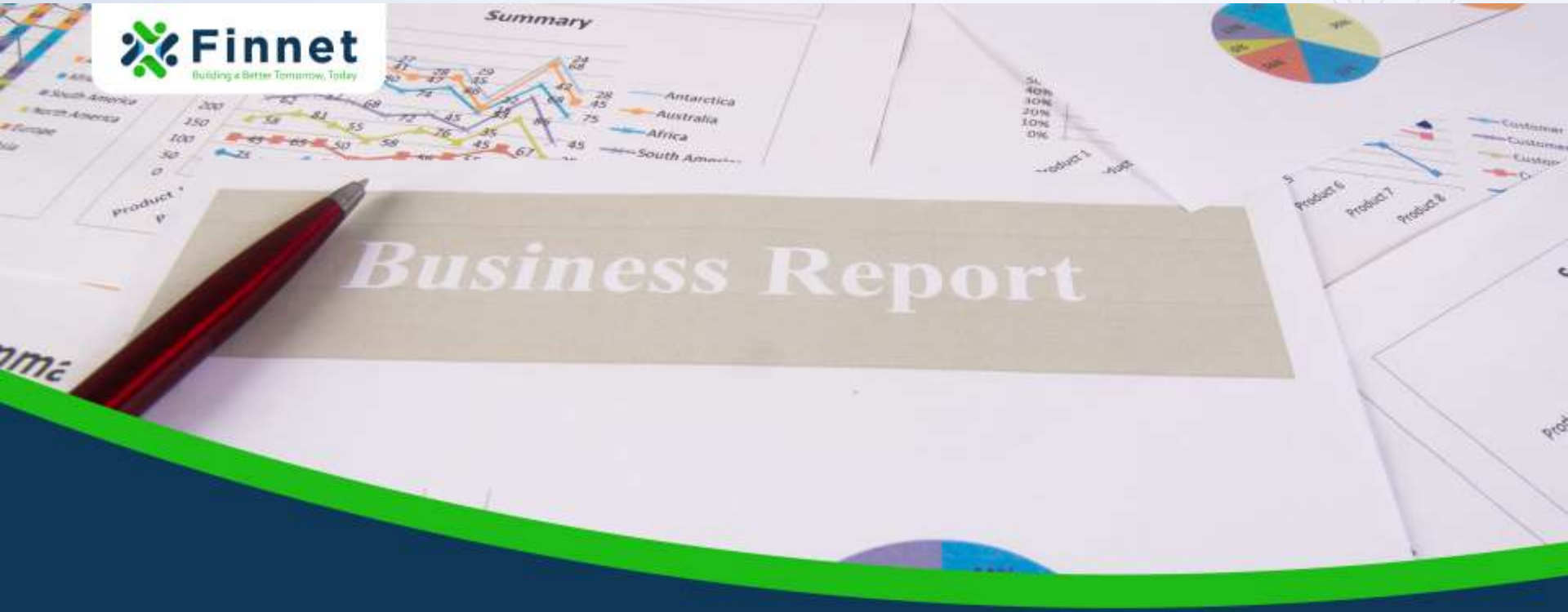

PENSION SCHEME SECRETARIAT OPERATIONS & TRUSTEE INTERFACE RISK MITIGATION

Agenda

1. Regulatory Framework & Governance
2. Secretariat Operations Excellence
3. Risk Identification & Assessment
4. Mitigation Strategies & Controls
5. Case Studies
6. Conclusion

What is risk

Two people need to cross a rickety bridge over a canyon at night. One person has a flashlight, one doesn't. The bridge can only hold two people at a time. Which person is at greater risk?

Two drivers are in identical cars on the same road:
Driver A: Always wears a seatbelt
Driver B: Never wears a seatbelt
Which driver is at greater risk of injury?

A person can either:
Option A: Get regular health screenings (early detection)
Option B: Avoid screenings (no knowledge of problems)
Which person faces greater risk?

Case Study : Nairobi Manufacturing Scheme

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SITUATION:

- 5,000-member scheme with 15-year history
- Detected unusual pattern in benefit payments
- Secretariat staff member had unauthorized access

RISK IDENTIFIED:

- Inadequate segregation of duties
- Weak transaction authorization controls
- Insufficient monitoring and reconciliation

Case Study : Nairobi Manufacturing Scheme

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MITIGATION IMPLEMENTED:

- Implemented dual authorization for all payments
- Segregated duties between processing and approval
- Daily reconciliation of member accounts
- Whistleblower hotline established
- Monthly exception reporting to audit committee

RESULT: Prevented estimated KES 2.5M fraud; improved controls across scheme

Case Study : Coastal Finance Scheme

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SITUATION:

