

Approved by  
the Board of Directors of  
SAPF, JSC  
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**SAPF, JSC**  
**Strategy 2015-2019**

Almaty 2014

## Introduction

The Accumulative Pension System (APS) in Kazakhstan was established in 1997, with the objective of providing adequate retirement pension to the employees who participate in the program. Since the launch of the APS there were overall 16 Accumulative Pension Funds (APF) operating in the country, while the ten of them were active as of July 1<sup>st</sup>, 2013. The total number of individual pension savings accounts has tripled throughout the time of new APS existence (increased from 3 mln. in 1999 up to 8.5 mln. by July 1<sup>st</sup>, 2013). The total pension assets as of July 1<sup>st</sup>, 2013 amounted to KZT 3.4 trillion, which includes KZT 691.5 bn. of the net investment return on pension assets.

The Kazakhstan APS is based on the Chilean model, i.e. is accumulative, individualised and capitalised pension system with defined compulsory contributions of 10% of income.

The Chilean pension model is viable if the investment return is higher than the inflation rate. During the earlier years of new system operation, the APFs in Kazakhstan showed strong results in returns, but since 2004 they have become less satisfactory. Due to insufficient contributions and poor investment returns, many employees are receiving inadequate pension from the APF. To compensate for the poor investment results the State guarantees that the investment returns for contributions will not be less than inflation rate. Over the years, because of high inflation rate, the liability of the State Investment Guarantee became alarming. With this and other issues in mind, in 2012 the President of Kazakhstan commissioned the Government in collaboration with the National Bank to study various proposals for a pension reform.

Having considered all proposals, in January 2013, the President has announced the following significant changes on the administration, investment, and benefit provisions of the accumulated pension fund system:

- All APFs are integrated into a Single State Accumulative Pension Fund (SAPF) established on GNPF grounds.
- All APFs' current pension assets and liabilities are transferred to the SAPF.
- All investments are placed under the National Bank. The newly established Board for Pension Assets Management under the President of Kazakhstan is also involved in assets management. This advisory and consultative body, among other matters, suggests the list of the financial instruments authorized for investment of pension assets of SAPF.
- The National Bank is also a custody bank of SAPF.
- The State Guarantee on minimum investment return will be continued.
- For employees in industries with harmful and arduous working conditions, the minimum retirement age is reduced to 50, as well as additional compulsory occupational contributions are provided at cost of employers in the amount of 5% of employees monthly income starting from January 1<sup>st</sup>, 2014.
- Women and men retirement age will become even by gradual increase for women from 58 to 63 starting from 2018 (plus 6 months annually).
- Since January 1<sup>st</sup>, 2014 the State subsidizes the compulsory pension contributions for each working woman on the maternity leave until her baby ages one year.

At that, the core principles of pension provisions in the Republic of Kazakhstan remained intact. I.e., the multilevel system will continue to comprise PAYG, compulsory and voluntary accumulative components. Furthermore, the APS will keep managing the individual savings accounts; the SAPF members will retain their descendible ownership over pension savings; as well as the State Guarantee on minimum investment return will be continued.

The APS refinement in 2013 and creation of a Single Accumulative Pension Fund have, firstly, targeted to provision of adequate retirement pension by ensuring safety and growth of pension assets, and secondly, to improving efficiency of pension assets management by investing into domestic economy.

Selection of GNPF Accumulative Pension Fund, JSC as a ground for establishment of Single Accumulative Pension Fund, JSC was well-weighed.

GNPF was the very first pension fund established in Kazakhstan. Being at the origins of APS GNPF gave the grounding to its infrastructure; GNPF's unique experience had predetermined the pattern of economic relations in the pension savings area. In order to ensure the full coverage from the very first days of APS operations (January 1<sup>st</sup>, 1998), GNPF was an APF by default. Thanks to this status, GNPF accumulated pension contributions of those members who did not signed pension savings contract with any private APF.

After a waiver of 'by default' status in 2003, GNPF continued its operations attracting pension contributions and distributing pension benefits along with all other accumulative pension funds.

Adhering to its moderately conservative investment strategy, GNPF was ranking among the top three APFs by number of members and amount of pension savings. Its investment return was moderate but stable, which ensured safety and growth of pension assets under management. As of July 1<sup>st</sup>, 2013 the number of members at GNPF was 2.1 mln. or 24.6% of APS; the amount of pension assets under management totaled to KZT 702'252 mln. or 20.6% of APS.

