

IOPS Working Papers on Effective Pensions Supervision, No.27

# THE ROLE OF SUPERVISION RELATED TO CONSUMER PROTECTION IN PRIVATE PENSION SYSTEMS

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December 2016

## **IOPS WORKING PAPERS ON EFFECTIVE PENSIONS SUPERVISION**

As the proportion of retirement income provided by private pensions becomes increasingly important, the quality and effectiveness of their supervision becomes more and more crucial. The IOPS Working Paper Series, launched in August 2007, highlights a range of challenges to be met in the development of national pension supervisory systems. The papers review the nature and effectiveness of new and established pensions supervisory systems, providing examples, experiences and lessons learnt for the benefit of IOPS members and the broader pensions community.

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## THE ROLE OF SUPERVISION RELATED TO CONSUMER PROTECTION IN PRIVATE PENSION SYSTEMS

Nina Paklina, and IOPS Project Team Members\*

### ABSTRACT

Taking the G20/OECD High-Level Principles of Financial Consumer Protection and Effective Approaches as a basis, the report reviews the key areas and supervisory measures directed at enhancing consumer protection in the private pension sector: 1) the legal framework and supervisory mandate; 2) disclosure and transparency; 3) financial education and awareness; 4) responsible business conduct of pension services providers and their authorised agents; and 5) complaints and redress.

The report identifies a number of good practices in the IOPS jurisdictions with regard to the above five areas covered and encourages supervisors to implement them. The report is therefore the source for the IOPS Good Practices on supervisory activities in the area of pension consumer protection that are currently under development by the International Organisation of Pension Supervisors.

The report argues that regardless of the various types of regulatory and supervisory structures adopted, the pension supervisors have an important role in maintaining and enhancing consumer protection. This is especially relevant in the systems where private pensions offer the main source of retirement income and also where individuals are confronted with a number of choices.

Among a wide array of supervisory tasks, the licensing or registration of pension services providers and their agents as well as the review of pension product design and pension product governance, and the approval of pension products by supervisors can be seen as important measures to promote public confidence in pension systems. Considerable efforts are deployed by regulators and supervisors to ensure the provision of key pension information in a simple, comparable and standardised format that allows for a better/easier comparison and understanding of future benefit entitlements. Supervisors also participate in educational efforts to improve understanding on pension matters and organise targeted initiatives for specific groups. High emphasis is placed on responsible conduct of business by pension providers and their agents through the adoption of codes of conduct, fit and proper assessment, especially of the senior management, approval and monitoring of content of (pre-) contractual information and marketing strategies. The report also highlights that supervisors pay great attention to the handling of complaints and dispute resolution as a critical component of supervisory framework.

**Keywords:** private pensions, consumer protection, supervision.

**JEL codes:** D-18, G-18, G-28

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\* The report was prepared by Team Members and IOPS Secretariat, Nina Paklina. The project was led by Dr. Peter Braumüller and co-ordinated by Dr. Gerlinde Taurer, FMA, Austria. The team included IOPS Members from Botswana, Hong Kong (China), India, Jamaica, Malawi, Pakistan, Slovak Republic, Tanzania, Zambia and the World Bank.

# THE ROLE OF SUPERVISION RELATED TO CONSUMER PROTECTION IN PRIVATE PENSION SYSTEMS

## TABLE OF CONTENTS

THE ROLE OF SUPERVISION RELATED TO CONSUMER PROTECTION IN PRIVATE PENSION SYSTEMS.....	6
Project Background.....	6
Introduction.....	8
Scope and coverage.....	9
I. Rationale and tools for regulatory and supervisory involvement to protect pension consumers .....	11
II. The Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pension Systems .....	15
II.1. Legal framework.....	16
II.2. Selected tools of pension supervisory authorities in consumer protection related to private pensions.....	18
III. Disclosure and Transparency .....	24
III.1. The role of pension supervisors in promoting simplified and standardised disclosure: key information document (KID), pension benefit statements (PBS) and other experiences.....	24
III.2. Benefit projections .....	33
III.3. Information about default options .....	37
III.4. Actions of pension supervisors to ensure that the information disclosed to consumers is understandable.....	38
IV. Financial Education and Awareness .....	40
IV.1. Public information and awareness campaigns .....	42
IV.2. Targeted financial education programmes carried out by pension supervisors .....	45
IV.3. Assessing the effectiveness and efficiency of the FE programmes provided by pension supervisors' .....	47
V. Responsible Business Conduct of Pension Services Providers and Authorised Agents .....	48
V.1. Fit and proper assessment.....	49
V.2. Approval of the content of contracts or pre-contractual information .....	51
V.3. Approval and monitoring of marketing strategies and sales practices .....	51
V.4. Supervisory techniques in overseeing business conduct activities.....	53
VI. Complaints Handling and Redress.....	54
VI.1. Main types of mechanisms available to pension consumers for complaints handling.....	54
VI.2. The role of pension supervisory authorities in the complaints-handling process .....	59
VII. Conclusions .....	62
Bibliography .....	65

**Figures**

Figure 1. Supervisory requirements for publishing pension fund performance (as % of respondents) 31

**Boxes**

Box 1: Main risks and challenges faced by pension consumers in the IOPS Members' jurisdictions from the perspective of pension supervisors.....9

Box: 2 Financial Consumer Protection Law in Mexico.....16

Box: 3 Licensing, registration and approval of pension providers in the responding IOPS jurisdictions .19

Box 4: Review of pension product design and pension services by pension supervisory authorities .....21

Box 5: The European Union Regulation on Key Information Documents (KIDs) for packaged retail and insurance-based investment products (PRIIPs).....26

Box 6: Australia: the Product Dashboard .....28

Box 7: Benefit Projection Tools .....35

Box 8: Pension Education in Hong Kong, China.....44

Box 9: New rules on marketing of financial products to retail consumers in Belgium .....52

# THE ROLE OF SUPERVISION RELATED TO CONSUMER PROTECTION IN PRIVATE PENSION SYSTEMS<sup>1</sup>

## Project Background

1. In recent years, the protection of users of financial services has become one of the pressing issues governmental authorities around the world need to address. The Financial Crisis of 2008 revealed the unprecedented fragility of financial services consumers, particularly those with low income and low financial education. Rapid changes and technological innovation taking place in financial markets have created more choices and opportunities to access financial products and services. But they also favoured the development of very complex products, carrying significant risks, which are difficult to assess and understand for retail consumers. A series of measures were taken in the banking and securities sectors at the national and international levels, including the focal initiative by the G20 in February 2011, to ensure greater protection of financial services consumers.

2. Consumer protection in pension systems is also critical. Institutions offering funded and private pensions represent a special segment of the financial market. Private pensions, combining social features due to their increasing role in retirement provision and by nature being long-term financial contracts which involve a series of complex transactions, are not easy to understand and engage with. Individuals joining a pension scheme or concluding a contract with a pension provider are becoming consumers of private pension services and products. Governments have a challenging role to help ensure that individuals will receive an adequate stream of income in retirement. The current environment of prolonged low interest rates makes this task even more challenging<sup>2</sup>.

3. In 2011, the G20/OECD High-Level Principles on Financial Consumer Protection were developed by the G20/OECD Task Force on Financial Consumer Protection<sup>3</sup>. A set of Effective Approaches was further developed to stimulate and support the implementation of the G20 High-Level Principles. The High-Level Principles and Effective Approaches cover matters relating to consumer protection in all parts of the financial sector. Reflecting on the applicability of the Principles to different sectors, the G20/OECD Task Force on Financial Consumer Protection states: “[T]hey do not address

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<sup>1</sup> The report was prepared by Team Members and IOPS Secretariat, Nina Paklina. The project was led by Dr. Peter Braumüller and co-ordinated by Dr. Gerlinde Taurer, FMA, Austria. The team included IOPS Members from Botswana, Hong Kong (China), India, Jamaica, Malawi, Pakistan, Slovak Republic, Tanzania, Zambia and the World Bank.

Special thanks for contributions to the project are given to Dr. Peter Braumüller and Dr. Gerlinde Taurer from FMA, Austria; Mr. Abisha Ngoro, former Director Retirement Funds, NBFIRA, Botswana; Mr. Ben Li and John Wan from MPFA, Hong Kong, China; Dr. B.S. Bhandari, Ms. Sumeet Kapoor, and Ms. Alpana Vats, PFRDA, India; Ms. Melanie Williams, FSC, Jamaica; Ms. Nayeja Ngosi, Reserve Bank of Malawi, Ms. Khalida Habib and Mr. Muhammad Assad Saeed, SEC, Pakistan; Ms. Julia Cillikova, Mr. Tomas Ambra, and Mr. Vladimir Hladky from the National Bank of Slovakia, Ms. Lightness Mauki, SSRA, Tanzania; Mr. William Price and Ms. Fiona Stewart, the World Bank; Mr. Bjorn Asgrimsson, FME, Iceland, and Dr. Dariusz Stanko, IOPS Secretariat.

The report also benefited from the comments and input received from the Members of the G20/OECD Task Force on Financial Consumer Protection.

<sup>2</sup> OECD, *OECD Business and Finance Outlook 2015*, 2015.

<sup>3</sup> The Principles were endorsed by the G20 Leaders in November 2011 and adopted by the OECD Council as a Recommendation in July 2012, thereby expanding the coverage of the principles to include all OECD member countries.

*sector-specific issues dealt with by the relevant international organisations and the financial standard setters [...]. Different kinds of transactions present different risk profiles. The principles may need to be adapted to specific national and sectoral contexts and should be reviewed periodically by relevant international bodies.”*

4. Recognising the critical importance of protecting the interests of members and beneficiaries [hereafter consumers] in the private pensions field, and drawing on the work developed by the G20/OECD Task Force on Financial Consumer Protection, the OECD, in particular the OECD Core Principles of Private Pension Regulation, the IOSCO<sup>4</sup>, the IOPS Members decided to launch a project looking at the specificities of consumer protection in private pension systems and the role that Authorities play in this respect. Initiating the work on this project, the IOPS Members also acknowledged that work on supervisory involvement in consumer protection in pension systems is at a nascent stage. Some other international fora have already initiated work in the field of pension consumer protection, such as the OECD Working Party on Private Pensions, the OECD/International Network on Financial Education (INFE) and the World Bank<sup>5</sup>. When developing this project, the IOPS worked in close co-operation with these organisations. It is also worth noting the work undertaken by the European Insurance and Occupational Pension Authority (EIOPA) in promoting consumer protection at the European Union (EU) level<sup>6</sup>.

5. The aim of the present project is to review the role of Authorities and existing supervising practices directed at enhancing consumer protection in the private pension area<sup>7</sup>. The IOPS project also intends to provide input into the work undertaken by the G20/OECD Task Force on Financial Consumer Protection.

6. The project has two main outputs: (1) a report, and stemming from the report, (2) a set of good practices on supervisory activities in the area of pension consumer protection. Elaboration of the good practices in the area is expected to contribute to strengthening the prominence and the visibility of the IOPS as a standard-setting body.

7. 41 IOPS Members replied to the questionnaire<sup>8</sup>. The replies to the questionnaire provide the primary source of information on the IOPS Members' experiences and practices in the area of pension consumer protection reflected in this report.

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<sup>4</sup> IOSCO, *Objectives and Principles of Securities Regulation*, 2010.

<sup>5</sup> E.g. OECD, *OECD Core Principles on Private Pension Regulation*, *OECD Pension Outlook 2016*, World Bank, *Good Practices for Financial Consumer Protection* (draft).

<sup>6</sup> <https://eiopa.europa.eu/consumer-protection/consumer-protection-financial-innovation>

<sup>7</sup> The focus on private pensions does not preclude, if applicable, using the findings in the area of public pensions.

<sup>8</sup> Albania (AL), Armenia (AM), Australia (AU\*), Austria (AT), Belgium (BE\*\*), Botswana (BW), Bulgaria (BG), Chile (CL), Colombia (CO), Costa Rica (CR), Czech Republic (CZ), Ghana (GH), Hong Kong (China) (HK), Hungary (HU), Iceland (IS), India (IN), Ireland (IE), Israel (IL), Jamaica (JM), Kenya (KE), Lithuania (LT), Former Yugoslav Republic (FYR) of Macedonia (MK), Malawi (MW), Malta (MT), Mauritius (MU), Mexico (MX), Namibia (NA), the Netherlands (NL\*\*\*), Nigeria (NG), Pakistan (PK), Papua New Guinea (PG), Poland (PL), Portugal (PT), Romania (RO), Serbia (RS), Slovak Republic (SK), Spain (ES), Switzerland (CH), Tanzania (TZ), Trinidad & Tobago (TT), Turkey (TR), Zambia (ZM).

\* In Australia, the responsibility for regulation of superannuation industry lies with the APRA (IOPS Member) as prudential regulator and the ASIC (Australian Securities and Investments Commission) (non-IOPS Member) as market conduct regulator. Both authorities contributed to the completion of the questionnaire. The report specifies actions taken with respect to pension consumer protection by ASIC and APRA.

## Introduction

8. It is essential that individuals save more and for longer for retirement to have greater financial security in old age. A strong consumer protection regime supported through robust and effective legal, judicial and supervisory mechanisms can help to promote trust and confidence across financial and private pension markets. It also supports an efficient and competitive functioning of the markets and stimulates innovation that ultimately benefits consumers and ensures that individuals meet their retirement income needs.

9. Regulatory and supervisory authorities play a major role in promoting and reinforcing consumer protection. This is increasingly recognised as one of the authorities' main objectives, together with maintaining financial integrity and stability. The 2008 Global Financial Crisis seriously damaged the level of trust of consumers in the functioning of the whole financial system. Furthermore, the continued transformation of pension systems towards arrangements that require increasingly complex retirement savings decisions pose real difficulties to consumers and call for further enhanced consumer protection measures.

10. Recent changes in pension provision have resulted in public pension benefits being reduced due to growing strains on governments' budgets<sup>9</sup>. The introduction of private pension individual accounts as well as the transition from defined benefit (DB) to defined contribution (DC) arrangements taking place in occupational private pension systems, places greater responsibility on individuals for their own financial well-being in retirement. Furthermore, the current environment of prolonged low interest rates brings much uncertainty about future levels of retirement wealth. This heightens the role of public authorities in spreading awareness about private pension arrangements and their advantages but also the risks involved and helping consumers to have realistic expectations about future pensions.

11. Research suggests that individuals lack the capability to understand or assess the different types of *risks* when making pension decisions. In most jurisdictions, the actual level of consumer knowledge regarding pensions is low. The most vulnerable consumers are those with a low level of education and income (Lusardi and Mitchell, 2014; Campbell et al., 2009, 2011). While faced with complex decisions to be taken in the area of pensions, consumers cannot rely on their daily experience. Some of those decisions, like joining a pension plan or deciding on withdrawals of accumulated savings, are made infrequently or only once in a lifetime. Cognitive limitations and financial illiteracy as well as a lack of engagement and inertia, in particular among young people, are identified as major barriers to increasing individuals' understanding of pension matters. However, it is essential that individuals understand the choices and the ensuing risks when making pension decisions in order to have realistic expectations about future retirement income. An array of governmental measures (default schemes and default investment funds, automatic enrolment, pension projections, pension calculators, comparative websites, etc.) could support and facilitate individuals' decisions on private pensions. Although information relating to pension risk and volatility is potentially complex and would require suitable layering and presentation, consumer

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\*\* The Financial Services and Markets Authority (FSMA) of Belgium provided two completed questionnaires, one dealing with consumer protection issues for occupational pension schemes and the second dealing with personal pension arrangements.

\*\*\* Replies to the IOPS questionnaire were provided by the Netherlands' Authority for Financial Markets (AFM), which is in charge of pension consumer matters in NL (non-IOPS Member).

<sup>9</sup> The *OECD Pensions Outlook 2012* projects that the reduction of public pensions will reach about 20-25% in years to come.

understanding is critical to foster confidence and trust<sup>10</sup> and consequently participation and savings through the private pension system.

12. The complexity of private pensions and the ensuing risks, affecting the achievement of individuals' retirement goals, place responsibility on the government and pension industry to protect the savers and beneficiaries. This justifies increased attention to consumer protection and the role that governmental authorities, particularly pension supervisors, are playing in this respect.

**Box 1: Main risks and challenges faced by pension consumers in the IOPS Members' jurisdictions from the perspective of pension supervisors**

- Consumers' lack of interest and engagement with pension issues;
- Consumers' low level of understanding of pension matters;
- Consumers' perception that the pension system (scheme design, products, rules etc.) is complicated and confusing;
- Insufficient or inadequate disclosure of key information allowing consumer to make appropriate decisions, particularly before concluding a pension contract and at the point of benefit disbursement;
- A lack of easy, optimal solutions for members and unbiased recommendations (such as target-date funds, life-cycle funds, or default options);
- Consumers' unrealistic expectations;
- Defaulted payment of contributions;
- High fees and administrative charges;
- Unsatisfactory returns (particularly visible in a prolonged low interest rate environment);
- Inflation;
- A lack of public trust in pension providers exacerbated by cases of misleading advertisement, wrong or inadequate advice; mis-selling, fraud; etc.
- Unstable legal framework.

Source: IOPS members.

### Scope and coverage

13. The report takes as a working assumption that consumer protection is understood as a set of regulatory measures and supervisory controls over market practice(s) and pension services providers<sup>11</sup>, used to protect members and beneficiaries in the pension systems.

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<sup>10</sup> According to the European Commission Consumer Market Monitoring Survey (2013), investment services, private pensions and securities are identified among services with lowest trust overall.

<sup>11</sup> Pension services providers: entities providing private pension products or services, cf. *IOPS Good Practices for Governance of Pension Supervisory Authorities* (2013). This could include: e.g. trustees, pension asset (fund) managers, administrators, custodians, auditors, actuaries, advisers, etc.

14. The G20/OECD High-Level Principles on Financial Consumer Protection (HLPs) and the Effective Approaches (EAs) provide a solid framework to enhance financial consumer protection across developed and developing economies alike. For the purposes of the present project, the following HLPs and related EAs for consumer protection are considered the most relevant from the pension supervisory perspective:

- HLP 2: Role of Oversight Bodies;
- HLP 4: Disclosure and Transparency;
- HLP 5: Financial Education and Awareness<sup>12</sup>;
- HLP 6: Responsible Business Conduct of Financial Services Providers and Authorised Agents;
- HLP 9: Complaints Handling and Redress;

15. These HLPs and related EAs were identified as key areas around which the report is organised. Other HLPs and related EAs could be examined in depth at a later stage.

16. Forms of private retirement provisions vary considerably among IOPS Members, with a large range of entities and pension service providers involved. Although those differences between the pension systems exist, it was considered useful and appropriate to take a broader approach and concentrate on the matters related to consumer protection in private pensions in general. The objective is that the findings of this report should be relevant to consumer needs both in mandatory and voluntary pension systems and with regards to occupational (DB and DC) and personal pensions, albeit to varying degrees. Specificity or nuances in enhancing the consumer protection regime in relation to a particular type of pension system or arrangement are reflected in the report where appropriate.

17. Indeed, different regulatory solutions could be identified with respect to consumer protection in the systems with occupational pension plans and (voluntary or mandatory) personal pension plans. In *occupational pension plans*, decisions on the choice of providers and investment funds are usually taken by the employer or sponsor through a collective agreement and plan members predominately invest through a default investment strategy, which leaves little or no need for intermediaries. In *personal pension plans* (mandatory or voluntary) the members are responsible for selecting a provider, an investment option, deciding on switching the providers, etc. Upon retirement, however, in many jurisdictions consumers are confronted with the difficult decision of the form in which to take their accumulated savings and are exposed to dealing with pension services providers or their agents.

18. The report is organised as follows. The first section reviews rationale and main regulatory and supervisory measures directed at enhancing consumer protection in the pension area. The report then reviews the legal frameworks (section 2) which give mandate to Authorities to engage in pension consumer protection and analyses the main initiatives taken by Authorities to enhance consumer protection, specifically in four key areas: disclosure and transparency (section 3); financial the education and awareness (section 4); responsible business conduct of financial providers and authorised agents (section 5) and complaints handling and redress (section 6). The report finishes with some conclusions.

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<sup>12</sup> The OECD/INFE has produced already numerous instruments (principles, good practices, guidelines and policy guidance) in this area.

## I. Rationale and tools for regulatory and supervisory involvement to protect pension consumers

19. In recent years, consumer protection has been receiving increasing attention from the public authorities, especially in the aftermath of the Global Financial Crisis that revealed the unpreparedness and vulnerability of consumers of financial services. A profound transformation of pension systems obliges individuals to make complex decisions about retirement savings which, in most cases, they are not prepared or unwilling to make. Consumers need protection because of the well-known asymmetry of information between the consumer and the financial services providers, market failures and distributional concerns.

20. A theoretical and empirical review of consumer protection literature conducted by Campbell et al., (2010, 2011, 2015) provides the rationale for adopting financial consumer protection regulations and enumerates major tools for government intervention. These reasons and tools are also relevant in the private pensions area.

21. As argued by Campbell et al., the main arguments for consumer protection regulations arise from **market failures (both traditional and behavioural)**. Another important argument for the use of consumer protection regulation relates to **distributional considerations** – it is argued that unregulated markets may lead to a situation where even well-informed consumers will suffer detriment.

22. *Traditional economic justifications* for consumer financial regulation include the following arguments: financial transactions (a pension contract) span a long term; therefore there is need for enforcement of financial contracts; parties involved in the contract may have conflicting interests; results of the contract (e.g. investment performance) are uncertain and materialise over a long period of time, after the consumer and provider entered contract. Other problems refer to price dispersion, especially in retail markets, asymmetric information and resulting adverse selection. The existence of some government solutions (such as safety net programmes or guarantees) may lead individuals to undertake undesired behaviour (such as taking unwarranted financial risk), etc.

23. In addition to traditional market failure theory, *behavioural economics* explains inefficient market outcomes as a result of consumers' biases and cognitive limitations. Consumers may not behave as 'time consistent, rational utility maximisers'. They may have present-biased preferences which mean that decisions taken by individuals today may negatively impact their future, such as their preference to consume today instead of saving for retirement. Individuals often lack a cognitive ability (for cognitive limitations and much documented financial illiteracy cf. Lusardi and Mitchell, 2014; Lusardi and Tufano, 2009) to improve their financial situation even when provided with all necessary information. Peer learning is onerous since financial shocks are common and do not allow for learning from average experience. Moreover, rapid financial innovation complicates the process.

