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RETHINKING PENSION INCLUSION IN THE **PACIFIC ISLANDS**

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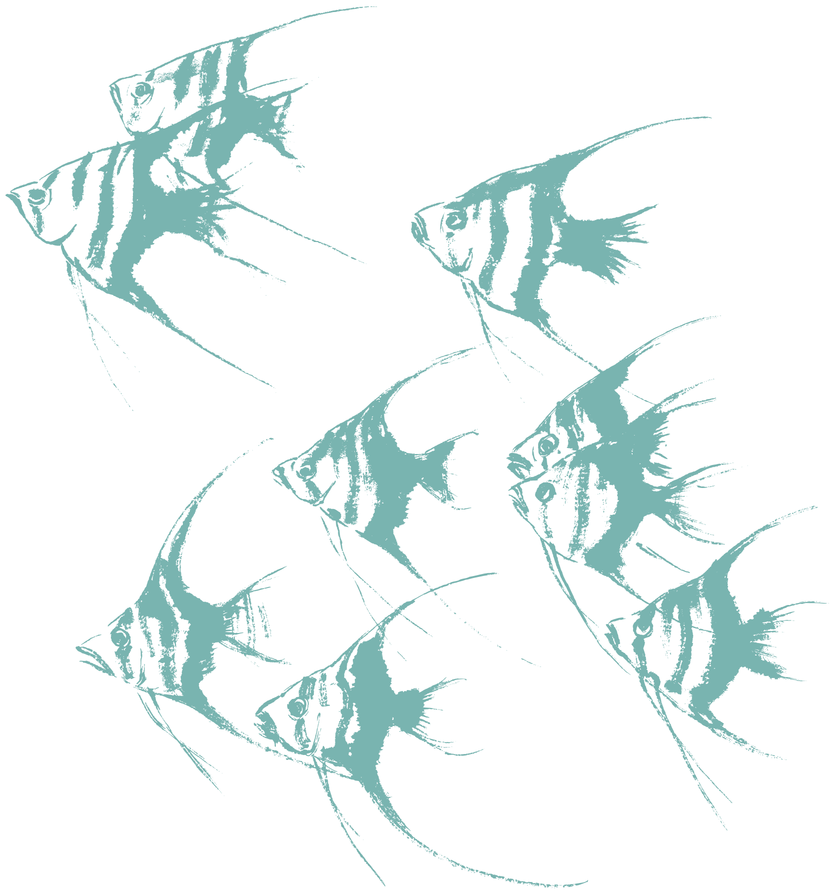

INTRODUCTION

This chapter focuses on the status of pension inclusion in the Solomon Islands (SOI) and Fiji, with allusions to several other South Pacific Island Countries (PICs). References and inputs in this chapter have been drawn from the ongoing work on expanding pension inclusion to the informal sector undertaken by the Pacific Financial Inclusion Programme[1] (PFIP) in partnership with the respective Provident Funds[2] of Fiji and the Solomon Islands. These respective partnerships present an innovative proposition for bridging an important gap in access to finance, and old age pension coverage in these countries in particular, wherein the vast majority of employment exists in the informal economy.

In both Fiji and the Solomon Islands, like many other Pacific island countries, strong traditional cultural mores emphasise the precedence of 'community' over 'individual' as a result of which, in times of individual hardship (such as illness or old age), it is incumbent on the community to provide support. This traditional system is breaking apart as a result of globalization and modernization and, coupled with increasing life expectancies, points to the necessary creation of an alternative social protection system for the elderly.

The pilot projects that will be presented in this chapter are presently underway in Fiji and the Solomon Islands and should deliver clear evidence on the savings behaviour of adults in the informal sector (particularly low income earners) with regard to voluntary pension accounts and provide insights as to the behavioural 'nudges' that can encourage them to make regular contributions for their retirement. The pilot projects underway now in the two countries follow feasibility studies conducted during 2016 that clearly established the demand for voluntary contribution pension among the informal sector respondents. The validation trials will establish operational feasibility, business viability and sustained client interest.

This chapter details practical and achievable steps that could be taken by any country wanting to start the journey to increase financial inclusion and pension coverage.

[1] PFIP is jointly managed by the United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF) and presently operates in six Pacific countries -- Fiji, Papua New Guinea (PNG), Samoa, Solomon Islands, Tonga and Vanuatu. For more information, see www.pfip.org.

[2] The Fiji National Provident Fund (FNPF) http://www.pfip.org/our-work/work-streams/market-information/fnpf-voluntary-micropension-research/ and the Solomon Islands National Provident Fund (SINPF) http://www.pfip.org/our-work/work-streams/market-information/sinpf-informal-sector-savings-pension/. The inputs, support, contributions and approvals of these organizations, their managements, and staff is duly acknowledged.

BACKGROUND AND **SITUATION ANALYSIS**

The South Pacific Ocean is the geographic home to several small island states together called PICs. Australia and New Zealand are not included in this grouping because of their size, population and overall developed status. All the PICs are archipelagic with dispersed populations.

The Pacific Small Island Development States (SIDS) have significant variations in size, populations, cultural backgrounds and resource bases. Factors such as geographical remoteness, small populations, limited market access and economies of scale, limited governance structures, inadequate infrastructure and high cost of transportation, impact of climate change, natural disasters as well as economic shocks all constitute key development challenges in the region. The total population of the Pacific Islands countries (excluding Australia and New Zealand) is around 10.5 million with nearly 8 million living in Papua New Guinea. Of the remaining 2.5 million, 75% live in Fiji, the Solomon Islands and Vanuatu.

Countries in the Pacific are among the poorest in the world with Samoa, the Solomon Islands, Kiribati, Tuvalu and Vanuatu currently classified as Least Developed Countries (LDCs) by the United Nations.[3]

South Pacific countries are unique in their own ways with distinct cultural identities and social structures that need to be properly understood before any meaningful development intervention can be administered. The use of financial inclusion as a development tool in this region has been chartered to include all of the above and is explained in greater detail later in the chapter.

Most Pacific countries are also characterized by perpetual customary inalienable tribal land ownership, a binding social structure that ensures basic hygiene needs for the individual through community based support and subsistence affluence (no hunger or starvation) due to access to land and ocean resources. Consequently, there exists a lack of incentive or motivation to save by individuals especially for the long term and old age. However, there is relative poverty, a 'poverty of opportunity" characterized by lack of access to higher tertiary education (most PICs provide free education up to secondary level), proper medical care, permanent housing, etc. Village level economies in PICs are still largely subsistence and monetization is a relatively new phenomenon. In the words of a former Premier of a province in the Solomon Islands "money has slowly crept into our lives in the last decade or so. During my school days, my father used to pay for my boarding with pigs and kumara (a root crop). Now to send my children to higher education, I need to find cash."

The Pacific, while unique in many ways, is now changing and adapting to the rest of the world with the advent of technology and access to information. Life styles, especially among the youth, are rapidly changing, and consequently, the new expectations of the current and

[3] The UNDP publishes an annual Human Development Report categorizing countries on the basis of a Human development index

future generations have to be addressed. With the traditional cultural systems breaking down, urban migration and increasing nuclear families, improving social protection and the need to finding innovative solutions is catching the attention of policy makers and development partners.

FINANCIAL INCLUSION IN THE PACIFIC

Until a decade ago, the South Pacific was one of the world's most unbanked regions with only an estimated 15%[4] of the adult population owning a formal bank account. Access was, and continues to be, a major issue and availability of financial services at proximate locations for people living in rural areas is a big challenge. Financial inclusion is defined as individuals and businesses having access to a range of appropriate and affordable financial products and services that meet their needs. (Consultative Group to Assist the Poor). Financial inclusion is an important development tool and has been linked to improved quality of life at a household level, as well as improved economic growth and reduced income inequality at a macroeconomic level.

Given that all these countries have dispersed islands surrounded by a vast expanse of ocean, logistics in terms of reaching remote populations is the biggest hurdle to financial inclusion. The remoteness also adds to the cost of doing business and hence most financial service providers do not operate beyond urban centres. Since 2008, PFIP has been working closely with Central Banks in the region to chart out a financial inclusion road map for the respective countries. The financial inclusion landscape in the Pacific region has undergone significant development as a range of initiatives have looked to address the challenges of geography, low population density, low levels of technical expertise and vulnerabilities to natural disasters.

PENSION INCLUSION IN THE PACIFIC

While a number of PICs have a national superannuation fund that has been formed through appropriate legislation to cater for old age pensions, their mandate and coverage largely caters only to those in the formal employed sector. These provident funds offer the mandatory employer-employee type schemes and benefits, and while they also offer voluntary schemes, these have been largely unsuccessful. Given that less than 20% of the adult population in these countries is engaged in the formal sector, the number of Pacific Islanders with some form of formal old age financial security is limited. Most PICs do not have any other social protection schemes given their weak resource base and lack of serious government policy towards providing financial security for those in the informal sector.

The National Financial Inclusion Strategies that have been developed in the recent past include looking at providing voluntary superannuation schemes and micro pension services. In order to meet this objective, there is a need to revisit some of the National Provident Fund legislations to make amendments to expand their mandate, increase the suite of

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[4] UNDP estimates based on a study in 2005. Subsequent Financial Service Sector assessments have confirmed the levels of exclusion especially among low income households (http://www.pfip.org/our-work/work-streams/market-information/financial-services-sector-assessment

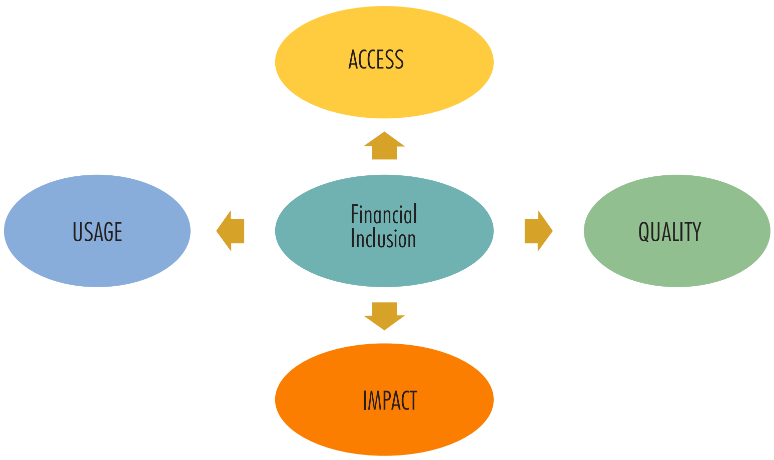
products offered and look at covering the population segments in the informal sector economy. Legislative reforms are currently underway in some of these Pacific Island countries.

