

# INDIVIDUAL PENSION SYSTEM

## Risk Inventory

2024



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## Foreword

We are pleased to present our fourth report on the Individual Pension System Risk Inventory, prepared in participation with our valued stakeholders.

The year 2023 presented numerous challenges for our country. We have been working hard towards disinflation and economic stability, and to recover from the social and economic impact of the disaster of the century, the Kahramanmaraş-based earthquake that occurred in February. On the other hand, our country has undergone a prolonged election period. Following the completion of the general elections in 2023 and the local elections in 2024, we have entered a new five-year term of administration, which is set to create opportunities for structural reforms.

In 2023, a regulation, informally referred to as the law on the victims of delayed pension age (EYT), granted millions of citizens the right to early retirement. However, this regulation has also marked the start of a period in which social security deficits are expected to rise rapidly, placing significant pressure on public finances.

In addition, the current SSI pension calculation formula and pension update method will lead to a decrease in the pension rates of future retirees, and this will harm the ability of individuals to maintain their pre-retirement living standards after retirement. The difficulties they will experience will be among the risks that need to be managed in the future.

Despite the fact that Turkey's private pension system has a long history of 21 years and a remarkable state incentive of 30%, the net asset value of pension investment funds reached 2.9% of GDP by the end of 2023. In OECD countries, the average ratio is 87 percent. In Portugal, Lithuania, France, Spain, and the Slovak Republic, where there is no compulsory 'second pillar' pension system and the voluntary 'third pillar' private pension system has a similar history to ours, the ratio ranges between 11 and 22 percent. This comparison highlights the significant progress still needed while also underscoring the substantial growth potential. In the preparation of high-level policy documents, such as the 12th Development Plan, the Medium-Term Program (2024–2026), and the Presidential Annual Program (2024), our government has outlined a series of policies and measures to accelerate the growth of the private pension system. Additionally, these documents mention targets for the establishment of a "Supplementary Pension System".

The successful implementation of these reforms will drive a rapid increase in the private pension fund size and as a result:

- We will be able to offer a solution our country's chronic savings-investment gap issue,
- The development and expansion of our financial system will make our country far more resilient to financial shocks,
- Cheap financing will become available for fixed capital investments in research and development, as well as high-risk advanced technology projects, which will, in the long run, yield stable economic growth and an increase in total factor productivity,
- These investments will create new employment opportunities for qualified workers,
- The accumulations in the private pension system will enable our citizens to maintain their living standards in old age.

This report is a valuable reference, as it provides sector reviews on the key risks that should be carefully managed in the regulation and improvement activities related to the reforms outlined in our government's high-level strategy documents.

We would like to express our gratitude to all our esteemed stakeholders who contributed to our efforts.

Sincerely,

**MUSTAFA AKMAZ**  
CEO

**M. FIRAT KURUCA**  
BOARD MEMBER RESPONSIBLE FOR  
INTERNAL SYSTEMS

## Executive Summary

This year, in addition to the risks identified in previous years, the risks of “partial payment practice not generating the expected interest among participants” and “negative perception created by groups against the Supplementary Pension System through social media and the press” were added to our risk inventory, while the possibility of offering an alternative solution of pledging IPS savings as collateral in favor of the bank for participants who terminate their contracts due to financing needs was included in the inventory as an opportunity.

The electronic survey designed by the Pension Monitoring Center (PMC) was distributed to a target audience of 738 people, including relevant specialists and managers in stakeholder institutions. The survey was completed by 42 percent of the respondents.

Survey participants were asked to evaluate 70 risks on a scale of 1 to 10, and the rankings of risks were determined based on the risk severity calculated by multiplying impact and probability. The top 10 risks are included on pages 5, 6 and 7 of the report.

In 2024, while the top four risks remained the same as in previous years, inflationary pressure on system development pushed the risk of insecurity and investment costs stemming from frequent changes in system design and legislation higher on the list.



## Substantial Risks According to Survey Respondents

The inventory focuses on the individual pension industry.

The risks identified and agreed upon through the evaluations of the units responsible for the internal systems of pension companies were presented to the survey participants, and rated by them in terms of impact and probability on a scale of 1 to 10.

### Risks by Severity (Impact\*Probability)

The risks included in the survey were sorted based on risk severity calculated by multiplying the impact and probability values provided by survey respondents. The resulting top 10 risks are listed below. The previous years' results are also shown.

Rankings marked with “-” indicate risk definitions that were not included in the voting because they were not included in the inventory in the relevant year.

**Table 1 – Top 10 Risks by Risk Severity (Impact\*Probability)**

2024 Rankings	2023 Rankings	2022 Rankings	2021 Rankings	Riskin Definition	Risk Type
1	1	6	8	Natural hazard risks	EXTERNAL
2	2	1	2	Impact of potential fluctuations in the economy on new contract entries	EXTERNAL
3	3	-	-	Savings not reflecting the expected real growth due to high inflation	PORTFOLIO MANAGEMENT
4	4	5	4	Perception of lower returns compared to alternatives	PORTFOLIO MANAGEMENT
5	7	12	7	Insecurity and investment costs stemming from frequent changes in system design and legislation	STRATEGIC
6	6	2	-	Exchange rate risk	EXTERNAL
7	5	4	1	Potential improvements and changes in state incentives to the system	STRATEGIC
8	8	8	3	Relative insufficiency of retirement income from the system and negative perceptions of the system	PORTFOLIO MANAGEMENT
9	10	3	-	Risk of widespread poverty	EXTERNAL
10	9	-	-	Potential inability to attract a competent and qualified workforce	STRATEGIC

## Risks by Impact Level

Risk definitions were sorted based on respondent evaluations of the impact level on a scale of 1 to 10. The top 10 risks are presented in Table 2. The rankings of these risks in the previous years are provided in the table.

Rankings marked with “-” indicate risk definitions that were not included in the voting because they were not included in the inventory in the relevant year.

**Table 2 – Top 10 Risks by Impact Level**

2024 Rankings	2023 Rankings	2022 Rankings	2021 Rankings	Risk Definition	Risk Type
1	1	4	9	Natural hazard risks	EXTERNAL
2	3	3	2	Perception of lower returns compared to alternatives	PORTFOLIO MANAGEMENT
3	5	2	1	Potential improvements and changes in state incentives to the system	STRATEGIC
4	2	-	-	Savings not reflecting the expected real growth due to high inflation	PORTFOLIO MANAGEMENT
5	4	1	8	Impact of potential fluctuations in the economy on new contract entries	EXTERNAL
6	8	8	10	Risk of damage to system infrastructures as a result of cyberattacks	INFORMATION TECHNOLOGIES
7	6	9	11	Reputational risks for companies and the system	STRATEGIC
8	13	5	4	Risk of customer dissatisfaction	STRATEGIC
9	8	12	7	Risk of sudden outflow of funds	STRATEGIC
10	7	6	6	Risk of operating license revocation or bankruptcy for pension companies	STRATEGIC

## Risks by Degree of Probability

Risk definitions were sorted based on respondent evaluations of the impact level on a scale of 1 to 10. The top 10 risks are presented in Table 3. The rankings of these risks in the previous years are provided in the table.

Rankings marked with “-” indicate risk definitions that were not included in the voting because they were not included in the inventory in the relevant year.

