POSITIONING CYPRUS AS AN INTERNATIONAL PENSIONS MANAGEMENT CENTRE AND THE ROLE OF THE CYPRUS FUNDS INDUSTRY

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It is with great pleasure that I am addressing this important conference as it provides me with the opportunity to explain the role of CIFA in the development of the Funds Industry in Cyprus and more specifically the role it can play in supporting Cyprus becoming a hub in the institutional pension market.

After the downturn of the Cyprus economy the funds industry was identified to be an important sector that can contribute towards economic growth through the creation of additional business and hence employment. The funds industry would also strengthen the professional services sector and enhance Cyprus reputation as one of the leading financial services jurisdictions.
The reasons we have identified this sector is obvious. The current assets under management are estimated to be around US$87 trillion globally with an expected growth by more than 40% by 2020 according to recent studies. Europe is estimated to show growth of 3% annually in the coming years whereas in Cyprus assets under management having more than doubled in the last three years. The drivers of this growth are reasonably well understood. The pool of prospective global savers has become larger, older and richer with a sharp rise in the ratio of global wealth to income.
Global Pension Fund Assets

- Pension fund assets globally are estimated to reach close to US$57 trillion by 2020:
  - This will be largely driven by growth in defined contribution (DC) schemes in countries of fast growing GDP and prosperity;
  - The US and Europe represent a significant majority of these assets, however Latin America and Asia Pacific are expected to exhibit the strongest growth.

- DC schemes are largely considered to be the dominant model for retirement savings:
  - Exhibited growth of over 6% during 2013 to reach a new high of almost US$15 trillion;
  - Currently represent around 47% of global pension assets and estimated to increase going forward.

Sources: PwC’s “Asset Management 2020”; Pensions & Investments/Towers Watson
The issue of asset management in general is not new but it has become topical recently as the asset management industry has grown and changed shape. This is partly due to regulators who have began to explore the risks to the financial system which may be posed by non-banks of various stripes including funds.

The asset management industry is a key bridge between end-savers and end-borrowers and as the banking system continues to de-risk strengthening that bridge could well strengthen both the financial system and the wider economy.
It is therefore important to build up the Funds industry in Cyprus with solid foundations so that the bridge withstands downtrends to the economy. CIFA has a duty to help towards this end acting as a coordinating body in order to follow developments and work closely with the Regulatory authorities and the Ministry of Finance. Its mission says it all.
Cyprus Investment Funds Association’s (CIFA) Mission is to:

- Act as the **single unified representative body of the funds industry in Cyprus**, representing the sector in economic missions to promote and support the development of the Cyprus Investment Fund industry;

- Provide support to its members in **knowledge building**;

- Encourage maintenance of **industry standards and professionalism**;

- Be engaged in the **development of related regulatory aspects** by being the back office knowledge centre of the Ministry of Finance and CySEC.
In the development of related regulatory aspects CIFA for example may lobby that the Pensions regulator should set and monitor challenging criteria for the trustee boards which will challenge the expertise held collectively by the Board as well as to the commitment of each individual trustee to act in their members interest. Trustee boards should further develop knowledge and understanding more than ever before and should operate under good governance whilst not to hesitate to engage professionals to support them whenever needed.
To better fulfill its mandate and best utilise the valuable experience of its members CIFA established nine Technical Committees comprising of experienced industry professionals with a mandate to follow developments at local and international level, to analyse and discuss implications, challenges and opportunities and recommend best policy options and course of action.

One such development that needs follow up is the legislative proposal adopted in March 2014 by the European Commission revising the 2003 occupational pension fund directive for new rules for occupational pension funds.
Developments on a European Level

The proposal’s main objectives include:

– To ensure the soundness of occupational pension schemes and better protect pension scheme members and beneficiaries against risks, by enforcing:
  • New governance requirements on key functions (risk management, internal audit and actuarial function);
  • New provisions on remuneration policies and related disclosures;
  • Self-assessment of the risk-management system; and
  • The requirement to use a depositary;

– To reinforce the capacity of occupational pension funds to invest in financial assets with a long-term economic profile and thereby support the financing of growth in the real economy.

– Another important area that needs monitoring is the growing diversification of asset classes used by pension funds.
Future Asset Allocation

- It is expected that the future asset allocation is likely to be affected by the following key trends:
  - Growing diversification of asset classes and geographical markets so as to minimise risk exposure;
  - In the case of schemes that pay pensions to retirees, an increase in the exposure to a broader range of assets that provide steady returns, which may include more fixed interest, property leases and private debt;
  - A growth in equity investments in some emerging markets as these capital markets continue to develop;
  - A continued broadening of the asset classes used by pension funds including hedge funds, private equity funds, commodities, land and buildings, and infrastructure.

Sources: OECD "Asset Allocation of Pension Funds Around the World"; Pensions & Investments/Towers Watson
Promoting knowledge and capacity, building and maintaining high industry standards and professionalism, is also an important action area for CIFA. For this purpose we have applied to the European Fund Managers Association “EFAMA” and granted the status of observer for two years before we become full members. During this period we will have access to information and hold direct meetings in order to transfer knowledge to our members. We have further initiated dialogue with local educational institutions for them to offer specific industry educational programs to build relevant capacity.
Furthermore, we have introduced a code of conduct which provides directors of investments and fund managers a framework of high level principals and best practice recommendations. We therefore highly recommend the Trustees of Pensions Funds to make sure that the fund managers they will be engaging to be members of CIFA who are updated with current developments and best practices.
Having got our legal framework fully compliant with the EU directives and employing best practices through the Fund Association we can now promote and position Cyprus as an international hub in the investment pension market as this will offer an alternative market to the traditional financial service business and will enhance our efforts to promote Cyprus as a Funds jurisdiction.

The following slide says it all.
Opportunity for Cyprus:
Location of choice for International Pensions Management
We anticipate that major benefits for Cyprus will arise from Cypriot based financial institutions offering occupational pension arrangements in multiple jurisdictions, and potentially attracting other large institutions to Cyprus for the same purpose. Furthermore, there will also be significant benefits from multinational companies establishing their own multi-country pension trust using Cyprus as a home country and as a point of entry into the EU for non-EU parties. A Cypriot plan can accommodate employers all over the EU and even beyond, including Russia, CEE and the Middle East.

To achieve this we need a modern, risk related regulation and pension related tax incentives and of course willingness to carry this through without delays.
Before closing I would like to note that interested professionals or organisations that would like to become members of CIFA can download the application for membership through our web-site.

www.cifacyprus.org

Thank you.