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PRIVATE PENSION FUNDS: HOW TO IMPROVE THEIR USE OF INFORMATION TECHNOLOGY

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PRIVATE PENSION FUNDS: HOW TO IMPROVE THEIR USE OF INFORMATION TECHNOLOGY

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1.0 Executive Summary

The purpose of this report is to answer two questions:

- What should private pension funds do to improve their use of IT
- What should EISA do to encourage information technology improvement

It is important to understand the nature of the private pension fund environment in Egypt and to define our terminology. It has been widely discussed that the private pension funds in Egypt are mislabeled and are actually private insurance funds. In this paper, a private pension fund is any organization that considers itself a private pension fund and considers its mission to provide a benefit to a retiree. It is not important in the information technology arena to be overly concerned with the way the fund actually provides the benefit. All of the following types of funds are considered:

- Defined benefit versus defined contribution fund
- Lump Sum versus monthly payment fund
- Employer specific versus employer independent fund

While the particulars of the pension scheme will have some impact on the IT makeup of a fund it is relatively minor. There are more important factors which affect the complexion of the IT of a particular fund. These are:

- The number of participants in the fund
- Whether the fund uses the computer system of the employer currently
- Whether the fund has paid staff or relies on volunteers

Some answers to these questions and other specific IT related questions were included in a questionnaire which was distributed at the Private Pension Fund Conference held on May 28 and 29 in Cairo. The results of the compilation of these questionnaires will be very enlightening and provide needed answers to some of these questions.

1.1 UNDERSTANDING THE CURRENT PRIVATE PENSION IT ENVIRONMENT

Currently there are approximately 620 private pension funds operating in Egypt under the supervision of EISA. It has been reported that only thirty of them have computer systems. This number seems extremely low and it is believed that many of the private pension funds rely on the employer computer systems for their data processing and that may account for the relative low number. When queried at the conference in an informal poll it appeared that 90% of the attendees used computers so it does not seem to fit with the reported low number of private pension funds using computers.

Again, since there is not any accurate census of IT in the private pension funds it is difficult to make any broad statements about the current environment. From the small sample

visited during the research period it appears that many funds may rely on the employer for their data processing needs.

The most important first step EISA should take therefore is to develop an accurate “database” of information on the private pension funds. This database should include information about the IT infrastructure of the fund.

EDUCATING THE PRIVATE PENSION FUNDS IN INFORMATION TECHNOLOGY

From the preliminary research on the private pension funds it appears that there is a need for IT education at the top management level of the funds. The top managers at the private pension funds tend to be older and less computer literate. The private pension fund managers could benefit from some general IT overview information as well as more targeted training in specific aspects of IT. The more specific training would be in the following areas:

- General computer usage
- Networking
- Internet
- Website and website development
- Developing software

There is also a need for training at the middle manager and staff levels of the private pension funds.

1.2 DEVELOPING “BEST PRACTICES” FOR INFORMATION TECHNOLOGY

There is a need for information as it relates to efficient operation of a private pension fund to be transmitted accurately from one private pension fund to another. This is referred to as “best practices” as it explains from real life experience how funds have met a challenge and succeeded. This is particularly useful in the IT area. Most funds are not knowledgeable about IT and it is helpful to hear from the experiences of others.

This information can be transmitted in conferences, seminars, written articles etc. In addition, it may be useful to hear about not only successes but also failures as there are often more valuable lessons learned from failure.

In conjunction with the best practices could be an awards program for private pension funds for particularly exemplar management.

1.3 PROVIDING SPECIALIZED SOFTWARE TO THE PRIVATE PENSION FUNDS

EISA has currently been working on a software program written in MS ACCESS that they plan to distribute to the private pension funds free of charge. This software is designed to make the submission of reports to EISA easier. By providing this software EISA will eliminate the need to reenter information into their computer system. It is a benefit to all parties involved.

Clearly this program should be fully supported by EISA. Further, it could be expanded to include additional capabilities that could assist the private pension funds in managing their data management needs beyond simple EISA reporting.

