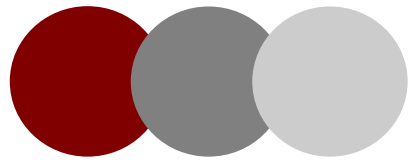




EU-TAIEX



amf ALBANIA



Protecting consumers
Promoting markets
Enforcing regulation

Pension System in Albania

Tirane, February 9th , 2009



Speaker:

Mr. Jiri Kral, Director General
Department of Social and Family Policy, MLSA, Czech Republic

Czech Pension and Experience with Private Pensions

Dr. Slawomir Solarz, Advisor Pension Funds
Supervision Department, Financial Supervision Authority, Poland

Constructing a multi-pillar pension system in an emerging market country. Experience of Poland with implications for Albania

Veiko Tali, Deputy Secretary General for Financial and Tax Policy, Ministry of Finance, Estonia

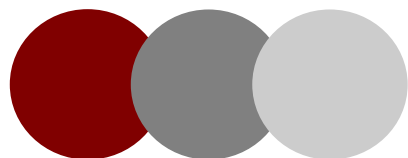
Funded pension schemes: Estonian reform experience

Dr. Slawomir Solarz

Public awareness campaign as an element of pension reform

Mr. Guillaume Filhon, Director of Cabinet, CNAV, France
The French pension schemes governance

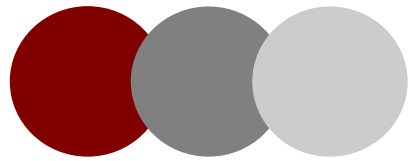
Tirane, February 9th, 2009



Protecting consumers

Promoting markets

Enforcing regulation



Protecting consumers
Promoting markets
Enforcing regulation

Pension System in Albania

d/Law on Voluntary Private Pension Fund

Tirane, February 9th, 2009



Element of Pension system in Albania

- **(1st pillar) Safety net age pension:**
 - PAYG system,
 - mandatory,
 - public management (Social Insurance Institute),
 - DB,
 - Act no. 7703, date 11.05.1993 “On Social Insurance ”,
 - set at ...% average monthly earnings.
 - Supplementary scheme (some of them not contribution based, ex for military personnel, etc)

- **(3rd pillar) – Voluntary, private** management, fully funded, DC, individual and occupational schemes, Act no. 7943, date 01.06.1995 “On supplementary pensions and private pension institutes”



Reform process of the Albanian pension system

- Working group with wide range of actors (including WB) to **reform 1st pillar and introduce 2nd pillar**
- Drafting reform proposals and evaluating the alternatives
- Decisions to be taken
 - What to reform under the actual PAYG (pension formula, contribution rate, indexation policy, evasion, urban – rural, etc.)
 - Date of the reforms (both 1st pillar and introduce the 2nd pillar)
 - Entry age for the participants in the 2nd pillar & Contribution division between two pillars
 - Flat rate pension alternative, Transition cost.
- Albanian FSA, with the assistance of WB, is working in the **3rd pillar law**

Structure of the d-Law on Voluntary Private Pensions

General provisions and scope

The pension fund

The management company

The depositary

The occupational pension scheme

Agents

Pension fund investments

Marketing pension funds

Fees

Supervision

Off-site superv. and on-site inspections

Preventive and corrective measures

Taxation

Anti money laundering

Fines and criminal offences

Transitional provision

Alb.FSA aim:

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.

The new d-law regulates the establishment, operation and supervision of “defined contribution” voluntary private pension funds (+ *professional pension plans*).

