



The Pensions Regulator

Comparing integrated and specialised pension supervision

John Ashcroft, The Pensions Regulator UK / IOPS President

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Pros and Cons of Integrating Pension Supervision

- Trend towards integrated financial supervision
- Should pension fund supervision be included in integrated supervisory authority?

Pros and Cons of Integrating Pension Supervision

- Arguments *for* integrated supervision include:
 - likeness in some cases to life insurance (esp. personal pensions)
 - economies of scale
 - treatment of financial conglomerates
 - greater competitive neutrality
 - greater transparency and accountability
- Arguments *against* integrated supervision include:
 - unique risks
 - tax treatment
 - public guarantees
 - deeper welfare implications than many other financial services
 - involvement of employers, unions
 - implications for financial markets

Pros and Cons of Integrating Pension Supervision: conclusions

- There is no simple reply, no right or wrong answer
- It depends on the context and environment of the pension system
- Benefits of both integrated and specialist pension supervision may be achieved within either structure:
 - specialist approach may be as successful as a separate division within an integrated authority as by an independent pension regulator
 - If an independent regulator is set up, many of the gains of an integrated authority may still be achieved via strong communication between supervisory authorities
- See IOPS Working Paper No. 1, “A Review on the Pros and Cons of Integrating Pension Supervision with that of Other Financial Activities and Services”, D. Madero and S. Lumpkin

Supervisory practices in IOPS member countries: international practice

- IOPS project on supervisory structures (2007)
 - Analysis of supervisory structures and trends around the world
 - Mapping and categorizing supervisory approaches to pension systems following World Bank model (licensing, monitoring, analysis, intervention, correction, communication): intensity of supervision
 - Checking that IOPS Principles of Private Pension Supervision are being applied; identifying international good practice

Supervisory practices in IOPS member countries: preliminary findings

- Difficult to draw any patterns in the supervisory structure by the type of pension system in place (DB/DC)
- Not possible to draw any conclusions of what type of supervisory system is in place in terms of the number of pension entities and funds supervised. For example: the specialist authorities in Latin American only cover a few pension providers and funds, but elsewhere this type of authority oversees 1000s of funds.
- Clear trend towards integrated supervision, especially within Europe (e.g. Finland from 2009) – with some integration into Central Banks (Netherlands 2004, Czech Republic 2006).

Specialist supervision in the UK: the TPR approach

- Specialist Supervisory System
- Over 80,000 schemes to regulate. Assets of around £1,000 billion.
- 300 plus staff funded by a levy on schemes
- Able to place some reliance on fiduciaries, advisers and financial institutions.
- Hence, regulations is principle based light touch, focused on a few key risks.

The advantages of a specialist structure for the UK

- Link with Social Security policy
- Enables focus on a very different product from regulated financial services
- Different approach to regulation, tailored to nature of regulatory community
 - Largely unpaid volunteers act as trustees
 - Supported by employers
 - Members generally have limited choice
- Able to focus on key risks to pensions
- Large enough sector to enable a critical mass of expertise.

Our partnership approach

- Tripartite Memorandum of Understanding – DWP, PPF and TPR
- Memorandum of Understanding between the FSA and TPR
- Clarification of areas of potential overlap about to be published
- Meet about five times a year to handle common issues
- Also work with representative bodies

- Thank you.

- Questions?