A more detailed summary of superannuation funds in some of the Pacific countries where PFIP presently operates is provided in Annex I under the title "Social and Pension Inclusion in the Pacific".

THE FOUR DIMENSIONAL APPROACH TO FINANCIAL INCLUSION

Financial Inclusion as defined in the Pacific (and indeed globally) has four dimensions diagrammatically represented in the Figure 11.1.

Figure 11.1
The Four Dimensions of Financial Inclusion



The access dimension deals with proximity of financial services to customers and includes the physical distance. Given that PICs are maritime countries with vast expanses of ocean, covering physical distances often involves travel by boat involving long hours of travel and costs. The primary focus till date has been on increasing access points and bringing financial services closer to people by adopting technology enabled services including mobile and branchless banking.

The access dimension also includes looking at barriers to entry and identifying factors inhibiting people from accessing financial services. These include legal and regulatory guidelines (for example anti-money laundering or AML compliance and Know Your Customer or KYC requirements), cultural barriers, administrative barriers (forms, compliance) as well as financial literacy. Much progress has been made by all PICs in improving access to financial services over the last few years by allowing innovative technology driven financial services although there is ample scope for increasing the footprint of access points.

In the recent past, some of these countries have started issuing biometric voter registration cards with photo identification (Fiji, Samoa and the Solomon Islands) while in

Tonga, there is a National ID for all citizens. These forms of ID are increasingly used for opening new bank accounts and enrolment in superannuation funds.

The quality dimension covers the appropriateness of financial products to customers and their affordability. The key questions to be answered here are 'Is the product or service suitable for the target segment' and 'Is this what clients want'. The quality dimension also considers pricing of the products, fees and charges, exit conditions, and assesses whether the products are nondiscriminatory and fair from a consumer protection angle, including whether appropriate complaints resolution mechanisms are in place. A key challenge is around linking the 'last mile' with well-run pension funds that have the scale and longevity to deliver a complex product in the standard financial inclusion toolkit. This is a key message in Chapter 17 on Governance and Investment and Chapter 18 on Costs.

It is expected that if there is adequate access of appropriate financial products , clients will start using the services in a more meaningful manner and the overall objectives of financial inclusion will be met. The usage dimension deals with frequency and regularity of usage of financial services by clients. However, in reality, it has been found that while there has been good uptake (or registration) of financial services in the last five years, usage rates remains low. In many markets in the Pacific, usage rates are between 7 to 15%, indicating that a lot of work remains to be done to increase adoption and usage by clients. This creates a significant challenge for pensions given the need to accumulate small payments over many years in order to develop a meaningful amount of money that can help to improve life in old age. Hence, building on existing infrastructure can be important to increase economies of scale and reduce the costs of delivery.

Finally, the impact dimension examines how financial services are improving the well-being of the individual and households especially those at the bottom of the pyramid.

Key questions in assessing impact include:

- Does the individual or household move out of poverty?
- Does the individual or community improve their standard of living?
- And what is the resultant impact on the local as well as national economy?

Given the complicated and long-term nature of 'well-being', it is too early to assess the impact of financial inclusion. Despite attempts at mapping customer journeys through randomized control trials, successfully isolating and attributing improvements in well-being to financial inclusion alone has proven elusive and hence is not yet an accepted development result.

In its current phase (2014-2019), PFIP is looking at fostering financial innovation to improve usage rates and increasing transaction volumes of digital financial services through a "Design Lab" approach – by adopting a human centered approach to product and services development and deployment. This will be explored in-depth later on in the chapter.

SCOPE AND SCALE OF FINANCIAL EXCLUSION

Despite promising developments in financial inclusion over the last few years, significant challenges remain. UNDP estimates that around 6.5 million people, or nearly 65% to 70% of the people living in the Pacific, lack access to financial services including savings, credit, insurance, remittances, pensions, transfers and investments from both regulated and non-regulated institutions. Consequently, and as we see in Table 11.1, those who are excluded from the financial sector are not able to achieve their full economic potential and continue to be denied opportunities to attain a productive and dignified living.

Table 11.1
Excluded groups and the impact of exclusion

Excluded Groups	Estimated Scale of exclusion	Impact of exclusion
Women and men living in rural villages and remote islands engaged in subsistence work with intermittent income.	60-70% of the population	No safe means to save what little is earned, no access to credit to smooth consumption or create income earning opportunities, and no means of saving for long term and old age.
Women, men, youth and children across the Pacific with low levels of financial knowledge and competencies.	70-80% of these cohorts	Financial competency surveys conducted in Fiji, Samoa and the Solomon Islands show that low income households have low competencies in managing cash flow, financial planning and budgeting, managing credit, understanding the cost of money and hence struggle to meet current and future financial needs.
Public employees out-posted to rural locations.	It is estimated that one worker supports up to 20 persons including extended family members.	Financial services demand side studies[5] have established that public employees can end up spending 20% to 30% of their wages on travel to the nearest cash-out point, usually a bank branch or ATM. Erosion of income affects their quality of life and that of their dependents. In addition, it also affects delivery of public services and benefits.
Households receiving remittances from relatives living and working in other towns or abroad.	Pacific island nations especially Fiji, Samoa and Tonga receive significant overseas inward remittances. Estimates put the figure of remittances into Pacific SIDS at USD 600 million in 2014.	Transfer and remittance costs borne by the sender are high and can deplete nearly 15% to 30% of the amounts transferred. Consequently, this reduces the available cash at the receiver's end. The ability to transfer directly to a pension account at low cost is critical – see Chapter 14 on Data and ID for examples of promising developments in Mexico.
Both male and female informal sector micro-entrepreneurs lack access to financial services.	Significant given that urbanization is increasingly becoming a problem in many Pacific islands and urban poverty is emerging as a significant social problem.	Even while living close to financial service points, many in the informal sector do not qualify for access to finance due to lack of documentation and/ or collateral. Lack of awareness further inhibits them from using a full suite of financial services, especially micro-insurance and savings for old age.

[5] Financial services demand side surveys have been completed in Fiji, Samoa, and the Solomon Islands during 2015 and Tonga and Vanuatu during 2016. Reports are available in http://www.pfip.org/our-work/work-streams/market-information/national-demand-side-surveys/.

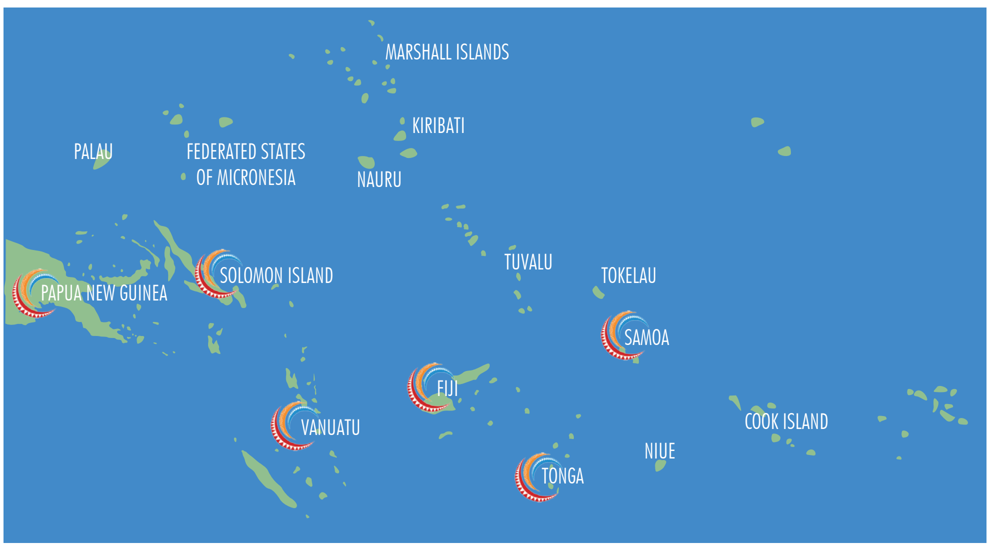
Women in the Pacific are especially excluded and recent research in Fiji, PNG and the Solomon Islands shows that women own less financial products and are less financially competent than men.[6]

With weakening traditional social safety nets, the inadequacy of public and private sector pension schemes and very low capacity as well as propensity to save for old age, social protection for the vulnerable, and poverty in old age, are growing significant concerns. Unexpected financial expenditures related to deaths, health emergencies, floods and crop losses from natural disasters threaten Pacific households. Given low financial competency, the inability to manage household budgets further reduces resilience and increases vulnerability. While abject poverty as it exists in sub-Saharan Africa or South Asia is not prevalent in the Pacific, there is a "poverty of opportunity" resulting in lack of access to higher education, better health, sanitation and general family well-being. Cultural obligations like funerals can cost Pacific households thousands of dollars and at present insurance protection for such risks are limited. Overall insurance penetration is also significantly low with the recent demand-side studies showing that even in a relatively developed country like Fiji, the total insurance coverage is only 12% of the adult population while in the Solomon Islands it is only 7 percent.

UNCDF/ PFIP ROLE IN FINANCIAL INCLUSION IN THE PACIFIC

The UNCDF (www.uncdf.org) is the United Nations' capital investment agency for the world's 47 (latest 2017) least developed countries. With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty, and support local economic development.

