

Risk Based Supervision

**Solange Bernstein- Chair IOPS Technical Committee
Superintendent
Pension Supervisor
Chile**

IOPS Regional Workshop on Pension Supervision
25-26 February 2010
Istanbul, Turkey

Agenda

1. Motivation
2. Comparing Two Supervisory Models
3. Supervision Process
 1. Knowledge
 2. Assessment
 3. Follow up
4. Working Plan

RBS main objectives

Expected Outcomes

- Preventive approach
- Encourage prudential administration of supervised entities
- Focus on what is important and not the urgent
- Learning by doing of supervisory activities

RBS main benefits

Expected Benefits

- Better visibility of the areas with greatest risks
- More effective control measures and supervisory activities
- Reduce claims from members
- Alignment with international standards of regulation
- Disclosure and transparency to the market

Main changes: Comparing two supervisory models

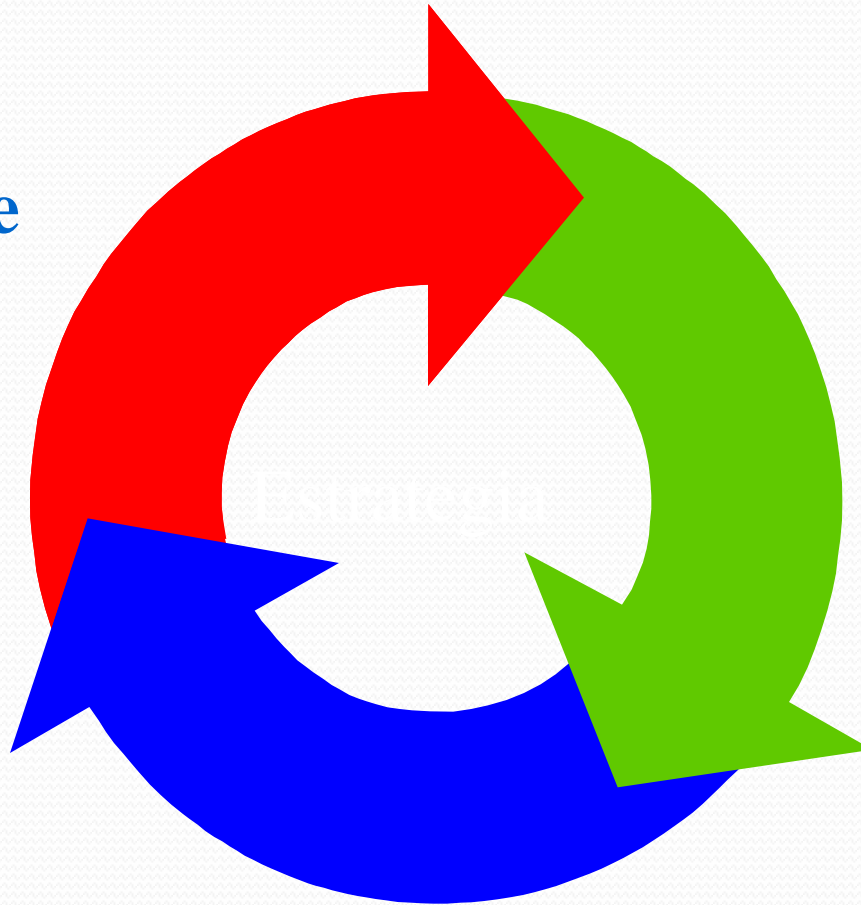
Comparing two supervisory models

	Supervision by Compliance	Risk Based Supervision
Focus	Reactive	Preventive
Priorities	All subjects	Priority to most critical and poorly evaluated areas
Resources allocation	Less flexibility	More flexibility
Transparency	Lack of knowledge of the regulator's concerns	Make explicit the mayor concerns
Supervisors	Orientation to verify compliance with norms	Enhanced analytical capacity judgment call is required

Supervisory Process

I. Knowledge

II. Assessment



III. Follow-up

Knowledge

- The main activities and elements required are:
 - Information gathering;
 - Information analysis;
 - On-site visits;
 - Integrated information system.

Assessment: Industry Risks Factors

The model considers 5 evaluation areas

Board

- Fit and Proper of Directors
- Risk Management Policy
- Board Committees
- Strategic Definition
- Reputation Risk Management
- Information Disclosure and Transparency Policy

Management

- Management Composition and Structure
- Planning, management and disclosure/transparency processes
- Management Information Systems

Risk Management

- Risk culture and internal control. Internal and external audit..
- Compliance Risk Management
- Fiduciary Risk Management

Operational Risk

- Affiliates Relationship Management Risk
- Accounts Management Risk
- Benefits Management Risk
- Technology Risk
- Business Continuity and Disasters Recovery Plan
- Outsourcing Risk

Financial Risk

- Market Risk
- Credit or Counterparty Risk
- Liquidity Risk
- Entity Solvency Risk
- Investment Process Management Risk

Assessment: Significance Weights

Significance Weights (inherent risk)

A: Critical

B: Very Important

C: Important

Assessment of control quality

Policies and Processes	In practice		
	All of the time	Most of the time	Infrequently
Highly developed	1	2	4
Minor matters need fixing	2	3	5
Major revision needed	4	5	6

1= Solid

2= Healthy

3= Adequate

4= Vulnerable

5= Weak

6= Extremely weak

Assessment: Global Scoring

- A global scoring is assigned to every supervised entity taking into consideration the inherent risk of each area, sub-area within the entity and the quality of controls for each inherent risk.
 - So, the global scoring combines the significance weights and the assessment of control quality.
- The global scoring takes values between 1 and 5.
 - A score equal to 1 → lowest net risk
 - A score equal to 5 → highest net risk
- The risk matrix looks at:
 - The risk level
 - Controls' quality
 - Global scoring
 - Change in evaluation over time

Follow up: Supervisory stance according to global scoring

Global Scoring	Supervisory Stance
1	Normal
2	Normal with minor concerns
3	Vigilance
4	Require Urgent Improvements
5	Require Intervention

Follow-up

- An end-product of the assessment efforts
- Main activities, varying intensity according to necessity:
 - Monitoring and general follow-up
 - On-site inspections focused on specific topics
 - Action Plans with the objective of improve weak points
 - Integral on-site inspections according to a predefined supervision plan
 - Periodic meetings with main executives and board of directors
 - Intervention in specified cases of insolvency.

Working Plan

■ Steps:

- 2005: Get familiar with RBS
- 2006: Diagnosis
- 2007: Design
- 2008: Development of framework legislation
- 2009:
 - Revision of methodology and improvement of supervision guides
 - Staff training (which included a visit to APRA)
- 2010: Pilot implementation