**Table 3 – Top 10 Risks by Degree of Probability**

2024 Rankings	2023 Rankings	2022 Rankings	2021 Rankings	Risk Definition	Risk Type
1	1	1	1	Impact of potential fluctuations in the economy on new contract entries	EXTERNAL
2	2	12	5	Natural hazard risks	EXTERNAL
3	4	2	-	Exchange rate risk	EXTERNAL
4	3	-	-	Savings not reflecting the expected real growth due to high inflation	PORTFOLIO MANAGEMENT
5	6	13	4	Insecurity and investment costs stemming from frequent changes in system design and legislation	STRATEGIC
6	5	8	7	Perception of lower returns compared to alternatives	PORTFOLIO MANAGEMENT
7	8	-	-	Potential inability to attract a competent and qualified workforce	STRATEGIC
8	10	6	3	Relative insufficiency of retirement income from the system and negative perceptions of the system	PORTFOLIO MANAGEMENT
9	9	3	-	Risk of widespread poverty	EXTERNAL
10	7	7	2	Potential improvements and changes in state incentives to the system	STRATEGIC

## Notes on Risk Definitions in Tables

### Natural hazard risks

Natural disasters such as floods, landslides, storms, tornadoes, fires, and especially earthquakes, due to Türkiye's location on major fault lines, directly affect institutions' business continuity, service provision capacity, revenues, and financial structure in all sectors, including the private pension sector. Similarly, these factors may affect the economy and human behavior, potentially reducing the amounts allocated to savings and encouraging early withdrawals from individual pension system savings.

### Impact of potential fluctuations in the economy on new contract entries.

This refers to the risk of reduced funds available for savings as individuals address the negative effects of global recessions and contractions as well as high inflation and rising commodity prices in Türkiye.

### Savings not reflecting the expected real growth due to high inflation

The risk that the returns of pension mutual funds will remain below the inflation rate, rendering the participants' savings unable to beat inflation.

### Perception of lower returns compared to alternatives

Returns in the system are often compared to widely used investment tools such as deposits, gold, and foreign exchange, without taking into account factors like risk level, risk appetite, and differing payment structures.

The perception that returns within the system are lower compared to other investment tools, combined with low financial literacy rates in Türkiye, as observed globally, may deter participation and prompt existing participants to withdraw from the system.

### Insecurity and investment costs stemming from frequent changes in system design and legislation

Previous changes and turning points in the individual pension system, including state contributions, structural changes in deductions, and the auto-enrollment system, are significant factors for industry managers to consider. The subsequent infrastructure changes incur costs and affect short- and medium-term corporate projections and expectations.

### Exchange rate risk

This refers to the risks of individuals opting for foreign currency over the individual pension system for investment purposes, as well as the potential loss of savings due to fluctuations in the exchange rate.



### **Potential improvements and changes in state incentives to the system**

This refers to the participants' evaluation of the impact of potential state incentive improvements on industry growth, collection rates, and wider audience reach, and their assignment of a respective probability. As in previous years, the industry views potential improvements and changes in state incentives as major levers.

### **Relative insufficiency of retirement income from the system and negative perceptions of the system**

As the individual pension system is contribution-based, the retirement income from the system depends on the contribution amount and its returns. Participants may be dissatisfied if they made payments (widely) disproportionate to their expected pension income during their accumulation period and therefore could not receive the amount they expected in retirement. Their expression of this dissatisfaction through various communication channels might negatively impact others who lack basic information about the system.

### **Risk of widespread poverty**

This refers to the risks of financial difficulties reducing the amounts that can be put aside by individuals as savings and the use of current savings for primary needs in line with the global trend that is expected to continue to gain momentum.

### **Potential inability to attract a competent and qualified workforce**

This refers to the risks of the industry's inability to attract and retain human resources with competencies aligned to evolving business practices, emerging technologies, and changing needs, potentially hindering its ability to adopt innovative approaches.

### **Risk of damage to system infrastructures as a result of cyber attacks**

The growing threat of cyberattacks, driven by process digitalization, advancements in artificial intelligence, and remote working practices, poses a significant risk. It has the potential to harm corporate infrastructures, disrupt service continuity in the individual pension system, and undermine industry reliability.

### **Reputational risks for companies and the system**

This highlights the risks of adverse events in pension companies or the industry, which can undermine the credibility of individual companies and the industry as a whole, impacting growth expectations.

### **Risk of sudden outflow of funds**

This risk includes the potential impact on the pension companies of collective withdrawals from the system as well as negative consequences on the fund's investment strategy, and accordingly, the returns for ongoing participants.

### **Risk of customer dissatisfaction**

Private pension systems depend on regular contributions and continuity to deliver the expected benefits. Longer participation in the system is a global performance criterion for meeting participants' pension expectations and minimizing corporate costs passed on to them. Dissatisfaction with the system has become a significant risk that needs to be addressed as social media interactions increase and reach wider audiences.

### **Risk of operating license revocation or bankruptcy for pension companies**

While lower in probability thanks to firm supervision and audit mechanisms, this risk focuses on the possible impact on industry growth and potential damage to the perception of reliability of other companies in the industry rather than on direct consequences to participants, as participant funds are kept separate from corporate assets in individual accounts at Istanbul Settlement and Custody Bank.



## Conclusion and Assessment

### The Top Four Risks Remained the Same

The top four risks of 2023:

- Natural hazard;
- Impact of potential fluctuations in the economy on new contract entries;
- Savings not reflecting the expected real growth due to high inflation;
- And the perception of lower returns compared to alternatives

remained on top of the list.

### External and Economic Risks Rank High

Widespread poverty, fluctuations in the exchange rate, and geopolitical instability once again rank high on the list. This demonstrates that global and local economic uncertainties continue to impact the industry.

### Insecurity and Investment Costs Stemming From Frequent Changes in System Design and Legislation is Higher on the List

Ranking seventh among the top 10 risks last year, this risk now ranks fifth on the list, partly due to an increase in system development costs.

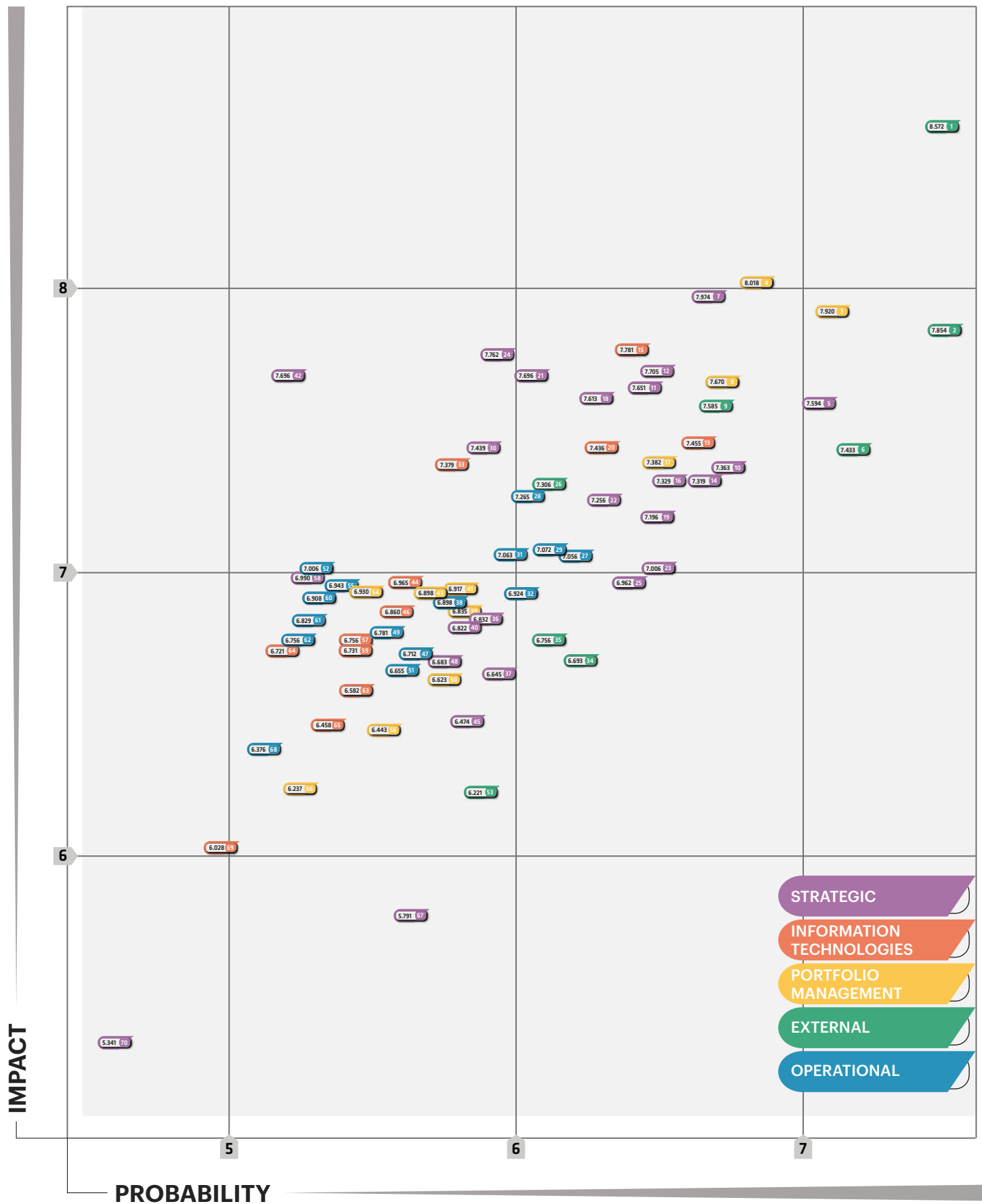
### Human Resources-Related Risks Have Intensified Over the Past Two Years

