

Protecting consumers

Promoting markets

Enforcing law

# Developments in voluntary pension supervision in Albania

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Albanian FSA

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## introduction - brief facts on AFSA

Established in 2006 as integrated non bank regulator in Albania. **Integration process assisted by the World Bank.**

### Supervised areas:

- i. insurance
- ii. securities
- iii. voluntary private pensions

### Model of integration:

horizontal : functional vs. sectorial

### Direct dependency and reporting to the Parliament

- i. board members election
- ii. number of staff and structure
- iii. annual reporting

### Funding

- i. fees from the supervised entities
- ii. full self-funding starting from 2009

### Decision making

board composed by 7 members: 3 executive. 4 non – executive

### Staff & remuneration

- i. number of staff - 47
- ii. remuneration as per public administration rules

### Membership in IAIS, IOSCO and IOPS

**regulatory reforms**  
market diagnosis  
setting priorities  
legal changes

## market diagnosis – pre-legislative reform

**very small & undeveloped market**

**low to negligible contribution to the country's financial market assets**

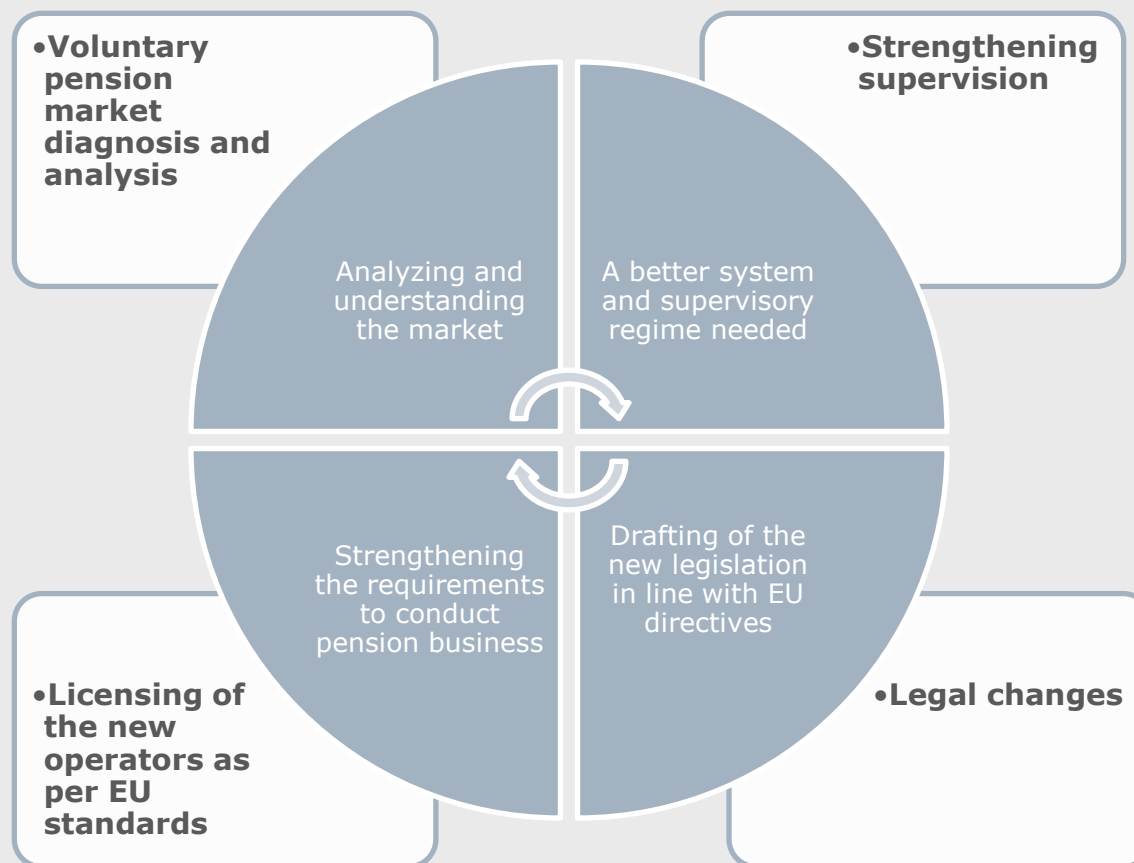
**DC with some embedded return guarantees**

