



PROMOTION OF NON-STATE PENSION PROVISION PRODUCTS: CHANNELS AND REGULATIONS

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ABSTRACT

Objective: The article is devoted to the study of channels for promoting non-state pension provision products in the Russian Federation. This topic remains poorly studied in the public scientific field, while it has significant development potential. The purpose of the article is to determine the channels of sales of voluntary pension products. **Methods:** The article is based on a survey conducted by the authors among representatives of 17 non-state pension funds (43% of market participants). The survey was conducted in December 2021 using an anonymous questionnaire. **Results:** The pension market remains highly regulated, and its participants are still looking for the best development strategies in such conditions. Individual investment accounts, investment life insurance, and bank deposits are classified as competitive products. State incentives in the form of tax and other preferences, as well as a more understandable mechanism of accumulation and payments in comparison with competitors, are considered the optimal way to create a competitive advantage of pension products. **Conclusion:** The results of the article can be applied in the cross-country analysis of the marketing of pension products, recommendations for the development of non-state pension provision, and construction of strategies for marketing campaigns of non-state pension funds.

Keywords: Non-state pension provision; Non-state pension funds; Promotion of pension products.



PROMOÇÃO DE PRODUTOS DE PREVIDÊNCIA NÃO ESTATAL: CANAIS E REGULAMENTOS

RESUMO

Objetivo: O artigo é dedicado ao estudo dos canais para a promoção de produtos de pensão não estatais na Federação Russa. Este tema permanece pouco estudado no campo científico público, embora tenha um potencial de desenvolvimento significativo. O objetivo do artigo é determinar os canais de venda de produtos de previdência voluntária.

Métodos: O artigo é baseado em uma pesquisa realizada pelos autores entre representantes de 17 fundos de pensão não estatais (43% dos participantes do mercado). A pesquisa foi realizada em dezembro de 2021 por meio de um questionário anônimo.

Resultados: O mercado previdenciário continua altamente regulado, e seus participantes ainda buscam as melhores estratégias de desenvolvimento nessas condições. Contas de investimento individual, seguro de vida para investimento e depósitos bancários são classificados como produtos competitivos. Incentivos estatais na forma de preferências fiscais e outras, bem como um mecanismo de acumulação e pagamentos mais compreensível em comparação com os concorrentes, são considerados a maneira ideal de criar uma vantagem competitiva dos produtos previdenciários. **Conclusão:** Os resultados do artigo podem ser aplicados na análise cross-country da comercialização de produtos previdenciários, recomendações para o desenvolvimento da provisão não estatal e construção de estratégias para campanhas de marketing de fundos de pensão não estatais.

Palavras-chave: Previdência não estatal; Fundos de pensões não estatais; Promoção de produtos de previdência.

1. INTRODUCTION

Non-state pension provision (NSPP) is an additional type of pension insurance, the purpose of which is to pay funds to the insured person upon the onset of the age determined by the contract with the non-state pension fund (NSPF) (Kirillov 2011).

NSPP has been developing in the Russian Federation since 1993 and has a sufficiently developed regulatory legal framework regulating the market. The last significant changes in the field of NSPP took place in December 2018, when NSPF underwent the procedure of corporatization and changed its status from non-profit organizations to joint-stock companies.

As a rule, special studies touch on the role of NSPP in the pension system of Russia (Fatkhislamova 2019; Kravchenko 2020) and methods of developing corporate pension programs (Bataev 2017; Abramov 2021) and improving the efficiency of NSPFs (Nikolaeva 2019; Ogorelkova 2020).

We will highlight the analysis of the relationship between the parameters of pension schemes and their demand in the market (using the example of the pension system of



Chile) among the publications devoted to the analysis of the funds' performance improvement (Flanders, Nungsari, and Parada-Contzen 2022). We investigated three legally-established methods of collecting funds from pension funds for conducting activities: from levied fees, from the profit received, or a two-level fee, which includes an established fee from a guaranteed rate of return and allows funds to charge an additional fee from profits exceeding the established rate. The analysis showed that the two-level fee is the least profitable for citizens participating in the system, despite the formally best conditions that it can provide.

N. Ubber, S. Klein, and J. Jerusalem in their publication give a positive assessment of the use of ETF in portfolio investments of NSPFs in Germany because this can increase the profitability of pension schemes at relatively low risks (Ubber, Klein 2020).

The OECD study (2020) was devoted to the use of digital technologies in the NSPP market, where key development parameters were highlighted: tokenization, the growing role of open-banking, big data, and artificial intelligence. In addition, the importance of a client-centric approach is noted, in which personalized financial products are provided, and the consumer increases their awareness through financial literacy.

J.K. Henzen, A.O.I. Hoffman, and R.M. Dolan note that the relationship between the intention to install a mobile application for a future pension (retirement app) and the involvement in its use increases as the retirement age approaches (Henzen, Hoffmann, and Dolan 2021). We also note that factors such as the computing power of the application, the previously used financial application, and the apparent ease of use of the application for future retirement have an implicit effect on the intention of consumers to install the application.

We highlight the publications of E.V. Shapiro (Proskuro 2014) and D.N. Ermakov (2016) analyzing publications in the Russian scientific field devoted to the marketing of NSPFs.

E.V. Shapiro emphasizes that the role of marketing is reduced to the most important initial stage in the formation of a financial strategy when creating a pension fund or its adjustment following the rebranding accompanying the change of ownership.

D.N. Ermakov postulates the need for fundamental changes in federal legislation as a key factor in improving the effectiveness of NSPF marketing. Special attention should



be paid to the proposal to consolidate a model that reveals the dependence of investment strategies of an NSPF on the age of the client.

The conducted literature review showed the relevance of marketing research of NSPFs since such publications will improve the quality of research on the market of NSPP in general, as well as provide sound recommendations for its development, including for the regulator.