1.4 FORMING AN ASSOCIATION OF PRIVATE PENSION FUNDS

It has been proposed that there should be an association of private pension funds. There are many substantial reasons for forming such an organization. One very good reason is to share the cost of developing software. This will help develop software companies with expertise in the private pension fund area. It would be to the benefit of all the funds if there were companies interested in developing software products for this market.

1.5 DEVELOP WEBSITES FOR PRIVATE PENSION FUNDS

There is great benefit to PPF's in developing informational websites for their funds. This would help in presenting information about the fund to participants and the general public and would eliminate some of the time consuming need to answer questions from the public.

It is true that the web has not penetrated all organizations and all parts of Egyptian society as it has in more developed countries, but the growth of Internet users is increasing at a rapid rate and it will become more and more feasible to use the web as an informational medium.

1.6 DEVELOP INTERACTIVE WEBSITES FOR COMMUNICATING WITH PARTICIPANTS

As informational websites become more common, it will be a logical progression to develop more interactive websites. These sites will have participant databases integrated with the site so that users can get account information and make changes to their data online. This will eliminate a large amount of unnecessary administrative work when fully implemented.

1.7 WHAT EISA SHOULD DO TO ENCOURAGE INFORMATION TECHNOLOGY IMPROVEMENT

There are several actions that EISA can take to encourage and promote the wider use of information technology among the private pension funds. These will be outlined in more detail in the main section of the report. The following is a list of appropriate activities that EISA can undertake:

- Conduct a census of the current private pension funds
- Sponsor training and education
- Sponsor conferences and symposium among the private pension funds
- Assist the private pension funds in organizing and coordinating their efforts in the IT area
- Develop common reporting formats for computerized output
- Develop software tools for use by private pension funds Provide web space for private pension funds

There are also some things that EISA should not do in the IT area that would make the use of IT more costly and onerous. These are:

- Promulgate confusing or overly complex reporting requirement
- Promulgate overly restrictive regulation of IT usage
- Favor one vendor or one solution in the marketplace over another

2.0 GENERAL DISCUSSION OF THE PRIVATE PENSION FUND INFORMATION TECHNOLOGY ENVIRONMENT

The purpose of this report is to explain the findings and recommendations for the promotion of information technology operations of the private pension funds in Egypt. This report was prepared as a task of the TAPR-II (Technical Assistance for Policy Reform project) funded by USAID as part of its assistance to the EISA.

This report is a summary of a brief analysis that was conducted over a one week visit to Egypt from 5/24/06 through 6/1/06. During that time I visited four private pension funds and conducted interviews with the directors of the funds. I also attended a two day conference in Cairo hosted EISA on private pension funds and gave a short presentation entitled “The Current state of Information Technology and How It Can be Used by Private Pension Funds”

I would like to express my gratitude to my interpreter/translator Ms. Nehal Salah for her invaluable assistance. In addition, I would like to thank EISA for arranging my visits to the private pension funds and accompanying me on those visits

The following chart identifies the dates of the important meetings and site visits during this assignment:

List of Important Meetings and Site Visits

Date of Meeting/Trip	People and Sites Visited:
Thursday 5/25	Meeting with Egyptian Bank for Export Development Secretary General of the Fund: Mr Ibrahim Maher and Accountant: Mr. Mohammad Moustapha.
Thursday 5/25	Meeting with the Central Bank Fund Secretary General: Mr. Mohammad Khalil
Sunday 5/28	Meeting with the Educational Fund Secretary General Mr. Abdul Hameed
Sunday 5/28	Meeting with Saudi Development Bank Fund is Ossama al Semari

2.1 CURRENT STATE OF INFORMATION TECHNOLOGY IN THE PRIVATE PENSION FUND ARENA

One of the major problems with understanding the scope of IT usage among the private pension funds is the lack of reliable data on the subject. Most of the information is based on anecdotal evidence and impressions and may be widely inaccurate. Visiting four private pension funds which is a sample size of less than one percent can not give an accurate estimate of the true picture across all funds.