24. Furthermore, *distributional considerations* should also be taken into account, as even efficient non-regulated markets may generate unequal distributional outcomes especially for individuals with a low income and/or low financial education. These categories of people may be at a particular disadvantage in their ability to search and process information as well as in their search of suitable market prices.

25. Campbell et al. (2010, 2011, 2015) argue that while divisions between cognitive limitations and neoclassical justifications for government interventions can be blurred, there are important differences in analytical framework and policy measures. Neoclassical theoretical literature identifies market failure as originating from the structure of the market and the incentives that individuals and firms face. Behavioural economics situate failure in the mental processes of individuals. Both theoretical approaches provide justifications for governmental intervention but they differ in nature. Behaviour economics favours more

measures that will correct biases and change the consumer decision-making process rather than more prescriptive business activities regulations ensuing from neoclassical considerations.

26. Governments have an important range of regulatory and supervisory tools to address market failures and distributional concerns. These tools, depending on jurisdictions' legal structures or types of pension system, may take the form of a law, regulation, standards, or codes of practice that are issued by regulators or prepared by the industry and are approved or not by a regulator.

27. The regulatory and supervisory measures outlined hereafter are organised from less to more interventionist actions. This part draws on research results by Campbell et al. (2010, 2011, 2015) and the IOPS work:

- *Consumer education and financial literacy programmes*: regulatory and supervisory initiatives directed at improving awareness of pension issues and increasing the financial literacy of individuals either through incorporating financial education in school curricula and/or through general or targeted financial education programmes.
- *Anti-fraud rules*: a traditional method of protecting consumers. Consumer protection laws usually contain provisions that prohibit unfair and deceptive practices (e.g. misleading statements or mis-selling of products or services). Additional protection against abusive business practices may derive from common law (contract or tort law).
- *Disclosure rules*: one of the most widely used regulatory solutions to address the problem of market failures and the problem of asymmetry of information. Disclosure may take diverse forms such as regulations mandating the provision of information; requirements for simplified and standardising information provided by financial companies, including risks in different investment options (Australian experience); or making information comparable - requesting the uniform disclosure of fees (the UK experience) and past returns, etc.
- *Pension products/schemes standardisation*: can apply to plan characteristics such as risk/return profiles and fee structures. The introduction of one common category of fee, for instance, charged on assets under management (Mexico experience<sup>13</sup>) and strict rules on product design are examples of moves in this direction. The introduction of a standardised mandatory electronic system of pension consultation and offers (SCOMP) in Chile at the disbursement stage and potential developments of an EU market for standardised pan-European personal pension products<sup>14</sup> are other interesting developments in the area.
- *Fiduciary rules*: are an important element of consumer protection regulations, especially in systems where individuals can take discretionary decisions. Fiduciary rules may include requirements for fiduciaries to act in members' best interests. An example of recent developments is the new regulation broadening the definition of an investment advice fiduciary for employee benefit plans in the US.
- *Fit and proper (suitability) and due diligence legal requirements*: these include provisions with regard to the skills and competence for trustees or senior management of pension schemes or

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<sup>13</sup> In Mexico, since 2008 pension funds can only charge fees on asset under management, eliminating the possibility to charge fees on contributions or any other services. This standardisation effort aims to make it easier for consumers to understand and compare the real cost of their account administration.

<sup>14</sup> EIOPA, *Consultation paper on EIOPA's advice on the development of an EU single Market for personal pension products (PPP)*, 1 February 2016.

companies. In past years, a number of jurisdictions have enhanced legal suitability requirements for trustees and senior management (e.g. Australia, the Netherlands).

- *Governance rules and regulations*: considered as one of the key measures with a view to protecting consumers' pensions against mismanagement or fraud<sup>15</sup>. An example of this category are the strengthened governance requirements of the superannuation (pension) industry as a part of Stronger Super reforms in Australia, the introduction of Independent Governance Committees (IGCs) as an additional layer of protection for members of workplace contract-based pension schemes in the UK<sup>16</sup>; the Act on reinforcement of the governance of pension funds in the Netherlands. The most recent EU pension Directive IORP (II)<sup>17</sup> set up the new governance requirements in relation to the key functions of occupational pension funds: the risk-management function, the internal audit and the actuarial function (for DB schemes).
- *Market conduct regulations*: refer to rules shaping competition and market discipline. These can be described as 'regulations that reflect presumed judgement of what most consumers would wish if they were well informed and well advised' (Campbell et al. 2010). This idea provides a rationale for applying "libertarian paternalism" or "nudges" proposed by Thaler and Sunstein (2008).
- *Default rules*: which can take the form of non-binding standards (e.g. US experience: automatic enrolment in certain types of occupational pension plans or low-cost pension scheme NEST, the UK) or binding (mandatory) requirements (e.g. MySuper in Australia, Default Investment Strategy legislation in Hong Kong, China, default life-cycle funds in Mexico). Defaults could be viewed as a 'cost-effective way to provide information and even advice to the members' (Rinaldi, 2008) as they could offer a substitute for processing complex information<sup>18</sup>. However, individuals should be encouraged to check if the default options suit their particular situation and be able to modify their decisions.
- *Regulations limiting individual choice*: introduction of mandatory (or quasi-mandatory) participation in private pension arrangements; regulations that favour participation in employer-provided or other type of pension schemes through automatic enrolment arrangements<sup>19</sup>; as well as government initiatives to limit investment choices and choices of providers and in certain jurisdictions withdrawal options of retirement benefits (encouraging use of annuity products).
- *Licensing, registration and approval requirements*: this important regulatory tool can take the form of mandatory requirements for pension entities, providers or products to seek registration, licensing or approval before starting business activities or being distributed to demonstrate that they comply with a number of defined criteria (e.g. capital requirements, funding policy,

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<sup>15</sup> Cf. IOPS Working Paper No°8, *Supervisory Oversight of Pension Fund Governance*, 2008.

<sup>16</sup> IGCs are a key part of the improvements in the governance of workplace contract-based pension schemes. These Committees are independent of the pension provider and their role is to ensure that the schemes act in the best interests of scheme members and challenge providers if they are not providing value for money to members. <http://www.fca.org.uk/news/final-rules-for-independent-governance-committees>.

<sup>17</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs). It revises Directive 2003/41/EC on the activities and supervision of IORPs. EU Member States have until 13 January 2019 to transpose the Directive into national legislation.

<sup>18</sup> Cf. IOPS Working Paper N°18, *Supervising Default Investment Funds*, 2012.

<sup>19</sup> IOPS Working Paper N°22, *Role of Pension Supervisory Authorities in Automatic Enrolment*, 2015; *OECD Pensions Outlook*, 2014.

governance structure, investment policy, risk management mechanisms, ability to operate efficiently, tailored to the needs of plan members and beneficiaries)<sup>20</sup>.

- *Financial product regulation*: regulators may want to influence the design and construction of products and to decide how these products are commercialised.
- *Investment policy rules*: such as a requirement for an Investment Policy Statement, capital/liquidity requirements, restrictions on investment, and regulations of firms' liabilities.
- *Rules addressing conflicts of interests*: One possible way to reduce potential conflicts of interests between the financial providers, such as financial advisers, and retail consumers is to regulate or prohibit commissions charged by financial advisers<sup>21</sup>.
- *Regulation of fees and costs*: stipulating caps on fees (e.g. charge cap on default funds in DC qualifying schemes in the UK, default investment strategy management fee cap in HK, etc.), specific types of fees, automated auction systems (Chile), etc.<sup>22</sup>
- *Regulation on advice*<sup>23</sup>: In the UK, rules have been introduced to make advice compulsory for consumers wishing to transfer their safeguarded (DB) benefits to flexible (DC) benefits when the value of their safeguarded benefit exceeds GBP 30 000.
- *Third-party valuations*: public regulations in some cases are supplemented by the system of third-party valuations (independent auditor's review of the financial statements of regulated intermediaries on an annual basis).
- *Supervisory (enforcement) mechanisms*: an essential component of pension consumer protection which consists of a range of measures such as assessment of the potential sustainability of pension entities during the licensing or registration process before they are set up; monitoring their performance and management through periodic examinations – on-site and off-site inspections, including specific thematic examinations that focus on consumer protection issues, enforcement measures for breach of law or regulation ranging from informal to administrative or civil court and potential criminal actions, overseeing complaints handling and redress mechanisms.

28. When discussing various government tools for the protection of financial (pension) consumers, it is worth underlining that these instruments are rarely implemented in isolation. They are usually taken as a set of measures to protect consumers (i.e. as a part of a broad regulatory approach), which also makes it challenging to measure the effectiveness of each measure during empirical studies.

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<sup>20</sup> *OECD-IOPS Guidelines for Licensing of Pension Entities*, Recommendation of the OECD Council, 2008.

<sup>21</sup> In Australia, the 2012 Future of Financial Advice Reforms (FOFA) that became mandatory in 2013 introduced a prospective ban on conflicted remuneration structures. The ban covers commissions and volume-based payments, in relation to the distribution of and advice about a range of retail investment products (e.g. default superannuation product (MySuper)). The FOFA introduced also a duty for financial advisers to act in the best interests of their clients. Both the Netherlands and the UK have prohibited financial advisers to receive commissions, who instead can charge consumers directly for the services provided. The US is in the process of introducing new rules on conflict of interests in retirement advice. Mexico introduced some modifications to the remuneration pay by AFORE to their sales agents: switches of accounts with less than 30 months in the current pension fund will only be remunerated 20% of the normal switch fee.

<sup>22</sup> See more discussion in the IOPS Working Paper N°20, *Update on IOPS Work on Fees and Charges*, 2014.

<sup>23</sup> For more information see Chapter 3, *OECD Pensions Outlook*, 2016.

29. It is also important to keep in mind several limitations of financial consumer protection regulation with regard to its ability to improve outcomes for consumers. Campbell et al. (2010) provide a list of caveats. First of all, the needs of consumers differ and pension authorities should be attentive not to impose a “one size fits all” solution. Instead, they should develop regulations that take into account differences in consumers’ preferences and needs. Secondly, regulations need to encourage financial innovation. For example, consumers are very often unable, due to investment regulation restrictions, to invest in less-liquid asset classes, which prevent them from earning illiquidity premiums. Regulators may consider creating rules for long-term investment that will enable such an opportunity while assuring some necessary level of protection. Thirdly, regulators should be cautious that financial innovation may always bypass poorly designed and costly regulations to the detriment of consumers. Campbell et al. (2010) argue that finally, all regulation, including on consumer protection, is subject to the political process. When adopting regulations, public authorities do not always follow the objective of achieving economic effects but may take actions pursuing some short-term political considerations and views. By doing that, government officials may be subject to regulatory capture and may fail to advance policies that serve public interest, whether in economic or other terms.

## **II. The Role of Pension Supervisory Authorities in Consumer Protection Related to Private Pension Systems**

30. As highlighted in the IOPS Guidelines for Supervisory Intervention, Enforcement and Sanctions (2009): “*The objectives of pension supervision focus on protecting the interests of pension fund members and beneficiaries, and also include safeguarding the stability of the pension industry and contributing to the stability of the financial system as a whole.*”

31. Pension supervisory authorities have a key role in protecting consumers in private pension systems, either through the use of their policy-making powers to promote strong rules and reinforce proper standards of market conduct or through monitoring and enforcement powers (including civil and criminal) to ensure that firms put the interests of customers at the centre of their business.

32. In a number of jurisdictions, depending on the structure of their regulatory framework, competence for the regulation and supervision of the market conduct of financial entities (including pension services providers and authorised agents) and responsibility for consumer protection lie within the market conduct authorities<sup>24</sup> (i.e. in Twin Peak countries such as Australia, the Netherlands, and the UK) or other competent authorities (e.g. Hong Kong, China and Romania). Where there is a separate consumer protection authority, the pension supervisor, whether integrated or independent, might have fewer responsibilities in the area of pension consumer protection.

33. However, regardless of the regulatory and supervisory structure adopted in various jurisdictions, the pension supervisory authorities remain greatly involved in maintaining and enhancing consumer protection. This is especially true in the systems where private pensions offer the main source of retirement income and also where individuals are confronted with a number of choices.

34. In line with the trends observed in other financial sectors<sup>25</sup> (insurance, banking, retail investment), ensuring stronger protection of consumers in the pension sector is gaining higher political attention. It is worth emphasising the specificities of private pensions compared to other financial products and services and the consequences, sometimes dramatic, in the case of failures in consumer protection

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<sup>24</sup> Replies to the IOPS questionnaire were provided by the competent authorities – the ASIC for Australia and the AFM for the Netherlands.

<sup>25</sup> OECD, *Effective Approaches to Support the Implementation of the Remaining G20 High-Level Principles on Financial Consumer Protection*, September 2014.

measures. Private pensions are playing an increasing role in securing retirement income and may involve the use of complex and risky financial instruments. Any major failures in the accumulation and decumulation stages can lead to a reduced or insufficient income and a deterioration of quality of life at retirement. This represents a major policy concern and translates into *assigning pension supervisory authorities with more responsibilities and powers* in the area of pension consumer protection.

### **II.1. Legal framework**

35. Legislative frameworks governing matters of consumer protection in the private pensions area vary considerably across the IOPS jurisdictions. These may include pension legislation, financial services legislation, trust law, general consumer protection law or a special law dealing with the protection of financial consumers (as is the case of Mexico), law establishing supervisory authorities, labour law, social security law, civil code, contract law<sup>26</sup>, etc. Country experiences show that consumer protection provisions could be covered in different legal acts. In the UK, efforts were undertaken to rectify the traditional complexities of the UK consumer law by consolidating eight pieces of separate legislation in this area into a single law, the Consumer Rights Act.

36. Most commonly, pension legislation, whose ultimate goal is to protect the rights and interests of pension plan members and beneficiaries, includes consumer protection provisions specific to private pensions. This is the case for virtually all IOPS Members which provided information for this report<sup>27</sup>.

37. In a large number of jurisdictions<sup>28</sup>, the general consumer protection law contains provisions with respect to financial services or more specifically related to private pensions. The law covers the specific duties of financial or pension services providers and authorised agents, such as rules on the promotion of services, pre-contractual information obligations, protection from unfair practices, redress mechanisms and education campaigns.

38. Only in Mexico a special law dealing with the protection of financial consumers exists. Similarly specific legislation is under development in Malawi. The Financial Consumer Protection Law in Mexico does not contain specific provisions on private pensions.

#### **Box: 2 Financial Consumer Protection Law in Mexico**

In Mexico, the law on users of financial services protection and defence was adopted in 1999. It established the National Commission for Protection and Defence of Users of Financial Services (CONDUSEF), with the aim of promoting, advising and protecting the interests and rights of financial services consumers. The agency also sets certain consumer protection requirements, receives and responds to consumers' complaints on financial services and establishes programmes on financial education.

The Mexican pension supervisor (CONSAR) performs a number of supervisory responsibilities in terms of consumer protection such as the supervision of marketing strategies of pension funds administrators (AFOREs), licensing/registration and approval of pension plans, pension fund managers and providers, setting and overseeing compliance with disclosure regime, standards for authorised agents, etc.

Source: CONSAR.

<sup>26</sup> Example of the UK: under contract-based arrangements, the contract is between the employee or the individual and the pension provider, usually an insurer, and is subject to contract law, which covers areas such as unfair conditions.

<sup>27</sup> AL, AM, AU, AT, BE (occupational), BG, CL, CR, CZ, GH, HK, HU, IN, IE, IL, JM, KE, LT, MK, MT, MW, MU, NG, PK, PL, PT, RO, RS, SK, ES, CH, TZ and TR.

<sup>28</sup> AU, BE (occupational and personal), CO, CR, CZ, GH, HK, HU, JM, KE, MK, MW, NL, NG, SK, ES, CH, TR.

39. Also, in a few jurisdictions<sup>29</sup>, the law establishing the supervisory authority or other legislation, such as pension or social security laws, gives a direct mandate to the supervisory authority to protect the rights and interests of participants of private pension systems and may also include specific regulations for the protection of pension consumers.

40. Three Authorities<sup>30</sup> confirmed that there is currently no dedicated legislation dealing with consumer protection in their jurisdictions, although some forms of consumer protection are embedded in the pension law (Namibia).

41. Apart from legal requirements, in a large number of jurisdictions<sup>31</sup> industry-led initiatives were developed to enhance the protection of pension consumers. This is mainly done via the adoption of voluntary industry codes, codes of conduct (Australia, Belgium personal pensions), the development of special initiatives by national industry associations, and agreements<sup>32</sup> encouraging or setting requirements for rules and trust deeds governing pension schemes. Codes of conduct relating to pension services providers are quite common. They have been adopted by the industry in one form or another in a number of IOPS jurisdictions<sup>33</sup>. In the UK, the Code of Good Practice<sup>34</sup> published by the industry in 2015 aims to provide guidance to trustees to follow consistent due diligence processes to help to identify the risks of pension scams.

42. As concerns the legal framework for consumer protection in the private pension area, the following conclusions can be drawn:

- The IOPS survey has found that general legal protections are largely in place;
- Private pension products are distinct from other financial products. Therefore, they require their own legislation and a consumer protection framework that should be preferably included in the specific pension law. When consumer protection provisions are covered in different legal acts, a possible approach could be to consolidate separate legislation into one legal act, as in the UK, Consumer Rights Act, 2015.
- Embedding a consumer protection mandate in the responsibilities of new pension supervisory authorities or where the mandate of a pension supervisor undergoes substantial changes can be a useful way to ensure that the issue is suitably covered at the start of a new or reformed pension system.

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<sup>29</sup> IN, KE, PK, SK, TZ.

<sup>30</sup> BW, NA, PG.

<sup>31</sup> AU, BE personal, BG, CO, GH, IN, KE, MK, MW, MU, NL, ES and TZ.

<sup>32</sup> Association of British Insurers (ABI) Agreement on the Disclosure of Pension Charges, which a number of ABI members already signed.

<sup>33</sup> AU, BE (personal), CO, GH, IN, IL, MX, NG, PK, RS.

<sup>34</sup> <http://www.combatingpensionscams.org.uk/>

## ***II.2. Selected tools of pension supervisory authorities in consumer protection related to private pensions***

### *(i). Issuing regulations, standards and guidelines*

43. In almost all of the responding IOPS jurisdictions<sup>35</sup> the Authorities have a mandate to issue regulations in the area of consumer protection. The regulations are enforceable in all of the responding Authorities, with the exception of Australia, Poland and Portugal. In about half of the responding jurisdictions<sup>36</sup> the Authorities can set up consumer protection standards.

44. Other common measures taken by the Authorities include issuing guidance to pension providers and intermediaries. The majority of jurisdictions<sup>37</sup> offer guidelines on consumer protection relating to disclosure<sup>38</sup>, conduct requirements (e.g. the MPFA of Hong Kong, China, issued Guidelines on Conduct Requirements for Registered Intermediaries), and advertising and marketing (Chile, Mauritius and Mexico). In Zambia, the Pensions and Insurance Authority has put in place strict ‘Fit and Proper’ Guidelines for all players in the pension industry, which complement already substantial statutory provisions.

### *(ii). Licensing, registration or approval*

45. The licensing, registration or approval of pension providers and financial instruments or products is seen as an important measure to gain trust and reassure consumers. As stated in the OECD Core Principles of Private Pension Regulation (Core Principle 2 and Implementing Guidance), the licensing and registration process “*can have a significant effect on retaining public confidence in private pension plans*”. In order to operate, pension undertakings and providers have to be authorised or registered by the supervisory authorities, unless they are specifically exempted.

46. The OECD Core Principles provide high-level standards for the registration and/or licensing regime as well as the main responsibilities assigned to licensing authorities at all stages of this process and their role in the wider regulatory and supervisory system.

47. The introduction of stricter licensing, registration and/or approval requirements of pension services providers and their agents is considered as one of the focal measures to favour responsible business conduct in about half of the responding jurisdictions<sup>39</sup>. Increasingly, during the licensing and approval process, the emphasis is placed on the examination of senior management and trustees to ensure that they have necessary qualifications and skills to fulfil their duties. Box 3 summarises the experiences of the responding IOPS Members.

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<sup>35</sup> AL, AM, AT, BE (occupational), BG, CL, CO, CR, CZ, GH, HK, IN, IL, JM, KE, LT, MK, MT, MU, MX, NA, NG, NL, PK, PT, RO, RS, SK, ES, TZ, TT.

<sup>36</sup> AL, AM, AT, BE (occupational and personal), CL, CR, CZ, GH, HK, IN, IE, IL, JM, KE, MW, MT, MU, MX, NG, PK, PT, TZ.

<sup>37</sup> AL, AM, AU, AT, BE (occupational and personal), BG, CL, CR, CZ, GH, HK, HU, IN, IE, IL, JM, KE, LT, MW, MT, MU, MX, NG, NL, PK, PT, RO, SK, CH, TZ, TT.

<sup>38</sup> AL, AU, AT, BE (occupational and personal), BW, BG, CL, CR, GH, HK, HU, IE, IL, JM, LT, MK, MW, MX, NG, NL, PK, PT, RO, RS, SK, ES, CH, TZ, TT, TR.

<sup>39</sup> AL, AM, AU, CL, CZ, HK, IN, LT, MK, MX, NA, PK, RO, SK, RS, TZ and TR.

### **Box: 3 Licensing, registration and approval of pension providers in the responding IOPS jurisdictions**

**Trustees:** Licence, registration or approval is given by the Authorities for trustees in half of the responding jurisdictions<sup>40</sup>. The entities can also be recorded by the Authorities in a special register (in Hungary and Kenya). In some jurisdictions, several supervisors can be involved in the licensing of trustees, such as in Australia, both the APRA and ASIC<sup>41</sup> grant licensing of superannuation trustees, focusing on the operation/resources and consumer protection/market integrity, respectively.

The Pensions Authority of Ireland requires every pension scheme established under a trust to have an authorised registered administrator to prepare annual benefit statements and trustee annual reports. These administrators are registered by the Authority.

**Pension plans/schemes/funds:** Depending on the institutional structure of private pension arrangements, where applicable, most of the responding Authorities<sup>42</sup> license, register or approve pension plans, schemes or funds. In Serbia, the pension schemes are licensed by another public authority, the Ministry of Labour.

**Pension fund managers/independent asset managers:** Pension fund managers are licensed, registered or approved in three-quarters of the responding jurisdictions<sup>43</sup>. Iceland and Switzerland require independent asset managers to also be licensed. In Spain all managing entities must be authorised and recorded in the Authority's special register of managing entities. At the same time, investment activities could be outsourced and managed by third party companies, which do not need to be registered or authorised.

