



Banking and Payments Authority of Kosovo

Pursuant to the provisions of UNMIK Regulation No. 2001/35, On Pensions in Kosovo, date of 22 December 2001,

For the purpose of execution of Section 21 of UNMIK Regulation No. 2001/35 (the “Pensions Regulation”), in the matter of prescribing the manner by which Insurance Companies, Banks, and/or Financial Institutions can provide for Supplementary Individual Pensions.

Governing Board of the Banking and Payment Authority of Kosovo (BPK), at its meeting held on July 25, 2002 adopts the following:

Rule 13 on the Establishment of Supplementary Individual Pensions by Pension Providers

Section 1 Scope and Purpose of this Rule

1.1 Scope of Rule

This Rule applies to insurance companies, banks and/or financial institutions desiring to provide voluntary pension programs in the form of Supplementary Individual Pensions. This Rule applies to insurance companies, banks or financial institutions as legal entities (herein referred to “Pension Providers”) as well as to the highest governing bodies of such entities, the members of its Board of Directors, and where applicable, to the officers, employees and agents who exercise(s) discretionary functions in the administration and management of the pension program(s) and/or the pension assets.

1.2 Purpose of the Rule

This Rule prescribes guidelines for the establishment of Supplementary Individual pensions by insurance companies, banks or financial institutions pursuant to Section 21 of the Pensions Regulation.

Section 2 General Provisions

2.1 Definitions

All terms used in this Rule are as defined and stated in the Pensions Regulation and/or as further defined in this Rule.

“Early pension benefit” means a provision in the Pension Rules allowing a participant who retires before normal pension age to receive a pension. An “early pension benefit” may not begin until a participant reaches age 60.

“Beneficiary” is the person or persons designated by the participant to whom payment of his/her pension benefits is (are) to be made in the event the participant dies before his/her pension commences or during the period of pension payments to the extent of his/her outstanding pension benefits.

“Disability pension” refers to an eligibility to commence pension benefits before age 65 for a participant who suffers a qualifying disability defined by the SRSG or by a law or statute giving him/her a right to commence pensions, or as shall be defined in the applicable Pension Rules consistent with applicable laws.

“Highest governing body” of the Pension Provider refers to the board of directors of the corporate entity that is duly licensed as an insurance company, bank or financial institution.

“Normal pension age” means age 65, and “normal pension benefit” means the pension benefit to a participant that is commenced after he/she attains normal pension age.

“Pension Rules” refers to that document defined under Section 1 of the Pensions Regulation, that governs the administration and management of the pension program offered by Pension Providers specifying, among others the conditions and procedures for making pension contributions and applying for, and receipt of, pensions.

“Register of Pension Providers”, means the book or register maintained by the BPK containing a list of all licensed Pension Providers and copies of their respective Pension Rules.

“Vested right” of a participant in a Defined Contribution Supplementary Individual Pension is the amount of funds in his/her individual account. “Vested right” of a participant in a Defined Benefit Supplementary Individual Pension is the amount determined in accordance with the provisions of in the applicable Pension Rules which determination is based on method or methods of calculation approved by the BPK for determining the present value(s) of future benefit(s). Vested rights cannot be forfeited or lost but the right to use and receive the benefit arises only at, or when the participant reaches, normal pension age, early retirement, qualifying disability or death of the participant.

Section 3

Establishing a Supplementary Individual Pension

3.1 General Requirements

- a) The proposed Pension provider must either be a:
 - 1. Bank that is already licensed by the BPK according to its banking regulation and supervision rules and procedures.
 - 2. Investment or asset management company that is already licensed by the BPK as a financial institution according to its banking regulation and supervision rules and procedures.
 - 3. Life insurance company that is already licensed by the BPK according to its in insurance regulation and supervision rules and procedures.
- b) The Pension Provider and its Board of Directors are fiduciaries of the individual participants purchasing the pensions.
- c) Pension Providers must segregate the administration, management and accounting of pension assets from all other assets relating or pertaining to their other business activities.
- d) The Pension Provider of a Defined Contribution pension program is established as a management trust for the administration and management of the pension program and the underlying pension assets.
- e) The Pension Provider, through its Board of Directors appoints a Custodian and Asset Manager if it fails to meet the requirements of a Custodian or an Asset Manager in accordance with the requirements of Rule 9 and Rule 11 of these Rules, respectively.
- f) The Board of Directors, acting in behalf of the Pension Provider, applies for a Pension Provider license and registration with the BPK according to the requirements of Rule 2 of these Rules.
- g) The issuance of a Pension Provider license and registration certificate by the BPK completes the process of establishing a Pension Provider.

3.2 Specific Requirements

- a) Pension Rules. A written document (together with its amendments, if any), signed by the members of the board of directors of the Pension Provider, containing the following stipulations:
 - 1. The form of the pension fund (Defined Benefit or Defined Contribution).