The general impression given by the anecdotal evidence is that approximately 5% of private pension funds have computer systems. This may be true but it contradicts the evidence gathered during this study. First, even if the one percent is not a representative sample, all four of these funds used computers in some capacity for their operations. In all cases, they relied heavily on the data provided by the employer. It may be that many funds use the computer system from the employer and do not have their own computer system.

Secondly, during the conference, it appeared from a show of hands that almost all people at the conference used a computer at their jobs. This indicates that computers are used widely among the employees of the private pension funds.

The solution to this lack of information is to take a census of the funds and find out exactly how many funds use computers and how many do not have computerized operations. It is important to distinguish between funds that use their own system independently of the employer and how many use the employer's computer system. Clearly, if they use the computer system of the employer this may provide quite adequate computer support for the fund.

At the private pension fund conference in Cairo in May 2006, an IT survey was distributed to all participants. The participants were reminded to complete the survey and return it to EISA. The results of that survey are being compiled by EISA and it should provide valuable information about the current state of IT in the private pension funds. Unfortunately, the results were not available in time for this report.

3.0 DETAILED DESCRIPTION OF THE ACTIVITIES TO IMPROVE INFORMATION TECHNOLOGY AT THE PRIVATE PENSION FUNDS

3.1 EDUCATIONAL OPPORTUNITIES FOR PRIVATE PENSION FUNDS

There is a need for education and training in the IT area among the private pension funds. In general, IT is an area where technological progress requires constant re-training both for the IT professional as well as the users of IT. It is particularly important the senior level people understand IT concepts and know the potential uses of technology in their particular field.

Therefore, there is a need for training at all management levels within the private pension funds.

- Top management – Overviews of technology with particular emphasis on how the technology can and can not be used. Also, it is important for them to have an understanding of the general costs of implementing an IT strategy.
- Middle level management – They need the same overview as top management, plus much more detailed and targeted training in the specific tools that will be used within their organization. This will involve specific training on the various software products that will be used by private pension funds to manage their operations. This would also include training on the pros and cons of customized software. Finally, they will also need training in the generic software products such as e-mail, Internet tools, word-processing etc.
- Non-management staff – This level of staff requires specific training on the tools that they will use in the performance of their jobs. This will include any off-the-shelf or customized private pension fund software as well as more generic computer tools such as e-mail, Internet tools, word-processing etc.

EISA could take an active role in organizing and sponsoring this type of IT education. EISA could develop a training curriculum for the private pension funds. The following are some suggested course titles that could be developed and taught as part of this curriculum.

- Overview of modern computing in an office environment
- Overview of networks in an office environment
- The Internet and e-mail for a modern office
- Overview of accounting software
- Overview of pension fund software
- Issues in pension fund software
- Issues in developing custom software for pension funds
- Managing a software development project

- Using MS Excel in the pension fund environment
- Using MS ACCESS in the pension fund environment
- Developing an informational website for a private pension fund
- Developing an interactive website for a private pension fund
- Managing a website development project

3.2 DEVELOPING “BEST PRACTICES” FOR INFORMATION TECHNOLOGY

There is much that private pension funds can learn from each other. This is a very efficient and cost effective way to transfer knowledge around the private pension funds industry. With the proper incentives in place, private pension funds can be encouraged to participate in a “best practices” program.

A best practices program provides a nice complement to a training program. In essence it is a training course taught by a pension fund staffer who has experience in the issue at hand. In many ways this type of training is superior to training by a professional as it is often more relevant to the private pension fund experience.

EISA could play the role of coordinating the “best practices” seminars and conferences. EISA can act as clearing house by soliciting topics for seminars and then organizing the presentations of the seminars and distributing written materials.

EISA could also an awards program and recognize private pension funds that excel in different aspects of fund management. One such award could be for the most progressive use of IT. This could be in conjunction with the best practices program. The winner of the award could give a seminar on their experiences.

An awards program can motivate people to participate in the seminars and can stimulate interest in the program. It will also give private pension funds an incentive to improve their operations and work more efficiently.

