

International Organisation



In this issue

Section 1: Structure of Pension and Supervisory Systems 2

Section 2: Approaches to Pension Supervision 11

Section 3: Application of IOPS principles 17

International Organisation of Pension Supervisors

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PENSION SUPERVISION IN FOCUS

The International Organisation of Pension Supervisors (IOPS) is an independent international body representing those involved in the supervision of private pension arrangements. The organisation currently has around 60 members and observers representing more than 50 countries worldwide, covering all levels of economic development and bringing together all types of pension and supervisory systems.

The key aims and purposes of IOPS include:

- serving as the standard-setting body on pension supervisory matters;
- promoting international co-operation on pension supervision;
- providing a worldwide forum for policy dialogue and exchange of information;

Details of the organization and its work and how to become a member can be found on the IOPS website (www.iopsweb.org). For further information please contact the IOPS President, Mr. Ross Jones (ross.jones@apra.gov.au) or the Secretary General, Mr. André Laboul (andre.laboul@oecd.org)

This newsletter aims to provide an overview of how pension systems around the world are currently being supervised. The information is drawn from questionnaire responses provided by 25 countries (Australia, Austria, Belgium, Bulgaria, Chile, Czech Republic, Finland, Germany, Hong Kong, India, Israel, Jamaica, Korea, Kenya, Luxembourg, Mexico, Namibia, Netherlands, Poland, Romania, South Africa, Spain, Thailand, Turkey, and UK), representing around half of the IOPS member countries. Full responses to the questionnaire are posted in the members' area of the IOPS website. These responses provide a comprehensive database for supervisory structures around the world. Members looking for in-depth information on how supervision is conducted in a particular region or country, or with regard to a particular topic are encouraged to utilise this database.

Ross Jones
President,
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Section 1: Structure of Pension and Supervisory Systems

Pension and consequently supervisory structures around the world differ greatly. Though it is difficult to find patterns mapping pension and supervisory systems together, some general trends can be identified.

The responses gathered to the IOPS questionnaire on pension supervisory structures, as well as other information available within the OECD/ IOPS database, show how difficult it is to find strong patterns linking pension systems. For example, the statistics do not indicate expected results, such as that mandatory schemes lead to higher pension assets, or even less obviously links, such as a greater percentage of Defined Benefit schemes potentially leading to higher replacement rates. Only general trends can be noted. For example, there being a very uneven split between Defined Contribution and Defined Benefit schemes in most countries, and where the two schemes do exist in tandem they are either majority DC or DB.

Similarly, strong trends within pension supervisory structures are also hard to find. Around half of respondents to the questionnaire are integrated supervisory authorities (i.e. pension supervision being integrated with other sectors such as insurance, securities markets and sometimes banks), with around quarter coming from partially integrated authorities (with pension and insurance supervision being handled by the same organization) and a similar number representing specialized, stand-alone pension supervision bodies. This is broadly reflective of the IOPS membership as a whole, with the partially integrated authorities being somewhat over-represented in the questionnaire.

One tendency which can be identified is that, with the exception of the UK, the

specialized pension supervisory authorities which responded to the questionnaire come from more developing economic and pension environments (e.g. Chile, Hong Kong, India, Kenya, Mexico) – which is also the case in the broader IOPS membership. The specialist authorities are more likely to cover pension systems with a mandatory element, and are often DC dominated (reflecting the Latin American model). There does seem to be some trend with some countries starting with a more specialized or partially integrated supervisory structure when the pension system is new and developing, with a move to an integrated authority taking place once pension assets and the pension industry grows (as has been the case in some Central and Eastern European countries).

In addition, it appears that the European membership is predominantly made up of integrated and partially integrated authorities, whilst the specialised pension authorities mostly come from other regions (Latin American, Asia, and Africa).

There appears is only a loose correlation between the type of supervisory system and the number of funds supervised. For example, the specialist authorities in Latin American only cover a few pension providers and funds, where as elsewhere this type of authority is responsible for the oversight of many thousands of funds. It is therefore difficult to conclude that one type of pension supervisory structure is more 'intensive' than another (this issue is reviewed further in section 2).

Table 1: Structure of Pension Systems

Country / Supervisory Authority	Supervisory Structure*	Mandatory or quasi-mandatory pension plans		Voluntary pension plans		Mandatory gross replacement rate, average earner (%) 2007	Pension Assets % GDP (2006)	No. of Supervised Entities		DC vs. DB plans in total occupational and personal plans (%)	
		Occupational	Personal	Occupational	Personal			Funds	Plans	DC	DB
Australia / Australian Prudential Regulation Authority	I	X	X		X	43.1	90.9	6821		91	9
Austria / Financial Markets Authority	I			X	X	80.1	4.9	19		90	<10
Belgium / CBFA	I			X	X	40.4	4.3	260		..	Most hybrid DB
Bulgaria / Financial Supervision Commission	I	X	X	X	X	49.7(2006)	3.2	27		95	<5
Chile / Superintendencia de Administradoras de Fondos de Pensiones	S		X		X	43.8 (2006)	61	30		100	0
Czech Republic / National Bank	I				X	49.1	4.6	22		100	0
Finland / Insurance Supervisory Authority	P	X		X	X	63.4	77.8	129		0	100
Germany/ BaFin ¹	I			X	X	39.9	4	180			100
Hong Kong / MFPA ²	S	X		X		-	27.9	315	7558	83	17
India / PFDA	S	-	-	-	-	-	-			-	-
Israel / Ministry of Finance	I						32.3				
Jamaica /Financial Services Commission	I			X	X	-	19.5	526		40 (occ)	60 (occ)
Kenya / Retirements Benefit Agency	S			X		-	12.1 (2005)	1351		-	-
Korea / FSC&FSS	I			X	X	66.8	6.3	1685		0 (occ)	c100 (occ)
Luxembourg / Commission de Surveillance du Secteur Financier	I			X	X	88.1	-			-	-
Mexico / CONSAR	S		X		X	35.8	11.5	21		99	<1
Namibia / NAMFISA	I						-	470			
Netherlands / De Nederlandsche Bank	I	X		X	X	81.9	129.9	780		<5	95
Poland / Financial Supervisory Authority	P		X	X	X	61.2	11.24	18	1023	100	0
Romania / National Bank	I		X	X			-				
South Africa / Financial Services Board	I						38.5 (2004)	13,375			
Spain / Economy and Ministry of Finance	P			X	X	81.2	9.8	4641		98	2
Thailand / SEC	P	X		X	X	-	5	525		100	0
Turkey / Treasury + Pensions Monitoring Centre	P			X	X	72.5	-	103		100	0
United Kingdom / The Pensions Regulator	S			X	X	30.8	77	85,000		c20	c80

* I = Integrated; P = Partially Integrated; S = Specialized

Note 1: Germany – pension assets as a % of GDP and no. of supervised entities only take Pensionskassen and Pensionsfonds into account.

Note 2: Hong Kong – 315 funds = MPF constituent funds 7558 plans = Occupational Retirement Schemes

Most of the integrated authorities which took part in the project oversee insurance and banking as well as pensions. In integrated authorities the primary focus tends to be insurance with only Australia allocating a greater number of dedicated staff to pension supervision. Austria and Poland prioritise banking.

Judging from the responses to the questionnaire, there seems to be a trend developing for integrated authorities to be structured along functional rather than sectoral lines – for example, with teams monitoring particular types of risk across

different types of financial institution, looking after the registration and licensing of financial institutions, or with investigations and enforcement etc. The objective of this seems to be to achieve optimisation of the activities and enhancement of the supervision's efficiency.

One type of supervisory structure is the so-called 'twin- peaks' model, which operates in Australia, Bulgaria and the Netherlands with one supervisory authority looking after prudential, risk-based supervision of the pension system, with a separate authority

dealing with market conduct and disclosure.