In this article, this need is combined with the latest trends in the development of the pension savings market concerning the digitalization of the market.

HYPOTHESIS

One of the most relevant areas for the development of interaction between NSPFs and their existing and potential customers in the next few years will be interaction through marketplaces in the form of online platforms and mobile applications.

After postulating the hypothesis, the role of NSPP in the pension system of the Russian Federation is characterized and a conclusion is given about its auxiliary role, which, however, is significant for at least 6 million people, with whose participation almost 1.5 trillion rubles of pension reserves have been formed.

Next, the methodology of the conducted survey of representatives of NSPFs – market participants – is revealed and an overview of the results obtained is given. In conclusion, the key findings of the study are summarized.

2. METHODS

The questionnaire sent to the survey participants includes 18 closed questions and 1 open question. The full list of questions is given at the link (Survey, n. d.).

The survey was conducted anonymously, however, questions for the classification of funds were asked regarding the amount of pension savings under management (question 1) and the number of pension reserves under management (question 2).

Based on the data, we grouped the funds into 4 groups:

- less than 1 billion rubles under management (2 funds);
- from 1 to 10 billion rubles under management (3 funds);
- from 10 to 50 billion rubles under management (6 funds);
- over 50 billion rubles under management (8 funds).

Questions 3 to 18 related to various aspects of the interaction of NSPPs with clients. Respecting the right to the confidentiality of information, respondents were allowed independently to decide to what extent they would fill out the questionnaire.

The greatest number of deviations were recorded on questions concerning information about personal accounts of clients (questions 16, 17) and about the age of clients (question 13). These questions were not answered by 3 respondents (15%). The analysis of these questions was accompanied by an appropriate disclaimer warning that the sample had been reduced in comparison with the answers to the remaining questions.

3. RESULTS

THE PLACE OF NSPP IN THE PENSION SYSTEM OF THE RUSSIAN FEDERATION

According to the OECD methodology, voluntary pension savings belong to the third level of national pension systems. Let us briefly reflect on the main differences between NSPP and other levels of pension systems (Table 1).

Table 1. The main differences between NSPP and other pension systems

	Level 1 State pension provision	Level 2 Mandatory pension insurance	Level 3 Non-state pension provision
Mandatory/voluntary nature of participation	Obligatory (participation by default upon citizenship)	Obligatory (participation upon the fact of employment/entrepreneurial activity)	Voluntary
Purpose	Protection from poverty	Protection from poverty	Formation of the target pension amount
Source of formation	Taxes (state budget)	Mandatory insurance premiums	Voluntary insurance contributions
Types of payments (using the example of the Russian Federation)	· basic pension; · minimum pension	<ul style="list-style-type: none"> • Old-age/disability/survivor's insurance pensions; • Funded pensions (are assigned simultaneously with insurance if there are savings) 	Non-state pensions

Source: Compiled by the authors

A distinctive feature of the NSPP is its voluntary nature, i.e. if the state pension system in Russia is based on the principle of mandatory pension insurance and

mandatory insurance contributions, then NSPP is based on the voluntary choice of an NSPF, a specific pension program, the number of contributions paid.

The purpose of NSPP is to form an additional pension to the state pension for the future pensioner, providing a higher standard of living at retirement age.

There are corporate and personal pension schemes in NSPP. According to the OECD, a corporate pension scheme is a voluntary agreement between an organization, its employees (or a trade union organization), and an NSPF on the conditions for the formation and payment of a corporate pension for employees (OECD, 2005).

An analysis of the NSPP market in Russia in 2011-2020 showed that the number of participants did not exceed 6.8 million people even at peak values (Figure 1), while the number of pensioners is about 36 million people in compulsory pension insurance. This indicates the auxiliary role of NSPP in the national pension system. The prerequisites for this originate in the low incomes of the majority of the population, distrust of financial institutions in conditions of low financial literacy, unwillingness to form long-term savings in conditions of high inflation.

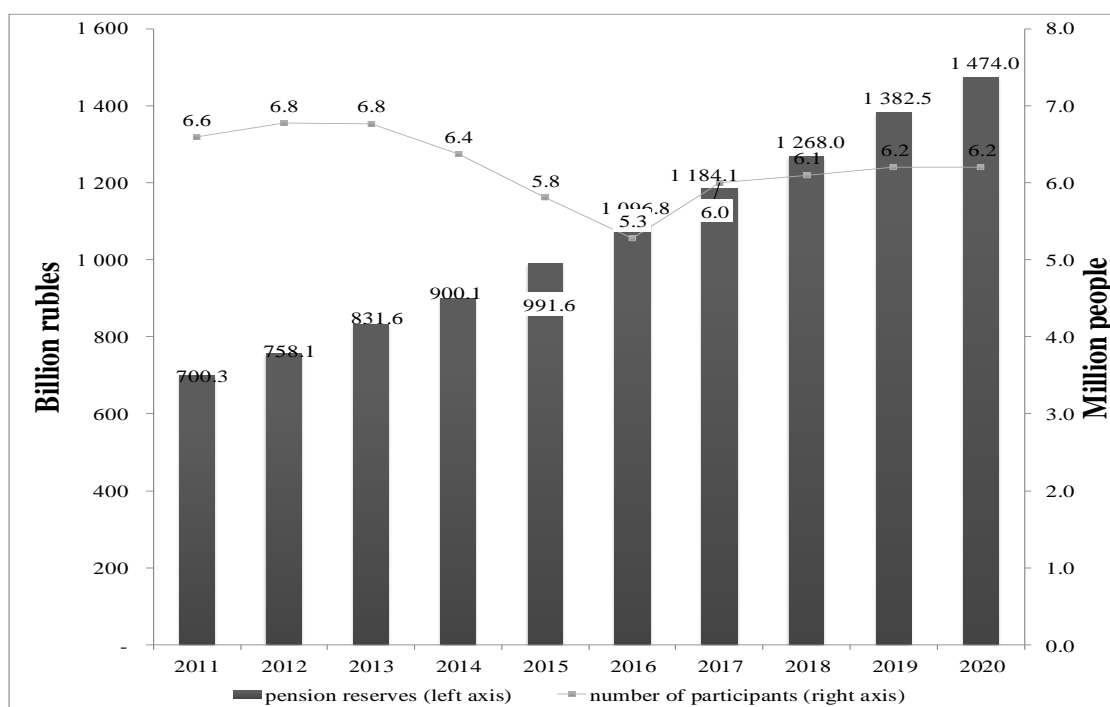


Figure 1 – Dynamics of the NSPP market in the Russian Federation. Source: Compiled by the authors based on data from the Bank of Russia