Similar to the previous year, the lack of access to competent human resources remains among the top 10 risks of 2024. Given the increasing digitalization in the industry and technological necessities, addressing this issue is becoming increasingly important.

### Operational Risks Are Low on the List

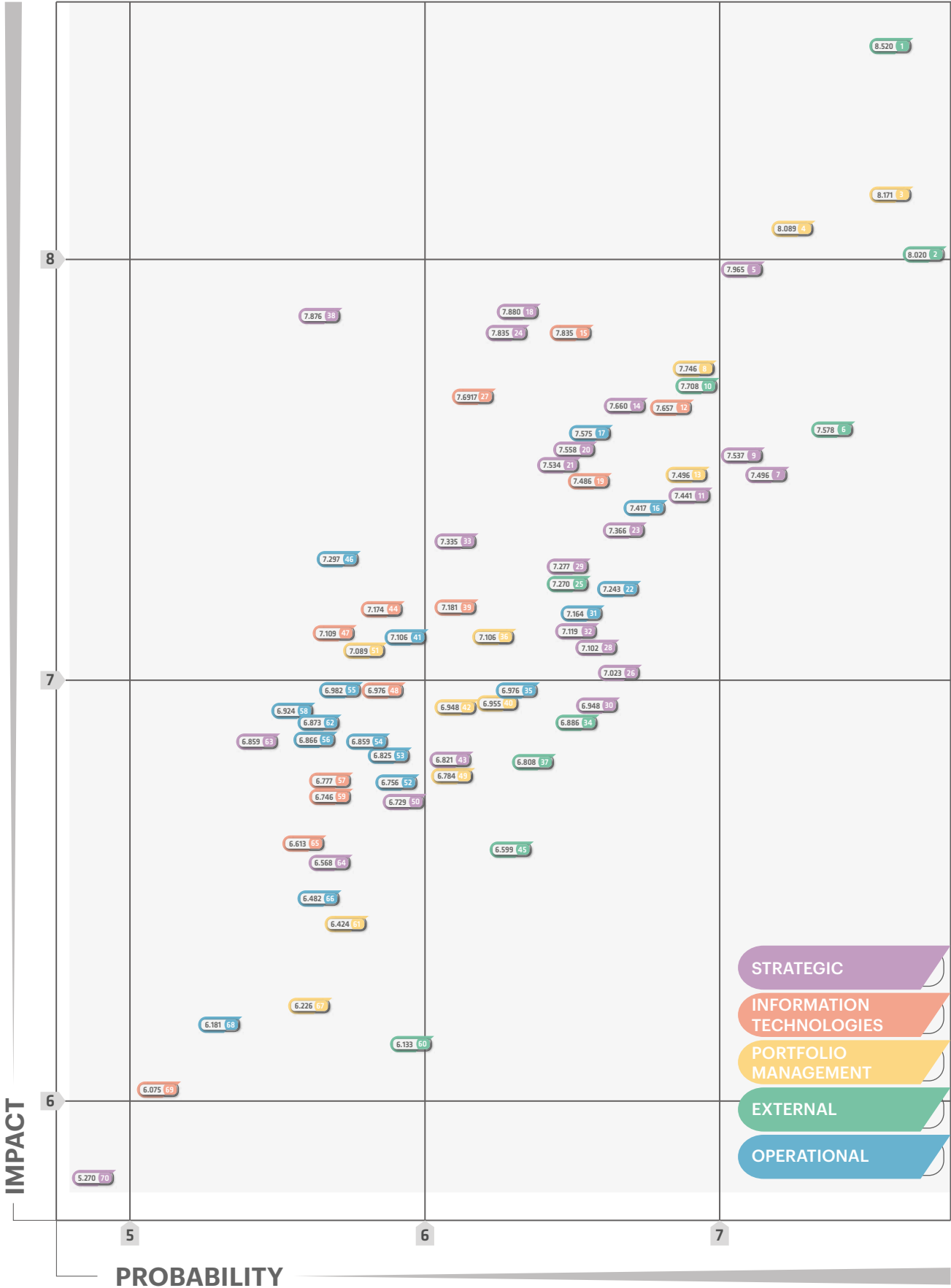
There are no operational risks among the top 20 risks. Operational risks rank much lower in terms of impact and probability compared to strategic, external, portfolio management, and cyber risks.

