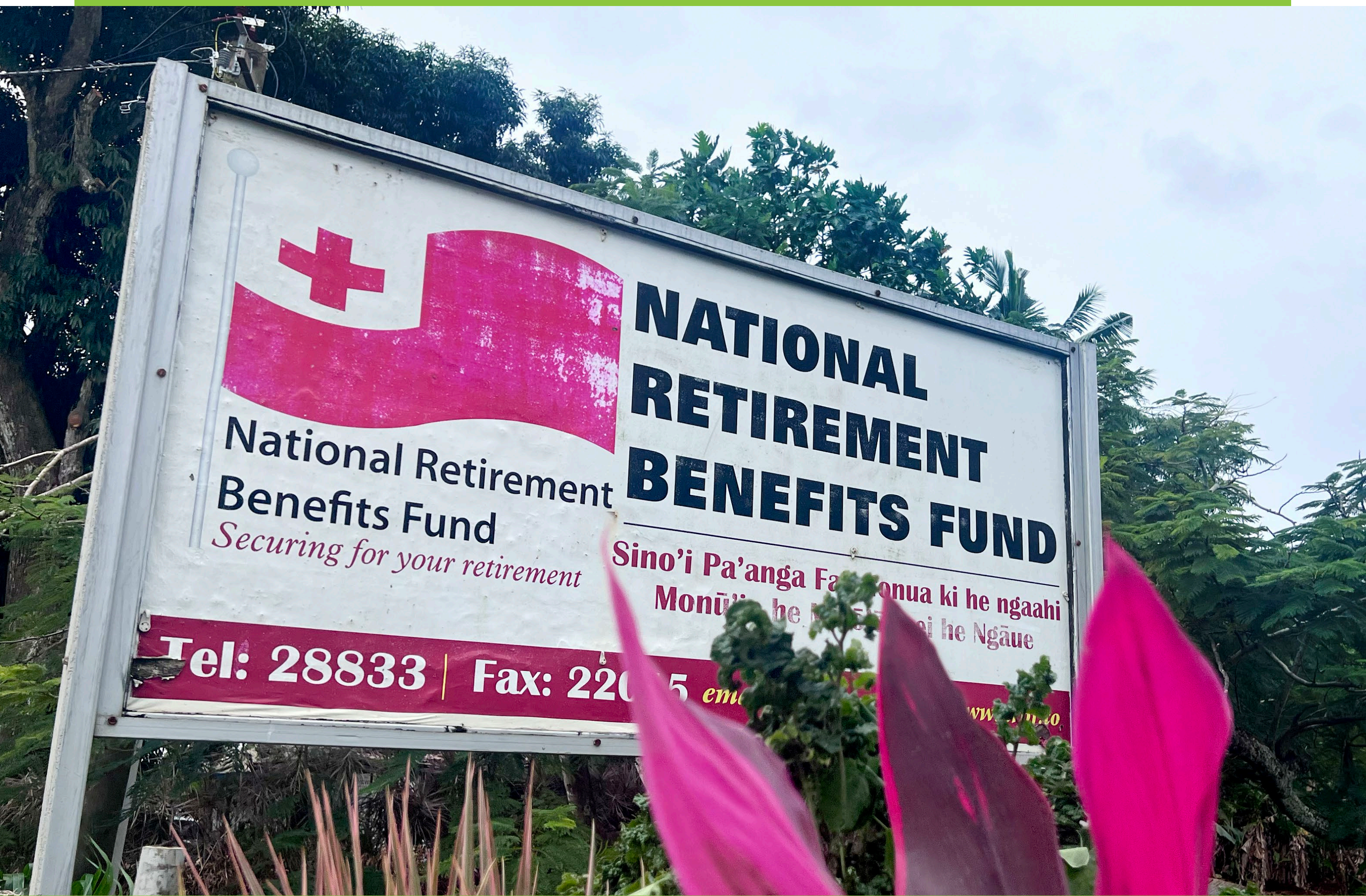
PSDI PHASE IV: KEY REFORM CASE STUDIES 2020–2026
FINANCING GROWTH

Stronger, More Effective Retirement Funds in Tonga



During its fourth funding phase (2020-2026), the Pacific Private Sector Development Initiative (PSDI) has worked with both the public-sector and private-sector retirement funds in Tonga, as well as the National Reserve Bank of Tonga, to strengthen governance, improve risk management, and support more sustainable operations.