It is interesting to note that the current organisation of all the authorities is relatively new (i.e. was set up within the last

5-10 years). There is clearly a trend towards integrated supervision, especially within Europe (e.g. Finland from 2009) – with some integration into Central Banks (Netherlands 2004, Czech Republic

Table 2 : Structure of Supervisory Systems

<i>Country</i>	<i>Supervisory Structure</i>	<i>Pension % time allocated</i>	<i>Insurance % time allocated</i>	<i>Banking % time allocated</i>	<i>Mutual Funds % time allocated</i>	<i>Others Sectors % time allocated</i>
Australia	I	35	28	37		
Austria	I		24	42	18	16 (integrated supervision)
Belgium	I		X	X	X	Securities regulation
Bulgaria	I		X		X	X (health insurance, issuers, investment intermediaries, SPV management cos.)
Chile	S					
Czech Republic	I		X	X	X	X (capital market players – investment service providers, stock exchanges, securities issues etc.)
Finland	P	30	50		20	
Germany	I	X	X	X	X	X (other non bank financial institutions)
Hong Kong	S					
India	S					
Israel	P	X	X			
Jamaica	I	30	30	10	30	
Kenya	S					
Korea	P		8	10	0.3	81.7
Luxembourg	P			X	X	SICAR, securitization etc.
Mexico	S					
Namibia	P		30		10	30 (capital markets, credit agreements)
Netherlands	I	29	32	28	4	7 (money transaction agencies, trust offices, collective investment schemes, securities firms)
Poland	I	12	13	45	10	20 (capital markets –e.g. stock brokers)
Romania	I					
South Africa	I		20		20	60 (financial markets)
Spain	P		X			
Thailand	P					
Turkey	P	15	85			
UK	S					

Allocation of resources

Authorities covering mandatory pension systems tend to have greater resources, with authorities supervising trustee based systems relying on the oversight of these intermediaries

Looking at resources dedicated to pension supervision, some of the supervisory authorities overseeing mandatory pension systems, such as in Latin America and Central and Eastern Europe, have relatively large resources dedicated to their task in terms of the number of funds supervised. At the other end of the spectrum, authorities overseeing more developing pension systems have more limited resources (such as Jamaica, South Africa and Thailand), whilst the UK's budget, though substantial in absolutely terms, naturally looks limited when divided by the huge number of schemes for which The Pensions Regulator is responsible.

Looking at the number of staff dedicated to pension supervision which the authority has in relation to the number of funds supervised, two outliers are the UK and South Africa (at 250 and 154 respectively). However, these are trustee based pension systems, with these intermediaries playing an important oversight and governance function. Spain is also an outlier, which is surprising for a Ministry. Most authorities come in the 10-30 funds per staff range, with again the mandatory systems of Latin America and Eastern Europe having some of most dedicated resources in terms of staff numbers.

The bulk of the staff at most of the authorities is naturally involved in direct

supervision (anywhere between one third and 80% of the total).

Most authorities have a good spread of professional staff, employing a range of accountants, actuaries, lawyers, economists etc. Around half of the authorities manage all of their activities in-house, whilst the others mainly outsource IT and some training functions. Outsourcing remains a minority area with most supervisors retaining their supervisory functions in-house while attracting the appropriate experience by accepting secondees from the private sector such as the Pensions Regulator in the UK has done.

The UK, Belgium, Germany and the Netherlands do not have specific professional requirements for the Head of the authority (and Spain where specific civil servant qualifications apply). For the other countries, qualifications may be both positive (university degree, expertise in a relevant field such as finance) or disqualifications (having been declared fraud or bankrupt). Conflict of interest qualifications may also apply (e.g. if a director of a supervised financial institution). Some countries (such as Bulgaria, Mexico or Poland) require the Head of the authority to be a national.

Table 3: Budgetary and Staff Resources of the Supervisory Authorities

<i>Annual Budget</i>	<i>Authority as a whole</i>	<i>US \$ million</i>	<i>Pension Division</i>	<i>Total Staff</i>	<i>Number of Pension Funds Supervised</i>	<i>Pension Supervisory resources per pension fund</i>	<i>Pension funds per pension supervisory staff</i>
Australia	AU\$97.8 (2006-2007)	84.5	AU\$35.2 (est. as no pension division) 35% (US\$32)	608	6821	\$7,000 (pension resources)	
Austria	24.000T€	34	1.000T€ 4.1% (US\$1.5m)		19	\$8,000 (pension resources)	
Belgium	57m€(operating expenses)	80	c3.4€m 6% (US\$5m)	23	260	\$13,000 (pension resources)	11
Bulgaria	6,895,511 BGN (2006)	5		33	27		
Chile	4500million Ch\$	9		149	30	\$300,000	<1
Czech Republic	2023789000CZK	103		1488	11		
Finland	6m€	8.5	2m€ 33% (US\$3m)	10	129	\$23,000	13
Germany	126.8m€	178		1687	180		
Hong Kong¹	262m HK\$	33		492	315	\$565,000	<1
India	20000000Rs	0.5					
Israel	\$22 million	22		81	51	\$431,000	<1
Jamaica	\$399,886	5.7	107,759 27%	36	526	\$200	15
Kenya				42	1351		32
Korea	\$266 million	266			1,685		
Luxembourg	28.6M€	42.1					
Mexico	230,921,545 MXP	21		118	21	\$1m	<1
Namibia	N\$30 million	4.2	\$0.42 mill	47	470	\$1,000	
Netherlands	90.39m€	127	21.17m€ 23% (\$31m)	+/- 100	780	\$40,000 (pension resources)	78
Poland	61m PLN	25.1			18	\$1.4m	<1
Romania	2,025,246 RO	0.85		42			
South Africa			R66 Mil (\$8.5m)	87	13,375	\$635 (pension resources)	154
Spain	12.5m€	17.5		445 (24 pension specific)	4641	\$3800	193 (pension specific staff)
Thailand	635,268,575 baht	20	13,910,940 baht 2% (\$440,000)	18	525	\$800	29
Turkey	2,821,300 (TRY)	2.3		5	103	\$22,000	20
UK	32m	64		340	85,000	\$750	250

Note 1: Hong Kong - MPFA closely monitors MPF schemes, including conducting off-site reviews and on-site inspections on MPF trustees and MPF schemes. However, as the MPFA merely acts as the Registrar of ORSO schemes, the scope of supervision on ORSO schemes is relatively limited in comparison to MPF schemes. The amount of resources spent on the two types of schemes therefore varies considerably.

Table 4: Allocation of Supervisory Staff
(Number of Staff/ % pension division unless stated)

	<i>Total</i>	<i>Direct Supervision</i>	<i>Risk analysis</i>	<i>Policy + support</i>	<i>Comm.</i>	<i>Other</i>
Australia¹	608 total authority staff	42%		14%	<1%	21% (specialist risk services and enforcement)
Belgium	23					
Bulgaria	33 14.35% of total authority staff	67% Licensing 7/ Offsite 9/ Onsite 6	18% 2.61%	12% 1.74%	3% 0.43%	
Chile	149					
Czech Republic	1488					
Finland	10 16% of total authority staff	80% Licensing 1/ Offsite 6/ Onsite 2		20% 3%		
Germany	1687 total authority staff					
Hong Kong	492	12.60%	0.80%	6%	12%	67.9% (includes enforcement of default contributions)
Israel	81	46% Licensing 15 On/Offsite 18 Intervention 4		20%	22%	12%
Jamaica %	36 43% of total authority staff	31% 9 monitor staff/ 3 enforcement (due to rise 2008)	25%	53%	31%	3%
Kenya	42	36%	14%	12%	9%	29%
Mexico	118	27% Licensing 9 / Offsite 23	19%	28%	6%	20%
Namibia	47 total authority staff	51% Licensing 6 / On-site 6/ Off-site 6/ Intervention 6	<1%	17%	21%	9%
Netherlands	+/- 100	47%	31%	17%	5%	
Romania	42	29% License 6 / Off-site 6	5%	45%	10%	12%
Poland % over 100 due to overlapping staff functions	49	45	6	6	6	4
Republic of Korea	1,685	604 License 51 / Off-site 82 / On-site 280/ Intervention 91	33	63	26	959
South Africa	87	78 Licensing 30 / Off-site 16/ On-site 16/ Intervention 16		41	13	2
Spain	24 5% of total authority staff	10% of total authority staff on-site inspectors				10% of total authority staff insurance and pension fund regulation
Thailand	18 4% of	39%		44%	17%	
Turkey²	5 7% of total Treasury staff					
UK	340	41% Business Deliver (Customer Support, Triage, Corporate Risk Management, Scheme Specific Funding and Governance)		24% Strategic Development (DB research, DC, Governance, Europe, Communications, Planning/Performance)		35% Business Support(HR, Facilities, IT, Finance, System Return)

Note 1 Australia: Supervisory staff are not dedicated to pension fund supervision alone but supervise entities in at least two of the regulated industries. 42% of APRA staff are involved in direct supervisory activities across the spectrum of regulated industries, supported by approximately 200 staff in specialist risk and enforcement areas, policy and statistics.

