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BRIDGING GOVERNANCE CHALLENGE AND REGULATORY SUPERVISION IN ENHANCING BOARD OVERSIGHT IN PENSION FUND GOVERNANCE AND RISK MANAGEMENT IN NIGERIA

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Abstract

In the past decade, governance has emerged as a critical concern in the administration of pension funds, particularly with the expansion of the pension industry and the evolving regulatory and market landscape. Ensuring effective management and accountability within pension funds has become a priority for supervisory authorities, including Nigeria. This study aims to identify the key governance challenges in Nigeria's pension sector and assess the extent to which supervisory authorities effectively employ their regulatory tools to address these issues. Data were collected through structured questionnaires using purposive sampling to select 384 respondents with expertise knowledge of the pension operation from the pension fund administrator, pension fund custodians, actuarial firms, investment houses, stock brokerage firms and the national pension commission. The data were analysed using correlation and regression techniques. The findings revealed that competence/expertise, accountability and internal control are the primary governance challenges, and that supervisory oversight has played a significant role in addressing them. The study recommends an effective governance structures and oversight functions with an effective whistleblowing mechanisms that will enhance transparency and regulatory effectiveness in the pension industry.

Keywords*:* Supervisory oversight, governance issues, governing body, pension funds, supervisory tools

Introduction

Pension systems are vital components of social security architecture, designed to provide income security for individuals in retirement. A pension is typically a regular payment made to retired individuals, funded either by government or corporate employers. A pension scheme enables the accumulation of contributions and investment income throughout an employee's working life, with the aim of ensuring financial support after retirement. In Nigeria, the Pension Reform Act (2014) provides the regulatory framework for pension administration, incorporating provisions for annuity purchase, programmed withdrawals and Optional Lump Sum

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Benefits. The Act also reflects the shift towards Risk- Based Supervision (RBS) as an approach increasingly adopted globally – to enhance governance, internal controls, and institutional accountability in pension fund management.

Risk-based supervision focuses on identifying key risks that pension funds face and evaluating the adequacy of internal mechanisms established to manage those risks. According to Antolin et al. (2009); Dam et al. (2008), RBS involves assessing both the financial vulnerability of pension funds and the effectiveness of their risk management frameworks. Supervisory agencies are expected to take a proactive role in evaluating risk controls and modifying regulatory strategies when necessary.

The International Organisation of Pension Supervisors (IOPS. 2006) advocates for a supervisory approach grounded in strong internal controls, effective governance structures, and thorough risk assessments. Where such structures are deficient, supervisors are expected to intervene and enforce corrective measures. This proactive oversight becomes particularly important as pension funds face longevity risk (the danger of retirees outliving their savings). While Nigeria's pension regulatory framework has embraced elements of risk-based supervision, significant challenges persist. Many pension funds are sponsored by financial institutions or operate with limited independence, creating agency conflicts (Oladehinde, 2021). Scholars in recent past have conducted research relating to board competence, accountability, and internal control systems and how effectively supervisory tools are applied. These issues raise concerns about the effectiveness of supervisory authorities in applying their oversight tools to ensure compliance and manage governance related risks.

Effective pension fund governance requires a competent board, robust internal controls, and consistent regulatory oversight (Iheama, 2017). Governance failures can compromise the sustainability of pension funds and diminish stakeholder confidence. As Kerner and Reinhardt (2010) assert, sound governance helps reduce conflicts of interest and enhances the credibility and performance of pension schemes. The governing board plays a pivotal role in this process, and its effectiveness directly influences the level of scrutiny applied under a risk based supervision model.

The OECD (2008) and COSO (2020), frameworks underscores the importance of embedding comprehensive risk management systems within organisational governance. These frameworks emphasise the need to identify operational, investment and systemic risks while ensuring compliance with legal and fiduciary responsibilities. Supervisory authorities must set clear expectations regarding governance structures and enforce compliance to safeguard the interests of contributors and beneficiaries. Despite the presence of such frameworks, there is limited empirical evidence on the effectiveness of Nigeria's supervisory authority in addressing governance challenges within the pension industry. Questions remains regarding how well risk-based supervisions is being implemented and whether oversight tools are used effectively. This study seeks to fill this gap by examining the governance issues affecting Nigeria pensions funds and evaluating the extent to which supervisory tools are applied to address these challenges.