**no tax incentives**

**old and inefficient framework (since 1995)**

**low public awareness**

## setting priorities



## legal changes

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

Directive 2003/41/EC, [85/611/EEC](#) , [2004/39/EC](#), [85/611/EEC](#) and [93/6/EEC](#) and [Directive 2000/12/EC](#) of the European Parliament and of the Council and repealing Council Directive [93/22/EEC](#);

**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](#)**

## 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**

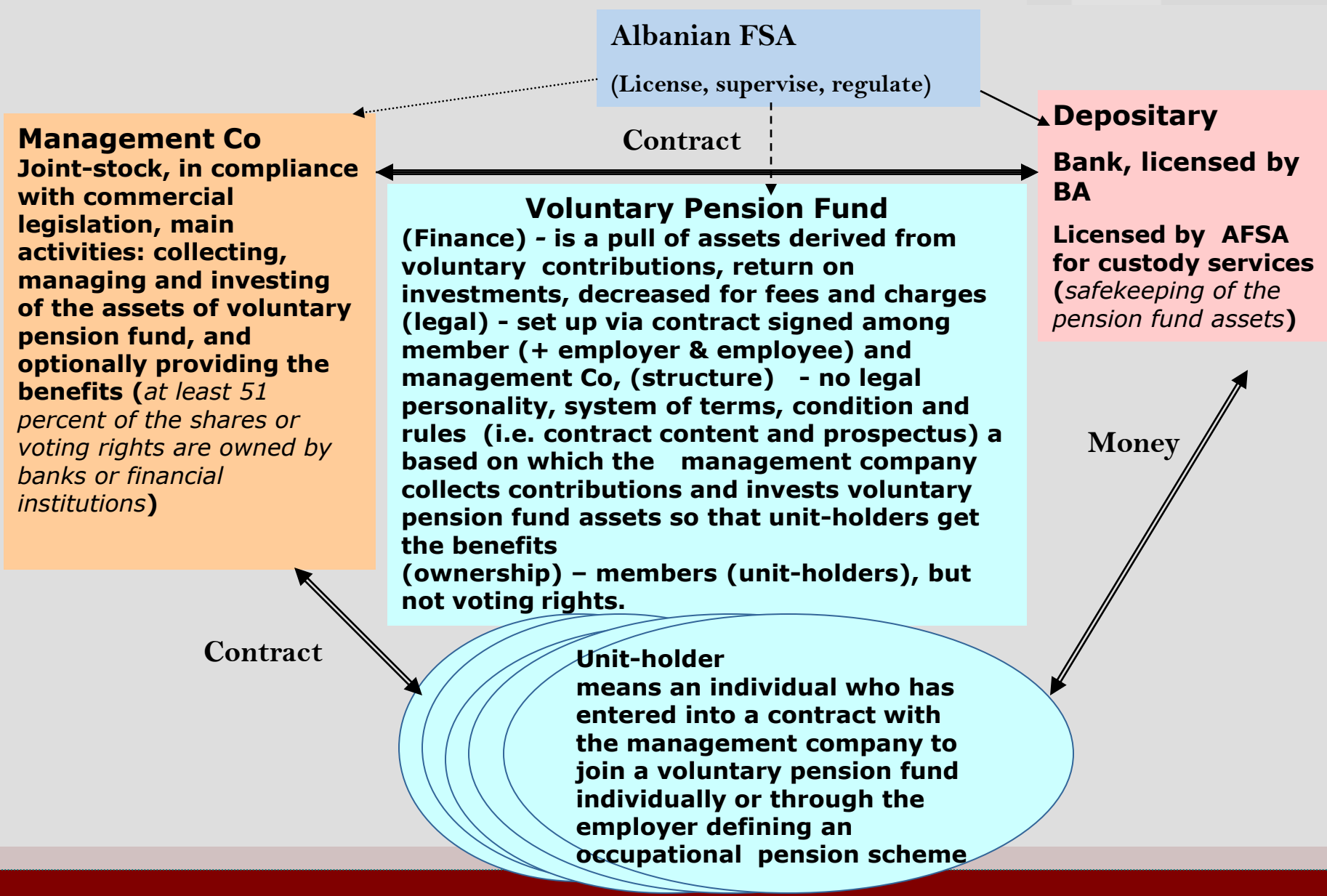
## supervisory focus

### 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

private pensions scheme



## 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**

**risk-based supervision**  
**pre-requisites**  
**road ahead**

## risk-based supervision



### 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



**“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**

# demographics and macroeconomics at a glance

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|  |       |
|--|-------|
| GDP per capita (USD)                       | 7041  |
| Total population (million)                 | 3.2   |