**Pension products/services providers:** Pension services/products providers are licensed, registered or approved in most jurisdictions<sup>44</sup>. In certain jurisdictions such as Kenya, registration of the pension providers by the Authority must be renewed annually.

**Pension intermediaries:** Pension intermediaries are licensed, registered or approved in more than half of the responding jurisdictions<sup>45</sup>. In seven of the responding jurisdictions<sup>46</sup>, all pension-related intermediaries have to obtain a license/registration/approval from the Authority for operation.

**Management committees of pension plans:** The management committees of pension plans should be licensed, registered or approved in less than half of the responding jurisdictions<sup>47</sup>. The FSA Romania approves key management positions (i.e. investment director, but does not approve all staff of the investment committee).

**Actuaries and auditors:** Actuaries<sup>48</sup> and auditors<sup>49</sup> are licensed, registered or approved by the Authorities in about of half of the responding jurisdictions<sup>50</sup>, the appointment of actuaries or auditors must be

<sup>40</sup> AL, AM, AU, BW, BG, GH, HK, HU, IN, JM, KE, LT, MW, MT, MU, MX, NG, NL, PK, TT.

<sup>41</sup> <http://asic.gov.au/for-finance-professionals/afs-licensees/applying-for-and-managing-an-afs-licence/licensing-certain-service-providers/how-do-rse-and-afs-licensing-application-processes-work-together/>

<sup>42</sup> AL, AM, AU, AT, BW, BG, CO, CR, CZ, GH, HK; HU, IE, IN, IL, JM, KE, LT, MW, MT, MU, MX, NA, NG, NL, PK, PL, PT, RO, RS, SK, ES, TZ, TT, TR.

<sup>43</sup> AL, AM, AU, BW, BG, CL, CO, CZ, GH, HU, IN, IL, JM, KE, LT, MK, MW, MT, MU, MX, NG, PK, PL, PT, RO, RS, SK, ES, TZ, TT.

<sup>44</sup> AL, AM, AU, AT, BE occupational and personal, BW, BG, CL, CO, CR, CZ, GH, HU, IN, IL, JM, KE, MK, MW, MT, MU, MX, NG, PK, PL, PT, RO, SK, TZ, TT, TR.

<sup>45</sup> AL, AU, BE occupational and personal, BW, BG, CL, CZ, GH, HK, HU, IN, IL, JM, KE, MK, MW, MU, MX, PT, RO, RS, SK, TZ, TR.

<sup>46</sup> AT, AM, BW, GH, KE, HU, MU, SK.

<sup>47</sup> AU, BE occupational and personal, CR, GH, IN, IL, JM, KE, LT, MW, MU, MX, NG, NL, PK, RO, TR.

<sup>48</sup> AT, BE occupational, BG, CR, GH, IL, JM, KE, LT, MK, MW, MU, MT, MX, NG, PL, PT, RO, CH, TZ.

<sup>49</sup> AL, AU, BE occupational and personal, CR, GH, IL, JM, KE, MW, MU, MT, MX, NL, NG, PK, RO, RS, TZ, TR.

notified and is subject to prior consent by the Authorities, which have the right to disapprove/reject the appointment. Also in some cases, authorisation for operation is delivered jointly with other authorities (in Belgium, auditors should be authorised by both the supervisory authority and the National Bank). In Spain, the auditors must be registered before starting their activities by another entity than the Authority.

In most jurisdictions, auditors and actuaries should be certified or belong to their professional organisations, i.e. be a registered accountant or belong to the society of actuaries of their jurisdiction<sup>51</sup> or other leading actuarial institutes (e.g. Kenya). The requirement of independence from the sponsoring employer and other relevant parties applies in most jurisdictions to auditors and actuaries. Auditors are usually authorised to carry out successive audits for a limited period, varying between 3 and 6 years<sup>52</sup>.

**Custodians:** In most jurisdictions, custodians are usually financial or credit institutions licensed or authorised by the Authorities and should meet certain capital adequacy requirements (e.g. Australia). In some jurisdictions, licensing or authorisation is delivered jointly or by other public authorities (in charge of securities market or Central Banks). In Chile, the custodians for pension funds may be: the Central Bank of Chile, the foreign institutions that the Central Bank of Chile authorises for foreign investment, or the domestic custodian companies authorised under the Law on Deposit and Custody of Securities. In Costa Rica, the contract between the pension operator and the custodian must be approved by the Pensions Superintendence of Costa Rica.

Source: IOPS members.

48. As a measure to inform and reassure consumers, all of the responding Authorities publish on their websites information related to licensed or registered entities and most of the jurisdictions<sup>53</sup> also publish information related to the approved pension products. In the UK, the FCA is publishing warnings to prevent or alert consumers not to deal with unregistered providers or schemes. The Authority strongly advises consumers to check, before they act on any pension advice or accept service, if the financial/pension adviser is approved and the company providing services is authorised by the FCA.

*(iii). Review of pension product design and pension product governance*

49. In three-quarters of the responding jurisdictions<sup>54</sup> the Authorities have a mandate to review pension product design and/or pension services, and in two-thirds<sup>55</sup> to review pension product governance<sup>56</sup>.

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<sup>50</sup> AT, BE occupational, CR, JM, SK (in relation to auditors).

<sup>51</sup> HK, IE, IL, IS, KE.

<sup>52</sup> For details also see IOPS Working Paper N°24, *Background Paper: The role of actuarial calculations and reviews in pension supervision*, 2015, pages 32-34.

<sup>53</sup> AL, AU, BE personal, BW, BG, CL, CO, CR, CZ, GH, HK, IN, IE, IL, JM, KE, LT, MK, MX, NG, PK, RO, SK, TZ.

<sup>54</sup> AL, AT, BE occupational and personal, BW, CL, CO, CR, CZ, GH, HK, HU, IN, IL, JM, KE, LT, MK, MW, MU, MX, NG, PK, RO, RS, SK, ES, TZ, TT, TR.

<sup>55</sup> AL, AU, AT, BE occupational and personal, BW, CL, CR, CZ, GH, HK, HU, IN, IL, JM, KE, LT, MK, MW, MU, MX, NG, PK, RO, RS, ES, TZ.

<sup>56</sup> Product governance: “systems and controls in relation to product design, product management and distribution strategies” (Financial Services Authority, *Finalised Guidance: Retail Product Development and Governance – Structured Product Review*, March 2012, page 4, <https://www.fca.org.uk/publication/finalised-guidance/fg12-09.pdf>). Product governance includes its manufacturing (e.g. performing initial due diligence on target markets and distribution channels, designing the product including pricing, stress testing of outcomes, designing appropriate product information, setting terms and conditions, product approval), distribution (e.g. setting agreements with distributors, including payment policies) and monitoring (performing periodic review of products and on-going due

#### **Box 4: Review of pension product design and pension services by pension supervisory authorities**

**Chile:** The Superintendence of Pensions reviews the key parameters affecting the value of pension benefits paid out in the forms of life annuity or programmed withdrawal. For instance, the Superintendence of Pensions jointly with the Superintendence of Insurance and Securities updates the mortality tables that pension product providers must use when calculating amount of the pension payments and sets the interest rate to calculate programmed withdrawals. Further, the Superintendence of Pensions monitors the performance and takes up rate of different types of pension products to identify potential design flaw that might affect consumers' choices.

Regarding the supervision, the Superintendence of Pensions monitors the proper calculation and payment of pension benefits as well as the investment of the pension savings that are managed by the AFPs. To do so, the supervising units within the Superintendence use in situ monitoring, off-site supervision and administrative database.

**Hong Kong, China:** The MPF legislation and the related MPF guidelines set out some basic requirements in terms of how pension products should be designed. For instance, the type of investment instruments which can be acquired, the diversification requirements of investments, the type of fees and expenses which can be deducted. The pension providers must design their pension products in compliance with the relevant regulatory requirements. The governing rules of the MPF products must be approved by the MPFA. In the approval process, the MPFA checks if the products are in compliance with all regulatory requirements and are in the best interests of scheme members.

In terms of pension product governance, the MPFA is placing an increasing focus on the governance and risk culture of trustees and the role of the board of directors of the trustees. The MPFA has a mandate to include in their supervision plan the strengthening of the governance of MPF trustees. As part of the MPFA regular supervision, they can require trustees to submit action plans on how to enhance areas of weak governance and they will provide feedback from a supervisory perspective.

**Slovak Republic:** The National Bank of Slovakia reviews whether the supervised entities comply with general rules, set in relevant legislation, regarding product design and provision of services. The Authority is entitled to perform its review at its own discretion and on various occasions: e.g. when the products/services arrive, periodically, after the complaint is received by the Authority. To support supervision activities the Authority uses various sources of information regarding pension product design and provision of pension services (e.g. information provided in received complaints, information reported by the supervised entities, mystery shopping, etc.).

Source: IOPS members.

#### *(iv). Approval or ban of certain pension products*

50. In most of the responding jurisdictions<sup>57</sup>, the Authorities *approve or register pension products*, as in Australia, where the APRA authorises and registers the MySuper default product as well as in Ireland where personal retirement savings accounts (PRSAs) are registered by the Pensions Authority. In certain jurisdictions, the Authorities have power to ban or introduce a moratorium on the distribution of particularly complex structured and risky products. Likewise in Belgium, following the adoption of the Product Ban Royal Decree that entered in force on 1 July 2014, the FSMA has introduced a ban on the distribution of certain complex products to retail consumers. The product restriction applies to non-UCITS<sup>58</sup> compliant collective investment undertakings or collective investment vehicles that do not comply with the relevant Belgium regulation.

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diligence on target markets and channels of distribution, observing main changes in the wide market) – see *Product Governance Policy: Guide for Product Providers*, Ashurst, [https://www.ashurst.com/doc.aspx?id\\_Content=8552](https://www.ashurst.com/doc.aspx?id_Content=8552).

<sup>57</sup> AL, AM, AU, AT, BE personal, BW, BG, CL, CR, GH, HK, HU, IN, IE, IL, JM, KE, MU, MX, NG, PK, PL, RO, SK, TZ, TT, TR.

<sup>58</sup> UCITS are investment funds regulated by the European Union.

51. In addition, to avoid a mis-selling or consumers being offered pension products not appropriate for their needs, a number of countries impose product suitability requirements. *Product suitability* usually includes requirements to check the age of the consumer, their risk appetite, investment experience, income, etc. In most jurisdictions, suitability requirements for products apply when a firm makes a recommendation or provides advice to the client to purchase a particular product<sup>59</sup>.

(v). *Consumer risk warnings*

52. Risk warning is another measure directed to protect consumers in the pension area. Risk warnings known as “second line of defence” protection were recently legislated in the UK before the “Pension Freedom”<sup>60</sup> came into force in April 2015. The rules require a firm communicating with a retail consumer about a pension decumulation product to provide appropriate risk warnings when the consumer has decided to access pension savings. This covers risks arising when accessing pension savings from both contract-based or occupational trust-based DC pension funds. The FCA adopted new rules<sup>61</sup> without a prior consultation process. It was considered that the new pension landscape posed “significant risks” to consumers and the delay involved in consulting would be detrimental to the interests of consumers.

53. Following the rules, firms have to ask consumers relevant questions in relation to their health, tax implications, whether they receive means-tested benefits and, depending on how consumers want to access their pension savings (annuities, as cash, etc.), to determine whether the risk factors are present. A firm must give them appropriate risk warnings in response to their answers. The FCA rules do not include precise questions the firms have to ask consumers. They aim to describe the process and provide a set of typical/generic questions meant to serve as guidance to firms in identifying if risk factors are present and when elaborating their own questions to consumers.

54. Risk warnings should be provided whether consumers used online government-endorsed guidance service, Pension Wise<sup>62</sup>, or other guidance<sup>63</sup> and/or have taken the regulated advice. Providers are required to keep records of whether consumers received the risk warnings.

55. Following the introduction of these new rules, the FCA undertook a review of the retirement rules including consulting on whether changes in these rules were required<sup>64</sup>. The Authority also monitors risk warnings provided by the industry. Some concerns were expressed about the quality of these warnings as some of the firms did not offer sufficiently personalised warnings which did not allow consumers to understand how the risks apply to them. Some other companies did not sufficiently motivate consumers to use the service, Pension Wise. TPR published complementary guidance on its expectations in relation to the provision of information by trustees to their members on the generic risks of the decumulation options.

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<sup>59</sup> IOPS Working Paper N°17, *Supervision of Pension Intermediaries*, 2012.

<sup>60</sup> Adoption of ‘Pension Freedom’ legislation entailed a fundamental change in options that consumers can access their retirement DC savings. From April 2015, consumers aged 55 and over can: 1) take their pension savings as cash; 2) buy an annuity; 3) use a drawdown pension without any limits applied; 4) use any combination of those.

<sup>61</sup> *Retirement reforms and guidance guarantee: retirement risk warnings*, FCA, February 2015.

<sup>62</sup> [www.pensionwise.gov.uk](http://www.pensionwise.gov.uk)

<sup>63</sup> Guidance over telephone from the Pensions Advisory Service or face-to-face from Citizens Advice Bureaux.

<sup>64</sup> This consultation was undertaken in October 2015 and can be found on <https://www.fca.org.uk/publication/consultation/cp15-30.pdf>

(vi). *Co-operation with other public agencies*

56. Joining efforts in enhancing consumer protection in the financial sector is seen as an important objective of public policy. Almost all Authorities co-operate with other public agencies at the national level. This is especially so for the agencies in charge of the supervision of insurance business (annuities providers) as well as, if applicable, those in charge of supervision of market conduct, ministry of education for the purposes of co-operation on financial literacy matters, anti-fraud and policy services when combatting any severe misconduct or mis-selling practices (the UK experience), etc.

57. In Chile, the Superintendence of Pension works closely with the regulator of the insurance sector (SVS). Both authorities regulate and supervise together the pension quotation platform, SCOMP, pension consultants and maintain the joint register for all persons, entities and their dependents (agents) who wish to provide advice on pension matters. Furthermore, the Users' Committee was created as a part of the 2008 pension reform in Chile. Its main functions consist of channelling the evaluations of the operation of the pension system to the corresponding public bodies, in addition to proposing education and awareness strategies for the system. The Committee also monitors the quality of the information available to members for their decisions and makes proposals for improvement on the basis of the collected background data.

58. In Hong Kong, China, registered intermediaries who engage in the selling or advising activities of MPF schemes are regulated by the MPFA and the three frontline regulators ("FRs"): Hong Kong Monetary Authority, the Insurance Authority and the Securities and Futures Commission. This regulatory approach has taken into account the market profile of MPF intermediaries who carry out MPF sales and marketing activities as incidental to their main lines of business in banking, insurance and/or securities. The registered intermediaries are regulatees of the respective FRs. This institution-based regulatory approach enables efficient use of regulatory resources. The cooperation among the MPFA and the FRs is a statutory requirement under the MPF legislation and a Memorandum of Understanding has been signed by the four regulators.

59. *Cross-border co-operation* on pension consumer protection issues is taking place in the responding jurisdictions, but does not yet seem to be very dynamic or intensive. Mauritius offered the experience of hosting programmes and study visits with other counterparts that cover various areas including consumer education. Other Members also highlighted participation in the activities of various networks directed at enhancing consumer empowerment with financial skills and protection. The lack of intense co-operation on cross-border pension consumer protection issues could be explained by the fact that the provision of pensions, including private or funded arrangements, falls under the competence of national authorities and cross-border pension activities remain limited in number. For example, in the European Union, only 75 IORPs were actually providing cross-border services in 2014<sup>65</sup>.

60. Ten Authorities<sup>66</sup> responded that they had faced issues which required cross border co-operation in consumer protection areas such as transfers of accumulated assets from one country to another. The problem of unsuitable pension schemes may also be an area for enhanced cross-border co-operation. As an example, in the UK members of pension schemes are at the risk of investing their lifetime savings in overseas schemes that may be dubious and unregulated arrangements. HM Revenue & Customs (HMRC) published a list of qualifying recognised overseas pension schemes. The list does not necessarily attest the robustness of the schemes or that they meet legal requirements. It is within the responsibility of the administrator and the pension scheme member to check that an overseas pension scheme met certain legal

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<sup>65</sup> Briefing, *EU legislation in progress, Occupational pensions: Revision of the Institutions for Occupational Retirement Provision Directive (IORP II)*, 11 December 2015.

<sup>66</sup> BW, CL, CO, GH, HU, JM, KE, NA, NL, RO, CH.

tests before transferring the members' savings<sup>67</sup>. The above list of overseas schemes is kept for information purposes and the inclusion on it is based on self-certification by the schemes themselves. In an attempt to make sure these schemes followed the UK pension rules as closely as possible, strict regulations were introduced to ensure the schemes "qualified" as QROPS and that certain information was provided to HMRC for the first 10 years following a transfer.

61. Cross-border consumer protection issues are usually dealt with through the signature of Memorandum of Understanding (MoU) allowing for an exchange of information between the supervisory authorities. In the absence of formal agreements, cross-border issues, mainly complaints, are addressed through information-sharing arrangements between supervisors.

### **III. Disclosure and Transparency**

62. The on-going shift of responsibility from government and employers to individuals make it difficult for consumers to understand and compare pension schemes or products, for example in the area of available choices, investment returns, and the costs and charges to which they are subject. The underlining purpose for disclosure requirements should be consumer protection. In particular, consumers need to understand what their choices are, the products and services they are purchasing, their suitability to consumers' needs and whether these products and services do not expose them to higher risks.

63. The purpose of this section is to update the previous IOPS<sup>68</sup> work and to review the most recent and successful experiences and practices adopted by the Authorities in the disclosure of information that have contributed to enhanced protection of pension consumers.

#### ***III.1. The role of pension supervisors in promoting simplified and standardised disclosure: key information document (KID), pension benefit statements (PBS) and other experiences***

64. Ensuring that consumers can easily access or receive essential information relating to private pensions is one of the primary tasks of supervisory authorities. The survey of the IOPS Members' practices has shown that increasingly, efforts are being made by supervisors to require the provision of key information to members or the public in a simplified and standardised format to assist them in taking informed decisions about their retirement planning and savings. Over half of the responding jurisdictions<sup>69</sup> introduced such a requirement for the information to be disclosed.

65. It was also observed in a number of jurisdictions (as an example in CL, MX, UK); that the Authorities are introducing requirements for personalised disclosures to be offered at the stage of concluding the contract or joining a plan; throughout the saving period or at the disbursement phase. In this respect, special attention is given to what type of information is provided and the way in which the information is presented or layered to consumers to foster their understating on pension matters<sup>70</sup>.

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<sup>67</sup> <http://www.out-law.com/en/articles/2015/august/hmrc-clarifies-changes-to-list-of-recognised-overseas-pension-schemes/>

<sup>68</sup> See IOPS Working Papers N°5, 2008 and N°15, 2011. The OECD and OECD/INFE have also addressed the issue of disclosure and provision of information to pension plan members.

<sup>69</sup> AU, BW, BE (occupational and personal), BG, CL, CR, GH, HK, HU, IL, LT, MK, MU, MX, NG, NL, PK, RO, RS, SK, TZ, TR.

<sup>70</sup> NEST, *NEST's golden rules of communication*, 2016; FCA, *Smarter consumer communications*, Discussion Paper, June 2015.

### *Information factsheet/Key information document (KID)*

66. Information factsheets offer the main way of communicating key information to members in both mandatory and voluntary pension schemes or funds. These are *pre-contractual documents* disclosed under various names and in various forms in different jurisdictions. They provide a range of important information on the key characteristics and features of pension schemes and products to prospective members of pension schemes, or to individuals that are already members of such a scheme on the occasion of their switching from one pension scheme or pension product to another. Pension companies are required to disclose the document in paper form and to make it available on their websites. The supervisor in the FYR of Macedonia, MAPAS requires that information prospectus (separate for mandatory and voluntary pension funds) should be published in the most circulated daily newspaper distributed in the Republic of Macedonia.

67. The (minimum) content of these documents is usually detailed in pension legislation or by supervisory regulations. In certain jurisdictions they should be specifically approved by the authorities as the case in Albania<sup>71</sup>. Regulations require the prescribed content of the document to be prepared in a direct, simple and easy way to understand and in a manner conducive to making informed decisions by consumers. To allow better comparability between products and services offered, efforts are taken by the Authorities to introduce a standardised format with a prescribed minimum content for the information prospectus.

68. At the European Union (EU) level, recognising the needs and exposure of retail investors to complex investment products, the new EU Regulation N°1286/2014 on key information documents (KIDs) for packaged retail and insurance-based investment products (PRIIPs) were recently adopted (Box 5). For the first time, the regulations establish a requirement for persons who sell and advise on investment products in the banking, insurance and securities sectors to provide standardised KIDs (that follow the same structure and cover a standard set of issues based on mandatory templates) to retail investors across the EU before they have made an investment decision. The presentation of the information has been developed to be as simple and clear as possible, reflecting the results of consumer testing. Some of the investments covered by KID regulation may be used for private pensions, however, regulation excludes pension products from its scope. The new rules are seen as a major step forward in improving the transparency of investment products and strengthening the protection of retail financial consumers.

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<sup>71</sup> The FSA approved regulation no. 2 of 13 January 2011, *On the contents of pension fund contract and prospectus* (<http://amf.gov.al/pdf/ligje/Law%20on%2010197.pdf>). According to this regulation, the prospectus of the pension fund for each PMC shall contain specific information which is obligatory for any prospectus. The PMC can add other information but cannot skip the basic information required by the regulation no. 2 of 13 January 2011.

**Box 5: The European Union Regulation on Key Information Documents (KIDs)  
for packaged retail and insurance-based investment products (PRIIPs)**

The EU Regulation on KIDs for PRIIPs<sup>72</sup> sets key requirements for the content and the format of the key information document, to address the deficiencies of existing disclosures to retail investors that often do not help them to compare different products or understand their features. The first steps at the EU level have been already taken through the development of the key investor information regime established by Directive 2009/65/EC<sup>73</sup>.

Based on the PRIIPs regulation, a standardised key information document has been developed by the European Supervisory Authorities (ESAs)<sup>74</sup>. The Joint Committee of the ESAs has finalised its proposal for regulatory technical standards (RTS) on the content and presentation of the KIDs for PRIIPs that benefited from public feedback and extensive consumer testing.