***Research Hypothesis*.**
Ho: Supervisory tools have no influence on efficient management of pension fund authority in Nigeria.

Literature Review

Theoretical Framework

To aid further understanding, the research study adopts two theories—the stewardship theory and the regulatory compliance theory. The Stewardship theory was propounded by Donaldson and Davis in 1991. They suggest that agents, such as trustees and pension fund managers, are motivated to act in the best interest of beneficiaries, rather than pursuing personal gains. This theory supports the view that effective governance mechanisms can align the interest of fiduciaries and stakeholders, thereby minimising conflicts of interest and ensuring the sustainability of pension funds. The theory emphasises accountability, ethical leadership, and transparency in fund administration.

Applying stewardship principles within the Nigerian pension context can strengthen trust, reduce mismanagement, and enhance the legitimacy of pension governance structures which ultimately will bring about pension benefit. While the Regulatory Compliance Theory developed by Richard Fiene, a researcher at Pennsylvania State University, focuses on organisation adherence to relevant laws, standards, and supervisory expectations. It highlights the role of regulatory agencies in enforcing compliance and ensuring that entities operate within established governance frameworks. This theory is particularly relevant in the context of pension fund supervision, where regulators must monitor the integrity, transparency and operational soundness of fund managers. In Nigeria, the application of the theory is evident in the National Pension Commission's (PenCom) shift towards a risk-based supervision model, which places a premium on internal controls, disclosure and board accountability.

Empirical Review

Pension fund governance has received growing attention in both developed and developing countries. Governance failures, weak oversight, and regulatory inefficiencies have contributed to the erosion of pension assets and stakeholders' confidence in most jurisdictions. Brunner et al., (2008) argue that strong pension fund governance is essential for safeguarding retirement savings and maintaining financial stability. Their study emphasises the need for effective supervisory frameworks that promote, competence, transparency, and internal control mechanisms within pension institutions. Similarly, Ambachtsheer et al., (2021) demonstrated a direct link between good governance and superior fund performance suggesting that governance quality should inform the level of supervisory intervention.

In the African context, Munashe and Ziyambi (2024) examine the impact of economic instability on pension fund stability. Their study concludes that, poor asset allocation, inadequate internal controls, and governance lapses are exacerbated during periods of inflation and currency depreciation. These findings support the need for robust risk-management systems and governance oversight to mitigate vulnerabilities. Within Nigeria, several studies have examined the performance of pension fund administrators (PFAs) under the current Contributory Pension Scheme (CPS). Adebayo and Yusuf (2020) identify challenges such as limited disclosure, weak board independence, and political interference as factors contributing to poor governance outcomes. Odia & Okoye (2012) also highlight the need for improved transparency and internal control systems, particularly as the pension industry matures and becomes more exposed to market volatility.

Furthermore, PenCom's 2023 annual report underscores the importance of risk-based supervision in the Nigerian pension sector. It outlines how supervisory tools—such as stress testing, board evaluations, and risk audits---- are employed to assess the financial soundness of pension fund operators. However, the report also acknowledges persistent issues, including insufficient board expertise and delayed regulatory enforcement. Despite the existence of laws and regulations, practical enforcement remains a challenge. The effectiveness of supervisory tools in addressing pension governance issues largely depends on the capacity of regulatory authorities and the cooperation of fund administrators. As such, strengthening institutional frameworks and enhancing board competence remain crucial policy imperatives.

Conceptual Framework of Study

Pension fund governance requires both internal and external oversight to ensure the security and sustainability of retirement benefits. The governing body of a pensions fund has the statutory duty to manage pension assets prudently and ethically, while the supervisory authority (e.g. PenCom) oversees compliance and risk management to safeguard beneficiaries' interest. Effective stewardship and regulatory compliance are jointly required to deliver promised pension benefits to members and retirees. This study proposes a conceptual framework where the supervisory authority influences the governing body through regulatory tools—licensing, monitoring, communication, intervention and correction. In turn, the governing body is responsible for sound investment decisions, risk management and compliance. These actions affect the fund members or retirees, who are the ultimate beneficiaries of the pension system.

