Developments in voluntary pension supervision in Albania

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Albanian FSA

10 May 2012, Skopje
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introduction – Albanian FSA
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Established in 2006 as integrated non bank regulator in Albania. Integration process assisted by the World Bank.

Supervised areas:
1. insurance
2. securities
3. voluntary private pensions

Model of integration:
horizontal : functional vs. sectorial

Direct dependency and reporting to the Parliament
1. board members election
2. number of staff and structure
3. annual reporting

Funding
1. fees from the supervised entities
2. full self-funding starting from 2009

Decision making
board composed by 7 members: 3 executive, 4 non – executive

Staff & remuneration
1. number of staff - 47
2. remuneration as per public administration rules

Membership in IAIS, IOSCO and IOPS
regulatory reforms
market diagnosis
setting priorities
legal changes

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market diagnosis – pre-legislative reform

very small & undeveloped market

low to negligible contribution to the country’s financial market assets

DC with some embedded return guarantees

no tax incentives

old and inefficient framework (since 1995)

low public awareness
setting priorities

- Voluntary pension market diagnosis and analysis
- Licensing of the new operators as per EU standards
- Legal changes
- Strengthening supervision
- Drafting of the new legislation in line with EU directives
- A better system and supervisory regime needed
- Strengthening the requirements to conduct pension business
- Analyzing and understanding the market

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legal changes

new legislation in line with EU directives, IOPS, WB guidelines (since December 2009) – WB assistance


voluntary, private management, pure DC schemes, fully funded, no guarantees, individual and occupational schemes;

members bear the investment risk

fiscal incentives

- **EET system** (contributions are deducted from the taxable personal income base, up to annual 1500-1800€ or 15-25% of gross annual income of the member – whichever is lower)

- **no VAT**

- contributions made by an employer on behalf of a member are tax deductible

strengthening of AFSA discretionary powers

introduction of some new concepts, such as ultimate controller

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Structure of the pension system

Public pensions

• Compulsory Social Insurance System, covering both employees in public and private sectors as well as self-employees

Private pensions: occupational (voluntary)

• Voluntary occupational DC pension plans, established by the employers through an occupational pension fund contact with a licensed management company.
• Both open and closed pension funds exist.

Private pensions: personal (voluntary)

• Voluntary DC individual (unit-holders) pension account with pension funds operated by licensed management companies.
supervisory control & challenges
key facts
supervisory focus
challenges
key facts

- 2011 mainly focused on the licensing of three PMCs and the pension funds
- Currently – 3 PMCs, 3 PFs and 3 depositaries are present in the market (dominance of Austrian capital – UNIQA, Raiffeisen)
- 1.3 mln Euros assets under management
- 6295 members in the funds
- Assets mainly invested in Government Securities, constituting 98% of the investments portfolio
- Legally it is possible for one asset management company to manage both pension and investment funds (Raiffeisen Invest)
- 9 people working in Supervisory department covering all supervised markets
Some key aspects of supervisory focus:

✓ fit and proper requirements

✓ adequate financial, technical and human resources to conduct operations

✓ PMCs must develop and implement a risk management framework

✓ restrictions on types and limits on the amount that may be held in particular types of investments

✓ consideration of the appropriate matching of assets and liabilities

✓ proper procedure for monitoring the level of liquidity

✓ disclosure and transparency with the clients

To enforce standards and practices so that under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system
Voluntary Pension Fund

**Voluntary Pension Fund** (Finance) - is a pull of assets derived from voluntary contributions, return on investments, decreased for fees and charges (legal) - set up via contract signed among member (+ employer & employee) and management Co, (structure) - no legal personality, system of terms, condition and rules (i.e. contract content and prospectus) a based on which the management company collects contributions and invests voluntary pension fund assets so that unit-holders get the benefits (ownership) – members (unit-holders), but not voting rights.

**Management Co**
Joint-stock, in compliance with commercial legislation, main activities: collecting, managing and investing of the assets of voluntary pension fund, and optionally providing the benefits (at least 51 percent of the shares or voting rights are owned by banks or financial institutions)

**Contract**

**Depository**
Bank, licensed by BA
Licensed by AFSA for custody services (safekeeping of the pension fund assets)

**Unit-holder**
means an individual who has entered into a contract with the management company to join a voluntary pension fund individually or through the employer defining an occupational pension scheme

**Albanian FSA**
(License, supervise, regulate)
challenges

✓ lack of *de facto* financial flexibility of the AFSA
✓ lack of domestic capital market and **long-term investment alternatives**
✓ tax legislation need to fully adopt the fiscal incentives as per the voluntary pension law
✓ human resources – new organization structure needed
✓ enforcement of the AFSA decisions in courts – some legal amendments underway
✓ disclosure and transparency with the clients
✓ the market needs to communicate the product effectively and make the schemes attractive to the public
✓ AFSA has approved a communication strategy with the media in order to increase public awareness on the Regulators and the supervised segments

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risk-based supervision
pre-requisites
road ahead

