Supervisory practice of fully funded pension insurance in Macedonia

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Concept

- Macedonian Pension System

- Agency for supervision of fully funded pension insurance (MAPAS)

- Rule-based supervision

- Improvements in the next period

Macedonian Pension Reform

Area: 25,713 sq km

Population (*2009*): 2,052,722

GDP(*2008*): 6,720 mil. Euros

Structure of the pension system

First pillar

Mandatory pension and disability insurance based on generational solidarity (Pay as you go)

Second pillar

Mandatory fully funded pension insurance

Third pillar

Voluntary fully funded pension insurance

Second and third pillar principles

Mandatory pillar principles

- Mandatory
- Protection of pension fund members' interests
- Providing material and social security of members by capitalization of personal assets
- Dependency of rights on the amount of savings
- Safety of pension funds assets
- Investments' diversification

Voluntary pillar principles

- Providing additional assets for old age
- Voluntary membership
- Providing material and social security of members by capitalization of assets based on DC
- Investment of assets based on safety, risk diversification and maintenance of adequate liquidity
- Transparency

Institutional scheme of the pension system
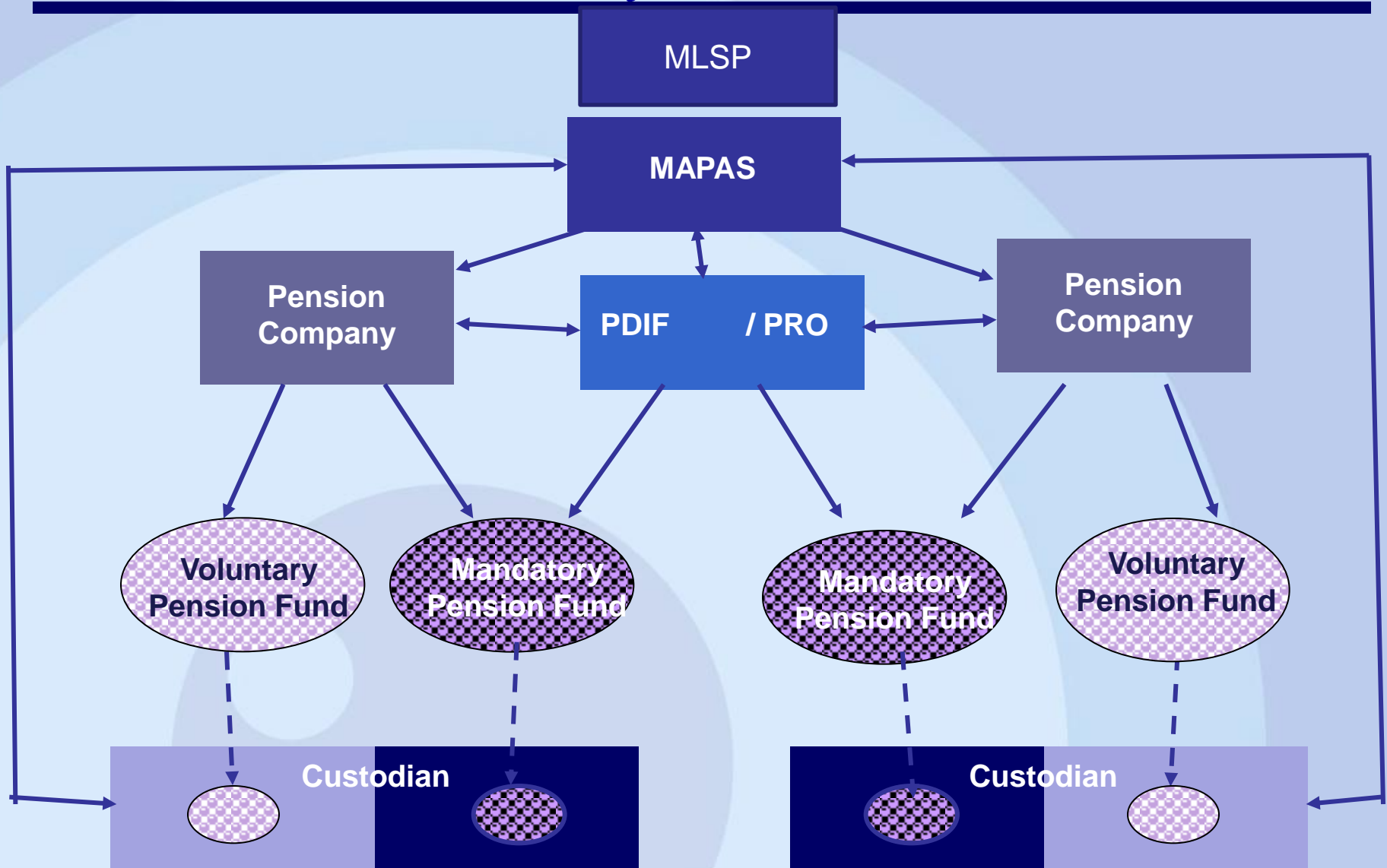
Pension reform in numbers (31.12.2011)

