

SUMMARY RECORD

IOPS REGIONAL WORKSHOP ON PENSION SUPERVISION FOR CIS, KAVKAS AND CENTRAL ASIA REGION

The first IOPS workshop for CIS, Kavkas and Central Asia region was held in Istanbul, Turkey on 25-26 February 2010 in the framework of the IOPS out-reach activities. The event was co-organised and hosted by the Undersecretariat of the Treasury of Turkey with a valuable financial support provided by the Turkish International Co-operation and Development Agency.

Gathering around 35 participants, among them Delegates from the region - Armenia, Azerbaijan, Belarus, Georgia, Kyrgyzstan, Mongolia, Tajikistan; international experts from Canada, Maldives and IOPS Members - Albania, Australia, Chile, Hungary, Kazakhstan, Ukraine and the host country - Turkey, the workshop addressed a range of high-level policy topics crucial for establishment of sound and efficient supervisory regimes over private pension schemes which are being progressively developed in the region.

The workshop was opened by Mr. Burhanettin Aktas, Deputy Undersecretary of the Treasury of Turkey and Mr. Ross Jones, President of IOPS, Deputy Chairman of the Australian Prudential Regulation Authority (APRA), both highly welcoming the opportunity to initiate policy dialogue with senior officials from regulatory/ supervisory authorities of the CIS, Kavkas and Central Asia region, and to promote an exchange of views and experience on policy issues relating to the creation of robust and efficient supervisory models and approaches. They also noted that the event intended to encourage and assist economies from the region to implement international standards and good practices elaborated by IOPS.

As a part of the session 1, Mr. Ross Jones, APRA, introduced the standard setting activities undertaken by the IOPS and presented the Core IOPS Principles of private pension supervision, putting forward key considerations, as developed in Principles' Methodology, to be looked at by authorities when assessing their compliance with each of 10 principles. Underlining that the Principles and the developed methodology present helpful tool for countries to evaluate the efficiency of their supervisory models and techniques and identify main areas for improvement, Mr. Ross Jones encouraged the regional participants to undertake self-assessment of compliance of their supervisory regimes with the IOPS Principles and use them broadly to support national reforms plans to overhaul pension supervisory systems in their countries.

The session 2 commenced with the discussion of the impact and the policy responses to the global financial crisis on pension industry – which caused significant reduction in pension assets (5.4 trn\$) and compelled the governments to review new policies to reinforce regulatory frameworks and supervisory approaches over private pensions systems. Reiterating the long term nature of pension savings and importance of maintaining diversified approaches to pension provision, Ms. Fiona Stewart, IOPS, sketched the main areas where policy action was taken to overcome the consequences of financial crisis and further strengthen the sustainability of pension systems. These measures

included 1) introduction/strengthening social safety-nets (providing for a minimum pension), 2) reviewing funding requirements/ solvency rules for DB plans (certain countries allowing flexibility in meeting funding requirements(temporary extension of the recovery period for underfunded pension plans)); 3) work to improve DC plans' design, 4) considerations to introduce default life-cycle investment funds as well as some forms of guarantees for DC accounts; 5) increased efforts to improve governance patterns of pension funds – in particular experience of the pension funds Governing Boards and their risk-management techniques (especially with regard risky investments and when outsourcing this function to financial intermediaries); 6) setting up new requirements for better performance and costs disclosure and also 7) efforts to improve financial literacy of members and beneficiaries. On the supervisory side, the expert elaborated on measures aiming to introduce more intensive monitoring requirements, including the exercise of stress tests on pension assets, more regular on-site visits, increased reporting requirements, movement to a risk-based approach to supervision; reinforcement of co-operation among supervisors of financial sector, etc.

The session was continued with a presentation by Mr. Michael Cohen, IOPS Consultant, who elaborated on major developments and directions for change/reform tendencies in the region. The expert outlined the complex political and economic environment hampering large-scale overhaul of pension systems in the region, marked by the first wave of reforms - which in some cases remain incomplete or were interrupted/ reversed. The expert argued that when pursuing reform efforts much attention should be given to 1) the ways to reinforce the sustainability of the public pension schemes (introduction/strengthening universal pensions); 2) the choice whether to introduce complementary private DB occupational plans or DC schemes based on individual accounts, considering carefully major risks/problems associated with each model 3) the cost of various types of guarantees (particularly for pension funds operating in highly inflationary environment / or low interest rate environment). The expert also underlined the importance of introducing regulations for adequate capital requirements, ensuring sufficient investment choices for contributors (multi-funds/lifecycle approaches to investment) supported by strong disclosure requirements/financial education efforts, as well as regulatory incentives to bring informal sector in the system, etc.

Ms. Tatyana Pogonysheva, Ministry of Labour and Social Protection of Belarus, presented the main features of the Belarus pension system which is composed of mandatory PAYGO scheme, based on DB formula and supplementary public scheme for early retirement (quasi-funded) as well as voluntary pension arrangements provided by insurance companies. Ms. Pogonysheva introduced pension supervisory regimes in force and identified prospects for reforms in the pension sector in the country.

