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Application of Management Policies in the Processing of Member Claims in the National Social Security Fund (NSSF): A Case of Nakuru Branch, Kenya

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Abstract

This paper reports a study that examined application of management policies in the processing of member claims in the National Social Security Fund (NSSF), Nakuru Branch. The specific studies objectives include to identify management policies applied by the NSSF in processing members' claims and to characterize claims processing. Primary data was collected from NSSF staff and retirees using structured questionnaires. The survey involved 40 NSSF employees and 30 NSSF retirees within Nakuru Municipality. Descriptive and inferential statistics (Factor analysis) was used to analyze data using SPSS for Windows and findings presented in frequency tables, graphs and pie charts. The study found a significant proportion of the respondents (NSSF staff) were generally familiar with the concept of management policy applied by NSSF. Secondly, management policies applied by NSSF included: customer service and corporate imaging (.727), change management (.605), human resource capacity development (.581) and products positioning, marketing and research (.437), information and communication technology (.225). The study recommends strengthening of the management policies identified to have been applied to a lesser extent such as information and communication technology, human resource capacity development and change management.

Key words: Management policies, member claims, NSSF, Nakuru Branch.

Introduction

The National Social Security Fund (NSSF) was established in 1965 by an Act of Parliament under cap 258 Laws of Kenya. The Fund was intended to serve as the first pillar of social security for Kenyan workers. The fund was intended to administer a provident fund scheme for all the workers in Kenya. Initially, the fund operated as a government department under the Ministry of Labour until 1987 when the NSSF Act was amended transforming the Fund into a State Corporation under the management of a Board of Trustees as its membership grew and its operations became complex. Since 1988, the Fund has been operating under a Board of Trustees, which is constituted by representatives of three key stakeholders: the government, workers, and employers.

NSSF is committed to providing sustainable basic social security to eligible Kenyan workers through instant member registration, timely collection of contributions, and prudent investment of contribution and prompt payment of

members' benefits. NSSF's operations are supposedly conducted in an atmosphere of transparency, accountability, and with a renewed commitment to efficient delivery of social security services in Kenya. Membership has grown steadily over the years and by the end of 2007, the Fund had a cumulative registered membership of about 3 million (GOK, 2009).

According to GOK (2000) the Retirement Benefits Authority (RBA) is the regulator and supervisor of pension schemes in Kenya. The financial resource of NSSF is totally dependent on its members and not government funded. The types of contributions payable to NSSF have varied over time. There are different types of benefits paid by NSSF to its members. The Age Benefit or Retirement benefit is paid to a member who is 60 years and is no longer in employment. Payment is a single lump sum made up of total contributions and interest earned over the contribution period. Minimum interest according to law is 2.5% per annum. The age benefit is paid to a member who has attained age 60 and has retired from regular employment. The withdrawal benefit is paid to a member who is at least 50 years and is unemployed. The invalidity benefit is paid to a member who is certified as being permanently incapable of working and there is no age barrier prescribed. The emigration grant is paid to a member who is permanently leaving the country and no age barrier is prescribed. The survivor's benefit is paid to eligible dependants of a deceased member. The funeral grant which amounts to Kshs. 2,500 is paid to the family of the deceased member to help defray funeral expenses.

In summary form the original mandate of the NSSF has been registration of eligible members, collection of monthly contributions, investment of the contributions mainly in Government Securities and payment of the contributions when due. However, several notable challenges facing NSSF include; One lump sum payment is made to the retiree which is inadequate, limited benefits offered to the members; Limited public knowledge on the need on social security; Organizing the informal sector into a unit which can access social security; Slow growth of the formal sector and tendency for employers to artificially understate workers to avoid compliance (GOK, 2009).

