

SUMMARY RECORD OF THE OECD/IOPS GLOBAL FORUM ON PRIVATE PENSIONS ISTANBUL, 7-8 NOVEMBER 2006

1. The Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Pension Supervisors (IOPS) organised a series of meetings in Istanbul, Turkey during the week of 6 November 2006, including **the OECD/IOPS Global Forum on Private Pensions** held on 7 November (afternoon session) and 8 November 2006 and the OECD Seminar on Pension Fund Regulation and Risk Management held on 9 November 2006 (full day). These events were co-organised and co-sponsored by the Undersecretariat of the Treasury and the Pension Monitoring Centre of Turkey. The OECD/IOPS Global Forum, being a part of the OECD programme of co-operation with non-member economies, was organised under the aegis of the OECD Working Party on Private Pensions with sponsorship by the Government of Japan. The event was attended by around 73 international participants from 18 OECD Member countries; 17 Non-member economies and the representatives of three international organisations. Around 180 participants, including representatives of financial (pension/insurance) regulatory and supervisory authorities and financial industry experts from Turkey attended the event.

2. The key opening address speeches were provided by Mr. Richard Hecklinger, Deputy General Secretary, OECD; Mr. Ibrahim Halil Canakci, Undersecretary, Undersecretariat of Treasury, Turkey; Mr. Ambrogio Rinaldi, Chairman of the Working Party on Private Pensions, Director, COVIP, Italy and Mr. John Ashcroft, President of IOPS, the Pension Regulator, United Kingdom.

3. The Global Forum addressed the following issues:

1. the private pension system in Turkey
2. links between public and private pensions
3. off-site supervision of pension funds
4. individual pension accounts –challenges and benefits
5. reforming private DB plans
6. management of longevity risk

Session 1: The private pension system in Turkey

4. The first session was devoted to the discussion of recent development of private pension system in Turkey. Mr. Juan Yermo, OECD, discussed private pension regulations in Turkey in relation to the OECD core principles and guidelines. Mr Yermo underlined that the Turkish private pensions regulatory framework demonstrates a strong level of compliance with the major provisions enunciated in the OECD core principles and guidelines elaborated in private pensions area and that the pension system benefits from highly effective supervisory oversight. Mr. Yermo also identified some policy areas where further regulatory efforts could be concentrated, in particular, in the areas of investment (promoting greater diversification, including foreign assets), the protection of members/beneficiaries rights; and more generally the promotion of broader participation in private pension provision. Mr. Dimitris Vittas, from the

World Bank, highlighted the substantial progress achieved by the Turkish government generally in enforcement of macroeconomic stability and the implementation of effective and robust financial sector regulations and supervision, and specifically regarding the private pension sector in Turkey. He also identified future policy challenges related to the efficient development of the private pension system in Turkey.

Session 2: Links between public and private pensions

5. In the next session Ms. Monika Queisser, OECD, discussed the pension reform measures that are taking place in the OECD countries and the impact that these reforms have on replacement rates. Underlining general decrease in the level of retirement benefits offered in the mixed private-public systems in the OECD countries, the expert advocated the importance of the development of voluntary occupational and individual pension arrangements and also identified the ample need for governments to implement public policies directed to prevent or alleviate old age poverty. Mr. Vinicius Pinheiro, from the ILO, then examined the issue of retirement coverage for informal sector workers and discussed various policy solutions that could be envisaged to extend private and private pension arrangements to informal sector. Ms. Gill Moore, from the Pensions Regulator in the UK, outlined the UK experience of contracting out the state pension system -- the initiative introduced to stimulate greater savings through private personal pensions and discussed the major challenges for pension plan members, e.g. general lack of understanding of the program and the difficulty to make informed choices, risk underestimation, poor advice provided by financial advisors, etc.

Session 3: Off-site supervision of pension funds

6. Mr. Mehmet Hobek, from the Under Secretariat of the Turkish Treasury, addressed the role and functioning of information technologies in off-site supervision of private pensions drawing on Turkish experience and highlighted the major advantages related to the usage of IT in the supervisory process to all key stakeholders of the pension system. In particular, the utilization of IT in off-site supervision was identified to be utmost important to 1) supervisory authorities enabling the use of more qualitative and reliable data to be collected, allowing for more efficient processing of information; also favouring the optimal use of supervisory resources in key risky areas, thus leading to more efficient supervision; 2) to participants -- by increasing people's trust and satisfaction in the private pension system and the services provided 3) pension companies -- by reducing supervisory costs, etc. The discussion on supervisory issues was continued by the joint presentation made by Mr. Richard Hinz and Mr. Roberto Rocha from the World Bank, who elaborated on major findings and drew preliminary policy conclusions on the basis of two countries surveys (Australia and Mexico) completed in the framework of risk-based supervision project conducted by the WB in partnership with the IOPS. Detailed presentations on risk-based supervisory approaches and techniques adopted in Mexico and Australia followed the presentation of the studies' major results.

