

Reaping the rewards of insourcing

The Natal Joint Municipal Pension/Provident Funds in KwaZulu-Natal, South Africa, has shown it's possible to run a lean, cost-effective administration service and offer risk benefits in-house

Pension funds managing more than \$250bn in South Africa's retirement fund industry are constantly considering whether or not to outsource back-office administration to third parties by harnessing new technology that can reduce costs. The shake-up in the industry is also aimed at improving efficiency and ensuring independent compliance with growing regulatory burdens.

In 2007, due to a lack of up to date computer hardware in its back office and antiquated operating procedures, conditions were right for the Natal Joint Municipal Pension/Provident Funds (NJMPF) to outsource its administration service to a third party. But NJMPF opted to insource its administration instead and has since delivered cost savings and added benefits to its members.

Following the appointment of new CEO and Principal Officer, Sam Camilleri, in July 2007, the Fund approved his recommendation to modernise and update its IT systems, along with its operating policies and procedures. "We've come a long

way from the days when all we had were a few 386s, an ink cartridge printer and nothing was networked," Mr Camilleri says. Today, the IT environment is fully networked with a PC at every workstation and the entire IT function is performed in-house. The result has been a pension fund that has received more industry awards than any other in South Africa – more than twenty in fact, both locally and internationally for excellence in its practices.

NJMPF's investment in IT hardware has paid off hugely as it now has spare capacity to take on the administration services of other pension funds. It also has the in-house technical expertise to offer a very cost effective option to host the back office operations of other similar sized defined benefit pension funds.

Communications

NJMPF has a diverse membership of some 30,000 municipal employees (blue and white collar workers) and pensioners spread across the entire province of KwaZulu-Natal. NJMPF takes communication with its membership and fair treatment of customers very seriously. The Institute of Retirement Funds Africa (IRFA), a non-profit body representing the interests of the retirement industry in South Africa, has awarded NJMPF its Communications Award for no less than five consecutive years. It is doubtful whether an outsourced communication function could effectively cater for the different linguistic groups (approximately half NJMPF's membership is Zulu speaking), different educational levels (a fair number are semi-literate) and different member needs without considerable investment in costly specialist resources.

NJMPF has not neglected to look within its own talent pool and chose to develop its internal human resources. Skills development is a critical challenge in South Africa and NJMPF has not shied away from addressing



this need. It has systems in place to track employee skills, interests and achievements and does not miss opportunities to optimise each employee's contribution to the fund. By investing in training, NJMPF has made a long-term investment in its staff members and built a team of skilled people that will reduce a future need to outsource. NJMPF's staff attrition rate is under 8% per annum. Regular roadshows, member workshops and one-on-one interactions with members at their working places throughout Kwa-Zulu Natal form an integral part of how NJMPF "takes the Fund to the people."

This practice strengthens the relationship between the Fund and the member. It also gives the member 'peace of mind' to see the same familiar faces annually explaining things in an understandable manner.



Sam Camilleri



Harvesting success: the NJMPF is now enjoying progressive spinoff on its strategic foresight envisioned back in 2007

Active asset management

Once NJMPF has given a mandate to an asset manager it does not assume a passive role, waiting for reports back on performance. Its multi-balanced manager fund approach uses some of the world's best managers who excel in their areas of expertise and combines their complementary processes to provide the highest level of diversification and discipline in its investment portfolios.

It actively manages each step in the investment process, including, setting of benchmarks, diversifying portfolio holdings, selection of leading manager, rebalancing the portfolio and managing active manager risk. Performance reviews between Mr Camilleri, asset managers and the board of trustees take place regularly,

'red flags' are highlighted and existing strategies reassessed.

The NJMPF is one of a select few pioneers that identified the need, and acted upon it, for meeting environmental, social, and governance (ESG) parameters, not just relating to its own operations, but also to those companies in which it holds a stake. NJMPF insists on seeing a credible socially responsible investment programme for companies that engage in operations which cause damage to the environment, for example, mining companies. Only once it is satisfied that these companies are serious about negating the impacts of their operations to the environment, does it invest in them. Sustainability as a measure of predicting a given corporation's success over the long haul has become central to the

investment and management philosophies wholeheartedly adopted by the NJMPF.

Risk benefits

Being ever mindful of containing costs, the NJMPF has used its own balance sheet to create a reserve to meet death and disability benefits for its members. Instead of an outflow of premiums to an outside insurance company, the Fund retains such amounts in a self-insured fund.

The Fund's actuary is satisfied that, given the existence of the Risk Reserve Account and the amount accumulated in it, the arrangement of meeting death and disability claims is appropriate for the Fund.

Rationalisation of pension funds

NJMPF is well positioned to capitalise on the government's proposal for contributing members to the provident fund to take out compulsory annuities. Although the legislation has been postponed for two years, NJMPF already has the infrastructure in place to cater for a seamless transfer of a member from active membership to becoming an in-house annuitant. The legislation and other regulatory requirements applicable to insurance companies, which offer annuities, are far more stringent than the proposed amendments from Treasury to the Pension Funds Act. These proposed amendments, when legislated, will enable pension funds to offer annuities and preservation products. As a pension fund, NJMPF will in the future be offering these types of products to its members at a significantly lower overall cost than the current market.

The team at NJMPF draw parallels between its insourcing and the successful cultivation of crops: just as in the harvesting period, the NJMPF is now enjoying progressive spin-off on its strategic foresight envisioned back in 2007.

NJMPF's far sighted vision in 2007 to provide its administration service in-house, has yielded handsome benefits for its membership over the years, both in terms of quality of service and above average pensions. It continues to live by its mission – "to provide superior retirement service and benefits to our members, beneficiaries and pensioners." ■

Further information

www.njmpf.co.za