The new rules address the content and presentation of the KIDs and include:

- a common mandatory 3-page template for the KID, covering the texts and layouts to be used;
- a summary risk indicator of seven classes for the risk and reward section of the KID;
- a methodology to assign each PRIIP to one of the seven classes contained in the summary risk indicator, and for the inclusion of additional warnings and narrative explanations for certain PRIIPs;
- details on performance scenarios and a format for their presentation, including possible performance for different time periods and at least three scenarios;
- costs presentation;
- information on compensation or guarantee scheme;
- complaint process about product, manufacturer or adviser;
- specific layouts and contents for the KID for products offering multiple options that cannot effectively be covered in three pages;
- rules on revision and republication of the KID, to be made at least annually; and
- rules on providing the KID sufficiently early for a retail investor to be able to take its contents into account when making an investment decision.

The rules will come into force on 1 January 2018. To facilitate the adoption of the regulation, the ESAs plan to develop supporting guidance and guidelines on the methods to follow in the calculation of summary risk calculations, the performance scenarios and information on costs for inclusion in KID.

The PRIIPs-Regulation does not prejudice the right of Member States to regulate the provision of key information on products that fall outside its scope. Also, the ESAs have a mandate to monitor the products which are excluded from the scope of the Regulation and, where appropriate, to issue guidelines to address any problem which is identified.

Source: The European Banking Authority.

69. Certain EU countries, in anticipation of the adoption of the KID PRIIPs regulation, have introduced a requirement for a key information document in pension legislation or other legal acts, mainly in relation to voluntary personal pension products. Other countries already had in place personalised

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<sup>72</sup> Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), Official Journal of the European Union L352, 9.12.2014. Regulation came into force on 29 December 2014 and will be applicable in the EU Member States with effect from 1 January 2018 (the original date of application was 31 December 2016).

<sup>73</sup> Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32).

<sup>74</sup> I.e. EBA (European Banking Authority), EIOPA (European Insurance and Occupational Pensions Authority) and ESMA (European Securities and Markets Authority).

disclosures such as the UK Key Features Illustration (KFI), the document offered by the providers within personal pension schemes containing important information on charges, projection of future benefits, any interest, if applicable<sup>75</sup>.

70. In Austria, general information requirements for all types of life insurance (which includes all types of personal pension products except occupational pension group insurance, *Betriebliche Kollektivversicherung*) define the pre-contractual information requirements similar to a KID. The information on costs and sample calculation is standardised. The policyholder shall be informed about the key characteristics of the product, about the amount of any benefit that is guaranteed by the insurance undertaking, their statutory rights and any losses that the policyholder may incur. In addition the policyholder needs to be informed of the product-specific tax arrangements currently applicable.

71. In Belgium, the 2015 legislation introduced the requirement for a standardised factsheet to be provided to potential retail investors. The legislation includes specific requirements in relation to the content of the factsheet and contains standardised templates of factsheets for a certain type of financial product (see Box 9).

72. In the Slovak Republic, the KID has been introduced by the relevant legislation for (pillar 3) DC: voluntary, personal, partly occupational pension schemes. In accordance with the legislation, the Ministry of Labour, Social Affairs and Family in co-operation with the National Bank of Slovakia has issued a Decree that specifically stipulates the content, structure and form of the document as well as details on its obligatory updates. Compliance with the aforementioned regulatory requirements is subject to supervision performed by the National Bank of Slovakia. However, these authorities do not monitor the number of potential members/consumers that actually use the KID. In Pillar 2 (DC, personal, quasi mandatory - entrance into scheme voluntary, after that mandatory – pension scheme) the KID has not been introduced yet.

73. In Spain, since 2015, in line with new legal requirements, members joining the pension scheme will receive a KID. The regulation establishes the minimum content for a KID but it does not contain requirements for a standardised format.

74. In Australia, similar requirements for the provision of key information about default products (MySuper) were introduced as a part of the Superannuation Legislation Amendment (MySuper Measures) Regulation 2013 and in APRA's Reporting Standard on Product dashboard. The regulation lays down the obligation for superannuation trustees to provide key information about MySuper products in a standardised manner (a requirement that does not apply in relation to other financial products). This measure in part recognises the compulsory nature of the superannuation system, whereas other financial products are voluntarily selected by consumers in Australia.

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<sup>75</sup> <https://www.handbook.fca.org.uk/handbook/COBS/13/5.html>

### Box 6: Australia: the Product Dashboard

In Australia, recent regulations introduced the product dashboard requirements for the superannuation funds' default product (MySuper). The product dashboard intends to provide members with key information about the product in relation to five separate measures: (1) the return target, (2) the return for previous financial years; (3) a comparison between the return target and the returns for previous financial years; (4) the level of investment risk and (5) a statement of fees and other costs.

Subject to some exceptions, the trustees of regulated superannuation funds must publish a product dashboard for each MySuper product, including for each lifecycle product.

This information should be publically available on the funds' website and be presented in a standardised manner to allow consumers to easily compare products and make informed choices. Updates should be conducted following changes to a measure in the product dashboard<sup>76</sup>.

Source: Australian Securities and Investments Commission (ASIC).

75. With regard to production of the KID for pension products, this is still not a very common practice among the IOPS jurisdictions, and when present, it covers the accumulation phase of pension funds. The development of a similar document that could facilitate the decision by members on the various benefit pay-out options could be another direction for supervisory attention or action in the future.

#### *Pension Benefit Statement (PBS)*

76. Another document that is critical for understanding and supporting decisions about retirement savings and financing, particularly in DC systems, is a pension benefit statement<sup>77</sup>. PBSs are provided to active members of pension schemes on an annual basis or in some jurisdictions more frequently (e.g. every six months or on a quarterly basis if it is required by members in Spain and in Chile and in Mexico every four months). A number of Authorities were involved in reviewing the information contained in the PBS, including requirements for standardisation and inclusion of personalised information and projections on pension benefits. Pension statements containing forward-looking benefit projections could be seen as a powerful instrument for helping members to make effective decisions about retirement savings rather than being solely a (passive) document that contains general information on pension accounts and pension schemes. This measure could also alleviate the problem of unrealistic pension expectations by members highlighted by a number of jurisdictions.

77. In line with these developments, at the European Union level, the IORP (II) Directive includes a provision for the standardised annual PBS, which would contain both generic and personalised information about the pension scheme. The Directive sets out the requirement for the PBS to be concise and to contain at minimum the key information on the guarantees (full or partial), the pension benefit projections, accrued entitlements, contributions paid, cost deducted (at least over the past year), the funding level of a pension scheme, etc.<sup>78</sup> The requirement covers not only the accumulation but also pay-out phase where at the point of retirement members need to be informed about pay-out options, available products, and then receive, on a continual basis, information on benefits. The EU Directive offers a high-level direction for the

<sup>76</sup> For more information, see <http://asic.gov.au/regulatory-resources/superannuation-funds/stronger-super-reforms/mysuper-product-dashboard-requirements-for-superannuation-trustees/>.

<sup>77</sup> For more information on pension statements see, Antolín P. and Fuentes O., *Communicating Pension Risk to DC Plan Members: The Chilean Case of a Pension Risk Simulator*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 28, OECD, 2012 and the OECD Pensions Outlook 2014, Chapter 5.

<sup>78</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs), Chapter 2, Articles 38, 39 and 40.

information to be contained in the PBS, leaving to the member states the discretion to decide on the exact content and the format of the document. Provision of more comprehensive information to members and beneficiaries through the PBS was among the key objectives of the Directive, pursuing the aim to encourage members to better understand their current and future pension entitlements and take appropriate actions.

78. Around one-third of the responding Authorities<sup>79</sup> stated that in their jurisdictions there is a requirement to disclose benefit statements in a standardised format. The minimum content and the timing of issuance of a benefit statement is usually specified in the pension legislation<sup>80</sup>, regulations issued by Authorities (examples of Austria and Mexico) or relevant acts (Decrees) prepared by other public entities in co-operation with the Authorities. In Lithuania this information is defined in the fund's rules. In Macedonia, the Authority established the requirements for the content of the PBS through pension legislation and in the Rulebook which also prescribes the form of delivery (green envelopes).

79. In Hong Kong, China, the legislation provides the MPFA with powers to specify other information to be contained in PBS. The MPFA issued a Code of Disclosure for MPF Investment Funds to specify the additional information to be present in the PBS and offer guidance to trustees on how to make this information available to members. The MPFA regularly publicises the importance of reviewing PBS and educates members on how to read and understand PBS via its publications.

80. In Chile, pension statements include personalised information (PPPs) on expected pensions under various deterministic scenarios (depending on affiliate's age, gender, accumulated balance, etc.). Recent research showed that members appreciated personalised information and that PPPs had a positive effect on members to increase voluntary contributions and postpone retirement<sup>81</sup>. Building on this favourable experience, the Authority recently introduced a web-tool containing a pension simulator using stochastic modelling that provides information about the expected pension at retirement and the risk associated with this forecast. The Authority was also working on testing electronic pension statements which members can access in national employment offices.

81. In Mexico, the CONSAR established the format of the PBS that pension fund managers should send to affiliates; as well as the information it must contain. There are currently four different formats of pension statements for different categories of workers, depending on their affiliation to different pension schemes<sup>82</sup>. All pension statements should include common information, including a comparative indicator showing the "Net Return Index"<sup>83</sup> for each pension fund provider, a measure taken to encourage competition in the sector. The content of pension statements is specific to each type of workers and the

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<sup>79</sup> AM, AU, BE (occupational), BG, CL, CR, HK, LT, MK, MU, MX, NL, RO, SK (both pillar 2 and 3 pension schemes), TR.

<sup>80</sup> HK, JM, MK, MU, RO, ES. In the Slovak Republic, the timing of issuance of a benefit statement is specified in the primary pension legislation. However, the minimum content of benefit statement is specified in the Decree issued by the Ministry of Labour, Social Affairs and Family prepared in co-operation with the National Bank on the basis of empowerment contained in the primary pension legislation.

<sup>81</sup> Antolín, P. and Fuentes O., (2012), *Communicating Pension Risk to DC Plan Members*, OECD; PowerPoint presentation by Olga Fuentes at the IOPS/OECD International Seminar, held on 26 February 2016 in Rome, [www.iopsweb.org](http://www.iopsweb.org).

<sup>82</sup> More information can be found in Chapter 4, *OECD Reviews of Pension Systems: Mexico*, 2016.

<sup>83</sup> Net return index is published monthly on the website of CONSAR. Historical information on this indicator is also available. The indicator is included in the PBS and also in the document that members need to read and sign when switching between AFOREs. According to CONSAR, since the new format for switching was established in November 2014, a reduction of negative switches (to AFOREs with lower net return indices) was observed.

workers fully affiliated in the new DC system receive information on the three main positions: retirement, voluntary savings and housing sub-accounts. Although the pension statements contain a lot of relevant information for workers, they do not seem to have greatly influenced or changed pension members' behaviour to reach higher retirement income adequacy. A survey conducted by CONSAR in 2012 showed that not all participants who have their account in AFORE received their pension statements regularly (more than 30% did not). Among those who did receive the statements, a large proportion did not read them while about 24% of workers who have an account with AFORE did not understand what "AFORE" stands for<sup>84</sup>.

82. In the Netherlands, participants who contribute to a pension scheme receive annually a Uniform Pension Overview (UPO). All Dutch pension funds and insurers are required to use the same information lay-out. This uniform standard of communication with scheme members provides the necessary support to simplify future financial planning. The content of the UPO is regularly reviewed by the Authority.

83. IOPS supervisory authorities review benefit statements as part of their on-site examinations. The survey of the responses showed that supervisory attention was primarily concentrated on ensuring that benefit statements and other documents disclosed to members conform with legal requirements (such as being written in a clear and simple language) rather than seeking to determine or monitor whether consumers actually read and understand the statements. Only a few Authorities (Hong Kong China, Macedonia and Mexico) said they have conducted surveys and research regarding members' understanding of the PBS and based on the results of surveys developed specific programmes for increasing awareness of mandatory and voluntary pension plans and considered ways to improve information contained in the PBS. This implies that further efforts should be taken by Authorities to *test the PBSs for understanding by members*.

84. The OECD report (2014) argues that in order for the pension statement to truly influence members' decisions (e.g. to prompt workers to react and take actions to increase their contributions and postpone retirement), the authorities responsible for setting the requirements for the PBSs should consider setting clear and measurable objectives as a part of their assessment process. *Introducing an assessment for the PBSs* may help authorities to determine whether and how PBSs aids members to reach adequate income in retirement. The inclusion in the pension statement of information on pension accruals coming both from private sources and public pension as well as an estimate of future (expected) retirement income under different scenarios is expected to enhance members' comprehension of their current and future pension savings/entitlements and prompt effective action. The *manner and format in which this information is conveyed to members* (simplified paper statements supported by messages on telephones, electronic versions, online web-tools, etc.) *is also of utmost importance* and requires close supervisory attention.

***The role of pension supervisory authorities in disclosing information on investment performance in a standardised format***

85. Apart from the key information document and the pension benefit statements, the requirement to provide information in a standardised format applies also to the disclosure of performance by private pension funds. About half of the responding Authorities<sup>85</sup> indicated that they mandate providers to disclose performance in a standardised way (Figure 1).

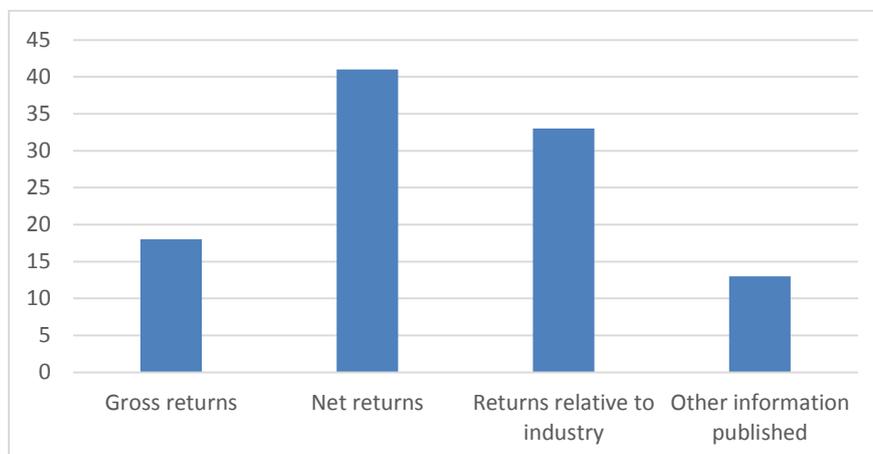
86. The authorities reported using various standardised forms of documents in which pension providers are mandated to disclose information on the performance of their products. Some authorities

<sup>84</sup> Chapter 4, *OECD Reviews of Pension Systems: Mexico*, 2016.

<sup>85</sup> AM, AU, BE (personal), BW, BG, CL, CR, GH, HK, IL, JM, LT, MK, MX, NG, PK, RO, RS, TZ.

stated that according to their regulations, information on performance must be included in *standardised financial statements*.

**Figure 1. Supervisory requirements for publishing pension fund performance (as % of respondents)**



Source: IOPS Members.

87. Regarding the frequency of disclosure, a number of Authorities<sup>86</sup> mandate pension providers to disclose information on performance on an annual basis, in other jurisdictions (e.g. Estonia and Romania) pension providers are obliged to do so quarterly (as in Spain). In Chile and Mexico, information on performance is disclosed to pension scheme members at least every four months. In Chile, the information about performance is given as an annex of the pension benefit statements sent every four months and is also available on the information board displayed in all APF's offices open to the public. The information board<sup>87</sup> must include information about performance, the value and the asset allocation of pension funds, the latter three disaggregated by type of pension fund. In Albania, information on performance should be disclosed at least every 30 days.

88. Regarding the time horizon of the information disclosed about performance of pension funds in the responding jurisdictions, the Authorities indicated various time periods over which returns have to be calculated – years (e.g. in AU, BW, NA, HU, TR), six months (PK), quarters (e.g. in AU, BG, IL, LT, TZ), or months (e.g. in CO, CR, HK). In Chile, the Authority publishes information about pension funds for several time horizons: the previous month, the previous year, the current year, the last 36 and 60 months; and since the inception of the private pension system.

89. In Spain, each pension scheme is obliged to communicate information on the accumulated return from the beginning of the year and the average annual return over the past 3, 5, 10, 15 and 20 years. This information is published on the website of the pension Authority only for the personal pension schemes<sup>88</sup>. Moreover, this information is sent to members as a part of PBS twice a year and, additionally, it is made available on a quarterly basis on the website of the company or its group.

90. The majority of Authorities disclose data on performance on their websites. The Hungarian Central Bank is committed to provide comparable information to consumers on the long-term (10 and 15

<sup>86</sup> BG, PT, NG, MK.

<sup>87</sup> In Chile, information board size, content and distribution are regulated by the Authority.

<sup>88</sup> <http://www.dgsfp.mineco.es/rentabilidades/Rentabilidades.aspx>.

years) investment performance of the pension funds and different cost indicators (charge ratio, total cost index).

*The role of pension supervisory authorities in disclosing information on costs and charges in a standardised format*

91. Cost and charges have an important impact on the accrued benefits and calculated contributions. When comparing the performance of pension funds, it is essential for consumers to have a common understanding of what costs pension providers charge (e.g. costs related to day-to-day operations, investments, and also explicit and implicit transaction costs). Pursuing efforts to standardise cost analysis of occupational pension funds, the EIOPA published, in February 2015, a report on costs and charges of IORPs<sup>89</sup>. IOPS's work in this area can also serve as a useful reference<sup>90</sup>.

92. A comparison of costs, charges and fees is provided in the respective jurisdictions in a wide variety of ways. One way consists in requiring the pension providers to offer comparable information usually as a part of PBSs and/or companies' web-sites. Australia offered experience on disclosing information on fees and costs in a standardised format as a part of the Product Disclosure Statements (PDS)<sup>91</sup> for the regulated superannuation funds (see information in Box 6). Also in the UK, regulations have recently been introduced that require full transparency in the disclosure of all costs and charges for DC workplace pension schemes in a standardised and comparable format to trustees and Independent Governance Committees; to employers before they make a choice of a pension scheme and to new and prospective members and existing members annually as a part of the annual benefit statement. This information must be publicly available. In Chile, the AFPs have to include in the annex of the pension benefit statements (sent each four months) information on fees charged to members. This information includes comparison of the annual payment in the current AFPs with the one with the lowest fee. In addition, in Chile, information on all types of fees charged to members should be also displayed on the information board displayed in all AFP's offices open to the public. Both current and foreseen future fees should be displayed, including the changing date if the fees are to be changed in the future.

93. Other most common way of presenting information on fees and charges is through comparative *online platforms* provided on the websites of the Authorities. Around one-quarter of respondents<sup>92</sup> currently provide such information, with others stating the intention to follow suit. Alternatively, some supervisors publish this information in newspapers. However, some jurisdictions are not able to provide such comparative information due to the issue of information confidentiality.

94. In Hong Kong China, the authority has developed two comparative platforms that facilitate the comparison of information related to mandatory provident fund (MPF) products and services by the scheme members, one of them being the Fee Comparative Platform<sup>93</sup>. Similarly, in Chile on the webpage

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<sup>89</sup> EIOPA (2015). *EIOPA Report on Costs and charges of IORPs*, EIOPA-BoS-14/266, [https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-14-266-Final\\_report\\_on\\_costs\\_and\\_charges\\_of\\_IORPs.pdf](https://eiopa.europa.eu/Publications/Reports/EIOPA-BoS-14-266-Final_report_on_costs_and_charges_of_IORPs.pdf)

<sup>90</sup> IOPS, *Update of IOPS work on fees and charges*, Working Paper N°20, 2014.

<sup>91</sup> See: *Schedule 10A of the Corporations Regulations 2001*, [http://www5.austlii.edu.au/au/legis/cth/consol\\_reg/cr2001281/sch10.html](http://www5.austlii.edu.au/au/legis/cth/consol_reg/cr2001281/sch10.html), and the ASIC's Info sheet 197 - <http://asic.gov.au/regulatory-resources/superannuation-funds/stronger-super-reforms/fee-and-cost-disclosure-requirements-for-superannuation-trustees/>

<sup>92</sup> BG, CO, CR, CL, HK, LT, MK, MX, NG, ES.

<sup>93</sup> In Hong Kong, China, on its online Fee Comparative Platform, the Authority has developed several tools that help members to better compare fees and charges across funds and schemes. The first tool is the "Fund Expense Ratio". It indicates the total amount of expenses charged by an MPF fund as a percentage of fund size. Fees and charges are the

of the Authority, consumers can compare AFPs in terms of the quality of their service, price and investment performance. The website of CONSAR offers a comparison of information on commissions and net return rates, i.e. after fees, of pension fund managers, as well as information on their services.

95. A number of Authorities indicated that they provide comparison platforms other than through electronic means. In Tanzania, employers are mandated to invite representatives of pension schemes to make actual presentations about their products and services in order to provide the prospective members with all relevant information and let them freely choose any pension fund.

#### *Electronic comparison platforms facilitating choice of retirement products.*

96. In addition to efforts to disclose information on fees and charges in a standardised way, pension supervisory authorities play a role in providing information to help pension fund members choose a type of retirement product. To facilitate such decisions Chile<sup>94</sup> and Macedonia established electronic comparison platforms. The listing centre in Macedonia is yet to start operating. It will gather all offers for pension products (annuities and programmed withdrawals) submitted by insurance companies and pension managing companies. This is different from the Chilean case, however, where pension fund members will not be using the centre directly. The offers will be presented to them by pension company agents. The Macedonian comparison listing centre will also facilitate payments of pension benefits from second and third pillars. A more conventional way consists of organising pre-retirement workshops by the Authority, as in Nigeria, where potential retirees are provided with a detailed description of the two retirement products currently being offered.

### **III.2. Benefit projections**

97. In many jurisdictions increased attention is being given to pension projections<sup>95</sup>. Projections are seen particularly important for members in jurisdictions with DC mandatory or voluntary private pension systems, given the uncertainty about future pension benefits.