Today, NSSF continues to work on enhancing its organizational performance and improving the quality of services it provides to its members (Gitundu, 2003). If the proposed conversion of the NSSF from a Provident Fund into a Pension Scheme is effected, it will be paying its members monthly pension as opposed to lump sum payment. Other recent reform initiatives include;

Drafting of a Bill to convert the NSSF into a Pension Trust, Improved Investments portfolio through adherence to guidelines of the RBA; appointment of custodian etc.; Incorporation of the Informal Sector into all the NSSF's strategic planning for growth of coverage, Improvement of service delivery through the decentralization of all core activities of the Fund to 39 branches spread countrywide as well as improving the processing of members' claims (Wanyama, 2001; Marwa, 1993).

In order to address the various challenges, NSSF has adopted some strategic management policies. In this regard NSSF seeks to improve service delivery to our members country-wide since registration of members and employers, update of member accounts, provision of statements and processing and paying of benefits. Plans are underway to further amend the NSSF Act in order to convert the Fund into a mandatory National Social Insurance Pension Scheme to which every Kenyan with an income shall contribute a percentage of his/her gross earnings so as to be guaranteed basic compensation in case of permanent disability, basic assistance to needy dependants in case of death and a monthly life pension upon retirement. As a converted scheme, the fund will operate as a mandatory National Social Insurance Pension Scheme, serving as workers 1st pillar of social protection (GOK, 2007).

The pillars of social security

A common feature in the developed world is the increasing importance of individual retirement schemes as vehicles for mobilizing retirement savings (Canarge & Dixon, 1991). Unfortunately and despite the fact that in Kenya tax treatment for the National Social Security Fund, Occupational Retirement Schemes and Individual Retirement Schemes have been harmonized over time, very few Kenyans have taken advantage of the numerous tax benefits extended to individual retirement schemes (GOK, 2009). Individual schemes still account for less than one per cent (1%) of retirement schemes coverage in Kenya. With less than 1,600 employers having set up occupational retirement schemes, majority of Kenyans do not belong to any retirement scheme. Indeed, occupational retirement schemes coverage is still just about 0.8% of the population while the statutory NSSF has coverage of about 6% of the Kenyan population.

According to Gitundu (2003), the major challenge today for policy makers is how to change the mindset of Kenyans to start taking responsibility for their

own retirement savings. Gitundu further observes that labour trends have significantly changed in recent years, with most employers preferring to pay consolidated packages with no pension liability. Even in cases where employers sponsor retirement schemes, majority prefer structuring their overall remuneration packages with low basic pensionable salary and high non pensionable allowances. The effect of this is that the employers' pension liability is drastically reduced at the detriment of the employees. Individual retirement schemes therefore provide a perfect solution for Kenyans to save for retirement. Individual retirement schemes enable an individual to participate in registered retirement arrangement irrespective of one's employment status. Individual retirement schemes are established by financial institutions.

In Kenya, majority of the registered individual retirement schemes are managed by insurance companies (Chirchir, 2007). The schemes are established under irrevocable trusts with legal instruments also known as trust deed and rules. Unlike occupational retirement schemes that may opt for individuals as trustees, the law in Kenya compels institutions establishing individual retirement schemes to appoint corporate trustees. The corporate trustee in turn appoints the Custodians, the Fund Managers and the Administrators. The schemes are registered both with the Retirement Benefits Authority and the Kenya Revenue Authority as retirement schemes. The registration status under the Income Tax Act thus confers various tax advantages. One, contributions up to 30% of an individual's income or Kshs. 20,000 per month whichever is less are tax deductible. The net effect of this is the individual paying less income tax and instead utilizing part of the current tax payable.

National social security schemes form the first pillar of social security. Kenya was the second country in Africa after Ghana to set up a national social security scheme. The National Social Security Fund (NSSF) was established by an Act of Parliament (Cap 258) following the Sessional Paper Number 10 of 1965. The Scheme is tailored on a provident fund framework making it operate as a provident fund thus paying lump sum benefits rather than social security benefits. That coupled with years of mismanagement has rendered the scheme irrelevant as far as its place as the first pillar of social security in Kenya is concerned. The scheme is mandatory for employees and employers with five and more regular employees. The current coverage is approximately 2 million members.

