

Policy recommendations on resilience of pension supervision against shocks: Supervisory authorities' crisis management plans

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Context and Rationale

The increasing complexity of global financial markets and the evolving risk landscape necessitate a robust supervisory framework for pension systems. Recent economic, financial and other types of shocks have underscored the need for proactive risk management, crisis preparedness, and effective governance to ensure the sustainability of pension funds and the protection of beneficiaries.

This document provides policy recommendations for pension supervisors and policy makers **on how to improve their crisis management plans** (“the Authorities”). **The recommendations are** based upon the findings from the IOPS Working Paper No. 44 on pension supervisors' crisis management plans [<https://www.oecd.org/content/dam/iops/en/working-papers/WP-44-Resilience-of-pension-supervision-crisis-management-plans.pdf>]. It is expected that these recommendations will help pension supervisors as well as policymakers enhance the resilience of pension supervision frameworks, thereby ensuring long-term sustainability and continued protection of retirement savings.

The use of the word “should” in the recommendations below is meant not as an obligation but rather as an encouragement to pension supervisory authorities to voluntarily adopt and implement the policy recommendations.

Policy recommendations

1. Regulatory Framework

The pension supervisory authority should

- ensure that it has a clear mandate, powers and/or flexibility for crisis management.
- expand recovery requirements and resolution planning to the pension sector.
- regularly assess its crisis management capabilities and, where appropriate, implement corrective or improvement measures.

2. Supervisory Culture

The pension supervisory authority should reinforce its culture of resilience and crisis preparedness. It should therefore continuously improve supervisory practices by integrating lessons learned from past crises into future supervisory strategies.

3. Governance

The pension supervisory authority should

- establish clear governance structures for Business Continuity Management (BCM) and ensure board-level oversight and senior management accountability. The head of the authority should lead BCM initiatives at the executive level whereas the Board of Directors (the Board) should provide strategic direction and oversight of BCM.
- define the reporting lines and escalation procedures for BCM issues.
- integrate BCM into its risk management framework, and align BCM with its risk appetite, prudential oversight, market stability and consumer protection objectives.
- establish dynamic governance frameworks that provide flexibility to adapt crisis planning to changes in the external environment.

- plan for large-scale disruptions, including pandemics, climate-related risks, cyber-attacks, economic downturn, financial crises and similar developments.

4. Risk Governance Framework

The pension supervisory authority should

- establish a well-structured risk management framework (RMF). Sound internal governance practices include setting a formalised risk appetite statement (RAS), and having an appropriate risk strategy, risk management policy, a holistic RMF and effective reporting lines to the senior management body. The RMF should enable the Authority to appropriately identify, assess, manage and report the key risks relating to its mandate.
- adopt a multi-layered risk governance structure of the Authority to ensure effective oversight and accountability (consider implementing a three-lines-of-defense model, comprising operational management, risk management and oversight), and independent audit assurance. This approach will help the Authority to timely identify and mitigate potential risks before they escalate into systemic threats.

5. Risk Management Practices

The pension supervisory authority should

- implement and regularly review its risk-based supervisory models for early detection of pension system vulnerabilities.
- maintain a robust RMF that includes comprehensive risk assessments, stress testing, and scenario analyses. Regular reviews of risk indicators, and the establishment of risk registers at both the Authority and department levels will facilitate early warning mechanisms and appropriate response measures.

6. BCM Policy

The pension supervisory authority should

- establish a BCM Policy endorsed by the Board
- develop and implement Business Continuity Plan(s). Such plan or plans should include:
 - identification of critical supervisory functions, processes, and services that should be promptly restored. Priority should be given to those essential for financial stability and public confidence.
 - development of recovery strategies.
 - clear and comprehensive internal and external crisis communication protocols to ensure timely decision making and information sharing during the crisis.
 - conducting regular testing and training to ensure operational readiness during crises.

7. Maintaining Crisis Preparedness

The pension supervisory authority should

- conduct regular stress testing of Business Continuity Plan(s), with stress scenarios reflecting real-world operational disruptions.
- encourage industry-wide stress-test exercises and joint crisis simulations to assess the holistic resilience in the market or industry.
- update crisis management plans or business continuity plan: use efficiently the findings of testing exercises, lessons learned, and technological advancements to update crisis management plan or business continuity plan.

- consider establishing independent audit requirement for the Authority's BCM framework, ensuring compliance with best international practices.
- conduct joint crisis simulations with other domestic financial supervisory authorities to test systemic resilience of pension sector and identify weaknesses in crisis response mechanisms.

8. Crisis Response Coordination

The pension supervisory authority should

- strengthen collaboration between financial sector supervisory authorities and other authorities. This could be achieved by establishing, if not yet implemented, the Financial Regulators Council or equivalent financial stability committees to strengthen systemic risk assessment and ensure an alignment of supervisory responses to the crisis.
- consider fostering ad-hoc/real-time information/data-sharing mechanisms between domestic financial supervisory authorities, financial institutions, and emergency response authorities to enhance monitoring and risks assessment.

9. Industry Collaboration

The pension supervisory authority should

- conduct regular industry consultations: this could be organised through meetings or forums with the industry to discuss evolving threats and best practices.
- develop secure platform for sharing with industry real-time intelligence on cyber and operational risks.
- promote information sharing and collaboration between industry stakeholders to enhance preparedness for systemic risks and develop collective approaches/best practices to managing crises.

10. International Co-operation

The pension supervisory authority should

- strengthen international co-operation between pension supervisors on business continuity through such measures as formal agreements and coordinated crisis management protocols.
- establish international communication channels to share, where appropriate, insights on cross-border disruptions.

11. Public Transparency

The pension supervisory authority should

- enhance its communication protocols by developing clear guidelines about communication during crises and ensure their timely and accurate dissemination.
- carry out periodic crisis communication tests.
- encourage industry to implement engagement programmes to educate pension fund members about crisis preparedness, such as timely communication of any operational changes and provision of relevant educational messages in times of crisis to help members understand the situation and manage their pensions.