## 2024

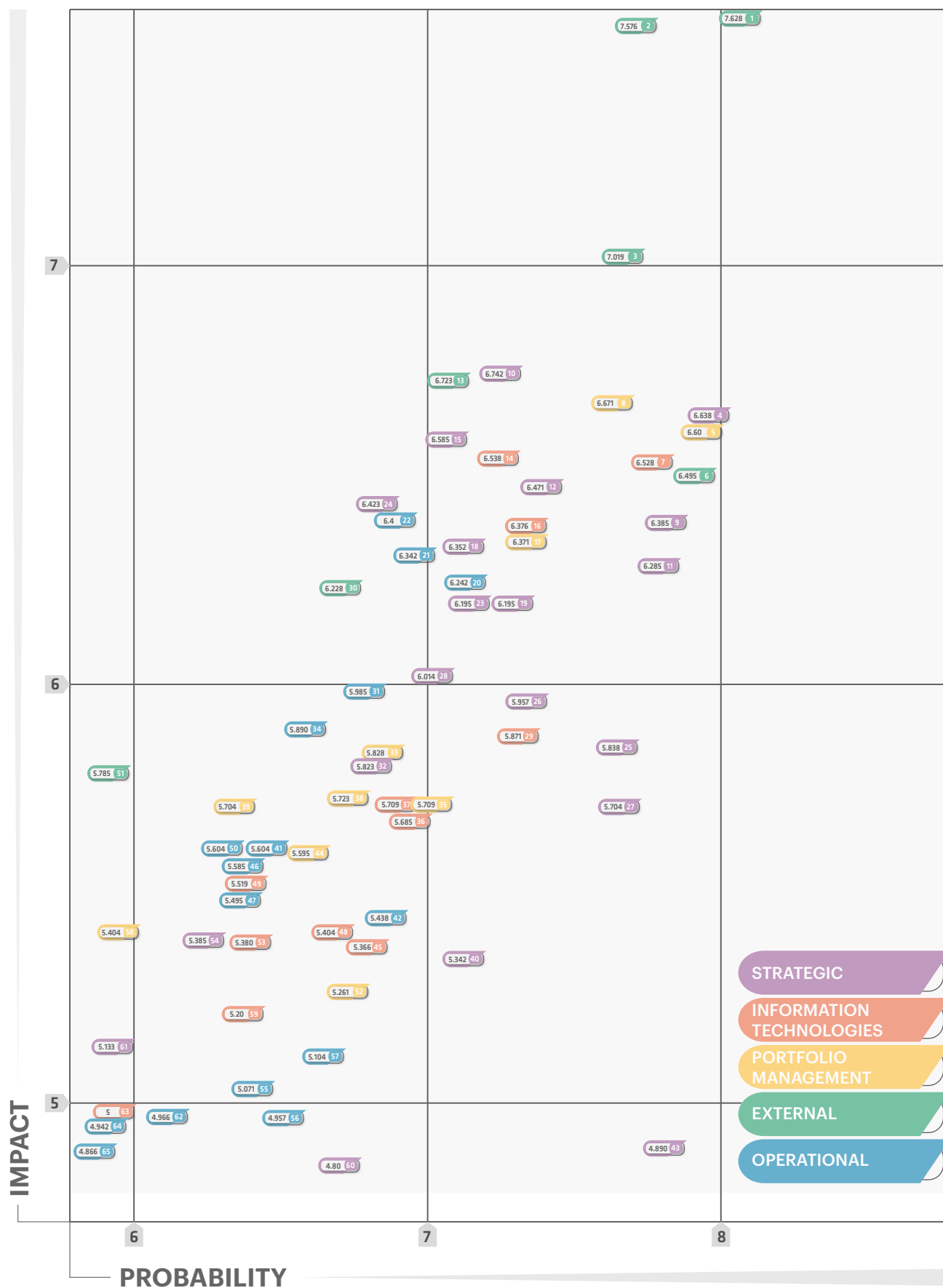


Appendix 1. Risk Map

2023

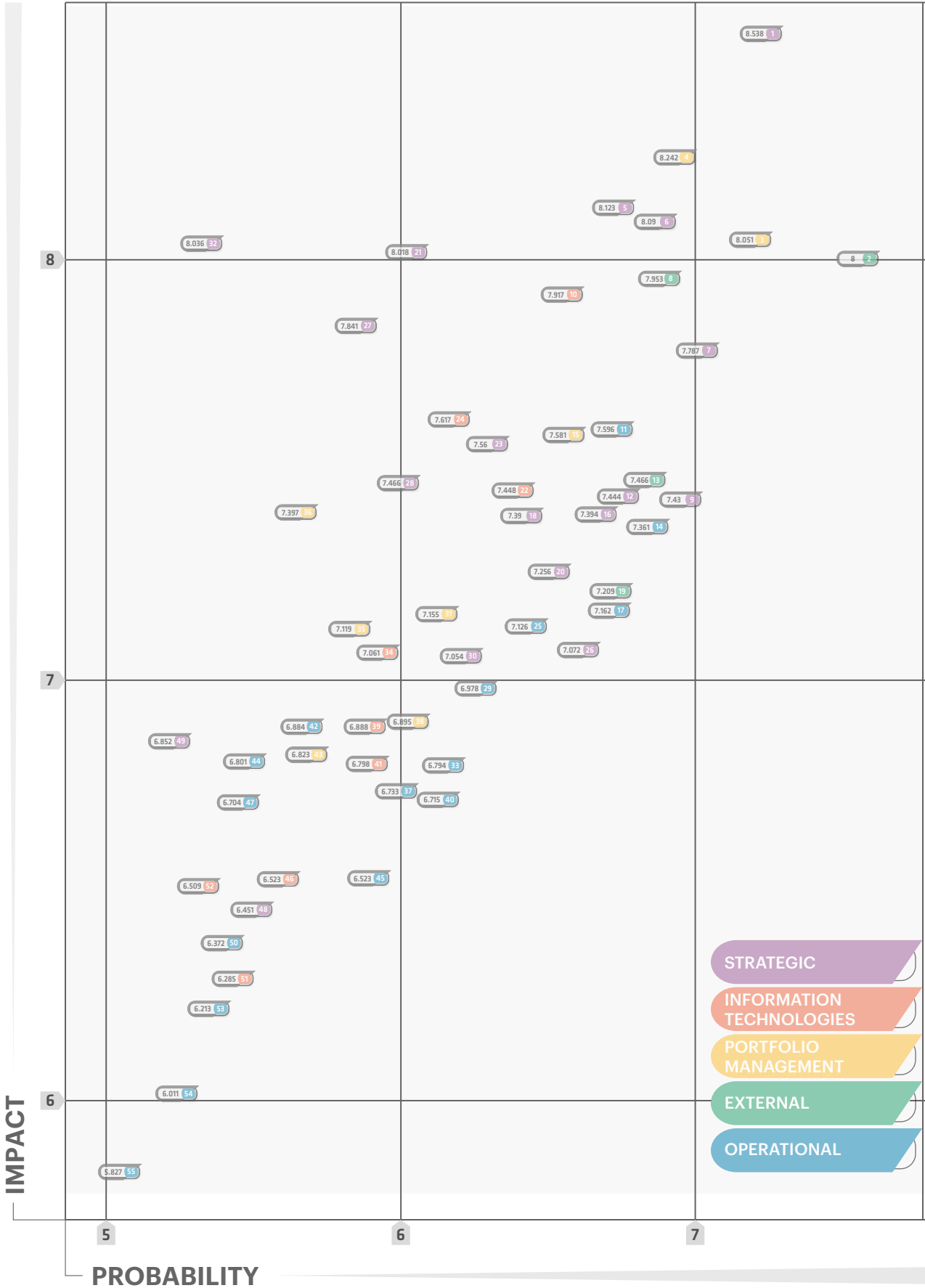


## 2022

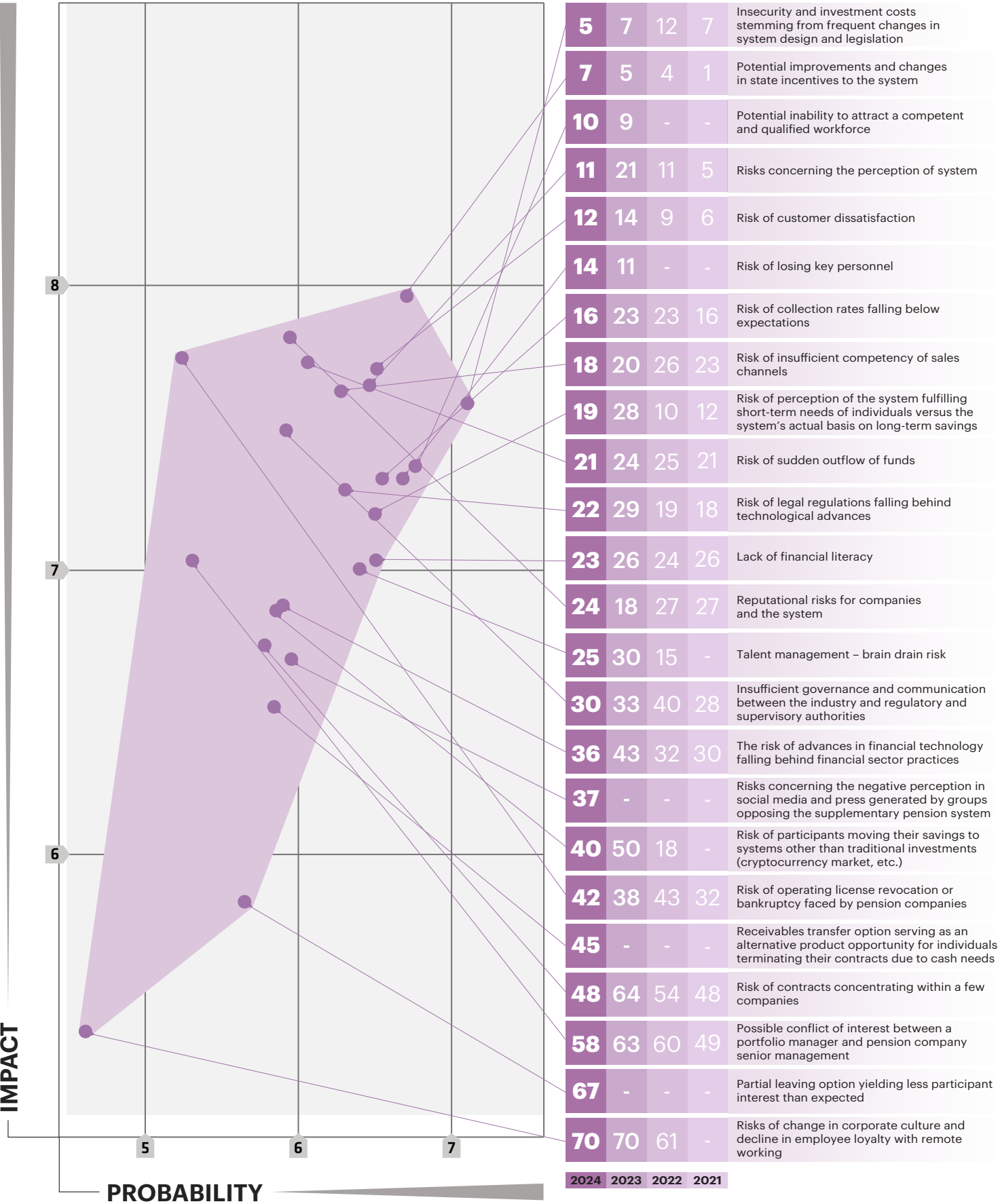


Appendix 1. Risk Map