Session 4: Individual pension accounts – challenges and benefits

7. Ms. Fiona Stewart, OECD, analyzed governance and structural issues related to individual retirement accounts in DC pension schemes. Highlighting that the introduction of individual pension accounts remains as one of the primary options for restructuring pension systems world-wide over the two past decades, the expert argued that important challenges related to design and implementation of these types of pension schemes persisted, which are calling for action by policy makers in the following areas: 1) to extend coverage, particularly to the self-employed/informal sector; 2) to restrict and structure the number of choices to help individuals make more efficient investment decisions; 3) to improve regulatory conditions for the payout phase 3) to keep administrative costs low; 4) to improve of governance structure and mechanisms of the DC schemes. Mr. Bernard Delbecq presented the concept of the European

personal pensions accounts, put forward by the European Fund and Asset Management Association. The expert outlined considerable advantages that a new pan-European pension vehicle would bring for individuals, employers and the European economy in large, e.g. ensuring higher job mobility, better savings allocation, and achieving economy of scale, greater portability, flexibility and transparency in the European pension market. The expert also identified the main challenges related to setting up of regulatory and institutional framework and the implementation of the EPPA schemes in the European occupational and voluntary retirement pension market. The views on the organization of individual choice in the retirement schemes in Chile and Hong Kong were provided respectively by Mr. Darren McShane and Mr. Gustavo Alcalde.

Session 5: Reforming Private DB Plans

8. Mr. Colin Pugh, an OECD Consultant, addressed the issue of the reform process of occupational DB plans in OECD countries by examining specific countries experiences. The expert analyzed the main plan design features of the most common DB retirement schemes and discussed how the current rules and regulations governing DB plans (in particular DB pension fund investment rules, regulatory funding requirements, actuarial evaluation methodology, etc.) could be amended in order to reflect more appropriately the balance of needs of employers, employees and other parties. Ms. Brigitte Miksa of Allianz focused her presentation on recent developments in corporate retirement provision in Germany, (e.g; German corporate pension sector registers an important expansion of multi-employer pension schemes operating on the basis of collective labour agreements between trade unions and employers associations, following the German pension reform bill of 2001). The expert provided a detailed explanation of design patters and operational features of the MetallRente pensions scheme set up for metal and electrical industry and recognised as a key factor the provision of pension advice to the members to increase attractiveness of occupational pension schemes. This session also included the presentations of Mr. Rinaldi and Mr. Odundo who offered their views on corporate pension reform process from Italian and Kenyan perspectives.

Session 6: Dealing with longevity risk

9. Mr. Pablo Antolin, OECD, discussed the impact of longevity risk has on annuities payments and addressed several policy options that could be pursued to support the development of a market on annuities. Emphasising the heavy burden that unforeseen increases in life expectancy places on pension funds and insurance companies offering annuities, Mr. Antolin advocated that particular attention should be devoted to 1) the production, using a standard stochastic methodology, of mortality and life expectancy forecasts which could be used a benchmark for pricing of annuities products; 2) the development of adequate financial longevity hedging instruments ; 3) and implementation of the regulatory framework requiring market players to fully account for future improvements in life expectancy. Mr. Rob Rusconi presented and discussed the results of surveys of consumers' attitude and understanding of annuities products. The policy conclusions emerging from these studies are: 1) increasing need for flexible retirement income options; 2) careful consideration regarding the introduction of compulsion of annuity products; 3) development of information and educations programmes for consumers and service providers. Mr. Alan Rea focused on the techniques developed by Watson Wyatt in accessing and producing the projections related to mortality improvements in order to use this data for pricing of annuities. Ms. Berstein concluded the sessions by providing comments from a regulatory perspective with respect to development of annuities market in Chile.