	Members	Assets (million Euros)	Annual Rate of Return
Second pillar	297,000	260	7.60% (2008 - 2011)
Third pillar	12,000	1.8	4.65% to 6.05% (2009 - 2011)
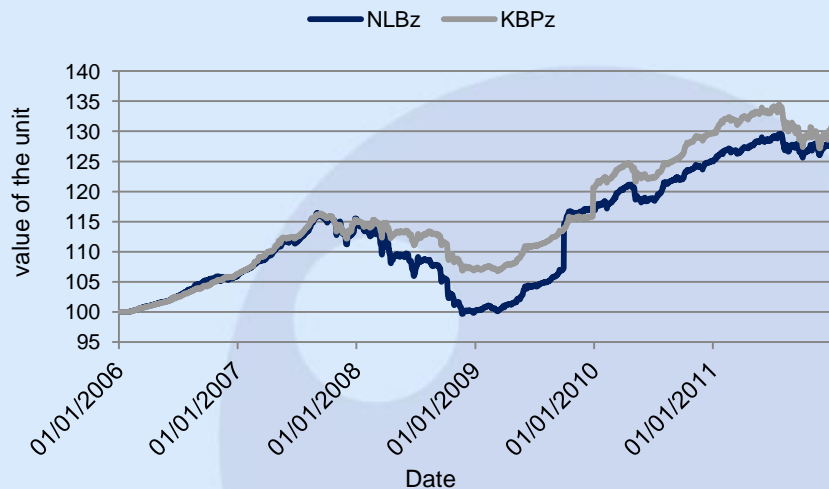
Note: More information and data can be found in a Report on Developments in Fully Funded Pension Insurance (in the enclosed CD) and at www.mapas.gov.mk

Agency for supervision of fully funded pension insurance - MAPAS

- Established by the Law in order to supervise the operations of Pension Companies and Pension Funds

- MAPAS is responsible for:

  - protection of the interests of the

    Pension Fund Members

  - enhancement of the development of

    the fully funded pension insurance

Agency for supervision of fully funded pension insurance - MAPAS

Established Strategic Plan with motto: Safer retirement days

Mission : To protect the interests of the pension fund members and enhance the development of the fully funded pension insurance for safer retirement days

Vision Statement : An independent, expert and modern institution which safeguard and promotes the pension system.

Goals of the Agency :

- *MAPAS will* ensure that risks to members' assets and benefits and the reputation of the system are managed and, so far as appropriate, minimized

- *MAPAS will promote an accountable and transparent pension system that has member and public support.*

- *MAPAS will improve capacity for strengthening its supervisory and regulatory role in the pension system.*

MAPAS – Rule-based functions

- Issues licenses for Pension Companies and has the authority for withdrawing

- Performs off- site and on-site supervision with the accent on the off-site control (prevention)

- Issues regulations and other guidance. Suggests changes of the Law to enhance the system operations

Off - site supervision (1)

Supervision of the:

- Marketing of the Pension Companies

- Membership in the Pension Funds

- Allocations of the contributions on the individual accounts of the member of the Pension Funds

- Calculation of the contribution fee and asset management fee of the Pension Companies

Off - site supervision (2)

Daily Supervision of the:

- Investment process (transactions)
- Asset valuation of the Pension Funds
- Accounting and financial reports of the Pension Companies and Pension Funds
- Transfer between the Pension Funds
- Benefit payouts

On-site supervision (1)

- Regular yearly supervision of:
  - Pension companies
    - ▶ Accounting and financial report
    - ▶ Organizational structure
    - ▶ Compliance with the legal requirements
    - ▶ Management and supervisory board
    - ▶ Marketing and sales agents
    - ▶ Customer services
    - ▶ Contracts with service providers

- **Assistance with IPA project**
  - SWOT Analysis
- **Supervisory tools current and new**
- **Identification of areas of potential risks**

SWOT analysis – supervisory approach

Strengths	Weaknesses
Regulation of fees	Lack of incentive for investment performance & risk aversion
MAPAS respected for expertise	Immature risk management
Relatively good compliance culture –holding companies risk averse	Rule-books hard to enforce
Most control systems in place	Dependency culture
MAPAS has good information & appreciation of risk	MAPAS has limited information sharing with other supervisors

Opportunities	Threats
Multi-funds	Relatively low investment returns
Can release resources by transferring responsibility to the industry	Multi-funds, if poorly handled
More reliance could be placed on custodians	Low public understanding & awareness
	Risk of contributions falling further
	Marketing & sales hard to control

Supervisory tools current and new

- Annual on-site inspection of pension companies
- Seeking reliance on pension custodians
- Off-site checking of pension fund and company data
- Price caps on fees based on MAPAS analysis
- Rule-books and power to amend them
- Executive processes (hope to reduce)
- Liaison with other supervisors (but need to develop)
- Considering annual statement of assurance
- Research-based communications campaign

Areas with potential risks

- Pension fund investment strategies

- Compliance with investment strategies

- Unintended outcomes of implementing multi-funds

- Fees too high

- Implementation of pay-out phase

- Public and member awareness and understanding

- Rogue marketing

- Pension company risk management

Future steps

- Implement the pension and pension benefit payout from the fully funded pension insurance

- Multi-funds introduction (life-cycle funds)

- Risk-based supervision in practice

- Focusing on the risk management by the Pension Companies

Thank you for your attention!

www.mapas.gov.mk