SUMMARY RECORD OF THE OECD/IOPS CONFERENCE ON PRIVATE PENSIONS

27-28 April, 2005, Bangkok, Thailand

1. The OECD/IOPS Conference on Private Pensions in Asia was organised on 27-28 April 2005 in Bangkok, Thailand. The Conference has held under the auspices of the OECD Insurance and Private Pensions Committee and was organised in co-operation with the International Organisation of Pension Supervisors (IOPS). The event was held back to back with the IOPS Technical and Executive Committee Meetings which took place on 26 April 2005. The conference has hosted by the Securities and Exchange Commission of Thailand (SEC) with additional sponsorship provided by the Government of Japan and the IOPS. The participation in the conference was world-wide, bringing together 120 experts in the private pension area, including high-level governmental officials from regulatory and supervisory authorities, industry representatives and academics from 11 OECD member countries (Australia, Germany, Ireland, Italy, Japan, Korea, the Netherlands, Spain, Turkey, United Kingdom and United States); 10 Asian-Pacific economies (Bhutan; China; Hong Kong, China; Indonesia, Kazakhstan, Malaysia, Singapore, Sri Lanka, Thailand); as well as from Bulgaria, Croatia, Kenya, South Africa and Jordan. Besides, the representatives of several international organisations, namely the World Bank Institute and the Asian Development Bank (ADB), also participated in the conference.

2. The key objective of the conference was to provide an international forum for discussion on specific policy issues and challenges in the implementation of pension reforms in Asia. A particular focus was laid on the reform process in Thailand and on “best practice” regulatory mechanisms used in the OECD countries to ensure efficient and appropriate pension provision under diversified approaches in the design of the private retirement schemes. The issue of financial education of investors and fiduciaries was another crucial policy concern for the Asian-Pacific region which was addressed during the conference.

3. The conference was composed of six major sessions. The sessions were as follows: (i) pension reform in Thailand; (ii) roundtable on pension systems developments in Asia focusing on two policy issues: (ii) a) outsourcing of public pension management function to private managers and (ii) b) introduction of individual choice in retirement arrangements; (iii) IOPS activities and Supervisory issues; (iv) cost and risk aspects of Defined Contribution pension plans; (v) protection in Defined Benefit Plans; session on financial education (vi) dealing with (vi) a) communication campaigns and education programs for the pension plan members and (vi) b) financial education for fiduciaries. The agenda of the conference and the list of participants are attached to this document.

Opening remarks:

4. The conference was opened by Dr. Prasong Vinaiphat, Deputy Secretary-General of the Securities and Exchange Commission of Thailand. In his key note address, Dr. Vinaiphat underlined the global character of the pension reform process, which has a very high standing on political agendas in most jurisdictions. In the Asian-Pacific region, the need for reform of pension systems is particular pronounced due to rapidly changing demographics where a combination of declining fertility rates and growing life expectancy will sharply increase the proportion of aged populations in Asian societies. By 2050, Asia will account about 58% of the world’s aged population. In this regard, Dr. Vinaiphat pointed out that most Asian governments have recently undertaken substantial reforms to strengthen retirement security for the

elderly and are exploring ways to encourage more saving over the long run. In his own country, the government of Thailand is currently in the process of restructuring the design of the pension system. The government put in place a two-fold reform program which focuses on the implementation of a new mandatory retirement program for private sector employees and encouragement of a voluntary private saving system. Dr. Vinaiphat highlighted that in the face of important challenges related to the design and implementation of pension reforms, Asian policymakers can greatly benefit from the discussions with their partners at international conferences, covering the nature of problems inherent to the reform process and can draw on accumulated international experience when developing appropriate pension strategies. Introductory remarks were provided as well by Mr. Gregory Brunner, APRA, Australia, Chairman of the Conference who presented the key themes of the conference. Mr. John Ashcroft, the Pension Regulator, United Kingdom, President of the IOPS and Mr. André Laboul, Head of the OECD Financial Affairs Division and the Secretary General of the IOPS also welcomed the participants of the first OECD/IOPS conference on behalf of their organisations.