The session 3 was devoted to review of supervisory methods/approaches taken to oversee DC pension markets in four IOPS Member countries – Chile, Hungary, Turkey and Kazakhstan. Ms. Solange Berstein, Superintendent of Pensions in Chile, presented the Chilean supervisory model, its evolution (following developments in the pension industry) and discussed the key supervisory activities and main tools to mitigate risks arising in the pension system. Emphasising the high responsibility incumbent on pension supervisors in Chile due to the mandatory DC nature of the private pension system, Ms. Berstein pointed out the current priority areas which are the focus of the supervisory authority: design/control over investment options; informing/educating members of available investment choices; supervising the decumulation (payout) phase; overseeing risk management practices of pension funds; strengthening the corporate governance of pension fund administrators, etc. Special attention in the presentation was devoted to the changes in investment regulation and

establishment of default options for each age categories (life-cycle strategies), which are considered as important mechanisms to provide protection against financial risks.

Mr. Tamas Fülöp sketched the Hungarian experience, where the integrated financial supervisory authority oversees (highly concentrated) mandatory and voluntary private pensions markets. In his presentation Mr. Fülöp elaborated the main supervisory challenges faced by his authority relating to 1) efficient oversight of pension funds compliance with prudential (principle-based) regulation (vs. the previous prescriptive, rule-based regime); 2) work undertaken to improve communication between pension funds and members, which is supported by the introduction of more rigorous disclosure requirements (including of investment policies and strategies, investment portfolios' risks, performance returns, portfolio switching costs, etc.) and general efforts to improve members' financial literacy; and 3) oversight of pay-out stage to start from 2013 –a completely new area for Hungarian supervisors.

The presentation of Mr. Selamat Yazici focused mainly on the supervisory priorities relating to voluntary DC private pension schemes, the role of which in financing the retirement of Turkish citizens is constantly increasing. Special supervisory attention is being placed on monitoring: the competition between pension companies processes of fund transfers between pension companies; investment risks and range of investment products available, early lapses, etc.

Finally, Ms. Mariya Khajieva, from the Agency on regulation and supervision of financial market in Kazakhstan, provided her views on current plans/prospects for reinforcement of the regulatory framework and supervision regime in her country. Identifying the main risks and challenges faced by private pension industry in the aftermath of financial crisis (high inflation rate, reduced value of pension assets, difficulty to assess the fair value of financial instruments), the expert concentrated on measures directed to ensure the stability and security of pension sector: the introduction of higher capital adequacy requirements depending on pension funds' risk profile; the establishment of additional investment limits and rules for investing overseas; improving transparency of pension funds/management companies' activities and awareness of members as to the results of investment activities (through mandatory disclosure of investment portfolios and investment strategy performance); and the introduction of new requirements to strengthen risk management practices and internal control systems in pension funds, etc.

The session 4 was devoted to the topic of risk-based supervision (RBS) in the pension field, drawing on experiences of Chile (where RBS approach is currently under development) and Australia (having fully developed and implemented risk-based model) and more broadly reflecting the IOPS work undertaken in this area. Keeping with best international practice in the area of supervision, Chile is currently implementing a risk-based approach to supervision to ensure more efficient protection of pension funds' members and beneficiaries and to safeguard the stability of entire pension system. The move to risk-based supervision should contribute to achieving better visibility of the greatest risks areas, more effective control measures and oversight activities, improvements in pension fund asset allocation and AFPs risk assessment/ management practices, as well as better disclosure and transparency practices in the market. Ms. Solange Berstein in particular elaborated on new processes for information gathering/analysis and changes in IT systems to support RBS approach and the development of internal scoring model to estimate and weight risks inherent to pension institutions to determine the appropriate supervisory strategies and level of supervisory intensity.

Ms. Merrie Hennessy, before explaining the fundamentals and offering practical experience of APRA supervisory regime based on PAIRS/SOARS framework, provided a general overview of the concept of RBS for pension funds, identifying the major reasons behind moving towards a risk based approach to supervision, as well as the main challenges posed in transition from compliance based approach, including key lessons learned, drawing on the work developed by IOPS in the area. The IOPS Toolkit for RBS (which is currently being finalised) was presented as the key work of the Organisation in this area, which is expected to provide practical guidance to jurisdictions world-wide on how to introduce and develop RBS for pension funds. Ms. Hennessy invited the participating authorities to use the Toolkit and other work developed by IOPS when adopting risk-based approach to pension supervision.