98. While recognising their utility, pension projections are not easily produced since they incorporate a large number of economic, financial and demographic assumptions over a long period. Regulatory and supervisory authorities are usually in charge of setting assumptions or a range of assumptions, but in some countries there are no rules yet and pension providers can use their own methodology. The way the projections are presented and communicated to members, in particular regarding the uncertainty in the underlying assumptions, is of utmost importance. In most jurisdictions, deterministic scenarios are used to communicate pension projections to members, as they are clearer and easier to understand for members but show pension outcomes without a probability range. Projections calculated and presented on a stochastic basis can more easily quantify uncertainty as they include a range of probability for different pension

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predominant components of fund expenses. Another tool is the "Ongoing Cost Illustration". This measure shows the impact of fees and charges on a member's investments over periods of 1, 3 and 5 years. Furthermore, for members' information, on the authority's website a Low Fee Funds List is available that contains a catalogue of low fee funds which have fund expense ratio lower or equal to 1.3% or current management fees lower or equal to 1%.

<sup>94</sup> For more information on the Chilean automated system of pension bids (SCOMP) see the IOPS Working Paper 21, *Supervising Distribution of Annuities and other forms of Pension Pay-out*, 2015.

<sup>95</sup> Antolín P. and Harrison D. (2012), *Annual DC Pension Statements and the Communications Challenge*, OECD Working Papers on Finance, Insurance and Private Pensions, N°19; Antolín P. and Fuentes O., OECD 2012, *OECD Pensions Outlook 2014*, Chapter 5 and *OECD Pensions Outlook 2016*, Chapter 5, *The role of financial education in supporting decision-making for retirement*, which recommends the consolidation of public and private information on pension benefits.

outcomes. Nevertheless, they are cumbersome and difficult to communicate to members<sup>96</sup> and are therefore little used (except in Chile). In the EU context, the 2016 EU IORPs II Directive established a requirement for the inclusion of pension projections in pension benefit statements, using standard assumptions. It recommends that in the case where pension benefit projections are based on economic scenarios, they should include favourable and unfavourable scenarios, considering specific nature of the pension system in the EU jurisdictions.

99. To reply efficiently to consumers' expectations, pension projections should include information on future retirement benefits that will come from both public and private pension schemes<sup>97</sup>. This should allow future pensioners to assess the current financial adequacy of their retirement income from public and private schemes, have more realistic expectations and take appropriate actions, if necessary. While generally considered as a welcome development, combined pension projections (from both public and private pension schemes) are provided to members in only six responding jurisdictions<sup>98</sup>.

100. One-quarter of the Authorities<sup>99</sup> have established a requirement to provide projections, or provide projections themselves for private pension arrangements. Three Authorities (Austria, Lithuania and Poland) indicated that benefit projections are made in their jurisdictions by public authorities (entities) other than pension supervisory authorities<sup>100</sup>.

101. When offering pension projections, Authorities can be exposed to issues of fiduciary responsibility or can be potentially held liable for the information provided. Projections may create expectations on the part of the members that Authorities stand behind such projections and in a way "promise" or "guarantee" them. It is therefore important for the Authorities to publish a disclaimer and point out to the members that the aim of the projections is to offer guidance, encourage active decision-making by members, but is in no way a promise. In the same direction, the IORP II Directive requires pension projections to be accompanied by a disclaimer that the projections may differ from the final value of benefits received.

102. The most common means of offering the projections are *websites*, either those of the Authorities themselves or of other entities. Ten Authorities<sup>101</sup> provide pension projections to consumers via online calculators on their websites or educational websites. An online pension simulator is regarded as an efficient tool to communicate information on future pension benefits to members. Calculators, being interactive, allow members to introduce assumptions based on a number of key parameters (level of contributions, retirement age, returns, etc.) to obtain projected retirement income. Although users may need to have a certain level of knowledge about assumptions, it is more likely that the individuals who choose to use them will understand the results. Calculators also help members understand the potential impact of their decisions, as they can observe changes in the outcomes that result from using different

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<sup>96</sup> More information on pension projections using deterministic or stochastic scenarios and communication of the underlying assumptions, see OECD Pension Outlook 2014, chapter 5 and Antolín P. and Fuentes O, 2012.

<sup>97</sup> OECD, *Recommendation of the OECD Council on Good Practices for Financial Education relating to private pensions* (2008).

<sup>98</sup> AU, AM, CO, CR, NL, RS.

<sup>99</sup> AM, AU, BW, CL, CR, JM, MU, MX, RS, TR.

<sup>100</sup> In Austria, pension projections are provided by Pensionsversicherungsanstalt, a public body paying public pensions. The Social security authority provides pension projections in Poland for public pensions.

<sup>101</sup> AM, AT, BW, CL, CR, HK, LT, MX, RS, TR. The Chilean pension risk simulator is described in the OECD Working Papers on Finance, Insurance and Private Pensions N°28, *Communicating Pension Risk to DC Members*, 2012.

assumptions. This educational effect can lead to an increased awareness of the need for saving for retirement.

103. In some jurisdictions, Authorities work closely with the pension industry to develop tools offering pension projections. In Colombia, the Authority and pension fund managers are jointly developing a calculator that will be available on the websites of each pension fund manager. In Lithuania, an official calculator<sup>102</sup> was developed by the Ministry of Social Affairs, the Bank of Lithuania and the Association of Investment and Pension Fund Providers. It offers projections on the possible accumulated amount and size of annuities. The calculator is applicable to draw projections only for voluntary occupational individual accounts.

#### Box 7: Benefit Projection Tools

The jurisdictions use different assumptions and methodologies to calculate benefit projections.

For example, in **Hong Kong, China**, the MPFA provides tools on its website<sup>103</sup> to help members calculate their retirement needs and obtain projections of Mandatory Provident Fund-accrued benefits. Three calculators are available:

A) *Calculator of retirement needs*. The following criteria are considered: monthly expenses during retirement (including all costs of living, medical expenses, etc.), current age, expected retirement age, life expectancy, expected rate of return during retirement and expected inflation rate. According to the inputted data, the calculator estimates how much savings the members will need in retirement.

B) *Calculator for projecting MPF accrued benefits*. Members enter their current age, monthly income, voluntary contribution (if any), existing MPF balance, and expected annual MPF investment return. The calculator projects how much members can accumulate from their MPF investment.

C) *Retirement planning calculator*. Members type in the same data as for the aforementioned two calculators plus data on other retirement savings and their expected annual returns. Based on the inputted data, the calculator projects how much MPF benefits and other savings for retirement members will have at the age of 65 and assesses if the total amount meets their anticipated retirement needs. The calculator has been incorporated into a smartphone application for retirement planning.

In **Costa Rica**, an application tool which projects the pensions of consumers is available on the website of the Authority and is based on the following assumptions: the person's age, a real rate of 3% on savings for compulsory supplementary pension rate for each year, annual inflation of 8% for all years, wage growth of 1% above inflation each year (in addition, wages are increased every six months), actual time worked and finally an assumption that every three years the person remains unemployed for one month.

In **Serbia**, the calculations are performed on the basis of parameters, such as the amount of contribution, number of years of accumulation and returns. The fees and costs borne by the fund members are taken into account and are clearly stated.

In **Botswana**, a projection of future benefits in retirement is provided in current purchasing power terms assuming realistic rates of expenses and investment return in excess of inflation.

In **Chile**, the supervisor provides pension projections via an online pension simulator<sup>104</sup> whose development was a joint initiative with the OECD. This interactive tool is based on a pension risk methodology developed by the Authority. The stochastic model takes into consideration the investment, labour, and annuitisation risks faced by the

<sup>102</sup> <http://www.pensijuskaiciuokle.lt/>

<sup>103</sup> <http://www.mpfa.org.hk> and <http://minisite.mpfa.org.hk/mpfie/en/index.html>

<sup>104</sup> For more details on construction and implementation of the pension risk simulator in Chile see Antolín, P. and Fuentes, O., OECD, 2012.

members. The pension simulator does not give outcomes expressed as a replacement rate but as a value of pension in Chilean pesos. It also provides information about the probability of a user reaching his/her desired level of pension.

In **Turkey** several online calculators are available on the website of the Pension Monitoring Center. The rates of returns and methods that can be used in calculations are set out in private pension legislation:-

A) *The projected Accumulations (Benefit) Calculator* is a tool for projecting the contributor's possible accumulation. It uses the following parameters: the contribution amount, the age of entry into the system, the age of retirement, the rate of return (one of two options defined in the legislation as optimistic or pessimistic) and fees (fund management and administrative expense fees) that would be applied in the plan that the member chooses. According to these inputs, the calculator estimates age-related accumulations.

B) *The programmed Withdrawal Calculator and Annuity Calculator* compute the contributor's projected monthly income for the pre-defined amount of accumulation reached at retirement. The age of retirement, amount of accumulation, the method of withdrawal (pre-determined monthly income, determined number of payments, the expected lifespan) can be chosen by the contributor. According to these inputs, the calculator estimates the age-related monthly income. The annuity Calculator projects the possible initial monthly income of an annuity using inputs such as the accumulation, guaranteed payment in case of death, number of payments provided by the contributors.

Assumptions used in the calculations and a graphical presentation of the estimated amounts are provided on the Authority's website. The website also includes general information about pension mutual funds and contributors can observe and compare the returns of pension mutual funds and alternative investment instruments.

Source: IOPS Members.

104. In the Netherlands, the national pension tracking service, an initiative of the pension sector and a pension portal that enables members of pension schemes to view their accrued pension benefits online, is subject to supervision by the AFM.

105. Belgium offered an interesting experience on the national database of supplementary occupational pensions called "DB2P<sup>105</sup>" which became accessible from October 2016. The database, managed by a public entity, Sigedis<sup>106</sup>, contains information on pension schemes (e.g. scheme rules) and regarding individual pension entitlements, as well as aggregate data. For every occupational pension scheme, members will be able to access information in four key domains: 1) acquired pension rights at retirement, based on past service (vested benefits), 2) the present value of the vested benefits; 3) expected benefits (information mandatory from 2016) and 4) death benefits. Sigedis does not compute any of these amounts. All amounts are calculated and declared by the pension institutions and in principle should be identical to the information available in their annual benefit statements. The law on supplementary pensions does not define assumptions on future returns (important for DC schemes), meaning that pension institutions can apply their own. The FSMA and Sigedis worked closely together for the development of the database. The FSMA is represented in a working group (together with other DB2P users (public entities) and pension institutions) which translates legal requirements into technical declaration standards. The FSMA also advises Sigedis on the way the data will be presented to the public on the website, with the aim of improving comprehensibility). Finally, the FSMA uses DB2P data as a starting point for its supervisory actions in relation to occupational pension institutions, which also requires close co-operation.

106. In a number of IOPS jurisdictions<sup>107</sup>, benefit projections are offered by pension providers usually as a part of *benefit statements* in accordance with legal or supervisory requirements, using a number of

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<sup>105</sup> <https://www.db2p.be/>

<sup>106</sup> <https://www.sigedis.be/>

<sup>107</sup> AU, AT, CL, CO, HU, IL, JM, LT, MU, MX, PK, PT, CH, TZ.

assumptions. In Australia, the ASIC has given relief<sup>108</sup> to enable superannuation trustees to put retirement income projections in periodic statements for members. If a trustee is relying on the current relief available from the Authority, then certain assumptions set out in the Authority's relief must be used<sup>109</sup>. In Austria, the Authority has issued an Information Requirements Regulation for *Pensionskassen* (entities providing workplace pensions) which contains detailed requirements on the provision of pension projections. The Authority has also issued Minimum Standards for Informing the Beneficiaries of *Pensionskassen*. In Lithuania, the legislation allows the use of calculators within certain assumptions set out legally. The fund manager, however, may decide whether to use the calculator to draw the projections or not. In the FYR of Macedonia, pension projections for mandatory pension plans are offered only when members fulfil the requirements for old-age pension. The MAPAS and the Supervisory Insurance Authority prescribe the methods of pension projections and amount of benefits (programmed withdrawal or annuity) for periods of 10 and 20 years<sup>110</sup>. In Mauritius, benefit statements are required by law to include information on projected pension benefits. However, the law does not prescribe the calculation methodology and assumptions. The Mauritian Authority checks these calculations either when dealing with complaints from members or during on-site inspections. In Mexico, pension estimation is included in PBS, which considers different pension scenarios with different amounts of voluntary savings. In Romania, current legislation forbids entities to publish or to make assumptions on future benefits prior to the issuance of the pay-out phase legislation.

107. In Albania, pension law sets an obligation on the management company to include pension projections in the *information prospectus* which include examples showing different age scenarios and how the age variable affects potential contribution levels. The FSA of Albania approves the prospectus of each pension fund, including checking the calculations of pension projections.

108. In Italy, pension plans are required to provide members with pension projections according to the *standardised assumptions set by the Authority*, COVIP, at the stage of joining a plan as a part of the 'pre-contractual' information and then every year on the basis of actual members' personal information (contribution rates, accumulated balances, etc.). COVIP assumptions are also used as a part of benefit statements and presented on pension plans' websites<sup>111</sup>.

109. Special attention should be given to avoiding the situation where a wide range of calculators is available in a market-place, each offering different projections. This may potentially lead to greater confusion in understanding future expected benefits. A supervisory authority offering a single online web-tool for pension projections or elaborating a coherent methodology (assumptions) for producing projections for pension providers should be seen as a desirable solution.

### ***III.3. Information about default options***

110. In view of individuals' disinterest and inertia in relation to pension matters, in a number of jurisdictions, defaults (default pension schemes and default investment funds) are seen as a critical policy

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<sup>108</sup> This relief is permissive. There is currently a debate at the Governmental level as to whether there should be mandatory requirements.

<sup>109</sup> <http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-229-superannuation-forecasts/>

<sup>110</sup> MAPAS prescribes the method of projections of the pension benefits and of the amount on the individual account at the end of the 10 and 20 years period for programmed withdrawals. Supervision Insurance Agency, prescribes the method of projections of the pension benefits at the end of the 10 and 20 years period, for annuities, according to the rules and assumption relevant to the approach for projection of the pension benefits to be taken as programmed withdrawals.

<sup>111</sup> For more information, see the PowerPoint presentation by Ambrogio Rinaldi and Simone Ceccarelli on the IOPS/COVIP Seminar held in Rome, on 26 February 2016, [www.iopsweb.org](http://www.iopsweb.org).

measure to engage individuals with private pensions and facilitate members' decisions to save for retirement<sup>112</sup>. In jurisdictions, where default options are available, Authorities are undertaking efforts to make savers aware of available *default options*. This is done through monitoring information disclosure by pension services providers and providing information themselves on the possible advantages and drawbacks of defaults through their web-sites.

111. The most common approach consists of Authorities requiring pension providers to divulge information on a default investment fund and its strategy. About one-third of the Authorities<sup>113</sup> mandate pension services providers to disclose information on the available default investment fund(s) and their strategy, and six Authorities<sup>114</sup> require information disclosure on default contribution rates. The results of the survey show that only a handful of Authorities publish on their websites information on default investment funds<sup>115</sup> and default pension schemes, including low-cost schemes/products<sup>116</sup>.

112. One possible explanation of the results above is that in the majority of surveyed jurisdictions, there are either no default options or requirements for disclosing information about default options do not exist. This appears to be an area where further joint work by regulators and supervisors should be pursued to offer carefully crafted default options and efficient communications accompanying them. The role of the supervisors may consist of monitoring and assessing compliance whether pension providers offer consumers full information on the available default options as well as to provide the information, with supporting explanatory/educational material on the Authorities' websites or through other communication channels. These efforts could further contribute to clarifying the purpose/use of default settings to consumers, enhancing their understanding of whether they suit their needs and encouraging consumers to make active choices where necessary.

#### ***III.4. Actions of pension supervisors to ensure that the information disclosed to consumers is understandable***

113. The disclosure of information is regarded as one of the key supervisory tools to help ensure greater consumer protection, particularly in the pension sector, where complexity and the need for long-term savings deter consumers from engagement.

114. The survey highlighted efforts by the Authorities to improve the accessibility and facilitate the use of disclosed information, such as by requiring the standardisation of information contained in factsheets and pension benefit statements, providing electronic comparison platforms and pension projections. These are important initiatives and should be further encouraged.

115. Yet it is equally important to verify whether consumers understand and use this information to make their decisions. The OECD recommends<sup>117</sup> that disclosed information should be presented in as simple a format as possible and be made easy to understand. The new Dutch legislation requiring pension providers to offer the employees with pension information in three layers (The Retirement 1-2-3) is an

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<sup>112</sup> For more information on default investment funds, see IOPS Working Paper N°18, 2012.

<sup>113</sup> AL, AU, AT, BW, CL, HK, HU, IE, MT, MU, MX, PK, TR.

<sup>114</sup> AU, AT, CO, GH, MX, NA.

<sup>115</sup> AU, CL, CO, HK, MX.

<sup>116</sup> AU, AT, CL, CO, MX.

<sup>117</sup> OECD, *Recommendation of the OECD Council on Good Practices for Financial Education relating to private pensions* (2008).

interesting development in this area<sup>118</sup>. In the UK the FCA, using the results of behavioural economics, is considering ways<sup>119</sup> of how to help firms to communicate most efficiently and to provide the key information to consumers that could empower them to make effective pension choices. The FCA expectations are that the firms, by means of communication tests and trials with consumers, could convey and deliver (also through innovative techniques) essential information using plain language, in a clear and short format, including bullet points and graphs. In the same way, work undertaken by the National Employment Savings Trust (NEST) with the elaboration of eight ‘Golden Rules’<sup>120</sup> on communication with a new generation of savers offers valuable insights on communication techniques on pension matters.

116. Disclosure can also be further improved by customising it to the average consumer experience and/or through the provision of personalised, made-to-measure information. Initiatives taken by the Authorities in Chile<sup>121</sup>, Mexico, and the UK<sup>122</sup> to ensure that consumers receive more personalised information either at the point of sale or as a part of pension benefit statements, but also with a help of special public web-portals are examples of developments in this area.

117. The IOPS survey revealed that in only a few jurisdictions<sup>123</sup> the supervisor is actively involved in re-evaluating and re-designing the disclosure requirements and provided documents. Such a review is done in certain jurisdictions through consumer testing. This approach goes beyond the minimum benchmark set in most jurisdictions as it involves potential consumers in the design of disclosure forms and thereby increases their comprehensibility. Use of these techniques would likely result in disclosure formats or requirements which cater to different types of individuals and hence would make the material relevant to a broader population. Consumer testing was also an important element in the development of the KID under the EU PRIIPS Regulation by the European Supervisory Authorities aiming to offer ‘retail-investor-friendly’ information on the relevant investment products. The Authority of FYR of Macedonia (MAPAS) commissioned in 2015 a telephone survey on the opinions of the mandatory pension fund members with respect to the understanding of the statements on retirement savings that they received in green envelopes or by e-mail<sup>124</sup>.

118. Other jurisdictions re-evaluate their disclosure requirements through the use of focus groups. In Mexico, CONSAR forms focus groups to examine the effectiveness of the information provided to consumers. CONSAR has conducted different studies and surveys to evaluate the knowledge and perception of workers affiliated to the private pension system; in particular regarding returns, and fees and services of the pension fund managers. The latest survey recognises that workers have little knowledge about performance and fees. The perception of the information presented on the PBS has nevertheless

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<sup>118</sup> The new legislation in the Netherlands in force as of 1 July 2017 will require pension information to be presented in 3 layers: *Layer 1* is a summary of the pension scheme (a “5 minute read”) which only deals with the most important characteristics of the scheme; *Layer 2* offers more details (a “30 minute read”) and *Layer 3* consists of various documents (such as full pension scheme document, annual report and other statutory documents). All information conveyed in layers 1 and 2 should also be available in layer 3.

<sup>119</sup> FCA, *Starter consumer communication*, DP 15/5, June 2015.

<sup>120</sup> <https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/golden-rules-of-communication.pdf>

<sup>121</sup> The Chilean Pension Regulator and J-Pal were awarded a product test grant by the Global Financial Inclusion Initiative (IPA). The project aims to explore the impact of offering personalised information about pensions (via an online pension simulator) on long-term savings and employment decisions by members of the pension system. Project timeline: 2014-2016.

<sup>122</sup> Key Features Illustration Factsheets.

<sup>123</sup> AU, CL, CR, GH, MK, MX.

<sup>124</sup> The results of the survey were used for internal supervisory purposes and are not publically available.

improved. Focus groups noted that workers had a better understanding of the switch process since the new switching format was implemented.

119. Against this backdrop, another important point is worth mentioning. Even when the information is well presented in a simple way and is well understood by the targeted group, it does not necessarily positively influence pension behaviour. Recent research shows<sup>125</sup> that even very simple information conveyed in a plain message influenced the behaviour of only a small fraction of consumers. These findings lead to the conclusion that the provision of information is necessary but not at all sufficient to make people take appropriate decisions<sup>126</sup>.

120. In addition to disclosure, other more intrusive measures or regulations (tools) could be considered by supervisors and policy makers. These can be:-

- requiring or mandating opt-in for certain financial products that appear to be difficult to understand (e.g. default annuitisation, investment portfolios) or banning the choice all together;
- using defaults (providers (pension schemes), investment policies, contribution rates etc.) – with pension supervisory authorities still needing to ensure that the information on these products is available and is simple to understand;
- favouring collective solutions (such as collective purchase or insurance of annuities; defaults designed for a group of employees) instead of individual ones to take into account the needs of the group. Employers and pension funds should co-operate to make sure the solutions offered are meaningful;
- introducing salient information in electronic RBS or online pension web-tools (personalised pension, information that helps to visualise and understand risk as well as engage people with retirement). Consumer research can be used to help determine and improve the effectiveness of disclosure requirements.

#### **IV. Financial Education and Awareness**

121. The G20/OECD HLP 5 states that “...*financial education and awareness should be encouraged as part of a wider financial consumer protection and education strategy, be delivered through diverse and appropriate channels, and should begin at an early stage and be assessable for all life stages.*”

122. International evidence and research (e.g. Chan and Stevens, 2008) shows that individuals have low knowledge about financial matters in general<sup>127</sup> and about pension systems and retirement savings in particular. This outcome is prevalent in all researched jurisdictions regardless of their level of economic development. This is a particularly worrying fact and a major policy concern as pension systems are being reformed and, increasingly, retirement wealth will depend on individual decisions on how to save for old age<sup>128</sup>.

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<sup>125</sup> DNB Working Paper N°360, *Is Information Overrated? Evidence from the Pension Domain*, December 2012 and experience from Mexico on pension fund members transfer decisions.

<sup>126</sup> An example of Mexico: 50% of members who decided to change funds in recent years actually moved to worse-performing funds even though they had been shown the net-of-cost performance ranking.