Session 1: Pension reform agenda in Thailand

5. In the first session of the conference the key policy issues related to establishment of the new mandatory National Pension Fund (NPF) in Thailand were discussed. The NPF is expected to be set up on 1 January 2007. The presentations were given by Dr. Naris Chaiyasson, Director-General, Fiscal Policy Office of the Ministry of Finance and Dr. Piyasvasti Amranand, Chairman of Kasikorn Asset Management company. Dr. Naris Chaiyasson analysed the key reasons behind the introduction of the mandatory retirement saving system for private sector employees. These include the rapid ageing of the population in Thailand, inadequacy of post-retirement income provision compounded by the weakening of the traditional family support system, low coverage of the current pension system and the necessity to boost domestic savings to fund long term investment in the economy. The expert outlined the main institutional features of the new pension system and discussed its administrative and management capacity. A particular focus was laid on the need to streamline and strengthen the supervisory framework of the new pension system to protect the interests of participants and to guarantee the financial sustainability of the private scheme. It is expected that the new independent authority will be established in order to manage the NPF. Moreover, the expert highlighted the importance to achieve greater interaction and co-operation between the authorities, involved in regulation and supervision of private pension market.

6. Several other policy issues were also examined by Dr. Piyasvasti Amranand deemed crucial to achieve success and credibility of the new pension system. The focus was laid on 1) the need for the NPF legal framework to be comprehensive, dynamic and flexible to allow an efficient management of the system and to provide a capacity for adjustment to changing economic and social environment; 2) management of the pension fund investment to be decentralized and allocated to the private industry; 3) requirement to introduce flexible and diversified investment requirements and investment choices to the members of the NPF; 4) development of the transparent and liquid domestic financial market in parallel with pension reform; 5) provision of additional tax incentives in order to induce employees and employers to join the scheme and 6) necessity to foster public understanding and awareness of importance of building retirement savings by the means of ongoing education and communication campaigns targeting specific groups of individuals and the public in general.

Session 2: Roundtable on pension systems developments in Asia:

Outsourcing of the investment of public pension assets to private sector managers

7. In the first part of the second session of the Roundtable, the representatives from Japan, China, Malaysia and Sri Lanka addressed the issue of outsourcing the investment of public pension assets to private sector managers which appears to be a long-term business strategy in the Asian region as public

financial institutions seek to improve efficiency and reduce cost. Mr. Masaharu Usuki described the significant changes which have occurred in past few years in the way public pension fund assets are managed in Japan. Since 2001, with a view to generate higher returns on public pension reserves, the new Government Pension Insurance Fund (GPIF) was set up as the investment management agency. The Ministry for Health, Labour and Welfare decides the asset allocation strategy of public reserves after consultations with external experts while the GPIF is assigned with the investment and administration powers. The expert explained the organisational set-up and governance structure of the GPIF and provided an in-depth analysis of investment management policy of the fund as regarding the in-house management and the use of outside managers. Although the scheme has been a strong supporter of passive investment, allocation to active managers is increasing steadily. The expert underlined the importance of putting in place sound evaluation and selection criteria of external fund managers and administrators; strengthening the risk management procedures and putting in place the effective standards for the evaluation of performance targets using qualitative and quantitative criteria. Mr. Masaharu Usuki concluded his presentation by underlining the major prospects of reform of the GPIF which should take place in 2006. The reform measures aim to achieve greater institutional independence of the GPIF, favour larger involvement of the private sector experts in the senior management and provide greater independence in development of asset allocation strategies of the fund.

