

A New Framework for Colombian Institutional Investors

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Agenda

- Context and some Figures
- Background of the current regulation
- Main objectives of the new framework

Pension Funds

Assets under management (AUM)
USD \$92 billion (27% GDP) Dec/2020

Average 10 years annual Growth = 13,6%

Real Return 2020 = 7.7%

Average real return 2010 – 2020 = 5,8%

4 pension fund managers (AFP)

Insurance Companies

Total Assets USD \$25,9 billion (9,28% GDP)

Investments USD \$18 billion (6.5% GDP)

Average 10 years annual Growth = 7.7%

43 Insurance companies

(18 Life Insurance and 25 Non-Life Insurance)

Real return 2020 (non-life) = 5.01%

Real return 2020 (life) = 4.58%

Average 2010 – 2020 (non-life) = 3.71%

Average 2010 – 2020 (life) = 4.03%

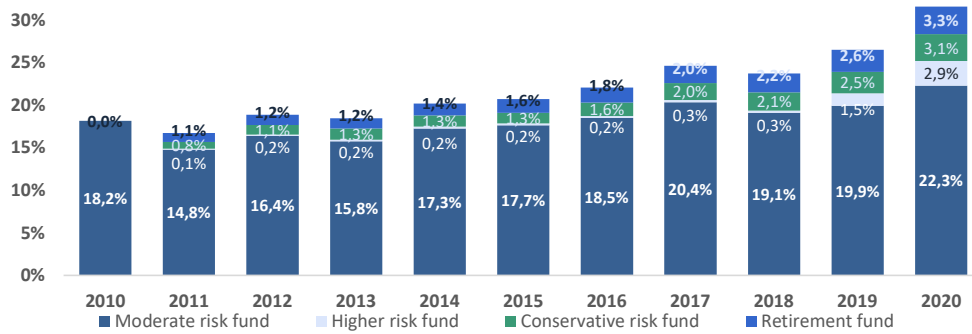
Institutional investors are a key players in the Colombian capital markets



Some figures – Pension Funds

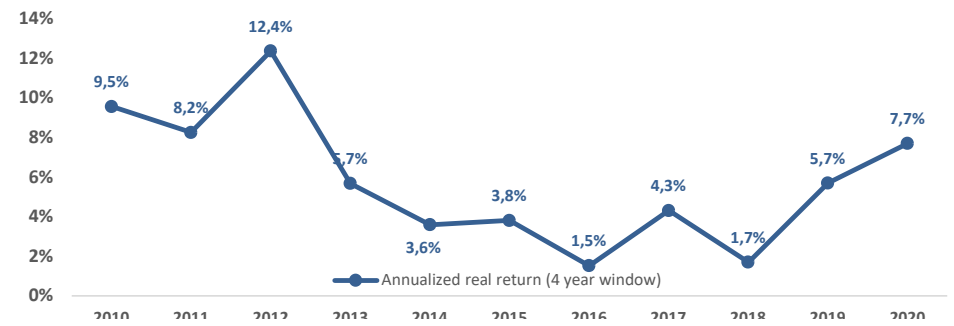
Pension funds assets - % of GDP

(figures in % of GDP)



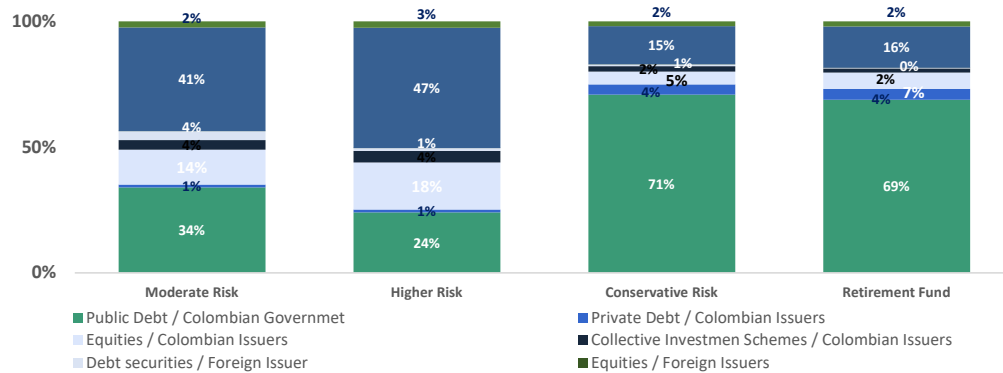
Annualized real return

(Moderate risk fund (4-year window/NAV Return methodology))