The second pillar of social security in Kenya is occupied by occupational retirement schemes (GOK, 2000). Occupational schemes remain voluntary in Kenya with a national coverage of below 1% of the population. Only about 1,500 employers have set up occupational schemes. The last pillar of social security revolves around individual savings (GOK, 2000). Over 50% of Kenyans live below poverty line. The savings ratio is currently below 10% of GDP. Old age poverty is therefore prevalent in Kenya as majority cannot save during their productive lives. The ordinary Kenyan is therefore not guaranteed of any social security benefits and largely remains a dependant

However, several notable challenges facing NSSF include; limited public knowledge on the need for social security; limited benefits offered to the members; organizing the informal sector into a unit which can access social security; slow growth of the formal and informal sectors and tendency for employers to artificially understate workers to avoid compliance. In particular, there have been complaints from retirees in relation to delays in processing of their claims to enable them receive their benefits after retirement (GOK, 2009). In order to achieve its organizational objectives, the strategic thinking and direction must of necessity be aligned in support of achieving these envisioned goals and service delivery. In this regard NSSF, through its Strategic Plan (2006-2009) aims to apply management policies that will lead to improved processing and paying of benefits to the members and improved service delivery. This research study sought to identify management policies applied by the National Social Security Fund in processing members' claims and to characterize the processing of member claims by the National Social Security Fund.

Management policy framework in NSSF

A policy is typically described as a deliberate plan of action to guide decisions and achieve rational outcomes. However, the term may also be used to denote what is actually done, even though it is unplanned and may also refer to the process of making important organizational decisions, including the identification of different alternatives such as programmes or spending priorities and choosing among them on the basis of the impact they will have. The goals of policy may vary widely according to the organization and the context in which they are made. Broadly, policies are typically instituted in order to avoid some negative effect that has been noticed in the organization, or seek some positive benefit.

The NSSF has a policy framework that encompasses management policies that should be taken into consideration during implementation. The achievement of the organizational objectives is backed by well articulated vision and mission statement of the Fund based on the redefined corporate role which has to take into consideration the fact as a social security organization; its plans will pay attention to the needs of the present and future generations. This dictates that its planning focuses on the medium and long-term goals. The policy framework of the Fund covers the vision, mission and core values, strategic themes, objectives and activities, the implementation and long-term approach to strategic planning. The management policies outlined in the policy framework of NSSF include product positioning, marketing and research, customer service and corporate imaging, change management, human resource capacity development and information and technology.

Research methodology

A descriptive survey design was undertaken in this study involving all staff at NSSF Nakuru Branch and a sample of retirees within Nakuru Municipality. The study assessed the extent of application of management policies on claims processing in NSSF. Primary data was gathered from the study respondents and supplemented by secondary information gathered from relevant books, journals, government publications, print media and internet.

Target population

The target population comprised the NSSF provident scheme staff in all the departments within NSSF, Nakuru branch as well as retirees seeking benefits from the branch, residing within Nakuru Municipality. There were a total of 40 members of staff within the Nakuru NSSF branch. In addition, according to records provided by NSSF Nakuru branch there were 100 retirees residing within Nakuru Municipality. The list of the retirees was obtained from the respective NSSF's office departments.

Sampling techniques and sample size

With regard to the NSSF staff, the census of all the 40 respondents was used. Simple random sampling technique was employed to obtain the respondents from among the retiree teachers in the study area. The list of retirees was obtained from the NSSF Nakuru branch. Thirty respondents were randomly

selected to constitute the representative sample for the survey. At least 30 respondents are statistically considered a fair representation of the total population.

Research instruments

The study used structured questionnaires to gather information from the study respondents (NSSF staff and retirees). The structured questionnaires included closed and open-ended questions to ensure that the respondents gave optimal and relevant information. The questionnaire sought to collect information from the respondents in the following key areas: levels of awareness of management policies and management policies applied.

Data collection procedure

The field data collection was conducted after receiving permission from the relevant authorities that is Graduate school and NSSF. The “drop and pick” method was to administer the research questionnaires to the NSSF staff. Furthermore, personal interviews were conducted to gather data from the sampled retirees.

