

SUPERVISORY STRUCTURES FOR PRIVATE PENSIONS IN OECD COUNTRIES

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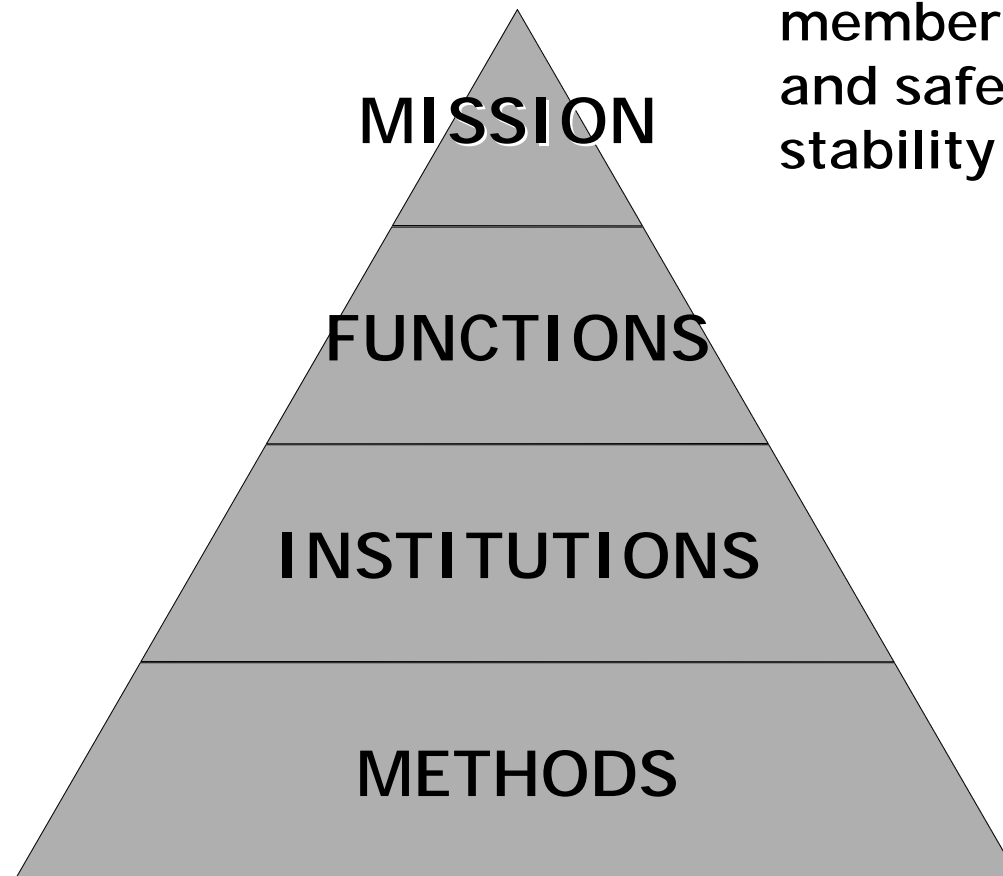
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Summary

1. Supervisory Framework for Private Pension Supervision
2. Institutional Structures
3. INPRS/OECD Private Pension Supervision Project



Private Pension Supervisory Framework



“Protecting the plan member’s interest and safeguarding the stability of the system”

Private Pensions Supervisory Functions are related to:

1. Characteristics the Private Pension Scheme: mandatory, voluntary, occupational, personal, DC or DB
2. Regulatory approach: qualitative, quantitative

General Supervisory Functions:

1. Licensing/registration
2. Qualification for tax benefits

3. Governance
4. Contribution and regularity of payment
5. Membership and portability
6. Benefits eligibility
7. Conditions and access to plans
8. Investments, asset allocation and performance
9. Minimum capital and reserves
10. Custodian Procedures
11. Financial, actuarial and accounting methods
12. Administrative fees and marketing
13. Disclosure procedures
14. Merger and liquidation process



Institutional structure of the private pension supervision is related to:

1. Market structure: number of funds/plans, type of fund/plans, market concentration (financial conglomerates, oligopolies)
2. State political and administrative organisation: federalism, unitarism, centralization, decentralization
3. Supervisory approach: self supervision, reactive, pro-active



Analysing supervisory institutional structures: key issues...

1. Integration of financial supervision
2. Regulation and Supervision
3. Supervisory agencies enforcement capacities:
 - political, operational and institutional independence,
 - staffing and funding,
 - governance, reporting and disclosure
 - appropriate supervisory powers

Supervisory Structures by Sector in the OECD

INTEGRATED (Banks, Securities, Insurance Companies, Pension Funds)	PARTIALLY INTEGRATED (Insurance Companies and Pension Funds)	SPECIALISED (Pension Funds)
Australia Austria Canada Denmark Germany Hungary Iceland Korea Norway Sweden	Belgium Czech Republic Finland Luxembourg Netherlands New Zealand Poland Portugal Spain Turkey	Ireland Italy Japan Mexico Slovak Republic Switzerland United Kingdom United States

Integration *versus* Specialization: Pros and Cons

Financial Integration

- Financial conglomerates
- Economies of scale and scope
- Avoid authority overlapping
- Intersectoral supervisory consistency
- Information flow

Specialization

- Pensions are different product with several non financial characteristics
- Pension reform
- Co-ordination mechanisms



Co-ordination mechanisms between supervisory agencies

- Co-ordination forums/commissions
- Governing boards including members of other supervisory authorities
- Memorandums of understandings for division of activities, reduction of duplication and costs for industry, joint-operations
- Databases integration
- Legal mandate or agreements for information sharing
- Liaison meetings