10. The conference was jointly closed by Mr. Ahmet Genç, General Director, Undersecretariat of Treasury, Directorate General of Insurance, Mr. Ambrogio Rinaldi, Chairman of the OECD Working Party on Private Pensions, Director, COVIP and Mr. John Ashcroft, President of the IOPS, Head of the Strategy, the Pension Regulator, United Kingdom. They all concluded that the conference was highly

successful. It reassembled about 180 attendees from 35 countries who helped to make of this conference a worthwhile international learning experience on major issues and challenges related to private pension reform. The conference also provided important new impetus for forthcoming mutually beneficial work between Turkey and the OECD in financial area that will be continued and reinforced through the valuable participation of the Undersecretariat of Treasury and the Pension Monitoring Centre in the work of the OECD Working Party of Private Pensions and at the level of the International Organisation of Pension Supervisors. A proposal was also made by some delegations of the Working Party of Private Pensions to carry out a more detailed assessment of the private pension regulatory framework in Turkey in relation to the OECD core principles and guidelines.

11. The OECD international seminar on “Pension Fund Regulation and Risk Management”, sponsored by Risklab and Allianz Global Investors (AGI), was held back to back with the OECD Global Forum on Private Pensions in Istanbul, Turkey on 9 November 2006. The focus of the seminar was to discuss the implication of risk management techniques in the pension regulatory framework and comparing them with those used at the pension fund level, both in DB and DC schemes. The seminar also focused on new risks related social, environmental and governance factors and how these are being addressed by pension funds and regulators. The agenda of the Seminar is attached.

OECD/IOPS GLOBAL FORUM ON PRIVATE PENSIONS

7-8 November, 2006
Istanbul, Turkey

AGENDA

Tuesday 7th November 2006

13:00 – 14:00 Participants registration

14:00 – 14:30 Opening Remarks

- Mr. Ibrahim Halil Canakci, Undersecretary, Undersecretariat of Treasury, Turkey
- Mr. Richard Hecklinger, Deputy Secretary General, OECD
- Mr. Ambrogio Rinaldi, Chairman of the OECD Working Party on Private Pensions, Director, COVIP, Italy, Chair of the Conference
- Mr. John Ashcroft, President of the IOPS, Head of Strategy, the Pension Regulator, United Kingdom

14:30 – 16:00 Session 1: The Private Pension System in Turkey

Moderator: Mr. Ahmet Genç, General Director, Undersecretariat of Treasury-Directorate General of Insurance

Speakers:

Mr. Dimitri Vittas, World Bank
A Conceptual Evaluation of Turkish Pension Reforms

Mr. Juan Yermo, OECD
Turkey's private pension system from an OECD perspective

Discussion Panel:

Mr. Bert Paterson, General Director, AVIVA India

Mr. Kemal Olgaç, Former Chairman of the Board of Directors, Pension Monitoring Centre, Turkey

16:00 – 16:30 Coffee Break

16:30 – 18:00 Session 2: Links between Public and Private Pensions

Moderator:

Mr. Tuncay Teksöz, Former President of the Social Security Institution

Speakers:

Ms. Monika Queisser, OECD

Contract out analysis / Public pension impact on private pension coverage

Mr. Vinicius Carvalho-Pinheiro, Principal Administrator, Programme of Social Protection, International Labour Organisation (ILO)

Reform of pension arrangements for informal/rural/self-employees

Discussion Panel:

Ms. Gill Moore, Adviser, Strategy Formulation Team, the Pensions Regulator, United Kingdom

Comments on contracting out of public pensions

Evening Reception to be hosted jointly by the Government of Turkey, OECD and IOPS.

Wednesday, 8th November 2006

9:00 – 11:00 Session 3: Off-site Supervision of Pension Funds

Moderator:

Mr. John Ashcroft, President of the IOPS, Head of Strategy, the Pension Regulator, United Kingdom

Speakers:

Mr. Mehmet Höbek, Section Chief, Undersecretariat of Treasury

The use of IT in off-site supervision

Mr. Richard Hinz, World Bank

Risk-based supervision -country case studies: Mexico and Australia

Discussion Panel:

Mr. David Madero, General Co-ordinator of Economic Studies, CONSAR, Mexico

Mr. Ross Jones, Deputy Chairman, Australia Prudential Regulation Authority, Australia

Mr. D. Swarup, Chairman, Pension Fund Regulatory and Development Authority, India

Comments on role of central record keeping agency in off-site supervision

11:00 – 11:30 Coffee Break

11:30 – 13:00 Session 4: Individual Pension Accounts – Challenges and Benefits

Moderator:

Dr. Turan Erol, PH.D, Deputy Chairman, Capital Markets Board of Turkey

Speakers:

Ms. Fiona Stewart, OECD
Governance and structural challenges with individual accounts

Mr. Bernard Delbecque, EFAMA
European Personal Pension Account

Discussion Panel:

Mr. Darren McShane, Executive Director (Regulation and Policy), Mandatory Provident Fund Schemes Authority, Hong Kong, China

Mr. Gustavo Alcalde, First Vice President, Chilean Pension Fund Administrators Association; Director, BBVA Provida, Chile

13:00 – 14:30 Lunch

14:30 – 16:00 Session 5: Reforming Private DB Plans

Moderator:

Mr. Aerdts Houben, Chair of the IOPS Technical Committee, Head of Department, De Nederlandsche bank, Netherlands

Speakers:

Mr. Colin Pugh, OECD Consultant
OECD experience

Ms. Brigitte Miksa, Allianz Global Investors, Germany
Reforming Private DB plans

Discussion Panel:

Mr. Ambrogio Rinaldi, Chairman of the OECD WPPP, Chair of the Conference

Mr. Edward Odundo, Chief Executive Officer, Retirement Benefits Authority of Kenya

16.00 - 16.30 Coffee Break

16:30 – 18:00 Session 6: Dealing with Longevity Risk

Moderator:

Mr. Paul Thornton, International Actuarial Association

Speakers:

Mr. Pablo Antolin, OECD
Annuity and longevity risk

Mr. Rob Rusconi, OECD Consultant
Demand for Annuities

Mr. Alan Rea, Watson Wyatt
Trends in longevity improvement and impact on annuity pricing

Discussion Panel:

Ms. Solange Berstein, Superintendent of Pension Fund Administrators, Superintendency of Pension Fund Administrators, Chile
Comments on development of transparent and competitive annuities markets

18:00 – 18:30 Closing Remarks

Mr. Ahmet Genç, General Director, Undersecretariat of Treasury, Directorate General of Insurance, Turkey

Mr. Ambrogio Rinaldi, Chairman of the OECD Working Party on Private Pensions, Director, COVIP, Italy, Chair of the Conference

Mr. John Ashcroft, President of the IOPS, Head of Strategy, the Pension Regulator, United Kingdom

OECD SEMINAR ON PENSION FUND REGULATION AND RISK MANAGEMENT

AGENDA

Thursday, 9 November 2006

9.00-9.30 Opening remarks

Juan Yermo, Private Pensions Unit, OECD

Ahmet Genc, Acting General Director of Insurance, Turkey

9.30-10.15 Guest speaker

Partha Dasgupta, Chief Executive, Pension Protection Fund, United Kingdom

10.15-10.45 *Coffee break*

10.45-12.30 Session 1: Pension fund regulation and risk management in defined benefit plans

Moderator:

Juan Yermo, Private Pensions Unit, OECD

Speakers:

Pension fund regulation and optimal investment strategies: main results of study

Gerhard Scheuenstuhl and Sandra Blome, Risklab, Germany

Developing and using risk management models by pension fund supervisors

Peter Vlaar, Economics and Research Division, DNB, Netherlands

Discussant:

Colin Pugh, OECD Consultant

12.30 – 14.00 *Lunch*

14.00-15.45 Session 2: Pension fund risk management models: defined benefit and defined contribution compared

Moderator:

Dorothee Franzen, OECD Consultant and Oxford University, United Kingdom

Speakers:

Risk management at PGGM

Niels Kortleve, PGGM, Netherlands

Risk measures and risk management in defined contribution plans

Con Keating, Finance Development Centre, United Kingdom

Discussants:

Solange Berstein, Superintendent, Superintendency of Pension Fund Administrators, Chile

Koray Simsek, Sabanci University, Istanbul, Turkey

15.45-16.15 *Coffee Break*

16.15-17.45 Session 3: Dealing with environmental, social and governance risks

Moderator:

Fiona Stewart, Private Pensions Unit, OECD

Speakers:

SRI/ESG risks and opportunities: implications for pension funds

Raj Thamotheram, AXA Investment Managers, United Kingdom

Social Responsibility by Corporations and Investors: implications for regulators

Bryane Michael, Oxford University and Oxford Business Knowledge, United Kingdom

Discussant:

Ihsan Kaler Hurcan, Vice-President of the Corporate Social Responsibility Association, Turkey

17.45-18.00 Closing remarks

Ambrogio Rinaldi, Director, COVIP, Italy and Chairman of the OECD Working Party on Private Pensions

18.00 *Reception*