Note 2 Turkey: There is a division of responsibilities on the basis of each pension company within the pension division of the supervisory authority. Thus, each staff performs the functions of license inspection, off-site monitoring, and intervention. Also, each staff has additional responsibilities which falls into the categories of 'supervisory policy and support functions' and 'Communication / education/ training and guidance of regulated community'. Some of the off-site functions are delegated to the Pensions Monitoring Centre. The on-site inspections are executed by the Insurance Auditor's Board (which is a body within the Treasury), generally on an annual basis. The reports that are drafted as a result of the on-site inspections are evaluated and concluded by the Directorate General of Insurance (supervisory authority).

Table 5: Allocation of Supervisory Authority's Time and Budget (%)

<i>Time Budget</i>	<i>Regulation</i>	<i>Licensing</i>	<i>Monitoring</i>	<i>Communication</i>	<i>Analysis Research</i>	<i>Intervention</i>
Austria (pensions)	5	5	65	10	10	5
Belgium (pensions)	30	5	45 (40 offsite 2.5 onsite 2.5 market conduct)	10 (5 specific funds 5 pension industry)	8	2
Finland (pensions) Supervisory functions only	10 10	10 10	70 70 (45 offsite 20 onsite 5 market conduct)	10 10 (5specific funds 5pension industry)		
Israel	23	7	30	23	8	9
Kenya	15	10	30	10	30	5
Netherlands (pensions)	10	1	78 58 off-site 20 onsite	5	4	2
Republic of Korea	13	3	36 (Off-site 5 22 onsite Market conduct 9)	2 (Education 2)	2	6
Romania	35	40	0	10	0	5
South Africa	20	10	40 (Off site 15 Onsite 5 Market Conduct 20)	15 (Specific funds Industry 5 Education)	10	5
Turkey (pensions)	24	10	29 (Offsite 20 / On-site 3/ Market Conduct 6)	18 (Specific funds 8 / Pension industry 6 / Education 4)	14	5

Table 6: Qualifications for Directors of Supervisory Authorities

	<i>Minimum Professional Requirements for Head of Authority</i>	<i>Length of Appointment</i>
Australia	The APRA Act requires APRA members to be persons qualified by virtue knowledge or experience. A person may not be appointed as a member if they are a director, officer or employee of an entity regulated by APRA. Persons employed within other bodies within the financial sector are eligible to be appointed as members but only if not affected by any resulting conflicts of interest. Numerous provisions within this Act allow for the termination of appointments in the event of improper conduct.	Not exceeding 5 years – reappointment possible (head and senior executives)
Austria	Executive Board Members (head of the authority) must be experts in at least one of the areas of supervisory activity listed in Financial Market Authority Act and who are not excluded from the right to be elected to the Austrian National Assembly.	3 years for 1st time appointment 5 years for reappointment Senior executives 5 years (1 year probation) 5 year reappointment
Belgium	No	6 years – head and senior executives
Bulgaria	Under the Financial Supervision Commission Act, requirements for Commission member include: - Bulgarian nationals with higher education, having the appropriate professional qualification and experience in economy and finance; - Have not been found guilty of premeditated crime of a general character; - Have not been declared bankrupt themselves or management of a bankrupt company; - Are not managers of or related to managers of a supervised entity; - Are not related to other Commission members; - may not engage in any paid activities (other than teaching / research)	
Chile	Superintendent and heads of Divisions are hired according to a process for high authorities in the Public Sector	No fixed period
Czech Republic	Yes	6 years Reappointment possible once
Finland	Academic degree and good expertise in insurance branch	No fixed period
Germany	No – specific skills are not required by the legislature	No fixed period
Hong Kong	Staff at the top management level, including executive directors and heads of divisions, are required to have good educational qualification and sound experience and expertise in their areas and responsibilities.	Not exceeding 4 years (head and senior executives) Reappointment possible for another term
Israel	Yes - In Israel all public appointments must receive the approval of a committee that checks all of the appointments. The checking procedure includes, experience, professional background, a special questionnaire and a written declaration that each candidate must fill in about any legal procedures that he was expose to etc	2 years minimum
India	Yes	5 years (Head and other executives) Reappointment possible for another term
Jamaica	At a minimum , the Executive Director and the Senior Directors must have knowledge of relevant statute and communications skills are also pertinent	Executive Director max 5 years and further appointment for 5 years allowed Senior Directors are appointed for renewable 3 years
Kenya	No	Fixed term – reappointment possible for another term
Luxembourg	No	6 years – reappointment possible
Mexico	No – the requirements are set out in law – being: Mexican nationality; proven experience in the field; not being a shareholder of any supervised entity	No fixed period
Namibia	No	1 – re-appointment possible

Netherlands	<i>No</i>	<i>7 years</i> Reappointment possible for another term
Poland	Chairperson must: 1) have Polish citizenship; 2) enjoy full civil rights; 3) have completed higher education in Law or Economics; 4) have relevant know-how in the area of supervision over the financial market in the Republic of Poland and professional experience gained in the course of academic work or work performed for entities operating on the financial market or for a financial market supervisory body; 5) have worked on managerial positions for no less than three years; 6) have not been punished for an intentional or a fiscal offence; 7) enjoy an unblemished reputation and give a guarantee of correct performance of the tasks entrusted to them.	<i>5 years</i> – head with reappointment for another terms No fixed term other senior executives
Republic of Korea	Yes	<i>3 years – re-appointment possible once</i>
Romania	Yes	<i>Yes 6 years re-appointment possible</i>
Spain	No – Supervisory members are in general a specific kind of civil servant, with a very technical education and training, and are required to pass a special exam	<i>No fixed period</i>
South Africa	Yes	<i>3 years reappointment possible</i>
Thailand	The Secretary-General (the head of the supervisory authority) shall have the qualifications and shall possess the characteristics as follows: 1. being able to perform his duty full time for the Office; 2. not being or having been a bankrupt; 3. not being a political official, an appointed member of a district council or district council or district administration, or a member or official of any political party; 4. not being a civil servant having a permanent position or salary, or an officer or employee of any state enterprise, government organization, or district office; 5. not having a position or any responsibility or having an interest in a securities company. No specific requirements for head of pension division but shall have suitable general qualifications	<i>4 years</i> not more than 2 consecutive terms
Turkey	Yes	No fixed term
UK	No	Chair <i>3 years</i> reappointment possible for another term Chief Executive no fixed period

Section 2: Approaches to Pension Supervision

Different approaches to pension supervision can be identified around the world, largely depending on social and historical trends. Breaking pension supervision into key elements, patterns to these supervisory trends are examined below.

In a 2005 paper¹, the World Bank produced an initial categorization of pension supervisory approaches. This ranked the intensity of a range of supervisory functions to assess whether pension supervisors adopted a relatively intensive, proactive supervisory stance, or took a more open, reactive approach- or indeed an intermediate point along the spectrum between these points.

Using the response to its questionnaire, the IOPS has continued this analysis for a wider range of countries². This is done by investigating six keys elements of pension supervision, namely:

- **Licensing** – licensing activities are those which restrict and control entry to the pension market through procedural requirements and criteria.
- **Monitoring** – monitoring activities collect information to enable the supervisor to track the status and actions of the pension funds within its jurisdiction.
- **Analysis** – the extent to which supervisors analysis and evaluate the information they receive from funds.
- **Intervention and Correction** –for the purpose of this paper the following are considered intervention powers (obtain data, financial risk analysis, on-site, complaints follow up, disclosure, directions to management, refer mater and the threat to use powers) and correction powers are (disqualification of management,

replace external providers, withdraw licence, freeze assets, fine).

- **Communication** – these are the complement to monitoring activities in which the flow of information is from the supervisor to the funds. They include disclosure, outreach and education and training.