Figure 11.2
Pacific Islands



[6] Sibley, Jonathan: The financial competence of low income households in Fiji, PNG and the Solomon Islands.

UNCDF's finance models work through two channels:

1. **Financial Inclusion** expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives.

2. **Local Development Finance** shows how localized investments, through fiscal decentralization, innovative municipal finance and structured project finance, can drive public and private funding that underpins local economic expansion and sustainable development.

In the Pacific, UNCDF is represented by the PFIP tasked with fulfilling its core mandate of financial inclusion. PFIP was formulated in 2007 by the UNDP and the UNCDF to achieve greater financial inclusion among one of the least banked regions in the world. PFIP began operations in August 2008 with an initial mandate for five years (2008-2013), extended for a further five-year, second phase in June 2014 (2014-2019). PFIP receives financial support from UNDP, UNCDF, the Australian Government (through the Department of Foreign Affairs and Trade), the European Union and the New Zealand Government (Ministry of Foreign Affairs and Trade).

In the first phase (2008-2013), PFIP was engaged in laying the foundation for an enabling regulatory environment across the Pacific region while at the same time strengthening institutional capacities and incubating the infrastructure of payments. PFIP played a critical role in elevating the policy engagement to Government level by supporting the establishment of the Regional Money Pacific Goals endorsed by the Pacific Islands Forum Economic Ministers Meeting (FEMM) in 2009. The regional goals to be achieved by the participating countries by year 2020 include:

1. All children to receive financial education through core school curricula,
2. All adults to have access to financial education,
3. Simple and transparent consumer protection to be put in place, and
4. Halve the number of Pacific Islanders without access to basic financial services.

PFIP's second phase (2014-2019) focuses on three work streams:

1. Financial Innovation,
2. Policy and Regulation,
3. Financial Competency and Consumer Empowerment.

PFIP has also been working closely with the regional Central Banks in developing National Financial Inclusion Strategies and providing assistance in implementing these strategies. A summary of the key engagements and achievements of PFIP to date is presented in the Table 11.2

Table 11.2
Developments in financial inclusion between 2008 and 2016

Then (2008)	Now (2016)
Most Pacific Island countries lacked regulations and policies focused on financial inclusion	• National Financial Inclusion strategies in place in five countries: Fiji, PNG, Samoa, the Solomon Islands, and Vanuatu. Fiji, PNG and Solomon Islands are into their second phase financial inclusion strategies (2016-2020). • National Financial Inclusion Taskforce (NFIT) formed in all the above countries and is the apex level coordinating body comprising key stakeholders and is chaired by the Governor of the Central/Reserve Bank. • Samoa and the Solomon Islands have amended their Central Bank Act to include financial inclusion and financial literacy as a core mandate. • Six PICs (Fiji, PNG, Samoa, SOI, Tonga, and Vanuatu) have implemented branchless banking/mobile money pilots through a proactive approach taken by the respective Central Banks. • Five PICs have relaxed their KYC protocols to allow low income households access financial services. • Many PICs are reviewing several financial sector related legislations.
Lack of stakeholder coordination, little knowledge generation, exchange and dissemination within the region	• National, regional, and international level stakeholder coordination mechanisms established through NFITs, Access to Finance (A2F) Pacific donor group, Pacific Islands Regional Initiative under Alliance for Financial Inclusion (PIRI/ AFI). • Financial service sector assessments completed in Fiji, PNG, Samoa, the Solomon Islands (SOI), and Vanuatu. • Micro-insurance action plans in place in five PICs. Micro-insurance pilots launched in three countries.
No PIC had any financial service provider offering low cost, technology enabled solutions	• Over a dozen mobile, branchless banking pilots & deployments implemented across six Pacific countries - Fiji, PNG, Samoa, SOI, Tonga, and Vanuatu. • Nearly 1.6 million clients across the Pacific provided access to new financial services through PFIP supported projects. • First ever micro-insurance pilots tested across three markets. One micro-insurance project scaled up. • First digitised Government-to-person (G2P) banking pilot in Fiji. Now G2P/Person-to-government (P2G) work is underway in several PICs. • First ever informal sector voluntary superannuation feasibility study conducted in Fiji and SOI. Following feasibility study, validation field trials underway in both countries.
Little focus by Government and service providers on building financial competencies of low income households in the region	• Developed low income adult financial competency framework for the Pacific region • Adult financial competency baseline study prepared for four PICs (Fiji, PNG, Samoa, and SOI); replicable methodology to measure adult financial competency introduced. • Four PICs have developed national level financial literacy strategies (Fiji, Samoa, SOI and PNG). • Integration of financial education is also underway in Solomon Islands and Vanuatu while piloting the same with Technical and Vocational training institutions is being done in PNG and Solomon Islands

As members of AFI's PIRI, the region's Central Banks have also committed to achieving various financial inclusion goals under the Maya Declaration.[7] The Reserve Bank of Fiji was the recipient of the inaugural 2012 Maya Award for fulfilling and achieving its commitments while the National Reserve Bank of Tonga is the most recent winner in 2016. This amply demonstrates the seriousness of intent of the regional Central Banks towards greater financial inclusion in their respective countries.

FINANCIAL INCLUSION AND PENSION COVERAGE THROUGH THE CUSTOMER'S LENS

PIRI is a regional grouping of Central Banks in the region representing Fiji, PNG, Samoa, the Solomon Islands, Timor Leste, Tonga, and Vanuatu. They have developed financial inclusion progress tracking indicators for the region and member countries report on a half-yearly basis. In order to develop robust indicators covering client side access and usage, it was decided by PIRI to conduct nationally representative customer demand side surveys. During 2015, the exercise was completed in Fiji, Samoa and the Solomon Islands, followed by Tonga and Vanuatu in 2016.

The surveys across the five countries were conducted by their respective National Statistics Offices supervised by the Central Banks. Financial support for the project was provided by AFI and PFIP. Bankable Frontiers Associates provided technical assistance in developing the survey instruments, analysis of the data and preparation of the final report.

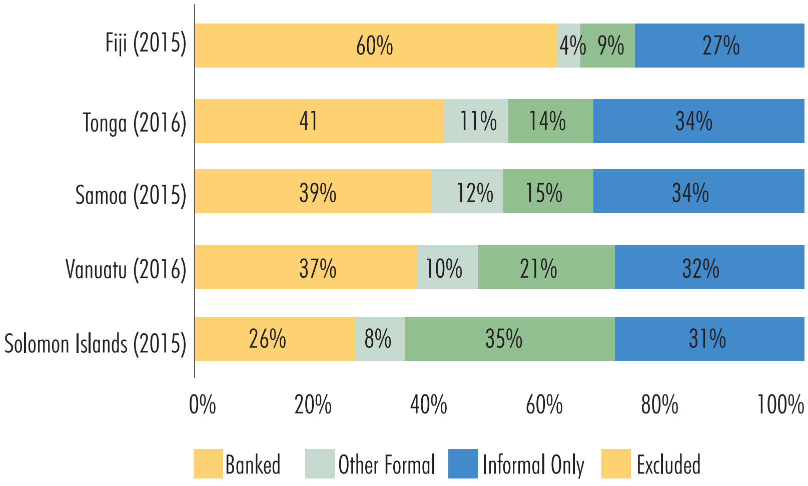
The summary of the findings from the financial inclusion demand side surveys across the five countries is provided in Table 11.3.

Table 11.3
Findings from Financial Inclusion Demand Side Surveys

Financial inclusion strand	
Banked	The respondent currently has a formal bank account.
Other formal	Over the past 12 months, the respondent used the services of a credit union, microfinance institution (MFI), pension, investments (stocks, bonds and others), and insurance or owns a mobile money account.
Informal only	Over the past 12 months, the respondent has used a savings club or other non-regulated financial instrument, such as taking credit from a shop, moneylender, or hire purchase.
Excluded	Over the past 12 months, the respondent has not used any of the services mentioned for the other three categories, but may have borrowed from or lent to friends and family, saved money in the house, pawned goods, borrowed from an employer, saved with a money guard, or trusted person, etc. This category would include respondents who only use money transfer services, as well.

[7] The Maya Declaration was launched in 2011 at the AFI Global Policy Forum in Riviera Maya, Mexico. It represents a global commitment from Central Banks to making concrete financial inclusion targets and championing financial inclusion.

Figure 11.3
Overview of the demand side survey[8]



The levels of formal financial inclusion among adults in the Pacific varies from as high as 60% in Fiji, to only 26% in the Solomon Islands. Significantly, in all these countries, 30% of the adults are excluded and a substantial percentage are still accessing only informal services. While Fiji has a relatively high level of inclusion, a lot of ground remains to be covered to bring the excluded into the formal financial sector.

DEVELOPING NATIONAL FINANCIAL INCLUSION STRATEGIES

UNCDF/PFIP started broad engagement with the regional Central Banks to organize national level stakeholder consultations followed by workshops to discuss and chart out a financial inclusion road map for each country. Starting with Fiji in 2009, these national level consultations, followed by strategy development, were then completed in the Solomon Islands (2010), Vanuatu (2012), PNG (2013) and Samoa (2015). Medium-term national financial inclusion strategies were developed first in Fiji followed by the Solomon Islands. These two countries have since developed their second phase (2016-2020) national strategies and launched the same for implementation. PNG has recently completed developing its second phase strategy, launched it during December 2016, and will take it up for implementation from 2017 to 2020. Samoa and Vanuatu have in place their first phase national strategy, while Tonga has scheduled its stakeholder consultations for the first quarter of 2017. PFIP has played a crucial role in supporting the respective Central Banks in strategy development and implementation through relevant technical advice and financial support.

The formulation and adoption of a National Financial Inclusion Strategy is usually done with a vision statement, strategic objectives, key performance areas, tracking indicators, responsible institutions, and definitive timelines for implementation. The

8 The demand side survey reports can be accessed through: http://www.pfip.org/our-work/work-streams/market-information/national-demand-side-surveys/.

