



FNPF Supervision Policy Statement No 1

Pension Fund Governance Policy for the Fiji National Provident Fund

July 2005

1 Introduction

- 1.1 This Notice sets out the Reserve Bank of Fiji's formal requirements for observance by the Fiji National Provident Fund (hereinafter referred to as "FNPF" or the "Fund") with regard to corporate governance. The Notice is issued under Section 172 of the Insurance Act 1998 as part of the Reserve Bank of Fiji's standards governing the conduct of business of the Fiji National Provident Fund.

2 Outline of the Approach

- 2.1 The objective of this policy is to ensure that the FNPF establishes a transparent framework for the division of responsibilities in the operation and oversight of the pension Fund, and the accountability and suitability of all parties involved in the pension Fund process.
- 2.2 The Fiji National Provident Fund has a government mandate to collect retirement contributions from all members of defined categories of employees. It is therefore not subject to market disciplines, effectively enjoying a monopoly in the provision of retirement benefits, and dominates Fiji's capital markets. This monopoly and dominance justifies an active policy of supervision by the Reserve Bank of Fiji.
- 2.3 The Reserve Bank of Fiji will monitor the governance structure of the Fund by offsite ongoing perusal of copies of the Fund's policies and of the minutes and papers of the Board of Trustees. The Reserve Bank of Fiji will conduct annual on-site visits which may include interviews with relevant Trustees, Senior Management, Internal and External audit and more detailed investigation of areas of operation that appear to merit it.

3 Fit and Proper

3.1 Background

- 3.1.1 Section 172 of the Insurance Act 1998 states that "notwithstanding anything contrary in the Fiji National Provident Fund Act, the provisions of this Act apply to the Fiji National Provident Fund." Section 25(1)[f] of the Insurance Act 1998, requires that the directors and other persons concerned with the management of the insurer are fit and proper persons. This applies to the Trustees of the Fund and Senior Management reporting to the Trustees.
- 3.1.2 The Fiji National Provident Fund Act largely governs the operations of FNPF. Part II of the FNPF Act provides for the constitution, powers and functions of the Board of Trustees. The appointment of members of the Board of Trustees is the prerogative of the Minister of Finance.

3.2 Knowledge and Skills

- 3.2.1 The Board of Trustees, taken together with the Senior Management appointed by the Trustees, must possess the knowledge and skills needed to fulfil governance responsibilities. The Board of Trustees and Senior Management should have core competencies in accounting and finance, industry knowledge, general management, strategic planning and risk management experience. An appreciation of actuarial and legal matters and access to professionals in this area is also essential. Should the need arise appropriate training must be provided for new Trustees.
- 3.2.2 The Board of Trustees must specifically consider the issues raised in the paragraph 3.2.1 on a triennial basis, or after a Trustee or Senior Manager resigns or is replaced. The results must be minuted.

3.3 Propriety

- 3.3.1 The Board of Trustees of the Fund and their representatives must act in good faith and in the best interests of Fund members, beneficiaries and other stakeholders of the Fund when carrying out their fiduciary responsibilities.
- 3.3.2 For the purpose of this Notice, the Fund's responsibilities in its fiduciary role shall include:
- treating members and beneficiaries impartially;
 - acting with the care, skill and diligence of a prudent person;
 - interpreting the plan terms fairly, impartially and in good faith;
 - preventing personal interests from conflicting with those of the Fund; and
 - within the scope of its authority, ensuring that members and beneficiaries receive promised benefits.
- 3.3.3 Each Trustee and Senior Manager must confirm to the Board at the beginning of every financial year, that he or she is able to devote sufficient time to their responsibilities to the Fund and has not:
- breached a fiduciary duty - and in particular has no undisclosed actual or potential conflicts of interest;
 - been involved in any improper business practices;
 - been reprimanded or disqualified by a professional or regulatory body;
 - failed to manage personal debts satisfactorily or been an undischarged bankrupt; and
 - been involved with the management of a business that has failed as a result of the deficiencies of management.