| Life Expectancy at Birth (years) for Men   | 74.2  |
| Life Expectancy at Birth (years) for Women | 80.4  |
| Labour Force (000s)                        | 1,294 |
| Percentage 65 or older                     | 9.4   |
| Dependency Ratio <sup>1</sup>              | 48.4  |
| Statutory Pensionable Age - Men            | 65    |
| Statutory Pensionable Age - Women          | 60    |

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:

- i) any shareholder of the management company;
- ii) the depositary of the pension fund;
- iii) 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**)

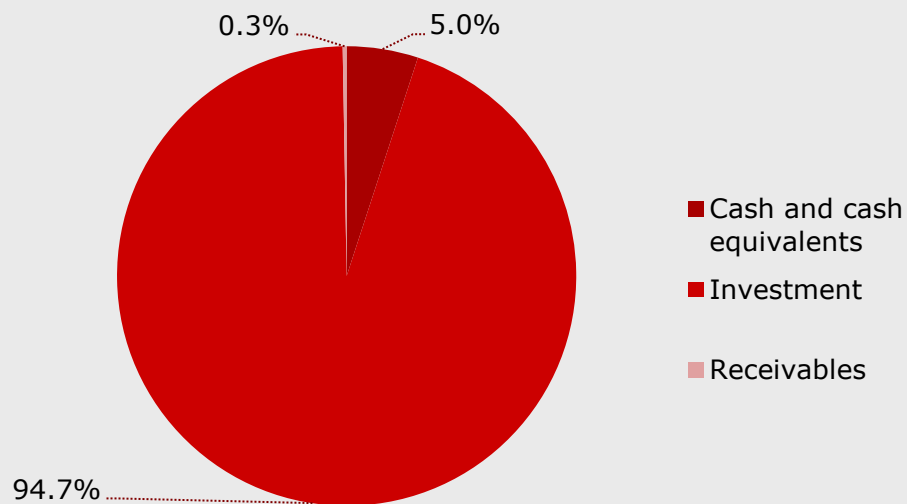
bank deposits (**20% in the same bank**)

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**)

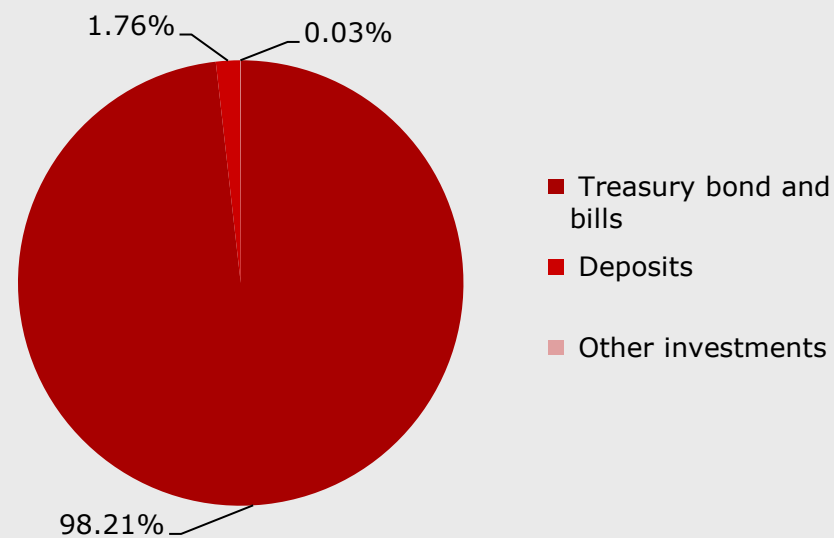
shares or units in investment funds licensed in an EU Member State, the only investments of which are in the following indices: CAC 40, DAX, FTSE 100, S&P 500, Dow Jones Industrial Average, Nikkei 225 (Japan), Sensex (India), All Ordinaries (Australia) and Hang Seng Index (Hong Kong), or in bonds, treasury bills and other securities issued and guaranteed by EU Member States (**30%**)