Comparative analysis of the attributes of the supervisory systems of different countries requires the development of a method to assign descriptive values to each of the primary elements. To achieve this we have used the World Bank approach to analyse the relative importance which different supervisory authorities apply to the functions outlined above. This was done using the following information obtained from the supervision questionnaire:

- *Licensing* – ratings based on licensing report produced by OECD/ IOPS³
- *Monitoring* based on:
 - allocation of time and budget
 - allocation of supervisor staff
 - regularity of information collection
 - number of on-site inspections
- *Analysis* – based on
 - allocation of time and budget
 - allocation of supervisor staff
 - risk-based approach / stress testing
- *Intervention* – based on
 - allocation of time and budget
 - allocation of supervisor staff
 - powers chart
- *Correction* - based on
 - allocation of time and budget
 - allocation of supervisor staff
 - powers chart
- *Communication* – based on

¹ See Hinz, R.P., Mataoanu, A., 'Pension Supervision: Understanding International Practice and Country Context', World Bank Social Protection Discussion Paper Series No.0524

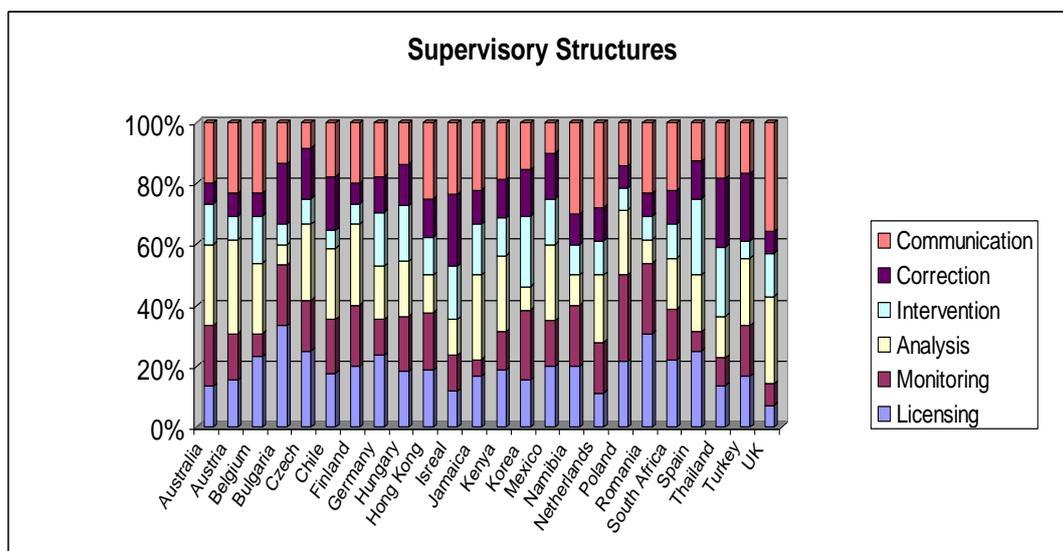
² NB the categorization used by the IOPS differs slightly from the World Bank's approach as the number of on-site visits conducted is considered as part of the monitoring rather than the intervention function.

³ See OECD/ IOPS report 'Licensing of Pension Entities' <http://www.iopsweb.org/dataoecd/46/48/39035914.pdf>

- allocation of time and budget
- allocation of supervisor staff
- consultation with pension industry
- information release mechanism

This analysis forms the basis for the supervisory structures chart below. The 100% represents the Supervisory authorities' total activities with the columns indicating the relative weighting of the different activities as a percentage of the total.

Chart 1: Supervisory Structures



The approach to pension supervisory varies considerably and depends a great deal on the national and social history of a country - factors which can be difficult to quantify.

However, some trends can be found. For example, countries that share legal traditions based on English common law (UK, Australia, South Africa, Hong Kong, India, and Namibia) stress communication activities – which is consistent with providing education and support for trustees who play an important role in their systems. Reliance on these external parties for signals of non-compliance shifts much of the monitoring and analysis activities from the supervisory to private third parties. This can help explain the low levels of monitoring and analysis done in-house in such countries, which focus instead on increasing the level of governance hence the high level of communication with members.

The opposite is true for countries that base their legal systems on codes that set rules (Austria, Belgium, Bulgaria, Chile, Mexico, Germany, Netherlands etc). These countries seem to adopt an approach which is more regulation based, therefore requiring more day to day intervention. Such countries undertake intense efforts to prevent non-compliance by conducting detailed analysis

and monitoring of financial behaviour for supervised entities.

These code law countries also control entry to the pensions market by comprehensive licensing procedures and apply punitive sanctions. The same is true for the analysis activities undertaken by the supervisory institutions. In all of these countries, supervisors process in-house a large amount of information that is reported frequently by the funds and fund managers. In order to assess whether the supervised entities are complying with the regulations, supervisors intervene in a pro-active manner to either collect additional information or to further investigate instances of non-compliance.

However, in countries with low barriers to entry and relatively loose regulations, the pension supervisor's activities are concentrated in the communications area with strong outreach and training. In addition, efforts are made to implement risk-monitoring systems that further-reduce intervention and monitoring and tailor resources to risk. In these countries, the number of supervised entities is very high with a reliance on market mechanisms and on the institutions of trust law also stressed.

Licensing

The more pension funds the less licensing

A number of countries - including Spain, Germany, South Africa, Romania, Mexico, Hungary and Bulgaria - enforce relatively strict licensing procedures for both funds and fund managers before they are entitled to handle the assets collected as contributions from pension fund members. Australia, UK, Israel, Namibia, Netherlands and South Korea lie at the other end of the spectrum where the barriers to enter the market are low. Jamaica, Thailand, Austria, Belgium, Kenya, Czech Republic, Hong Kong, Turkey, Chile, Finland and Poland lie somewhere between these two approaches.

Other notable general trends identified in this analysis include that the more pension funds which operate in pension system, the less licensing requirements and if pension plans are mandatory then a slightly stricter

licensing approach is applied. There are exceptions to this at both ends of the spectrum. In Australia (6821 schemes) licensing has become more intensive as all trustees must now obtain a licence - though this is offset by the fact that 6167 of the 6821 schemes are small funds with fewer than 5 members operated by a licensed trustee (i.e. some of these licensed trustees provide services for more than 1000 of these small funds). In Austria (19 schemes) the FMA operates licensing requirements, but allocates limited time and resources to this function. Other notable examples are Bulgaria which operates an intensive licensing regime involving several stages and Germany where licensing requirements are fairly extensive, requiring the submission of large amounts of detailed information.

Monitoring

Mandatory systems undertake heavier monitoring

Overall we see a group of countries which require regular data collection (sometimes daily) and allocate a relatively high amount of resources to these functions. These include Poland, Hungary, Chile, Mexico, and Romania. A second group of countries collects information less regularly and complements this with other factors such as a reliance on trustees and whistle blowers in their pension supervisory activities. These include UK, Germany, Namibia and Spain. Many countries surveyed sit between these two approaches.

Another notifiable general trend identified with this variable is that countries with mandatory pension systems undertake more intensive monitoring than those countries with voluntary pension plans. Likewise, countries regulating a larger number of funds generally undertake less intensive monitoring.

Generally information is collected most regularly by authorities in Latin America

and Eastern Europe - which can be expected given there are fewer funds to supervise and given the fact that these are mandatory systems operating on an individual account basis. Jamaica, Spain, Belgium and the UK are the least frequent, collecting information only annually (and on an ad hoc basis when needed) - which is unsurprising given the large number of funds supervised by some of these countries.

In terms of the number of on-site inspections, Australia and the Netherlands are the outliers, undertaking a large number of inspections. However, these are large, integrated authorities, with relatively large resources (in terms of budget and staff numbers), supervising many institutions. The Eastern European authorities generally visit each pension fund under their jurisdiction annually. The UK and Belgium carry out the least work 'on-site', not operating a cycle of inspections, but visiting funds only when the need arises.

There are interesting examples on both sides of the monitoring spectrum. In Bulgaria monitoring is rigorous, with two-thirds of the staff and resources of the FSC dedicated to this task, information collected daily and each licensed pensions insurance company inspected annually. On the other end of the spectrum the UK Pensions Regulator (85,000 schemes) has a low intensity approach to licensing and monitoring, employing a light, registration rather than

a full licensing regime, collecting data only annually and making on-site visits rarely.

Other notable examples are Austria (19 schemes) where 65% per cent of the authority's time and budget is used for on-site and off-site monitoring (75% of which is off-site monitoring). In contrast, Kenya, (1351) where only around one-third of staff and resources are allocated to monitoring, undertakes a large number of on-site inspections and also collects information quarterly.

Table 7: Information collection by supervisory authorities

	Daily	Weekly	Monthly	Quarterly	Biannually	Annually	Ad hoc	Other	No. onsite inspections (% funds supervised)
Australia				X		X	X		Variable (391 6/06) 6%
Austria				X	X	X	X		3 to 4 19%
Belgium						X	X		0
Bulgaria	X		X			X	X		9 (100% pension insurance companies)
Chile	X		X	X		X			
Czech Republic				X	X	X	X		5 45%
Finland				X					15 12%
Germany				X	X	X	X	X	21 12%
Hong Kong			X	X		X	X	X	9 50%
Jamaica						X	X	X	0
Kenya				X					60 4%
Luxembourg				X		X	X		0
Mexico	X	X	X		X	X			50
Namibia						X	X		3 <1%
Netherlands				X					150 19%
Poland	X		X	X	X	X	X		23 -100%
Republic of Korea				X					1562 (100% trustees)
Romania	X	X	X	X	X	X	X		24
South Africa						X		X	300 2%
Spain						X	X		10 <1%
Thailand			X	X		X			10
Israel			X				X		8
Turkey	X			X			X		10 10%
UK						X	X	X	0

Analysis

Mandatory systems undertake more analysis

Analysis is a complementary function to monitoring in which supervisors analyse and evaluate the information they receive. It is therefore interesting to notice that several countries that have a lighter information collection regime have a relatively high analysis function (such as the UK or Germany).