The volume of pension reserves amounted to slightly less than 1.5 trillion rubles in 2020, which was the largest amount for the entire period of the market's existence.

The increase in pension reserves in 2020 amounted to 6.6%, which was the lowest increase in 10 years. However, this is still higher than the official inflation rate of 4.9%.

The number of pension recipients exceeds 6 million people (2020 – 6.2 million people) but remains below the peak values of 2012-2013 – 6.8 million people. A slight increase may be associated with an increase in public interest in personal pension plans.

Another stable trend is market consolidation (Figure 2).

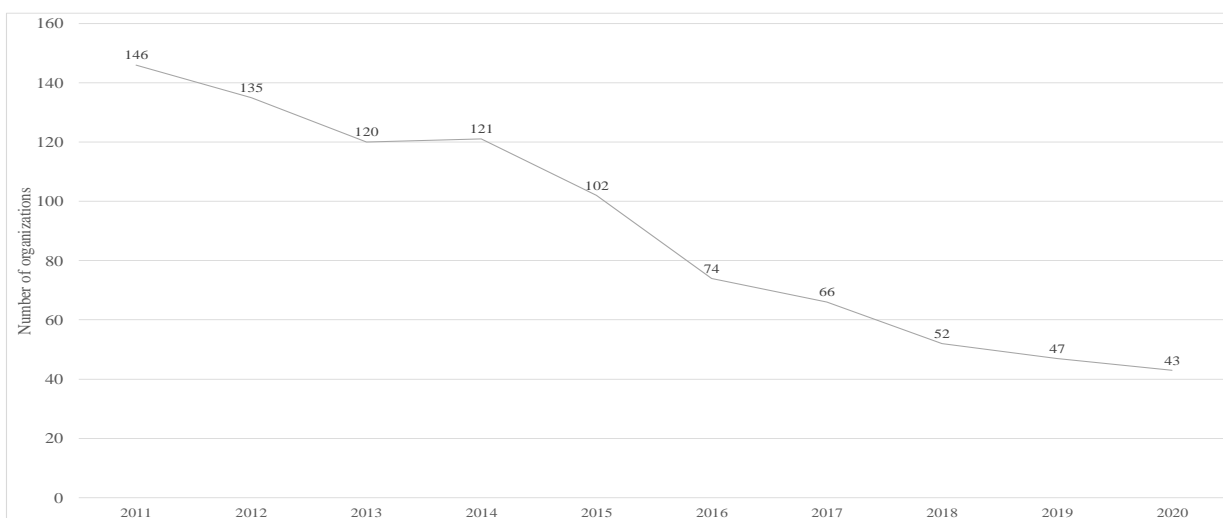


Figure 2 – Number of NSPF engaged in NSPP activities. Source: Compiled by the authors based on data from the Bank of Russia

This trend is regularly pointed out both in Bank of Russia reviews and in expert publications (Voronin 2020; Kravchenko 2020). However, the evidence of the trend does not negate its influence.

The importance of the effectiveness of NSPF and their marketing strategies increases in the conditions of market consolidation.

We will proceed to the methodology of the survey and the analysis of the results obtained having determined the place of NSPP in the pension system and the role of non-state pensions in the Russian Federation.

Survey results

The volume of pension reserves was selected as a parameter for comparing respondents' responses. The distribution of respondents showed that 10 out of 19 NSPFs have pension reserves of less than 50 billion rubles, and the remaining 9 respondents – more than 50 billion rubles (Figure 3).

