

# Session 4: Financial Inclusion

## *Why Saving Culture Is Important*

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*DEPUTY GOVERNOR*

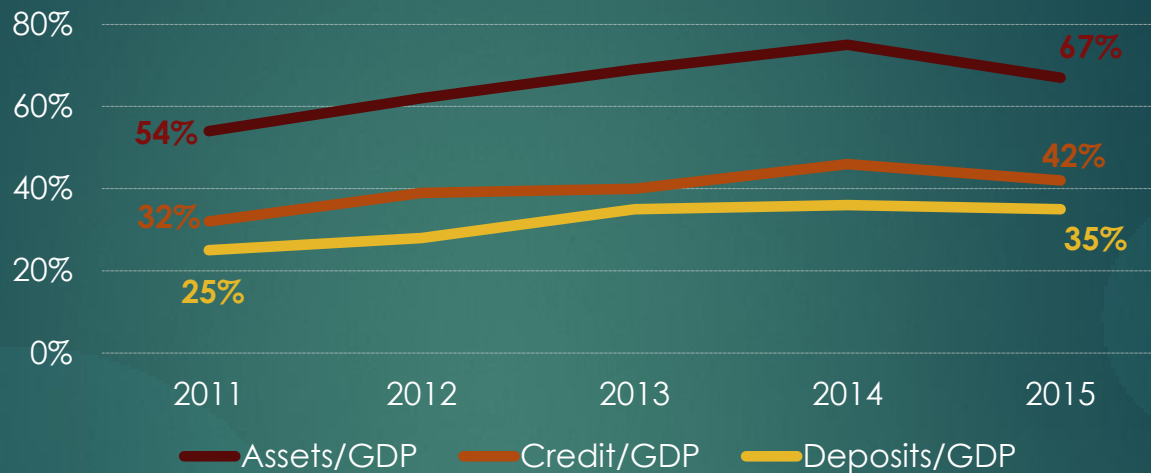
*CENTRAL BANK OF ARMENIA*

30-31 MARCH, 2016

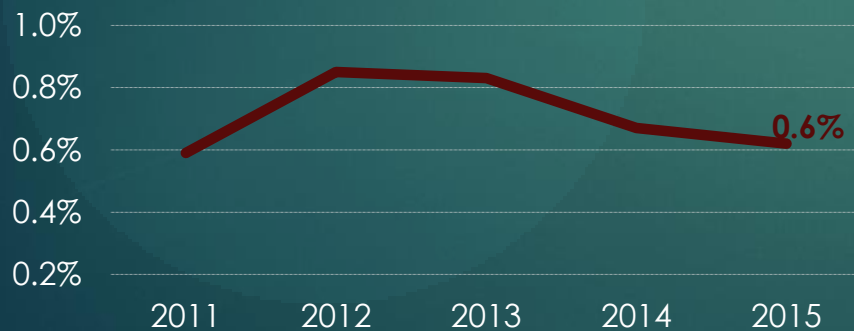
INCHEON, REPUBLIC OF KOREA