- 8,000-member financial services scheme
- RBA inspection identified compliance gaps
- Investment guidelines not fully implemented
- Member communication deficient

GAPS IDENTIFIED:

- Inadequate investment policy documentation
- Incomplete member statements
- Missing audit trail documentation
- Weak governance structure

Case Study : Coastal Finance Scheme

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REMEDIAL ACTIONS:

- Revised investment policy aligned with RBA guidelines
- Implemented comprehensive member communication program
- Established audit committee with external member
- Implemented document management system
- Enhanced internal controls and monitoring

OUTCOME: Passed subsequent RBA inspection; improved member satisfaction

Global Best Practices Framework

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International Standards

- OECD Pension Guidelines
- IOPS (International Organization of Pension Supervisors)
- ICPEN (International Collaborative Pension Network)
- ISO 31000 - Risk Management
- COSO Framework - Internal Controls
- IFRS Standards - Financial Reporting

Kenyan Alignment

- RBA adopts OECD principles
- Pension Fund Governance Code
- Trustee Competency Standards
- Investment Guidelines aligned with OECD
- Disclosure & Transparency Requirements
- Member Protection Standards

Trustee Fiduciary Duties & Responsibilities

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1. Duty of Care: Exercise reasonable care, skill, and diligence
2. Duty of Loyalty: Act in members' best interests
3. Duty of Prudence: Manage funds prudently and diversified
4. Duty of Compliance: Ensure adherence to all regulations
5. Duty of Transparency: Provide clear communication to members
6. Duty of Accountability: Maintain proper records and reporting
7. Duty of Segregation: Maintain independence from sponsors
8. Duty of Oversight: Supervise secretariat and service providers

Secretariat Role & Accountability Framework

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Secretariat Responsibilities

- Day-to-day scheme operations
- Member administration & records
- Benefit calculations & payments
- Investment transactions execution
- Compliance documentation
- Financial reporting & reconciliation
- Member communication

Trustee Oversight Role

- Define secretariat mandate & KPIs
- Monitor performance & compliance
- Approve major transactions
- Conduct regular audits
- Manage service level agreements
- Ensure data security & confidentiality
- Enforce accountability measures

Operational Risk Categories - Secretariat Interface

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1. Process Risks: Inefficient workflows, manual errors, delays
2. Technology Risks: System failures, cyber attacks, data loss
3. Personnel Risks: Inadequate training, turnover, misconduct
4. Control Risks: Weak controls, lack of segregation of duties
5. Compliance Risks: Regulatory violations, incomplete documentation
6. Custodial Risks: Asset misappropriation, settlement failures
7. Communication Risks: Misinformation, member disputes
8. Third-party Risks: Service provider failures, outsourcing issues

Internal Controls - COSO Framework Application

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1. Control Environment: Tone at top, ethics, competence
2. Risk Assessment: Identify and analyze operational risks
3. Control Activities: Preventive and detective controls
4. Information & Communication: Timely, accurate information flow
5. Monitoring Activities: Regular evaluation of control effectiveness

Key Controls for Secretariat:

- Segregation of duties in transaction processing
- Dual authorization for high-value transactions
- Reconciliation procedures (daily/monthly)
- Exception reporting and investigation

Risk Identification & Assessment Methodology

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Identification Techniques

- Workshops & Brainstorming sessions
- Process mapping & analysis
- Historical incident review
- Regulatory guidance review
- Peer scheme benchmarking
- Member feedback analysis
- Technology audit & assessment
- Third-party risk assessment

Assessment Framework

- Probability: Likelihood of occurrence
- Impact: Financial/operational consequences
- Velocity: Speed of risk manifestation
- Detectability: Ease of detection
- Risk Rating: High/Medium/Low
- Risk Appetite: Tolerance levels
- Residual Risk: Post-mitigation risk
- Risk Ownership: Clear accountability

Risk Assessment Matrix - Secretariat Operations

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HIGH PRIORITY RISKS:

- Fraud/Embezzlement (High Impact, Medium Probability)
- System Failures/Data Loss (High Impact, Low-Medium Probability)
- Regulatory Non-compliance (High Impact, Medium Probability)
- Benefit Calculation Errors (High Impact, Low Probability)

MEDIUM PRIORITY RISKS:

- Personnel turnover (Medium Impact, High Probability)
- Process inefficiencies (Medium Impact, Medium Probability)
- Member disputes (Medium Impact, Medium Probability)

LOW PRIORITY RISKS:

- Minor administrative delays (Low Impact, High Probability)

Risk Indicators & Early Warning System

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Financial Indicators:

- Unexplained variances in contribution receipts
- Unusual investment transactions or patterns
- Discrepancies in member account balances

Operational Indicators:

- Increased member complaints or disputes
- System downtime or performance degradation
- Missed regulatory reporting deadlines
- High staff turnover or absenteeism

Compliance Indicators:

- Audit findings or regulatory queries
- Non-compliance with SLA targets
- Documentation gaps or incomplete records

Trustee-Secretariat Interface Risks

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Communication Risks

- Unclear role definitions
- Inadequate information flow
- Misaligned expectations
- Delayed reporting
- Conflicting instructions
- Inadequate documentation
- Language/cultural barriers

Control Risks

- Weak oversight mechanisms
- Insufficient audit trails
- Inadequate approval processes
- Lack of segregation of duties
- Inadequate whistleblower channels
- Poor incident management
- Inadequate contingency planning

Risk Appetite & Tolerance Framework

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Risk Appetite: Scheme's willingness to accept risk to achieve objectives

1. OPERATIONAL RISK APPETITE: LOW

- Minimize disruptions to member services
- 100% regulatory compliance

2. COMPLIANCE RISK APPETITE: VERY LOW

- Proactive regulatory engagement
- Exceed minimum compliance requirements
- Transparent reporting and disclosures

3. STRATEGIC RISK APPETITE: MODERATE

- Balanced growth and stability
- Innovation in member services
- Calculated investment strategies

Comprehensive Risk Mitigation Framework

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1. **PREVENTION:** Eliminate or reduce risk occurrence
    - Strong controls, training, technology
2. **DETECTION:** Identify risks when they occur
    - Monitoring, audits, reconciliations
3. **CORRECTION:** Address identified issues promptly
    - Incident management, corrective actions
4. **RECOVERY:** Restore normal operations
    - Business continuity, disaster recovery
5. **LEARNING:** Improve systems and processes
    - Post-incident reviews, policy updates

Fraud Prevention & Detection Strategies

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Prevention Measures

- Segregation of duties
- Dual authorization for transactions
- Background checks for staff
- Rotation of duties
- Whistleblower policy
- Code of conduct & ethics
- Regular training & awareness
- Surprise audits

Detection Mechanisms

- Transaction monitoring & analytics
- Reconciliation procedures
- Audit trail reviews
- Exception reporting
- Member complaint analysis
- Forensic audits
- External audit procedures
- Regulatory inspections

Cybersecurity & Data Protection - Critical Controls

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1. **Access Control:** Multi-factor authentication, role-based access
2. **Encryption:** Data in transit and at rest
3. **Network Security:** Firewalls, intrusion detection systems
4. **Endpoint Security:** Antivirus, endpoint detection & response
5. **Backup & Recovery:** Regular backups, tested recovery procedures
6. **Vulnerability Management:** Regular scanning and patching
7. **Incident Response:** Documented procedures for cyber incidents
8. **Compliance:** GDPR, PDPA, Kenyan Data Protection Act
9. **Vendor Management:** Third-party security assessments
10. **Staff Training:** Cybersecurity awareness programs

Business Continuity & Disaster Recovery Planning

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BCP Components:

- Risk assessment and impact analysis
- Recovery objectives (RTO, RPO)
- Alternative processing sites
- Data backup and replication
- Communication protocols
- Staff roles and responsibilities
- Testing and drills (quarterly minimum)
- Plan maintenance and updates

RTO Targets (Recovery Time Objective):

- Critical systems: 4 hours
- Important systems: 24 hours
- Non-critical systems: 72 hours

Audit & Assurance Framework

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Internal Audit

- Independent audit function
- Annual audit plan
- Risk-based audit approach
- Quarterly audit reports
- Management letter
- Follow-up on findings
- Audit committee oversight

External Audit & Compliance

- Annual financial audit
- Regulatory compliance audit
- Actuarial valuation (triennial)
- Special audits as needed
- RBA inspections
- External quality assurance

Conclusion

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1. **GOVERNANCE**: Strong governance structures are foundation of effective operations
2. **CONTROLS**: Robust internal controls prevent errors, fraud, and non-compliance
3. **MONITORING**: Continuous monitoring enables early detection and intervention
4. **COMMUNICATION**: Clear communication between trustee and secretariat is critical
5. **COMPLIANCE**: Proactive compliance management prevents regulatory issues
6. **TRAINING**: Continuous training ensures competent and compliant operations
7. **TECHNOLOGY**: Modern systems and technology enable efficient operations
8. **CONTINUOUS IMPROVEMENT**: Regular review and improvement of processes and controls

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