<sup>127</sup> OECD/INFE, *Survey of adult financial literacy competencies*, 2016.

<sup>128</sup> Atkinson A. et al., *Financial Education for Long-term Savings and Investments: Review of Research and Literature*, OECD, 2015.

123. Public authorities attempt to reduce the detrimental effect of low knowledge and understanding of pension issues by organising general national strategies for financial education (FE), including the introduction of financial education in schools programmes as well as through more targeted initiatives<sup>129</sup>. There is a growing body of literature that finds financial literacy positively relates to retirement planning (Ameriks, Caplan and Leahy, 2003; Behrman et al., 2010; Lusardi, 2009; Lusardi and Mitchell, 2011) and increases individuals' understanding of particular aspects of pension systems such as pension management fees (Hastings and Mitchell, 2011), investment - leading to higher risk-adjusted investment returns (Clark, Lusardi and Mitchell, 2015) and makes individuals value annuities versus lump sums consistently (Brown, Kapteyn and Mitchell, 2016)<sup>130</sup>.

124. It is important to underline that financial education should not be regarded as a substitute but rather as a complement to strong financial and pension sector regulation and supervision and adequate consumer protection policies. At the same time, pension supervisory authorities should remain conscious about how much consumer protection can be achieved through financial education programmes. They could be put to use over long periods of time without their effectiveness becoming clear. And so, the availability of carefully crafted default options, initiatives limiting individual choices and the simplification of pension products as well as specific supervisory measures such as risks warnings, bans on complex products and control of marketing materials could be seen as important solutions to facilitate individuals' decision-making and offer an enhanced consumer protection regime.

125. This section looks at the role and main recent initiatives of pension supervisory authorities in increasing awareness and knowledge about private pensions with a special focus on consumer protection and the results achieved, drawing also on previous work by the IOPS in the area<sup>131</sup> and ongoing OECD/INFE work<sup>132</sup>. The section also takes stock of the research conducted by other international organisations, such as IOSCO<sup>133</sup> on investors education and protection.

126. Three-quarters of the responding Authorities<sup>134</sup> have a mandate for the provision of financial education programmes on private pension matters, whilst in a number of jurisdictions<sup>135</sup> they contribute to the elaboration of such programmes and work in close co-operation with other public authorities and stakeholders responsible for provision of financial education on private pension matters.

127. The types of awareness or financial education programmes developed by the Authorities depend on a particular type of pension system and the needs and capacities of the targeted audience. The goals and emphasis of the financial education programmes differ in mandatory (or quasi mandatory) pension systems compared to voluntary pension systems. The latter ones may require more intense educational efforts with

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<sup>129</sup> OECD/INFE, *High level Principles on National Strategies for Financial Education* endorsed by G20 Leaders in 2012, as well as G20/OECD publication in 2013.

<sup>130</sup> See the presentation by Olivia Mitchell at the Research seminar held in Paris on 8 June 2016, <http://www.oecd.org/daf/fin/private-pensions/researchchallengesforglobalpensionstrendsandheterogeneity.htm>.

<sup>131</sup> IOPS Working Paper N°2: *Supervisory Education, Outreach and Communication, including Training of Trustees*, 2007 and IOPS Information Paper N°1 *Pension Supervisory Authorities and Financial Education: Lessons Learnt*, 2011.

<sup>132</sup> <http://www.oecd.org/finance/financial-education>.

<sup>133</sup> IOSCO, *FR21/2015 Sound Practices for Investment Risk Education*; *FR06/2015 Survey on Anti-Fraud Messaging*; *FR09/14 Strategic Framework for Investor Education and Financial Literacy*.

<sup>134</sup> AL, AM, AU, BE (occupational and personal), BW, BG, CO, CR, GH, HU, IN, IL, JM, KE, LT, MK, MW, MT, MU, MX, NA, NG, PK, PL, PT, RO, RS, ES, TZ.

<sup>135</sup> BU, CL, IE, SK.

the aim to change attitudes and perceptions and encourage consumers to make active decisions to join private pension arrangements either on an individual basis or through an employer.

#### ***IV.1. Public information and awareness campaigns***

128. In most jurisdictions, ongoing public information and education campaigns are conducted to promote understanding and awareness of the changes taking place in pension systems. These types of programme, primarily informative in their nature, could be considered to have only a relatively limited effect on consumer protection.

129. In some jurisdictions, distinct approaches were followed using insights from behavioural economics to financially educate the general public based on a perceived level of interest and willingness to engage with private pension matters. For instance, in Hong Kong, China, separate programmes were developed targeting the general public at large and those persons who are “keen to know”. For the general public, basic and simple messages are delivered via mass media (including both print and television) and e-platforms (e.g. websites, mobile phone apps, online social media, etc.) to suit their information appetite and attention span. For the “keen to know”, customised workshops are held which allow for face-to-face delivery of information on specific topics such as investment strategies or retirement planning. Both groups represent the membership of mandatory pension funds<sup>136</sup>.

130. Recent research illustrates the limits of public information campaigns aimed at improving knowledge about policy reforms and affecting individual decisions on retirement. Finseraas et al. (2014), using the results of a survey experiment on pension reforms in Norway<sup>137</sup>, demonstrated that while in a short period (one week) there were some positive effects of an information campaign on the respondents’ knowledge about the pension system, in the longer run (four months later) there was no sustained effect.

131. In this instance, the OECD<sup>138</sup> underlines that governments and public authorities should ensure that financial education and awareness campaigns on pensions are available for individuals on an ongoing basis. Short-term pension communication campaigns are deemed to be insufficient to improve the financial knowledge of individuals about pensions. When pension communication campaigns are launched, it is preferable that they should be part of broader ongoing national financial education programmes that target the entire population from the pre-employment category to retirees<sup>139</sup>. It is also of critical importance that financial education starts as early as possible in an individual’s life, ideally from primary schools or kindergartens (as is the case in Hong Kong, China).

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<sup>136</sup> More information can be found at <http://minisite.mpfa.org.hk/mpfie/en/index.html>.

<sup>137</sup> Henning Finseraas and Niklas Jakobsson, *Does Information about the pension system affect knowledge and retirement plans? Evidence from a survey experiment*, JPEF, Volume 13, Issue 3, July 2014, pp 250-271. Henning Finseraas et al., *How Effective are Public Information Campaigns? Results from a Survey Experiment on the Norwegian Pension Reform*, under review in JPEF.

<sup>138</sup> OECD, *OECD Recommendation on Good Practices for Financial Education relating to Private Pensions*, March, 2008;

<sup>139</sup> OECD/INFE, *High-Level Principles on National Strategy for Financial Education*, endorsed by the G20 leaders in 2012; Atkinson, A. et al. (2012), *Lessons from National Pensions Communication Campaigns*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 18, OECD Publishing.

*Modes of delivery:*

132. Previous IOPS and OECD/INFE work shows that financial education/awareness programmes take a large variety of formats and are delivered via different channels and platforms. The present survey highlighted that:

- (i) innovative channels such as social media platforms (Facebook, Twitter, YouTube, Pinterest, Google +) are increasingly used by Authorities in relation to specific target audiences e.g. young adults.
- (ii) Authorities' websites present the main source of impartial and reliable information with respect to the protection of members' rights and interests. Portals devoted to financial education matters have been created on the Authority's website in a number of jurisdictions (Israel<sup>140</sup>, Lithuania<sup>141</sup>, Pakistan).
- (iii) dedicated pension or general financial consumer websites, online platforms or centres for consumers<sup>142</sup> have been created by public authorities with the objective to develop and improve financial skills and/or provide guidance to consumers (e.g. Pension Wise in the UK, which provides free guidance about options in retirement to DC plan members). Supervisory authorities have a key role in creating or contributing to the development of such websites and online platforms, monitoring their operation and providing consumer information to the website.
- (iv) targeted FE programmes for employees or around major consumer issues, e.g. a national programme to combat pension scams in the UK.
- (iv) FE programmes in schools is another important area to which the Authorities<sup>143</sup> contribute, in particular through the elaboration of educational and teaching materials to develop understanding and knowledge on pension matters from an early age<sup>144</sup>.
- (v) training programmes for pension services providers are developed with the support of supervisory authorities. They can be organised both on business practice and consumer protection issues.

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<sup>140</sup> <http://haotzarsheli.mof.gov.il>

<sup>141</sup> [www.pinigubite.lt](http://www.pinigubite.lt)

<sup>142</sup> Consumer websites were created in: Australia: MoneySmart website (<https://www.moneysmart.gov.au>); Belgium: Wifikin – general consumer website and the database Sigedis, Bulgaria: <http://www.tvoitefinansi.bg/>, available only in Bulgarian; Israel: “My Finance”; Malta: consumer portal, Mymoneybox (<http://www.mymoneybox.mfsa.com.mt/>); Mauritius: (<http://www.protectyourfinance.com>), the Netherlands: Wijzer in Geldzaken (Wiser in money issues, <http://wijzer.nu/>), Portugal: Portal for Consumer Support, South Africa: [www.mylifemymoney.co.za](http://www.mylifemymoney.co.za); the United Kingdom: Pension Wise (<https://www.pensionwise.gov.uk/>), etc. Pension System Awareness Centre was created in Armenia.

<sup>143</sup> AU, ASIC: financial education in schools, which includes acquiring knowledge on the selection of superannuation funds, HK, JM, LT, MK, PT, RO, TZ.

<sup>144</sup> For more information, see OECD/INFE *Financial Education for Youth. The role of schools*, including INFE/OECD *Guidelines for Financial Education in Schools*, 2014.

### **Box 8: Pension Education in Hong Kong, China**

In Hong Kong, China, the MPFA uses a variety of innovative channels to deliver messages about private pensions and educate consumers on retirement saving and investment.

#### *Social media platforms*

The MPFA uses largely online social media platforms including the Authority's Facebook fan page "Rolling My Money"<sup>145</sup>, of which prime targets are students and young working people. Also, MPFA TV, a YouTube channel, was launched in January 2014 to showcase MPF messages via videos that are similar in format to other popular shows (cooking shows, game shows etc.). The videos have been arranged to telecast on different media (including TV, outdoor screens, websites, smartphone applications.).

In view of the rising popularity of online social media, not only among the younger generation but also older adults in Hong Kong, China, a new Facebook fan page "Workplace Incredibles" (<https://www.facebook.com/WorkplaceIncredibles>) was launched in August 2015. This new fan page aims to disseminate messages on MPF investment to working adults who have an appetite for online social media. Apart from the MPF messages, tips on achieving better work-life balance and a healthy lifestyle are offered there. The Authority is working to make the MPF messages more appealing to Facebook users by presenting the information in an interesting and light-hearted manner.

#### *Cartoons and comic strips*

Other innovative educational initiatives taken by the MPFA include the use of cartoons and comic strips to promote mandatory pension fund investment education messages. These include both print and animated cartoons. "Maggiology" has been used to develop comic strips explaining MPF investment messages in plain language and with light-hearted graphics. The cartoons are used in a mobile application, on websites, in print media, and on the Authority's Facebook page.

#### *Mobile telephone applications*

A new mobile application for the working population<sup>146</sup> was launched by the MPFA in November 2015. It aims to motivate the public to start their retirement plans and savings early. The application helps users to set up a personal saving plan according to their retirement needs, and facilitates the close monitoring of progress. The key features of this application include:-

- (1) A retirement planning calculator which assesses whether retirement savings will be enough to meet a consumer's retirement needs and helps to set up a saving goal;
- (2) A spending tracker which logs consumer's income and expenses and keeps him/her on track with a saving plan;
- (3) A shopping list which encourages a consumer to compare prices before making a purchase and tells how much a consumer can afford to spend based on his/her current income and expenses.

#### *Financial education in schools*

Special FE programmes were created for different youth groups from kindergarten children to students in tertiary institutions, for whom special educational materials were designed by the MPFA by drawing reference to the school curriculum developed by the Education Bureau. Different programme formats with appropriate breadth and depth of messages were tailor-made for different groups. The formats include: competitions and online social media programmes for tertiary students, money-management drama-cum-workshops for secondary school students; money management workshops and task books for primary school students; and story books for kindergarten children. The MPFA usually teams up with working partners such as non-profit organisations which are experienced in conducting financial education and school programmes, to use their expertise, school network and human resources in conducting

<sup>145</sup> <https://www.facebook.com/rollingmymoney.mpf>

<sup>146</sup> [http://www.mpfa.org.hk/eng/mpf\\_education/youth\\_corner/tertiary\\_institution/activities/smartphoneapp.jsp](http://www.mpfa.org.hk/eng/mpf_education/youth_corner/tertiary_institution/activities/smartphoneapp.jsp)

school programmes for different age groups.

Parenting programmes are also organised for parents of primary school students and kindergarten children to enhance parents' awareness and educate them on money management skills including retirement planning and MPF investment through FE activities for their children.

Source: MPFA, Hong Kong, China.

#### ***IV.2. Targeted financial education programmes carried out by pension supervisors***

133. Although academic literature and empirical research results are mixed with regards to the overall impact of financial education on retirement saving behaviour, research also demonstrates that targeted FE initiatives via well-devised and piloted delivery channels have an impact on individuals' attitude and behaviours. In addition, evidence shows that greater financial literacy affects retirement savings, implying savvier investment decisions and saving behaviour<sup>147</sup>.

134. Targeted programmes are considered to be one of the promising fields where financial education brings positive effects. As highlighted by Lusardi and Mitchell (2014), programmes which target specific groups (such as women, the self-employed) appear to be more effective than 'one-size-fit-all' financial education programmes. Some of the targeted programmes organised by Authorities were directed at:

##### *(i) Employees*

135. US academic research (Lusardi, 2004; Clark and D'Ambrosio, 2008) documented the positive impact of financial education on the saving behaviour of employees in the context of the organisation of retirement seminars in the workplace in US firms. Some other experts, as showed by Atkinson, A. et al.<sup>148</sup>, found disparate effects of interventions delivered at workplace.

136. In Hong Kong, China, to support the launch of the Employee Choice Arrangement, a new format of retirement planning workshops in the workplace was launched in early 2015 to encourage members to actively manage their MPF and plan early for retirement. In the workshops, a certified financial planner (CFP) shares the basic concepts and factors to consider when making retirement planning. Participants of the workshop are also guided to use the MPFA's newly launched mobile application for retirement planning plus a range of other tools available on the MPFA website, e.g. Fee Comparative Platform, Trustee Service Comparative Platform, etc. The MPFA organises and bears all costs. A survey questionnaire is conducted after each workshop to gauge participants' feedback.

137. The MPFA also organises special education activities targeting self-employed persons ("SEP") in various industries (such as mini-bus and taxi drivers) with the aim of reminding them about their MPF obligations. These included organising outreach events where information was delivered to them in person. Letters and leaflets on SEP's MPF rights and obligations were sent directly to SEP and to relevant unions and associations for distribution to their members. Seminars were also tailor-made for SEP persons to join for free.

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<sup>147</sup> Lusardi A. and Mitchell O., *The Economic Importance of Financial Literacy: Theory and Evidence*, Journal of Economic Literature 2014, 52(1), pp. 5-44.

<sup>148</sup> Atkinson A. et al., *Financial Education for Long-term Savings and Investments: Review of Research and Literature*, OECD, 2015.

(ii) *General consumers*

138. Other targeted initiatives organised by the Authorities are education/communication campaigns around a major issue or problem related to private pensions that may potentially affect a large number of consumers. Thus, in the United Kingdom, pension scams<sup>149</sup> were identified as a scourge of the industry, having the devastating financial and social impact of losing much of an entire working life's retirement savings, in particular for the most vulnerable pension savers. In 2014, the Pension Regulator (TPR) reported that the problem affected millions of savers and the total amount of funds paid into pension scams could be at least £495m but probably more, as not all activity is reported<sup>150</sup>. Changes introduced by the "Pension Freedom" rules in 2015 on consumer choices, notably the ability to take cash out of schemes early, has called for increased supervisory attention.

139. To combat pension scams, the UK Government has established a 'multi-department, multi-agency group of officials to help co-ordinate action to tackle scams, monitor trends and share intelligence on emerging threats',<sup>151</sup> supported by a large-scale awareness and education programme involving key public agencies<sup>152</sup> with active engagement from the industry. TPR plays a key role in this nationwide programme and has contributed through launching "Scorpion", an awareness campaign. Communication efforts on pension scams have been reinforced by the actions taken by the FCA, who launched in 2015 the 'ScamSmart' media campaign. The FCA cited increased consumer contact as evidence that the campaign was reaching the targeted audience. At the same time, the Authority believes that more can be done to tighten and supplement public campaigns by working more with the financial industry, in particular pension providers, to combat fraud. Offering more education about scams and including information about investment scams under the current retirement risk warning system are among the avenues being considered. The issuance by the pension industry of the Code of Practice – Combating Pension Scams<sup>153</sup> (2015) - aimed to provide guidance to trustees and scheme administrators in following the due diligence process to determine the appropriateness of pension transfers and ways to raise member awareness of pension scams. This complements and reinforces the discussed above governmental measures.

140. The SEC of Pakistan has recently launched an education campaign targeted at investors to increase their knowledge of financial products, including private pension funds, via a series of seminars organised in the country and a web portal on the supervisor's website<sup>154</sup>.

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<sup>149</sup> Fraudulent offers made to members to access their pension pot as a lump sum or a loan before the legal minimum age of 55 that could result in consumers' uncompensated loss of their entire retirement savings and significant tax penalties. Also the offers made to individuals around age 55, interested in benefitting from recent changes introduced by the Pension Freedom Law, to transfer their retirement savings into unregulated investment vehicles, often overseas, with a promise of exceptionally high returns or other forms of pensions scams are of danger to consumers and can cause irreversible damage.

<sup>150</sup> The Pension Regulator, *Pension scams – a lifetime's savings lost in a moment*, 24 July 2014.

<sup>151</sup> [www.parliament.uk](http://www.parliament.uk), *Pension Freedom guidance and Advice Contents, Scams*.

<sup>152</sup> The awareness campaign is led by the Department of Work and Pensions, the Pension Regulator, the Pension Advisory Service, Money Advice Service, Financial Conduct Authority, Serious Fraud Office, HM Revenue and Customs, Action Fraud, National Crime Agency and City of London Police.

<sup>153</sup> <http://www.combatingpensionscams.org.uk/>

<sup>154</sup> <http://www.jamapunji.pk/>

### ***IV.3. Assessing the effectiveness and efficiency of the FE programmes provided by pension supervisors***<sup>155,156</sup>

141. Evaluation is regarded as an essential element of any FE campaign. The OECD recommends that the evaluation process includes pre-campaign research, regular monitoring and evaluation of programmes using both quantitative and qualitative tools<sup>157</sup>. It should aim to assess the effectiveness (i.e. the impact and to what extent the objectives were achieved) and efficiency (i.e. the value for money and how budget was spent) of educational programmes and assists in deciding their future direction and priority target groups. The assessment of the effectiveness of FE programmes and the choice of tools to best measure the impact of recent initiatives remain challenging. Atkinson et al.<sup>158</sup> outline the key elements of effective financial education initiatives for long-term savings and investments: (1) programmes of sufficient duration and frequency; (2) programmes provided at work; (3) combining evidence and incentives to save; (4) strategically timed interventions that link the provision of financial education with important life-cycle events such as changing jobs, marrying, or having children; (5) using technology and media to make financial education more engaging; (6) combining FE programmes with other interactive pension tools (pension calculators, guidance websites, etc.); (7) giving greater attention to salient presentation of information – for example, being confronted with a picture of themselves in old age may make young people save more for retirement.

142. The responding Authorities employ the following methods to evaluate the effectiveness of their FE programmes:

**Surveys:** identified as the most common tool used in about one-third of the responding jurisdictions<sup>159</sup>. In Hong Kong, China, the assessment uses a benchmarking survey completed every two years to assess the extent to which key investor education messages are getting through. In Kenya, the RBA conducts Deep Stick Surveys.

**Monitoring dedicated consumer websites** (Australia, ASIC), which includes the measurement of website hits and public contacts.

**Questionnaires** distributed during the FE seminars organised by the Authorities (Hong Kong, China, Jamaica, Macedonia). These evaluation questionnaires collected during the seminars form the basis for assessing the impact of these events for internal supervisory use.

**Focus group study** to evaluate education programmes on a need basis.

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<sup>155</sup> See OECD/INFE work on evaluation of FE initiatives: principles, framework welcomed by G20, checklist and database of programmes and the *OECD Pensions Outlook*, 2016, Chapter 5, The Role of Financial Education in supporting decision-making for retirement.

<sup>156</sup> The Chilean Pension Regulator and J-Pal were awarded a product test grant by the Global Financial Inclusion Initiative (IPA). The project aims to explore the impact of offering personalised information about pensions (online pension simulator) on long-term savings and employment decisions by members of the pension system. Project timeline: 2014-2016.

<sup>157</sup> Atkinson A. et al., (2012), *Lessons from National Pensions Communication Campaigns*, OECD Working Papers on Finance, Insurance and Private Pensions, No. 18, OECD.

<sup>158</sup> Atkinson A et al., (2015), *Financial Education for Long-Term Savings and Investments, Review of Research and Literature*, OECD.

<sup>159</sup> BE (personal), BW, HK, JM, LT, MK, MW, MU, (RO), TZ.

143. The responses to the report survey indicate that in a large number of jurisdictions, the Authorities do not perform impact evaluations of their FE programmes. In some jurisdictions this may be linked to the fact that there are other authorities with an explicit mandate for the provision of FE programmes which conduct such assessments (e.g. Spain).

## V. Responsible Business Conduct of Pension Services Providers and Authorised Agents

144. At the international level, new emphasis on the conduct of business by financial institutions was given on the initiative taken by the G20 Finance Ministers and Central Bank Governors in February 2011, who called upon the OECD and other international organisations to elaborate common principles on consumer protection in the field of financial services. The G20 High-Level Principles on Financial Consumer Protection developed by the OECD in close co-operation with other international institutions lay down the basis for the responsible and accountable actions by financial services providers and their agents, and cover other key areas where oversight bodies have an explicit role for financial consumer protection.

145. When offering products and services to consumers, pension services providers and authorised agents, including financial advisers<sup>160</sup>, are expected or have a responsibility to act in prospective clients' best interests<sup>161</sup>. *Members' interest* is understood here in terms of achieving an adequate retirement income for the level of risk taken<sup>162</sup>. Responsible business conduct for pension providers and the authorised agents engaged in conducting sales and marketing activities is generally encouraged by the endorsement of *legal (prudential and conduct) requirements*<sup>163</sup>. It is also promoted through the adoption of the *codes of business conduct*, which could be of statutory nature (enforceable), as in Mauritius or Malta, or more often voluntary (good practices) issued by industry organisations.