3.3 PROVIDING SPECIALIZED SOFTWARE TO THE PRIVATE PENSION FUNDS

It would be a very good idea to provide software to the private pension funds to assist in various tasks common to all funds. This software could form a basic database system from which the private pension funds could expand on their own. The following are the functions that the software could perform:

- Collection function of basic information on the participants including:
 - Address/contact information
 - Beneficiary information

- Length of service information
- Salary and contribution information
- Reporting function
 - Reporting to EISA
 - Reporting to participants
 - Reporting to accountants and auditors
 - Reporting to actuaries
- Utility function
 - Backup and restore
 - Import and export
 - Setup and configuration

Currently, EISA is working on a version of this software and it is believed to be nearing completion. At the time of this report, I have not seen a copy of this software but was told that it would be distributed at the conference in Cairo on May 29/30. It did not appear to be discussed at the conference so I am not sure if it has been released to the public.

The understanding is that it was written in MS ACCESS and can be run either with the ACCESS database engine or with MS SQL server engine. This seems like a very logical approach as MS ACCESS is a widely available and a well known database product with strong ties to MS SQL which would be a logical upgrade path for larger private pension funds.

It is recommended that the source code be distributed with the product to allow private pension funds to enhance the product by adding additional modules. A nominal fee could be charged for the source code. It is likely that a third party may be willing to invest in developing the product as a “for profit” venture. In addition, EISA can make sure that technical information and assistance is available to third party vendors, such as accounting and HR products, for integration with their software.

3.4 FORMING AN ASSOCIATION OF PRIVATE PENSION FUNDS

Forming an association of PPFs would help in all aspects of private pension fund management, as well as IT, as it would give a focal point for contact with the private pension funds. There would be one contact point for anyone interested in dealing with all private

pension funds on an industry wide basis. This would be helpful particularly for vendors interested in providing products to the industry.

In the IT arena this would be very helpful to vendors who want to develop software products for the industry. Because of the high upfront costs required to develop software, it is often not cost effective to develop the software for one client, but maybe cost effective if the price is spread out over several clients. This approach has worked in other countries and in other industries where associations have been able to pool their members together.

EISA could be instrumental in organizing the association of private pension funds. It would not take much effort to get the momentum started for such an undertaking. Once the process is put in motion, it may not require much hands on activity by EISA.

3.5 DEVELOP WEBSITES FOR PRIVATE PENSION FUNDS

Websites would be a useful tool for private pension funds to pass on information to their participants. As mentioned, it could save time by freeing the administrative staff from answering repetitive questions. It also could provide EISA and others interested in the industry as a whole, a source for general information.

EISA could assist this effort in the following ways:

- Provide an easy to customize website template which could be used by the private pension funds. This would be a standard series of web pages which could be easily modified to add the specific information for an individual private pension fund.
- Provide a web space for private pension funds so they could have a web presence without having to purchase a web hosting account. This space could be a sub domain under the general EISA web site.
- EISA can provide links to private pension funds web sites on their site. This would help people who are working with the industry as a whole find individual private pension funds more quickly and easily.

3.6 DEVELOP INTERACTIVE WEBSITES FOR COMMUNICATING WITH PARTICIPANTS

Interactive websites, where a participant can check the status of their account on line and edit their personal information would provide a very cost effective way for private pension funds to communicate with their members. This is the logical progression from the static, informational site.

There is not a clear mechanism for EISA to participate in this transition at this time. Eventually, it may become feasible for EISA to participate in developing templates or providing a web space for this service, but it is premature at this time. It will be important for EISA to monitor the development of websites to see when it may be feasible to develop some tools in this area.

At some point in the future it may be practical to integrate the MS ACCESS software with SQL and to prepare a web interface for this product. The final step would be to integrate the web template and web space with the MS ACCESS/SQL software into a complete interactive website product. It may be appropriate to do this as a commercial venture rather than a “free” product distribution.

4.0 DETAILED RECOMMENDATIONS TO EISA FOR ACTION PLAN ON IMPROVING INFORMATON TECHNOLOGY IN THE PRIVATE PENSION FUNDS

The following chart identifies the major activities EISA should undertake to improve the IT environment for the private pension funds. This chart also estimate a cost for each activity and the time required for completion. Estimating costs is difficult because their could be different levels of involvement and different approaches.