8. Mr. Stag Feng, presenting the recent development in pension fund market in China, covered two key policy issues: 1) increasing outsourcing of Social security reserves to private industry and 2) the recent introduction of regulatory framework governing voluntary occupational private pension schemes in China. These two initiatives have been undertaken by the government in order to achieve greater adequacy of the retirement benefits and to support the prosperity of its aging society. The first strategy aims to enhance the revenues of the Social Security Funds by means of partial outsourcing of the funds to external managers and diversifying the fund's investment domestically and internationally. The share of equities in the fund's investment portfolio will be progressively increased up to 20% (at the end of 2004 the share was around 11%) and 5% of assets were approved for overseas investment in 2004 targeting initially Hong Kong's financial market. Fund assets were outsourced to 6 domestic managers in 2004. The second element of the reform process concerns the release of legislative framework on corporate voluntary supplementary pensions, or Enterprise Annuity (EA) in August 2004 which are expected to supplement the revenues generated by the basic public pension system. The expert presented the main characteristics and design parameters of the new private scheme and identified the areas where the government efforts are being concentrated: 1) in the elaboration of detailed rules on operations of the scheme and 2) working out a nation wide tax relief policy on EA contributions. In this respect, the expert underlined that the availability of favourable and consistent nation-wide tax relief policy is considered as one of the major factor determining the success of the EA system.

9. The session was concluded by the presentation of Ms. Rusma Ibrahim who provided in-depth analysis of investment policy and performance of the Employees Provident Fund (EPF) of Malaysia, a national compulsory saving scheme for private sector employees. It has been noted that the EPF undertakes mainly the investment function in-house with only a small proportion of funds being under outside management. Although traditionally the EPF has been mandated to invest fund only in Malaysia, most recently the scope of EPF investments has been considerably broadened; the fund has secured permission to invest offshore and has taken concrete actions to select external fund managers. The expert presented two forms of outsourcing practiced by the EPF: the direct form performed through portfolio managers and the second option performed through members investment schemes. As of February 2005, only RM 8.7 billion of total assets of RM 240.4 billion is being managed by 4 fixed income and 11 equity fund managers and through members investment schemes a total of RM 6.9 billion is being managed by 40 external managers. Providing a comparison of performance of external fund managers with those in-house, the expert underlined that from an investment point of view, the evidence suggested that currently returns achieved by the external fund managers are no higher than those of the EPF and over short periods the

external manager even realised loses. However, remaining supportive of the policy for outsourcing, the EPF Board is considering assessing opportunities for investment overseas and looking into the possibility of outsourcing the EPF funds to established foreign fund managers.

Session 2: Roundtable on pension systems developments in Asia

Individual choice in retirement arrangements

10. This session addressed the issue of individual choice in retirement arrangements and the resulting concerns and challenges that the choice over retirement investment income decisions poses for members of pension schemes and the regulators, who have the ultimate goal of protecting the incomes of pensioners and safeguarding the financial sustainability of the pension system. How individuals invest their retirement funds will directly affect the range of possible financial outcomes on retirement. Mr. Darren McShane, MPFA examined asset choice available to individuals under the Mandatory Provident Fund Scheme of Hong Kong. In Hong Kong an employer chooses the trustees and MPF scheme for their employees, who can then select among the funds investment options. Most pension schemes offer several fund options (between a minimum 2 funds and a maximum 29 funds), varying from conservative to aggressive, and must include a capital preservation fund as one option. It has been noted that although a large number of schemes use a single manager to look after fund assets there is an emerging trend in the MPF landscape towards a multi-managers approach as a mean to diversify funds' portfolios and provide even greater choice to members. This new trend reflects the growing sophistication of the marketplace designed to meet investor demand. The expert assessed the merits and drawbacks of a policy choice of promoting members' investment choice and reviewed regulatory responses, determinant in assisting individuals to make effective and informed choices. In Hong Kong the regulatory efforts mainly target 1) reinforcing the regulation of intermediaries and other financial service providers; 2) improving disclosure of fees and charges; 3) improving the monitoring of funds' investment performance and, at a later stage, developing a platform for comparison of providers' performance to facilitate the choice of the fund for individuals and 4) further development of investor education and member communications programs.