Private Pensions Scheme

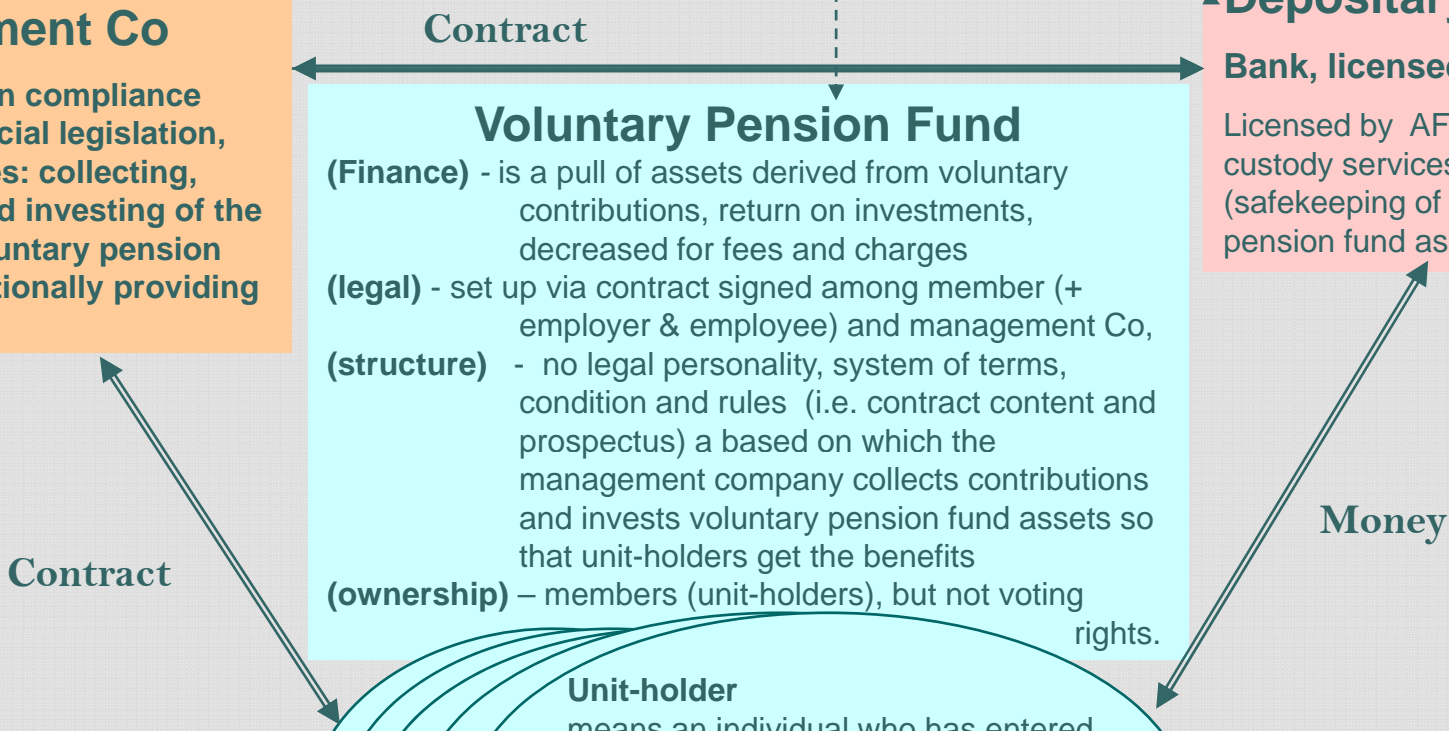
Albanian FSA
(License, supervise, regulate)

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

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

Voluntary Pension Fund
(Finance) - is a pool 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.

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





Licensing regime for Pension Funds

Based on d-law:

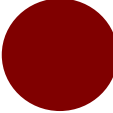
- Mngmt Co must meet a fitness and propriety standard.
- Mngmt Co must have adequate financial, technical and human resources to conduct operations.
- Mngmt Co ds must develop and implement a risk management framework.
- Where Mngmt Co outsource material business activities to service providers, an enforceable agreement meeting prescribed conditions must be in place.



Licensing regime for Pension Funds: requirements / documents


Documents evidencing that the applicant is a joint-stock company duly registered, the applicant's articles of association and proof that the company's share capital is paid full


Documents evidencing that the company satisfies capital adequacy requirements.



Documents evidencing that the company's significant owners, directors, ultimate controller, chief executive officer, manager and auditor individually and collectively are fit and proper to lead the business.

The business plan for the management company projected out for a minimum of three years The business plan shall contain detailed descriptions of the:

- 
- (a) organization of the company, including information on the products or services to be offered by the applicant;
 - (b) marketing plan for the company;
 - (c) operational plan for the company, including the applicant's reporting arrangements, both internally to its own management and externally to the authority;
 - (d) the financial plan, including a description of how the start up cost will be covered and the capital adequacy requirements satisfied; and
 - (e) risk analysis, including a description of how the applicant will address the relevant risks in particular operational risk, agency risk, credit risk, market risk, compliance risk, and reputational risk.



A description in writing of the applicant's organization and specifically of the required (a) internal audit function; (b) risk management function; (c) internal control systems to ensure compliance with agreed policies and procedures, such as the code of conduct for employees; and (d) information technology systems,


A letter of intent between the management company and a licensed depository that the depository will provide custodial services for the management company; and

A declaration from the applicant's home supervisory authority if the applicant is a subsidiary of a foreign financial institution that holds a valid license to provide financial services in the foreign country.




Licensing regime for Pension Funds

Fitness and Propriety





Applicants must have policies to ensure integrity of persons running the pension fund with regard to skills, training needed, minimum standards of probity and dealing with conflict of interest.

Outsourcing Requirements



All outsourced arrangements administration, investment management and custodianship must be established via a formal written contract setting out price, delivery, monitoring, rights. Alb FSA must be given access to all operations of third parties.





Licensing regime for Pension Funds



Risk Management Strategy

Mngnt Co must show material risks facing its operations, how these risks have been rated, and risk mitigation strategies.



Further supervisory of service providers

Industry advisers, Auditors, Actuaries





Investment regime for Pension Funds

- Limits on the amount that may be held in particular types of investments
- Definition of the types of financial instruments and any other assets the pension fund can invest in
- Rules for safekeeping of the unit-holders' assets
- Consideration of the appropriate matching of assets and liabilities
- Proper procedure for monitoring the level of liquidity
- And no of restrictions



Compliance with EU directives and IOPS, WB guidelines

- Directive 2003/41/EC on the activities and supervision of the institutions for occupational retirement provision
- Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
- Directive 2004/39/EC on markets in financial instruments amending Council Directives 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
- **IOPS / OECD**
 - Good practices in the risk management of alternative investments by pension funds
 - Guidelines on the Licensing of Pension Entities
 - Principles of private pension supervision
 - On site supervision
- **World Bank**