National Financial Inclusion Strategies in the various PICs have been developed through a consultative process covering several stakeholders including Government, private sector financial service providers, telecommunication service providers/ mobile network operators (MNOs), civil society and non-governmental organisations (NGOs). The implementation mechanism includes the formation of a National Financial Inclusion Taskforce (NFIT), usually under the chairmanship of the Governor of the Central Banks, and comprising members representing commercial banks, Government, NGOs, MNOs, development partners and civil society.

The NFIT is mandated to oversee the implementation of the national strategy and is supported by working groups that work on specific key result areas and implement their annual plans in order to achieve the broader national goals. The NFITs in the respective countries meet quarterly, or as and when required, to review progress towards the national strategic objectives

FINANCIAL SERVICES INDUSTRY IN THE PACIFIC

The financial services industry in the PICs is rather small with limited participants. With the exception of Fiji and PNG, most Pacific countries have a poor supply of financial services available, with the few providers in each market offering a limited suite of products/services. The distribution of financial institutions and service providers by country is shown in Table 11.4. As mentioned earlier in the chapter, the national provident funds in each of the PICs discussed, offer mandatory employer-employee pension schemes, as well as voluntary schemes, which have not received much traction.

Table 11.4
Financial Services and pensions in the Pacific

Country	Banks	Insurance Companies	MFI/ Micro banks	Super-annuation Funds	Credit Unions	MNOs
Fiji	6	8	2	1	10	2
PNG	4	22	5	4	21	2
SOI	4	3	1	1	17	2
Samoa	4	2	1	1	6	2
Tonga	4	5	1	1	4	2
Vanuatu	4	4	2	1	5	2

Source: Respective Central/Reserve Banks. Data for Vanuatu incomplete and hence not presented.

PENSION INCLUSION AND COVERAGE **IN THE PACIFIC**

NATIONAL PROVIDENT FUNDS IN FIJI AND THE SOLOMON ISLANDS

Presently, in both Fiji and the Solomon Islands, only the respective National Provident Funds are mandated by law to provide superannuation and pension services. A brief overview of the respective institutions – the FNPF and SINPF – is provided below:

Fiji National Provident Fund (FNPF): The FNPF is Fiji's largest financial institution, established in 1966 under the FNPF Act. It is the only superannuation fund in Fiji mandated to collect compulsory contributions from employees and their employers to save for workers' retirement, and also allows voluntary membership. A key pillar of the FNPF Strategic Plan is to add value to members through enhancing quality of life apart from building savings for retirement.

Presently, under the compulsory scheme, employers contribute 10% while employees contribute a minimum of 8% of gross wages. Employee contributions are deducted through their payroll. In addition to the 18% mandatory contribution rates stated above, the Fund also allows for additional voluntary contributions of 12% by both employees and employers. Hence, a total contribution of up to 30% of wages is permitted by the FNPF. Voluntary members must pay a minimum of FJD 7 per month[9] to get full FNPF benefits. There is no upper limit for contributions but sources of any large contributions made have to be declared for tax clearance purposes. Apart from retirement savings, the FNPF also provides its members other financial services such as housing, medical and education assistance.

As at 30th June 2016, FNPFs total assets were valued at FJD 5.1 billion (~USD 2.56 billion) and total membership stood at 406,065 – comprising of 372,594 compulsory members and 33,471 voluntary members. Voluntary membership makes up 8.2% of the total membership. Approximately two-thirds (67%) of Fijian residents aged between 16 and 55 years contribute to the fund. (www.myfnpf.com.fj)

According to the 2010-2011 Fiji Employment and Unemployment Survey,[10] there were 226,242 people who reported they were in some form of employment but not contributing to FNPF. Out of this number, 140,232 were either self-employed (93,262) or had worked for wages (46,970). It would appear that there is considerable justification and potential to extend responsive pension coverage to the informal sector.

The 2012 Fiji Financial Competency Survey (PFIP) highlighted the very pervasive reliance by low income households on family or community support during retirement. Most respondents in households who were currently working did not think the forms of

[9] The UN official rate of exchange for August 2017 is One US Dollar=1.99 Fiji Dollar
[10] Fiji Bureau of Statistics conducted the survey

retirement provision available to the household (including family and community support) would be able to meet all household expenses when they were no longer working.

Most respondents who were no longer working, similarly, stated that the forms of income available to them were inadequate to meet all household expenses. Between 20 – 25% of respondents did not know how they would meet household expenses when they were no longer working. The indigenous Fijian community appears to be less aware of the issue and continues to consider family support to be the primary means of support during old age. This raises fundamental policy, regulatory and product related issues that need to be addressed as the requirement for cash based retirement provisions supersede social support.

The Solomon Islands National Provident Fund (SINPF): SINPF is the sole provider of superannuation services by Law in the Solomon Islands. Established in 1976, SINPF runs a basic superannuation scheme that caters largely to the formal sector, employer-employee groups and by the end of June 2015, had an active contributing membership of 55,000. The mandatory scheme requires employers to contribute 7.5% of wages from their own income, deduct 5% of gross wages from employees and remit the total contribution of 12.5% to the SINPF. The Act also provides for an additional contribution of up to 10% either by the employer or employee, thereby fixing the maximum contribution limit at 22.5% of gross wages. The total assets of SINPF are SBD 2.6 billion (~USD 340 million)[11] – making it the largest financial institution in the country.

The present SINPF scheme has limited benefits for members. A one-time lump-sum payout of all contributions, together with accumulated interest, is made upon the death, permanent disability, retirement, or severance of employment of a member. This means that SINPF members get all their contributions paid out with accumulated annual interest at a time, and not as an annuity, which ideally should be the overarching objective of superannuation funds. Loans and partial withdrawals are not allowed; however, exceptions can be made in case of an emergency. SINPF has just three branches to serve its members, and this again, is a serious hurdle for both present and prospective members. The payout phase is clearly an area where improvements are needed to ensure that accumulated assets help to provide an income in old age rather than risk spending them very quickly and hence leaving people exposed to avoidable poverty later on. Chapter 20 on the payout phase offers some practical and simple steps that can be taken to improve payout policy – even where the capital market may be relatively under-developed and where annuities and similar products are not possible.

While the SINPF also runs a voluntary contribution scheme with a benefit structure similar to the mandatory scheme, its uptake is limited (just 460 active members) due to lack of awareness, poor marketing, and, importantly, access and entry restrictions. The review of the NPF Act is aimed at addressing all these issues and making the voluntary savings and contribution scheme attractive and accessible by a larger section of the informal sector. As highlighted in Chapter 16 on digital solutions for micro-pension inclusion, it is absolutely critical to design a market structure and an inclusive, electronic payments and pension coverage infrastructure that can operate at the lowest possible costs to ensure that it is

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[11] SINPF annual report 2015

worthwhile for people to put their money into a longer-term saving product – not only to protect their money for later use, but also to obtain superior rates of return compared to other products.

EXPANDING PENSION INCLUSION - CHALLENGES AND OPPORTUNITIES

As discussed above, social security in the Pacific is mostly limited to superannuation funds and hence is largely restricted to those in formal sector employment. With nearly 80% of the population in the informal sector, often living in remote rural areas, the vast majority of the population is presently excluded and do not have any form of old age financial security or provision – a level of informality and exclusion that mirrors that seen in Chapter 1 on India. The challenges surrounding expansion of pension benefits to cover the entire adult population, including those in the informal sector, such as subsistence workers, marginal farmers and other vulnerable sections, are many and some are detailed below.

1. **Policy and Regulation:** An enabling regulatory and policy environment is a prerequisite for robust pension market development. Most PICs (with the exception of PNG) have a single superannuation service provider, which is usually Government controlled. These institutions cater largely to the formal sector. Current regulations also place restrictions around age, contribution limits, investment options and benefit structures at the time of payout, thereby inhibiting the reach of full membership potential.

2. **Distribution Infrastructure:** Since the present schemes offered by the superannuation service providers are mostly mandatory, member contributions are largely received through payroll deductions from wages and salaries. The national provident funds in the PICs presently operate with a limited branch network and distribution outlets. Although some of them do offer voluntary contribution products, access to these services is limited to making contributions in person at the few branches, and hence access is a big inhibiting factor. In countries like India, there is a potential distribution infrastructure for saving and pension schemes that can be accessed through designated post offices and commercial bank outlets and thereby offers extensive access to people who want to join voluntary contribution schemes. Such models do not exist yet in the Pacific. However, as Chapter 1 on India shows, there is a need for much more than these possible outlets to ensure success in the informal sector.

3. **Investment opportunities:** The PICs offer little by way of long term investment opportunities. Governments are the biggest domestic borrower, usually through Treasury bills or bonds that offer limited returns. Pension funds usually require long term investments (over 20 years) and such options are non-existent in the Pacific. Investment management capacity is also limited within these institutions and this places further restrictions on fund performance. Additionally, provident funds face restrictions on offshore investments. Consequently, almost all the superannuation funds in the region have invested heavily in property (land and buildings), state owned enterprises and the few private sector companies that exist locally. As Chapter 17 on Governance and Investment shows, the ability to maximize (scarce) governance capacity can have a powerful impact on performance. It can also give the authorities the confidence to allow

some external investment that will benefit pension fund members and help to achieve the primary purpose of the pension funds.

4. **Customer Awareness and Financial Literacy:** The study on financial competency of low income households across four Pacific countries[12] came up with the following cross-cutting results. As we see in Table 11.5, while there are marginal variances between countries (with Fiji scoring better in some of the competency areas and the Solomon Islands faring lower in many areas), the overall averages reflect low, or low to moderate competence, in 12 out of 13 competency areas.