Regulation x Supervision

Supervisor Is The Main Regulator	Supervisor Is Not The Main Regulator
<p>Canada</p> <p>Denmark</p> <p>Iceland</p> <p>Ireland</p> <p>Italy</p> <p>Japan</p> <p>Spain</p> <p>Sweden</p> <p>Turkey</p>	<p>Australia</p> <p>Czech Republic</p> <p>Germany</p> <p>Hungary</p> <p>Italy</p> <p>Mexico</p> <p>Poland</p> <p>United Kingdom</p>

Supervisory agency institutional independence

Formally dependent	Formally independent
<p>Czech Republic (Ministry of Finance)</p> <p>Japan (Min. of Health, Labour and Welfare)</p> <p>New Zealand (Min. of Econ. Develop.)</p> <p>Spain (Ministry of Economy)</p> <p>Turkey (Ministry of Economy)</p>	<p>Australia</p> <p>Canada</p> <p>Denmark</p> <p>Germany</p> <p>Hungary</p> <p>Iceland</p> <p>Ireland</p> <p>Italy</p> <p>Poland</p> <p>Sweden</p> <p>UK</p>

Financing supervisory agencies

General budget	Mixed (government and supervised entities)	Supervised entities
<p>Czech Republic Italy Japan Spain Turkey</p>	<p>Mexico New Zealand Poland United Kingdom</p>	<p>Australia Canada Denmark Germany Hungary Iceland Ireland Sweden</p>

Should supervised entities finance the supervisor?

Pros

- Private pension supervision is a public service provided to a group and those who benefit should be the ones who pay
- Increasing flexibility and reducing constraints

Cons

- "Captured Agencies"

Nominating directors...

Mandate	Without Mandate
Australia – 5 years Canada – 7 years Hungary – 6 years Iceland – 4 years Ireland – 4 years Italy – 4 years Poland – 5 years Sweden – 6 years	Czech Republic Denmark Germany Japan Mexico New Zealand Spain Turkey United Kingdom

Supervisory agency operational independence: firing, hiring, paying...

Complete Autonomy	Partial autonomy	No autonomy
<p>Australia Italy</p>	<p>Canada Denmark Germany Hungary Ireland Mexico Poland Sweden UK</p>	<p>Czech Republic Iceland Japan New Zealand Spain Turkey</p>

Who ultimately can revise the supervisor's decisions and acts?

Superior Authority (Minister)	Court of Justice
<p>Canada Germany Japan Spain Turkey</p>	<p>Australia Czech Republic Denmark Hungary Iceland Ireland Italy Mexico New Zealand Poland Sweden United Kingdom</p>

Supervisors getting a job in the private sector...

Private sector pays better	Public sector pays better or similar	Restrictions for movements	No restrictions form movements
Czech Rep. Ireland Italy New Zealand Turkey	Australia Canada Denmark Germany Hungary Iceland Mexico Poland Sweden UK	Australia (*) Canada Denmark (*) Poland <i>(*) Restriction for the disclosure of inside information</i>	Czech Rep. Germany Hungary Iceland Ireland Italy Mexico New Zealand Spain Turkey UK

Who supervise the supervisors? Avoiding principal-agent problem...

Agencies oversight by boards	Agencies without boards
Australia Denmark Germany Hungary Iceland Ireland Italy Mexico Poland Sweden UK	Czech Republic Canada Spain Japan New Zealand Turkey



Who supervise the supervisors?

- Parliament (Australia, Mexico, Hungary, New Zealand)
- Ministries (Canada, Czech Rep, Denmark, Hungary, Germany, Iceland, Ireland, Italy, Japan, Mexico, New Zealand, Poland, Spain, Turkey)
- Prime Ministers / President (Sweden, UK)
- National Audit Office (All countries)
- Pension Industry (Australia)
- General Public – disclosure policies - annual reports and information available in the internet (all countries)



“Good practices” on private pensions supervision (for discussion)

1. Well designed co-ordination mechanisms between agencies may produce similar results as the integration of supervisory agencies
2. Arrangements for sharing information and protecting its confidentiality should be encouraged
3. Supervisory agencies should have formal independent legal status
4. Pension industry should largely finance the supervisory agency
5. Directors should be appointed through a transparent process for a pre-defined term. Situations for early termination should be specified



“Good practices” on private pensions supervision (for discussion)

6. Supervisory agencies' decisions may be revoked only by them or by administrative and judicial courts
7. Supervisor's salaries and terms of employment should be similar to those in private sector
8. Employment of former supervisors in the private should be protected against disclosure of confidential information
9. Supervisory agencies should be overseen by boards with representatives of all the sectors involved or affected by supervisory process (government, entities, participants)
10. Supervisory agencies should report frequently their actions and activities providing disclosure of information



OECD-INPRS Private Pension Supervision

Project

Supervisory Structures:

- Objective: Consolidate information and analysis on the supervisory functions and institutions

- Means: Questionnaire (INPRS Replies: Bulgaria, Slovenia, Indonesia, Jordan, Kazakhstan, Kenya, Latvia, Lithuania, Philippines and Thailand)

Supervisory Methods:

- Objective: Consolidate information and analysis on the supervisory methodologies and techniques

- Means: Country papers based on OECD Guidelines

Products:

- Principles and good practices on pension supervision (OECD – INPRS)

- Worldwide database of country experiences