



Support to the State Social Protection Fund on the introduction of funded element within the insurance-pension system, establishment of non-state pension funds and development of legal framework for regulating their activity
Twinning Project AZ/13/ENP/SO/24



ANNEX 58

Assessment Report for the training needs of the State Social Protection Fund Staff involved in the administration of State Funded Pension Scheme

Context and Finding

The state funded pension scheme is being started as addendum component to the incumbent NDC pension scheme in the Republic of Azerbaijan. All institutions providing the operation of the funded component should develop IT systems, administrative procedures, train employees as well as ensure the operation of data registration and transfer systems, provide fast data transfer as well as a high level information security and protection.

Currently the establishment of the legislation on funded part is finished. According to the project of the Law on Funded Part of the Labour pensions the State Social Protection Fund (SSPF) is going to be the Executive Authority. SSPF should register contributions made to funded part, inform the person regarding to the funded part, conclude contracts with private pension funds, prepare reports on the operation of the funded part and etc.

To provide successful implementation of the funded part a lot of new issues will be carried out, for example the personal accounting system should be upgraded establishing the flow of all necessary information and contributions among SSPF, pension funds, custodian bank and clients. Structural changes and additional processes also should be implemented in the SSPF.

The two main functions in the establishment and operation of the funded pension scheme in the SSPF will be: (1) to deal with administrative issues and (2) carry out asset management function.

Administrative functions contain following activities: (1) Maintenance of funded scheme participant's Personal Account subaccounts, (2) Registration of participant and participant's employer contributions made to funded part, transfer of contributions to the Pension Fund, information on accumulated funded pension capital at the end of each quarter, (3) Informing the participant / participant's employer regarding the registration to the funded part and significant changes in the operation of the funded part, (4) Payment of Capital of Funded Part, (5) Transferring



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Contributions to the Pension Plan Account with Custodian, (6) Conclusion of contract with State pension fund and private pension funds.

Regarding to the Asset management function the SSPF may perform asset management activities itself or entrust it to the third party. Asset management function includes following responsibilities: (1) Develop the pension plan providing conservative investment strategy, (2) Performing the management of the contributions made in funded part, further fruits (interest) and other assets (hereinafter – assets), (3) Entering into a custodian agreement and submission to the Supervisory Authority, (4) Ensuring implementation of the investment strategy, settle accounts for pension plan contributions according to pension plan, perform transactions with financial instruments and other transactions with pension plan assets, (5) Provide quarterly reports on the pension plan according to the requirements of law.

The staff who will deal with funded pension structure issues would preferably have the following education and/or skills and interest - an economic degree (business finance or accounting) or comparable experience; a degree in mathematics or comparable experience; a law degree or comparable experience; precise; like to work in teams and to work alone; willing to co-operate with persons and organisations internal or external the SSPF; interested in the financial business; client orientated; English in speaking and writing.

The development of additional and enhanced capacity would require significant efforts in training of the staff members to be appointed to those tasks. Probably it will be also advisable to hire a more senior manager with experience in commercial fund management. That will get the fund acquainted with the business practices of financial markets at a faster pace.

The additional capacity must be tailored to put the fund in a position to monitor and ensure compliance with the agreements on a day-to-day basis.

Training issues

Taking into account above mentioned the Questionnaire regarding training needs for State Social Protection Fund Staff involved in the administration of State Funded Pension Scheme is developed. The main object of this questionnaire is to train SSPF staff for provide successful implementation and operation of the funded pension scheme. Questionnaire includes proposals offered by experts based on the expert's opinion, as well as any suggestion from BC side will be analysed and assessed. There are following proposals to improve knowledge on: (1) funded pension scheme's operation in general, (2) processes and functions organization in funded pension scheme, (3) administrative functions and processes, administrative costs issues and the register maintenance and operation of funded pension scheme (4) asset management function (investment planning, financial planning instruments) and investment companies, securities and other issues related to the capital market, (5) customers service functions in the funded pension scheme, (6) statistic and policy



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monitoring (reports, projections), (7) financial planning and accounting issues in the funded pension scheme, (8) the internal and financial (investment) risk management.

In the context of the Project the short study courses accordingly expert's competence and capacity will be provided by Project experts. For other needed training courses local or foreign experts could be suggested.

