

# **Good practices in pension supervision in the OECD area**

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Bangkok, April 2005**



## **OECD/INPRS work on private pension supervision - 2003/2004**

- **Supervisory structures: survey on 20 OECD countries and 15 Eastern European, Southeast Asian and Latin American countries**
- **Supervisory methods: 5 country studies (Australia, Ireland, Hungary, Mexico and the United States)**
- **Seminars, round tables + publication (Private Pension Series No.6 – Supervising Private Pensions: Institutions and Methods)**

***IOPS continue work on pension supervision***

# I. Pension Supervisory Structures

# Pension Supervisory Structures

<p><b>INTEGRATED FINANCIAL SECTOR AGENCIES</b> (Banks, Securities, Insurance Companies, Pension Funds)</p>	<p><b>PARTIALLY INTEGRATED INSURANCE-PENSION AGENCIES</b> (Insurance Companies and Pension Funds)</p>	<p><b>SPECIALISED PENSION AGENCIES</b> (Pension Funds)</p>
<p><b>Australia Austria Canada Denmark Germany Hungary Iceland Korea Norway</b></p>	<p><b>Belgium(*) Czech Republic Finland Luxembourg Netherlands(*) New Zealand Poland Portugal Spain Turkey</b></p>	<p><b>Ireland Italy Japan Mexico Slovak Republic Switzerland Sweden United Kingdom United States</b></p>

# **Integration *versus* Specialization: Pros and Cons**

## **Financial Integration**

- **Financial conglomerates + sophisticated products**
- **Eliminate loopholes, inconsistency, overlapping**
- **Information flow**
- **Economies of scope and scale**
- **More difficult to be captured, transparency and accountability**

## **Specialization**

- **Differentiations in terms of business, activities and risks**
- **Efficiency and agility – e.g. to implement pension reform**

## **Co-ordination mechanisms**

- **Forums, commissions, liaison meetings**
- **Governing bodies**
- **Legal mandate or agreements for information sharing - MOUs**
- **Database integration**

# 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
<p>Japan New Zealand Spain Turkey</p>	<p>Canada Denmark Ireland</p>	<p>Australia Czech Republic Germany Hungary Iceland (regulatory powers) Italy (regulatory powers) Netherlands (regulatory powers) Mexico Poland Portugal (regulatory powers) Sweden (regulatory powers) United Kingdom</p>

*OECD continue work on pension regulation*



## **II. Good practices on pension supervision in the OECD area**

***II.1. Supervisory authorities should have well defined mission statements specifying their responsibilities and focusing on the protection of the participants' interests and. Different financial supervisory agencies should cooperate, coordinate actions and share information***

- APRA (Australia)“...to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system”.
- BAFIN (Germany) “...to ensure that the interests of the insured are adequately safeguarded and that liabilities under insurance contracts can be met at all times (...). The objective of legal supervision is the proper operation of insurance business including observance of the supervisory provisions, provisions concerning the insurance contracts and any other provisions concerning the insured as well as of the legal bases of the operating plan.”
- OSFI (Canada) “...to safeguard policyholders, depositors and pension plan members from undue loss”.



## ***II.2. Supervisory agencies should have institutional and political independence to perform their activities***

<b>Formally dependent agencies</b>	<b>Formally independent agencies</b>
<b>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)</b>	<b>Australia Canada Denmark Germany Hungary Iceland Ireland Italy Mexico Netherlands Norway Poland Portugal Sweden UK</b>

## ***II.3. Private Sector should participate on the financing of supervisory agencies***

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

### **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". But it can be avoided with transparency in the budgeting process

***II.4. Supervisory institutions should have stability on the high directive level...***

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

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

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

***...and capacity to offer good employment condition compared to the private sector.***

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

***II.5. Supervisory agencies should be endowed with adequate powers on the phases . The revision of their acts should be done only by judicial decision***

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

***II.6. Principal-agent problems and conflicts of interests should be addressed. Well designed governing or consultative boards with external participation and adoption of conflict of interest code may be a solution***

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

## ***II.7. 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)**



## **Further work on supervision**

- Surveys formed the basis of IOPS Draft Guidelines on Pension Supervision**
- Further research and analysis to be carried out by the IOPS**
- IOPS also promotes international coordination between supervisors**