11. Mr. Visit Tantisunthorn from the Government Pension Fund of Thailand, discussed the new asset allocation strategy of the Government Pension Fund which is being introduced as a result of the overhaul of the Fund's investment activities regulation. Mr. Visit noted that over the past years the GPF, Thailand's single largest institution investor was reforming its overall investment policy to increase returns amid the low interest rate environment in Thailand. Explicitly, the GPF is considering investing more outside the country with an aim to increase the Fund's investment in foreign assets by another USD 200 million at the end of the year 2005 and leave USD 100 million for any opportunities that may arise in the future. The expert further indicated that as a part of the investment strategy reform, the GPF is also considering introducing investment choice to allow members to select investment portfolios with different asset allocation options varying in their risk return structure. The members' investment choice is expected to be introduced by the end of the year 2005. It has been argued that in the beginning the number of choice options will be limited: the members would be offered in average 3-5 choices including one conservative investment option. Members would be also allowed to make additional voluntary contributions and new products will be available to a larger group of employees. The expert underlined that in the light of introduction of these innovative provisions investment education programs are deemed essential for the success of the programme. The GPF is currently developing a wide range of education programmes and campaigns aimed at educating members regarding the investment choice options and expanding in general their financial education by the means of effective use of the internet, mass media and other information channels.

12. The session was concluded with the presentation of Ms. Gulnara Alimbayeva who discussed the modalities of individual choice available under the Kazakh pension system. Ms. Alimbayeva presented

institutional and regulatory setting of private defined contribution pension system of Kazakhstan and reviewed the key criteria that determine the choice of individuals over open private pension funds. The citizens of Kazakhstan can become an investor of any pension fund through their own voluntary choice and can switch funds at any time, but not more than twice a year.

Session 3: IOPS activities and Supervisory issues

13. The session was devoted to the presentation of the new association, the International Organisation of Pension Supervisors (IOPS), formed by supervisors around the world. Mr. John Ashroft, President of the IOPS stated the primary goals and objectives of the IOPS which were summarised as follows: 1) to serve as a standard-setting body on pension supervisory issues; 2) to promote international co-operation in the field; 3) to provide a worldwide forum for dialogue and pension supervision knowledge and information exchange; 4) to promote, conduct and facilitate distribution and communication of pension research and 5) to support countries with less developed private pension arrangements. The membership and governance structure of the organisation were also presented. It was noted that new association will work in close co-operation with other international fora having an interest in private pensions area. The IOPS had concluded a partnership agreement with the OECD which serves the Secretariat for the new organisation, and with which common co-operation projects are being developed, notably in the area of setting good practices and standards as well as building join analytical and statistical work. The organisation is also developing strong relationship and will coordinate its work with other international organizations (e.g.: AIOS, CEIOPS, ISSA, IAIS, EU, ILO, etc.). Mr. Ascroft concluded by inviting all Asian-Pacific supervisory authorities, present at the conference, to join the IOPS.

14. Mr. Aerdt Houben, Chair of the Technical Committee of the IOPS pursued the presentation on the activities of the IOPS by providing in-depth overview of the key projects that are being carried out by the organisation within its program of work. Two projects were identified as the main priority work for 2005, namely: 1) guidelines for good practices in pension supervision and 2) core elements of a risk-based approach to pension supervision and strategic planning. In addition to priority work, other projects of the organisation include: 3) supervisory education, outreach and communication, including training of trustees; 4) guidelines for licensing of pension funds; 5) documentation of methods for pension supervision; 6) analysis of supervisory structures; 7) cross-border pension supervision; 8) utilization of IT technology in off-site supervision.

15. Mr. Richard Hinz, World Bank, gave a presentation on the IOPS project on risk based supervision which is designed to develop a comparative analysis and assessment of motivations, practices and outcomes of risk based methods currently in use by pension supervisory authorities or under development in a set of countries. The results of the project will support the formation of principles and standards for the use of risk based methods as well as information exchange and development of technical assistance programs to educate pension supervisors about developments in the area. The project will be carried out in co-operation with the World Bank and is envisaged to be conducted in three following stages: collection of descriptive information on a number of countries; a cross national comparison of risk-based methods in relation to their strategic objectives, organisational process and legal environment and finally development of analytical conclusions and best practices in the field. The project will cover a sample of countries that have a substantial risk based components in their pension supervision.