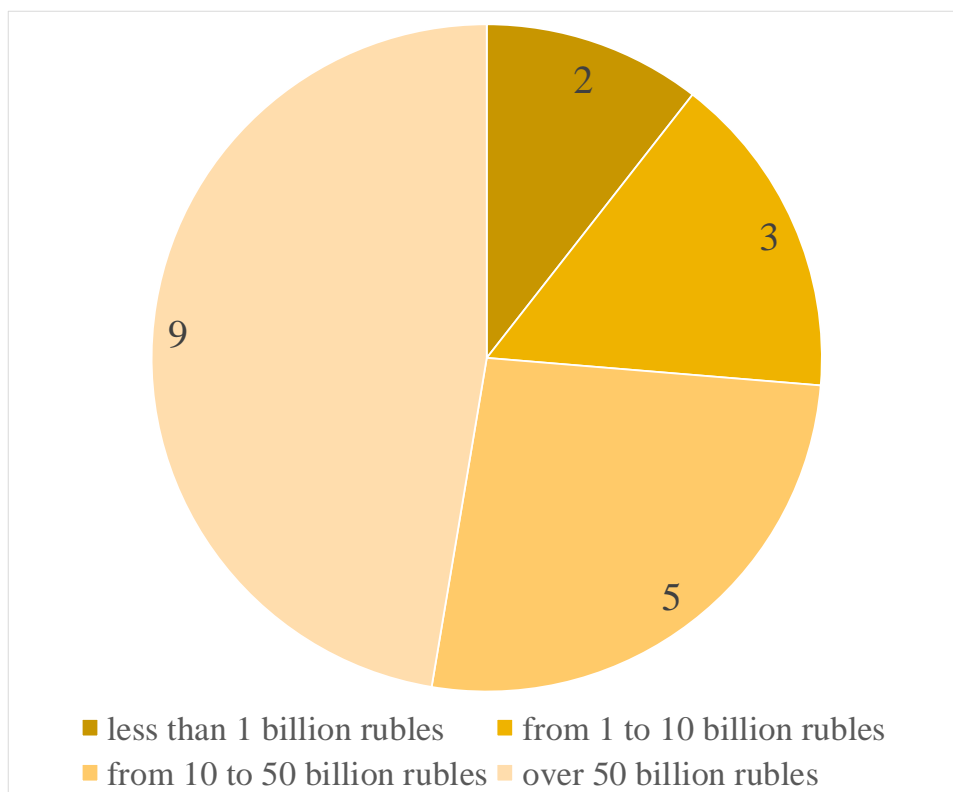


Figure 3 – Distribution of respondents – NSPFs depending on the number of pension reserves. Source: Compiled by the authors based on the results of the NSPF survey

The distribution of respondents confirms the thesis about the consolidation of the NSPP market: about half of the respondents can be attributed to major players.

Funds choose approximately the same sales channels, giving priority to their sales in online and offline format (Figure 4). Therewith, large funds, among other things, single out other offline partner sales as one of the key sales channels (8 respondents, not a single respondent chose this answer option among small funds), which may be due to the larger scale of the business.

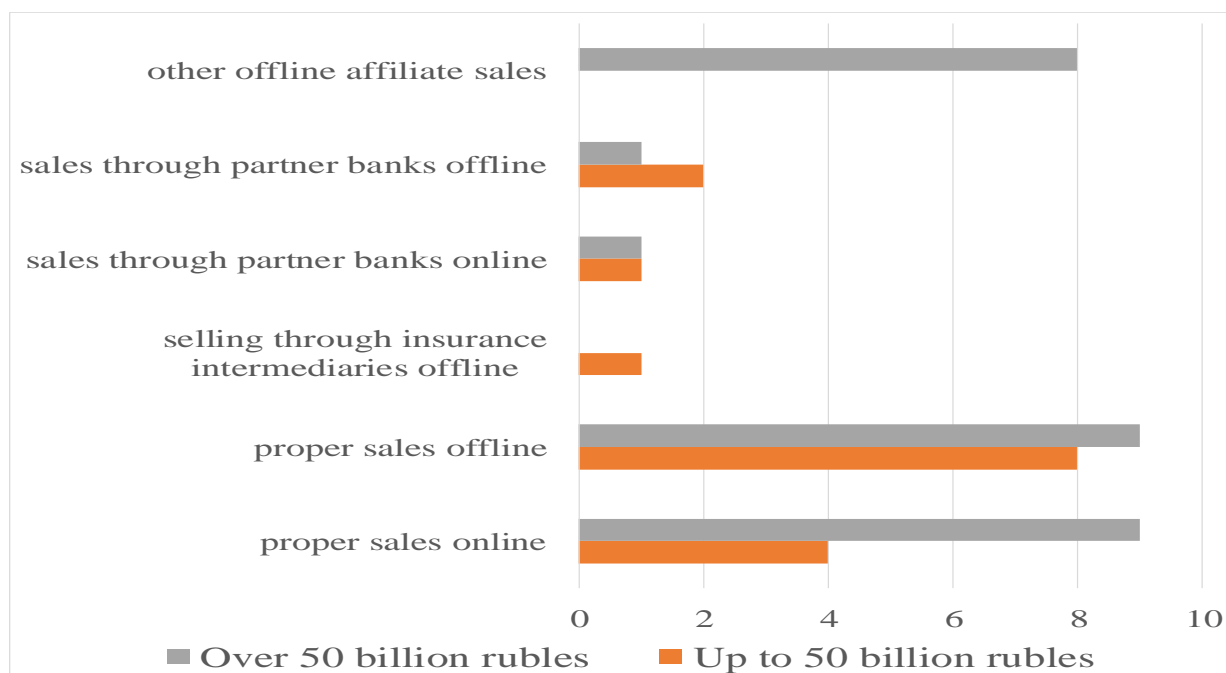


Figure 4 – Distribution of answers to question 3: which of the listed sales channels can you identify as the most significant for your NSPF at the moment (respondents had the opportunity to choose several answer options). Source: Compiled by the authors based on the results of the NSPF survey

All large funds answered "No, disagree" (9 respondents) to the question "As a result of the coronavirus pandemic, a significant number of organizations have reduced spending on corporate pension programs. Now, personal non-state pension provision is becoming increasingly important". The answers of small funds are more diversified: 2 respondents agreed with the statement, 4 disagreed, and 4 more partially agreed.

This is because, as a rule, small funds operate in a certain segment of the market – corporate or personal NSPP, and they can react more sensitively to changes in customer behavior.