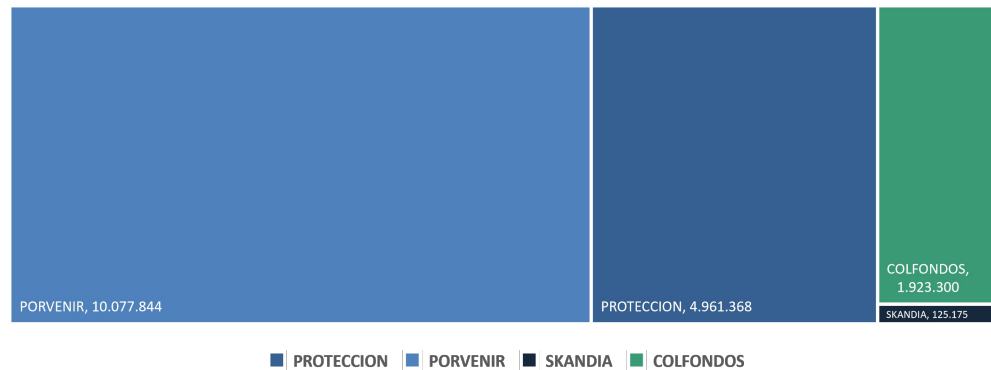
Asset allocation by pension fund

(figures in % of total investment – dec/2020)



Market share 2020

(figures in number of affiliates)

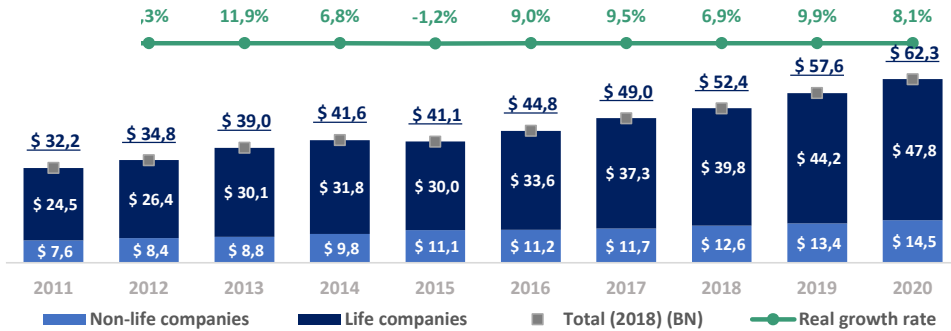


Source: Superintendencia financiera de Colombia. URF elaboration

In 10 years the real insurer portfolio investment has double

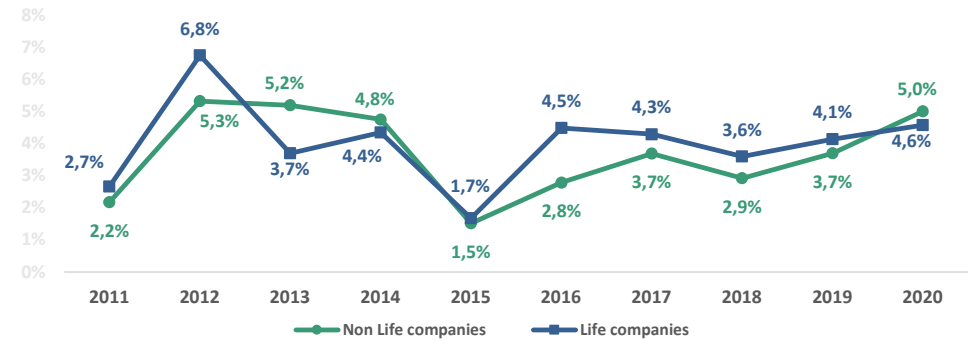
Portfolio investment

(figures in \$BN at 2018 prices and % real growth)



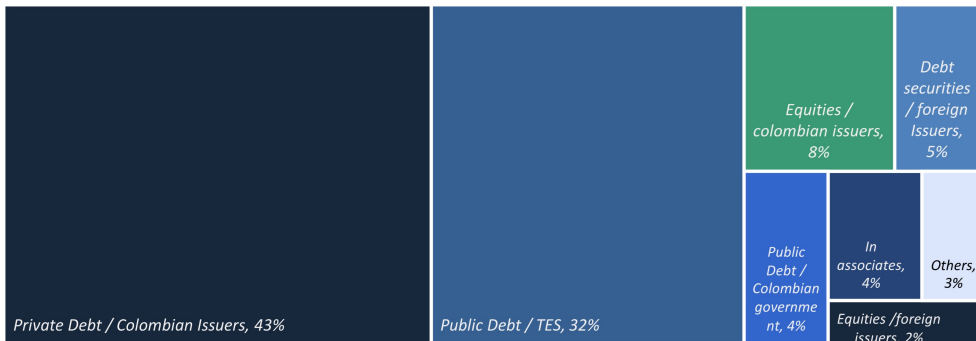
Annual return on investment

(figures in % real growth)