   The studies also revealed that, although low income households are monetised, they have limited understanding of financial terms and conditions. Most low income households are unable to undertake money management tasks and financial services activities they consider necessary. They are generally better able to manage short-term financial activities than long-term financial planning, including planning for life cycle events, such as education, marriage and funerals. Lack of financial knowledge and skills, and lack of access to safe and affordable financial services, are among the key reasons for this low competence. Urban households are generally more financially competent than rural households. In part, this is due to greater engagement with the formal financial system for transactions, savings, borrowing, and retirement provision.

   As highlighted earlier in the chapter, Pacific Islanders are bound by strong cultural ties to their villages and tribal affiliations that customarily provide necessary social

Table 11.5
Financial Competency study results

Competency Score	Competency Area
HIGH	None of the Competency Areas were scored as High
MODERATE – HIGH	Competence with managing essential expenditure
LOW-MODERATE	Managing regular and one-off expenditure Setting household goals and plans Managing household income Managing savings Non-cash transactions Managing long term savings
LOW	Keeping household records Household budgeting Managing borrowing Identifying and recording household expenditure Managing requests for financial assistance Managing cost of money

[12] Financial Competence of low income households study 2012 was conducted in Fiji, SOI, Samoa, and PNG by Jonathan Sibley and was financially supported by PFIP http://www.pfip.org/our-work/work-streams/market-information/pacific-financial-competence-studies/

security, as well as access to basic living needs. Therefore, the motivation and incentive to save, and, more importantly, save for the longer term, are not very prevalent in PIC culture. This is confirmed by financial competency studies and, therefore, there is a compelling need to have mass education programmes targeting adults, especially on the need for long term and old age savings. This is not to say that these sources of income and security are not important – delivering income for old-age is such a challenging goal that all sources of income are useful. But it highlights that other elements of an old-age income system are going to have to work harder in the future if one element is reduced (quite apart from the challenge of rising longevity, meaning that the task at hand is getting more difficult).

5. **Operational Feasibility:** The traditional provident funds in the region have limited technical expertise and technology to cater to the demands of a dynamic pension market. Existing IT systems and business processes are tuned more to mandatory schemes and need to be revisited to make them compatible with modern technology interfaces through mobile phones and tablets. Cost considerations have so far inhibited these institutions from migrating to newer technology and consequently their operational readiness to expand their target market segments has to be addressed. However, making progress here will be absolutely essential to delivering on the promise of matching improvements in financial inclusion and payments with a pension infrastructure that can create new possibilities for savers going forward. A more detailed discussion on digital micro-pension solutions and platforms in Chapter 16, and related case-studies provided by the authors, are relevant, not only for the Pacific, but equally for other developing countries.

6. **Financial Feasibility:** Any financial product or service is only good in as far as it is financially feasible for the client. Voluntary micro pension products require delivery costs to be built into the product fee structure and borne by the end client, which could make the scheme too expensive. Alternatively, if the costs are kept low or borne by the service provider, returns to clients will suffer, jeopardizing their old age security. At present, such financial feasibility models are yet to be tested on a commercial scale and efforts are underway in this direction. These critical issues are discussed in greater detail in Chapter 18 on Costs.

There are of course several opportunities that exist to expand pension inclusion in the Pacific, particularly to those in the informal sector. Some of the opportunities are discussed below.

1. **Market Size:** The size of the populations engaged in the informal sector in most PICs is much higher than those in the formal economy. This offers an opportunity to reach out to a large number of potential voluntary pension scheme clients. With little expansion in the formal sector due to government down-sizing and lack of new private sector initiatives, the member base through conventional mandatory schemes is expected to reduce over time. Therefore, for the future viability of the funds, it is necessary to look at new market segments.

2. **Social security as a development tool:** Faced with an increasing ageing population, PICs will soon need to look at alternate forms of social security. With limited resources, governments in the region cannot afford to fully fund any welfare schemes aimed at providing old age financial and social security. Introducing and supporting voluntary contribution schemes would provide a development tool to mitigate old age poverty and associated risks, with the added benefit of facilitating pension inclusion.

3. **Investments:** Provident funds in the Pacific region are large financial institutions and are a primary source of investment for both public and private sector businesses. However, given their limited investment opportunities, these funds are saddled with huge liquidity, thereby diminishing returns to members. The region has immense potential in developing tourism, fisheries, sustainable forestry and agriculture-based value-added manufacturing. If superannuation funds are able to build their investment management capacities and align with prudent investment policies by Government, there is scope for long term debt financing by the funds to the corporate sector. Infrastructure investments like roads, ports, village solar electricity grids, etc. are also viable options through targeted lending by the provident funds.

4. **Insurance Industry as Pension providers:** The current legislations limit provision of superannuation (pension) services to the national provident funds (except in PNG). In many developing countries, life insurance and pension services are complimentary and are often offered by the same provider. Life insurance companies typically adopt good investment practices and have in-house skills that can be leveraged for the pension market. Insurance companies also have good distribution networks and often use technology to serve clients. Allowing insurance companies to offer defined contribution micro pension schemes could be one route towards opening up the industry for new players, allowing healthy competition and offering customers options for retirement savings. Additionally, micro-insurance products covering life, health, property, etc. can be offered to both mandatory and voluntary subscribers of superannuation as value added services. This may, however, involve reviewing current legislation, requiring sensitization of the Government and other stakeholders. There is also an opportunity to provide pension services on a regional basis, covering multiple PICs – this is discussed later in the chapter. As highlighted throughout this chapter, this model also has to meet the demanding requirements for efficiency – and to provide something that can fit over a person's lifetime as they move from formal to informal or urban to rural environments. The key focus should be to include any providers who are able to deliver good quality outcomes but to avoid mistakes of relying on a model whose cost dynamics may prevent the delivery of a quality product (see for example Chapter 19 on Inclusive Insurance and Chapter 7 on Chile and 9 on Mexico).

5. **Annuity Options:** Current members of superannuation funds in the Pacific have limited options, with benefits usually provided as a one-off lump sum payout at the

time of retirement or on attaining a certain age (55 or 60), or upon earlier death. Partial withdrawals by members, even for emergencies, is at present restricted in many countries. This is an appropriate time to look at providing different annuity options. Offering members' the flexibility of using a part of their savings for premature withdrawals, while allowing a defined percentage to accumulate as corpus for the long term, will provide members incentives for increasing contributions. See Chapter 20 on Payout options for more in this area.

FIJI AND THE SOLOMON ISLANDS
MICRO PENSION FEASIBILITY STUDY

During 2015, PFIP / UNCDF started engaging in discussions with the National Provident Funds of Fiji (FNPF) and the Solomon Islands (SINPF). Both institutions are key players in the financial sector of their countries, sole providers of superannuation services, as well as important stakeholders in financial inclusion. Concurrently, at this time, PFIP was experimenting with several branchless/ mobile banking pilots, as well as with other innovative financial services including mobile micro-insurance and remittances in partnership with commercial banks, MNOs and other providers. Studying the potential for voluntary, contributions based superannuation and pension schemes offered a new avenue for expanding innovation and this also fitted well with the next phase of financial inclusion strategic objectives adopted by Fiji and the Solomon Islands.

After getting board and management level commitment of the two National Provident Funds to collaborate on a feasibility study, PFIP offered technical and financial support through a performance-based grant agreement that included identifying an appropriate consultancy firm[13] to conduct the study and based on the results, develop a validation plan to establish feasibility, sustainability and build a robust business model.

The actual study and field surveys were conducted in Fiji and the Solomon Islands between February and April 2016. The research team conducted a qualitative and quantitative study of the need for extending pension services to the informal sector in each market. The work entailed in-depth research into the informal market segment to determine the attitudes, perceptions, motivation, willingness, and financial capacity to join a voluntary contribution superannuation (pension) scheme that would provide old age micro pensions. The evidence clearly suggested that there was a considerable need and demand for such a scheme by a large share of the informal sector. The study also identified key assumptions about demand, feasibility, and profitability that should validated in the next phase of the test.

Based on the assessment of the Fiji survey, it was seen that more than 72% of respondents depended on their own savings (or pension) to provide for old age income. Nearly 80% of those interviewed indicated that they have monthly savings in the bank. A significant

[13] Blue Print Pension Services, a Netherlands consulting firm was selected through a competitive process"

number of people (43%) were mainly saving for old age. The outcome of the survey also showed that only about 40% of the respondents defined their current income as sufficient for meeting their current consumption needs. Three quarters of the respondents (77%) showed interest in a voluntary micro pension product, where half of the contribution would be saved for the long-term and the other half could be accessible in an emergency. Most respondents indicated they were willing to save 5 to 10% of their current income for such a micro pension product. Going by average household income, this would produce a weekly saving of between FJD 19.50 and FJD 38.60 (~USD 10-20). The actual willingness of people becoming FNPF voluntary members is yet to be tested.

The study also revealed some obstacles that could inhibit the development of a micro-pension model for the informal economy including the challenge of achieving sustained voluntary contributions and savings persistency, operational and outreach constraints for the FNPF in terms of feasibly providing adequate customer support, and the overall viability and profitability of this product. These deterrents form the key assumptions that are now being tested in the pilot validation phase to justify the appropriateness of a voluntary pension model.

Although a similar study was taken up in parallel in the Solomon Islands, the results were quite different – given the differences in the economy, state of progress of the financial sector and the general level of awareness of people. Evidence from the Solomon Islands also clearly suggested a considerable need and demand for a voluntary, DC pension scheme by a large share of the informal sector workforce. The study also identified key assumptions about demand, feasibility and profitability that need to be validated and is presently being tested through pilot field trials. Results from the Solomon Islands Study also showed that for informal sector workers, saving for children's education and a house were the two most important saving priorities. More than 70% of respondents expected to receive financial support from their families in old age. Some respondents expected to rely on family and communities for old age support and only about 12% planned to survive on their own savings after retirement. About 10% of those interviewed believed that their income in old age will come from a Government allowance. This belief could be based on the fact that they are already members of SINPF or expect the Government to introduce social security for older residents at some point.