The following two questions relate to the issues of digitalization of NSPF:

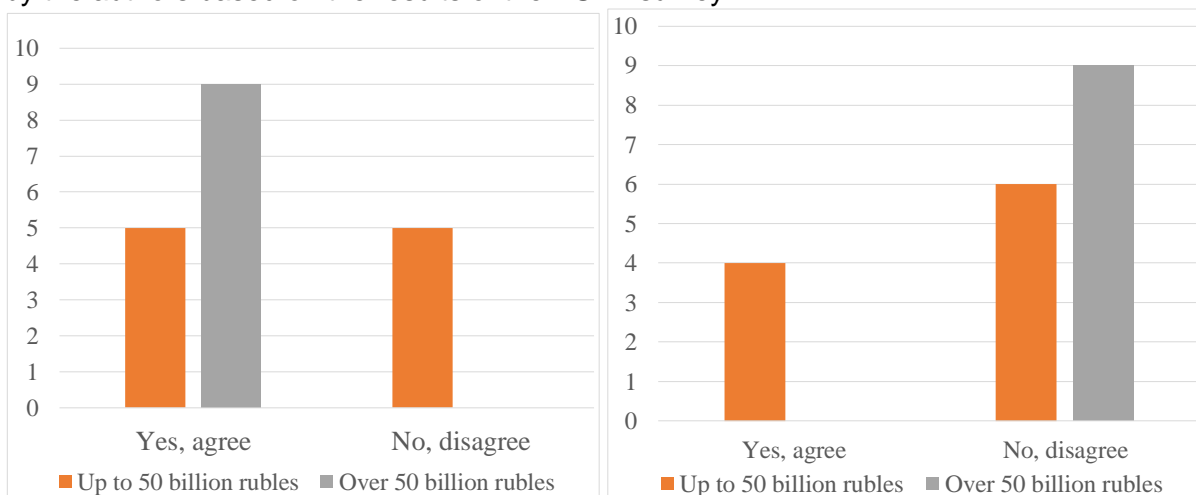
- Question 5: "Online sales of pension products through financial marketplaces have the greatest potential to increase the number of NSPF clients in the conditions of digitalization of the economy";
- question 6: "NSPP is a complex product that is more effective to promote through offline sales". Do you agree with this statement?

The answers to these two questions show differences in the behavior of the two groups of funds:

- small funds, as a rule, prefer more diversified marketing with an emphasis on offline;

- large funds see prospects in the digitalization and development of online sales (Figure 5).

Figure 5 – Respondents' answers to questions 5 and 6 of the questionnaire. Source: Compiled by the authors based on the results of the NSPF survey



Question 5. "Online sales of pension products through financial marketplaces have the greatest potential to increase the number of NSPF clients in the conditions of digitalization of the economy"

Question 6. "NSPP is a complex product that is more effective to promote through offline sales". Do you agree with this statement?

The difference in the assessment of the prospects for digitalization of the industry is particularly evident in the answers to question 7: how will the opening of financial marketplaces for NSPF affect your business?

Only 30% of small NSPFs rated this measure positively (3 respondents out of 10), while the share of optimists increases to 89% among large NSPFs (8 respondents out of 9).

Funds see individual investment accounts (100% of large funds and 70% of medium-sized funds have chosen), cumulative life insurance (22% of large funds and 90% of medium-sized funds), and investment life insurance (89% of large funds and 60% of medium-sized funds) as a competitor product to non-state pension provision when promoting online sales through marketplaces funds) (Figure 6).

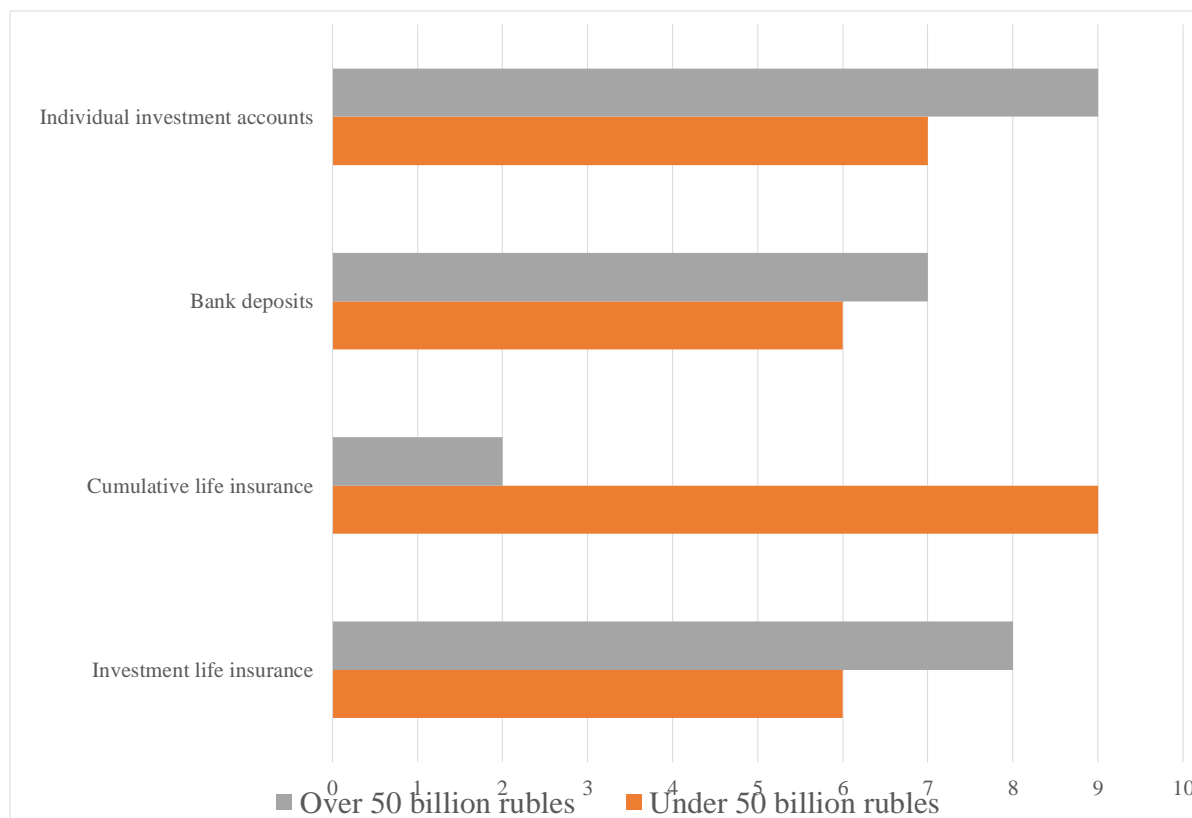


Figure 6 – Respondents' answers to question 8: Imagine a situation in which financial marketplaces have opened for NSPFs. What do you think, which of the listed products will non-state pension provision compete with (it is possible to choose several answers)? Source: Compiled by the authors based on the results of the NSPF survey

The main competitive advantages of pension products are incentives from the state and a more understandable mechanism of savings and payments in comparison with competitors (Figure 7). One of the medium-sized funds, in addition to the announced advantages, allocated an annual income fixation.

