



The Hungarian pension market and the supervisory challenges

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The market

- I. pillar: PAYG
- II. pillar: Mandatory pension funds
- III. pillar: Voluntary pension funds
- Others: insurance, pre-retirement personal account

Mandatory pension funds

- Legislation in 1997, started in 1998
- Part of the social security system
- Significant modifications
- Main features
 - Defined contribution
 - Mandatory for new entrants
 - Centralized collection system since 2007
 - Mandatory life-cycle portfolio system
 - Concentrated market, dominated by international financial groups
- Main figures: 19 funds, total assets: 10 billion Euro, 3 million members

Voluntary pension funds

- Legislation in 1993, started in 1994
- Not the part of the social security system, but an investment option
- No significant modifications
- Main features
 - Defined contribution
 - Strong employer background, but not occupational
 - Payout phase
 - Less concentrated market with the same dominance
- Main figures: 64 funds, total assets: 2,8 billion Euro, 1,3 million members

Challenges

- At the very start
 - Institutional form
 - Legislation (e.g. investment rules)
 - Communication: awareness, recruitment
- In the accumulation phase
 - Supervisory method: compliance, risk-based
 - Concentrated market: oligopoly
 - Communication: bad times
 - Centralized vs. decentralized collection system
- In the payout phase
 - Service provider
 - Centralized vs. free market

Institutional form

- The original idea of establishing a fund
 - Voluntary pension funds
 - Form of self-expression of civil society
 - Kind of cooperative
- Four years later: mandatory fund
 - Same form
 - Business interest enters the stage
- In the payout phase
 - Capital requirement
 - Reforming the whole system

Legislation

- Detailed rules for every area of operation
 - Feeling of safety for regulator
 - Innovation: persistent tuning
 - Permanent explanation issues
- Prudential rules
 - Some maturity needed
 - Personal challenge for supervisors

Communication

- One of the most important issues
 - The key point: members bear all the risks
 - In every stage
 - Enormous costs
 - Not a usual business for the authorities
 - Very hard to formulate the message
- Why so hard
 - Investment issues are complicated
 - Pension decisions are for long-term (and complicated)
- Effect of under-informed members

Supervisory method

- Compliance vs. risk-based method
- Off-site vs. on-site supervision
- Utilization of data supplied by funds
- Factors to be considered
 - Age of the pension system
 - Competence and number of staff
 - Number of funds
 - National traditions

Market issues

- Concentrated market
- Role of the institutional form
 - Transparency
- Switching funds
 - Who takes the decision - Role of agents
 - Good or bad decision
 - Administrative or market measures
- Acquisition
 - The most effective way to grow
 - No capital – no price (legally)
 - Who is the owner – who is entitled to the purchase price

Collection system

- Decentralized system 1998-2006
 - Detailed rules
 - Huge pending money – financial risk: core point of supervision
 - Responsibility
 - Interests of players
- Centralized system from 2007
 - Tax Office
 - Most important changes
 - New player – new issues raised
- Possible development
 - Developing data exchange between the authorities

Payout phase

- From 2013 – no experience
- But can be imagined
 - Supervisory Authority as supervisor
 - Supervisory Authority as operator
 - Supervisory Authority as service-provider
- Issue of guarantee
 - 0 % real return guarantee
 - For the whole period of membership
 - Validated when retire
 - Restrictions
 - Huge responsibility: member, fund, Supervisory Authority

Thank you for your attention