## Market Overview

### Asset structure of PF

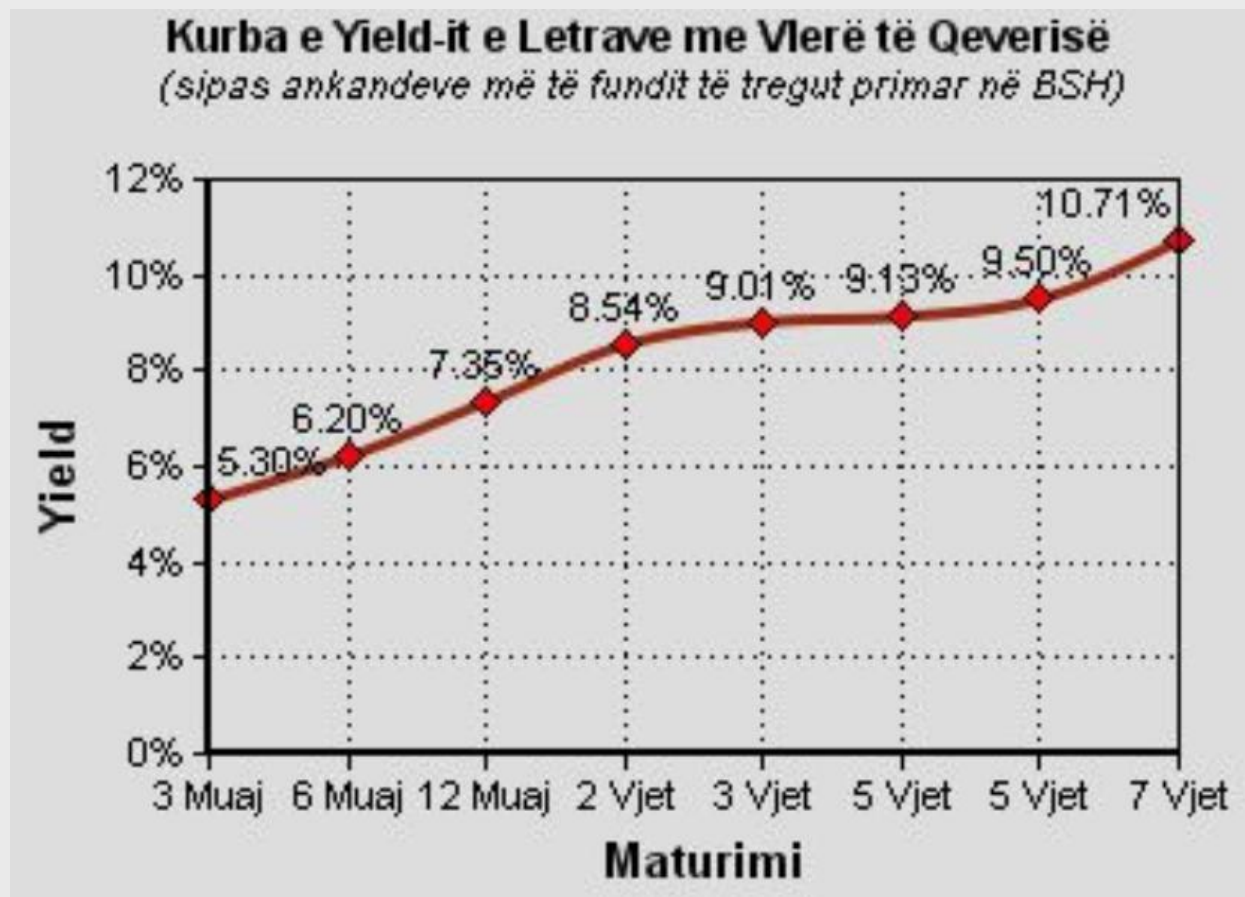


### Investment portfolio



Source: Regulatory filings to AFSA

## Investments - GS yield curve (back)



## ultimate controller

**“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;

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## Risk-based article

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*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.*