Data analysis and presentation

Field data was analyzed with the help of the Statistical Package for Social Sciences (SPSS) computer program. Field data was first “cleaned” to ensure consistency, exhaustiveness and completeness in information expected. The data analysis employed both descriptive and inferential statistics such as factor analysis. Descriptive statistics were used to summarize and organize data and to describe the characteristics of the population.

Results and Discussion

Description of the study population

In this section, the analysis focuses upon the profile of the sample respondents in the study area. This section describes the NSSF staff and the retirees involved in the survey. Such a profile is important since it helps to unravel the factors, which influence service delivery.

NSSF staff

The study set out to interview the 40 employees of staff of NSSF, Nakuru branch. Survey findings (Figure 1) indicate distribution of study respondents

on the basis of their departments within NHIF. About 37% of the study respondents were from the customer service department, 23% from Administration department, 20% from Finance department and 10% each from Benefits and Registration departments.

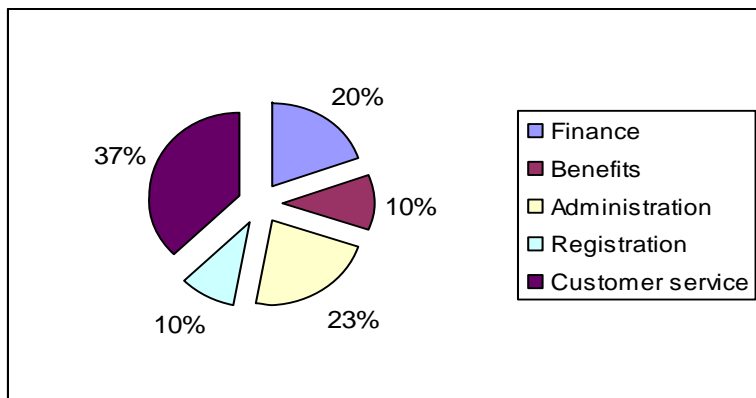


Figure 1: Distribution of Study Respondents (NSSF Employees)

Management policies applied by NSSF

The first objective of this study sought to establish the management policies applied by NSSF in processing member claims. In this regard, the study sought information on the various aspects of strategic management from respondents (NSSF staff) namely: familiarity with concept of strategic management; performance management strategies and the extent of application of various management policies.

NSSF staff's familiarity with concept of management policies

According to Table 1, out of the 40 NSSF employees, 24 (60%) were fairly familiar with the concept of management policies, 13 (32.5%) were very familiar while 3 (7.5%) were not familiar with the concept of management policy. These findings indicate that a significant proportion of the respondents (NSSF staff) were generally familiar with the concept of management policies applied by NSSF in its operation. Familiarity of the management policies by the NSSF staff is the basis for improving processing of members' claims.

Table 1 Respondents' Familiarity with Concept of Management Policies

| Response | Frequency | Percent |
|-----------------|-----------|--------------|
| Not familiar | 3 | 7.5 |
| Fairly familiar | 24 | 60.0 |
| Very familiar | 13 | 32.5 |
| Total | 40 | 100.0 |

Source: Survey data, 2011.

Application of Management Policies by NSSF Nakuru Branch

The respondents (NSSF staff) were further asked to indicate the extent to which the management policies outlined in the NSSF Corporate Strategic Plan (2006-2009) had been applied. On the basis of study findings (Table 2) the management policies applied by NSSF include: Product positioning research and marketing, customer service and corporate imaging, change management, human resource capacity development and information and communication technology.

