

The key to the pensions business in Italy

The Italian pension fund industry is becoming ever more appealing to international operators. Potential for growth is enormous but the complexity of the entire system remains very high. You just need to find the right key to enter the market, says Roberto Favaretto, CEO of Previnet

The 1st July saw the reforms of the Italian pension system finally come into effect. The changes involved not only affect Italy's workers but also have strong implications for the supplementary pension infrastructure, which will be called upon to manage the *Trattamento di Fine Rapporto* (TFR) for private sector workers. According to the 'Tacito Conferimento' ('silent assent') mechanism, workers who have not already decided where to allocate their TFR will see them automatically invested into a form of supplementary pension provision.

The new legislation will undoubtedly lead to a rapid transformation of the current industry as it involves approximately 13 million workers for assets estimated at around €13 billion per annum, not to mention self-employed workers, which have been estimated at almost 9 million.

Even though the 'Tacito Conferimento' mechanism does not apply to self-employed workers, new tax benefits coupled with the gradual reduction in state pensions will encourage this category of worker to seek an alternative solution for retirement provision. Finally, we must not forget that the government is also currently working on extending the pension reforms into the public sector, providing yet more potential for supplementary pension providers.

The Italian pension fund market: opportunities and complexities

The reform has brought about profound structural changes to the pension fund system. From the 1st of January 2007 restrictions privileging occupational pension funds for TFR, voluntary and employer contributions have been removed and workers now have the choice to invest into alternative pension products.

These changes represent the key opportunities within the Italian market: a more liberal market encourages competition, which not only favours workers but also gives domestic and international operators the opportunity to introduce new product initiatives. The 'deciding' deadline is the 30th of June, however, workers may alter their choice of pension fund at any time. Therefore, international operators yet to enter the market still have excellent opportunities to compete for the management of TFR assets.

Furthermore, the Italian pension fund industry will go on to present numerous future commercial possibilities as the market evolves. For example, Italian legislation allows pension funds to offer their members complementary service options such as 'death and disability' insurance cover. In fact, larger Italian pension funds are now seriously considering strategic partnerships with insurance companies in order to offer these extra services and attract new members.

However, the Italian market does present a number of obstacles, particularly when considering the intricacies of the regulatory framework. Although reforms have taken the first steps towards reducing bureaucracy by assigning COVIP as sole market regulator, many areas of great complexity still remain within the cur-

rent supplementary pension system. Therefore, even within the current environment of growing potential, we must not underestimate the implicit entry barriers to the market, primarily represented by regulatory procedures and, secondly, by the difficulty in finding effective organisational solutions.

How to access the Italian pension market

In order to exploit the opportunities on offer and overcome the complexities, new entrants to the Italian market need to address the challenges of regulatory framework and legislative requirements.

Operators looking to set-up a fund or Individual Pension Plan or distribute their pension products under the Directive 41/03 therefore need to consider these issues carefully when drawing up their Italian Market Business Plan. Other important considerations include identifying valuable industrial partnerships (fund administrators, custodian banks and insurance companies for annuity payments) and accessing widespread and properly motivated distribution networks.

Previnet, building on more than 10 years of experience in administration services for pension funds, insurance and financial products, has successfully developed a business line dedicated solely to regulatory, legal and compliance consulting services. These services aim to assist both domestic and international operators to work through the authorisation phases quickly and efficiently as well as to provide access to a network of industrial relationships.

Previnet has successfully supported companies such as AVIVA and ABN AMRO to launch their products by assisting them through the various project phases: from product engineering and market intelligence analysis to the development of IT solutions and administration services able to meet market demands and expectations.

How to stay competitive in this market

Once established within the market, the new challenges represented by ever increasing competition need to be addressed.

Although the Italian market already contains a number of pension products, potential for growth remains excellent. Scheme members are now starting to compare more closely the performance of the various products: although the distribution network will continue to play a key role in acquiring new members, other factors will certainly become more important as time goes by.

In order to remain competitive, operators must therefore be able to contain administration costs whilst enhancing service provision. One way to achieve this goal is through collaboration with a company such as Previnet, who offers tailor-made outsourcing solu-



Favaretto: 'enormous potential for growth'

tions for the administration of pension schemes. Services offered include management of the enrolment phase; member correspondence; investment management; front, middle and back office activities including NAV calculation and regulatory reporting; benefit management; personalised IT applications and support services; fiscal consulting; internal auditing and even call centre services. By entrusting this range of services to a third party outsourcer, the operator is able to minimise operational costs and guarantee high quality of service, thus gaining a competitive edge which, in a market such as this, represents the fundamental key to success.

Pan-European prospects

As of March 2007, domestic Italian regulations have been brought more into line with EU guidelines with regard Pan-European pension schemes. This opens up real possibilities for cross-border collaboration. Within this European context, domestic and international operators may work together to achieve mutual recognition and gain a wider membership base. In light of these developments, a company such as Previnet represents the key to supporting both Italian and international operators in guaranteeing that 'mutual recognition' agreements are respected, all necessary operational information is provided and, furthermore, that industry regulations are constantly monitored to ensure the smooth and successful running of the Pan-European pension fund in a market as challenging as the Italian one.

Previnet S.p.A is an Italy-based administration service provider which delivers effective and reliable ad hoc business solutions in outsourcing to:

- Over 200 Pension Funds
- Over 20 Insurance Companies
- Over 40 Investment Companies

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