In general there is a group of countries that undertakes systematic analysis of the information received (Austria, Netherlands, Turkey, Chile, Finland) and a group of countries who undertake more of a more ad hoc approach, letting the industry undertake most of the analysis and

carrying out their own investigations when necessary (e.g. South Africa, Namibia, Bulgaria and Israel). There is a proportionally high staff allocation to analysis functions in Australia, Bulgaria, Jamaica, Mexico and Turkey.

Other notifiable trends are that there is a slightly higher level of analysis for countries with mandatory schemes and those countries with a large number of funds. Interesting case studies are APRA in Australia which also acts as a statistical agency for the financial sector and Chile which has a research role as part of its mission statement.

Intervention and correction

Levels of intervention vary across geographical region

Overall we see a small group of countries emerge that use intervention and correction powers on a fairly frequent basis. These include Thailand, Spain, Mexico, South Korea and Israel. Most countries, however, see intervention as a last resort and focus on reducing risk and deterrent actions rather than corrective action. These include UK, Austria, Belgium, Poland, Netherlands and Germany.

According to the results of the IOPS questionnaire, intervention powers seem to be used relatively rarely within mandatory systems, whilst corrective powers are more regularly applied in these regimes. Corrective powers are less used where there are a large number of pension funds. Overall intervention and correction form a relatively small portion of the authorities' work.

Thailand is an example of a country which appears to have an intensive intervention and correction procedure with the supervisory authority regularly directing and disqualifying management, fining, withdrawing licenses and referring for criminal prosecution all seen as important tools.

At the other end of the scale, in Belgium intervention powers are rarely used and it has been unnecessary to date to use corrective powers. In Finland intervention and correction powers are limited – this is the only authority which cannot impose fines – or rarely used. Similarly, in Poland the intervention and correction powers available are less than for other authorities. In the UK directions to management are made frequently but other intervention or correction powers are rarely or not used.

A few countries do not have equivalent levels of intervention and correction. In Bulgaria for example intervention powers are used rarely, but fines are imposed frequently. Similarly, in Chile intervention powers are rarely or not used at all, and some (such as management disqualification) are not available to the supervisor. Fines are, however, imposed frequently. The opposite is true in Germany where intervention tools, notably directions to management, are used frequently, with correction powers used only rarely.

Table 8: Use of Investigatory and Enforcement powers

M= most important F=frequently used R=rarely used NU= not used NA= not available

	AUS	AUT	BEL	BUL	CHL	CZ	FIN	GR	HK	JAM	KEN
Obtain data etc.	M	M	M	M	M	M/F	M	M	M	M	F
Financial Risk Analysis	M	F	M	M	R	M/F	F	M	R	M	F
On-site visits	M	F	NU	F	F	M/F	F	F	F	M	F
Complaints follow up	R	F	F	F	M	M/F	R	R	M	M	M
Disclosure	NA	NU	NU	F	F	M/NU	R	R	NA	R	M
Directions to management	F	R	R	R	R	NA	R	R	R	F	R
Disqualification of management	R	R	R	R	NA	M/NU	R	R	NU	R	R
Replace or report external service providers	NA	R	NU	R	NA	NA	NU	R	NA	R	R
Withdraw license	R	R	NU	R	R	M/R	NU	R	NU	R	R
Freeze assets	R	R	NU	R	R	M/R	NU	R	NA	NA	NU
Fine	R	R	NU	F	F	M/R	NA	R	R	R	R
Refer matters criminal prosecution	R	R	NU	R	NU	M/R	NU	R	NU	R	NU
Threats to use above	R	R	F		R		R	R	R	F	F
Others						M					
Maximum Fine		US\$ 28m	US\$ 2,63	US\$ 290,000		US\$ 1m	None	US\$ 200,000	US\$ Note1	US\$ 70,000	

	LUX	MEX	NTH	POL	ROM	SA	SP	THAI	TRK	UK
Obtain data etc.	M	F	M	M	F	M	M	M	F	M
Financial Risk Analysis	M	M	M	R	R	M	M	M	F	M
On-site visits	F	M	F	M	R	M	M	M	R	R
Complaints follow up	F	F	NU	F	F	M	M	M	F	F
Disclosure	R	F	NU	NA	M	M	M	M	NU	R
Directions to management	R	F	R	NA	R	M	M	M	R	F
Disqualification of management	R	R	R	NU	NU	M	M	M	R	R
Replace or report external service providers	R	NU	NU					NU	NU	R
Withdraw license	R	NU	NU	NU	NU	R	R	M	R	NU
Freeze assets	R	NU	R	NA		R	R	NU	NU	R
Fine	R	F	R	R	NU	R	R	M	F	R
Refer matters criminal prosecution	R		R	NU	RU			M	F	R
Threats to use above	R	R	R	NA	F			NU	F	R
Others										
Maximum Penalty		5% capital	US\$ 600,000	US\$ 180,000	US\$ 12,000				US\$ 30,000	

Note 1 Hong Kong: For each occasion of a breach of the MPF legislation, a maximum financial penalty of HK\$50,000 could be imposed on an approved trustee. In relation to some sections in the MPF legislation, a maximum fine of HK\$100,000 and imprisonment of up to 12 months could be applied on an approved trustee by a court upon conviction.

Communication

Communication is stronger in trust based systems

One supervisory element that seems to be negatively correlated with others is communication. The prevalence of communication activities apparently

increases in proportion to the degree to which other supervisory tools activities are used more sparingly (such as in the UK, Australia and Namibia). This is because

communication and education is a key factor in a system that relies on external actors. In countries like the UK and Australia where the intensity of the other supervisory functions is low, we observe a very dense activity of communication between the supervisor and the pension fund managers, trustees and beneficiaries as well as members of the public.

In addition, communication activities tend to increase in countries where Defined Benefit pension plans still predominate, and also for countries with a trustee system (Kenya, UK, Australia), as well as those systems with a relatively large number of funds. Overall communication and research took up more time than one might expect – notably in Kenya.

Specific examples are Bulgaria and the Czech Republic, which have few staff allocated to communication duties, and

Finland, which does not have an active communication role. At the other end of the spectrum, Kenya has a relatively high number of staff and resources allocated to analysis and communication, allowing the RBA to undertake extensive work in financial education and the training of trustees. The UK authority does a great deal of communication work with the pensions industry, for example, providing an online training programme for trustees. It is interesting to note that the supervisory authority in Hong Kong has on some occasions provided training sessions to trustees on legislative amendments and other operational issues.

APRA in Australia have the additional role of acting as a national statistical agency for the financial sector and hence releases a great deal of information on its website.

Section 3: Application of IOPS Principles

Moving from the analysis of supervisory structures globally, this section looks at how such authorities operate in practice and assesses their performance in relation to the IOPS 'Principles of Private Pension Supervision'¹. Taking account of the great diversity in pension systems, products and types of supervisory structure, the Principles identify good practices within pension supervision which can be applied universally. They examine the objectives a supervisory authority should have and the powers and resources needed to achieve these, laying out how a supervisory authority should behave in terms of applying a risk-orientated, proportional and consistent methodology, and acting in a transparent manner with strong governance procedures.

The review undertaken by IOPS members suggests that the Principles are broadly being applied in practice by pension supervisory authorities around the world. Innovative examples of such application and further international good practice were also suggested through the review.

¹ The Principles are available on the IOPS website: <http://www.iopsweb.org/dataoecd/41/48/37691809.pdf>

1. Objectives

National Laws should assign clear and explicit objectives to pension supervisory authorities

Almost all respondents clearly assign objectives and a mission statement, in line with the IOPS Principles. Naturally, there is some overlap between these objectives and their supporting mission statements.

Most share the key objectives of financial stability, consumer protection and

promoting confidence in the pension and /or financial system. Pension development is also an objective in India, Hong Kong, Mexico, Spain and risk-based regulation is entrenched in the objectives of the authorities in Bulgaria and the UK.