Table 2 Application of Management Policies in Claims Processing by NSSF

| Management Policy | Percentage Responses (%) | | | | |
|---------------------------------------------|--------------------------|-------|------------|----------|-------------------|
| | Strongly agree | Agree | Un-decided | Disagree | Strongly disagree |
| Product positioning, marketing and research | 20.0 | 65.0 | 15.0 | 0.0 | 0.0 |
| Customer service and corporate imaging | 50.0 | 45.0 | 5.0 | 0.0 | 0.0 |
| Change management | 5.0 | 47.5 | 42.5 | 5.0 | 0.0 |
| Human resource capacity development | 12.5 | 60.0 | 12.5 | 10.0 | 5.0 |
| Information and communication technology | 37.5 | 37.5 | 15.0 | 5.0 | 5.0 |

Source: Survey data, 2011.

On the extent to which the above identified management policies were applied by NSSF, survey data (Table 2) 85% of respondents generally agreed that product positioning, marketing and research was applied by NSSF. On the policy of customer service and corporate imaging about 95% of

respondents generally agreed about its application, with only 5% un-decided. With regard to the policy of change management, 52.5% of respondents generally agreed about its application whereas 42.5% were un-decided. Furthermore, on the policy of human resource capacity development 72.5% of respondents generally agreed about its application. Finally, 75% of respondents generally agreed that increased information and communication technology was applied.

In order to statistically determine the application of the management policies by NSSF, the study carried out factor analysis. The results of the factor analysis (Table 3) indicate that the various management policies were applied to varying extents by NSSF in processing of members' claims. On the basis of the Pearson correlation coefficients obtained, the following management policies were applied by NSSF in the order of magnitude: Customer service and corporate imaging; change management; human resource capacity development; products positioning marketing and research and information and communication technology.

Table 3 Application of Management Policies in Claims Processing by NSSF

| Management Policy | Factor Analysis Commuality | | |
|----------------------------------------------|----------------------------|--------------------------------|------------------------|
| | Initial | Pearson Coefficient Extraction | Percentage of Variance |
| Products positioning, marketing and research | 1.000 | .437 | 10.044 |
| Customer service and corporate imaging | 1.000 | .727 | 51.512 |
| Change management | 1.000 | .605 | 17.946 |
| Human resource capacity development | 1.000 | .581 | 14.062 |
| Information and Communication Technology | 1.000 | .225 | 6.435 |

Source: Survey data, 2011.

Extraction Method: Principal Component Analysis.

NB: Pearson Correlation Coefficient ranges from 0 to 1, with values closer to zero implying weaker relationship whereas values closer to one implying stronger relationship.

Table 3 shows that the information and communication technology (.225) and products positioning, marketing and research (.437) are the least applied management policies in NSSF. It is important to note that however that despite the application of the above management policies by NSSF, management policies such as the human resource capacity development (.581), change management (.605) and customer service and corporate imaging (.727) which are considered critical to processing of members' claims have not been effectively applied by NSSF.

Characterization of claims processing at NSSF, Nakuru branch

The second objective of this study sought to characterize the processing of members' claims by NSSF. In this regard, the study examined the various aspects of claims processing at NSSF such as frequency of members' claims, duration of payment of claims, frequency of customers' complains, duration of feedback on complains and overall claims processing.

NSSF staff's familiarity with claims processing calculations

The study also assessed the level of familiarity of the NSSF employees on the claims processing calculations and findings summarized in Figure 5. About 46% of respondents were not familiar, 27% were quite familiar, and 20% were a bit familiar whereas only 7% were very familiar with the claims processing calculations. This findings indicate that a significant proportion of respondents were not familiar with the claims processing calculations. The observed low levels of familiarity of claims processing calculations, has far-reaching negative effect on the processing of members' claims by NSSF.

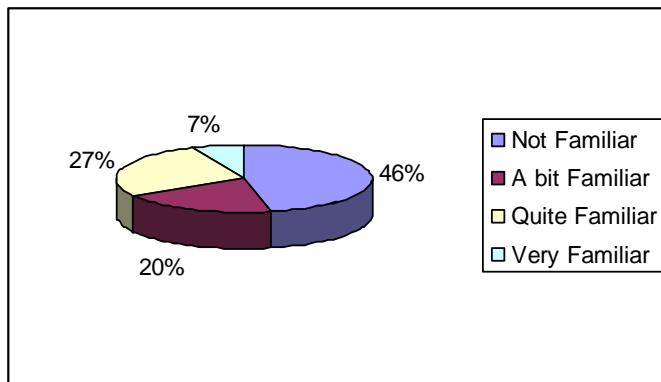


Figure 5: NSSF Staff's Familiarity with Claims Processing Calculations.
Source: Survey.