2021

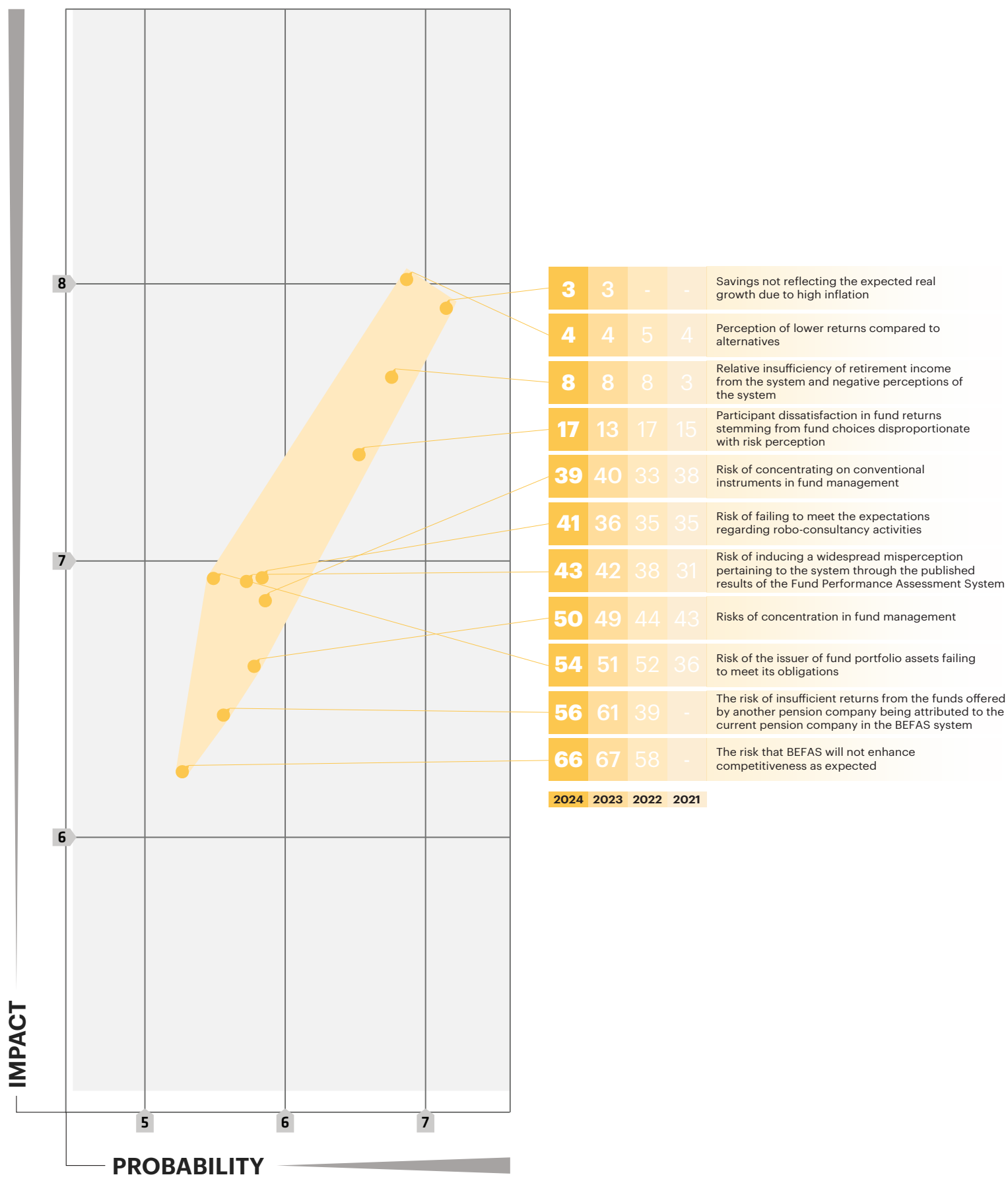


Appendix 1. Risk Map - Strategic Risks





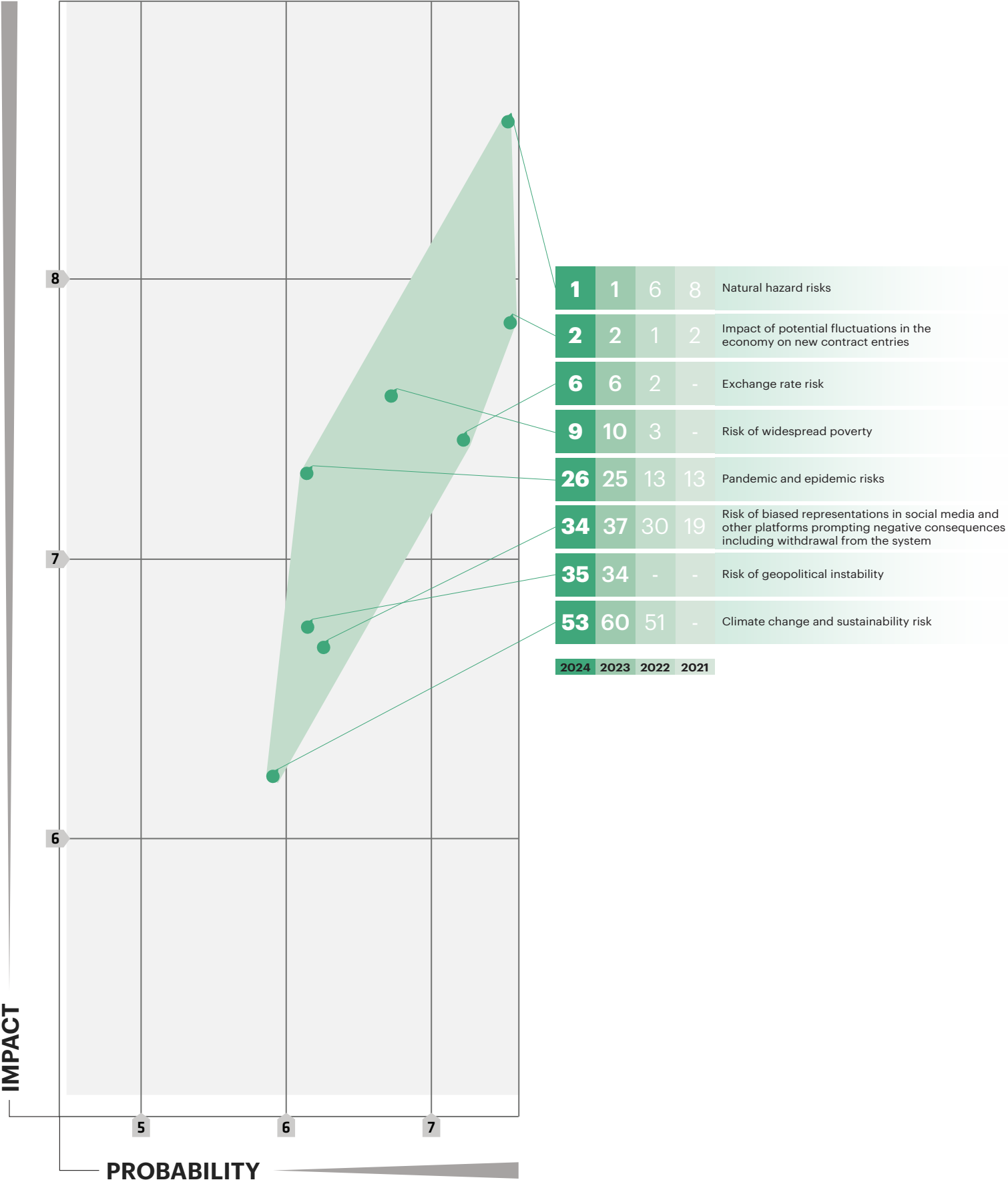
Appendix 1. Risk Map - Portfolio Management Risks