16. Finally, Ms. Fiona Stewart, OECD, gave an overview of the past and ongoing OECD activities in the area of private pension supervision and identified the prospects for future work. The major outputs in the area include: 1) country specific studies focusing on the analysis of experiences regarding pension supervision; 2) completion of two major surveys on the supervisory structures in OECD countries and world-wide and on the evaluation of supervisory methods based on selected OECD country case studies; 3) organisation of international conferences and seminars on the subject and 4) the development of good

practices and standards in private pension supervision. As regarding the perspectives for the future work, the expert noted that the OECD in close co-operation with the IOPS is in the process of elaboration of draft guidelines on pension supervision and will continue to carry out further research and analysis projects and to be engaged in promotion of international co-operation between supervisors via organisation of seminars and conferences.

Session 4: Cost and risk aspects of Defined Contribution pension plans

17. Mr. David Lindeman introduced major international trends in the design of pension plans and discussed the main changes in retirement patters over the past years. When examining the main types of pension contracts offered under defined benefit (DB) and defined contribution (DC) arrangements, the expert pointed to extraordinary complexity in the design of pension arrangements. Presenting major changes in DB business plans, the expert noted two important trends: 1) emergence of hybrid plans which combine both elements of DB and DC plans, such as cash balance and pension equity plans and 2) changes in the pay-out stage characterised by a shift from annuity benefit promises to lump sum promises and in pay definition qualified by move a in national and corporate schemes from a final average pay base to an indexed career average base, as well as the decrease in accrual rates and finally a significant reduction in early retirement subsidies. Other changing patterns of the retirement landscape, analysed by the expert, included the movement away from DB plans in favour of the DC approach, which is often seen as a significant part of pension reform world-wide. Presenting different types of DC models, the expert focused on design features of the group occupational and DC insured plans where a certain degree of guarantee is proposed. The expert concluded by providing policy insights for the Asian policymakers and regulators when they introduce reforms to provident fund and pension systems. If the DB approach is privileged in the reform process, regulators need to set up a clear and consistent interest rate crediting policy, introduce provisions requiring realistic calculation of contingent liability and appropriate investment policies. Policymakers might need also to clarify how pension assets are protected, prevent plan sponsor malfeasance and provide strong incentive for the establishment and maintenance of group-based retirement plans. In the case of adopting a DC model, much policy consideration should be given how to design appropriate investment vehicles which reflect the understanding and ability for individuals to make investment decisions and assist populations to make risk/reward choices by putting in place important financial education programs. The expert also recognised as crucially important in the reform process in Asia the need to introduce nation retirement schemes that cover both organised and non-organised sectors and to develop social security programs as a part of government poverty reduction policies.

18. Mr. Juan Yermo, OECD, examined the influential role of government regulation and oversight in defined contribution retirement arrangements. The expert identified three major regulatory approaches when designing provisions governing DC plans: 1) libertarian solution, which comprises requirements for better disclosure (e.g. comparable fees, investment performance), development of financial education programmes and enhancing the role of independent advisors in pension provision; 2) libertarian paternalistic solution consisting in limiting and facilitating the member choices (example of Chile and US) and 3) paternalistic solution which could include options limiting fee levels (e.g. UK stakeholders; Irish PRA, Poland OPE, Swedish PPS) or setting up a guarantee solution by the sponsor of the plan (Belgium and German DC plans). It has been argued that most of the provident funds in Asia over the past years have adopted the paternalistic approach to the regulation of pension arrangements. Summarising the main challenges for regulators, the expert underlined three key areas: determination of the range of investment choices and providers available for investors; appropriate design of default option and determination of level of fees. Concerning the first point, the expert argued that the provision of large number of options can be overwhelming for most pension participants and employers. A small number of easily understood choices is deemed better for consumers. This, therefore, suggests that simplification might be high on the regulatory agenda in the coming years. Regarding the default choice, the expert advocated that structured products with capital protection should prevail in the composition of the default option. Finally, concerning

fee levels, the expert argued that some degree of centralisation in account management and record keeping should be favoured in order to keep costs low.