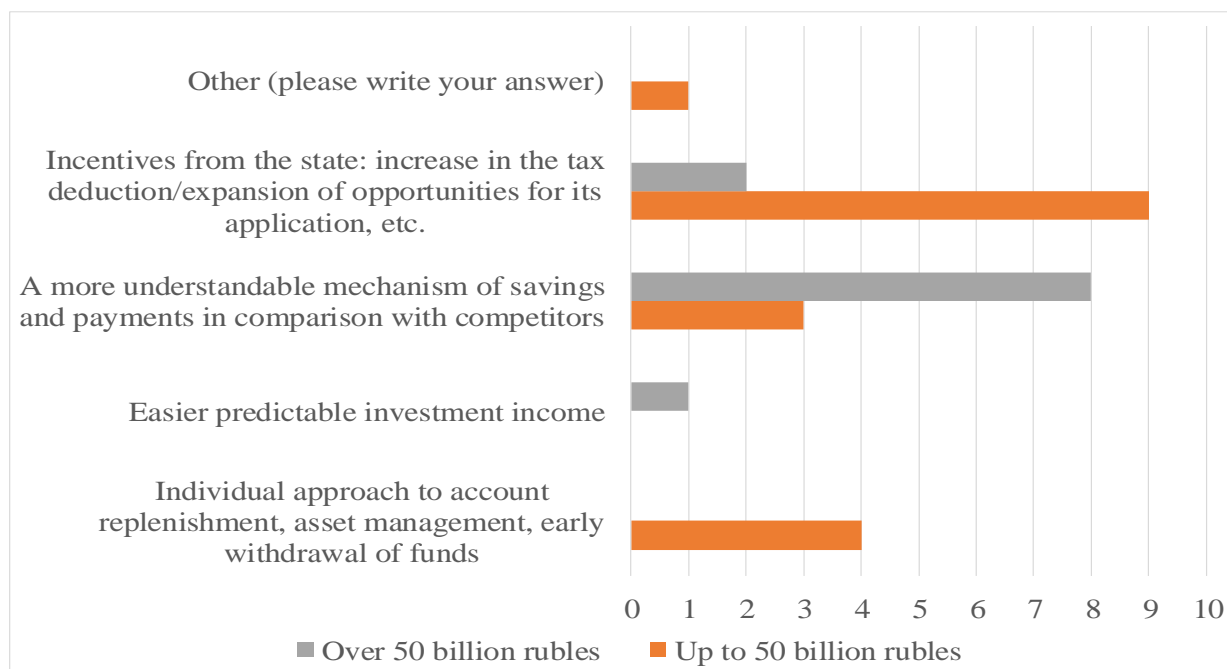


Figure 7 – Respondents' answers to question 9: What can be a competitive advantage of pension products in comparison with other similar products?

Source: Compiled by the authors based on the results of the NSPF survey

Funds highly note attractive returns due to the choice of investment strategy and the availability of state guarantees of safety among the characteristics that pension products placed on financial marketplaces (question 10) should have.

Taking into account the answers to question 9, this gives a picture in which the funds are ready to respond adequately to the preservation of a high degree of state regulation of the industry, provided the number of clients increases.