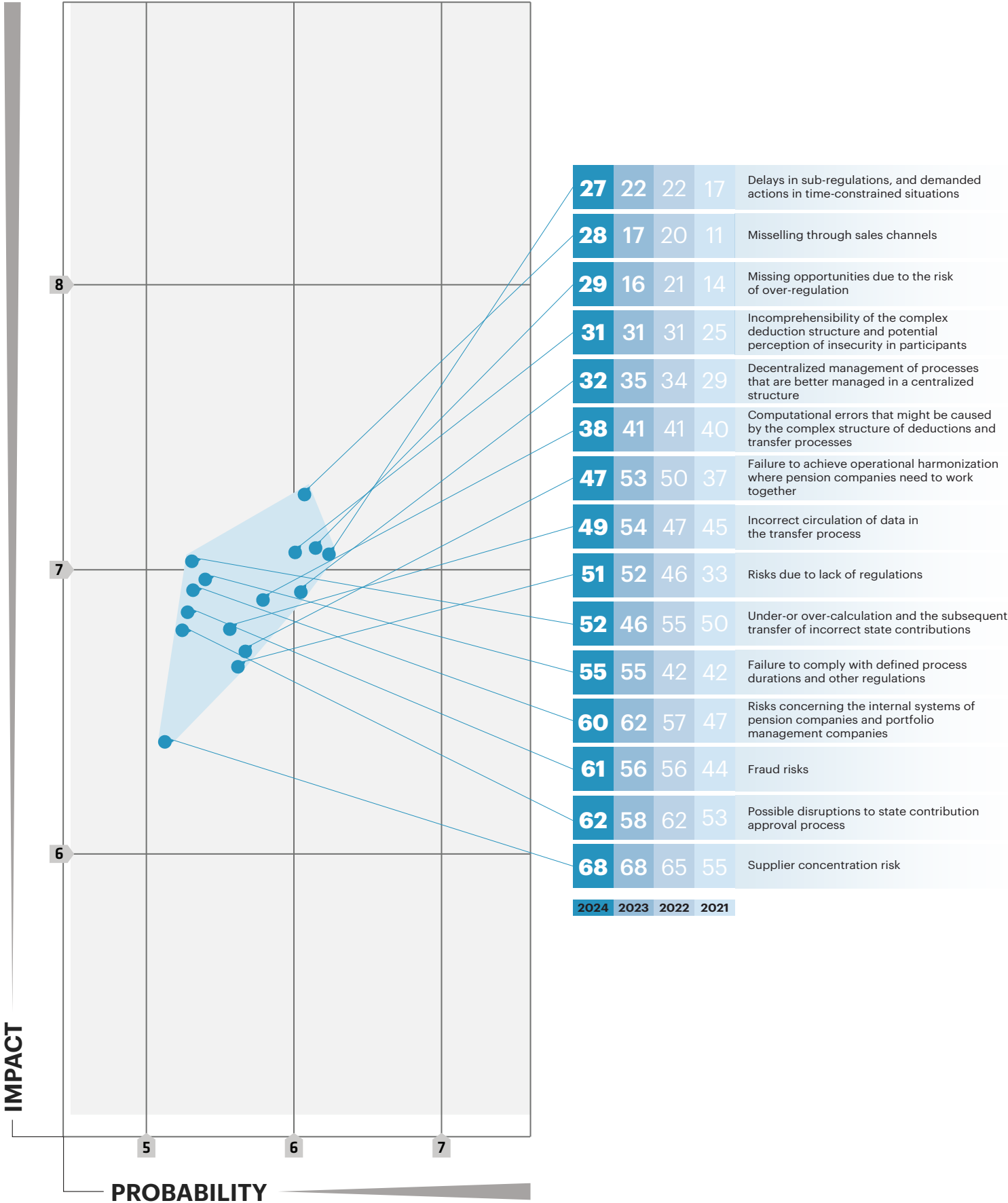
Appendix 1. Risk Map - Information Technologies Risks



Appendix 1. Risk Map - External Risks



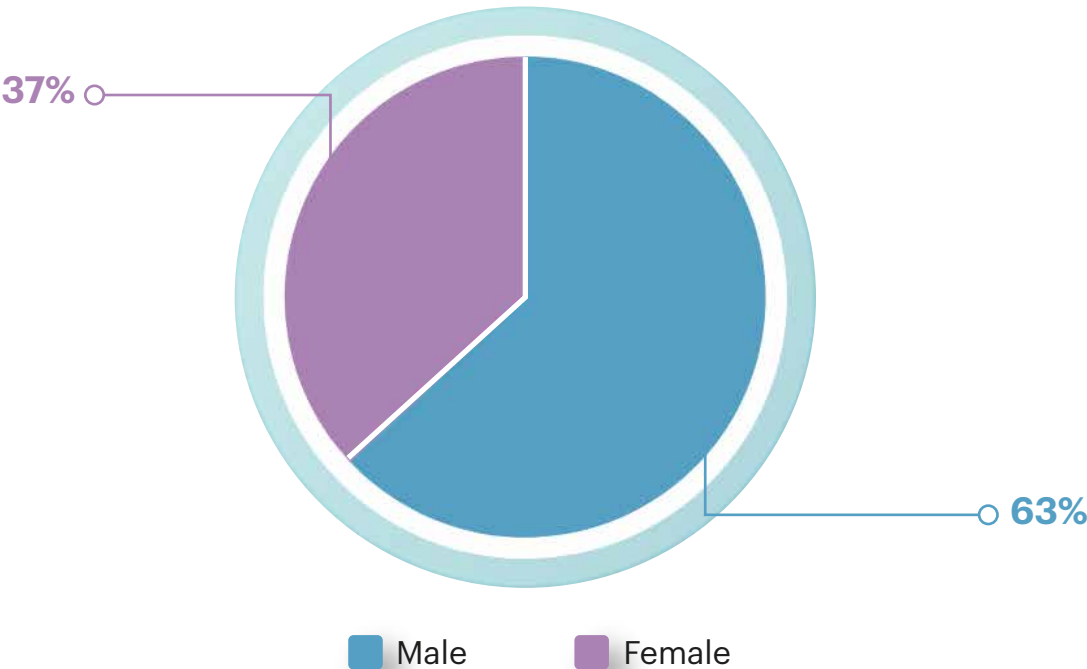
Appendix 1. Risk Map - Operational Risks