146. Supervisory authorities have a major role in monitoring and contributing to the enhancement of business conduct by pension services providers and their agents. As already mentioned, quite distinct issues arise from, and different regulatory solutions are taken, with respect to consumer protection in the systems with occupational pension plans and (voluntary or mandatory) personal pension plans. In personal pension arrangements, consumers need to make complex decisions and choices. They are more exposed to dealing with intermediaries, and this may call for *enhanced conduct and integrity requirements* on providers and their agents as well as stricter controls and enforcement actions on the part of supervisory authorities.

147. Most importantly, as highlighted in the IAIS issue paper on Conduct of Business Risk and its Management, at the same time as developing a solid legal and regulatory framework that promotes sustainable and competitive markets and also ensures the protection of consumers' rights and interests, supervisory attention should be paid to avoiding a "tick the box" approach "*with entities focusing mainly*

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<sup>160</sup> For more information on policy and regulatory measures taken to help consumers to receive appropriate financial advice for retirement, see Chapter 3 of the *OECD Pensions Outlook 2016*.

<sup>161</sup> When dealing with consumers, they should act fairly, honestly, professionally and with due skills, care and diligence.

<sup>162</sup> However, recent initiatives by various industry and governmental bodies related to addressing climate change indicate that the notion of the members' best interests may also include this and other social aspects when investing pension assets.

<sup>163</sup> E.g. such as minimum standards, governance rules, fit and proper (suitability) requirements, fiduciary duties, rules addressing conflict of interests, etc.

*on achieving minimum regulatory compliance rather than fully considering customer outcomes across their business and ensuring that the culture of fair treatment is embedded*<sup>164</sup>.

148. The majority<sup>165</sup> of the responding Authorities are involved in supervising business conduct and/or general compliance with consumer protection requirements by pension services providers and authorised agents. In a number of jurisdictions, depending on the structure of the regulatory framework, the competence for regulation and supervision of the market conduct of financial entities (including pension services providers and authorised agents) and provision of financial advice lies within the market conduct authorities<sup>166</sup> (e.g. in Twin Peak systems as in Australia, the Netherlands and the UK) or other competent authorities (Hong Kong, China and Romania).

149. Approximately one-third of the responding Authorities<sup>167</sup> are not responsible for overseeing the conduct of business activities due to the nature or the state of development of the pension system (e.g. there are occupational schemes where no direct contractual relationship exists between the pension entity and the individual/consumer, no individual choice is offered, or the systems are at an early stage of development).

150. This section reviews the measures taken by supervisors to enhance the business conduct of a broader range of pension services providers (not only intermediaries<sup>168</sup>) and focuses on initiatives considered to be successful, e.g. have contributed to improved business conduct practices in private pension systems.

#### ***V.1. Fit and proper assessment***

151. Both the 2008 Global Financial Crisis and a series of conduct failures leading up to the Crisis pointed to the need for a culture change in the financial industry. This applies in particular to those with high-level responsibilities in the management of financial institutions, who are expected to be more accountable for their actions. Pension plans or schemes fail rarely, but can do so indirectly by not delivering promised retirement income. These failures are mostly caused by shortcomings in governance and risk management practices. As highlighted by the OECD Core Principle 3, one of the ways of avoiding “*some of the worst governance failures could be (...) through higher levels of expertise amongst members of the governing body*”. It can be observed that in a number of IOPS Members’ jurisdictions, a range of policy measures are taken to further strengthen governance requirements<sup>169</sup>, placing emphasis on qualification requirements, duty of care and accountability of the senior management of financial services providers and trustees.

152. As part of the efforts to improve the governance practices of pension funds, suitability requirements in particular for those with key responsibilities (trustees or senior management) have been

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<sup>164</sup> IAIS, *Issues Paper on Conduct of Business Risk and its Management*, November 2015.

<sup>165</sup> AL, AM, AT, BE (personal), BW, BG, CL; CO, CR, GH, HU, IL, JM, LT, MU, MX, NG, PK, RO, RS, SK, ES and TZ.

<sup>166</sup> Replies to the IOPS questionnaire were provided by the competent authorities – the ASIC for Australia and the AFM for the Netherlands.

<sup>167</sup> BE (occupational), IN, HK, MK, MT, NA, PG, PL, PT, RO, CH, TR and TT.

<sup>168</sup> For supervision of pension intermediaries, see the IOPS Working Paper N°17.

<sup>169</sup> Example of Australia, where the Superannuation Legislation Amendment (Trustee Governance) Bill 2015 introduced a requirement for the registered superannuation entities to have a minimum of one-third independent directors and an independent chair on the governing boards. This will also provide for a greater diversity of skills and experiences among board members to serve members’ best interests.

tightened in Australia<sup>170</sup>, Mauritius, the Netherlands<sup>171</sup>, Portugal and elsewhere. The Directive IORP (II) introduced the requirement for the persons running IORPs to be collectively fit and proper and the persons with key functions, such as the risk management function, internal audit function and actuarial function, to possess adequate knowledge, experience and the necessary professional qualifications to enable the sound and prudent management of IORPs. The same applies to persons or entities to which key functions were outsourced.

153. Fit and proper assessment is the one of the main supervisory mechanisms for determining the suitability of candidates and evaluating their expertise and individual qualities. As outlined by the IOSCO Fit and Proper Assessment - Best Practice<sup>172</sup>, “*the maintenance of fit and proper standards is essential to ensuring that business activities of the financial sector are conducted with high standards of market practice and integrity*”. The IOSCO underlines the importance of assessing fitness and propriety, both at the stage of licensing or authorisation and repeatedly, to take into account the ongoing conduct of business and compliance history with legal requirements and industry codes. When assessing fitness and propriety, the financial supervisors are expected to review matters in three broad areas: 1) competence and capability; 2) honesty, integrity, fairness, ethical behaviour and 3) financial soundness<sup>173</sup>.

154. In the pension area, Authorities in most jurisdictions require pension service providers and their agents to demonstrate that they meet the fit and proper criteria and qualification requirements set in legislation *as a part of the licensing/approval process*<sup>174</sup> and then assess their conduct on a regular (annual) basis. In practice, in some jurisdictions Authorities are engaged and monitor closely the tests that sales agents need to pass. In Chile, the Authority needs to be informed in which university or similar institution tests for individuals applying to become sale agents are organised, the methodology used, a test itself and the results obtained by applicants. The Authority also monitors the compliance by the AFPs with the requirement to train their sales personnel.

155. Mexican supervisor CONSAR authorises service providers' registration only if they have passed the tests of validation and revalidation. A third-party body is in charge of testing and certifying the agents. Tests must consider, among other issues, the topics approved by CONSAR. As a part of its supervisory activities, the Authority can at any time check by itself or through third-party control tests whether the agents comply with the required technical capacities. Once the licence has been granted, the Authorities continue to check whether the providers and their agents comply with the fit and proper standards or requirements. In Romania, the authorised agents must retake examinations regularly and in Chile, the Superintendence of Pensions can randomly test them to assess their knowledge and impose fines in the case of poor knowledge of pension legislation.

156. In Australia, Authorities adopted a more principles-based approach. Prudential standards issued by the APRA<sup>175</sup> under the licensing provisions do not prescribe particular professional qualifications but include minimum individual requirements for responsible officers as well as the requirement for directors, collectively, to have necessary skills, knowledge and experience. The accent is put on expectations as to

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<sup>170</sup> <http://www.apra.gov.au/Super/PrudentialFramework/Documents/SPG-520-Fitness-and-Propriety.pdf>.

<sup>171</sup> The Law 2015 on supervisory boards introduced requirements for increased competence levels and professionalism among pension board members in the Netherlands, in order to deal with the challenges and increasing complexity facing pension funds.

<sup>172</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD312.pdf>

<sup>173</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD312.pdf>

<sup>174</sup> This requirement is explicitly stated in AL, AU, JM, PK, PT, ES.

<sup>175</sup> <http://www.apra.gov.au/Super/PrudentialFramework/Documents/SPG-520-Fitness-and-Propriety.pdf>

the contents of a trust's fit and proper policy as well as the requirements for the implementation of a trust's fitness and propriety assessment processes. Establishing policies on suitability and propriety and conducting collective and individual self-assessment ultimately remain the responsibility of trustees in Australia. When conducting an assessment of compliance with the standards, APRA focuses mainly on checking the policy and processes that trustees have put in place to ensure that the requirements are satisfied on an ongoing basis and are regularly reviewed.

157. In other countries, the checks are done *after the licence has been granted*. The FME in Iceland conducts a thorough examination in respect of knowledge of legal and investment aspects related to the operation of pension funds of the proposed pension fund's Board Members and Managing Director after or in parallel with the licensing process. This is considered to be the most challenging and difficult part of the final approval process. If the criteria under examination are not met, pension funds are required to select new board members and present them for approval by the FME.

### ***V.2. Approval of the content of contracts or pre-contractual information***

158. Pre-contractual information provided to potential consumers is of critical importance<sup>176</sup>, in particular for unexperienced consumers, as the misperception of this information may negatively affect retirement outcomes for members and beneficiaries.

159. In a number of jurisdictions<sup>177</sup>, the (minimum) content of contracts or pre-contractual information between either employer or member and pension entity is regulated by law (as in Poland) or needs to be approved/monitored by the Authority (e.g. Colombia, Lithuania and Portugal). The Financial Superintendence of Colombia prescribes a minimum content of pension contracts.

### ***V.3. Approval and monitoring of marketing strategies and sales practices***

160. Marketing strategies and promotional activities is another particular area of supervisory attention. Marketing strategies can promote and support the selling of pension products and services. However, direct unsolicited calls or visits to potential consumers who are unexperienced and financially unsophisticated could result in people purchasing inappropriate and expensive products. The role of pension supervisors may involve closely evaluating and monitoring the new products entering the market, as well as the marketing and advertising strategies used by the pension services providers and their agents for existing and new products.

161. In some countries such as the FYR of Macedonia, the law prohibits pension companies and their employees and agents from giving false and inaccurate information through statements, written material, advertisements or any other promotional material. In Poland since 2012 the law prohibits pension companies in the previously mandatory pension system (open pension funds) to advertise or to use sales forces to contact pension fund members. The active acquisition of clients is therefore not possible.

162. A large majority of the Authorities<sup>178</sup> have an explicit mandate or role overseeing the marketing and sales practices of pension services providers and authorised agents. The monitoring of marketing

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<sup>176</sup> Pre-contractual information for financial services. *Qualitative study in the 27 Member States, Summary Report*, European Commission, January 2008.

<sup>177</sup> CO, LT, PT, SK.

<sup>178</sup> AL, AM, AU, AT, BE personal, BW, BG, CL, CO, CR, CZ, GH, HU, IN, JM, KE, LT, MK, MW, MU, MX, NG, NL, PK, PT, RO, RS, SK, ES and TZ.

activities may include *a power to ban or request a correction of certain advertisement campaigns* using misleading or false information (as has been exercised by the Bank of Lithuania).

163. In five of these jurisdictions<sup>179</sup>, the Authorities must *approve marketing material or advertisement campaigns* before these can be published in any media and in the FYR of Macedonia, the Authority approves the marketing material within three days after its publication. In case MAPAS considers that an advertising or written marketing material may be misleading, the Authority can, by a decision, to ban further publication or distribution and order the publication of a corrected material.

164. The Superintendence of Chile and CONSAR in Mexico have *issued regulations governing the advertising activities of pension fund administrators* and to oversee compliance with these rules through advertisement examinations. In line with the recent EU legislative framework for markets in financial instruments (MiFID 2)<sup>180</sup>, at the initiative of the Belgium FSMA, important regulatory measures were recently adopted in Belgium to improve the pre-contractual information provided in relation to financial products to retail clients. The FSMA undertakes a priori control of the marketing materials for the investment funds and a posteriori control of the marketing materials for insurance products (Box 9).

#### **Box 9: New rules on marketing of financial products to retail consumers in Belgium**

**The Marketing Royal Decree** entered into force on 12 June 2015. The Decree regulates any type of marketing activities of all types of financial products to retail clients (including voluntary personal pension arrangements). The Decree introduces a requirement to provide retail clients, free of charge, and before making their investment, with a standardised factsheet. All factsheets must be approved by the FSMA before they are distributed to clients. The requirement to provide a factsheet does not apply to certain types of financial products. In relation to collective investment schemes (including pension savings funds), the provision of the Key Investment Information Document (KIID) satisfies the requirement of a factsheet.

**The factsheet** should contain a brief, standardised and easy-to-understand description of the characteristics of the product in order for potential investors to understand (i) the nature of the product and (ii) the main risks involved. The Decree sets specific requirements in relation to the content of the factsheet and contains standardised templates of factsheets for a certain type of financial product. It also introduces detailed rules on the use of historical performance, awards, ratings and comparisons in advertisements. The factsheet should be updated and made available to investors. Responsibility for the factsheet lies with both the product manufacturer and the distributor.

Financial products banned under the scope of the Product Ban Royal Decree, which entered into the force on 1 July 2014, are not authorised for marketing purposes to retail clients.

**Online marketing of Non-mainstream Financial Products:** The FSMA has issued a communication on the online marketing to retail investors of non-mainstream financial products reminding firms of their obligation to comply with relevant legislation in force when distributing this type of financial products.

The FSMA regulation on **product labelling** requires a 'product label' to be included in the factsheet and in the marketing material of financial products marketed to retail clients.

Source: <http://www.allenoverly.com/publications>

165. In Pakistan, all advertisements and invitations to the public must contain a *risk disclaimer* stating that investments in pension funds are subject to market risks and that all investors are advised to read the available documentation carefully before investing. The main risks associated with investment in a pension fund are outlined in detail in the offering document.

<sup>179</sup> BE (pers.), MX, NG, PK and RS.

<sup>180</sup> Directive 2014/65/EU on Markets in Financial Instruments and Regulation (EU) No 600/2014 on markets in financial instruments, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014R0600>.

166. The National Pension Commission of Nigeria brought the *issue of mis-selling* by agents marketing pension products to retirees. This is a case where agents give incorrect information to potential consumers as their remuneration is based on the number of customers they are able to attract.

#### ***V.4. Supervisory techniques in overseeing business conduct activities***

167. In general, the main responsibility of the Authorities with regard to the surveillance of business conduct by the pension services providers or the authorised agents consists of ensuring compliance with statutory (legal) and specific supervisory requirements<sup>181</sup>.

##### *Supervisory investigations*

168. *Identifying emerging risk, risk assessment and communication to the industry and public together with supervisory expectations and measures taken:* The IAIS highlights<sup>182</sup> the importance of putting in place an *early detection of conduct issues* through the monitoring of business practices to identify any distribution problems that may be attributed to failures or weaknesses in internal governance, controls, insufficient knowledge and preparedness of financial services providers and their agents. For example, in the UK the Risk Outlook was published in 2015/2016 as a part of the FCA Business plan with the aim of demonstrating how analysis of conduct of business risk is linked to the regulatory actions and supervisory measures taken to achieve stated objectives.

169. Drawing from IOPS Members' experiences, one of the supervisory approaches to increasing efficiency in overseeing the conduct-related business practices of licensed entities in the absence of a separate market conduct authority consists of the creation of a dedicated conduct supervisory unit within the supervisory authority (as is the case in the MFSA, Malta). The unit operates in a pre-emptive supervisory regime, aiming to identify and address potential risks for financial consumers, as well as increasing the surveillance of the regulated entities to ensure that they treat consumers fairly<sup>183</sup>.

170. *On-site and off-site inspections* are the most prevalent techniques used by the Authorities to monitor business conduct and compliance with general consumer protection requirements. It was noted that some reviews are undertaken *on a risk-profile basis*. High-risk entities are selected for reviews, while other matters are reactive (i.e. *based on complaints* received or reports of misconduct).

171. In Belgium, the FSMA has been carrying out *thematic inspections*, supported by a specifically developed supervisory methodology which is applied systematically and in a standardised way during the inspections. The central theme of the inspections conducted in 2012-2013 was compliance with conflict of interest rules<sup>184</sup>. The findings of inspections as regards conflicts of interests were discussed in a general note addressed to the sector. The main conclusions were that a significant number of undertakings fail to comply in a satisfactory manner with these rules<sup>185</sup>.

172. Another common approach taken in several Authorities<sup>186</sup> is *mystery shopping* to check the quality of service or advice given as a part of ad-hoc controls. In Belgium, as a result of the Twin Peak

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<sup>181</sup> AM, HK, JM, MU, MX, LT and SK.

<sup>182</sup> IAIS, *Issues Paper on Conduct of Business Risk and its Management*, November 2015.

<sup>183</sup> For more details on the structure and operation of the unit see the MFSA *Annual Report 2015*.

<sup>184</sup> The FSMA carried out on-site inspections of regulated entities representing at least 53.5% of the assets of retail clients to whom investment services are being offered in Belgium.

<sup>185</sup> *The FSMA Annual Report, 2013*.

<sup>186</sup> AU, BE (personal), LT, MX, ES, SK, TR.

reforms, the FSMA was given the power to use mystery shopping within the framework of both its supervision of compliance with the rules of conduct and to protect financial consumers against illegal offers as well as to access certain parts of websites that are normally only available to clients.

173. Some jurisdictions, like Israel, employ other techniques, such as pro-active *auditing*. In Ireland, the Pensions Authority also conducts audits of trustees and registered administrators.

#### *Enforcement measures*

174. In the case of non-compliance with conduct rules, most of the Authorities are granted powers to take corrective measures such as giving warnings, imposing fines, withdrawing the licence or deregistering the pension service provider. These powers are also being reinforced in a number of jurisdictions (e.g. Australia, Belgium, and Hong Kong, China) in particular as part of the governmental measures aimed to enhance consumer protection. In Belgium, the powers of the FSMA to impose sanctions were extended, allowing the authority to impose injunctions and to broadcast in newspapers the act of using sanctions on financial institutions.

## **VI. Complaints Handling and Redress**

175. This section looks at the complaints handling and redress mechanisms available for consumers in the area of private pensions and at the role that the Authorities play in this process. Based on the responses to the survey, a general trend can be identified. In most jurisdictions Authorities place great emphasis on the handling of complaints and dispute resolution as critical components of the supervisory framework. Whereas generally pension-related complaints are in the first instance addressed to the pension companies or sponsor/employer pension schemes for redress, pension supervisory authorities in most cases monitor and in some jurisdictions are involved in the complaint-handling process especially with regard to occupational pension arrangements. The returns and statistics collected on complaints handling are used as an important supervisory tool for overseeing trustees and pension schemes/management companies allowing for the detection of undue conduct practices and the risks/issues they pose to consumers.

176. The typical subjects of pension-related complaints or enquiries could be summarised as follows:

- Illegal activities by an employer, e.g. late or non-payments of contributions to the fund;
- Costs and fees which have not been fully disclosed to members;
- Poor communication and lack of adequate information about funds' investment strategies and default options;
- Issues around payment of benefits;
- Fiscal issues in relation to the lump sum payments.

### ***VI.1. Main types of mechanisms available to pension consumers for complaints handling***

177. In almost all of the responding jurisdictions<sup>187</sup>, the most common avenues for handling complaints or resolving disputes are the internal dispute resolution mechanisms available within a pension company or sponsor/employer pension scheme. If neither party is satisfied with the outcome of a

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<sup>187</sup> AL, AM, BE (occupational and personal), BW, BG, CL, CO, CR, GH, HK, HU, IN, IE, IL, JM, LT, KE, MK, MW, MT, MU, MX, NA, NG, NL, PK, PG, PL, PT, RO, RS, SK, ES, TZ, TT, TR.

settlement procedure through the internal dispute resolution mechanism, in most of responding jurisdictions there is a possibility to address a complaint to an ombudsman or other entity. In some jurisdictions a complaint can be sent to the Authority. Almost all jurisdictions allow consumers to take (civil or criminal) actions in courts or appeal tribunals.

178. Most commonly, pension legislation<sup>188</sup> or other legal acts include provisions for complaints-management procedures to be in place within pension schemes/management companies. The legislation also usually outlines the type of offences applicable for complaints handling under specific circumstances.

179. In some jurisdictions, such as Hong Kong, China, the Authorities have introduced specific requirements or guidance for the efficient and prompt handling of complaints. The MPFA has issued with respect to mandatory pension occupational arrangements *compliance standards* that require approved trustees to have in place measures that enable the proactive and timely management of complaints from scheme members and participating employers.

180. In Jamaica, the legislation requires that trustees, administrators and investment managers maintain in their institutions a *complaints register* which should meet prescribed minimum standards.

*(i) Internal dispute resolution mechanisms*

181. In most jurisdictions, in line with legal requirements, the complaints-handling mechanisms and procedures are stated in pension scheme/management company rules or trust deeds. It is common for a pension scheme/management company to have a *special unit* to record, respond to questions and deal with complaints brought by plan members or beneficiaries.

182. In Colombia, a Pension Fund Administrator Ombudsman and a Deputy must be appointed for a (renewable) two-year period by an Assembly of the AFP's shareholders. The Ombudsman and the Deputy are the employees of the AFP whose duties include resolving freely and objectively any claims coming from a member or beneficiary.

183. In Malawi, trustees are mandated to put in place a complaints resolution mechanism and resolve members' complaints within 60 days. If not satisfied, members can come to the Authority for redress.

184. In the Netherlands, complaints about a pension provider (a pension fund, an insurer or a premium pension institution) are submitted to the provider's complaints board (*Klachtencommissie*), if one exists. Unsatisfied participants may lodge a complaint to the Pension Ombudsman.

185. In Nigeria, pension fund administrators (PFAs) are required to establish customer open telephone lines through which individual account holders can communicate their problems to the PFAs.

186. Generally, information on complaints-handling processes and mechanisms is available from the pension services provider. In one-half of the responding jurisdictions<sup>189</sup>, this information is also published on the Authority's website. In some jurisdictions, this information can (or must) also be available in pension contracts or offering documents (KID) and brochures to make the customers aware of the complaints-handling mechanisms before they sign a contract.

187. Not all jurisdictions establish a requirement to provide information about complaints-handling mechanisms to consumers before signing the contract. In Spain this information is provided orally. In the

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<sup>188</sup> Specifically in AM, CR, SK.