19. Mr. Sunu Kartiko, from the Ministry of Finance of Indonesia, gave a presentation on the regulation and supervision practices of defined contribution plans in the Asia region focusing on the Indonesian experience. In Indonesia, the retirement provision for private sector employees is channelled through the Employee Provident Fund (EPF) which provides both defined benefit and defined contribution plans and special pension programmes of defined contribution type for self-employers are established by banks and insurance companies. The expert explained the progress achieved in the management of the DC plans which consisted in the introduction of professional knowledge requirements provisions for the administrators of the private pension programmes and efforts for consolidation and reinforcement of private pension supervisory oversight in order to achieve more effective monitoring over all entities participating in the private pension market. The expert also highlighted challenges to be considered in the near future. The key remaining issues which require urgent policy attention are: 1) the enforcement of proper taxation for pension annuities in order to avoid the phenomena of double taxation; 2) the implementation of pension governance rules; 3) avoidance of overlapping in pension rules and regulations and 4) the development of education programmes for both employers and employees.

Session 5: Protection in Defined Benefit Plans

20. Ms. Fiona Stewart, OECD, discussed the key policy issues related to pension benefit security in defined benefit pension plans. Both defined benefit and defined contribution pension plans expose the individuals to financial risk (i.e. performance of stocks and other financial assets). In DB plans, the ultimate risk that beneficiaries of DB plans face is the loss of their retirement income in cases where their corporate plan sponsor goes bankrupt whilst the company pension plan is under-funded. In the light of recent financial scandals, rising corporate bankruptcy levels and widespread under-funding of pension schemes, an increasing number of jurisdictions is introducing various policy options for the purpose of protection of pension plan members and beneficiaries. In this respect, the government responses might include: 1) reforming funding rules (e.g. reforms undertaken in the US and the Netherlands); 2) the establishment of benefit guarantee schemes and 3) the introduction of legal procedures for the treatment of pension rights in bankruptcy proceedings. The expert evaluated pros and cons of the establishment of pension guarantee funds and identified principles for the successful operation of the schemes. Ms. Stewart noted five areas for policy consideration in order to ensure successful development of the guarantee funds: 1) limited benefit coverage; 2) proper risk pricing of premiums based on the expected claim levels for insured; 3) accurate and consistent funding rules; 4) prudent asset liability management which include the adherence to prudent person principle and 5) adequate enforcement powers of supervisory authorities necessary to carry out their mission. The expert advocated that government subsidies (implicit or explicit) might have a detrimental effect and therefore disrupt the efficiency and the competition on the private pensions market. In conclusion, Ms. Stewart presented the OECD work in the area of private pensions and introduced the OECD guidelines on funding and benefit security.

21. Mr. Novuhiro Shimizu discussed the reasons for considering the establishment of benefit guarantee schemes and the issues that arise in the implementation of these programs focusing on the example of Japan. The expert discussed initially the main characteristics of corporate private pensions in Japan and explained the rational for establishment of the Benefit Guarantee Scheme of Japan. The two major schemes, both operating on a DB basis, which provide occupational pensions benefits in Japan are the Employee Pension Funds (EPF) and Tax Qualified Pension Plans (TQPP). New legislation which came into effect in 2001 and 2002 established two new types of private occupational schemes: DB and DC pension plans. As a part of government efforts to secure the retirement benefits in case of termination of pension plans, the pension guarantee program was set up in 1989. At present, the program supports only the benefits promised under the EPF plans in case of plan termination due to bankruptcy or similar

financial difficulties of sponsoring employers. The expert presented the major characteristics of the program, discussed its governance structure and elaborated on the operational capacity of the program with a particular focus laid on cases where program benefit guarantees are applicable. The expert concluded by pointing out future challenges on protection of DB plan participants in Japan. This mainly relates to possible introduction of a statutory guarantee fund which will cover all DB plans and (also possibly DC plans in case of fraud). Further consideration to the issue might be given at the occasion of the statutory revision of the new corporate pension legislation expected in 2006 and 2007 but in the expert's view it is currently difficult to expect any concrete steps to be taken in this direction.