The majority of the respondents believed that at age 60, they would be too old to earn a proper income. Many respondents arrived at the conclusion that by 50 to 55 years of age, they would already be suffering from health problems. The cohort of respondents who were aware that they were inadequately prepared for their old age, were targeted for deeper, qualitative research through focus groups discussions. Most of them were willing to join a voluntary micro-pension scheme provided through the SINPF and indicated that they could save up to 5% of their current income (approximately SBD 40 per week). In essence, the research identified and validated opportunities to offer workers in the informal economy of the Solomon Islands a pension product to support their financial needs.

VALIDATION PHASE: FIELD TRIALS

The feasibility study identified opportunities for introducing voluntary, contributions-led micro pension schemes in both countries. As mentioned earlier, Fiji's voluntary scheme currently has around 33,000 members while the one in Solomon Islands has only 460 subscribers. The estimated potential target market based on population and household income expenditure data[14] is around 140,000 and 110,000 adults respectively in Fiji and the Solomon Islands. This represents the adult population in the informal sector who are economically active either by way of earning wages or are subsistence workers. The informal economy in both countries includes small and marginal farmers, farm labourers, casual workers, taxi drivers, market vendors, etc. In Fiji, a study of women market vendors across 11 locations conducted in 2013 revealed that their annual contribution to the informal economy was in excess of FJD 300 million (~USD 150 million). Following this, a project called "Markets for Change" was initiated by UNDP targeting women market vendors across several markets in Fiji and was extended to the Solomon Islands and Vanuatu. The project involves collaboration with the respective town councils and municipalities to provide basic amenities to women market vendors (market stalls, storage, toilets, etc.) and includes a component on financial literacy. Under the micro pension validation trials underway, the women market vendors in Fiji and the Solomon Islands have been identified as potential target segments.

MICRO-PENSION PILOT PROJECTS

Pilot projects are currently underway in both Fiji and the Solomon Islands with their respective National Provident Funds as lead implementing agencies supported by PFIP and with technical support provided by consultants. Special teams comprising senior staff of the provident funds drawn from marketing, operations and information and communications technology (ICT) led by a senior executive, have been formed to run the pilot field trials during the current validation phase that will run for around six to nine months. These design lab teams headed by a Project Manager are dedicated to the pilot field trials and will work closely with the technical consultants. The teams will be supported by other department staff where necessary, as there is a clear mandate provided by the relevant board/ executive management. The pilot field trials underway will validate the hypotheses derived from the feasibility study to establish the following:

- What is the willingness and ability of various potential client groups in the informal sector to save for a micro pension product?
- Under what conditions are these potential client groups able and willing to opt for a micro pension product?
- How to make a micro pension product feasible in terms of cost-efficiency and a communication and distribution strategy?

[14] Population and Household Income Expenditure Data in both countries is published by their respective National Statistics offices

More certainty about a full-fledged product launch will be established through the validation phase where proven client demand, issues around organisational readiness and financial feasibility for the client and business viability for provider are assessed.

The pilot project currently underway in both countries is part of PFIPs new "Innovation Design Lab" approach to rapidly test product prototypes, validate hypotheses around customer adoption and usage, and build a business case for the providers.

VALIDATION PHASE

The validation phase presently underway in Fiji and the Solomon Islands should deliver clear evidence that people recurrently save in their pension account and what effort is required to get clients from the informal sector to save recurrently.

The aim of the validation phase is to induct up to 500 clients into the newly developed voluntary pension scheme in the Solomon Islands and Fiji and motivate them for a period of six to nine months to make regular contributions into their pension accounts. Outreach will involve reaching out to about 1,000 targeted clients in the informal sector covering market vendors, small and marginal farmers, and casual workers through relevant associations or community groups. Outreach will include sustained awareness campaigns, field marketing and road shows. During the validation phase, client insights will be obtained, which will be used to further develop the pension product and the market approach based on specific client savings profiles. These client insights and tools might in future also be applicable to members from the formal sector. Dedicated project teams have been formed in both countries with substantial resource investments by both provident funds.

The following assumptions (hypotheses) will be validated during this trial period:

1. Customers are more interested in a product with general and preserved accounts than only a preserved account
2. Flexible payment options rather than a fixed rate of payment are preferable
3. A 50:50 split between general and preserved fund contributions will be acceptable
4. Increasing age at entry to 55 (in the case of the Solomon Islands) leads to increased adoption
5. Clients prefer yearly, half-yearly, quarterly, or monthly annuity payments instead of a one-time payout
6. A 10-year minimum contribution period to build the pension corpus (or assets) with options to go up to 15 or even 20 years is feasible
7. Distribution partners will play a crucial role in increasing client outreach and channelling contributions on a regular basis
8. In the Solomon Islands, the role of women's savings groups as a channel partner will be tested

9. Distribution through financial literacy service providers will lead to greater adoption
10. KYC/AML norms and identification requirements can be complied with
11. Biometric ID by way of fingerprinting and issuing all members a photo ID card is feasible
12. Customers are more likely to adopt the pension product if it is combined with financial education on long term savings and pensions. A comprehensive financial literacy package would also include budgeting to reduce household costs and training on increasing income (though this would add costs to the program delivery)
13. Technology interfaces like using a mobile App attracts customers given the growing use of smart phones
14. Regular SMS reminders to remit voluntary contributions will increase savings and persistency
15. Adding a micro-insurance component to the product will be attractive to clients

The validation pilot phase has been further broken into three distinct blocks with specific deliverable as highlighted in the Table 11.6

Table 11.6
Validation Trials Deliverables

Deliverables of Block 1	Deliverables of Block 2	Deliverables of Block 3
1. Pilot plan	1. Client profiles	1. Financial business case
2. Pilot product	2. Product calculations	2. Organisation structure and requirements
3. Distribution strategy and processes	3. Report on findings on block 2	3. Implementation plan (Integration phase and full product launch)
4. Customer journey		4. Implementation costs
5. Report on findings on block 1		5. Report on findings on block 3
		6. Validation report

Each block will run for three months and it is expected that the full pilot will be completed by end of 2017. The different thematic activities and actions that will be undertaken and completed in the three blocks are listed in the Figure 11.4.

Figure 11.4
Different thematic activities and actions

VOLUNTARY SAVINGS PRODUCT DESIGN

The technical consultants, after extensive field studies and interviews, have come up with a product design for the voluntary contribution scheme in both countries. Given the low literacy rates among the informal sector it was decided to keep the product simple and easy to use. However, since FNPF had a voluntary product already in place their management decided to adopt the same for the pilot with only minor modifications. In the case of SINPF the existing voluntary contribution product was not popular and, therefore, a new savings product was designed, with 50% of the member's contributions going into a preserved fund (long term accumulation) with the remaining 50% in a general fund, which members can access to meet short to medium term financial needs. This is akin to the model for example in Malaysia's Employee Provident Fund – although there 70% goes to pensions and 30% is available for a range of specified (short-term) uses.

The preserved fund will accumulate over the longer term or up to age 55 of the member at which time the annuity payouts, in the form of micro pension, will commence. The annuity payments will continue during the lifetime of the member and on his/her death the remaining corpus will be paid to the legal heirs/beneficiaries. In the event of the death of a member before commencement of the annuity, the accumulated funds will be paid out to the beneficiaries.

The general fund is proposed as a measure to allow members to withdraw funds to meet short to medium term goals such as children's education, house construction, and medical emergencies. Since the present SINPF mandatory contribution scheme does not provide these options, allowing only a one-time payout at the time of retirement or premature death, the benefits under new product developed for the informal sector may later be extended to the existing mandatory scheme members after due approvals by the Board of SINPF. In the case of FNPF both the mandatory and voluntary products have the option of premature withdrawals for specified purposes like medical treatment, education, and house building and hence it has been decided to use this existing product while adopting a new distribution strategy involving external partners.

FINANCIAL BUSINESS CASE DEVELOPMENT

The validation plan envisages activities covering developing a financial business case during block 3 of the pilot phase that is likely to be implemented during Q3 of 2017. The following assumptions will be validated during this period :

- Distribution costs at "USD xx" per client
- Revenue assumptions of "USD yy" per client per year
- Administrative costs of "USD zz" per client per year
- That there is a viable business case for the provider

Activities during this block will include identifying cost structures, building revenue models, defining the business model canvas and calculating the financial business case using different scenarios. The development of robust business models and building a strong financial viability case is a precursor to full scale implementation. And, there is a strong commitment from the respective National Provident funds to invest substantial resources if a well-defined strategy is developed at the end of the pilot phase.

DISTRIBUTION PARTNERS

One of the limiting factors at present in both countries is the weak marketing and distribution infrastructure. While FNPF does have a good voluntary scheme, it is poorly marketed and available only through FNPF branch offices. Therefore, for the pilot field trials, new distribution arrangements have been thought out, discussions held with potential partners and service agreements signed. Distribution partners include MFIs, MNOs, associations (including market vendors and taxi drivers' associations), post offices, and commercial banks. Along with being involved in awareness campaigns, marketing and publicity, these institutions will also serve as outlets for collecting member contributions.

Many of the distribution partners identified have evinced keen interest in partnering with the National Provident Funds. This offers them an opportunity to use their existing infrastructure, technology and personnel to earn an additional fee-based income, as well as a means of increasing their own client base and business.

Identified staff of distribution partners have been trained on product, marketing, customer onboarding processes, collecting member contributions, and remittances to the provident funds, and client servicing. Each distribution partner will be supported with a technology interface that will be extensively tested during the validation phase.

TECHNOLOGY INTERFACE

It has been highlighted earlier in the chapter that the Pacific has severe geographical challenges that can be best overcome by adoption of appropriate technology. This has already been demonstrated by the increase in uptake of bank accounts since the advent of mobile and branchless banking across several Pacific countries. Expanding micro pension inclusion in the region will also require technology adoption and the validation phase has factored this as an important critical success factor. Accordingly, after due discussions with the Information Technology (IT) departments of both Provident Funds and identifying appropriate interface platforms, mobile, and tablet-based software applications have been developed for customer on-boarding, channelling member remittances, providing regular updates and balances to clients, and other interactive services.

