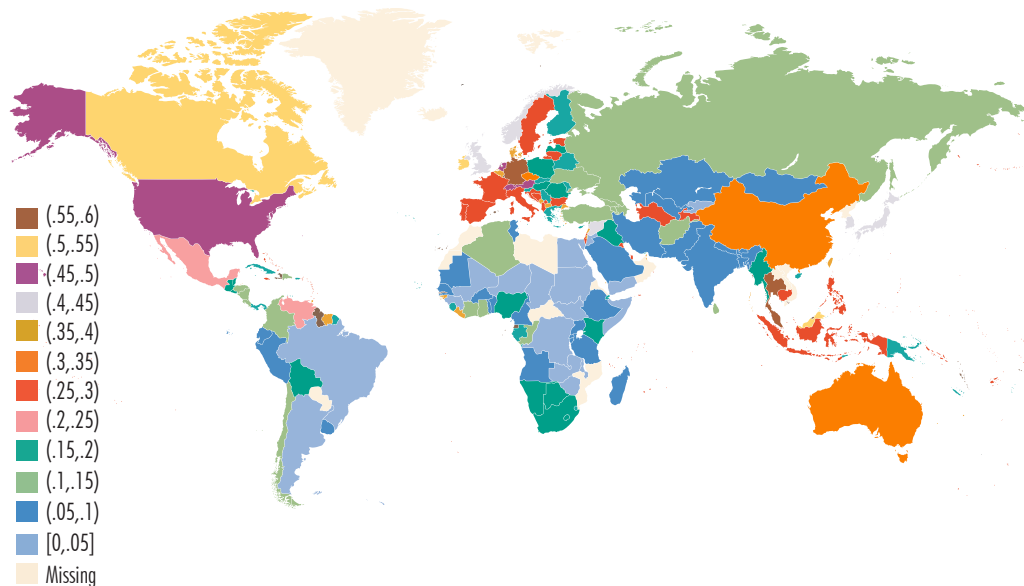
This emphasis on the role of the country – and the policy making and professional community – is important since ultimately nearly all aspects of pension policy are

controlled nationally. Success or failure will depend on the courage and vision of policy makers, regulators, academics and practitioners to develop pension systems that can work – and their humility to build them with and for those typically excluded. If Figure 1 showed the differences in regional averages for coverage, Figure 3 shows how at an individual country level, the within-region differences are just as large. In other words, there are already countries that are taking a lead and make a difference – and this book brings a number of the most compelling stories together, in the voices of those who helped create the change.

Figure 3

National Differences in Saving Rates for Old Age

Saving for old age around the world



Source: Demircuc-Kunt, Klapper, Singer and Van Oudheusden, 2015 using weighted averages from Global Findex Data.

This book sets out the latest picture from country case studies and from thematic reviews to create practical programs to improve their pension systems and make them fit for purpose for the rapid development we all hope to see. It also sets out an approach that any policy maker or practitioner should take to see if they are developing a viable solution – starting with the long-run outcomes that are required from the pension system and the particular part being developed and asking whether the current means of delivery can deliver wider coverage at low cost with decent real returns that are necessary to make pensions good value for members. Too many countries start with the design of a pension system without having clear metrics for what these outcomes on costs and returns and coverage will need to be – and then try to do as much as possible within the constraints of a market structure or pension value chain that will never be able to deliver good value and broad coverage (Price, Ashcroft and Hafeman, 2016).