# Intermediation levels

## Bank intermediation



## Insurance premiums/GDP

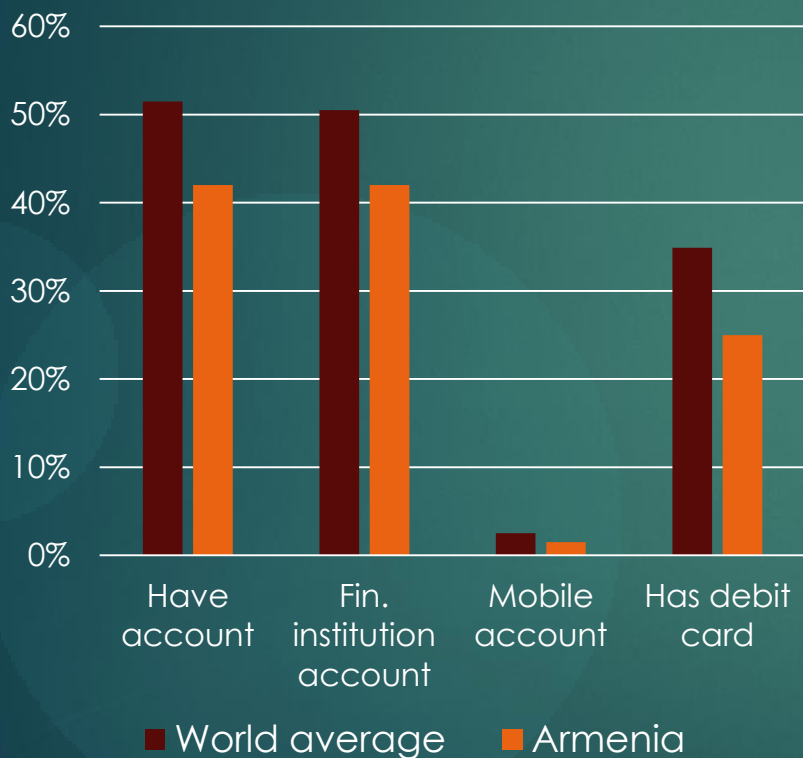


## Market capitalization/GDP

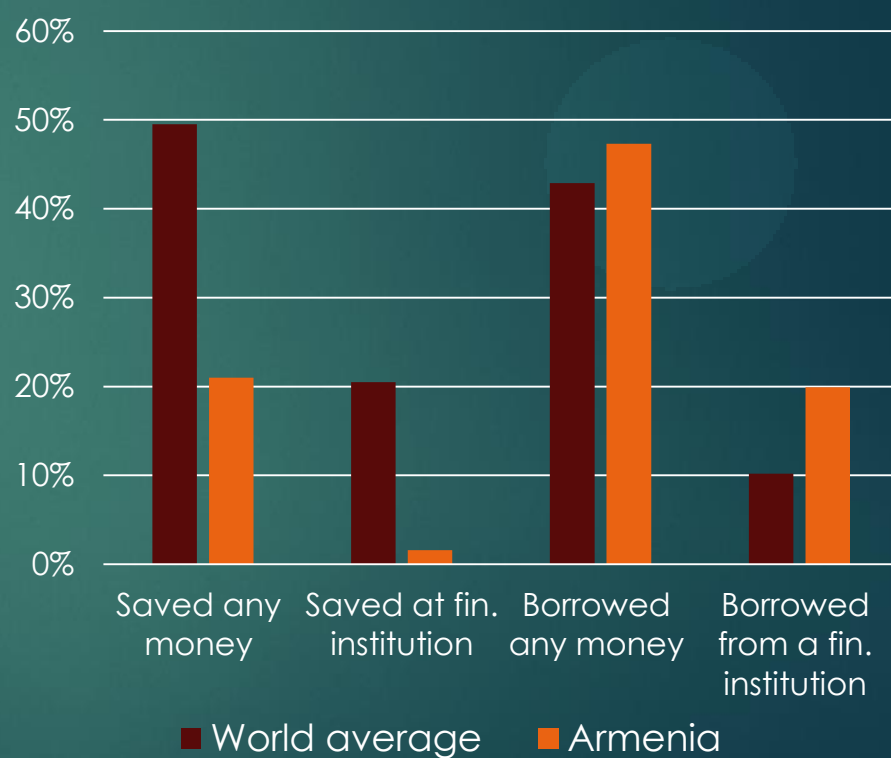


# Financial inclusion indicators 2014, 15+ population

## Access



## Usage

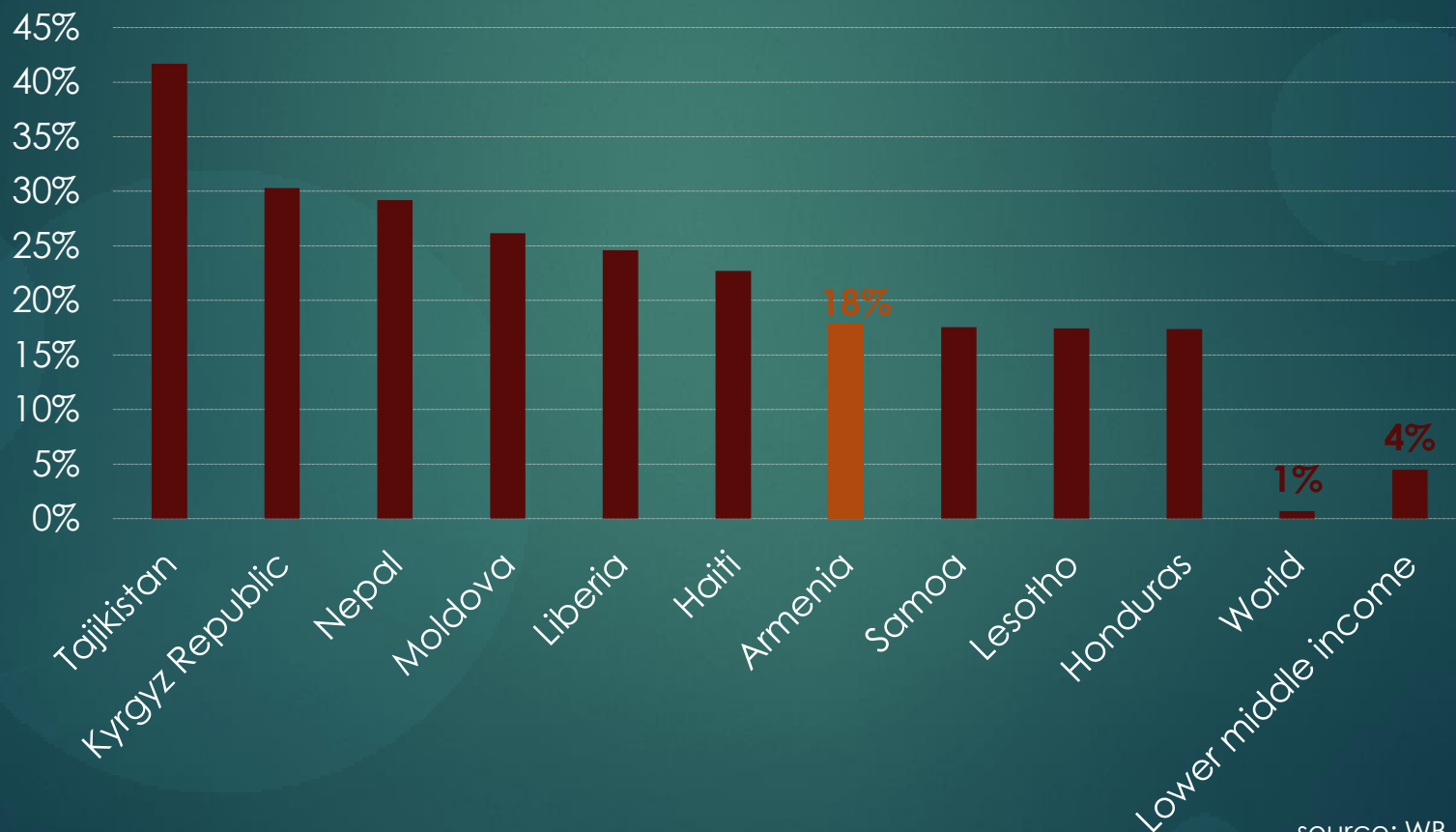


# Financial Inclusion Challenges in Armenia

- ▶ **Better serviced remittances as a possibility to deepen financial inclusion**
  - ▶ Lack of proper oversight over foreign remittances system
  - ▶ Risk exposure
  - ▶ Service quality and inefficiency
- ▶ **Pension accounts as a possibility to raise long-term savings**
  - ▶ Short-term savings
  - ▶ Absence of the savings culture
  - ▶ Absence of life insurance and undeveloped securities market