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risk-based supervision

- **Potential assistance from strategic partners**
  - Already in place

- Extending cross-border cooperation via MoU signings
  - IOSCO, IAIS, IOPS

- Web based electronic platform for supervisory filing
- Increase reporting quality
- Avoid paper based work
- Reduce time for operators
- Life for the insurance market – in the near future for voluntary pensions as well

Main pre-requisites for implementing RBS in Albania

- **Risk/principle based legal framework**
- **Support of the legal system**
- **Reliance on the industry in many aspects (CG, RM, Fit & Proper, data quality)**

Conditions for effective supervision

- **Financial market infrastructure**
  - Legal and court system
  - Accounting, actuarial and auditing standards
  - Basic economic, financial and social statistics

- **Efficient financial markets**
  - Long-term and short-term investment opportunities

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“If you think in terms of a year, plant a seed; if in terms of ten years, plant trees; if in terms of 100 years, teach the people“.

Confucius
Appendix

statistical data
definitions
GS yield curve

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# Demographics and Macroeconomics at a Glance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (USD)</td>
<td>7041</td>
</tr>
<tr>
<td>Total population (million)</td>
<td>3.2</td>
</tr>
<tr>
<td>Life Expectancy at Birth (years) for Men</td>
<td>74.2</td>
</tr>
<tr>
<td>Life Expectancy at Birth (years) for Women</td>
<td>80.4</td>
</tr>
<tr>
<td>Labour Force (000s)</td>
<td>1,294</td>
</tr>
<tr>
<td>Percentage 65 or older</td>
<td>9.4</td>
</tr>
<tr>
<td>Dependency Ratio¹</td>
<td>48.4</td>
</tr>
<tr>
<td>Statutory Pensionable Age - Men</td>
<td>65</td>
</tr>
<tr>
<td>Statutory Pensionable Age - Women</td>
<td>60</td>
</tr>
</tbody>
</table>

1. Population aged 14 or younger plus population aged over 65 or older, divided by population aged 15-64.

Source: Bank of Albania, INSTAT
Exchange Rate: ALL/USD 95.0
Country profile Albania, IOPS
## Allowed and disallowed investments

### Forbidden investments

- shares, bonds and other securities that are either unlisted or not traded on a stock exchange, in the inter-bank market or other trading systems regulated by the relevant authority
- debt securities issued by the same employer
- assets that cannot be sold or transferred
- derivatives, unless they are used for the purpose of hedging against foreign exchange risk or other similar risks
- investment fund units that are managed by the same management company
- real estate
- physical assets which are not frequently quoted on organized markets and for which valuation is uncertain including, such as antiques, works of art, motor vehicles, etc.
- shares, bonds and other securities issued by:
  1) any shareholder of the management company;
  2) the depositary of the pension fund;
  3) any person who is a related party in relation to the entities listed above

### Allowed investments

- treasury bills, bonds and other securities issued or guaranteed by the Republic of Albania, EU Member States or OECD member countries or by the relevant central banks, Central European Bank, the European Investment Bank and the World Bank (30% on a single issuer abroad, can be increased upon AFSA approval – no aggregate limit)
- bank deposits (20% in the same bank)
- debt securities with a rating of BBB or higher as rated by Standard & Poor’s or Fitch, a rating of Baa3 or higher as rated by Moody’s, a rating of BBB (low) or higher as rated by DBRS (Dominion Bond Rating Service) (10% on a single issuer and 30% on aggregate)
- shares or units in investment funds licensed in an EU Member State, the only investments of which are in the following indices: CAC 40, DAX, FTSE 100, S&P 500, Dow Jones Industrial Average, Nikkei 225 (Japan), Sensex (India), All Ordinaries (Australia) and Hang Seng Index (Hong Kong), or in bonds, treasury bills and other securities issued and guaranteed by EU Member States (30%)
Market Overview

Asset structure of PF

- Cash and cash equivalents: 0.3%
- Investment: 94.7%
- Receivables: 5.0%

Investment portfolio

- Treasury bond and bills: 98.21%
- Deposits: 1.76%
- Other investments: 0.03%

Source: Regulatory filings to AFSA
Investments - GS yield curve
“ultimate controller” means any person regardless of whether the person is an Albanian or foreign national, who exercise any influence on a licensee, either directly or indirectly through a third party. This includes, but is not limited to, any persons in accordance with whose direction and instructions the directors of the regulated company are accustomed to act and whose opinions are influential in the licensee’s decision making process;
The supervision objectives shall be to:

a) protect the unit-holders’ and beneficiaries’ interests;
b) ensure the provisions of this Law on safekeeping, stability and financial predictability of the assets of pension funds;
c) strengthen good governance, transparency and prevent inappropriate behavior and fraud by service providers in relations to the assets of the pension funds.

The Authority shall exercise its supervising functions under a risk-based approach, and play a proactive role, in order to avoid significant potential problems before they occur.

The authority may develop methodologies and manuals implementing Paragraph 4 of this Article.