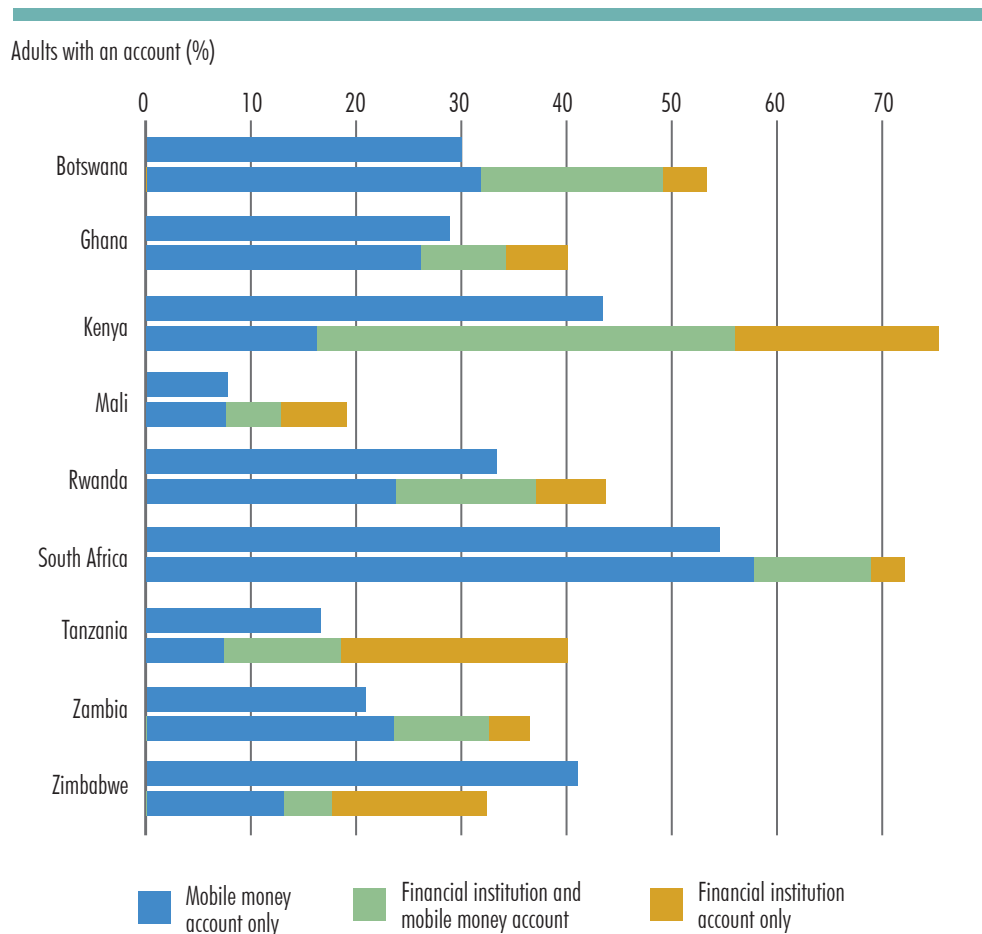
A central message of this book is that pension policy makers need to take a broader view of the necessary digital infrastructure needed to achieve inclusive pension systems that address the unique needs and constraints of the target population and help expand coverage at an affordable cost. A key foundational development has been an expansion in national Identification (ID) Programs.² Countries that do not yet have a robust national ID that can be used for uniquely linking pension accounts and multiple small contributions to a beneficiary over time, may struggle to deliver broad coverage of contributory pensions for informal sector workers. Policy makers faced with the task of expanding coverage of contributory pensions among informal sector workers may well need to put ID at the top of their agenda, rather than the normal set of pension policy issues such as regulation and supervision, investment and payouts.

The same is true of payment systems. As the policy and regulatory efforts with long-term retirement savings gather momentum and begin succeeding at scale across developing countries, millions of everyday citizens in developing countries will need a secure and convenient mechanism to channel potentially tiny pension contributions, month after month over multiple decades, to regulated fund managers. This will directly impact both voluntary savings discipline and the amount of pension that subscribers ultimately receive. Secure and well regulated technology-based, cashless payment solutions will therefore be a key ingredient for the success of any country's pension coverage expansion effort. As with NID, countries that attempt to expand pension coverage without resolving the issue of payments will impose significant risks and challenges on beneficiaries. Some likely risks in this regard are highlighted also in the case-study on the use of prepaid cards for collecting micro-pension contributions from the unbanked poor in India in 2012 (See Chapter 16).

As Figure 4 shows, there is some cause for optimism since the foundations are being laid already for a new approach to pension inclusion given the rapid spread of mobile money accounts in Sub-Saharan African – a region which as Figure 1 highlighted, faces some of the most profound challenges in increasing pension coverage. Yet the issues of payment systems and different forms of settling financial transactions that are at the heart of many conferences and studies on financial inclusion are typically absent from the pension policy debate. This is despite pensions having some of the most demanding payment requirements of any financial product given the longevity of the required payment flow. As highlighted below in the review of the thematic chapters there is a full chapter on payment systems – which aims to be a start in developing new ‘curriculum’ for the policy maker aiming to build the pension system of tomorrow.

² See for example the ‘ID4D’ or identification for development initiative at: <http://www.worldbank.org/en/programs/id4d>

Figure 4

Account Penetration in countries with mobile money account penetration of 10% or more, 2011 and 2014.

Note: While 13 countries have mobile money account penetration of 10% or more, the figure includes only 10 countries for which both 2011 and 2014 data are available. The 2011 Global Findex survey did not collect data on ownership of mobile money accounts.

Source: Global Findex database.

In addition to analyzing payment channels, it is essential to analyze carefully the groups who are closest to the (informal) workers and who could be channels for them to join and regularly contribute to a pension. Pension policy makers are typically well-versed with the issues of the formal segment of their labour markets and the role and reach of traditional providers serving well-established sectors of the economy. However, even in the formal sector, there has been perhaps a diminution in the emphasis on the role of the employer as both a channel for members to join a pension system and also, especially for larger employers, as a source of governance and expertise. As the chapters on Albania, the U.K. and Turkey show, there are very significant gains from carefully analysing the role of the employer and designing policies to maximize their potential contribution to expanding

coverage and improving efficiency. If policy makers are to expand coverage into the informal sector, or are to deal with the ‘uberization’ of the labour market, they will need to develop increasing understanding of the nuts and bolts of how to deliver a pension value chain from enrolment and payments to administration, investment and then payout.