Appendix 2. Profile of Survey Respondents

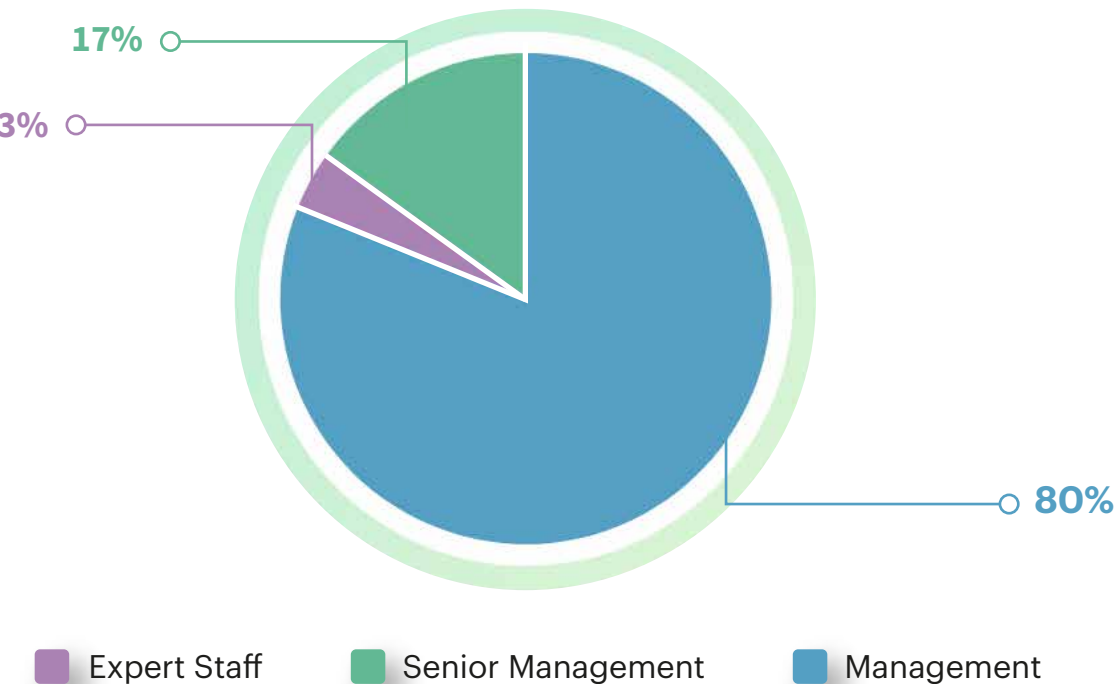
Distribution of Survey Respondents by Gender

Of the 315 survey respondents, 115 are female and 200 are male.



Distribution of Survey Respondents by Management Level

Of the survey respondents, 80 percent are in management, while 17 percent are in senior management.

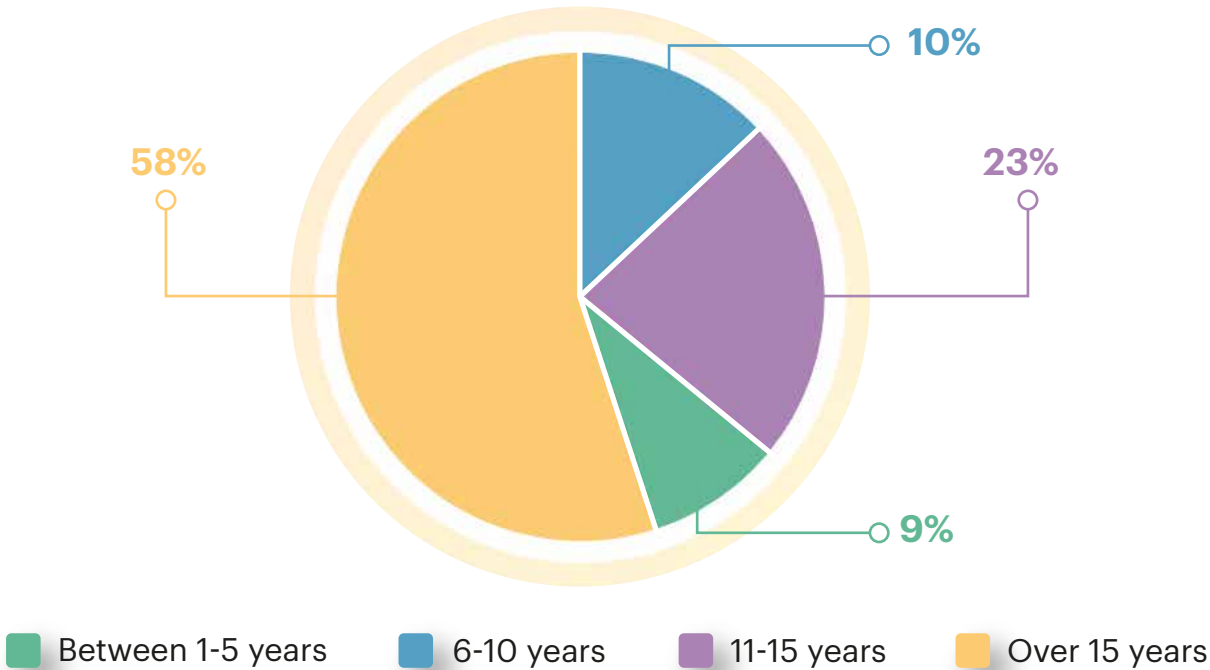


(1)Senior Management level refers to the General Manager, CEO, CFO, CIO, CRO, Deputy General Manager, Director, Coordinator, Legal Consultancy, and senior management of Regulatory and Supervisory Authority.

Appendix 2. Profile of Survey Respondents

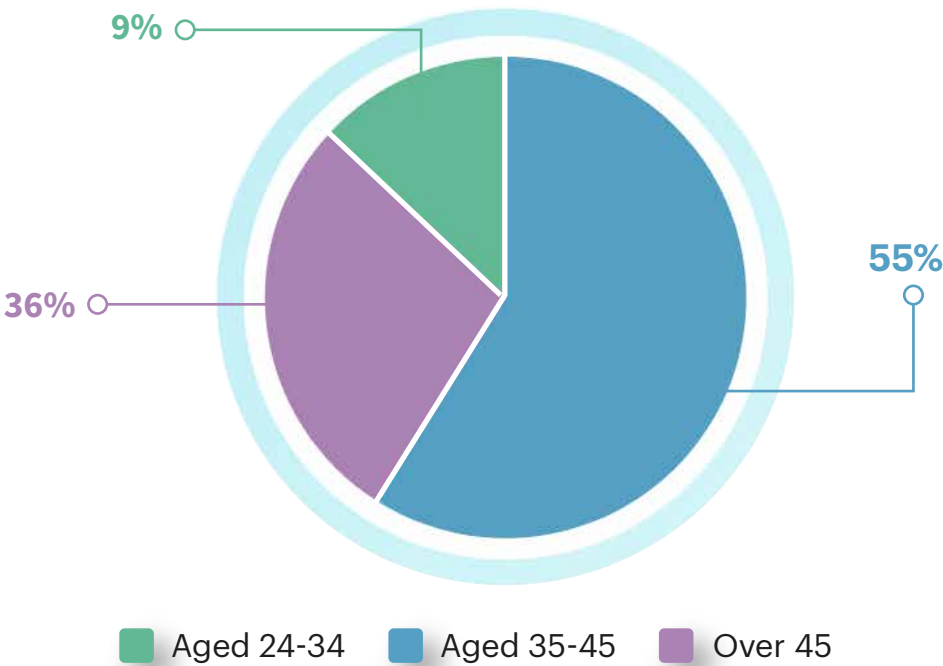
Distribution of Survey Respondents by Industry Experience

Of the survey respondents, 81 percent have over 11 years of industry experience.