Frequency of members' coming for claims

With regard to frequency of members (Retirees) visiting NSSF office for claims, the study established that 20% and 67% of respondents reported the frequency of claims to be “very high” and “high”, respectively (Figure 4.3.2). Only about 13% of respondents reported that claims were “very low” with none of respondents reporting “low” frequency. The findings indicate that the frequency of members visiting to claims their benefits is generally high. This finding is in line with growing trend of people already in employer-sponsored schemes, increasing their contributions and making claims to the same.

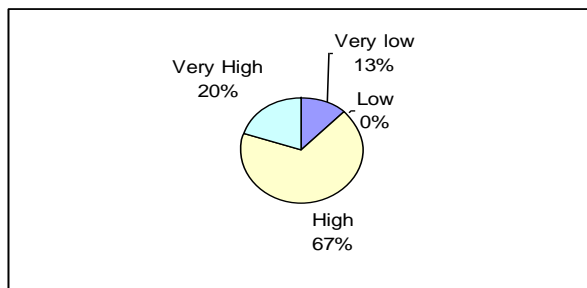


Figure 6: Frequency Rate of Retirees Coming for Claims.
Source: Survey.

Frequency of members' complaints with regard to claims processing

On the basis of frequency of members' complaints with regard to claims processing, the study findings are summarized in Table 7. Study findings clearly indicate that the frequencies of complaints were reported to be "often" and "seldom" by 62.5% and 15% of respondents respectively. The study further show that only 22.5% of respondents reported customer complains to be "Frequent". Study findings indicate that the frequencies of complaints were generally frequent.

Table 7: Frequency of Customers' Complaints

| Response | Frequency | Percent |
|------------|-----------|---------|
| Seldom | 6 | 15.0 |
| Often | 25 | 62.5 |
| Frequently | 9 | 22.5 |
| Total | 40 | 100.0 |

Source: Survey data, 2011.

Conclusions

The study established that significant proportion of the respondents (NSSF staff) were generally familiar with the concept of management policy adopted by NSSF in its operation. This implies that majority of the NSSF employees who are in charge of implementing the management policies are aware of the NSSF strategic goals. Furthermore, the familiarity of performance management principles by the NSSF staff is also critical in implementation of the management policies to achieve improved service by NSSF and other similar organizations.

The study also concludes that various management policies have been applied by NSSF to a varying extent. According to the study findings management policies such as customer service and corporate imaging, product positioning, marketing and research have been applied to a greater extent by NSSF whereas others such as information and communication technology, human resource capacity development and change management

have been applied to a less extent. It is vital to note that some of the management policies considered critical in processing of members' claims such as the information and communication technology and products positioning, marketing and research are yet to be fully embraced by NSSF.

Recommendations

Based on the findings of this research, the paper makes recommendations on the following functional areas of NSSF:

a) Human resource capacity building

The paper recommends that some staff in the non-core areas should have multi-skill trainings and trainings and re-orientation to new duties in the core business areas.

b) Information and communication technology

On the above, a business process plan should be introduced where management of ICT systems is devolved to the user departments and all systems talk to each other. All these should be specified in the IT policy document to be developed and should include transformation from hard copy to electronic documentation. Further, Relevant software should be identified and installed and the IT system which is technical service provider be owned by the user department.

c) Product positioning, marketing and research

The paper also recommends that NSSF should not only expand in the mandatory compliance market but also capture new markets that are not covered by the existing Act. This will require establishment of the marketing department as a key function in the organization. Further, there is need to conduct market research and gather market intelligence on the feasibility of an investment subsidiary that may be considered to be set up.

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