A focus on gender is important throughout, since women can be even more disadvantaged than men due to a relatively higher life expectancy, lower incomes, a shorter working life, lower access to formal sector jobs, frequent employment interruptions for child-birth and other family responsibilities and often lower formal finance knowledge, experience and access. An analysis of the Global Findex database shows that it is particularly in the informal sector that gender differences in likelihood to save for old age are found – given that in the formal sector the existence of mandatory pension contributions tends to lead to more equal outcomes (Majoka and Palacios, 2017).

EXAMPLES AND EVIDENCE OF SUCCESS

The book brings together examples, with clear evidence of success, to show what is possible by reimagining how to deliver pensions. The evidence of what has worked ranges from over 2.5 million new accounts in Turkey, over 7 million new savers in U.K., pilots in India using digital pension solutions that helped increase enrolment by between 500% and 1,000% in a fully paperless and digital process, to interventions in Albania that increased growth in private pensions from 10% a year to 40 percent. The country case studies also show that not all countries have achieved all the steps but each has done something to advance along the path. So, policy reformers in other countries have a menu - from the broad and comprehensive reforms, if this is possible – through to specific and targeted improvements if they are not able to push on all fronts immediately.

Thematic chapters show how to design digital pension inclusion that can deliver outcomes for the poorest previously only available to the richest – with gains from improved governance, expertise and scale that can reach 400 basis points a year in returns in some cases, and gains from design that can reduce costs to less than 50% of their previous levels and get below an annual cost of 1% a year compared to many informal sector schemes that are 2.5% a year or more in costs. It is only by thinking in this new paradigm of digital pension inclusion and coverage that links best practice in financial inclusion and pensions that the goal of covering one billion excluded people with good quality pensions will be achieved.

However, it is important to be clear-sighted that the design and implementation of an inclusive pension program for low income non-salaried workers is hugely challenging. It involves simultaneous, well-coordinated supply-side actions by a range of stakeholders and an appropriate response and long-term savings commitment from target beneficiaries. Pension inclusion efforts that depend on voluntary thrift and self-help can achieve suboptimal outcomes simply due to demand-side constraints and the underlying profile of

the excluded target population. The fragile labour market attachments, low intermittent incomes, frequent migration across jobs and locations, a limited potential impact of tax incentives on voluntary enrolment and sustained savings discipline, and limited knowledge of and access to banking and other formal financial and payment services creates a significant challenge for the target population to meaningfully respond to pension policy and regulatory efforts. Also, for most informal sector workers, terms like “pension” and “retirement” may not easily resonate – although these often have little resonance even in developed countries.

In the wave of pension reforms that established or expanded contributory pensions in the 1980s, 1990s and early 2000s, some of these challenges were perhaps under-estimated. Some were hoped to be transitory – with the hope that labour market informality would reduce as countries developed. The challenges have been more long-lasting however, and for this reason, for some countries, the hoped-for coverage improvements from the initial wave of reforms have not materialized. This has led to the (generally sensible) development of an expansion in the provision of a basic pension, sometimes known as a social pension – although that term is often not well-defined. Expanding coverage in this manner can be an important part of developing a diversified pension system – but the costs involved mean that it will only ever be able to be a part of delivering what will be needed for many in a country. Good examples of both the theory and practice of these non-contributory pension coverage expansion projects have been produced recently, with a particular focus on Latin America – see for example Rofman, Apella, and Vezza, 2013 and Bosch, Melguizo, and Pages, 2013).

Alongside the realization that non-contributory pensions can have an important role to play, is the equally important realization that giving up on contributory pensions is a luxury that countries, and their citizens, cannot afford. Governments will therefore need to commit significant energy and resources to tackling the barriers outlined above. Communications to citizens will need to be based on simple, accessible messages built on field-tested solutions rather than large general public education efforts. Broad-based outreach and engagement often needs to be supported also by alternative fiscal incentive programs such as matching contributions (in lieu of tax incentives) to encourage lower income citizens to voluntarily open pension accounts and make regular contributions towards their old age. Often, the ability of low income individuals to voluntarily lock-in savings over multiple decades is further constrained by low insurance access and uptake. Thus, most insurable lifecycle risks and emergencies are funded by past savings (or high-interest emergency loans) leading to a high premium on liquidity and a negligible appetite and financial headroom for long-term illiquid retirement savings. However, products that allow too much access may cease to effectively deliver any income or assets in old age so there is careful balance to be struck – one that active piloting can help determine – including experimenting with bundling life or health and accident insurance with pension products.

On the supply-side, pension inclusion needs to involve innovative use of technology to provide convenient, secure, affordable and universal access to high quality investment governance and expertise by citizens with low irregular incomes, limited experience with formal finance and low financial literacy. Governments need to specifically focus on achieving low transaction costs to ensure that high fees and charges by intermediaries do not erode modest pension contributions. It is feasible to reduce both costs and time-to-market by harnessing existing institutional capacity for regulation and oversight, Know Your Customer (KYC) and identification of beneficiaries (by integrating pensions with national ID programs), funds management, payments (including digital payment solutions for unbanked citizens), nationwide distribution and access (through banks, MFIs, cooperatives and other third-party finance distributors) and annuities (through life insurers). This can help minimize operational risks and also inspire greater public confidence as citizens would interface with the pension program through well-known and trusted entities.