PSDI THE PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE

A technical assistance program undertaken in partnership with
ADB Australian Aid NEW ZEALAND FOREIGN AFFAIRS & TRADE Aid Programme

BACKGROUND

Retirement funds are central to Pacific social protection systems, primarily serving to ensure members have an adequate pool of funds for retirement. Where appropriate, they also have the potential to support broader economic growth by offering long-term domestic financing. They cannot perform either of these roles effectively unless they are well-run financial institutions generating positive cash flow, which requires strong governance frameworks and a policy-driven approach to all aspects of fund operations.

Like many in the region, Tonga's retirement funds face a range of challenges. These include limited investment options, gaps in risk management expertise, difficulty absorbing external shocks (such as large-scale member withdrawals after disasters or during events like COVID-19) and outdated or incomplete legal and policy frameworks.

PSDI supports the strengthening of retirement funds in Tonga and throughout the Pacific region, particularly in the areas of governance, risk management, investment management, and operational capabilities. This gives retirement funds the ability to provide adequate retirement incomes for fund contributors and to increase their capacity to provide long-term finance to their domestic economies, supporting their sustained economic growth.

PSDI'S PARTNERSHIPS WITH TONGA'S RETIREMENT SECTOR

In Tonga, PSDI has provided long-term support to the Tonga Retirement Fund Board (TRFB) and the National Retirement Benefit Fund (NRBF) to strengthen fund governance, operations, investment management, and risk frameworks at the institutional level. PSDI has also worked with the National Reserve Bank of Tonga (NRBT) to support legislative reform and develop an appropriate strategy for the NRBT's supervision of the sector as a whole. This support has been mutually reinforcing, building on success across the three institutions over a number of years.

Tonga Retirement Fund Board

Since mid-2014, PSDI has been assisting TRFB, Tonga's public-sector employee fund, to strengthen its governance and operations. At the time of engaging PSDI, TRFB was attempting to identify investment opportunities and strengthen its risk management. PSDI initially reviewed the board's policies and identified revisions needed to harmonize policy with industry standards. PSDI then helped draft new policies when required, improving the investment management framework, which should support better returns to fund members while preserving the fund's sustainability.

National Retirement Benefit Fund

The leadership of the TRFB recommended PSDI support to the NRBF, a fund serving Tonga's private-sector employees, in 2018. PSDI started working with NRBF management to prepare guidelines for domestic property and equity investment, to review insurance protection offered to the fund's members, and to review the sustainability of the fund's crediting rate policy. PSDI also worked with the NRBF to evaluate its methodology for calculating dividends, to develop a crediting rate policy, and to review a draft of NRBF's pension supervision bill.

In FY2023, PSDI was requested to undertake a significant program of work to assist NRBF to update its founding legislation and accompanying regulations, as well as to review and update a range of key operational policies and procedures. As part of this work, PSDI drafted a legislative policy paper, which was approved by the NRBF board of directors in December 2023. PSDI then supported the drafting of amendments to the NRBF Act, underlying regulations, and NRBF's policies and procedures.

National Reserve Bank of Tonga

Complementary to its work with the funds, PSDI has also worked closely with the NRBT to help it develop a practical supervisory strategy for Tonga's retirement sector. PSDI reviewed successive draft pension supervision bills and, in April 2023, submitted a policy paper advising that a standalone supervisory bill more suited to a complex pension market was not well suited to Tonga's context. Instead, PSDI recommended targeted amendments to each fund's existing establishing legislation to introduce defined reporting and supervisory provisions.

Tatafu Moeaki, Governor of the National Reserve Bank of Tonga, explained the rationale for engaging PSDI, stating that:

> "The two retirement funds are increasingly significant. The proportion of liquidity they hold in the sector is relatively large, and they are now entering lending. We raised it to PSDI. Who would be better placed to help? They know the landscape, and they understand."
>
> Tatafu Moeaki, Governor of the National Reserve Bank of Tonga.

TIMELINE OF PSDI SUPPORT

2014
PSDI commenced support to the Tonga Retirement Fund Board.

2015
PSDI reviewed TRFB's organizational policies and made recommendations in line with accepted industry standards.

2016
PSDI reviewed a first pension supervision bill draft for the National Reserve Bank of Tonga and provided feedback

2017
PSDI developed an overarching corporate governance policy and statement of investment beliefs for TRFB

2018
PSDI developed a suite of updated operating documents for the Tonga Retirement Fund Board.

PSDI drafted new organizational policies for the National Retirement Benefit Fund, which were approved by the board.