As both FNPF and SINPF are presently undergoing a strategic restructuring, revamping their internal business processes including upgrading their IT systems, the new initiatives fit well from both the organisational and customer point of view. Also, growth in mobile phone penetration in both countries is facilitating the use of mobile apps for allowing easy access to clients in remote locations that in the past was not comprehensible. During the pilot phase, the new voluntary scheme customer database is expected to be ring-fenced and maintained separately (without integrating with the Funds' existing member databases). Thereafter, and once a decision on scale up and full-fledged implementation is taken in early 2018, it is envisaged that there will be total end-to-end integration of all IT systems and processes for existing mandatory as well as newly-acquired voluntary members.

GOVERNMENT COMMITMENT

The direct involvement of the Governments of Fiji and the Solomon Islands is limited at this stage as the respective National Provident Funds are the lead implementing agencies. However, the results of the feasibility study as well as the validation plan have been discussed at NFIT meetings where government ministries as well as the private sector and civil society are duly represented. The national development strategies of the PICs have key elements including Government commitment to providing old age and social protection through pension reforms. The National Financial Inclusion strategies are usually aligned with the national development plans of the respective countries in order to get full Government support and budgetary allocations for implementation. Therefore, it is expected that once the pilot phase is completed, and the above-mentioned hypotheses validated and presented to the national level stakeholders including the respective governments, support will be forthcoming for an eventual pension market expansion and inclusion.

REGIONAL PENSION SERVICE PROVIDERS
A NEW APPROACH

The market size within individual PICs is limited and one of the important long term considerations will be whether the provident funds can sustainably offer varied pension products. A new approach could be to open up the pension market to new providers. There are a few insurance companies and commercial banks that have a pan-Pacific presence and are therefore ideal candidates to take up this responsibility. The commercial banks especially have several physical branches as well as a growing agency network of 'branchless banking' outlets throughout the PICs. This low cost 'brick and mortar' structure will lower distribution and administrative costs and will be tested during the validation phase.

Through appropriate legislative reforms to allow new providers to take up provision of superannuation and pension services, the private sector potential can be unlocked. Along with this, diversifying investment options by allowing overseas investments and developing internal fund management capacity will provide competitive returns to members.

This idea is still in its infancy and requires further discussions within the respective countries before being elevated to appropriate regional and/or global platforms for implementation. If this is to be pursued, the established regional collaboration forum of National Provident Funds can be used as a platform to consider futuristic options. Efforts are currently underway by PFIP to elevate the dialogue to the CEO's Forum of the Pacific Provident Fund and Social Security Forum.

UPDATE ON THE VALIDATION FIELD TRIALS (AUGUST 2017)

Dedicated Innovation hub teams within the two NPFs have been operationalized under a Project Manager who is responsible for liaising with PFIP and the technical consultants (Blue Print Pension Services) and reports to the senior executive management of the respective funds. While the actual field implementation has been delayed in Fiji by FNPF due to an overhaul of its management team and restructure of its operations, the progress in Solomon Islands is on schedule with regular updates being provided to the Board of SINPF, PFIP, the NFIT and the Central Bank besides key stakeholders.

The Innovation Hub team with the support of the consultants has completed all the deliverables under Block I (refer Table 11.6) and part of the deliverables under Block 2 as well. As on date, the special product targeting the informal sector named "You Save" has an active membership of 468 since the date of its launch on 2nd May 2017. More details on the outreach is provided in the Table 11.7 below. Out of the total 468 members 282 (60%) are female. A significant 225 (48%) are in the age group 20 to 40 and are likely to save for a longer duration and accumulate a large corpus over the earning life-time and provide adequately for their old age. The propensity among female members to save more is also well established thus far although more in-depth client profiling and research about their motivations, perceptions and attitudes will come out during the ongoing work in the field.

DISTRIBUTION PARTNERSHIPS:

The Solomon Islands National Provident Fund (SINPF) has established distribution partnerships with the Solomon Post Office, Honiara Market Vendors Association and is actively pursuing other institutions including some interested provincial Governments.

TECHNOLOGY INTERFACE DIMENSION:

SINFP has also established a technology interface protocol with ANZ Bank (Australia & New Zealand Banking Group) which is one of Australia's leading commercial banks having global operations in 36 countries including across the Pacific. Through the "Bill Pay" option in the bank's mobile banking service, ANZ goMoney[15] and SINFP You

[15] ANZ goMoney is the patented branding for the USSD based mobile application of the bank presently available in four Pacific countries- PNG, Samoa, Solomon Islands and Vanuatu as well as Australia and New Zealand

Table 11.7
SINPF Informal Sector (YouSave) Update 4th August 2017

Age Group	Number	Balance	Annual Contrib	Count Male	Count Female	Balance Male	Balance Female
20 and less	19	3290	3290	12	7	2050	1240
21-25	37	7240	7840	18	19	1920	5320
26-30	49	12995	13370	15	34	4220	8775
31-35	63	22925	22925	30	33	11100	11825
36-40	76	18915	18912	30	46	5412	13500
41-45	93	21695	21695	33	60	6775	14920
46	18	4450	4450	5	13	680	3770
47	12	3640	3640	8	4	720	2920
48	11	1580	1580	2	9	100	1480
49	12	4020	4020	2	10	850	3170
50+	78	73457	73457	31	47	10182	63275
Totals	468	174204	175179	186	282	44009	130195

Save members can pay their recurring savings free of fees by quoting their membership number as reference. They receive a text message for confirmation of payment and NPF also allows members to receive their total balance and a statement through their mobile phone. For smart phone users, there is also the option of member login and viewing their account balance through the NPF web portal.

Very recently, NPF has also trailed payment of voluntary member savings through designated Post office counters as well as over the counter ANZ goMoney merchant counters. Both these options are receiving encouraging responses from members especially for remitting recurring savings. The percentage of recurrent savers has gone up from 40% a month ago, to 46% at the end of July'17. A significant 83% women are recurring savers showing once again their adopting the product and seeing it as a vehicle for their future savings and overall household welfare. Customer feedback loops are being established that will shed more light on their adoption, usage behaviours and the Innovation Hub is also fine tuning its marketing and promotion strategy.

CONCLUSION

There are no state-supported social security schemes in the PICs. The current status of public finances does not offer scope for such schemes in the medium term. With increasing longevity and rapidly changing social structures in both Fiji and the Solomon Islands, there is an imminent need for introducing voluntary savings-linked micro pensions with defined contributions targeting the informal sector to meet the needs of the population post retirement. At the same time there is also a need to revamp the existing mandatory superannuation scheme of the FNPF and SINPF to provide members annuity benefits and flexible withdrawal options.

The validation field trials currently underway (following extensive research) are expected to provide valuable insights into client behaviour, adoption and usage patterns, operational feasibility as well as financial viability. At the end of the pilot phase, a blue print for full scale up with detailed implementation plans and budgets will be developed. At that stage there will be a need for more in-country dialogue involving both public and private sectors as such a nation-wide implementation will have wide ranging implications on the economy and will require political, economic, and social considerations to be factored in decision making. Government support in the form of facilitating legislative reforms and that of development partners in supporting innovation and underwriting initial implementation risks will be vital for pension inclusion to take deep roots in the Pacific.

Digital Financial Services are set to be a game changer for low cost service delivery and reaching remote locations. However, compelling customer usability cases need to be developed, tested, and rolled out for stickiness and usage. Advocacy for tax incentives on select financial products aimed at increasing savings, especially for insurance and pensions is an area requiring attention. A coordinated approach and action by relevant stakeholders with the end customer in mind is the need of the hour.

PENSION PROVISION IN THE PACIFIC
A SNAPSHOT

SUMMARY

Social welfare for elderly persons in Fiji, the Solomon Islands, Vanuatu, Tonga, Samoa and Papua New Guinea is at a nascent stage, largely limited to mandatory contributory superannuation schemes administered by one or at most two institutions. Previously, cultural norms had placed the responsibility of looking after the elderly or disabled on able-bodied family members and the wider village community. However, the erosion of such values has led to governments stepping in with mandatory retirement savings schemes.

Several of the above-mentioned countries (Fiji, Samoa, and Tonga) have also initiated a national social pension scheme. However, such payments are small and are intended to provide a degree of independence and support to the elderly, but is far from sufficient to survive on. Papua New Guinea is considering implementing such a scheme, after the success of a universal pension in one province.

National provident funds or mandated superannuation funds in each country typically make up the largest financial institutions in the country and cater largely to private and public formal sector salaried workers. Member benefits are typically limited. Given the large informal economy in each country, this tends to exclude a significant percentage of the

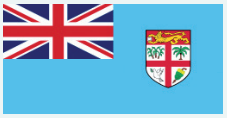
population from retirement savings. While voluntary membership for the informal sector is possible, take-up has not been high due to lack of infrastructure, marketing and awareness. Additionally, in several PICs (particularly Papua New Guinea and Vanuatu), provident funds have faced significant mismanagement and corruption scandals in recent years, causing significant financial instability and mistrust of in institutions that is likely to continue.

THE SOLOMON ISLANDS

Social policies in the Solomon Islands focus on education and health, rather than providing for old age through welfare payments. The social security system is limited to SINPF. The Ministry of Commerce, Industries, Labour and Immigration aims to expand the capacity of social protection in the Solomon Islands where pension schemes will cover all nationals that are above a certain age (International Labour Organisation). It will also create a Health Insurance Scheme that will envelop all Solomon Islanders, and hence increase access to specialized health care overseas. The SINPF was established in 1976 as a compulsory retirement savings scheme for salaried workers, excluding Parliamentarians, eligible for a government pension and is the sole provider of superannuation benefits to the public in the Solomon Islands. On top of mandatory contributions, SINPF also allows an additional contribution of 10% either by the employer or employee, thereby fixing the maximum limit at 22.5% of gross wages. The total assets of SINPF is SBD 2.6 billion (~USD 340 million) (Solomon Islands National Provident Fund, 2016) making it the largest financial institution in the country. The present SINPF scheme has limited benefits for members. A one-time pay out of all contributions together with accumulated interest is made upon the death, permanent disability, retirement, or severance of employment of a member. Loans and partial withdrawals are not allowed; however, exceptions can be made in case of emergency. SINPF has just three branches to serve its members and this again is a serious hurdle for both present and prospective members. The Solomon Islands Provident Fund population coverage is minimal and it will only expand if the private sector expands.