Implementing an inclusive pension program based on portable individual pension accounts will need an efficient technology-led central or interoperable administration platform that should help achieve the core principles of portability, competition, individual choice, targeted fiscal incentives, optimum benefits, low transactions costs, high governance standards, automated process compliance, uniform services quality and subscriber protection. Such a platform should be capable of issuing and managing millions of individual pension accounts and accurately recording static and transactional data including periodic contributions and claims by individual subscribers in their accounts over time. Use of IT should enable financial and pension ecosystem and infrastructure integration and single-window services delivery, process automation, and transmission of micro-contributions and benefits without any risk of fraud or reconciliation errors, and of course, universal access. A technology platform, especially for micro-pension programs that target low income informal sector poor with limited access to formal finance, should be fully capable of real-time monitoring of the functional obligations of service providers, including process and turn-around time (or TAT) compliance and generate periodic MIS and compliance/ exception reports for the regulator.

Table 1 brings together some of the key elements of the digital pension inclusion and coverage agenda – summarizing the key building blocks and showing the importance of bringing together the best insights from the financial inclusion and pension agendas.

Table 1
The Core Concepts of Digital Pension Inclusion

Digital	Pension	Inclusion
Modern ID and IT to facilitate access, account opening and payments using all available channels - and allow fluid labour market attachments to stitch together into a single and meaningful overall balance.	Best practice design of pension product, market structure and governance for member benefit - taking clear view of different solutions for different parts of pension value chain. Typically not best delivered via sales agent distribution	Leveraging gains in financial inclusion for entry and payouts
How to join	What to join	How to payout
<ul style="list-style-type: none"> • Employers • Micro-finance institutions • Self-help Group • Individuals • Affiliation/ professional groups • Remittance to home systems • Migrant employers 	Channels into a pension are those closest to informal sector. Typically not those with expertise to deliver 40-80 year pension. Separate but integrated providers of administration and investment at scale, with strong governance and oversight and potential to switch provision	Payment channels to (low income) citizens can leverage existing initiatives for Direct Benefit Transfer or delivery of other goods and services.

Finally, the book also focusses on some central important issues of implementation and regulation and supervision that can be underplayed. In the same way that the ID and IT foundations need to be built for a truly inclusive pension system, so does the regulation and supervision – but in a way that plays a proactive role to ensure that the pension system can deliver the necessary combination of long-run outcomes in terms of coverage, cost and returns that are necessary to be successful. In other words, the regulatory and supervisory system needs to work backwards from the necessary long-run outcomes and design a system that can deliver it, rather than create a system with inherent design weaknesses and then aim to ameliorate them. Given that there is an urgent need to build now to create systems that will be able to support the rapidly growing number of older citizens, the book also reviews how (and why) to create a ‘Mission Office’ or Programme Management Unit (PMU) that will be essential for the delivery of far-reaching and challenging reforms. In this way, the authors hope to create both the intellectual and implementation tools to help policy makers and practitioners globally.

KEY LESSONS FROM COUNTRY CASE STUDIES

The country case studies brought together in the book demonstrate a range of experience. In some case studies, the countries are leading the way in the integration of the financial inclusion and pension agendas, such as India and Mexico, or have recently demonstrated

significant improvements in coverage expansion whilst reducing costs and improving investments such as Turkey and the U.K. In others, the story is one of development of either the pension agenda – sometimes with a necessary first step of reforming an unsustainable public pension pillar in order to deliver some stability and credibility to the pension system, or developing the financial inclusion agenda – illustrating how some of the foundations have been laid and highlighting that there are great opportunities now from driving home the lessons from this book. Some countries stand on the threshold of launching just such an integration, for example in Rwanda and, potentially, Bangladesh. In all cases the aim is to show policy makers from any country that there are practical steps that can be taken in any scenario. It may not be possible to launch a broad based digital pension inclusion initiative, but countries could work on developing a national ID. A national ID may be off the table for the moment, but a country could make sure the regulatory and supervisory foundations are in place for future expansion. In other cases, perhaps it is only possible to launch some pilots of the type of approach that could be developed at a national level – to ensure that future designs are well-informed by real experience. Whatever the scenario, the authors hope that there will be practical lessons for everyone – whilst making the case that the real solution to the challenges of delivering old-age income is to launch broad based reforms that integrate the financial inclusion agenda with that to deliver good quality pensions.

This section briefly summarizes the main take-aways from each of the country chapters as a guide to the overall book and to help guide readers to the chapters in which they have the greatest interest.