22. Finally, the Mr. Myoung Jin Koh, FSS, discussed the reforms recently implemented in Korea as part of a government program to encourage retirement savings, the new pension law was elaborated and will be enforced after December 2005. In accordance to the new provisions, in addition to the severance pay system both defined benefit and defined contribution schemes will be available for private sector employees under the new pension system where sponsors and employees will have a choice of plan type in accordance to their preferences. The expert addressed the issue of funding and investment rules which will govern the new private corporate pension system and outlined as well the role of service providers in the new system, discussing the their main duties and responsibilities towards the plan members and the supervisory authority. The expert underlined that several prudential regulations are expected to be adopted shortly, such as prudent person rule and self-investment limit rule, among others for DB plans and the obligation of including guarantee interest rate choice among the investment option offered and the quantitative limits on investment for each category of assets for the DC schemes.

Session 6: Financial Education

Communication campaigns and Education programs for the pension plan members

23. The session addressed the issue of financial education for pension plan members. As a result of changes in pension arrangements with an increasing number of employees depending in old age on income from defined contribution pension plans, financial literacy and knowledge increases in importance for helping employees to decide to participate in retirement saving programs; how much to contribute and save to achieve retirement income goal and to assess various levels of risks associated with specific types of assets. Ms. Barbara Smith presented the work of the OECD in the area of financial education and provided a comprehensive review of studies and research reports that evaluate the impact of financial education programs on retirement plans participants' saving behaviour. The expert underlined that most of the surveys indicated that even in the countries with most advanced pension makers (United States, United Kingdom, Japan, Australia, etc.) many consumers do not have an adequate financial education or understanding of pension issues. The need for financial education to improve the level of financial literacy of individuals becomes therefore a key policy issue facing the policymakers. Assessing the results of the financial literacy surveys, the expert recognised as crucial the following criteria to be taken into account by sponsors of retirement plans in the design and implementation of financial education programs: 1) regular provision of financial education seminars to plan participants; 2) use of personalised (one-on-one) counselling programs; 3) careful consideration of different attitudes and level of knowledge towards saving while designing and implementing financial education programs and 4) consideration of the introduction of automatic enrolment process in defined contribution plans accompanied by default contribution rates and default investment allocations.

24. Ms. Sarah Mavrinac addressed the issue of financial literacy in the Asia-Pacific region. She argued that in an environment of generally low level of financial education among the population in the region, the problem of financial illiteracy was more pervasive among the poorest segments of the population and particularly among women. In this perspective, the provision of basic financial education (e.g. focus on the usefulness of budget and saving, and promotion of understanding of credit) to the most

vulnerable groups of the population becomes an extremely important policy objective. She pointed out that the urgent need for financial education is compounded by changes in traditional family support structures, constrains and limitation of welfare and social security programs, absence of elementary financial knowledge in an environment of increasingly sophisticated and complex financial and consumer market places and by profound poverty levels that exists in the region. The expert offered a perspective on the value of financial education as a device both for promoting individual security and prosperity and for encouraging the economic empowerment of the region. The expert also noted that while very few education campaigns have been promoted in the region by public authorities or private sectors, several innovative training and education programs elaborated at a national level in a number of Asian-Pacific countries (Australia, Singapore and South Korea) appeared to be successful initiatives in rising literacy levels of targeted groups of population having tangible results on participants' financial skills and behaviour.

25. Mr. James. A Klein explained the experience of his country where financial education programmes are mainly provided by the employers through the working place taking into consideration the voluntary character of occupational pension arrangements in United States. The expert underlined that the growing prominence of DC plans in United States retirement landscape underscores the importance of financial education. It was mentioned in this respect that over the past twenty years a number of important regulatory and legal developments have encouraged the provision of financial education through the work place, among them the adoption of non-discriminatory tax rules which favour the participation of lower paid workers in employer-sponsored retirement plans; the adoption of guidelines that encouraged the provision of financial education programmes and the introduction of rules that guarantee a certain level of protection for the plan sponsors when providing financial and investment advice. The expert emphasized the major benefits of the employer-offered financial literacy programmes which tend to have a greater impact on employees with small retirement plan balances and highlighted as well the main concerns among sponsors of pension schemes. The challenges encountered by sponsors include a heterogeneous work force that speaks different languages and therefore complicates provision of the training material; a lack of discretionary money to be put in the retirement plan; inadequate level of financial education provided in high schools and potential conflicts of interest arising from provision or facilitating of the provision of financial and investment advice to employees. It was argued that contracting fully independent advisors that are completely separated from the activity of the money manager or plan manager might present possible avenues to avoid the conflict of interests and support the efforts of the employers in the provision of meaningful financial programmes and adequate financial advice.