2. Name, location and bank requisites of the Pension Provider.
3. Terms for enrolling individuals as participants in the Pension.
4. The procedure for making pension contributions and the obligation of participants, if applicable, including a clear description of any penalty for failure to adhere to a contribution schedule, if applicable.
5. For Defined Benefit Pension, the methodology used for actuarial calculations to determine the amount of contribution required and the procedure, time and manner, for participants to receive reporting statements on the performance of the management of the Pension Fund assets.
6. For Defined Contribution Pension, the procedures for maintaining records with respect to contributions and investment performance (income or loss) for allocation in the Individual Accounts of the Participants and the notification to the participants of the amounts outstanding in their Individual Accounts, not less frequent than annually.
7. For Defined Benefit Pension providing for Early Pension benefit, a description of the actuarial reduction required to begin payment of pensions at an earlier age.
8. Obligations of the Pension Provider.
9. A statement of investment principles for pension assets (including asset allocation, mix, diversification and other matters) and the procedure for selecting Asset Manager(s).
10. Procedure for selecting a Custodian and the custody of pension assets.
11. Terms of, procedures in and forms of payment of Pensions to the participants, including the possibility that a surviving spouse is allowed to draw a pension; the terms and amounts of such benefits and the rights of beneficiaries; the requirements for early pensions, which shall not be earlier than age 60, and the nature of a qualifying disability.
12. Terms and procedures for a participant's transfer from the Pension Provider.

13. Procedures and formalities required in the amendment the Pension Rules.
 14. Procedures required in the termination of the Pension.
 15. Such other provisions as the BPK may require.
- b) The Statement of Investment Principles. This section or part of the Pension Rules shall contain at least the following provisions:
- 1) The qualitative characteristics of the investments to ensure safety, security and profitability of the investments.
 - 2) The quantitative investment return objective and the manner by which the objective is to be achieved year by year.
 - 3) The maximum proportional limit that can be placed in one investment type.
 - 4) The maximum proportional limit that can be invested in one issuer or one entity.
 - 5) The kinds, types or classes of investments where the assets cannot be placed.
 - 6) The minimum liquidity requirements or provisions required of the total investment.
 - 7) The manner by which the investment performance is reported by the board of directors to the participants and the BPK.
 - 8) The time, frequency and manner in which the Board of Directors reviews the statement of investment principles, the procedure through which changes thereto are made and procedure in which the participant and the BPK are notified of those changes.
- c) Provision of Defined Benefit Pension. A duly licensed and authorized life insurance company can only provide a pension program promising a defined benefit pension. The life insurance company must meet the following requirements:
- 1) Maintain a continuing margin of solvency of at least 125%.
 - 2) Maintain an adequate staff of qualified individuals experienced in pensions and annuities.

- 3) Maintain the services of an actuary.
- 4) Calculate and provide Technical Provisions for the liabilities of the Defined Benefit pension arrangements in accordance with actuarial methodology prescribed by Rule 15 of these Rules.

Section 6

Principles and Guidelines in the Establishment of Supplementary Individual Pensions by Pension Providers

In the establishment of supplementary individual pensions by Pension Providers, in the formulation of their Pension Rules and in the implementation of their pension program, the following principles and guidelines are to be observed:

- a) Segregation of pension assets. The pension assets must be maintained in separate accounts and segregated from the assets pertaining to the other business activities of the Pension Provider, the Custodian, and/or Asset Managers, in all matters relating to accounting, control, custody, investment and management.
- b) Implementation of a funding system. The pension assets are funded by contributions from the individuals and the investment income derived therefrom. The fund should be allowed to accumulate in such a manner that it will adequately pay for the pension promises. In addition, the Pension Provider for a Defined Benefit pension is obliged to maintain the level of funding that matches the actuarial liabilities of its pension arrangement, at all times and to comply with the funding schedule requirements of Pensions regulation 14.11.
- c) Promotion and transparency. Pension Providers shall promote only the objectives of their pension program to provide pensions and the pensions assets are invested only to promote the pension objectives. The administration and management of pension programs must be conducted in utmost transparency requiring the board of directors to provide certain information and disclosures to the participants about the assets and their respective rights.
- d) Supervision. The investment, custody and used of pension assets are subjected to supervision to ensure that pension assets are used only for the payment of pension entitlements. The BPK Department of Pensions exercises direct and supplementary supervision over the business of the Pension Provider in all matters relating to its pension scheme, the investment and custody of pension assets. The BPK shall maintain a Register of Pension Providers that shall be open for public view during reasonable business hours.

- e) Locking-in of participants' interests. The interest of a participant in a pension program is his/her property right but this property right is made available to him/her only for pension payments when he or she reaches pension age, early pension benefit or disability pension as authorized by the Pension Rules, or to his/her beneficiary(ies) in case of death prior to the commencement of pension. Pensions are designed to provide income for old age.

Section 5
Entry into Force

This Rule shall enter into force on July 25, 2002.

Managing Director