Chapter 1. India: The chapter shows how powerful the integration of robust ID and effective IT can be when combined with the right market structure for pensions. It is obviously one of the key testing grounds for many of the ideas in the book overall, and shows how it is possible to create the possibilities for digital pension inclusion which were previously unattainable. However, India also shows how much further there is to go to make coverage expansion a reality – especially given the staggering size of India’s current pension coverage gap. There can be some optimism however, given the results of recent pilots which have shown an increase in enrolment of 500% and 1,000% with a fully digital and paperless enrolment process and automatic payments. A second pilot delivered the first ever enrolments at a village level into pensions using a platform that leverages previous Direct Benefit Transfer reforms – and showed in one local area, an increase in coverage from 3% to 20% among the target population of informal sector workers.³ India also shows how it was nearly 7 years after the foundation of the new National Pension System (NPS) that efforts began in earnest to address the informal sector. Clearly, there is scope in other countries to integrate this aim into the original pension design.

Chapter 2. Kenya: The Kenyan experience shows the importance of building the pension market and regulatory foundations alongside the opportunities created by the

³ The pilots were delivered as part of a FIRST-funded project with the Pension Fund Regulation and Development Authority (PFRDA) and a team led by Varsha Marathe Dayal and William Price from the World Bank, Gautam Bhardwaj and Parul Seth Khanna of PinBox Solutions and Senior International Consultants Michael Hafeman and Evan Inglis.

developments in financial inclusion through the well-known M-pesa payments platform. The integration is still being developed, but having both the pension and financial inclusion pillars co-existing allowed the creation of a simple, low-cost saving platform known as Mbao that brings the two together. In most countries in the world, this is not possible – and whilst there is more work to do to scale it up and to fully realize the benefits, it illustrates the central thesis of the book that the ‘how’ of financial inclusion access should be linked to the ‘what’ of a well-developed pension program designed specifically for the purpose and target market.

Chapter 3. U.K: The U.K. example shows the profound improvements that can be brought even to a mature economy with a very well-established pension system and, seemingly, all the advantages of a developed economy status with a highly developed financial system. Despite all these advantages, the coverage of private pensions had been declining for many years before the introduction of ‘auto-enrolment’ reforms. These reforms followed many previous attempts to boost private pension coverage – from the development of new products such as individual private pensions through to financial education initiatives. It was not until the auto-enrolment reforms however, which required all employers to have a pension plan, to automatically add eligible workers into the pension plan and then to contribute if the worker stayed in, that the long-term decline in private pension coverage was rapidly, and dramatically reversed. Not only have over 7 million new savers been added to pensions in an employment market of some 30 million, it has been done in such a way that costs have been reduced through the creation of a new pension provider known as NEST (with a mandate to have total fees no higher than 0.5% a year) and the introduction of charge caps. The U.K. is a strong lesson in the importance of improving the market structure for pensions, thinking hard about the full value chain, including how to improve governance and investment and thinking clearly about the precise needs of the target market.

Chapter 4. Bangladesh: The Bangladesh chapter illustrates a country on the threshold of potentially exciting pension reforms that has the potential for dramatic impact because of the powerful platform for financial inclusion that has been built over the past decade. Bangladesh has a robust collection of micro-finance institutions that cover a large section of the population with financial services (both formal and informal), despite large challenges of low-incomes, financial illiteracy, geography and labour market informality. As the chapter highlights, this existing web of financial institutions, tailored very specifically to the lives of low income informal clients, could be connected to the kind of pension infrastructure seen in India and other countries, where those with expertise in pension administration and investment can collaborate with the MFIs who can deliver the access to savers. The MFIs will typically not be the right institutions to deliver a 40-80 year pension product – so they can focus on their core specialization, whilst the provision of administration and investment management can be procured from providers with scale and strong governance to deliver long-term returns in the member interest.

Chapter 5. Turkey: The chapter highlights the history in developing a more diversified pension system over time alongside recent reforms that have significantly increased coverage whilst also reducing costs and improving investments. The diversification started through individual voluntary provision via vertically integrated providers. Whilst this pillar did achieve nearly 6 million members – and along the way showed the benefits of switching from tax-relief to matching contributions to incentivize pensions – it did not create the right platform for broad based coverage of good quality pensions. Recent reforms to introduce auto-enrolment and improved investment strategies that came into force in January 2017 have seen around 3 million new pension accounts in less than a year, with costs less than 50% of those in the individual voluntary system. This means that in the future, hundreds of millions of dollars in fees will be saved that will boost the bottom line for members in the form of higher returns. Turkey also provides an example of a country that has shown progress in increasing the formality of the labour force – thus helping to expand coverage through ‘traditional’ means. But in the future, the coverage of the informal sector will no doubt require implementation of some of the ideas in this book.

Chapter 6. Rwanda: This chapter highlights how a country can more systematically and quickly leverage the opportunities created by a robust ID platform on which a range of government services and payment flows have already been established. Rwanda is moving quickly to use this platform to create the new approach to digital pension inclusion which is one of the central messages of this book. Whilst other countries have more history with either pensions or financial inclusion, and then have latterly brought the two together, Rwanda is moving rapidly to advance on both fronts and leverage the synergies between the two approaches. It hence shows that the timelines from development to implementation can be much shorter than previously thought if one systematically develops both elements together.