3.3.4 Before appointing new Senior Managers, the Board of Trustees must be satisfied that the persons concerned are fit and proper persons: a full curriculum vitae should be included in board papers.

3.4 Conflicts of Interest

3.4.1 Conflicts of interest arise in a related party transaction, which is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Parties are considered to be related if one party has the ability to exercise significant influence over the other party in making financial or operating decisions [*Refer to Section 2(3) of the Insurance Act (1998)*]. Examples include, but are not limited to the following:

- personal loans from the Fund;
- the sale or purchase of assets from the Fund; and
- direct or indirect relationships with service providers.

3.4.2 Any case of conflict of interest is not acceptable. The Board should ensure that all potential conflicts are disclosed in accordance with **FAS 24 Related Party Disclosures**. Trustees, Senior Management and relevant investment staff must provide a register of any investments they or their immediate family members have in assets that are also owned by the Fund. The register must be kept up-to-date and its existence recorded and consulted at every normal meeting of the Investment Committee, and meeting of the Board when potential investments are discussed.

4 Delegations

4.1 The Board is expected to:

- (a) establish sub-committees with appropriate charters for the following:
 - Audit and risk management; and
 - Investments and property;
- (b) delegate operational management roles to Senior Management, while retaining responsibility for selecting, compensating, monitoring, replacing key executives, and overseeing succession planning;
- (c) ensure that the Fund's governance structure, roles and responsibilities, accountability and reporting relationships are clearly documented and communicated to all relevant stakeholders of the Fund; and
- (d) ensure that it receives timely, accurate and complete information to ensure that delegated responsibilities are fulfilled.

- 4.2 The Chairman of the Board of Trustees should not be the Chief Executive and must not have operational responsibilities of the Fund. It would be expected that from time to time, the Chief Executive and/or at least one of the Senior Management would be present at meetings, except when the Board decides on their remuneration.

5 Key Approvals:

5.1 Strategic Plan

- 5.1.1 The Board must consider and approve the Fund's long-term strategic objectives, including the means of attaining these objectives and procedures for monitoring and evaluating the achievement of these objectives.
- 5.1.2 The long-term corporate strategy should be reviewed at least every three financial years, and the results minuted.

5.2 Annual Plans and Budget

- 5.2.1 The Board must consider and approve annual business plans and budgets, setting performance objectives and monitoring the implementation of the plans and budget variances. They must give explicit written approval – after due diligence - for major capital expenditures, new initiatives, acquisitions and divestitures.
- 5.2.2 The Board must meet at intervals to consider progress against the plans and budgets.

5.3 Fund Policies and Standards

- 5.3.1 The Board must approve written policies on risk management, accounting and audit, investments, pricing, remuneration and procurement including outsourcing.
- 5.3.2 The Board must approve written standards for client servicing and disclosure to members and issue a code of conduct for personnel, setting out disciplinary procedures.

6 Risk management and Audit

- 6.1 The Board shall approve the establishment of a risk management strategy. The risk management strategy should include procedures for the identification, monitoring and controlling of risks to the Fund.
- 6.2 The Board shall ensure that a properly resourced and independent audit function be established, and an Internal Auditor for the Fund is appointed. The Internal Auditor will report directly to the Chairman of the Board of Trustees's Audit Sub-Committee, who shall be a Trustee.

- 6.3 The Trustee members of the Audit Sub-committee are required to meet annually with the Internal Auditor and External Auditors without members of management being present.
- 6.4 For the purpose of this Notice, the responsibilities of the Internal Auditor include, but are not limited to the following:
- evaluating the reliability, adequacy, and effectiveness of the Fund's internal controls and risk management processes;
 - regular review of information processes, operational software systems, and accounting and financial reporting systems;
 - ensuring that the Fund's internal controls result in prompt and accurate recording of transactions (including a delinquency control program for collecting unpaid contributions, and the proper safeguarding of assets; and
 - determining whether the Fund complies with all statutory requirements, and adheres to established policies, and whether the management of the Fund is taking appropriate steps to address any control deficiencies.
- 6.5 There should be an annual internal audit plan. Issues raised in internal audit reports should be clear and prioritised, and recommendations of these reports must be dealt with in a timely manner. Outstanding exceptions or recommendations should be closely monitored.