2. Independence

Pension supervisory authorities should have operational independence

The pension supervisory authorities that provided responses to this project seem to have suitably independent structures and operations, in line with the IOPS Principles. Almost half the authorities describe their position as 'quasi-independent', with most of the rest describing themselves as fully independent. The remainder are Central Bank authorities and only in Spain is supervision still undertaken directly by the Ministry. Three fifths of the authorities cannot have their decisions overruled by another supervisory authority. The others can only be overturned by an appeals authority or court, which again is in line with the IOPS Principles.

Almost all the authorities are subject to an audit by the state audit institution. Around half are also overseen by the Ministry of Finance and/or the judiciary. In some countries the legislature, executive (Head of State) or labour ministry also play a role. Only in the Czech Republic, where the supervisory authority is the Central Bank,

does no other authority have an oversight role.

The head of the supervisory authority is in most cases appointed by the government or Head of State, or by the Finance Ministry. The other Senior Executives tend to be appointed by the same process or by the authority's governing body itself. In two-thirds of the authorities which responded, the same authority has the power to remove the head. Only Chile, Finland and Germany do not have a fixed term for the head of the authority. Others range from 3-6 years, with a reappointment generally allowed.

No particular pattern can be discerned for financing the authority – with responses split between fees/ public funds and a combination of the two. Where fees are charged, the fee structure is usually set out in legislation. The overall budget of the authority is generally set by a Ministry or other government authority.

Table 9: Source of Supervisory Authority's Funds + How Charges are Set

F= fees PF= public funds Ch= charges for specific services

	<i>Source of funds</i>		How are charges set?
Australia	F	APRA collects levy amounts on behalf of the government (which appropriates to APRA in the Budget process). Framework is established by law, with rates set by the Treasurer in consultation with APRA and industry. Minor % of revenue by charging for some specific services.	Legislation
Austria	F+PF+Ch		Legislation / Agency regulation + government consultation
Belgium	F		Legislation + government consultation
Bulgaria	F + PF		Legislation
Chile	PF		
Czech Republic	Ch	CNB has its own budget independent of the government. budget. The charges for specific services contribute only very marginally to the CNB budget	
Finland	F		Legislation
Germany	F	Other revenues (penalties or sanctions) collected from the regulated entities and interest	Legislation/ Agency regulation + consultation with government + industry
Hong Kong	F + PF	Mainly from PF	Legislation
Israel	PF		
India	PF	Once the PFRDA Bill is passed in parliament, the Authority shall have alternative sources of finance- such as fees, charges, penalties etc.	FSC dialogue with industry re structure. Changes are communicated pre implementation
Jamaica	F	Fees in respect of pension regulation are levied only on licensed investment managers; currently 0.1% year of pension assets	Agency regulation
Kenya	F		Legislation
Luxembourg	F		
Mexico	F + PF		
Namibia	F		Agency regulation
Netherlands	F+ PF		Legislation / consultation with government + industry
Poland	PF	Public funds refunded by supervised entities	Legislation
Republic of Korea	F + Ch	Central Bank Budget	Legislation + Agency regulation
South Africa	F + Ch		Legislation / consultation with government + industry
Spain	PF		
Thailand	F	82% fees 18% interest income	Legislation / agency regulation + consultation with industry
UK	F + PF	TPR collects levy on supervised entities for DWP, which then . allocates the TPR budget – mostly financed by levies collected	Legislation

3. Resources

Pension supervisory authorities require adequate financial, human and other resources

As discussed in Section 1, integrated authorities (including the Central Banks) have the greatest resources in terms of budget, whilst the supervisory authorities

covering mandatory, individual account systems have the highest staff to pension fund ratio.

4. Powers

Pension supervisory authorities should be endowed with the necessary investigatory and enforcement powers to fulfil their functions and achieve their objectives

The supervisory authorities surveyed have a wide range of powers at their disposal, in line with the IOPS Principles.

Not all the authorities have the ability to replace or report external service providers, and some are not able to disclose information or direct the management of pension funds. As discussed, Finland is the only authorities not able to levy fines, though several are unable to freeze assets. In other countries fines range from a limited to a more substantial amount depending on the parties involved and other circumstances.

Collecting data and risk analysis, along with the ability to conduct on-site inspections were seen as the most important and frequently used powers. Following up on complaints, fining and directing or disqualifying management were also well-used powers.

Disclosure, withdrawing licenses and referring matters to criminal prosecution were used more rarely, with freezing assets even more so. The threat of employing any of the above powers was also used frequently by some authorities.

5. Risk-based Supervision

Pension supervision should seek to mitigate the greatest potential risks to the pension system

Almost all the authorities are using or are planning to introduce a risk-based approach to supervision - in line with IOPS Principles - though not all use stress tests.

Australia produces exception reports based on financial data to alert supervisory staff to areas that may warrant further attention. Austria undertakes stress tests and when a risk profile is identified it undertakes on-site inspections. In Belgium, because of the large number of schemes and limited resources, a completely automatic risk model has been developed, running purely on electronic data provided by the pensions institutions and hence requires no manual assessment prior to the running.

Bulgaria is currently planning to introduce risk profiling for its supervised entities. In Finland the authority produces a specific risk assessment survey annually covering all pensions' funds. The objects of on-site supervisions are chosen according to the survey. In Germany the overall risk-based supervisory system is based on measures, stress tests and risk scoring from scenario

calculations which are submitted once quarter or once a year.

Hong Kong focuses its risk-based approach on trustees, producing a risk profile for individual trustees for each scheme, and evaluating the risks of the trustees from different perspectives, including governance, capabilities, resources, control and operations.

In terms of those risks the supervisory authorities are aiming to address through these risk-based approaches, where ranked, investment was the risk which most concerned pension supervisory authorities. Prudential funding levels were seen as important in countries in which such funding issues are relevant. Misleading disclosure and administrative issues were important for systems with individual accounts. Member understanding, governance, actuarial risks and scheme costs were highlighted by some authorities, with employer support and financial crime mentioned by a few

Table 10: Risk-based Approach to Supervision

<i>Country</i>	<i>Risk-based Supervision</i>	<i>Stress Testing</i>
Australia	X	X
Austria	X	X
Belgium	X	X
Bulgaria	Plan to introduce	Plan to introduce
Chile	Plan to introduce	Plan to introduce
Czech Republic	X	
Finland	X	X
Germany	X	X
Hong Kong	X	
Israel	Plan to introduce	Plan to introduce
India	Plan to introduce	Plan to introduce
Jamaica	X	X
Kenya	X	Plan to introduce

<i>Country</i>	<i>Risk-based Supervision</i>	<i>Stress Testing</i>
Jamaica	X	X
Kenya	X	Plan to introduce
Luxembourg	Plan to introduce	
Mexico	X	X
Namibia	Plan to introduce	Plan to introduce
Netherlands	X	X
Poland	Plan to introduce	
Korea	X	X
Romania	Plan to introduce	Plan to introduce
South Africa	X	Plan to introduce
Spain	X	Plan to introduce
Thailand	X	X
UK	X	X

6. Proportionality and Consistency

Pension supervisory authorities should ensure that investigatory and enforcement requirements are proportional to the risks being mitigated and that their actions are consistent

Proportionality

In terms of how supervisory authorities ensure that investigatory and enforcement requirements are proportionate to the risks being mitigated, the responding authorities have various ways of ensuring that their response is proportionate – ensuring their actions correspond with the IOPS Principles.

Some authorities use a particular model – such as the PAIRS model used by APRA in Australia, which feeds into the SOARS rating system that determines the supervisory response. The FSC in Bulgaria is developing a similar risk orientated system. For BaFin in Germany, the intensity of supervision depends on how high the competent supervisor judges the risk that a Pensionskasse/Pensionsfonds might not, or

not fully, comply with the applicable legal, regulatory and supervisory requirements, and their risk-scoring system (using a traffic-light model) plays the dominant role. Measures of probability and impact are also at the heart of the UK Pensions Regulator's risk assessment and supervisory response, allowing it to decide upon which of the 85,000 funds under its supervisory jurisdiction it should focus. The supervisory authority in Finland likewise uses careful risk assessment studies and the RBA in Kenya has set up risk parameters which indicate the proportion of risk.

Several authorities mentioned that the issue of proportionality is at their heart of their internal procedures, with employees

constantly encouraged to keep the issue in mind. The FMA in Austria base the planning of its on-site inspections and company visits on the potential financial impact on the beneficiaries and plan sponsors.