Chapter 7. Chile: In a country with a long tradition of private pensions since the formation of the system in 1981, the Chilean case shows the importance of exploring new ways to improve coverage and finding ways to address the self-employed who are typically excluded from pension coverage initiatives in both developed and developing countries. The analysis reiterates the importance of the ID and IT that allows self-employed people to be identified and targeted so that enrolment into a pension contribution system is even a possibility, and it shows another example of reforming a mature system which, although well-known and often admired, clearly has many ways to improve – mirroring the U.K. case.

Chapter 8. Nigeria: The Nigerian experience shows the importance of creating strong foundations for radical change and implementing efforts to clean up existing non-performing parts of the pension system through clear rules, secure channels and accounts into which to put the pension contributions of the future. This shows the importance of regulatory focus on compliance enforcement as a way to expand formal sector coverage

through employers, while exploring new strategies and approaches to cover the informal sector. The author highlights barriers to launching the fully operational digital pension inclusion approach advocated in this book because the unique ID has not been achieved as yet – reiterating the importance for ID in expanding voluntary micro-pension coverage.

Chapter 9. Mexico: The Mexican experience is a great insight into the importance of a second generation of reforms after initial hopes for coverage expansion were hampered by the persistence of informal labour markets even in a mandatory system. This has prompted the regulator and the Government more generally to focus on radical and innovative ways to rethink how to join and contribute to a pension system. This combines the way in which the regulator can direct members to the providers with the best performance rather than relying on members being experts. Innovative approaches with payments, administration and retail outlets outlined in this chapter provide a new way to reach pension contributors. The chapter also starts with some very useful theoretical material on the overall concept of digital pension inclusion.

Chapter 10. Jamaica: As with a number of countries, Jamaica shows the importance of developing a well-functioning pension market as a pre-requisite for expanding pension coverage. The chapter also highlights the importance of building in, earlier in the reform process, links to the financial inclusion agenda and the achievement of economies of scale that will be necessary to get costs low enough to allow pension provision for the informal sector to be value-adding to that sector. Given a regionally mobile population, the Jamaican case could be one where it is useful to develop interoperable administration across many Caribbean islands so that each one can keep its own pension system but that members can aggregate contributions in a single account.

Chapter 11. Pacific Islands: Whilst some of the chapters have shown the creation of the pension foundations as a first step, the chapter on the Pacific Islands shows the other side of the preparation towards digital pension inclusion with a group of countries that have focused more on developing the financial inclusion part of the story – and have had to be innovative to overcome the great challenges of small populations distributed over many small islands as well as some larger population centers. Clearly for them, the next steps for pension coverage is to be able to link the creation of a robust and efficient pension market structure than can leverage the progress on financial inclusion.

Chapter 12. Albania: The chapter highlights the need to create a strong foundation for private pension delivery and to expand pension coverage once the regulation and supervision is in place in order to develop the experience and trust in a population with a low trust in financial services. Moreover, as in Nigeria, the chapter illustrates the need to clean up and reform parts of the pension system that were hindering the creation of a well-functioning diversified pension system. There is then a specific focus on how coverage expansion targeted on employers can help to build coverage in a more cost-efficient way – with a project that increased the annual rate of expansion from between 8 and 12% in the three years before the project to 48% and 38% in the following two years.

The chapter also highlights the importance of the next steps to build on the developments in financial inclusion and payments – and how other reformers could learn by bringing these two elements together at an earlier stage in the process.

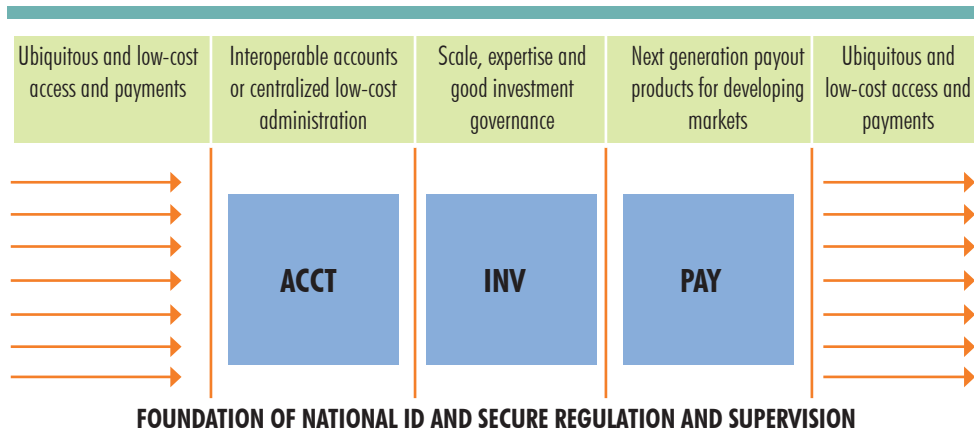
Chapter 13. Indonesia: The experience of Indonesia highlights the challenges to building digital financial inclusion until it is possible to have a clear and well-functioning pension platform – and one that can deliver the levels of efficiency and coverage even in theory that will be needed to move forward. The chapter notes the benefits of a large population (even one that is geographically very distributed) that creates the potential for the scale efficiencies in administration and investment, that like in India, helps to underpin the creation of a platform than can work for the poorest to deliver high quality pensions. The possibilities are huge and the key lesson is for a more integrated and broad-based strategy to ensure a viable digital pension inclusion strategy can be created.