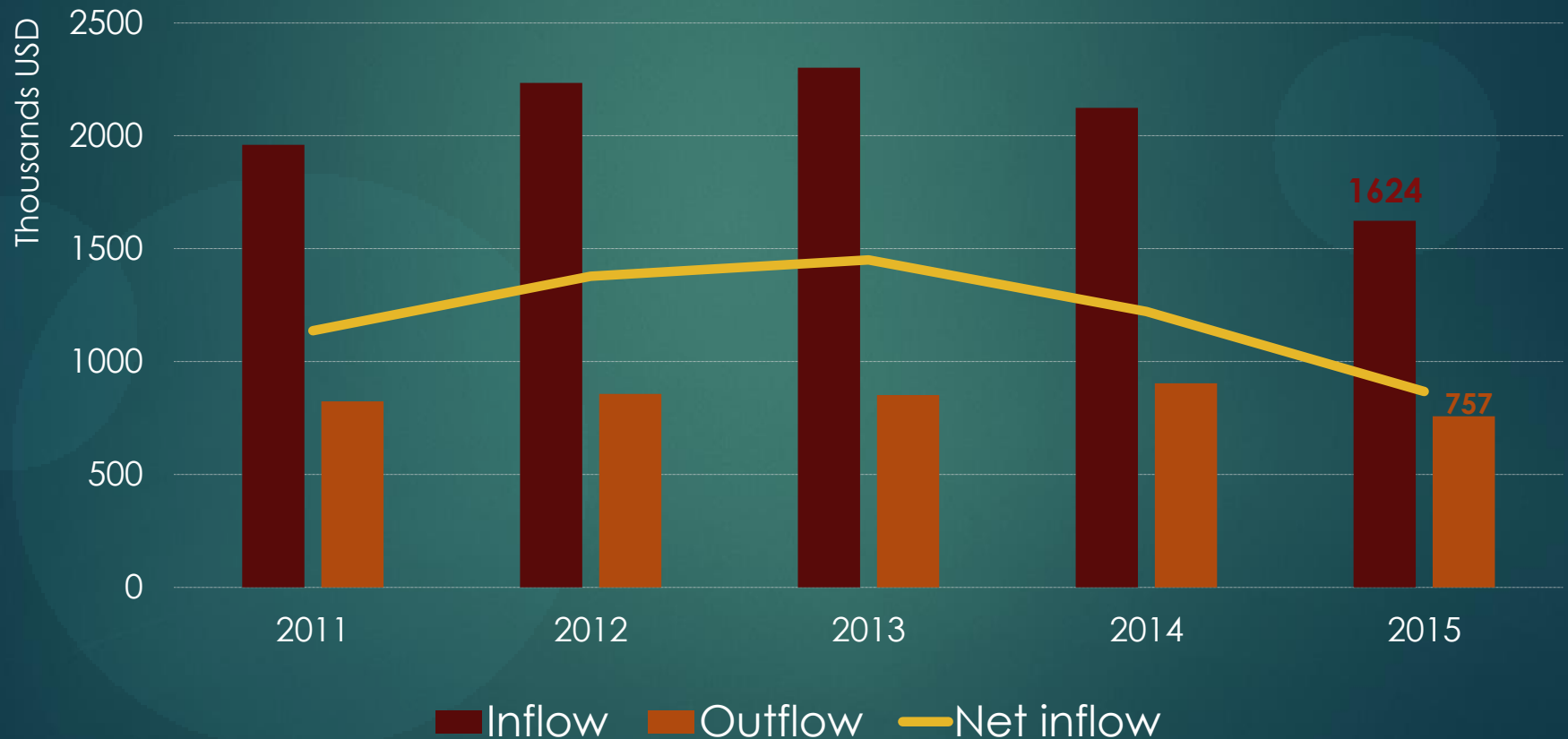
# Received personal remittances, 2014 (% of GDP)

*Armenia is one of the largest remittance receiving economies*



# Remittance transfer system

*money transfers of individuals via banking systems*



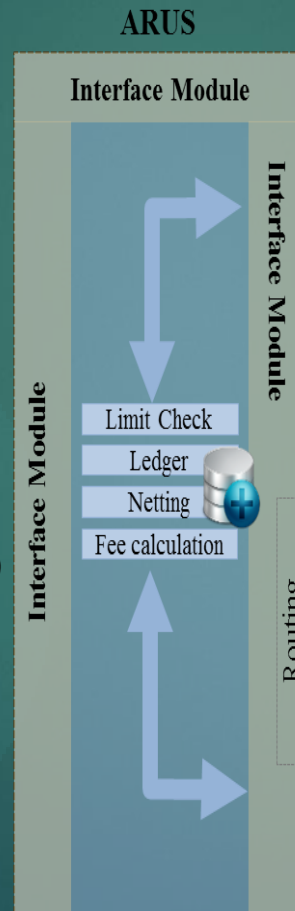
# Remittances transfer system ARUS

Commission reduction up to 3%

Armenian Participants



ARUS Transaction  
(Unified message format)



Indirect Participant  
(MTOs)



Foreign Banks



Foreign Banks



Direct Participants  
(Foreign Banks)

# Laying the Stage: Why pension reform

- ▶ Household saving culture will drive the economy towards its steady state
- ▶ Will not happen voluntarily and is not going to happen automatically with income growth
- ▶ Therefore, we need sophisticated institutions to capture those saving to make them sustainable
- ▶ FDI led growth is positive, but not sufficient and not a source of sustainable long term funding; may delay building saving culture
- ▶ Mandatory savings with supporting infrastructure to transfer them into productive investments is the solution. Has redistribution and positive fiscal implications: Is a “better tax”



# MANDATORY PENSION REFORM (II pillar)

## PENSION INFRASTRUCTURE OVERVIEW

### **Centralized pension account maintenance (Centralized registry) and Centralized custody**

- Central Depository of Armenia (CDA), owned by NASDAQ OMX group, is assigned to maintain a centralized registry of mandatory pension fund participants
- A unique Armenian Mandatory Pension Information System (AMPIS) is developed
- CDA will perform mandatory pension fund custody functions
- The administrative costs are only 0.2%