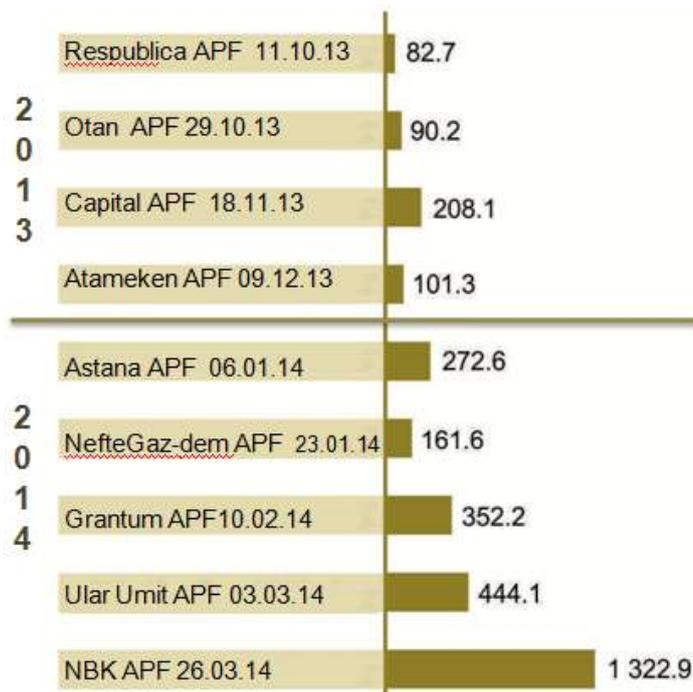
Moreover, GNPF was established by the Government of the Republic of Kazakhstan, and its control stock was held by the State throughout its existence.

The new Law of the Republic of Kazakhstan "On Pension Provisions in the Republic of Kazakhstan" # 105-V ЗРК (hereinafter – the Law) was adopted on June 21<sup>st</sup>, 2013 and came in to effect on July 2<sup>nd</sup>. The Law stipulated creation of the Single accumulative pension fund as well as waived the licenses of private APFs.

On August 22<sup>nd</sup>, 2013 GNPF was re-registered as a non-profit joint-stock company "Single Accumulative Pension Fund" (hereinafter – SAPF, the Fund). The only shareholder of the Fund is the Government of the Republic of Kazakhstan represented by the Committee for State Property and Privatization under the Ministry of Finance of the Republic of Kazakhstan (hereinafter – the Committee). At that, guided by the Law's provisions, the Committee transferred the 100% of SAPF stock to the National Bank under the Trust Management Agreement (National Bank ref. # 417 of 24/09/2013; the Committee ref. # 5/16 of 25/09/2013).

On September 24<sup>th</sup>, 2013, the National Bank has issued the Order #356 which established the Schedule of acceptance and transfer of pension assets and liabilities of the APFs under the Pension savings agreements to SAPF. The Fund has successfully completed the acceptance of all pension assets and liabilities as well as all historical information (the archives) in strict compliance with the Schedule (pic. 1). As of October 1<sup>st</sup>, 2013, i.e. before commencement of acceptance and transfer process, there were 2.2 mln. of pension savings accounts and KZT 740 bn. of pension assets in SAPF. Upon completion of the process, as of April 1<sup>st</sup>, 2014, the number of pension savings accounts increased to 9.7 mln. and the pension assets totaled to KZT 3.96 trillion.

**Picture 1. Schedule of acceptance of pension assets by SAPF from APFs, in bn. KZT**



However, generally, the reform is ambiguously received by most of the public. Many view it as another means by the State to extract wealth from population. They feel especially bad about being deprived of the right to choose between their funds investment managers (former private APFs), since all investments will be handled solely by the National Bank. The APS credibility impaired and, as a result, some of the population try to avoid making contributions, and devise schemes to take out their accumulated fund in a lump sum.

Much of the misconception originates from the lack of understanding of the purpose and function of a retirement saving program such as the SAPF. To dispel such misunderstanding, the Fund shall undertake much efforts in building communications with its actual and potential members as well as their employers in order to increase the level of public awareness of pension provisions system, to explain the meaning of APS to each citizen and the economy as a whole of the Republic of Kazakhstan.

Moreover, in June 2014 the President of Kazakhstan approved the Concept of further modernization of the pension provision system of the Republic of Kazakhstan 2030 (hereinafter – the Concept), which stipulates the following major improvements:

- a new additional notional savings component financed by the employer’s compulsory contributions of 5% of each employee’s monthly income;
- calculation of basic pension benefit based on the number of contributions to APS;
- extension of APS coverage.

The Concept anticipates solutions to a number of APS endemic issues such as financial stability, credibility, fairness (adequacy of replacement ratio), and social effectiveness. This requires further comprehensive analysis of the actual state of the Kazakhstan pension system, consideration of best international practices, and, based on that, determination of approaches ensuring improvements to the National APS.