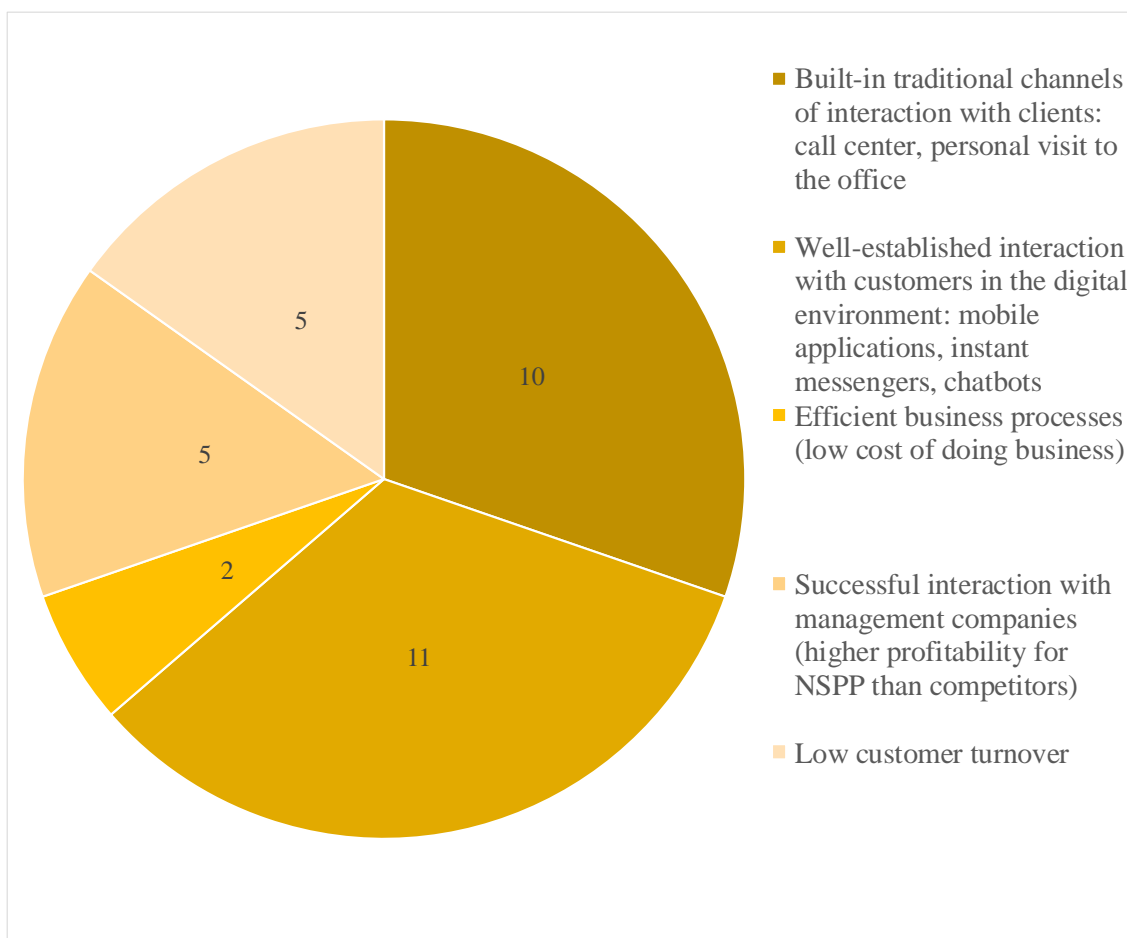


Figure 8 – Respondents' answers to question 11: What competitive advantage for customers can you single out from your NSPF in comparison with other representatives of the industry? Source: Compiled by the authors based on the results of the NSPF survey

When choosing their competitive advantage, NSPFs especially note the advantages associated with customer interaction: well-established interaction with customers in the digital environment (11 respondents) and built traditional channels of interaction with customers (10 respondents) (Figure 8). This underlines the importance of sales and building relationships with customers in the eyes of experts from the NSPF.

The most popular expected scenarios for the development of the NSPP market in Russia are market consolidation and a significant increase in online sales (respectively, 18 and 13 answers) (Figure 9).

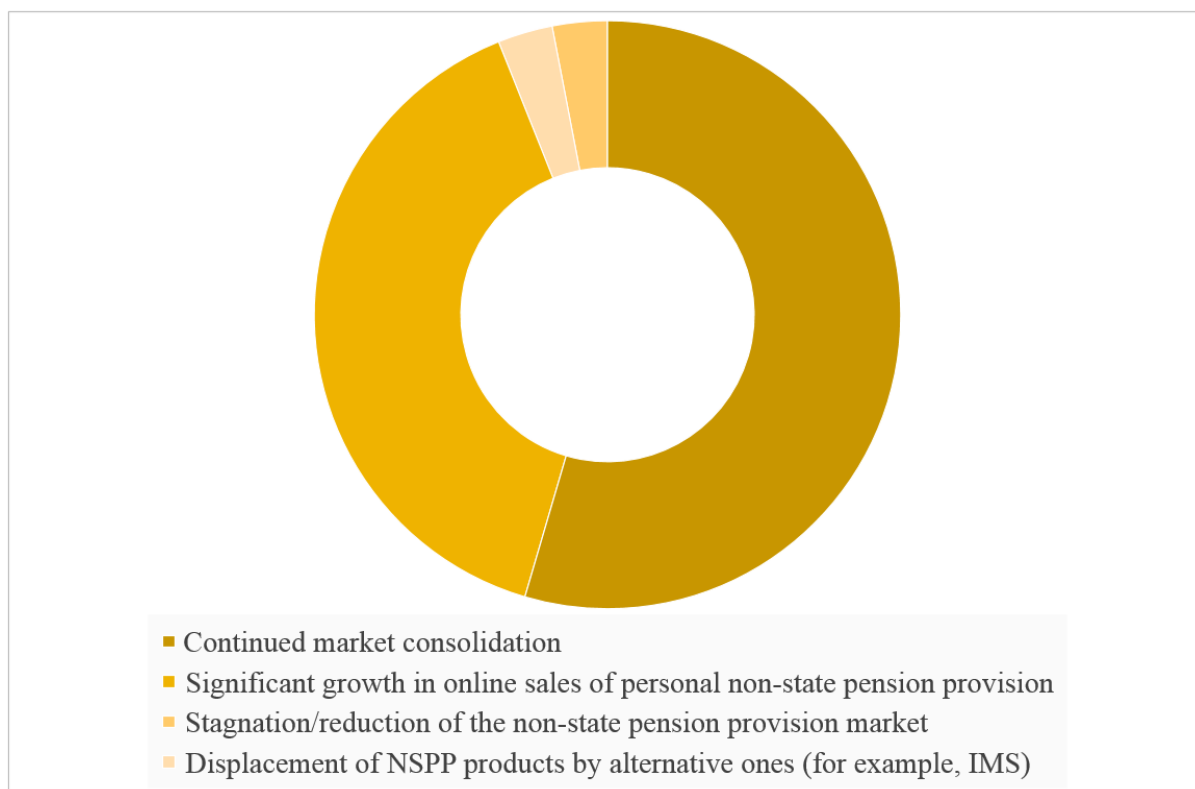


Figure 9 – Respondents' answers to question 12: Which of the listed scenarios for the development of NSPP do you consider the most likely (it is possible to choose several answers)? Source: Compiled by the authors based on the results of the NSPF survey

This is followed by a block of questions concerning the vision of NSPFs of their target audience (questions 13-17).