VANUATU

The elderly in Vanuatu mainly benefit from family-based safety net arrangements and there is no government or donor supported social assistance program, with superannuation confined to the Vanuatu National Provident Fund (VNPF) (Rotuivaqali, 2013). The VNPF was established in 1986 as a compulsory saving scheme for employees earning more than VUV 3,000 (USD 33) per month. VNPF member accounts are divided into 3 three sub-accounts: Retirement (50%), Medisave (25%), and Investment (25%). Under the investment sub-account, members can access microloans for housing, home maintenance or furnishing, or school fees; or pledge their contributions as collateral for other financial service provider loans. On retirement, members receive a lump-sum payout, as well as a direct lump sum severance allowance from their employer.[16] In the event of a member's death (prior to retirement age), a member's nominees receive their contribution plus a Special Death Benefit of VUV 230,000 (~ USD 2,600).[17] VNPF has had a controversial history, with a number of scandals leading to the near-collapse of the Organisation. During 1992-95, the fund faced mismanagement of its housing loan scheme due to corruption involving politicians demanding loans with no intention of repayment. Following an Ombudsman's report disclosing this situation, riots in 1998 prompted the government to allow members to withdraw their savings from VNPF, causing instability in the financial system.[18] As a result, the Reserve Bank of Vanuatu instituted the Comprehensive Reform Programme to stabilize the economy. Further controversy occurred in 2012, with public outcry over alleged mismanagement of funds which that saw the management team being replaced (Seke, 2013). The last audited Annual Report published (2013) explains the need to get the institution back on track behind providing a rate of return to members of 0 percent.[19] It is unclear what the current public sentiment around VNPF is. Despite its checkered past, the government's position is to maintain VNPF but ensure better management, and also explore the wider implications of allowing retirement savings to be invested with institutions outside of VNPF.[20]



FIJI

Fiji provides for its elderly through the Fiji National Provident Fund (FNPF), government pensions (for civil servants and dependents) or through the Social Pension Scheme (SPS). Since 2013, the Fiji government has been running the Social Pension Scheme (SPS) targeting elderly citizens aged 66 years and over who do not have FNPF or benefit from a government pension, with an allowance of FJD 30 per month since increased to FJD 50 during 2016 and planned to be increased to FJD 100 from 2018. This SPS benefits approximately 15,000 elderly citizens who are currently not receiving any pension or any source of income (Rotuivaqali, 2013). FNPF is Fiji's largest financial institution, established in 1966 under the FNPF Act. It is the only superannuation fund in Fiji mandated to collect compulsory contributions from employees and their employers to save for workers' retirement, and also allows voluntary membership. FNPF allows partial withdrawals for housing, health and education expenses assistance on the death of an immediate family member; and members

[16] ILO, Vanuatu Council of Trade Unions and Vanuatu Chamber of Commerce, 2014
[17] Vanuatu National Provident Fund
[18] Prasad & Kausimae, 2012
[19] Vanuatu National Provident Fund, 2013
[20] ILO, Vanuatu Council of Trade Unions and Vanuatu Chamber of Commerce, 2014

can choose to receive either lump-sum or a monthly pension. A Special Death Benefit of FJD 8,500 (~ USD 4,200) is provided to beneficiaries. In addition to 18% mandatory contribution rates, FNPF also allows for excess voluntary contributions of 12% which is offered to both the employee and employers, hence the total contribution rates a member can contribute is 30% of income. While the majority of FNPF's investments are within Fiji, offshore investments are made with the Reserve Bank's approval.

PAPUA NEW GUINEA

The government announced in 2013 that it intends to consider introducing old age pensions for those aged 65 and over (Pope, 2013). In 2009, the province of New Ireland began implementing a universal pension scheme named 'One Kina' for the elderly and for persons with disabilities, that provides one kina per day (PGK 360 or ~ USD 135 per annum). Despite several implementation challenges, the scheme has been successful. A 2014 review by The World Bank and the Australian Department for Foreign Affairs and Trade concluded that the New Ireland social pension scheme can provide a suitable basis for the old age component of the national social pension. At present however, it is unknown whether the Government of Papua New Guinea has made any progress with this national social pension scheme.[21] The only form of social insurance offered in PNG, the contributory pension plans mandated by the government, have a limited coverage. PNG has a contributory pension scheme provided through National Superannuation Fund (NASFUND) and the Nambawan Super Fund (NSF). Both funds offer defined contribution retirement savings plans to members, with NASFUND being geared towards private sector employees, while the NSF targeted at public sector employees. Employees must contribute a minimum of 6% of their salary to a superannuation fund and employers of over 20 persons are required to contribute 8.4%. Apart from death or retirement, members of either fund can withdraw for reasons of unemployment and medical expenses; and both funds have affiliated Savings and Loan Societies offering a complementary savings vehicle as well as low-interest loans for members to cover common expenses such as funerals, bride price, motor vehicle registration, and school fees.[22] NASFUND was established in May 2002, as the privatized successor entity to the National Provident Fund (NPF) following severe financial losses in the 1990s as a result of fraud, corruption, and mismanagement. It is the largest private sector superannuation fund in PNG, and also offers housing advances to members. NPF is a trustee of the Public Officers Superannuation Fund, set up in 2000 to administer superannuation for public sector employees. In 2015, 12% of NASFUND's portfolio was invested in international equity, property or cash, while international investments made up 16% of the NPF portfolio.

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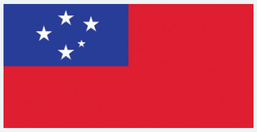
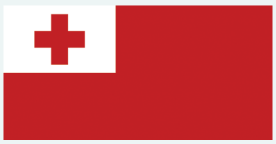
21 (Sibley, Ivaschenko, Pagau, & Tanhchareun, 2014).

22 The World Bank, 2013.



SAMOA

Samoa provides for its elderly through a mandatory National Provident Fund as well as a universal monthly pension. In 1990, it introduced a monthly pension for every person at the age of 65, due to changes in Samoan culture, with Samoans moving away from the practice of family members supporting their elders. The policy is directly funded from the government budget and executed by the SNPF, whereby payments are made directly to bank accounts. In March 2009, about 8,500 pensioners were in the scheme. Each pensioner receives WST 135 (~ USD 60) per month and other benefits, such as free consultation at government hospitals, free medicine from a government pharmacy and inter-island travel. The Samoa National Provident Fund (SNPF) was set up in 1972 as the sole fund for collecting compulsory savings in the country. Additional voluntary contributions of up to WST 2,000 per month are allowed. Members can access loans including for vehicle, education, housing and land, etc. through SNPF, and may withdraw funds early if they develop a serious medical condition. Upon reaching retirement, a 4% bonus is added to the member's withdrawal balance, given 15 years' contribution. Upon death of a member, a Death Benefit of WST 5,000 (~ USD 2,100) is provided to beneficiaries. An additional member benefit is a separate voluntary education savings fund. Other superannuation products exist such as Samoa Life Assurance Corporation's superannuation fund. It is unclear how this is different to the mandatory SNPF fund.



TONGA

Under the National Retirement Benefits Scheme (NRBS) Act 2010, Tonga began providing elderly citizens with social pensions, and also mandated contributions towards superannuation funds for employees and employers. Apart from such schemes, overseas remittances remain the most important form of social protection in Tonga. However, these flows are impacted heavily by the global economy (World Bank, 2015). Tonga operates two separate provident funds: The Retirement Fund Board (RFB) for central government employees, and the National Retirement Benefits Fund (NRBF) for both private and public sector employees. The funds operate on similar principles. The National Retirements Benefits Fund (NRBF), established in 2011, operates as a mandatory superannuation scheme for the non-government sector. It has a voluntary scheme, but the number of contributors is unknown. In 2015-16 NRBF had TOP 26 million (~USD 13 million) under management. The RFB is the corresponding mandatory scheme for public servants and the military, operating since 1999, replacing the previous non-contributory pension fund. In addition, the NRBF also manages the universal social welfare payments for retired Tongans over the age of 75, of TOP 65 (~USD 33) per month, paid directly into bank accounts.

Table 11.8
Pension Provision in the Pacific - A snapshot

Institution	SINPF	VNPF	FNPF	NAS FUND	Nambawan	SNPF	NRBF	RBF
Country	Solomon Islands	Vanuatu	Fiji	PNG	PNG	Samoa	Tonga	Tonga
Members	55,000 active members	24,366 active members	403,316 members	177,252 active members	116,039 active members	31,744 active members	9,596 members	4,864 members
% Of Working Population	32%	21% (2008)	N/A	4% (2012)	3% (2012)	N/A	N/A	N/A
Mandatory Employee Contribution %	5%	4%	10%	6%	6%	7%	5%	5%
Mandatory Employer Contribution %	7.5%	4%	8%	8.4%	8.4%	7%	7.5%	10%
Return over Inflation	-1.1% (2012)	-2.5% (2013)	4.6% (2015)	-2% (2015)	-0.2%	6.4%	4.3%	4.9%
No. of Branches	3	4	8	17	18	3	3	3
Payout options	Lump-sum only	Lump-sum only	Lump-sum & allocated pension	Lump-sum only	Lump-sum only	Lump-sum & allocated pension	Lump-sum only	Lump-sum & allocated pension

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