7 Accountability to Members

- 7.1 The Board must ensure that it develops policies to ensure dealings with the members, the media and the public are conducted fairly, responsibly and professionally. These policies should be established to avoid unfair practices, misrepresentation through false and misleading statements, and misconduct of staff and agents.
- 7.2 Fund members and beneficiaries have a right to voice their concerns and have them addressed in a timely manner. The Board of Trustees must arrange for capable parties to address member inquiries and complaints, and create effective conflict resolution procedures to handle disagreements.
- 7.3 The FNPF is to disclose information to its stakeholders equivalent to that disclosed by publicly listed companies. Such disclosure shall include the following:
- (a) On joining the Fund, all members must receive:
- a summary of the Fund rules including the contribution rates payable by the member and his/her employer;
 - the method by which benefits are calculated including any investment guarantees and promises, and fees to be paid by members; and

- details of the Fund's dispute resolution process and names, responsibilities and contact details of relevant personnel.
- (b) Fund members must be provided with statements, at least annually, showing their account balances and summary details of the performance of the Fund in a standardised format;
 - (c) Fund members, or beneficiaries in the case of a deceased member, must be informed of material changes to their potential or existing benefits;
 - (d) on request, members are entitled to receive, at no charge, one copy of the Fund's by-laws, rules, regulations and Annual Reports. These documents should state clearly the objectives of the Fund and the rights of members and beneficiaries;
 - (e) the Board of Trustees must ensure that all relevant information with respect to the Fund's corporate governance objectives and procedures is disclosed in its Annual Reports; and
 - (f) where the Board of Trustees makes a decision that could have a material impact on future pension benefits, such decisions must also be disclosed to members and beneficiaries in the case of a deceased member, as soon as possible.

8 Governance Review

- 8.1 The Board of Trustees is to undertake an annual assessment of its own functioning, and the performance of each of its Senior Management.
- 8.2 The Board of Trustees is to conduct a review, at least every three years of the Fund's:
 - governance framework in order to determine its adequacy;
 - performance against its overall objectives; and
 - compensation mechanisms, in order to ensure that they provide the correct incentives for those responsible for the operation and oversight of the Fund,
- 8.3 After such assessments, the Board of Trustees is required to provide, in its Annual Report, its assessment of compliance against its governance objectives, and any changes resulting from such assessments.

9 Reporting to the Reserve Bank of Fiji

- 9.1 For the purpose of this Notice, the Fiji National Provident Fund is required to provide the Reserve Bank with copies of the following:

- (a) Governance structure and sub-committee charters;
- (b) A copy of the agenda for the Board meetings, as it becomes available (The Fund is required to submit copies of Board Papers and Minutes, when requested by the Reserve Bank);
- (c) The Fund's written policies on the matters mentioned in section 5.3;
- (d) The annual audit plan, the external auditors report (including the Management Letter) and the internal auditors report, no later than a month after the reports have been finalised and signed by the relevant parties;
- (e) The Fund's Annual Report; and
- (f) An annual statement (at the end of every financial year), signed by the CEO, of the Fund's compliance with all statutory and regulatory/supervisory requirements.

9.2 For the purpose of section 9.1, any changes to (a) and (c) above must also be provided to the Reserve Bank, no later than a month after changes have been made.

10 Implementation Arrangements

10.1 This Notice applies to the Fiji National Provident Fund and is effective from 01 July 2005.

Reserve Bank of Fiji

June 2005

SCHEDULE

Interpretation-

- (1) Any term or expression used in this Notice that is not defined in this Notice:
 - (a) which is defined in the Act, shall, unless the context otherwise requires, have the meaning given to it by the Act;
 - (b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements; and
 - (c) which is not defined in the Act or in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, be interpreted in accordance with generally accepted accounting practice.

- (2) In this Notice, unless the context otherwise requires:

'Board' refers to the Fiji National Provident Fund Board of Trustees.

'Senior Management' refers to the Fund's Executive Management or the highest tier of management.