Taking into consideration all mentioned above, for the next five years, the Fund shall face the challenge – while using the topnotch technologies available in Kazakhstan and best international practices of accumulative pension provision – to design and introduce new approaches in customers relations. This shall ensure increased awareness in Kazakhstan society of self-responsibility for their future; extend the population coverage by APS, to accumulate a larger amount of pension savings, and, therefore, ease the pension benefits burden on the State budget.

## **Our mission**

Together with our members, we build financial independence on retirement

## **Our vision**

SAPF is a socially responsible organization, adherent to the principles of accountability, transparency, ethical behavior, respect for stakeholders interests, respect for the rule of law, and respect of human rights; and our members include all working population of the country.

## **I. Strategic Goals and Tasks**

1. Building public trust to SAPF as to a sustainable accumulative pension system operator
  - 1.1. Financial education of Kazakhstan people in the area of pension provisions
  - 1.2. Development of the package of pension services
  - 1.3. Building of an impeccable reputation through communications system
2. High-quality customer service conforming with the best practices standards
  - 2.1. Development of individual-oriented service system
  - 2.2. Increase in number of SAPF electronic services subscribers
  - 2.3. Building a team of professionals
  - 2.4. Enhancement of infrastructure and IT
3. Safety and growth of pension savings at SAPF
  - 3.1. Transparent management of SAPF members' accounts
  - 3.2. Efficient management of SAPF members' pension assets and accounts
  - 3.3. Implementation of the new notional pension savings component since 2018
  - 3.4. Building an integral risk management system in SAPF

## **II. SAPF background**

### ***Operations***

According to the Law, the Single accumulative pension fund is a legal (non-profit) entity with the following main responsibilities:

- attraction of compulsory pension contributions, compulsory occupational pension contributions, voluntary pension contributions;
- pension benefits distributions;
- records keeping of individual pension savings accounts;
- annual and upon request presentation to every member of his/her individual pension savings account statement, free of charge; provision of electronic and other access to information on pension savings accounts;
- free of charge consulting on operations of the accumulative pension system and pension assets management.

At present, the Fund's operations are, first of all, focused on meeting our members current needs, i.e. ensuring access to complete and authentic information, easy process of opening of pension accounts, receipt of statements on pension accounts, processing applications for pension benefits – in other words, everything related to building welfare for retirement.

However, apart from that, SAPF shall take the leading part in further improvements in accumulative pension system of Kazakhstan and ensuring of sustainability of its savings components. Taking into consideration the above said, the SAPF's mission statement was defined. In order to successfully complete its mission the Fund has determined its goals and Для успешной реализации своей миссии Фонд определил свою собственную позицию, которая, несмотря на изменения в структуре НПС и деятельности Фонда, является продолжением ранее принятого направления.

### ***Our Core Values***

The Fund follows the fundamental principles of the social responsibility, which include:

- ✓ accountability
- ✓ transparency
- ✓ ethical behaviour
- ✓ respect for stakeholders interests
- ✓ respect for the rule of law
- ✓ respect of human rights.

This means that we understand and take personal responsibility before the society and our operations are in compliance with the above social responsibility principles, i.e.:

- ensuring customer service provision in effective, timely and complete manner;
- taking care of our staff while keeping in mind that people are the main assets of the company;
- fulfilling our commitments to the State, our members, partners and other counterparties;
- protecting environment while being mindful of prudent resources use and safe waste disposal.

Accordingly, SAPF has determined its core values as follows:

*We are reliable* – the Fund's operations are in strict compliance with the Laws of the Republic of Kazakhstan.

*We are transparent* – the Fund is focused on high corporate governance standards, our records keeping is in compliance with the Laws of the Republic of Kazakhstan and the International Financial Reporting Standards, we regularly publish in mass media information on pension assets and its own operations. SAPF is open in communications with the mass media.

*Focus on customers* – SAPF members' interest are of the most importance, we do our best to make our services accessible throughout Kazakhstan and abroad; comprehensible, and consistent with customers' expectations.

*Progress and self improvement* – we continuously learn and apply new skills and knowledge to meet the challenges of our work and environment.

*Responsibility* – SAPF top management and all team take responsibility before society for improvements in our work, and efficient use of resources.

### III. Strategic Goals Disclosures

Taking into account the current state of APS and SAPF their strengths and weaknesses, considering existing threats, it is planned to take advantage of possibilities to achieve the tasks and goals set by the Strategy 2015-2019. At the end of the planned period it is expected to extend the coverage of population by SAPF (increase in number of members) and the corresponding measures are taken aiming to improvement and development of APS.

