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Article: Why does the government receive cheap UNPF money for ambiguous purposes?

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Why does the government receive cheap UNPF money for ambiguous purposes?

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The fact is, by entering WTO Kazakhstan opened its pension assets managing market to private companies. But the proposition to transfer part of the UNPF assets under the management of private companies contradicts WTO requirements. The fact is, managing companies must have access to pension funds, not UNPF assets. They have to battle for clients in a competitive environment. In turn, clients should choose themselves whom to trust with their income and under what conditions.
If we go back to the old system it is necessary to incorporate a number of improvements to eliminate past mistakes and comply with WTO requirements. And our legislators should have immediately eliminated state monopoly over pension assets management.

The main mistake of previous years lies in the conflict of interest of managing companies☒☒☒owners. With the purpose of cheap financing a financial industrial group would buy a managing company with a pension fund. Then, an affiliate subsidiary that needed financing would issue corporate bonds to be bought by the same pension fund. The managing company acted in their own interest, and not in client investors’.
That is why legislation must forbid managing companies to use pension money to buy securities of affiliated structures and to perform cross-section swaps with another managing company for buying corporate bonds as a way to avoid affiliation.
Moreover, legislation must also prohibit standard banks from possessing managing companies with pension assets, as it would immediately lead to a conflict of interest over placement of pension assets in those banks or purchase of the banks☒☒☒securities for support of capitalization and prudential norms of banks.

A similar mistake was the conflict of interest of the state. That conflict of interest is probably the biggest mistake in history of Kazakhstan. I☒☒☒☒☒ explain. Everything was designed in a way that would oblige pension funds to buy low-profit Kazakhstan treasury securities, securities of national companies and Kazakhstan banks. Previously for pension funds and today for the UNPF there is no other choice.
Experience showed that the government borrowed money from pension funds to finance its various state programs, construction of EXPO objects, etc.
The state financed national companies using pension funds savings at a very low interest rate. As a result, pension funds did not earn income

for inflation coverage. However national companies could receive financing at less than 5% interest rate in tenge. For comparison, SMEs could receive financing at 18-20% interest rate in tenge.

After the oil price drop the situation became very clear. In economy the SME sector was shrinking and state presence was expanding. Surely, employment and tax income rates were not increasing. The fact that the majority of country[redacted]cities and regions don't have SMEs as a main tax payer serves as proof. That raises a question: Why do pension funds have to provide financing to the state at very low interests for unclear purposes? If the state wants to borrow money, it has to borrow it under market conditions and by the decision of a managing company. Why loan money to the state if state expenditures are not clear to the public? It is probably more than obvious to eliminate such conflict of interest.

Managing companies must have possibility to act only in the interest of the client, not the state. It means being able to keep savings in a foreign currency , in foreign financial institutes with a high investment rating, to buy S&P500 securities, to buy highly dependable financial instruments with a fixed income. Of course, managing companies should have the possibility of inconspicuous investments into risky instruments. The essence of these possibilities lies in being able to defend various risks while receiving profit.

Let[redacted]ook into one example. A 45-year-old male has to undergo a complex surgery to remove a benign tumor. It is a question of life and death. Let[redacted]say he doesn[redacted]ave his own resources for the surgery. There is a two months queue in a state clinic. Obligatory medical insurance is only beginning to commence. The only option to pay for the paid surgery is the man[redacted]pension savings. If he has it, why can[redacted]e withdraw a part of his savings to save his own life at the cost of an expensive surgery?

The answer is obvious. Citizens must have possibility to:

a) partially withdraw their pension savings for vital medical surgeries, which are not covered by obligatory medical insurance;

б) purchase voluntary medical insurance or medical service packages at cost of investment profit for a wider and more universal medical security as an alternative to obligatory medical insurance.

It can be on an annual or biannual basis.

For instance, an employee with a monthly salary of 200 000 tenge in a year received investment profit in the amount of 15 000 tenge of pension deductions and savings. The employee decided to buy additional medical insurance for 15 000 tenge for a period of 6 months.

Pension funds will help to develop our medicine, because funding would be more competitive, which would lead to an increased quality of medical service due to the competition. The employee himself chooses a suitable medical insurance company or a membership service in a private clinic with his own insurance package and service.

What will happen? There will be a competition, the market would choose a more efficient and effective player in the market of medical service.

And in contrast, people would choose those pension assets managing companies that can increase the investment profit to buy a more expensive medical insurance with a greater coverage or service.

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