Meanwhile the Czech Central Bank focuses on this issue during the process of creation of secondary legislation. CONSAR in Mexico and the FSC in Jamaica follow legislative requirements. The FSC has also developed supervisory ladders outlining various circumstances and risk as well as the associated intervention measures. Registrants and licensees also have flexibility, as deemed appropriate, in the manner in which regulatory compliance is achieved. In Hong Kong, the MPFA takes

investigatory and enforcement actions with respect to the risk profiles of the approved trustees, which include considerations of compliance history, complaints, governance capability and other operational weaknesses of the trustee. For serious issues, the case would be referred to a special task force comprising senior management for deliberation of enforcement actions.

The CBFA in Belgium engage in prior discussions with the sector's representative body and have close contact with the supervised institutions

Consistency

The authorities also outlined different ways to ensure consistency and therefore compliance with the IOPS Principles. Many use a 'second set of eyes' principle to check for consistency of decisions between staff. For example, APRA in Australia uses peer reviews and requires senior level oversight for entities with a higher supervisory stance. Likewise in India the official decision making by the supervisory authority is centralised to ensure that work is undertaken by the cross functional team, but co-ordination and decisions are undertaken by the highest authority to ensure consistency.

Some run training programmes to ensure that staff evaluate cases on the same basis, or have produced guidance material for their employees to follow. Authorities also have specialist teams, either for enforcement or technical specialists to ensure consistency in decision making. For example the CNB in the Czech Republic in the Netherlands has frequent meetings to compare results and exchange experiences)

introduced a licensing and sanctions procedures department covering all sectors on 1st January 2008, whilst the Pensions Regulator in the UK has a 'triage team' – which is a part administrative part intelligence body, within which account managers are responsible for opening and closing cases, providing key case and management information around the risks, whilst analysts analyse information on cases and conduct essential risk based vetting. They will then sift the cases based on potential risks with, for example, large schemes receiving more attention than small schemes and DB schemes receiving more attention than DC schemes.

Documenting decisions was also seen as important for ensuring consistency, as was communication within and between divisions (e.g. BaFin in Germany organises meetings of supervisors in the division where cases are discussed and common approaches developed and the DNB

7. Consultation and Cooperation

Pension supervisory authorities should consult with the bodies they are overseeing and cooperate with other supervisory authorities

All authorities consult with the pension fund industry in their country, either on an ad hoc or a continuous basis – in line with IOPS Principles. Consultation is achieved in interesting ways. For example:

- Industry representatives sit on advisory panels for Czech Central Bank and the UK regulator;
- Kenyan and Jamaican authorities consult via industry associations.

- Superintendencia in Chile publishes all administrative norms prior to enactment for comments.

The authorities also all collaborate with their counterparts that supervise other financial sectors, either domestically or internationally, either using formal agreements such as Memorandums of Understanding, consultation and regular meetings, or via international and domestic committees and organisations.

Table 11: Consultation, Information and Release Mechanism

	<i>Industry Consultation</i>	<i>Type of information</i>	<i>Parties released to</i>	<i>Release mechanism</i>
Australia	Ad hoc + continuous	Annual reports/ media releases/ information + consultation papers Letters	Publicly Available Trustees & Public	Website Mail, Email & Website
Austria	Continuous	Annual Report / Press releases/ legislation / legal information (acts, directives, regulations, circular letters)	All	Homepage
Bulgaria	Continuous			
Chile	Ad hoc	Monthly summarized information on pension funds returns Statistics Sanctions	General Public General Public General Public	Press release Webpage & bulletin (Q) Webpage
Czech Republic	Continuous	Report of the main financial market supervisory activity Report of the performance of financial market supervision Final decisions issued by the Capital maker Regulation and Supervision Department of the CNB Annual + Financial Reports	Financial Market Committee Parliament, government, public Public Public	Semi-annual no rule for release Annually – printed /email Website Printed/website/ CR-ROM Report submitted to parliament/ website
Finland	Ad hoc	Annual report / press releases		Internet
Germany	Ad hoc + continuous	Annual Report/ Press release/ legislation/ legal information (acts, directives, regulations, circular letters), hearings, meetings with industry	All	Homepage
Hong Kong	Ad hoc + continuous	Annual Reports Statistics / Circular letters / Consultation Papers / Codes and Guidelines Press Releases Educational Materials	Publicly Available Publicly Available Publicly Available Publicly Available	Website/ Mail Website/ Mail/ Email Website/ Media Website/ Mail/ Widely distributed through different channels and locations
India		Annual Reports including audited annual accounts Consultation/ discussion papers / draft guidelines/regulations	Parliament / public Stakeholders/public	1 st placed in parliament then for public Website
Jamaica	Ad hoc +	Annual Report Regulatory (including consultation documents on legislation)	Public Public, licensees, registrants, members, interest groups	Parliament, website Website, press releases, TV + radio, public + private meetings, mail
Kenya	Continuous	Audited accounts Press releases	All schemes	Post and on the website In the local dailies
Mexico	Ad hoc	Statistics Change in fees	Public Public	Website Press release
Netherlands	Continuous	Overview activities, results, supervision findings, financial statements etc. News/reports/legislation/guidance News New legislation	Public, industry, government Public, industry Public Industry	Annual Report Website Press release Consultation documents
Poland	Ad hoc	Annual report / KNFs announcements	Market Participants	
Spain	Continuous	Annual Report	Manager entities	Xml
Turkey	Continuous	Annual Reports Draft Legislative documents	Treasury + related government Insurance / Pension industry + public	Printed Internet
UK	Continuous	Annual Report / press releases / audits /consultation documents/ case info	Pensions industry	

8. Confidentiality

Pension supervisory authorities should treat confidential information appropriately

For most supervisory authorities, the treatment of confidential information is outlined by law. Many authorities also have their own internal codes of confidentiality to which staff are bound, which may continue to apply even after finishing an activity or employment at the authority. In Jamaica, legislation contains a provision for the imposition of a fine or imprisonment for persons who are convicted of breaching

confidentiality, which is also the case in the UK.

Some authorities - such as the FSC in Bulgaria and the DNB in the Netherlands and the Superintendencia in Chile - also have mechanisms built into their IT systems which control access to some information. The CNB in the Czech Republic requires that the legislation of the authority receiving any information should provide an equivalent level of confidentiality

9. Transparency

Pension supervisory authorities should conduct their operations in a transparent manner

The supervisory authorities conduct their operations in a transparent manner, producing a range of reports, consultation papers, press releases and legislation - most of which is available to the general public

and performance data on the pension fund industry as a whole as well as other industry trends. Many of the authorities

via the supervisory authority's website. This is in line with the IOPS principles.

Most of the authorities also produce research documents and reports, covering topics such as statistical information provide explanations for their actions to third parties – which is encouraged in the IOPS Principles.

Table 12: Explanation of Supervisory Actions

		<i>Does the Authority explain its actions to 3rd Parties?</i>
Australia	YES	Review findings are detailed in a letter to the trustee. Enforcement action requires a natural justice approach involving provision of a statement of reasons and giving the opportunity to reply.
Austria	YES	
Chile	YES	Resolutions present their justification
Czech Republic	YES	Depends on action
Finland	YES	
Germany	YES	
Hong Kong	YES	The MPFA does not normally directly involve in the administration of MPF schemes, as the MPF schemes are privately managed by approved trustees. In the case that the MPFA is to direct the approved trustees to take actions in relation to an v scheme, e.g.
Israel	YES	
Jamaica	YES	
Kenya	YES	
Luxembourg	YES	
Mexico	YES	CONSAR has to inform the Congress of its actions. Its actions are supervised by the Board as well
Namibia	YES	All reasons for administrative decisions are explained in writing to the affected parties and often in general media.
Netherlands	YES	
Poland	NO	
Republic of Korea	YES	Provide explanations about its supervision actions to effected parties.
Spain	YES	The supervisory information in an aggregate manner explain the main items of the sector; if were could refer to specific success and situations occur
South Africa	YES	They do because the party can follow the Appeal procedure
Thailand	YES	
Turkey	YES	In the case of a supervisory action, in the written statement sent to the pension fund, the supervisory authority is obliged to explain the reasons for its actions
UK	YES	A warning notice will be made available to affected pension schemes before we undertake actions. The subsequent determinations notice is made available to the general public

10. Governance

The pension supervisory authority should adhere to its own governance code and should be accountable

All authorities other than Australia and Chile have a governing board, which normally consists of between 3-10 members (Mexico is an outlier with 22 members and Turkey with 77). As with the head of the authority and the senior directors, the board is usually appointed (and removed) by a governmental authority, serves a fixed term and there are some 'fit and proper' criteria. In Hong Kong, employer and employee representation on the Board is stipulated.