2019
PSDI developed a crediting rate policy for the NRBF.

2021
PSDI undertook an actuarial review, examining the TRFB's financial strength, sustainability, risk management, and self-insurance arrangements.

2022
PSDI reviewed another draft National Reserve Bank of Tonga draft pension supervision bill and provided feedback.

2023
PSDI submitted a policy paper to the NRBT with nine recommendations for strengthening Tonga's retirement sector, advising against the proposed supervision bill in favour of targeted amendments to each fund's existing legislation.

PSDI began a review of the National Retirement Benefits Fund Act, regulations, and several of its operational policies and procedures.

PSDI drafted a legislative policy paper proposing updates to the NRBF Act 2016 which was approved by NRBF board in December 2023.

2024
PSDI submitted finalized regulations and amendments to the NRBF Act 2016 to the NRBF board.

OUTCOMES AND ACHIEVEMENTS

PSDI's long-term technical support has helped strengthen the capacity and governance of Tonga's retirement funds. PSDI's ongoing relationship with the TRFB has helped it evolve from a fledgling institution into a confident, well-governed fund, particularly in investment management and risk oversight. PSDI has also supported both TRBF and the NRBF to enhance their governance frameworks, including developing board and committee charters aligned with international best practices. Both funds credit PSDI with providing expertise and access to global networks that might not otherwise have been available to them, which have enabled them to successfully undertake a series of reforms to better protect and serve fund members.

Supporting the Growth of Confident, Mature Funds

PSDI's early and long-term engagement has supported the Tonga Retirement Benefits Fund to grow from a new organization into a mature and well-governed fund. PSDI's technical support strengthened the fund's governance structures and risk management practices and provided expertise that would have been otherwise unavailable to the fund.

TRFB Chief Executive Officer, Mike Bloomfield, said that PSDI's support began at an opportune time when the fund was still relatively young, which has supported the fund to develop into a well-governed financial institution more confident in venturing into investments.

> "We were just feeling our way through the dark by attending conferences. At the time, we had thought about venturing outside our comfort zone, especially in the areas of investments and we were starting to look at governance structures and risk management as we matured. Then we heard about PSDI... It was an opportune time that we engaged with PSDI in developing or helping us, holding our hands per se, in venturing out... I wouldn't say we were totally lacking, but the extra comfort they gave us was very much enjoyed."
>
> Mr. Bloomfield.

Strengthening Funds' Governance Frameworks

PSDI's support has helped both the TRFB and NRBF develop and improve governance structures, board charters, and committee charters. PSDI tailored these documents while aligning them with international best practices.

Mike Bloomfield of the TRFB said that the one of the main benefits of PSDI support was development of the fund's "governance structure, board charters, and committee charters."

> "We had to design and come up with some charter documents and trust deeds at the beginning of our inception, but through the discussions, advice, and expertise provided by PSDI... we made those documents more comprehensive and more professional."
>
> Mr. Bloomfield.

"We had no expertise internally in house to monitor and negotiate and understand the risks involved in the policies," he said. PSDI has reviewed and recommended improvements to their investment management framework and risk management processes, improving the way TRFB is managing the risks associated with providing insurance and identifying investments.

Tevita Tonga, Chief Executive Officer of the National Retirement Fund Board, said that PSDI's legislative review has addressed oversight issues within the current act. He said,

> "Within our current act, the Minister of Finance can interfere with administration of the fund. Administration of the fund should be vested under the CEO and the board. That's just one example of many things that [PSDI] were able to identify."
>
> Tevita Tonga, Chief Executive Officer of the National Retirement Fund Board

PSDI's technical expertise and far-reaching networks complemented the NRBF's capacity and resources, strengthening their ability to modernize their governing act.

> "[PSDI] provided resources that I never would have been able to access on my own. They went as far as recruiting from the UK. I wouldn't have been able to do that. My network is limited to Tonga and the Pacific, but they have everything and can reach out to every corner of the world. It was the technical support that enabled us to do things that I never would have been able to do on my own."
>
> Mr. Tonga.

Improving Funds' Benefits for Members

By making the funds' operations more efficient, PSDI's assistance is supporting improved service delivery and reduced costs for members.

