

# Risk-Based Governance Under FIMA: Are retirement funds managing the risks that matter most?



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For many years, retirement fund governance focused on a familiar set of responsibilities: investment oversight, regulatory compliance, monitoring service providers and ensuring that contributions were paid correctly.

These responsibilities remain important. However, Namibia's regulatory environment is evolving. With the implementation of the Financial Institutions and Markets Act (FIMA)

and the increasing adoption of risk-based supervision by NAMFISA, trustees may increasingly be required to think differently about risk. The question is no longer simply whether a fund is compliant.

The more important question may be whether the fund is identifying, monitoring and managing the risks that are most likely to affect members' retirement outcomes.

## What Is risk based supervision?

Under a risk-based approach, regulators focus greater attention on the areas that pose the greatest risk to fund members and to the achievement of a fund's objectives.

This represents a shift away from a purely rules-based approach towards a framework that considers:

- The nature of the risks faced by the fund;
- The likelihood of those risks materialising;
- The potential impact on members; and
- The effectiveness of the controls used to mitigate those risks.

For trustees, this means moving beyond compliance checklists and developing a deeper understanding of

the risks that may prevent members from achieving financial security at retirement.

### Is retirement adequacy the biggest risk of all?

When boards discuss risk, attention often focuses on investment markets, operational failures, cyber risks or regulatory breaches. These risks are important.

However, a more fundamental question should perhaps be asked:

What if the greatest risk facing a retirement fund is that its members simply do not retire with enough money?

## A fund may have clean audits, strong governance structures and investment returns that consistently outperform benchmarks.

Yet if a significant proportion of members are projected to retire with inadequate income, can the fund truly be regarded as successful? Retirement adequacy should arguably be viewed as a strategic risk that warrants the same level of oversight as other key governance risks.

### Looking beyond investment risk

Traditionally, investment risk has received the greatest attention from boards.

However, retirement outcomes are often influenced by risks that have little to do with market performance. Examples include:

- > Members cashing out their benefits when changing employment;
- > Inadequate contribution rates;
- > Poor member engagement;
- > Delayed financial decision-making;
- > Inaccurate member data;
- > Weak communication strategies; and
- > Low levels of financial literacy.

In many cases, these factors can have a greater impact on retirement outcomes than short-term fluctuations in investment markets.

Boards therefore need visibility of a broader range of risks that affect member outcomes.

### Are funds spending time on the right things

Risk-based governance also requires trustees to consider where management attention, governance effort and fund resources are being allocated.

Many retirement funds undertake activities that extend beyond retirement savings administration.

Examples may include:

- > Pension backed housing loans;
- > Extensive risk benefit structures;
- > Financial wellness initiatives;
- > Member incentive programmes; and
- > Various administrative and governance projects.



These initiatives may offer genuine value to members. However, trustees should periodically assess whether such activities remain aligned with the fund's objectives, risk profile and member needs.

This is not an argument against ancillary benefits that may add value to members. Rather, it is an argument for intentional governance. Every activity performed by a fund introduces additional complexity, governance oversight and operational risk. Trustees should therefore consider whether the benefit derived from these activities justifies the resources expended.

### Aligning activities to the funds risk profile

One of the principles underpinning risk-based supervision is proportionality.

Not every fund faces the same risks. Not every fund requires the same controls. Nor should every fund allocate resources in the same manner.

Trustees may therefore find it useful to assess all major fund activities through a common framework:

- Does this activity support the fund's primary purpose?
- Does it align with the fund's risk appetite?
- What risks does it introduce?
- What controls are required?
- What governance resources are required?
- Does it improve member outcomes?

Where the answer to the final question is unclear, further evaluation may be required.

### A different trustee dashboard

As boards increasingly embrace risk-based governance, traditional reporting may need to evolve.

Historically, trustee packs have focused heavily on:

- Investment returns;
- Benchmark comparisons;
- Compliance matters;
- Fund expenses; and
- Operational reports.

While important, these reports often provide limited insight into the risks affecting retirement outcomes.

A broader dashboard could include:

- Retirement readiness levels;
- Income replacement ratios;
- Preservation rates;
- Contribution adequacy;
- Member engagement metrics;
- Data quality indicators; and
- Outcome-based risk heatmaps.

## Such information may help boards identify emerging risks before they become long-term retirement problems.

### Good governance is ultimately about outcomes

Governance, compliance and risk management are not objectives in themselves. They are mechanisms intended to help funds achieve their purpose. The ultimate purpose of a retirement fund is to assist members in achieving financial security in retirement.

As Namibia's retirement fund industry continues to evolve under FIMA, trustees may increasingly find value in asking a simple question:

### Are we managing the risks that matter most?

If the answer is yes, trustees will not only improve governance outcomes. They may also improve the outcomes that matter most to members: the ability to retire with dignity, confidence and financial security.