The session 5 started with the presentation of Ms. Fiona Stewart who offered a review of different types of organisational arrangements for pension supervision in IOPS Member countries, providing a comparison of advantages in adopting integrated financial supervision model vs. setting up specialised pension supervisory structures in view of the unique nature of private pensions, given their both important financial and social roles. The expert did not advocate any particular institutional form as the most efficient and cost-effective means of supervision (benefits can be derived from both an integrated or a specialist structure), but rather highlighted that some structures are better suited according to the context, including: the level of economic/financial markets development; mandatory vs. voluntary nature of pension system and number of financial entities under supervision; employer-provided/commercially-driven pension fund model; development of regulatory base/intensity of 'rule of law' factor, etc. The presentation was followed by Ms. Nina Paklina who discussed key principles for good and strong governance of pension supervisory authorities, which include independence, accountability, transparency and integrity. Ms. Paklina analysed how these high-level principles are applied in practice in various IOPS Members and identified certain issues/challenges in governance approaches, calling for additional reform efforts. A special attention in the presentation was devoted to development of performance measurement programmes (which are still in the early stages of development in most jurisdictions), considered a crucial element of good governance.

Mr. Tamas Fülöp elaborated on the most recent changes introduced to the corporate governance structure of the Hungarian Financial Supervisory Authority (HFSA). Aiming to further reinforce the independence of the supervisory authority from both the financial sector and the government, the HFSA's governance structure was strengthened (i.e. the President of the HFSA is now appointed by the President of Republic, the board structure was abolished and replaced by 2 vice-presidents, nominated by the President of the authority and appointed by the Prime Minister). Further desirable steps in improving the accountability and integrity of the authority concerned the introduction of new reporting (on a more regular basis) requirements to the Parliament and the establishment of the Financial Stability Council, composed of the representatives of three leading financial authorities (HFSA, Central Bank and Ministry of Finance) and assigning responsibility for financial stability policies [it is envisaged that the Financial Stability Council will play a key role in macro-prudential oversight and issue recommendations against excessive risk taking in the future].

Mr. Yuriy Prozorov explained the new organisational structure, corporate governance processes and functional responsibility of major departments of the Ukrainian State Commission for Regulation of Financial Services Markets (SCRFMS), which is responsible for the regulation and supervision of private pension providers. Mr. Prozorov also discussed the main areas of supervisory monitoring/intervention and identified directions for improvement of the supervisory framework - including proposals to consolidate and transfer the responsibility over pension supervision to one

single agency, as pension supervision is currently split between three government agencies; introducing new mechanisms allowing for prompt adoption of necessary secondary legislation/regulations; improving licence granting/revoking procedures; and restructuring the supervisory regime to introduce a risk based approach, etc .

The discussion in last session 6 centred on the role of the governments in general - and regulatory/supervisory bodies in particular - in promoting awareness and building financial knowledge relating to private pensions. The implementation of major parametric and systemic reforms of pension systems imposes responsibilities on the government to explain to their populations the need and directions of the reforms, the public policies undertaken, as well as the increased responsibilities of individuals in funding their retirement and new risks associated with new pension arrangements. Relying on the OECD work/policy recommendations, Ms. Fiona Stewart identified pivotal elements to develop successful financial education programmes and highlighted priority areas where governments can be expected to provide leadership in advancing financial education initiatives. Ms. Stewart also presented some initial lessons to be learned from the awareness campaigns conducted in a number of OECD/IOPS Member countries: 1) need to define clearly governmental role and focus of the awareness/education campaigns; 2) work with a wide set of partners and use of various channels for communicating messages; 3) co-ordinating their (efforts) campaigns with other relevant stakeholders; 4) building on existing financial education work; 5) careful selection of target groups; 6) providing reliable information of projected retirement income derived from public and private plans; 7) ensuring follow-up to initial campaigns; 8) regular evaluation of campaigns' impacts/results; 8) considering linking campaigns to other regulatory initiatives (e.g. automatic enrolment, well designed default options, etc.).

Ms. Ayşegül Kılıç outlined recent initiatives developed in the area of financial education in Turkey. These in particular concerned the joint effort of Pension Monitoring Center and representatives from pension companies in establishing the Communication Committee, whose role consists of improving public awareness about the private personal pension system and to incite citizens to plan and save to satisfy their individual retirement needs. Ms. Kılıç presented the extensive range of activities developed by the Communication Committee and Pension Monitoring Center, among them the launch of large-scale media publicity campaign in 2009, the creation of dedicated web-site [containing practical and easy to use information on pension rules/regulations, tax advantages, retirement options and also containing calculation tools], the conducting of surveys to assess the level of information and its quality provided to participants by pension companies; and summarising initial results/effects of the conducted activities. Ms. Kılıç also briefed the audience on the recent regulatory amendments to enhance disclosure requirements on pension companies which are expected to further improve plan members' awareness and understanding of the security of their pension benefits, as well as potential risks, and to facilitate their informed decisions on these matters.

Finally, the representatives of two large pension companies presented their on-going work to educate consumers to improve understanding towards retirement planning and saving. Efforts are also being made to devise new communication/PR activities targeting different population segments, to implement innovative sales strategies and to develop education/training programmes for sales forces to attract new potential customers and retain existing members of pension plans.