### **Decentralised pension asset management**

- Two reputable Asset managers are managing private pension funds

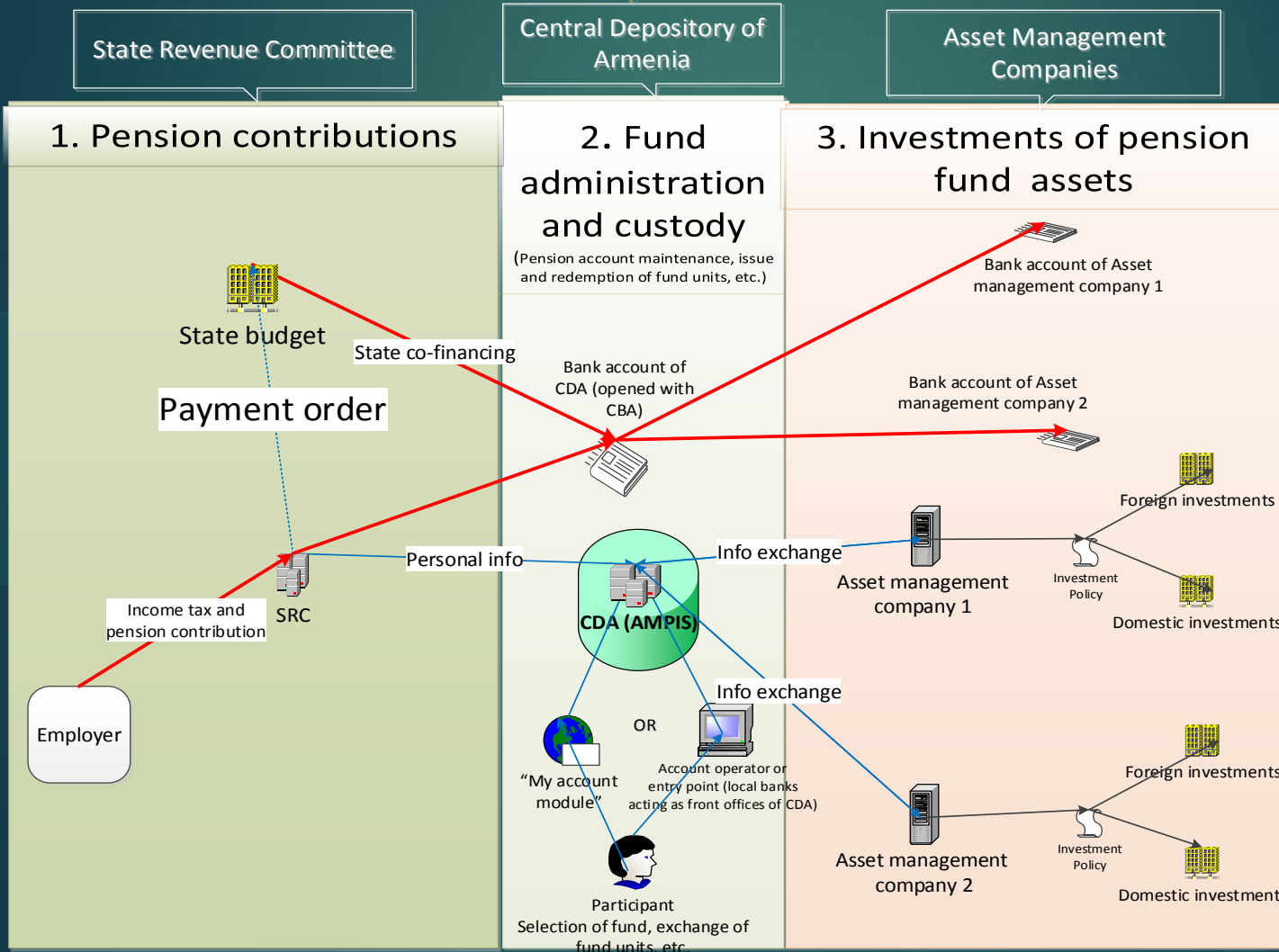
# Reform Outcomes

- ▶ Low transition cost and 40%+ replacement ratio,
- ▶ Potential Growth up by 2% annually. Fiscal surpluses after 10-14 years
- ▶ Assets under management about 20% of GDP in 10 years
- ▶ Low management (0.8%) and administration cost (0.2%)
- ▶ Potential and pressure to develop capital markets
- ▶ Life insurance products will be emerging

# MANDATORY PENSION REFORM (II pillar)

## Pension system based on PPP

### Pension Money Accumulation Phase



•Blue line indicates information flow

•Red line indicates money flow

•AMPIS (Armenian Mandatory Pension Information System)-Information system of pension account maintenance and fund administration function of the CDA

•“My account”- personal on-line connection to the personal pension account of the participant

# Thank you

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