EISA Tasks for Improving the overall IT functioning at the Funds		
Recommended Activity	Proposed Task	Estimated Time/Costs
Develop an accurate census of private pension funds and their computer systems	Send a detailed questionnaire to all private pension funds Follow up with detailed phone interview where necessary Develop a simple database to hold information about private pension funds Enter data into a database	<ul style="list-style-type: none"> • 6 months elapsed time to complete the database • Estimated cost of the undertaking \$ 2500
Educating the private pension funds In Information Technology	Develop a course curriculum Hire a training company to develop the course Hire a training company to deliver the courses Schedule the classes Register attendees Perform post class evaluation	<ul style="list-style-type: none"> • Depends on the number of courses offered. • 2 months elapsed time to develop initial course offerings • Estimated cost for initial course offerings \$ 10,000 (5 courses)
Developing “Best	Develop Best Practices	<ul style="list-style-type: none"> • Depends on the number of

<p>Practices” For Information Technology</p>	<p>topics</p> <p>Develop template for Best Practices write up and course content</p> <p>Identify presenter for the Best Practices courses</p> <p>Schedule Best Practices seminars</p> <p>Find or rent suitable space for presentations</p> <p>Provide written material for the courses</p> <p>Register attendees</p> <p>Perform a post class evaluation</p>	<p>seminars offered.</p> <ul style="list-style-type: none"> • 1 months elapsed time to develop initial seminars offerings • 3 months elapsed time for presenters to prepare their presentation. • Estimated cost for initial seminar \$ 4,000 (1 seminar with 4 presenters)
<p>Providing Specialized Software To the private pension funds</p>	<p>Prepare system specification</p> <p>Contract with software developer</p> <p>Prepare documentation and training materials</p> <p>Release beta version to test location</p> <p>Evaluate product for general release</p> <p>Distribute product</p>	<ul style="list-style-type: none"> • Depends on the current state of the software development. The following assumes no software development • 4 months elapsed time to develop the beta software • 3 months elapsed time to develop documentation and training materials. • 3 month testing on site • Estimated cost for entire project \$ 50,000
<p>Form an association of ppfs</p>	<p>Identify key participants</p> <p>Host a planning meeting</p> <p>Draft business plan and bylaws</p> <p>Establish legal entity</p> <p>Advertise and promote the organization</p> <p>Provide administrative assistance</p>	<ul style="list-style-type: none"> • 2 months elapsed time to form association • Estimated cost \$ 1,000
<p>Develop Websites For Private Pension Funds</p>	<p>Create basic website template for private pension funds</p> <p>Establish web space on web server for private</p>	<ul style="list-style-type: none"> • There would be a fixed cost and a monthly cost component. • 2 months elapsed time to develop web templates

	<p>pension funds sites</p> <p>Develop links between EISA site and PPF sites</p>	<ul style="list-style-type: none"> • Estimated fixed cost \$ 4,000 • Estimated monthly cost \$ 80 per month
<p>Develop Interactive Websites For Communicating With Participants</p>	<p>Prepare system specification</p> <p>Contract with software developer</p> <p>Create advanced website template for private pension funds</p> <p>Establish web space on web server for private pension funds sites</p> <p>Provide SQL database for server side processing</p> <p>Prepare documentation and training materials</p> <p>Release beta version to test location</p> <p>Evaluate product for general release</p> <p>Distribute product</p>	<ul style="list-style-type: none"> • There would be a fixed cost and a monthly cost component. • 9 months elapsed time to develop web templates and SQL database component • Estimated fixed cost \$ 100,000 • Estimated monthly cost \$ 150 per month

5.0 Next Steps

The next step in this process will require a decision by EISA on which activities they want to support. Once that decision is made it would be prudent to develop a detailed management plan using Microsoft Project to fully plan the implementation strategy for each selected activity. At that point an exact budget can be prepared and tasks can be assigned.

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