Distribution of Survey Respondents by Age

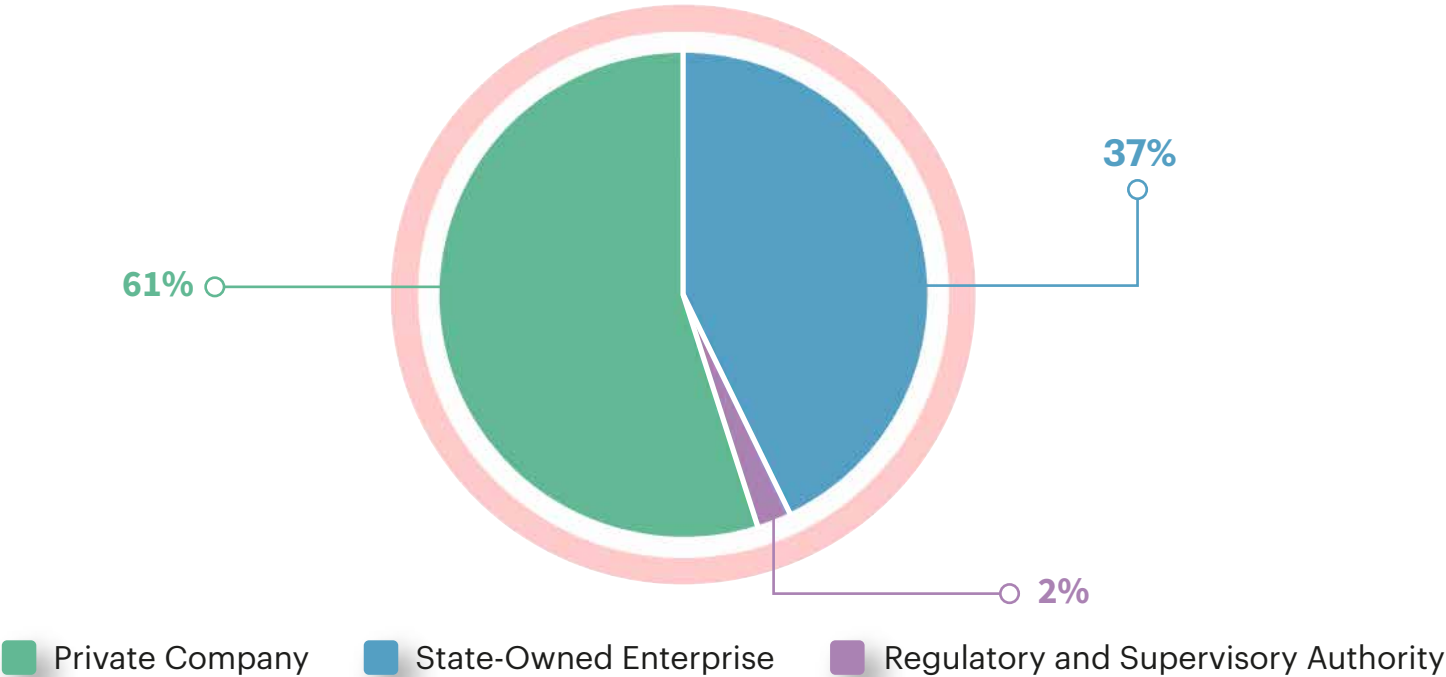
Of the survey respondents, 91 percent are aged over 35.



Appendix 2. Profile of Survey Respondents

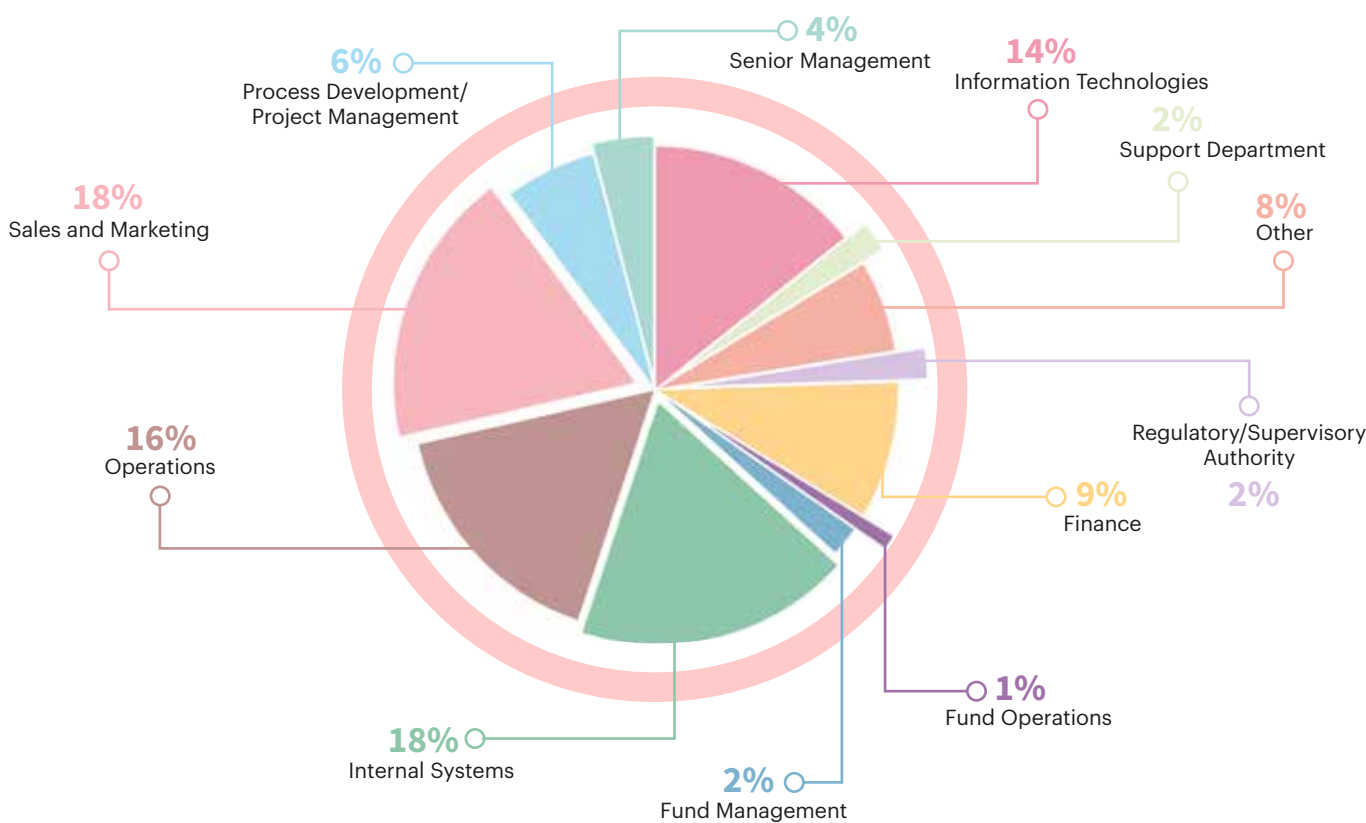
Distribution of Survey Respondents by Organization

Of the survey respondents, 61 percent work for private companies, 37 percent work for state-owned enterprises, and 2 percent work for regulatory and supervisory authorities.



Distribution of Survey Respondents by Department

Of the survey respondents, 18 percent work in sales and marketing, 18 percent in internal systems, 16 percent in operations, and 14 percent in information technologies.



This report is a continuation of a series, the first of which was published in 2021.  
You can learn more about the methodology by examining the first report, available at  
[https://egm.org.tr/Sites/1/upload/files/Bireysel\\_Emeklilik\\_Sistemi\\_Risk\\_Envanteri-2021-1283.pdf](https://egm.org.tr/Sites/1/upload/files/Bireysel_Emeklilik_Sistemi_Risk_Envanteri-2021-1283.pdf).

The Individual Pension System Risk Inventory was prepared and reviewed by the Internal Control and Risk Management and Internal Audit Departments of the Pension Monitoring Center based on survey results and approved by the General Directorate.

For further inquiries or to make suggestions concerning the report, contact us at  
<https://egm.org.tr/bize-ulasin/bize-yazin/>.

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