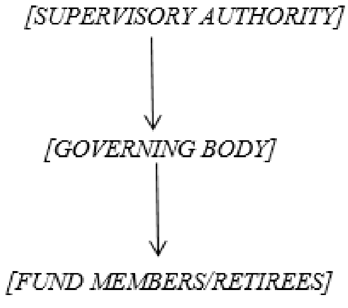

Figure 1: Research Model
Source: Researcher developed (2025)

The framework assumes that the quality of supervision and governance directly influence retirees' outcomes through better management practice and compliance with regulatory standards

Methodology

The research study employed a quantitative research design, using primary data collected through structural questionnaire. The purposive sampling technique was used to select respondents with relevant expertise in the Nigerian pension industry. The respondents where from Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs), The National Pension Commission (PenCom), Actuarial firms, investment houses, the Security and Exchange Commission (SEC), and other related service providers. A total of 384 questionnaires were distributed, containing both open-ended and closed-ended questions designed to capture background information and address the key research objectives. The questionnaire was divided into four sections: respondents demographic, governance challenges, supervisory mechanisms, and board effectiveness.

Upon collection, the data was cleared and validated. Only 364 properly completed questionnaires were retained for analysis. Data coding and entry were performed using Statistical Package for Social Science (SPSS). Descriptive statistics were used to summarise the data, while correlation and regression analysis were employed to test the hypotheses. Specifically, correlation analysis was used to determine whether an association exists between the likelihood of resolving pension fund governance conflicts of interest and the application of supervisory tools by the regulatory authority. Multiple regression modeling was further used to evaluate the impact of supervisory mechanisms and board attributes on governance outcomes.

Data Presentation and Analysis

Validity and Reliability Analysis

The content validity of the data was ensured by developing questions that cover all relevant dimensions of the variables. The convergent validity, discriminant validity and the reliability were tested with SPSS statistical software. The measures of Kaiser-Meyer-Olkin Measure (KMO) of Sampling Adequacy, Bartlett's Test of Sphericity and Average Variance Extracted (AVE) were applied to measure convergent validity of data. The strength of the inter-item correlation is determined by Bartlett's Test of Sphericity. Average Variance Extracted is a measure of the shared or common variance in a variable. The discriminant validity measures whether the constructs that are not expected to be related are actually not related. The AVE value of a construct needs to be above 0.50 for it to be valid in the research study. KMO values greater than 0.50 are considered satisfactory. Further, the significance of Bartlett's Test of Sphericity is acceptable if the p-value is less than .05. The discriminant validity is satisfied if each construct has AVE greater than the square of the correlations it has with other constructs (Hair et al, 2011). Cronbach's alpha is the most common measure of internal consistency or reliability. Acceptable cut off value of alpha in reliability analysis is 0.70 in the case of reliability tests (Sekaran and Bougie, 2016).

The convergent validity and the reliability test results for the study are shown in table 5. The results indicate that the study meets the minimum threshold limits, satisfying the research study criteria.

Table 1: Test results of Convergent validity and reliability

Variables	Test for convergent validity			Test for reliability
	KMO	P-Value of Bartlett's Test of sphericity	Average Variance Extracted	Chronbach's Alpha
Threshold Value	>0.5	Sig: <0.5	>0.5	>0.7
Independent Variable				
Licensing	.666	.000	0.552	.781
Monitoring	.703	.000	.633	.815
Communication	.717	.000	.324	.815
Correction	.787	.000	.671	.873
Intervention	.794	.000	.671	.892
Dependent Variable				
Governance Issues	.749	.000	0.601	0.792

Source: Researchers' Computation (2025).

The results provided in table 1 indicate that all measures for convergent validity and reliability meet the minimum criteria required.

Descriptive Analysis of Variables

The descriptive statistics of each variable were computed based on the data collected through questions on a Likert Scale of 1-5 where 1 = strongly disagree and 5= strongly agree. Thereby, a higher value indicates a stronger agreement with respect to the perception about each factor. The table 2 presents the mean values of each variable in the study.