Many of the authorities have governance codes and codes of conduct for staff members. Almost all document their decision making and have a separate review process for serious interventions. In all countries, except Mexico, decisions can be appealed either some form of tribunal or court (or to the Central Bank Board in the case of the Czech Republic).

RECENT IOPS MEETINGS

- [World Bank/ IOPS 4th Contractual Savings Conference: Supervision and Regulatory Issues in Private Pensions and Life Insurance, OECD/IOPS Global Private Pensions Forum](#)

(Washington D.C., 2-4th April 2008)

This conference focused on the development of annuities markets, risk-based supervision of pension funds and competitions and consumer issues. Particular attention was given to various country case studies and implementation issues during the conference to provide for the enhancement of technical skills and allow conference participants to benefit from international experience in the topics being presented.

The key objective of the conference was to provide a platform for senior government officials, staff in multilateral agencies, academics and market practitioners to discuss the role of contractual savings in developed and developing economies, examine means of fostering market development and analysing and reviewing cutting edge regulation and supervision related to contractual savings institutions, and identify best practices.

Presentations from the conference are available in the IOPS on-line electronic library.

- [IOPS Workshop on Pension Supervision in Africa](#)

(Dakar, Senegal, 5-6th February 2008)

The workshop covered selected policy issues and addressed current challenges and progress achieved in the development of robust and efficient pension supervisory systems in the African region, including: (1) powers of supervisory agencies and supervisory enforcement; (2) reporting requirements and (3) training trustees and fiduciaries.

Taking into consideration different level of development of pension systems of the countries in the African region– some having well developed private pension

systems and others only moving to funded pension schemes – the IOPS' workshop provided a useful context for fruitful interactive discussion and exchange of information and expertise among all participants of the event. Experts from Australia and the United Kingdom, as well as the IOPS Members from Kenya, Nigeria and South Africa provided their insights and shared their knowledge and experience on the topics of the workshop from their countries' perspective.

This first 'outreach' activity by the IOPS proved highly successful, with an extremely interactive meeting allowed considerable time to be devoted to each panel and to roundtable discussion and questions and answer sessions. Presentations and a summary record of the event are available on the IOPS website.

- [OECD/IOPS Global Private Pensions Forum 2007](#)

(Beijing, China 14-15 November 2007)



February 2008

The Forum covered a wide range of topics of importance to both the countries that either have mature and developed funded pension systems and those countries that have only recently undertaken pension reforms, therefore seeking to modify their existing unsustainable retirement security arrangements. The issues were also of relevance for the

current developments in the Chinese pension system.

The topics of the conference this year were (1) Pension Investments and Capital Market Development; (2) The Impact of Incentives on Pensions and Insurance Products; (3) Pensions Supervisory Structures; (4) Annuities – Provisions and Risks. A separate panel was devoted to the pensions markets in Asia. These topics were discussed in depth at the

meeting within the context of the OECD and IOPS Principles and Guidelines which provide a unique framework for countries introducing and consolidating pension reform strategies.

Presentations from the event are available on the IOPS website and papers from the conference have been released as a publication, which is also available on line.

FORTHCOMING IOPS MEETINGS

- **OECD/IOPS Global Private Pensions Forum**
(Mombasa, Kenya, 28-30 October 2008)



GLOBAL FORUM ON PRIVATE PENSIONS 2008 "PRIVATE PENSIONS IN AFRICA"



29 - 31 OCTOBER 2008, MOMBASA, KENYA

The OECD/IOPS Global Forum on Private Pensions will be co-organised and co-sponsored by the Kenya Retirement Benefits Authority.

The Forum will cover a wide range of topics which are of importance to IOPS and OECD member countries as well as countries in the region. It will bring together senior governmental officials, leading pension policy experts and private pension market representatives from OECD and non-member economies.

The Forum brings together countries with a broad range of private pension arrangements - but all are confronted with similar pressures to provide an adequate and sustainable level of retirement security. It also provides a valuable international forum to inform and enlighten the current policy debate on major issues related to private pension reform and will encourage an exchange of experiences derived from innovative policies and programmes across the participating countries.

Day 1: IOPS Technical and Executive committee meeting
Day 2: IOPS Annual General Meeting (morning); OECD/IOPS Global Pensions Forum (afternoon)
Day 3: OECD/IOPS Global Pensions Forum

Delegates will be staying at Sarova White Sands, the leading beach resort on the Kenyan Coast, which is set on 22 acres of tropical gardens with a 300 metre beach front.



For further information please contact

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Note: the draft programme will be made available early 2008

Following the IOPS committee and Annual General Meetings to be held on 28-29th October, the 2008 OECD/ IOPS Private Pensions Forum will be held in Mombasa, Kenya. The Forum will cover a range of topics which are of importance to IOPS and OECD member countries, which in addition have been selected as being particularly relevant to representatives of the African region. As

well as looking at developments in pension and supervisory systems in Kenya in particular, and in Africa in general, the conference will consider how national awareness campaigns can contribute to the development of pension systems, issues of coverage, particularly for the informal sector, and how pension assets can contribute to the development of capital markets and infrastructure.

Speakers and participants will be made up of representatives from government, supervisory and regulatory authorities of IOPS and OECD member countries, international organisations and some private sector stakeholders.

RECENT PUBLICATIONS

OECD/ IOPS Guidelines on the Licensing of Pension Entities

The guidelines highlight the vital role of regulators and supervisors as 'gatekeepers' of private pension systems by assessing the potential viability of pension entities before they are set up and overseeing their performance and management. The objective is to protect workers' pensions from bad management, which is a growing concern given the increasingly complex financial markets.

Issues covered by the guidelines include minimum requirements related to the pension entities' starting capital, funding policy and risk management mechanisms, as well as their governance structure and investment policy. They also outline the circumstances in which a license to may be withdrawn. The guidelines are available on the IOPS website www.iopsweb.org.

IOPS Good Practices in Risk Management of Alternative Investments by Pension Funds

The International Organisation of Pension Supervisors (IOPS) has released a set of good practices relating to the risk management of alternative investments by pension funds. The document is directed at pension supervisory authorities to aid them in their assessment of whether the pension funds under their jurisdiction are managing their alternative investments adequately.

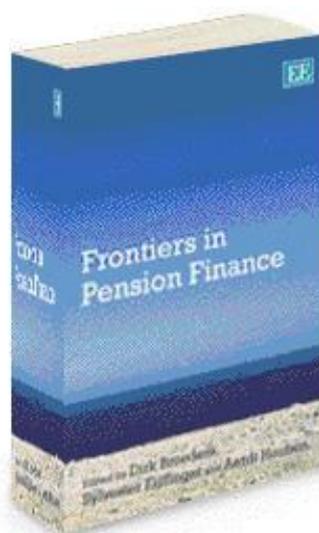
The good practices are available on the IOPS website www.iopsweb.org

Risk-based Supervision of Pension Funds: Emerging Practices and Challenges

Risk-Based Supervision of Pension Funds provides a review of the design and experience of risk-based pension fund supervision in countries that have been leaders in the development of these methods. The utilization of risk-based methods originates primarily in the supervision of banks. In recent years it has increasingly been extended to other types of financial intermediaries, including pension funds and insurers. The trend toward risk-based supervision of pensions reflects an increasing focus on risk management in both banking and insurance based on three key elements: capital requirements, supervisory review, and market discipline. Although similar in concept to the techniques developed in banking, its application to pension funds has required modifications, particularly for defined contribution funds that transfer investment risk to fund members. The countries examined - Australia, Denmark, Mexico, and the Netherlands - provide a range of experience that illustrates both the diversity of pension systems and the approaches to risk-based supervision, and also presents a commonality of focus on sound risk management and effective supervisory outcomes. The publication is available via the World Bank's website: http://publications.worldbank.org/ecomm/erice/catalog/product?item_id=8233281

Frontiers in Pension Finance

Organised by Nederlandsche Bank, Netspar and the IOPS in Amsterdam in March 2007, the conference entitled 'Exploring the Future of Pension Finance and the Dynamics of Institutional Pension Reform' brought together academic researchers, practitioners, supervisors and public-sector policymakers to discuss the current state of pension finance and pension reform and to explore its implications for pension funds, supervisors and governments. Presentations from the event are available on the conference website www.frontiersinpensions.com and the papers presented at the event have been published.



IOPS seeking additional members

IOPS Membership and Observership is open to pension supervisory authorities and related parties worldwide.

Information on how to join the organisation is available via the website www.iopsweb.org

Please contact the IOPS Secretariat should you have any questions: sally.day@oecd.org