"One of the changes we are doing is amending the formula for administration costs. We are trying to find out a formula where admin costs are allocated at a more equitable, fairer way to all members. This links to our major objective, which is our fiduciary duty to take care of the best financial interests of our members."

Tevita Tonga, CEO of the NRBF.

Mike Bloomfield, CEO of TRFB, said that PSDI's support to formalize decision-making processes is indirectly benefitting TRFB members. For example, PSDI supported TRFB to introduction of decision-making matrixes and policies that have allowed TRFB's management to better assess performance and best practice, ultimately helping the fund make better decisions for the benefit of its members.

Strengthening the NRBT's Capacity to Oversee the Retirement Sector

Alongside its work with individual funds, PSDI has supported the NRBT to develop a clearer strategy for its overall supervision of Tonga's retirement sector. Tonga's retirement funds did not originally fall within the NRBT's jurisdiction, and the funds themselves were initially resistant to external oversight. PSDI's engagement has helped the NRBT to navigate both constraints. Through its reviews of successive draft pension supervision bills and associated policy advice, PSDI helped the NRBT assess the feasibility of different supervisory options. This advice directly shaped the approach chosen by the NRBT. Rather than pursuing standalone supervision legislation, the NRBT chose to work toward amendments to the funds' respective establishing acts that would introduce defined reporting and supervisory provisions. PSDI has since supported the progression of this approach, which was seen as a more achievable reform. Governor Moeaki credited PSDI's regional expertise in helping the NRBT understand where reform was viable and where it was not, enabling the bank to pursue a strategy that was more realistic for the sector.

LESSONS LEARNED

Early and sustained engagement strengthens institutional capacity and sustainability of reforms

PSDI's long-standing relationship with the two main pension funds in Tonga, as well as the NRBT, over a decade and spanning policy, legislation, operations, governance, investments, and finances has supported the development of a more established pensions ecosystem in Tonga. In particular, PSDI's relationship with the TRFB has supported the organization to develop sustainably into a more confident and mature organization. TRFB CEO, Mike Bloomfield, described the relationship as "bottom up", an approach which facilitated a sense of ownership over the reforms and documents, increasing their sustainability and the likelihood of full and sustained implementation. This early work was also built on over time. PSDI helped create the foundational documents, such as governance charters, investment frameworks, and board policies, which later reforms were able to build upon. When PSDI then began working with the NRBF, it was able to draw on credibility and contextual knowledge from its work with the TRFB that may have taken years to establish from scratch.

Strong relationships and peer endorsements can catalyze broader reform

PSDI's long-term and successful partnership with the TRFB created strong credibility and trust, leading TRFB leadership to recognize that the private sector fund, NRBF, could benefit from similar support and recommend PSDI to NRBF's leadership. This shows how PSDI's close engagement with an organization on important reforms can produce institutional champions, and result in the kind of peer-to-peer endorsement that carries far greater weight than formal outreach alone. This peer-to-peer endorsement led to NRBF requesting PSDI support, highlighting how strong relationships can catalyze reform beyond the original counterpart. This reinforces the importance of PSDI's model of longevity, flexibility, and deep relationships.

PSDI's access to global expertise and networks is highly valued by Pacific institutions

Most Pacific retirement funds would struggle to independently access the technical expertise and global professional networks needed to modernize their governance and operations. PSDI's ability to draw on expertise from specialists in the Pacific and beyond, including international recruitment where needed, fills that gap. NRBF CEO Tevita Tonga described this directly, noting that PSDI was able to recruit from the UK and reach expertise that his own network, limited to Tonga and the Pacific, could not access.

Engagement at both the institutional and regulatory levels leads to stronger reforms

PSDI has worked with both the TRFB and NRBF at the institutional level, and with the NRBT as the sector's regulator. This approach is important because it means that institutional reforms are not weakened by the supervisory environment. A well-governed fund operating under an outdated or inadequate regulatory environment faces constraints that internal reforms alone cannot resolve. By supporting the NRBT to develop its oversight capacity alongside fund-level work, PSDI helped develop an approach where the reforms would reinforce and strengthen, rather than undermine, each other.

CONCLUSION

PSDI's work with Tonga's retirement funds demonstrates the program's core values: long-term, flexible support driven by local priorities.

By providing long-term technical assistance to both the Tonga Retirement Fund Board and the National Retirement Benefit Fund, PSDI has become a trusted partner, supporting both funds to strengthen their governance, build internal capacity, and pursue more sophisticated investment and risk management strategies.

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