SUPERVISORY STRUCTURES AND METHODS FOR PRIVATE PENSIONS IN OECD COUNTRIES

(Room Document N°12, Session 6)

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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

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


(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

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

<table>
<thead>
<tr>
<th>Formally dependent</th>
<th>Formally independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic (Ministry of Finance)</td>
<td>Australia</td>
</tr>
<tr>
<td>Japan (Min. of Health, Labour and Welfare)</td>
<td>Canada</td>
</tr>
<tr>
<td>New Zealand (Min. of Econ. Develop.)</td>
<td>Denmark</td>
</tr>
<tr>
<td>Spain (Ministry of Economy)</td>
<td>Germany</td>
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<tr>
<td>Turkey (Ministry of Economy)</td>
<td>Hungary</td>
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<td>Iceland</td>
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<td>Ireland</td>
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<td>Portugal</td>
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<td>Sweden</td>
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<td></td>
<td>UK</td>
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</tbody>
</table>
# Regulation x Supervision

<table>
<thead>
<tr>
<th>Ministries are the responsible for regulation and supervision</th>
<th>Independent agencies are the main regulators and supervisors</th>
<th>Ministries are the main regulators and independent agencies are the main supervisors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic, Japan, New Zealand, Spain, Turkey</td>
<td>Canada, Denmark, Ireland</td>
<td>Australia, Germany, Hungary, Iceland (regulatory powers), Italy (regulatory powers), Netherlands (regulatory powers), Mexico, Poland, Portugal (regulatory powers), Sweden (regulatory powers), United Kingdom</td>
</tr>
</tbody>
</table>
“Good Practises” 2: Private Sector should participate on the financing supervisory agencies

<table>
<thead>
<tr>
<th>General budget</th>
<th>Mixed (government and supervised entities)</th>
<th>Supervised entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>Mexico, New Zealand, Poland, United Kingdom</td>
<td>Australia, Canada, Denmark, Germany, Hungary, Iceland, Ireland, Netherlands, Portugal, Sweden</td>
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<tr>
<td>Italy</td>
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<tr>
<td>Japan</td>
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<tr>
<td>Spain</td>
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<tr>
<td>Turkey</td>
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</tbody>
</table>
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...

<table>
<thead>
<tr>
<th>Mandate</th>
<th>Without Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia – 5 years</td>
<td>Czech Republic</td>
</tr>
<tr>
<td>Canada – 7 years</td>
<td>Denmark</td>
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<tr>
<td>Hungary – 6 years</td>
<td>Germany</td>
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<tr>
<td>Iceland – 4 years</td>
<td>Japan</td>
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<tr>
<td>Ireland – 4 years</td>
<td>Mexico</td>
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<tr>
<td>Italy – 4 years</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Netherlands – 6/5 years</td>
<td>Spain</td>
</tr>
<tr>
<td>Poland – 5 years</td>
<td>Turkey</td>
</tr>
<tr>
<td>Portugal – 5 years</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Sweden – 6 years</td>
<td></td>
</tr>
</tbody>
</table>

Australia – 5 years
Canada – 7 years
Hungary – 6 years
Iceland – 4 years
Ireland – 4 years
Italy – 4 years
Netherlands – 6/5 years
Poland – 5 years
Portugal – 5 years
Sweden – 6 years
... and flexibility on the human resources management (firing, hiring, paying)

<table>
<thead>
<tr>
<th>Complete Autonomy</th>
<th>Partial autonomy</th>
<th>No autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Canada</td>
<td>Czech Republic</td>
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<tr>
<td></td>
<td>Denmark</td>
<td>Iceland</td>
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<td>Germany</td>
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<td>Sweden</td>
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<td>UK</td>
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</tbody>
</table>
## Supervisors getting a job in the private sector...

<table>
<thead>
<tr>
<th>Private sector pays better</th>
<th>Public sector pays similar to private sector</th>
<th>Restrictions for movements</th>
<th>No restrictions form movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>Canada</td>
<td>Canada</td>
<td>Germany</td>
</tr>
<tr>
<td>Italy</td>
<td>Denmark</td>
<td>Denmark (*)</td>
<td>Hungary</td>
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<tr>
<td>New Zealand</td>
<td>Germany</td>
<td>Poland</td>
<td>Iceland</td>
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<td>Turkey</td>
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<td>Spain</td>
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<td></td>
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<td>Turkey and UK</td>
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</tbody>
</table>

(*) Restriction for the disclosure of inside information
**Good Practises** 4: Supervisory agencies should be endowed with adequate powers. Revision of the acts should be done only by judicial decision.

<table>
<thead>
<tr>
<th>Supervision Acts Revised by Superior Authority (Minister)</th>
<th>Supervision Acts Revised by Court of Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada, Germany, Japan, Spain, Turkey</td>
<td>Australia, Czech Republic, Denmark, Hungary, Iceland, Ireland, Italy, Mexico, Netherlands, New Zealand, Poland, Sweden, United Kingdom</td>
</tr>
</tbody>
</table>
“Good Practises” 5: Principal-agent problems should be avoided by external boards.

<table>
<thead>
<tr>
<th>Agencies oversight by boards</th>
<th>Agencies without boards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Czech Republic</td>
</tr>
<tr>
<td>Denmark</td>
<td>Canada</td>
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<tr>
<td>Germany</td>
<td>Spain</td>
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<td>Hungary</td>
<td>Japan</td>
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<td>Iceland</td>
<td>New Zealand</td>
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<td>Turkey</td>
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<td>Mexico</td>
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<td>UK</td>
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</tbody>
</table>
“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)