PROJECT

TO THE

ALBANIAN SUPERVISORY AUTHORITY

FOR

PENSION SUPERVISION AND COVERAGE

PROJECT KICK OFF: July 2014

ABBREVIATIONS AND ACRONYMS

AFSA	Albanian Financial Supervisory Authority
ALL	Albanian Currency - Lek
FIRST	Financial Sector Reform and Strengthening Initiative
FSAP	Financial Sector Appraisal Program
RBS	Risk Based Supervision
WB	The International Bank for Reconstruction and Development, the World Bank

The Project *Albania: Pension Supervision and Coverage* seeks to assist AFSA in enhancing the regulation and supervision of private pensions and expanding the coverage in a more secure, sustainable and efficient pension system in Albania. The project kicked off in July 2014 and is *expected to be implemented in a period of 18 months*.

- ➢ Albanian Financial Supervisory Authority, is the beneficiary agency, and is contributing up to 14.9% of the project cost;
- ➢ The World Bank (WB) initiated the project and supports implementation;
- ➢ Financial Sector Reform & Strengthening Initiative (FIRST) contributes to roughly 85.1% of the project cost.

A.   Sectorial Context

The private pension industry in Albania is currently very small. It was only created by legislation in 2009 and as of the end of March, 2015 has 9,700 members and net total assets of ALL 685 million (EUR 4.9 million), across 3 companies (http://www.amf.gov.al/news.asp?id=1272). Part of the reason is a historic distrust of private savings in a country that had a very severe financial crisis in the late 1990s linked to a pyramid selling scandal. Part is also because there is no tradition of private pension savings in a country with a long history of communism and expectations of significant payouts from the state pensions system. In addition till 2015 the tax relief provided in the pension law for private voluntary pension contributions of both the employers and the employees was not implemented. Therefore, the pension products were at a disadvantage as investment or savings alternative compare to other available products. This situation is partly corrected with the fiscal package in force for year 2015 and on.

B.   Rationale for the Project

This project aims to ensure that the new private system is built on rigorous and secure supervisory standards and approaches to ensure that it can increasingly become a trusted part of the solution for retirement income going forwards. It supports the implementation of recommendations from the 2013 FSAP to strengthen and develop private pensions in Albania. The aim is to create a diversified public and private pension system that would be fit for purpose for the long-term, as well as to strengthen the foundations of supervision. In addition the project would improve the understanding of and expand the role of employers as a route to increasing private pension provision and with this information support a concerted effort by the AFSA to reach out to employers and get them to start pension plans for their workers.

C. Issues to be addressed

The absence of an appropriate RBS framework: AFSA wants to be able to contribute to the promotion of efficient, secure and sustainable pensions that provide adequate retirement income for a growing share of the Albanian population. To do this there is a need to develop an effective risk based supervisory methodology and proper supervisory platform in terms of risk identification, data collection and analysis, risk assessment and then mitigation using the most effective solutions. AFSA needs to enhance capacity to identify and evaluate risk including market, costs, investment, collection, fraud, and administration risks in the private pension providers. Given the desire to develop much wider participation in private pensions in the coming years the agency wants to develop a risk based supervisory model that can be scaled up as coverage expands – particularly through the incorporation of much greater employer sponsorship of pensions. So the RBS solution for the current small pension system will be developed with this in mind so that it can be scaled-up in the future.

The absence of data and evidence on employment and employers to develop and implement a coverage expansion strategy: AFSA needs access to better data and understanding of employers and workers to inform a practical step-by-step coverage expansion strategy. The gap in coverage and knowledge will be tackled jointly by detailed engagement with employers to get more of them to start pension plans for their workers and to understand better the barriers to greater take up in the attitudes of other employers. The larger employers will be chosen in particular because it will be an effective entry point in a country with high degrees of informality in the labor market.

D. Project Components & Outputs

This project will cover two specific components:

Component 1: Regulation and Supervision. Under this area the following outputs will be delivered:

Output 1: An Outcomes-Based Diagnostic Report and Roadmap. This would provide the assessment of the current state of the supervision in detail and provide the evidential base for the new design of a RBS (output 2). It would also identify areas of change needed in regulations (output 3).

Output 2: Risk Based Supervisory framework for Private Pensions. This delivers a new RBS Framework with an integrated design from objectives to risk assessment methodology to intervention model, including new processes, procedures and manuals.

Output 3: Draft amendments to regulations, guidance and legislation for the AFSA to support RBS of private plans. This delivers some changes in regulations and guidance as needed when the project gets into the design of a new RBS system. Moreover, given the plan to expand coverage and the greater role of the employer there will need to be regulations and guidance that develop in greater detail the roles and responsibilities of employers and the extent of their responsibility, for example, on fund governance. Any changes to regulations will be reflected in updated manuals and procedures for staff. The regulations will be developed and disseminated in close co-operation with the industry.

Output 4: Training, capacity building and consultations. This output will include training in RBS for the supervisors as well as workshops / consultations with the key stakeholders to communicate and build support for the changes in the laws and regulations and to ensure that the new RBS framework is well understood and can be implemented.

Component 2: Coverage expansion. Under this area the following outputs will be delivered:

Output 5: An analysis of employment data to support coverage expansion strategy. This output would collect good data for the first time on employers including on their attitudes to pension provision. The analysis of the data would be used in the first instance to support a proactive campaign (Output 6) to get more employers to offer private pensions now building on the lead shown but the early adopters.

Output 6: Coverage expansion outreach. This output would proactively target larger employers in Albania to get them to provide private pensions to their workers. The AFSA would, in common with other supervisors in the world, make sure that employers were aware of the system, understood how it worked and then the AFSA would produce material to facilitate the easy adoption of pensions by employers for their workers.