



Values and Principles of Good Corporate Governance in Defined Contribution Pension Schemes

A Focus on Sustainable Pension Strategies for the 21st Century

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Introduction to Corporate Governance

What is Corporate Governance?

- **Corporate governance** → system of rules, practices, and processes by which a company or organization is directed and controlled
- It involves balancing the interests of various stakeholders, such as shareholders, management, customers, suppliers, regulators, and the community.
- **Key Components:**
 - **Accountability:** individuals in positions of authority must be answerable for their actions.
 - **Transparency:** Providing clear, honest, and timely information to stakeholders.
 - **Fairness:** Treating all stakeholders with respect and ensuring that decisions are made without bias.
 - **Responsibility:** Acting in the best interests of all stakeholders, especially in terms of long-term growth and sustainability.

Why Corporate Governance is Important for Pension Schemes

- For pension funds, corporate governance ensures that the **funds are managed in a way that prioritizes the security of the members' investments** and promotes ethical, transparent decision-making.
- It ensures that trustees, investment managers, and other parties involved in managing pension funds act in the best interests of beneficiaries and uphold the principles of **accountability and transparency**.

Governance in Defined Contribution(DC) Schemes

- In DC schemes like **PSC Pension Scheme**, the responsibility for the retirement savings lies with individual members, **making governance even more crucial** to ensure that their interests are protected and their investments are managed prudently.

Principles of Corporate Governance in DC Schemes

- 1. Independence:** Trustees should be independent of the scheme's management to avoid conflicts of interest.
- 2. Competence:** Trustees must possess the necessary knowledge and expertise to make informed decisions.
- 3. Risk Management:** Effective systems for managing financial and operational risks.
- 4. Member Engagement:** Keeping members informed and engaged in decision-making processes.

The Role of Corporate Governance in DC Schemes

- DC schemes shift the responsibility of pension planning to individual members.
- **Corporate governance** ensures that trustees act in the **best interest of members**.
- Principles of **transparency, accountability, and fairness** ensure trust in the management of funds.

Key Values of Corporate Governance

- 1. Accountability:** *Trustees and managers are accountable to scheme members and regulators.*
- 2. Transparency:** *Clear communication of investment strategies, risk management, and fees.*
- 3. Integrity:** *Ethical decision-making and avoiding conflicts of interest.*
- 4. Fairness:** *Treating all members equitably, regardless of the size of their contributions.*
- 5. Responsibility:** *Acting in the long-term interest of the pension scheme.*

Best Practices in Governance for DC Schemes

- ✓ Regular monitoring and reporting on **investment performance** and **fees**.
- ✓ Periodic **training and development** for trustees to ensure they remain well-informed. *This can't be overemphasized.*
- ✓ Establishment of **clear policies on conflicts of interest, remuneration, and performance measurement.**

Challenges in Governance in Pension Schemes

1. Managing **investment risks** in volatile markets.
2. Ensuring **long-term sustainability** while balancing short-term member needs.
3. Addressing **demographic changes** and evolving regulatory environments.
4. Dealing with **potential conflicts of interest**, especially with service providers.

Integrating ESG Principles into Governance

Environmental, Social, and Governance (ESG) Integration

- There is growing emphasis on ESG factors in pension fund investment decisions... *especially when transitioning to alternative investment*
- Trustees' role in ensuring that investments align with ESG principles.
- ESG integration as a way to **enhance long-term fund performance and sustainability**.
- Ensuring compliance with evolving ESG regulations.

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Role of Technology

- There is need for Leveraging Technology for Better Governance
 - Use of technology to enhance **transparency and reporting**.
 - **Automation and data analytics** to improve decision-making and risk management.
 - **Online platforms** for member engagement and feedback.
 - The role of **cybersecurity** in protecting member data and fund assets.

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Emerging: Retirees Medical Coverage



- ❑ Most retirees struggle to secure medical cover due to high costs and inadequate savings.
- ❑ Many pay out of pocket or rely on family support for healthcare expenses.
- ❑ Early planning and innovative funding solutions are essential to address this critical need.

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The Importance of Planning (Retirees Medical Cover)

1 **Trustee Responsibility**

Trustees must educate members early about medical funding options for retirement.

2 **Financial Preparation**

Members need guidance to save adequately for future healthcare needs.

3 **Proactive Solutions**

Early planning prevents financial strain and dependency on others.



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PSC's Innovative Funding Initiative

1

Funding Plan Development

PSC has initiated a funding plan for its members.

2

Treasury Engagement

Seeking KES 200 million seed capital for pensioner medical coverage.

3

Setting Precedent

Initiative aims to establish a model for other public pension funds if considered.



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Conclusion

- Corporate governance is critical to the success of defined contribution schemes.
- Trustees must adopt **strong values and principles** to navigate the evolving pension landscape.
- The integration of ESG factors, technological advancements, and effective risk management will enhance governance and sustainability.
- **Call to action:**
 - ✓ **Encourage stakeholders to commit to best governance practices for the future of pension schemes.**
 - ✓ **Encourage early planning and put in place sustainable medical cover funding strategies for pensioners.**



THANK YOU

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