

SUPERVISORY STRUCTURES AND METHODS FOR PRIVATE PENSIONS IN OECD COUNTRIES

(Room Document N°12, Session 6)

Vinicius Carvalho Pinheiro, OECD

vinicius.pinheiro@oecd.org

Moscow, Russia, September 2003.



Institutional structure of the private pension supervision is related to:

- 1. State political and administrative organisation: federalism, unitarism, centralization, decentralization**
- 2. Characteristics the Private Pension Scheme: mandatory, voluntary, occupational, personal, DC or DB**
- 3. Market structure: number of funds/plans, type of fund/plans, market concentration (financial conglomerates, oligopolies)**
- 4. Regulatory and supervisory approach: qualitative, prudential, quantitative, self supervision, re-active, pro-active**

Private Pension Supervision in OECD countries 2001/2002 (*) – PRELIMINARY INFORMATION

COUNTRY	ANNUAL BUDGET (€ million)	NUMBER OF EMPLOYEES	NUMBER OF FUNDS/PLANS	PARTICIPANTS (thousands)	ASSETS (€ billion)
APRA (AUS)	13.7	127	249,262 funds/plans	24,800	281.5
OSFI (CAN)	2.1	20	1,195 plans	557	56.1
OSIPF (Czech R)	-	20	14 funds	2,473	1.7
FSA (DEN) (1)	-	15	80 funds	720	32.2
BAFIN (GER)	-	29	139 funds	3,416	68.7
HFSA (HUN)	-	-	164 funds	3,407	27.3
FME (ICE)	-	7	82 funds	228	7.7
PB (IRE)	2.6	31	107,965 funds/plans	709	40.5
COVIP(IT)	2.5	60	534 funds	1,907	27.7
PB (JAP)	-	30	1,807 funds/plans	14,116	692.6
CONSAR (MEX)	13.8	170	11 funds	29,421	40.8
GA (NZ)	0.2	3	808 funds	701	5.1
KNUIFE (POL) (1)	-	208	17 funds	11,060	4.4
OPRA (UK)	15.4	260	103,588 plans	40,000	1,050.0
EBSA (US)	-	900	700,000 plans	-	3,700.0

Source: Replies to the OECD Secretariat questionnaire DAFPE/AS/PEN/WD (2002)26 and country papers prepared by OECD Delegations.

(1) Information for employment refers to insurance and pension supervision



Supervisory Strategies

- 1. APRA (Australia)- few entry limitations (only for trustees operating public offer pension funds – 28 in the last 3 years), primarily risk based on going supervision combining reactive and proactive on site and off site quantitative examinations (2.000 inspections in the last 3 years)**
- 2. Pension Board (Ireland)– Some entry limitations (45 thousand new schemes were licensed), on going supervision based on random examinations and re-active investigations**
- 3. HFSA (Hungary) – Several limits to entry (5 registrations in the last 3 years), pro-active integral surveillance with on-site examinations and off-site monitoring**
- 4. CONSAR (Mexico) – Several limits to entry (2 registrations in the last 3 years), integral pro-active surveillance with on-site examinations and off-site monitoring**
- 5. EBSA (US) - Few barriers to entry (IRS received 130 thousand applications in the last 3 years), effective targeting, protect at-risk population, deterring violations**

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	Belgium Czech Republic Finland Luxembourg Netherlands New Zealand Poland Portugal Spain Turkey	Ireland Italy Japan Mexico Slovak Republic Switzerland Sweden 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**

“Good practises” 1: Supervisory agency should have institutional independence

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

Regulation x Supervision

Ministries are the responsible for regulation and supervision	Independent agencies are the main regulators and supervisors	Ministries are the main regulators and independent agencies are the main supervisors
Czech Republic Japan New Zealand Spain Turkey	Canada Denmark Ireland	Australia Germany Hungary Iceland (regulatory powers) Italy (regulatory powers) Netherlands (regulatory powers) Mexico Poland Portugal (regulatory powers) Sweden (regulatory powers) United Kingdom



“Good Practises” 2: Private Sector should participate on the financing supervisory agencies

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

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”**



“Good Practises” 3: Supervisory institutions should have stability on the high directive level...

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

... and flexibility on the human resources management (firing, hiring, paying)

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

Supervisors getting a job in the private sector...

Private sector pays better	Public sector pays similar to private sector	Restrictions for movements	No restrictions form movements
Czech Rep. Ireland Italy New Zealand Turkey	Australia Canada Denmark Germany Hungary Iceland Mexico Portugal 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 Portugal Spain Turkey and UK



Good Practises" 4: Supervisory agencies should be endowed with adequate powers. Revision of the its acts should be done only by judicial decision

Supervision Acts Revised by Superior Authority (Minister)	Supervision Acts Revised by Court of Justice
Canada Germany Japan Spain Turkey	Australia Czech Republic Denmark Hungary Iceland Ireland Italy Mexico Netherlands New Zealand Poland Sweden United Kingdom

“Good Practises” 5: Principal-agent problems should be avoided by external boards.

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



“Good Practises” 6: Supervisors should be supervised

- 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)**