Investing to Secure and Grow the NIS

Protecting You In Uncertain Times

By Stewart K. Haynes

The people of St. Vincent and the Grenadines (SVG) have been besieged with more information concerning the National Insurance Services (NIS) now than probably at any other time during its 36-year history. We live in an information age, where traditional means of information sharing are being supplemented by the ubiquitous social media and the new citizen journalists. We at the NIS are cognizant that it cannot remain business as usual.

Therefore, it is our duty to remove any barriers that might exist between the NIS and its beneficiaries, making the institution as accessible as possible to the average person. We are dedicated to ensuring our people are armed with accurate information to not only maximise the use of our services and engage with us wherever necessary but also to navigate the mire of information from which they are bombarded daily.

The Need For Reform

Much of the discussion about the NIS surrounds pending reforms necessary to protect the Fund's longevity and ability to cover its beneficiaries' future needs.

Persons have suggested several reasons why reform is needed; some are very controversial, but the reality is we are currently facing an aging population, leading to a situation where beneficiaries are growing at a faster rate than contributors, which is further exacerbated by our high unemployment levels.

Other factors that threaten the Fund's sustainability include the high benefit replacement rate (pension percentage) relative to the low contribution rate of 10 percent and the fact that the Fund is reaching its maturity, demonstrated by the growing number of new pensioners with higher levels of pensions since the pension amount increases with time in step with the cost of living.

Protecting SVG in Uncertain Times

The NIS was one of the institutions to bear the financial burden of the COVID-19 pandemic and the severe fallout of the La Soufriere volcano in the country.

On the government's approval, our NIS provided a temporary unemployment benefit of $3.0M to 1,221 St. Vincent and the Grenadines residents who had no source of employment because of COVID-19. The NIS helped those Vincentians to provide for their families during severe financial hardship.

This support to our people is consistent with the raison d'etre of the NIS, to provide income protection to vulnerable workers and their families against lifecycle risks, including catastrophic events.

For this reason, the NIS is considering the implementation of an unemployment benefit to provide greater security for workers and their dependents against financial difficulties from temporary job loss for involuntary reasons.

Investing for Sustainability

The issue of NIS spending and investing has also been pivotal in the debate. In the Caribbean and all around the world, social security funds are invested in government securities within legal frameworks. As with other types of social security funds, the NIS' funds are often invested to generate returns that can help sustain the system. There is no industry standard for the percentage of investment, and social security funds in various Caribbean countries are typically invested conservatively, often in low-risk assets such as government securities, fixed deposits, and sometimes diversified into equities and real estate. Investment practices vary from country to country.

The exposure limits to issuers (including governments) are usually set within the social security investment policy statement. Based on the investment policies in the OECS, the maximum exposure to the central government ranges from 30 percent to no specific limit. In SVG, the exposure limit set for Central Government is 20 percent, and the exposure set for public sector investment is 30 percent. Based on 2020 and 2021 financial data in the OECS, the average exposure to the Central Government is 27 percent, and in SVG's case, it was 14 percent; the average exposure to the public sector was 51 percent, and in SVG's case was 37 percent (including 18% exposure to the publicly listed Bank of SVG). Moreover, the average exposure to the domestic economy was 69 percent, and in SVG's case, it was 58 percent.

Regional Investing Paradigm

Some Caribbean examples of investment by social security agencies include the National Insurance Fund in Jamaica, which invests in a diversified portfolio that includes government securities, equities, and real estate. The aim is to generate a consistent return while preserving capital. Barbados' National Insurance Scheme invests in various assets, including government bonds and loans for housing and development projects. The fund has a mandate to support national development while ensuring the sustainability of social benefits.

Recently, the Government of Barbados approved US$40 million for overseas investment. Trinidad and Tobago's National Insurance Board invests primarily in government and corporate bonds, and real estate. The investment policy is intended to ensure the fund can meet its future obligations to beneficiaries. Also, in all the countries in the OECS, the investment policies make provisions for investment in government bonds and local economies to stimulate economic and social development.

Portfolio Management

The issue of the NIS' management fees has also been a matter for discussion. The NIS' investments include local, regional, and international investment assets. As indicated, social security funds are diversified geographically as part of prudent and responsible risk management strategies. The other motivations for investing internationally include competitive returns, lower risk of default and capacity building. Like other local and regional institutional investors, the NIS uses international asset managers to keep assets safe at international financial institutions. Consequently, the NIS would pay management fees for investment management services, investment transactions, and the safekeeping of its assets overseas.

The management fees comprise solely of fees charged by international money managers, transaction costs for buying and selling international assets and withholding taxes. The investment management services fees are based on the size of the investments that the manager is managing. For instance, in 2022, the NIS was charged management fees of $1,294,084.01. This fee included investment management service fees of $930,500.26, transaction cost of $66,393.88 and withholding tax of $297,189.87. This fee, which moved from $450,706.10 in 2017 to $1,294,084.01, was lower than the investment income earned on the funds and increased with the size of the investment portfolio.

Building Capacity to Serve

The NIS is one of the most important, if not the most important, institutions protecting the welfare of the citizens of St Vincent and the Grenadines. However, the institution has been operating with outdated systems, technology, and processes. Over the past three years, we have been strategically and systematically bringing the NIS up to worldwide industry standards. The people of St. Vincent and the Grenadines deserve a social security system that is functioning with modern technology, protecting their interests from cyber predators and ensuring they receive their benefits efficiently and timely. While, in most cases, the resources needed are unavailable locally, the management has used best practices to procure the best resources available to strengthen our operations. We also see our role as builders of the society, and therefore, we invest in our people through several corporate social responsibility programs that benefit the disadvantaged. The average person expects all this, which is what the NIS has been building its capacity to deliver.

Stakeholder Engagement

The NIS has also started a communications campaign geared at engaging all its stakeholders. We are cognizant that we are operating in a politically sensitive sector because the funds are critical for the financial security of citizens, including the elderly and disabled, so there is usually significant public interest in how they are managed. Consequently, any management or government action perceived as putting those funds at risk can be a cause for public debate, and, for that reason, we at the NIS have adopted a policy to be transparent in all our dealings. We will, therefore, stand ready to continue our dialogue with all stakeholders to build awareness and education concerning the work and services of the NIS.

Stewart Haynes is the Director of the National Insurance Services.