#### 1. *Building public trust to SAPF as to a sustainable accumulative pension system operator*

As mentioned above, the APS credibility was impaired as a result of the 2013 pension system modernization, namely by transfer of all pension assets and liabilities from APFs to SAPF. The Fund faces a big challenge of re-building the public trust in safety of their pension accumulations, and creating image of SAPF of a reliable partner for retirement planning. In order to achieve the above goal it is necessary to complete the following tasks:

##### 1.1. *Financial education of Kazakhstan people in the area of pension provisions*

- design of education materials and programs including video and audio courses about accumulative pension system and its role in every citizens future;
- institute of financial advisors – trainers for the designed education programs;
- introduction of a training course on APS in all types of schools through cooperation with the Ministry of Education and Science of the Republic of Kazakhstan;
- organization of events promoting pension savings (both compulsory and voluntary) such as:
  - public seminars, presentations on work and study places, exhibitions, contests;
  - TV and radio broadcasting;
  - design and production of video games, cartoons, smart phones applications;
  - production of printed materials – booklets, leaflets, calendars, comic books, etc.;

##### 1.2. *Development of the package of pension services*

- participation in realization of the Concept, namely in improvements of pension benefits distributions order from SAPF:
  - establishment of a subsidiary pension annuity company, or start of annuity pension payments directly from the Fund;
  - provision of voluntary pension savings plans;
  - study of perspectives of further development of Kazakhstani accumulative pension system, including the actuarial calculations. Long term modeling and forecasting based on the information from a single SAPF data base of members' pension accounts and savings:
    - build-up of a Business Intelligence system: create data warehouse comprising all current and historical information on members pension savings accounts;
    - study of international practices of countries with accumulative pension systems and their customers relations standards;
    - long-term forecast of pension assets and liabilities based on the current members structure (by sex, age, region, industry, income level), volume of their pension savings, demographic trends analysis, analysis of world and domestic macro and micro economic situation;

##### 1.3. *Building of an impeccable reputation through communications system*

- design and implementation of a PR strategy;
- design and promotion of the SAPF brand and image of the National Pension System Operator;

#### 2. *High-quality customer service conforming with the best practices standards*

SAPF confirms its adherence to a high-quality customer service. SAPF services are accessible, understandable, authentic and well-timed. SAPF is focused on individual customer service provision by highly professional staff using the top-notch information technologies.

### *2.1. Development of individual-oriented service system*

- SAPF partners with its members to build together their retirement welfare:
- advisory services based on the Individual and Corporate Forecast Models (pension calculators);
- elaboration of methodology and implementation of pension contributions monitoring and analysis;
- ensuring public control over the compulsory and compulsory occupational contribution payments agents (hereinafter – the agents), namely:
  - constant monitoring and analysis of compulsory and compulsory occupational contribution;
  - where necessary, initiation of audits by the authorized bodies of the agents in order to verify their compliance with the Laws and other State legal enactments on social security;

### *2.2. Increase in number of SAPF electronic services subscribers*

- increase in number of members using their electronic personal accounts on the SAPF official web page, via smart phones; or subscribers for the e-statements;
- implementation of the online option for opening pension saving accounts by using digital signatures;
- increase in number of subscribers for the Funds social networks web pages;

### *1.3. Building a team of professionals*

- cultivation of corporate culture and team spirit;
- development of staff motivation programs with consideration of the customer service quality;
- continuous staff education and development of professional competences, skills and knowledge:
  - creation and maintenance of the comprehensive knowledge data base;
  - establishment of the corporate university;
- recruitment of professionals:
  - newly hired staff must meet the competences and experience requirements;
  - engagement for an internship of talented students and graduates;

### *1.4. Enhancement of infrastructure and IT*

- enhancement of network infrastructure of the Automated Information System of the Fund (AIS);
- enhancement of the AIS servers infrastructure;
- ensuring information security;
- improvement of the AIS current software and hardware;
- development of SAPF's electronic services;
- training of IT staff to maintain and support software and hardware;

## **3. Safety and growth of pension savings at SAPF**

### *3.1. Transparent management of SAPF members' accounts*

In order to provide an electronic access to a complete and authentic information about the pension savings accounts it is necessary to:

- complete the connection to E-gov;
- provide pension savings accounts statements via E-gov and State Public Service Centers;

- reflect in the statement information about the agents (employers);

3.2. *Efficient management of SAPF members' pension assets and accounts*

➤ control of pension assets quality based on the analysis of SAPF pension assets investment portfolio;

- elaboration and presentation to the National Bank of proposal on investments of pension assets;
- work with bankrupt issuers and or issuers exposed to default;

3.3. *Implementation of the new notional pension savings component since 2018*

- methodology development;
- preparation of corresponding infrastructure;
- information support, explanatory communications;

3.4. *Building an integral risk management system in SAPF*

➤ comprehensive and efficient management of all material risk exposures, taking into account the interrelated risks, and stipulating integration of risk management with the corporate culture and strategic planning, and streamlining business processes.

**Chairman of the Board**

**Dolores Medeusheyeva**