The experts of the funds gave their audience the following characteristics:

- age 31-50 (question 13, the most popular answers when choosing age characteristics are 31-40 and 40-50 years);
- the client's income can be average (question 14; income from 60 to 100 thousand rubles per month) or significantly higher than average (above 140 thousand rubles per month);
 - the main sales channel is corporate pension plans (question 15; medium-sized funds evaluate corporate and personal sales approximately equally, while large ones give a clear preference to corporate sales);
- the average size of a client account opened through online channels is less than 100 thousand rubles (question 16);
- approximately, accounts opened through online channels are replenished annually in the amount of up to 20 thousand rubles (question 17).

The respondents' answers for the most part correspond to the general economic situation in the country. Thus, the average monthly salary in Russia is 55.6 thousand rubles per month (Rosstat, 1991-2021), the average age of those employed in the economy is 41 years (Rosstat. The situation on the labor market in tables, graphs, charts). The low size of client accounts opened through online channels is associated with the relative novelty of these channels.

The final closed question concerned sustainable finance and, in particular, ESG assets (Figure 10). Only 22% of respondents note that they would be willing to place pension reserves in ESG assets if there are benefits from the regulator (Bank of Russia).

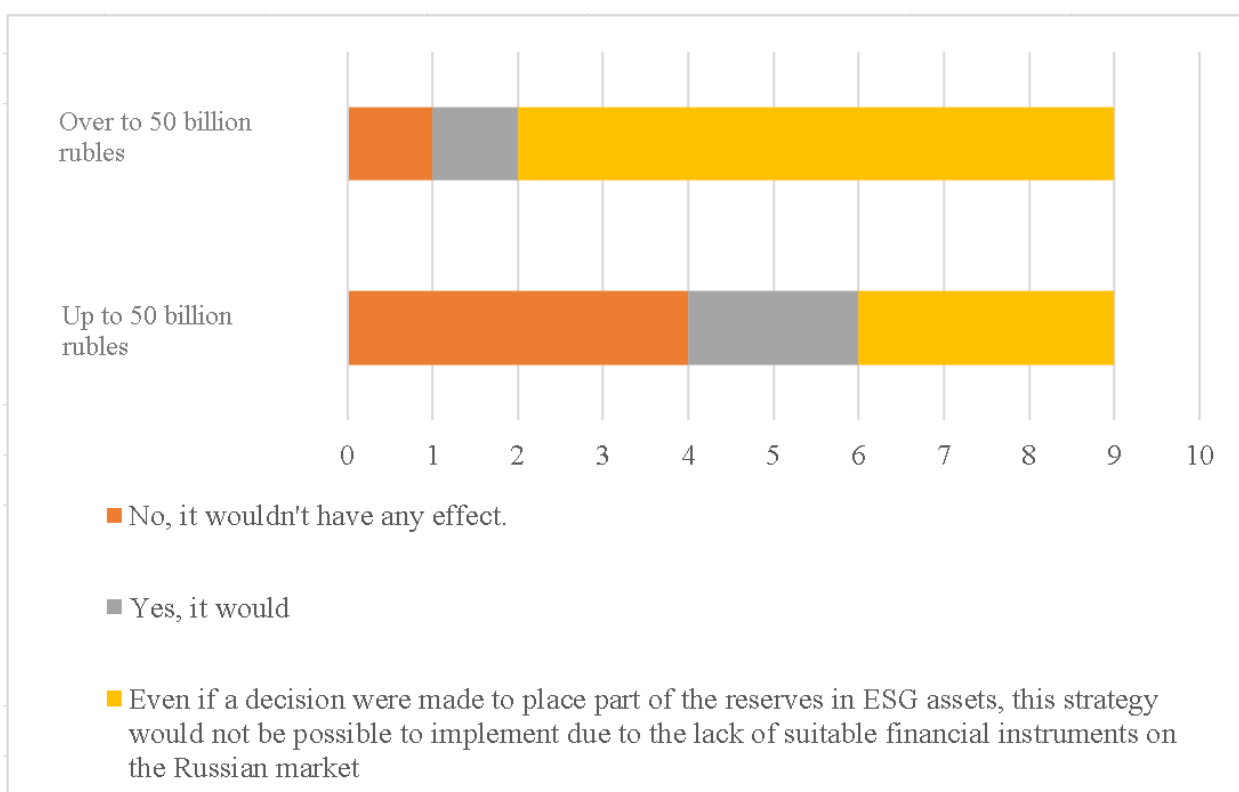


Figure 10 – Respondents' answers to question 18: If investments in stable assets were credited to your NSPF during stress testing by the Bank of Russia in an incentive way, would this affect the decision to place pension reserves in ESG assets? Source: Compiled by the authors based on the results of the NSPF survey

Note: 1 respondent chose not to answer this question

Mostly, respondents note the low degree of elaboration of legislation on the possibility of investing in ESG assets and, accordingly, the lack of suitable financial instruments on the Russian market. A restriction was set in the question on investing

only in the Russian market due to the corresponding restrictions on the part of the regulator.

4. CONCLUSION

1. NSPFs differ in their vision of the voluntary pension savings market depending on the size of the fund. Large funds are ready to develop digital tools and look with more confidence at the development of the online segment in general and financial marketplaces in particular. Medium-sized funds, as a rule, try to diversify channels of interaction with clients and still give priority to offline formats.

2. Therewith, all NSPFs note the high importance of state policy in the development of the market: this is manifested in the wishes of establishing tax benefits, standardization of products, and other aspects.

3. The generalized portrait of the target audience of NSPFs generally corresponds to the realities of the Russian economy: this is a person with a salary above average, young enough to form long-term pension savings, ready to interact with funds, including through online formats.

4. Funds are generally skeptical about the possibilities of investing in ESG assets. More active development of regulation of these financial instruments may contribute to the revision of the positions of funds.

ACKNOWLEDGMENTS

The article was prepared with the support of a grant on the topic "Formation of funded pensions in the context of the development of financial ecosystems in Russia", funded by the Plekhanov Russian University of Economics (Moscow, Russia), Order No. 860 of July 28, 2021.

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