Session 6: Financial Education (continued)

Financial education for fiduciaries

26. Ms. Mary Hutch focused in her presentations on the role of the Irish Pensions Board in providing the education programmes and guidance to trustees and pension funds. It was highlighted that currently in Ireland there are no legal provisions enforcing the trustees to follow training courses. In the absence of regulatory requirements, the main task of the Pensions Board in the area of trustees' education consists of promoting and encouraging appropriate training programmes and facilities for trustees and schemes managers to heighten awareness of their roles, duties and responsibilities in relation to pension scheme administration. Besides, the Pension Board also produces authoritative guidance to the attention of trustees and other responsible parties, targeted to enhance compliance with the Pension Act, and also develops good principles generally relating to schemes administration and codes of practice on special aspects of trustees' duties. The Board effectively uses various communication channels to highlight these programmes to all enquiries, including web, printing materials, etc. It was pointed out by the expert that greater attention is expected to be placed in the future on the measurement of the impact and effectiveness of these training programs on the trustees and other responsible parties. The expert concluded by

underlining that the voluntary trustees training regimes are expected to undergo significant changes in the context of the need to transpose the EU Pensions Directive into national legislation, which will have a significant impact on training practices and will introduce new more rigorous requirements for qualifications of trustees in the coming years.

27. Mr. Jason Sadler, President of Life Insurance Association of Singapore described the regulatory framework governing the provision of financial advice services in Singapore. It was argued that in the situation of general mistrust of the population to major sources of financial advice, much consideration should be given to further improve the quality and standards of financial and investment counselling. The expert explained that from a statutory perspective, the regulatory authority endeavours to ensure the adequate quality of financial advice by imposing a number of legal provisions that financial advisors and their representatives are called upon to comply with. Major requirements include compliance with licensing procedure which is composed of the need to pass a fit and proper test; compliance with financial soundness requirements and assessment of competence and capability qualifications and the requirement to undergo continuing education courses in order to keep abreast of developments in the industry as well to acquire new skills and knowledge relevant to their activities. In parallel to regulatory efforts, various private initiatives are being undertaken by individual financial companies and their associations with a view to enhance the quality of the service and professionalism of advisors by means of organising on-going training courses, competence assessment programs and issuing guidance materials.

28. Dr. Brad Pragnell discussed the issue of financial education in the Australian context focusing on education and training activities of the Australian Association of Superannuation in the area. It was noted that in the Australian private pension market the role of financial advisers is highly developed. The expert mentioned that the industry association aims to improve pension industry practice within individual funds and throughout the superannuation industry. To undertake this assignment, a variety of activities are developed which include: 1) providing the industry with information and financial education by means of organising different courses, workshops, distance learning and on-line education programmes; 2) promoting best practices on wide range of topics (e.g. fund governance, outsourcing, investment management, disclosure, etc.) and 3) offering qualification diplomas; etc.

Conclusion

29. Greg Brunner concluded the conference by thanking the authorities of Thailand for their remarkable efforts in managing the event and warm hospitability and also all attendants for their active and enthusiastic participation. He underlined that this conference in the Asia region was once again a resounding success. The meeting allowed for the active and open exchange of views between Asian experts on key policy issues which were also examined in a broader international context by the leading OECD experts. He expressed as well a hope that the policy dialogue between parties will continue and similar events will be organised in the Asia region in the near future. Concluding remarks have been also provided by Mr. Eimon Ueda, Head of the OECD Unit for Financial Sector Reform. Mr. Ueda stated that the OECD will continue to support the private pension reform initiatives globally and in particular in the Asian region. In this respect he invited the participants of the conference to send to the OECD Secretariat their views or comments on the issues for discussion for future regional events.