Already in the implementation period of Project requests regarding to the special training courses for Forecasting department of the SSPF were received. Training topics for the Forecasting Department is already done and submitted to the Forecasting Department to coordinate time schedule of training. According to the training topics there will be observed following issues: Empirical work in Economics; Econometrics Models – Macro econometrics models; Introduction to Statistics, Statistics and Data Analysis for Economics, Probability and statistics, Introduction to time series Models.

The training course on Computational Finance and Financial Econometrics was also asked by Forecasting Department. As according to the Twinning manual experts proposed by the MS administrations should be administrative practitioners, unfortunately experts of both MS administration were not able to provide so specific training course.

Summary of Questionnaire

The Questionnaire related to the activity 4.2. “Conducting a training needs analysis of the relevant SSPF staff” was sent to the project leader of BC for the dissemination between the staff of departments of SSPF who will be involve in the work with funded part of labour pensions to fill up. Experts recommended sending it to the Personal Accounting Department, Law and Strategic Research Department, Pensions and Benefits Department, Finance Department, Department of Accounting of Budget Execution, IT department, Forecasting department, department of International and Public relation. The questionnaire was designed to collect opinion of the SSPF staff regarding the necessary training needs in the context of administration of State Funded Pension Scheme. All 14 questions were developed as multi choice questions asking to select the best possible answer out of the choices from an assessment list. Assessment list consist of 5 possible choices to evaluate training needs degree – very important, important, usefully, do not know, not usefully. The lasts question was made as free-response question providing possibility to note any other training need.

In the questionnaire was also the closed and multi choice questions regarding the preferable training format. SSPF staff was asked to answer whether they prefer lectures with or without active involvement of participations, mentioning possible participation forms: practical tasks, home works, work in groups, games, discussions.



Filled questionnaires received - 18. This cannot be considered as efficiently representative. Answers indicated not only the preferences, but also the level of previous knowledge as well as job requirement.

As of September 2015, experts received 18 responses from SSPF staff, what is only 36% of (respondents to whom were sent Questionnaire).

Responses to questions:

Regarding the knowledge improvement on funded pension scheme`s operation in general 14 persons replied that it would be very important and 4 persons – important.

On general knowledge on processes and functions organization in funded pension scheme 11 persons considered that it would be very important and 7 persons – important.

Improvement of knowledge on administrative functions and processes of funded pension scheme would be very important for 8 persons and important for 10 persons.

Improvement of knowledge regarding the register maintenance and operation of funded pension scheme would be very important for 13 persons, important for 5 persons.

Regarding the administrative costs issues 10 persons considered that improvement of knowledge in this topic would be very important, 6 persons – important and for 2 persons – usefully.

Regarding the improvement of knowledge on asset management function (investment planning, financial planning instruments) for 9 persons it would be very necessary, for 8 persons – very important, but for 1 – not usefully.

Improvement of knowledge related to the customer`s service functions in the funded pension scheme would be very necessary for 9 persons, important for 8 persons and usefully for 1 person.

Improvement of knowledge related to statistic and policy monitoring (reports, projections) in the funded pension scheme would be very necessary for 13 persons, important for 2 persons and usefully for 2 persons.

Regarding the improvement of knowledge on IT system programmatic 8 persons assessed it as very important, 8 persons – as important and 1 person – as usefully.

Regarding the obtaining the knowledge on investment companies, securities and other issues related to the capital market 8 persons replied that it would be very important, 9 persons – important and 1 person did not know.

Regarding the obtaining the knowledge on the principles of Bank operation (mortgage crediting) 11 persons responded that it would be very important, 6 persons – important and 1 person did not know.



Improvement of knowledge related to the financial planning and accounting issues in the funded pension scheme would be very important for 12 persons, important for 4 persons and usefully for 2 persons.

Improvement of knowledge related to the internal risk management (inside the institution) would be very important for 8 persons, important for 8 persons and usefully for 2 persons.

Improvement of knowledge related to the financial (investment) risks would be very important for 7 persons, important for 8 persons, usefully for 1 person and 1 person did not know.