KEY LESSONS FROM THE THEMATIC CHAPTERS

The thematic chapters follow the pension value chain and show how to build each part of a pension system in a way that brings together the financial inclusion and pension infrastructure and agenda to achieve digital pension inclusion. The essential model, illustrated in Figure 5, is to ensure multiple entry channels into a pension product that delivers low-cost, scale, expertise and governance in the delivery of the pension accounts and the investment of the money. The value chain ends with modern payout methods that are well suited to low-income members in developing countries, but also have important lessons for any pension system given the challenges to delivering a life-long annuity in a low interest rate environment. Finally, the model uses the same payment and access routes that helped the original enrolment to deliver the pension income safely, cheaply and directly to financial accounts.

Figure 5

Creating a new value chain for digital pension inclusion



Source: Authors

A key question when building the value chain is to start with the vision for the next 10 or 20 years for what is needed to deliver good quality pensions with broad coverage and then work backwards to identify the necessary design features to deliver that vision. This means having a clear idea about the initial and long-run fees. It will be extremely difficult to deliver a good quality pension product unless there is a clear pathway for fees to fall below 1% (100 basis points) as a share of assets under management each year – and ideally considerably below that figure. This has implications for the role of large scale marketing and sales agent activity. For investment, there is need to focus not only on low-costs but on also ensuring that the net of fee return is maximized. But to do this well requires strong governance and expertise to ensure best execution by external providers, or the ability to create some element of viable in-house provision.

Policy makers also need to focus on understanding likely future payouts from relatively small contributions that are not likely to be made every month and every year to understand what role a contributory pension can play as part of the overall retirement income provision. There are many useful forecasting tools that can be used of varying sophistication.⁴ Finally, as highlighted above, the early stages of policy development need to include a clear idea of the regulatory and supervisory arrangements – and a timeline that allows them to be established and operational before the new system goes live. A key tool to bring together all of these issues and features is the use of a Mission Office or Program Management Unit – ensuring that all the elements are rigorously programmed to deliver significant change in a specified time period. The key messages from each of the thematic chapters can be summarized below.

Chapter 14. Identification: This highlights why ID is fundamental to delivering digital pension inclusion and meeting the challenge of expanding the coverage of good quality pensions to all. A key message for many pension reformers is that ID may be your most important and most urgent pension priority – not regulation and supervision. The chapter explores both technical and practical issues and gives a range of invaluable lessons for both the financial inclusion and pension communities.

Chapter 15. Payments: The payments chapter shows how developments in ID and IT and administration can be harnessed by low cost and ubiquitous payments solutions to allow micro-payments to be harvested from income and expenditure activity to create a new concept of auto-enrolment for the informal sector. It delivers the view of an external product provider from their current experience of markets globally. The payments experience is also central to the role of global remittances – which themselves could be channeled into well-run pension systems, where workers in host countries are likely to retire in their home country but may be excluded from formal pension programs in both locations.⁵

⁴ See <http://toolkit.pinboxsolutions.com>. See also Sane and Price, 2017.

⁵ Another possibility created by improvements in payments, ID and IT is that non-resident workers who earn money in 'host' countries but are likely to retire in their 'home' country could remain linked to their home country pension system. In this way, when they receive typically higher pay in the host country their remittances to family can support not only short term consumption but also their old-age income. Indeed, the remittances could be directly to other family-member pension accounts to avoid a problem of a large temporary boost in consumption caused by short-term remittances followed by a return to pre-remittance low levels of income. This idea is explored in more detail in Bhardwaj, 2017 and Price, Pallares-Miralles, Demarco and Attia, 2017.

Chapter 16. Digital Solutions for Pension Inclusion: This chapter discusses the role for an integrated product and digital process architecture in providing universal access to secure, affordable and portable pension accounts that follow people through the lives they actually lead. It shows how digital (paperless and cashless) pension systems can be created largely using existing digital financial services infrastructure. It presents some case studies based on field-level challenges faced in micro-pension system design and implementation and showcases some new models for non-linear micro-pension coverage expansion.

Chapter 17. Governance and Investment: The critical role of good governance and investment in building a good quality pension product are explored in this chapter. It is an area on which there is often too little focus in pension and financial inclusion debates. The chapter helps explain why financial inclusion and pensions best practice need to advanced together to ensure that the product into which people can now be enrolled is a product that is designed and delivered in the member interest. The chapter emphasizes the need for clear thinking about these elements and about the design of market structures that have scale, expertise and governance, without which we risk enrolling people into pensions that will not work in their best interests and will not outperform simple term deposit accounts in terms of real returns, flexibility and ease of use.