<sup>189</sup> AT, BW, BG, CR, GH, HU, IL, JM, KE, LT, MK, MT, MU, NA, PK, PO, PT, RO, RS, SK, TZ.

Slovak Republic there are no legal obligations for pension companies to inform consumers about the complaints-handling mechanisms available before signing the contract or becoming a member of a pension scheme. To inform consumers, the National Bank of Slovakia published on its website the information on the available routes for making and processing complaints.

188. A large majority of jurisdictions<sup>190</sup> have mechanisms in place to keep consumers informed of the status of their complaints either through providers and/or Authorities' websites. Authorities usually have defined timelines within which they have to submit a reply to the consumer<sup>191</sup>. For more complex cases the timeline can be extended and the reasons for this delay communicated to consumers.

189. Based on the responses from the questionnaire, some very approximate estimates can be derived about the handling of complaints. The majority of complaints, 60–70%, in the responding IOPS jurisdictions are actually resolved within the pension provider whilst approximately 20% are escalated to the Authority. In the event of the Authority failing to satisfactorily resolve the dispute in question, it is further referred for arbitration either to an independent tribunal or the courts. The portion of complaints reaching the courts or an arbitration tribunal seems to be below 10%.

*(ii) A specialised unit in the Authority*

190. In most of the responding jurisdictions<sup>192</sup> a dedicated unit/department within the Authority is set up to monitor or in some cases to handle complaints or resolve disputes. Only three responding jurisdictions indicated that there is no such unit in their Authorities. A complaint could be lodged with the Authority directly by a member or by a public-interest organisation on behalf of fund members, as is the case in Poland. There appears to be an even balance among the responding IOPS jurisdictions, with about half having a dedicated complaints department while others handle complaints as part of their risk-based supervisory regimes.

191. Not all Authorities are entitled to resolve the dispute between a financial organisation and a consumer, but certain may apply sanctions (e.g. fines) on the financial organisation. As reported by the National Bank of Slovakia, although complaints can be lodged with the National Bank, only courts are entitled to decide on consumers' individual cases.

192. In Austria, any claims for damage by consumers who have suffered losses have to be made by means of legal action through civil courts. The role of the FMA is to follow up every complaint and check whether systemic irregularities have occurred. To assist complainers, the FMA established a *complaint-handling and consumer hotline* to provide information about the legal options and ensure that all information received in relation to any undesirable developments or potential breaches of supervisory standards is followed up.

193. In the Netherlands the supervisor (AFM) does not deal with individual complaints. However, the Authority signals and collects complaints, which is an important part of its monitoring activity as its risk-based supervision is partially based on certain trends that may emerge from complaints.

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<sup>190</sup> AU, BW, BG, CL, CO, CR, GH, HK, HU, IL, JM, LT, MK, MW, MT, MU, NA, NG, NL, PK, PT, RO, RS, SK, ES, TZ, TR.

<sup>191</sup> In some cases, the timeliness of complaints processing is one of indicators of performance evaluation of the supervisory body (cf. IOPS Working Paper N°10 on *Governance and Performance Management of Pension Supervisory Authorities*, pages 31, 34).

<sup>192</sup> AL, AM, AT, Belgium (occupational only), BW, BG, CL, CO, CZ, GH, HK, HU, IS, IN, IE, IL, JM, LT, MK, MW, MT, MU, MX, NA, NG, PK, PO, PT, RO, RS, SK, TT, TZ, TR.

194. In Mexico, when a consumer addresses an information request or a complaint to CONSAR, the Authority initiates a procedure by assigning a number, referring the worker to the AFORE (private pensions administrator), and monitoring the process until the AFORE gives a resolution. To facilitate this process, CONSAR has established an IT system called System of Supervision of Consumer Service (SISAT).

195. Under certain national circumstances (such as in jurisdictions with a relatively limited number of pension funds/providers), a *complaint unit within the Authority* can play an important role in settling the process by offering more cost-effective and swift ways for complaints to be solved. This avoids resolving complaints in the courts, which can be a time-consuming, expensive process for a consumer. Iceland offered the experience where insurance and financial complaints are dealt with by the Complaints Committee of the FME and currently consideration is being given to enlarging the scope of this Committee and also entrusting to this unit the occupational pension-related complaints. In Jamaica, consumers are able to direct pension complaints to the Investigation and Enforcement Division of the FSC. The division will conduct an investigation into the complaint and provide a response to complaints.

*(iii) Third-party or alternative dispute resolution mechanisms*

196. Third-party resolution mechanisms in relation to pension complaints exist in about one-third of the responding jurisdictions<sup>193</sup>. These alternative dispute resolution (ADR) services are provided by a third party. ADR offer an alternative to solving a dispute directly with the pension company or through the courts. The main benefit of alternative dispute resolution mechanisms is that they are quite easy to use and are less expensive than addressing a complaint to the court. ADR could also be used for cross-border complaints (e.g. intra-EU cases). Ten jurisdictions<sup>194</sup> have a system in place for dealing with cross-border complaints.

197. There are two main channels for the ADR: mediation and arbitration. In mediation, both parties agree to use a neutral third party (a mediator or ADR body) to help to resolve a dispute. Generally, the decisions of a mediator are not legally binding but can become so if both parties agree with the decision. In the arbitration process, both parties consent to go to an arbitrator to resolve issues. The decision of the arbitrator is legally binding and the process is regulated by the law.

198. In Malta, the agreement of the parties concerned is necessary to use a third-party resolution mechanism. In the Slovak Republic, the legislation allows pension companies to enter into an agreement with consumers according to which their dispute might be decided by arbitrage tribunal or third-party resolution mechanism.

199. In Switzerland, complaints related to pensions are dealt with only through third-party resolution mechanisms and courts. There is also an independent association<sup>195</sup> that provides free information and consultations solely to members and beneficiaries on issues related to mandatory occupational pension schemes. The offices of the association operate in nine cities. Information and consultations are offered only at face-to-face meetings with consumers.

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<sup>193</sup> AM, CR, GH, HK, IN, JM, KE, MK, MT, NA, NL, RO, SK, ES, TT

<sup>194</sup> BW, CL, CO, GH, JM, IE, MK, MT, NG, TZ.

<sup>195</sup> [www.bvgauskuenfte.ch](http://www.bvgauskuenfte.ch)

200. In about one-third of the responding jurisdictions<sup>196</sup>, arbitration tribunals exist to deal with pension complaints. In the Czech Republic, a state-run arbitration tribunal is available for consumers of financial services. In addition, other (private) arbitrators may be agreed between the pension provider and clients.

201. In Malta, following the adoption of the Financial Services Act in 2016, complaints in relation to financial services providers (including pensions) fall within the remit of the Financial Services Arbiter<sup>197</sup>. The Arbiter is empowered to investigate cases (going back to 2004) and make legally binding decisions on consumer complaints about financial service products. The Arbiter can also order monetary compensation of up to EUR 250,000 from financial providers.

202. In a number of jurisdictions<sup>198</sup>, there is a range of organisations and agencies that can help consumers to deal with complaints, if they have not been resolved in a satisfactory manner by a pension scheme/management company or sponsor/employer. These may involve (or not) the participation of the Authorities. The involvement of the Authority in certain jurisdictions depends on whether or not the complaint is about an occupational pension.

#### *Other public authorities*

203. In some jurisdictions, complaints about private pensions that are not resolved by a pension scheme/management company or employer/sponsor are referred to other public authorities, involved specifically in settling private pension or financial sector related complaints. For instance, in Armenia, a grievance can be sent in writing to the tax authorities. In addition, a participant or beneficiary may appeal to the financial system mediator irrespective of the fact of submitting the inquiry or the complaint to the tax authorities. In Australia, the Superannuation Complaints Tribunal<sup>199</sup> (SCT) was established by the Australian government to deal with complaints about decisions and conduct of trustees of superannuation funds and their insurers. If the complaint falls outside the scope of the SCT, the consumer may have a right to take their complaint to the Financial Ombudsman Service (FOS). In Israel, a Public Complaints Unit was established.

204. In Mexico, the National Commission for the Protection and Defence of Financial Service Users (CONDUSEF) is the ultimate authority regarding financial consumer complaints. Complaints of users that have not resolved their issues with AFOREs are transferred to CONDUSEF. In the event the Commission does not reach a solution directly with the AFOREs, it passes the case to CONSAR. When CONSAR receives the complaint, the Authority follows the complaints resolution process fully. There is a legal co-operation agreement between CONDUSEF and CONSAR to jointly follow all complaint cases.

205. In the Netherlands there is a national Financial Services Complaints Institute called KIFID<sup>200</sup> that deals with complaints about pension insurance products which tend to be more technical.

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<sup>196</sup> AM, CR, CZ, GH, HU, JM, KE, PK, PO, PT, RO, RS, SK, ES, TT, TZ.

<sup>197</sup> Previously, complaints from consumers of financial services were dealt by the Consumer Complaints Unit of the Malta Financial Services Authority (MFSA). As a part of the recent legislative changes, the MFSA made a recommendation to the Government to set up a specialised, single and independent dispute resolution authority.

<sup>198</sup> AM, BE, BG, CR, IS, MX, CH, TT.

<sup>199</sup> <https://www.sct.gov.au/>

<sup>200</sup> <http://www.kifid.nl/>

## *Ombudsman*

206. In Belgium both the FSMA and the Insurance Ombudsman are involved in dealing with complaints concerning occupational pensions, whereas complaints relating to personal pensions are reviewed by the Insurance Ombudsman and the Ombudsman on Financial Conflicts. In Ireland also, the involvement of a particular public authority in the complaints handling process depends on whether the complaint is about a state pension, an occupational pension scheme, a retirement annuity contract or a personal retirement saving account (PRSA)<sup>201</sup>.

207. In the Netherlands the special Pension Ombudsman offers advice that is not legally binding yet often followed by pension providers. Complaints and disputes can also be referred to the Ombudsman in Israel, Pakistan and the UK. In Pakistan, the Insurance Ombudsman is the main authority for handling disputes related to private pensions. Additionally, complaints could also be referred to the Authority (SECP). The Ombudsman investigates complaints and instructs the correction of deficiencies. In the UK, consumers continue to benefit from access to a complaints body (the Financial Ombudsman) and a compensation body (the Financial Services Compensation Service) for complains of misconduct by firms or redress against insolvent firms in regard to eligible claims.

### ***VI.2. The role of pension supervisory authorities in the complaints-handling process***

208. In the jurisdictions where the Authorities have a role in the complaints-handling process, the supervisory attention is directed:-

- *At the level of the pension scheme/management company or trustees through the oversight of complaints handling and dispute resolution mechanisms:-*
  1. to ensure that a complaint procedure is in place, well publicised (including via websites, offices, documents provided to consumers), easy to access and understand. These could be statutory requirements prescribed by the pension law. In Australia, Bulgaria, Pakistan and Serbia, supervisors ensure that the dispute resolution process is disclosed in the key information document (or a similar document) by a pension scheme or fund;
  2. to monitor whether the established complaint procedures are duly followed by the companies and complaints are dealt with in an equitable, objective and unbiased manner;
  3. to check if the pension plan/management company or trustees accurately collect, record and analyse information on complaints. Analysis of complaint information by pension services providers could be used to identify and implement improved practices for consumers. In Australia, trustees have to collect complaint-related information (records of complaints) which the APRA and ASIC could ask for as part of the supervision process;

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<sup>201</sup> If a complaint is about a personal pension, consumers can contact (apart from the provider) the Financial Services Ombudsman's Bureau or the Central Bank of Ireland. If a complaint is about a personal retirement savings account, consumers can contact (apart from the provider) the Pensions Authority, the Office of The Pensions Ombudsman, the Financial Services Ombudsman's Bureau or the Central Bank of Ireland. In case of a complaint about an occupational pension scheme, consumers can contact (apart from the employer, the administrator of the plan, the trustees of the plan), the Pensions Authority and the Office of The Pensions Ombudsman. Any complaints or problems in respect of state pension entitlement or any other social welfare entitlement are dealt with by a number of contactable bodies in Ireland, including the Social Welfare Appeals Office.

- *At the level of the Authority:*
  4. to make available on the Authorities' website<sup>202</sup> and/or by establishing consumer hotlines: information on complaint-handling; procedures and the formalities of lodging complaints and the role of the Authority in handling complaints, if applicable.
  5. to keep the consumer aware of the status of their complaints<sup>203</sup> (usually in addition to the information provided by trustees or management company/pension fund);
  6. to collect (mainly through pension services providers or other channels) and publish information related to pension-related complaints on the Authority's website or Annual Report (number and nature of complaints received, cases resolved or still pending, new cases, main decisions taken by the Authority during the year, etc.<sup>204</sup>) either in total numbers or on a more granular basis<sup>205</sup>.
  7. to monitor the number and nature of complaints received and use this information to adopt supervisory responses;
  8. generally to contribute to enhancing knowledge about the pension system and pension rights, including dispute-redress mechanisms, through a wide range of activities (e.g. consumer education programmes).

209. A large majority of the responding Authorities<sup>206</sup> collect and examine information on pension-related complaints on a regular basis provided by pension funds. Complaints data collection and analysis offer valuable insights to supervisors with respect to undue market practices. This information helps to identify potential concerns and risks for poor consumer outcomes and take appropriate supervisory actions.

210. However, based on the Members' replies to the questionnaire, it is evident that some Authorities still publish very limited or no data at all on pension-related complaints. This finding concurs with the conclusions of the international review of published financial consumer complaints data undertaken by the OECD<sup>207</sup>. Authorities in about one-quarter of responding jurisdictions<sup>208</sup> do not publish any data on

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<sup>202</sup> AL, AM, AU, BW, BG, GL, CO, CR, CZ, GH, HK, IL, LT, PK, PL, PT, SK, ES.

MPFA, Hong Kong, China website provides:

- the details of lodging complaints against trustees with MPFA and MPFA's roles and policies on handling complaints: [http://www.mpfa.org.hk/eng/main/contact\\_us/complaints/trustees/index.jsp](http://www.mpfa.org.hk/eng/main/contact_us/complaints/trustees/index.jsp)
- the list of trustee hotline number to the public for lodging complaints: [http://www.mpfa.org.hk/eng/main/contact\\_us/files/List\\_of\\_Trustees\\_Hotline.pdf](http://www.mpfa.org.hk/eng/main/contact_us/files/List_of_Trustees_Hotline.pdf)

<sup>202</sup> [http://www.lb.lt/consumer\\_protection](http://www.lb.lt/consumer_protection) and <http://www.pinigubite.lt/mano-teises>, Lithuania

<sup>203</sup> CR, CZ, HK, RO, SK.

<sup>204</sup> BW, CR, GH, IL, MK, MT, MU, PK, PL, RS, TZ publish all this information.

<sup>205</sup> CMISD, Israel, from 2015-2016 will start publishing the annual ranking of complaints regarding the pension industry.

<sup>206</sup> AT, BE (occupational), BW, BG, CL, CO, CR, CZ, GH, HK, HU, IL, JM, LT, MK, MW, MT, MU, NA, NG, NL, PK, PL, PT, RO, RS, SK, ES, TZ, TR.

<sup>207</sup> OECD, *International Review of Published Financial Consumer Complaints Data*, OECD, 2016

<sup>208</sup> AL, AM, BE (personal), HK, MW, NG, PG, CH, TT, TR.

pension-related complaints (in some cases this can be the task of another public entity). Publication on the Authorities' websites of data on pension complaints and the information on the way they were resolved/Authorities' decisions taken can serve as a useful source of information and guidance for pension consumers as well as national financial consumer protection policy makers and regulators. The OECD Recommendations<sup>209</sup> on the financial consumer complaints data research highlight the importance of the adoption of a harmonised classification for complaints data (by type of financial product) and encourage the publication of such complaints data.

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<sup>209</sup> OECD, *Financial Consumer Complaints Data Research: Recommendations and Options for Future Work*, OECD, 2016;

## VII. Conclusions

211. In recent years, especially in the aftermath of the 2008 Global Financial Crisis, consumer protection is receiving increasing attention from the public authorities. In the pension area, important transformations in pension provision have increased the responsibility of individuals for retirement planning and savings. Public authorities, including pension supervisory authorities, have a major role to play in helping individuals to make informed decisions related to their retirement and in protecting them through the promotion of strong rules and reinforcement of proper standards of market conduct. Pension supervisors also ensure that firms put the interests of consumers at the centre of their business.

212. Regardless of the regulatory and supervisory structure adopted in various jurisdictions, the pension supervisory authorities remain greatly involved in maintaining and enhancing consumer protection. This is especially relevant in the systems where private pensions offer the main source of retirement income and also where individuals are confronted with a number of choices.

213. Taking the G20/OECD High-Level Principles of Financial Consumer Protection and Effective Approaches as a basis, the report identifies and discusses the areas that are the most relevant from the pension supervisory perspective: 1) the mandate and role of supervisors in ensuring consumer protection, 2) disclosure and transparency; 3) financial education and awareness; 4) responsible business conduct of pension services providers and their authorised agents, and 5) complaints and redress.

214. The legal framework governing consumer protection matters in the pension area varies considerably in the IOPS jurisdictions. The enforcement of special law(s) dealing with financial sector consumers is still quite a rare practice among IOPS jurisdictions. Specificities of private pensions call for special provisions on consumer protection to be embedded in pension legislation. Similarly, granting the newly-established pension supervisory authorities (or those authorities which undergo important changes) with a consumer protection mandate in the area of pensions can help to ensure that the issue is covered from the very beginning.

215. Among a wide array of supervisory tasks, the licensing or registration of pension services providers and their agents as well as the approval of pension products can be seen as important measures to promote public confidence in the pension system. It seems desirable that supervisors have powers to monitor the design of pension products and services and to review their governance. This is the case in the majority of the responding IOPS jurisdictions. The pension supervisory framework may also include power to ban some of the pension products and services if they are particularly risky, complex or related to unreasonably high costs. Such a ban is present only in a few responding IOPS jurisdictions. IOPS pension supervisory authorities also ensure that the applicant entities have the necessary policies and procedures that will allow them to operate efficiently and to ensure that the pension products they offer suit the needs of members and beneficiaries. Increasingly, as a part of the licensing and approval process, emphasis is placed on the examination of the senior management and trustees to ensure that they have jointly or separately the necessary qualifications and skills to fulfil their duties.

216. Pension supervisory authorities make sure that consumers can easily access and understand the essential pension information. As a trend, regulators are setting up requirements for increased transparency, including requirements for provision of the key information in a simple and standardised format so that consumer can better understand and compare pension products and providers. These supervisory requirements cover mainly the information provided by pension services providers to consumers either via their websites or through benefit statements. In certain jurisdictions requirement for provision of simplified and standardised information relates also to pre-contractual documents (information factsheets) and could in future be also expanded to the information on retirement options, i.e. the decumulation phase.

217. It was also observed in a number of jurisdictions, that the Authorities are introducing requirements for personalised disclosures with special attention given to the content and the way information is presented or layered to consumers to foster their understanding on pension matters.

218. The report highlights that an increasing number of the IOPS Authorities are beginning to provide information through their web-tools on benefit projections, fee and costs, and historical data on returns and performance. Supervisors' websites are considered reliable and impartial sources of information for consumers. It is critically important that the Authorities regularly assess the information provided by pension services providers and the Authorities themselves; and that they measure whether consumers understand and use this information when making their decisions.

219. International research and evidence show that individuals have low knowledge about financial matters in general and private pensions in particular. To overcome or reduce the detrimental effect of low knowledge and understanding of pension issues, public authorities, including pension supervisory authorities are organising public information and awareness campaigns. They are also arranging targeted initiatives that are part of broader consumer protection policies. Financial education and awareness programmes provided by the Authorities in the IOPS jurisdictions take a large variety of formats and are delivered via different channels. Increasingly, to reach new or larger audiences, supervisors are using innovative channels such as social media, telephone applications, creation of dedicated pension or generally financial consumer websites and online platforms.

220. The review of the literature suggests that targeted financial education programmes delivered in the workplace or tailored for specific groups, such as the young, women or the self-employed, are promising fields, more effective than 'one-size-fit-all' programmes. The organisation of education campaigns around one major issue or problem that can potentially affect a large number of consumers is another type of targeted initiative aimed at increasing understanding and the protection of consumers. The report postulates that to enhance the impact of such initiatives, close co-operation among public authorities with active engagement from commercial providers is important. The Authorities should remain conscious about how much consumer protection can be achieved through these programmes and that they should be accompanied by other supervisory measures (e.g. carefully crafted default options, initiatives limiting individual choices, simplification and standardisation of pension products etc.). Supervisors need to conduct a regular assessment of the effectiveness (impact) and efficiency (value for money) of their educational programmes.

221. Recent legislative changes and the adoption of new standards (as well as industry codes) in a number of countries aim to improve governance practices, to introduce fiduciary duties and enhanced suitability requirements to protect consumers against mismanagement and questionable sales practices. The "fit and proper" assessment is one of the main supervisory mechanisms for determining the suitability of candidates and evaluating their expertise and individual qualities. The report finds that regulatory and supervisory approaches differ among jurisdictions with certain countries adopting a more principle-based approach where Authorities put focus on checking the fitness and proper policies and processes established by trustees. On the other hand, other countries focus on checking whether the senior management and governing body fulfil the criteria set in the legislation. Other areas of supervisory involvement in the monitoring of business conduct include the approval of the content of contracts or pre-contractual information. In a number of IOPS jurisdictions the Authorities exercise control or approve marketing material or advertisement campaigns. Some such Authorities have powers to ban certain advertisement campaigns that use misleading or false information.

222. The report highlights that most responding IOPS Authorities place a high emphasis on complaints handling and dispute resolution as a critical component of the supervisory framework. Complaints are mainly (in the first instance) dealt with by the pension entities. The pension supervisory

authorities in most cases monitor (through a dedicated unit/department within the Authority) and - in some jurisdictions - are involved in the complaint-handling process, especially in regard to occupational pension arrangements. The responding Authorities use information and statistics collected from supervised entities on their complaints-handling process and its results as an important tool to reveal poor practices and to adopt supervisory responses. The report finds that currently the Authorities publish limited or no data on pension-related complaints. The pension supervisors should be encouraged to publish data on pension-related complaints as they can serve as a useful source of information and guidance to consumers as well as to national financial consumer protection policy makers and regulators.

223. The findings of this report will be used for developing the IOPS recommendations on the role of pension supervisory authorities in the consumer protection related to private pension systems.

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