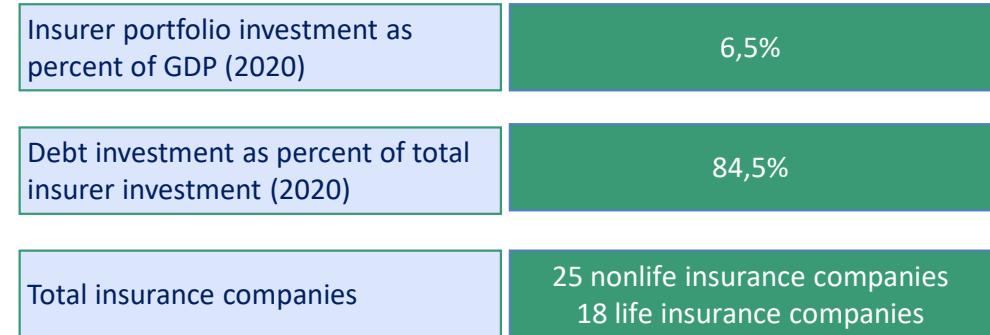


Insurer portfolio investment allocation

(figures in % of total investment)



Investment insurance companies facts





Agenda



Context and some Figures



Background of the current regulation

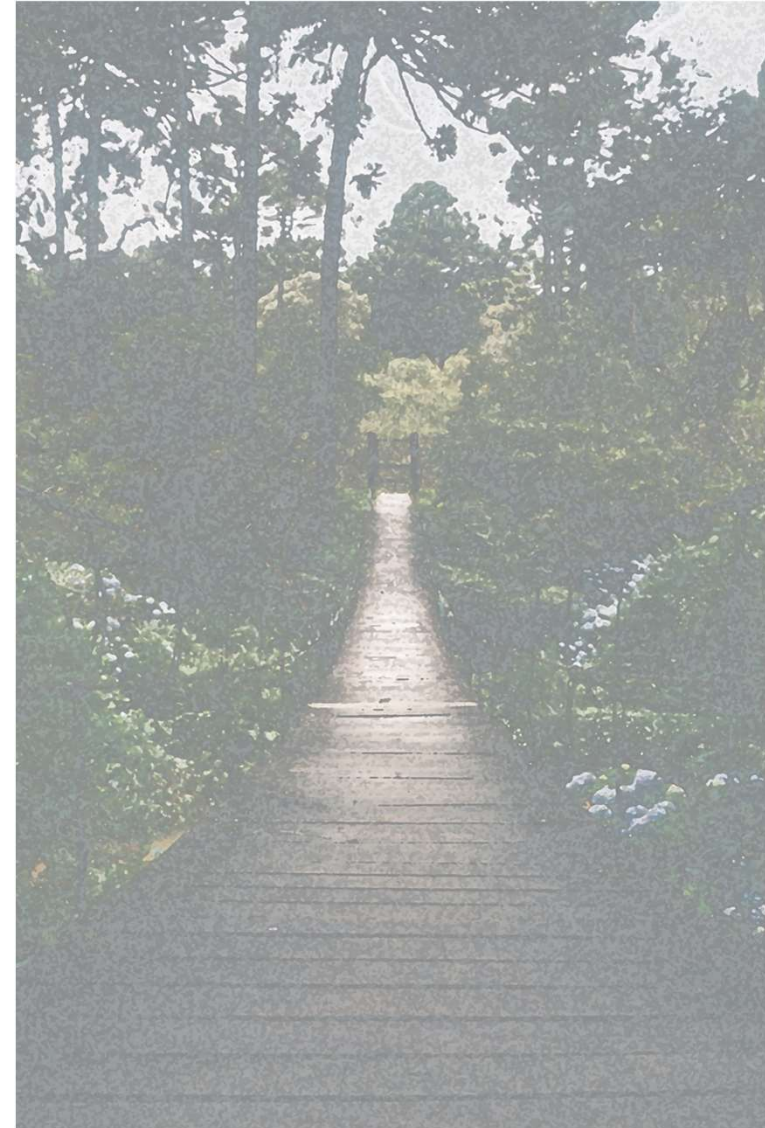


Main objectives of the new framework

During the last decades we have seen a persist growth in the workers savings

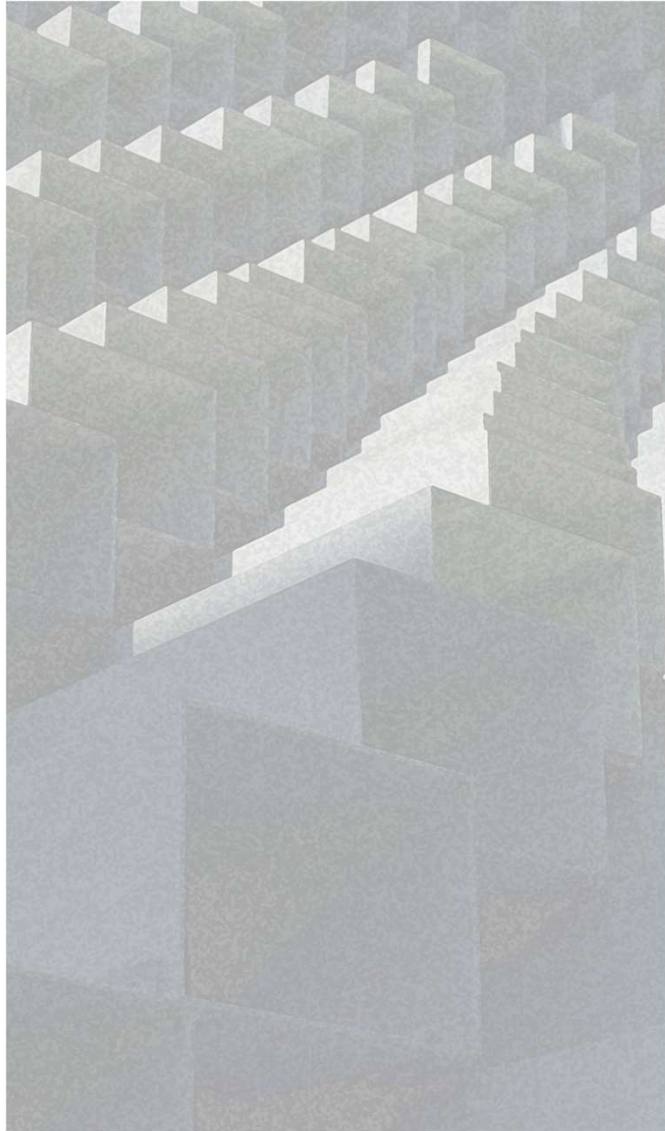
Through this process, the Regulation Agency (URF) has been playing an important role defining many characteristics of the pension funds.

- The investment guidelines of each portfolio.
- The risk profiles of the portfolios.
- Defines a default mechanism for assigning to a portfolio for those workers who do not choose among the three available portfolios
- Minimum profitability requirement.



For insurance companies, we have a rigid legal framework.

- Regulation replicates roughly the pension funds' investment regimen.
- This investment regime is not fully aligned with the objective of the Claims Reserves.
- Several investment guidelines are in a law level.



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The roadmap followed

In 2019, a Capital Markets Mission (CMM) took place.

2019

Based on the CMM recommendations, in 2020, the URF wrote a proposal bill, among other topics it has a specific chapter about institutional investors.

2020

In March 2021, the Bill 413 was presented to the Congress, and we expect that get approved this year.

2021



BILL 413 MAIN OBJETIVE - PENSIONS FUNDS

Adjust the management scheme of multiple funds to improve the long-term risk-adjusted return of workers

More and better risk profiles

Increase the number of existing funds (today there are only three) to allow better risk profiling of workers.

Incentives

Elimination of short-term obligations that are not consistent with the long-term duration of savings (Minimum profitability requirement and the reserve that supports its fulfillment)

Promote Competition

Encourage competition in price and service among the AFPs with competitive mechanisms that promote the arrival of new managers and a better distribution of market shares



BILL 413 MAIN OBJETIVE - INSURANCE COMPANIES

*Improve the portfolio management
according to their characteristics*

Tools

- Eliminate the eligible assets and investment limits from the law.
- Allow companies to make their strategic asset allocation (SAA) in accordance with the characteristics of their business

Thank you