Chapter 18. Costs and Investment Returns: This chapter provides a wealth of evidence on what drives costs and investment returns. It explores the fundamental cost and investment return dynamics of a pension system, why it matters and the challenge that needs to be met if pensions are going to be worthwhile. Hence, it helps to provide numbers and key insights on how delivering scale, expertise and governance can significantly increase real returns – and in some cases how the difference between in-house, external and fund of fund arrangements can add up to 400 basis points a year in costs for some assets.

Chapter 19. Experiments in Inclusive Insurance: The chapter provides a thoughtful review of multiple country experiments to expand microinsurance coverage to informal sector workers using traditional structures and delivery channels. It shows that initial successes were often difficult to sustain and, in particular, to scale up to a viable long-term business model. It is an important chapter in highlighting the need to create a new paradigm that will ensure that developments in access are matched by developments in the quality of the products in terms of costs, returns, portability and lifelong durability – and that there is a combination of scale, governance, expertise and cost that can deliver broad coverage.

Chapter 20. Payouts: The central point of a pension product is to ensure that the assets generated by harvesting small contributions over a lifetime can lead to a decent, above poverty income stream in old-age. The payout chapter reiterates the message that the design of the pension product – the ‘what’ - needs to be addressed rigorously if the promise of pension inclusion is to be delivered – and reiterates many of the messages from the governance and investment chapter that what is good for accumulation is good

for the payout. The chapter completes the circle that the developments in IT, ID and payments that can transform enrolment into pensions can also be harnessed to radically improve payouts.

Chapter 21. Regulation and Supervision: Ensuring that there is a secure underpin to the operation of the pension system that is tailored to the nature of pensions is a critical and sometimes overlooked part of the design discussions. The chapter emphasizes the need to combine best practice in design of pension systems to the developments in digital inclusion and not treat pensions as just another financial services product. Moreover, it highlights the importance of ensuring regulators and supervisors focus on achieving long run outcomes that are meaningful and important to the members – and being continually and proactively alert to risks to achieving those outcomes.

Chapter 22. Financial Inclusion and Pension Inclusion: This chapter provides an overview of the characteristics of the financially excluded and provides a range of fascinating examples from the latest in the financial inclusion side of the debate. It shows how innovation is creating revolutionary opportunities for how to link people to the financial system – and sets up the fundamental question of what they need to be linked to that ensures pensions are good value and delivered in the best interest of members.

Chapter 23. The Role of the Mission Office: Perhaps for the first time in a book of this kind, this chapter looks at the program and project management aspects of successful pension and financial inclusion reforms. It draws on the experiences of India, the U.K. and New Zealand to show how governments, regulators and supervisors can bring together the focus, intensity and broad range of skills necessary to design, build and deliver the new model for digital pension inclusion. The chapter emphasizes the range of skills and expertise needed as set out in the thematic chapters – so that it is more than another financial inclusion initiative, more than just another pension reform. It aims to equip a future leader of a digital pension inclusion initiative with the breadth of knowledge to know how to create and build a program and a team that will successfully implement the policy vision.

CONCLUSIONS

This chapter argues that there is finally an opportunity to tackle some of the most difficult issues in both pensions and financial inclusion by bringing the two agendas together in a way that has not been done sufficiently in the past. The central problem is how to deliver adequate income in old age to the billion extra people who will live beyond 60 as a result of the profound improvements in longevity and declines in birth rate driven by welcome development successes across the world. We already know that coverage of pension income for those in old-age is not good enough now. It will only become worse in the future if we do not push forward aggressively with new tools to allow contributory pensions to be extended to the informal sector as a vital income stream to add to public provision – which is a necessary but not sufficient condition for a sustainable pension system delivering a decent level of income across the population in an efficient and secure way.

The tasks of identifying, enrolling and collecting contributions from informal sector workers – and then investing those assets well over a working life and paying out a stream of income in old-age has proved to be beyond most countries. Even delivering pensions to formal sector workers in higher income countries such as the U.K. or Turkey has been challenging – and required a profound re-engineering of their systems with bold experiments in auto-enrolment in both countries that boosted coverage, reduced costs and improved investment strategies. But developments in ID and IT globally now mean it is possible to square the circle of how to deliver pensions efficiently to informal sector workers. Experiences from India to Kenya and from Mexico to Rwanda show how we are on the brink of a potential digital pension inclusion revolution.

The authors of the chapters and the supporters of this project are united by the belief that a coalition of countries, donors, practitioners and the people themselves can come together with the right support and help make the next decade the one that laid the foundation for a decent old-age for the next billion to reach the milestone of advanced years. Without a re-imagining of pension policy and financial inclusion the world will fail to deliver coverage and security – and the great successes of improved development, longer lives, lower birth rates and improved health - will be marred by avoidable old-age poverty.

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