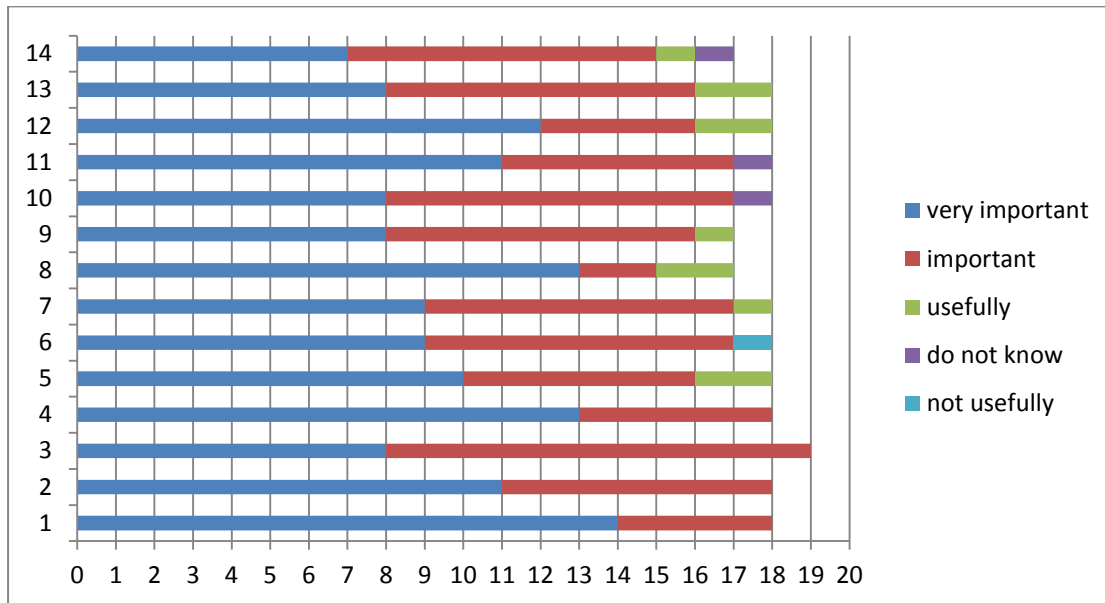
On other study topics (not included in questionnaire) 2 persons responded, mentioning following topics:

The main topic rated by the level of importance between responded questionnaires is the Knowledge improvement on funded pension scheme`s operation in general, which was indicated by 78% of persons as very important and 22% - as important. The next leading topics rated by the level of importance are the Improvement of knowledge regarding the register maintenance and operation of funded pension scheme, which was indicated by 72% of persons as very important and 28% - as important.

Improvement of knowledge related to statistic and policy monitoring (reports, projections) in the funded pension scheme, which was indicated by 76% of persons as very important and 12% - as important; on general knowledge on processes and functions organization in funded pension scheme, which was indicated by 61% of persons as very important and 39% - as important, etc.

Chart shows that the most important training topics are following:

- (1) funded pension scheme`s operation in general;
- (2) the register maintenance and operation of funded pension scheme,
- (3) statistic and policy monitoring (reports, projections) in the funded pension scheme,
- (4) processes and functions organization in funded pension scheme,
- (5) principles of Bank operation (mortgage crediting),
- (6) financial planning and accounting issues in the funded pension scheme,
- (7) administrative costs issues
- (8) investment companies, securities and other issues related to the capital market.



As concerns to the preferable training format most of employees (15 persons) would like to participate in lectures with active involvement and 3 persons replied that the lectures should be without active involvement.

Practical tasks, work in groups, discussions and games were accepted in 15 responses while home works were mentioned only in 4 responses.

Recommendations

The main object of this questionnaire is to train SSPF staff for provide successful implementation and operation of the funded pension scheme. According to the outputs of the questionnaire, as well as ensuring sustainable approach towards training activities the following training topics for the capacity building of the SSPF staff would be recommendable:

(1) funded pension scheme`s operation in general including the register maintenance, statistic and policy monitoring, processes and functions organization, financial planning and accounting issues in the funded pension scheme;

(2) issues regarding the asset management functions: principles of Bank operation (mortgage crediting, issues on investment companies, securities and the capital market.

Training courses on above mentioned issues might be performed by the Project experts during its implementation period, taking into account MS resources provided by twinning Agreement.

(3) Computational Finance and Financial Econometrics

Training course might be provided by local or international expert under the Twinning project or should be requested from other possible projects.