Table 2: Descriptive Statistics

	Licensing	**Monitoring**	**Communication**	**Correction**	**Governance Issues**
Mean	3.25	3.27	3.48	3.61	3.34
Median	3.40	3.34	3.80	3.80	3.33
Mode	3.40	3.40	4.00	4.00	3.00
Standard Deviation	.849	.670	.970	.748	.774
Skewness	-.614	-.450	-.824	-1.121	-.194
Range	4.00	3.60	4.00	3.90	4.00
Minimum	1.00	1.40	1.00	1.10	1.00
Maximum	5.00	5.00	5.00	5.00	5.00

Source: Researchers' computation (2025)

The descriptive statistics reveal the influence of supervisory tools of licensing, monitoring, communication, correction and intervention on resolving governance conflict of interest issues, having a relatively high mean values. The negative skewness with all variables indicates that the responses are mostly on the higher side and only few responses are on the lower side.

Regression Analysis

A regression analysis was conducted due to the positive correlations among the factors relating to retiree final benefit issues. The dependent variable is the governance conflict of interest issues derived by the governing board of pension fund. The supervisory authority tools (licensing, monitoring, communication, correction and intervention) are the independent variable. The table below shows the regression analysis output:

Table 3: Model Summary of Multiple Regression

Model	R	R Square	Adjusted R Square	Std error of the estimate
1	.926*	.857	.849	.30051

a. Predictor: Social insurance, social assistance, primary health and unconditional cash transfer.

The model summary indicates that the R square (84.9.7%) and the adjusted R square (85.7%) are both very high and thereby indicating that predictor variables to be acceptable.

Table 4: Coefficients

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.946	.159		5.937	.000
Licensing	.146	.037	.196	3.916	.000
Monitoring	.291	.044	.324	6.553	.000
Communication	.143	.041	.178	3.491	.001
Correction	.102	.045	.223	4.383	.002
Intervention	.176	.043	.327	4,623	.001

Source: Researchers' Computation (2025)

The regression model from Table 5 takes the form; Y = .946 + .146 (Licensing) + .291 (Monitoring) + .143 (Communication) +.102 (Correction). + .176 (Intervention). The significant positive correlation the supervisory tools of (licensing, monitoring, communication, correction and intervention) have with governance conflict of interest issues is noteworthy. The positive correlations indicate that the effective uses of supervisory tools are perceived to provide adequate retiree final benefits, thus minimising governance conflict of interest issues. The null hypothesis is therefore rejected.

Discussion of Findings

The findings of this research study were based on the responses given by 364 respondents with expertise knowledge in pension matters in Nigeria. The demographic profiling of the sample group selected shows a minimum educational level of master's degree with minimum of 10 years' expertise work experience. The finding of the study revealed the null hypothesis rejection. All independent variables of licensing, monitoring, communication, correction and interventions had a significant relationship with the dependent variable of governance conflict of interest issues.

Conclusion

This pension fund governance conflict of interest issue measured by accountability, competence/expertise and internal control, have been a major retarding factor to adequate final pension benefit received by employees upon retirement from active in Nigeria. This research paper attempted to provide solutions to the above problem by identifying the supervisory authority tools that will ensure pension funds are properly managed with less negative impact of conflict of interest issues. The insights that were derived through the research study has created knowledge in a subject where there was minimal information available with respect to pension funds management in Nigeria. The findings of the study show the need for effective and efficient use of supervisory tools so as to ensure that pension funds act in the best interest of funds contributors. The researcher was able to provide practical recommendations for the policy makers to implement in order to achieve the primary purpose of pension scheme arrangement.

Implication and Recommendations

It is expected that the implementation of the recommendations will enable the adequate implementation of pension funds supervisory tools to further reduce pension funds governance conflict of interest issues regarding the management of pension scheme. The positive relationship between supervisory tools and the governance conflict of interest issues further confirms that regulatory authority need to ensure efficient stewardship and regulatory compliance of pensions funds body and other stakeholders. This line of thought has been confirmed by several authors and has been reconfirmed in the research study. It is recommended that the regulatory/supervisory body introduce standard licensing and licensing renewal standards. This will ensure proper check for expertise and accountability of the pension fund. Proper and adequate monitoring should also be performed by the supervisory body. It is recommended that the industry looks at introducing an effective governance structures and oversight functions with an effective whistleblowing mechanisms that will enhance transparency and regulatory effectiveness in the pension industry.

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