

OECD and IOPS set out blueprint for a licensing regime in the pensions industry

OECD countries and the International Organisation of Pension Supervisors (IOPS) have agreed new guidelines to help pensions regulators and supervisors improve the way private work-related pension entities, such as pension fund management companies or pension trustees, are managed in order to boost their financial security and performance.

The guidelines, part of a broader OECD effort to strengthen public confidence in the pension system, set out minimum requirements that pension entities should meet when applying for a licence to begin operating.

More than one million pension funds operate in OECD countries, managing over USD 16 trillion in assets at the end of 2007. Their importance will increase as private pension systems continue to fill the gap left by shrinking public pensions in many countries.

In recent years, the OECD has voiced concerns about the quality of pension fund management. The licensing regime agreed by the OECD and the IOPS, if fully implemented, would ensure that pension entities upgrade their financial, human and operational resources to the level necessary to meet the challenges of an increasingly complex financial system. Such governance improvements would help protecting pension funds in periods of financial turmoil, such as the current one triggered by the credit crisis.

The guidelines highlight the vital role of regulators and supervisors as ‘gatekeepers’ of private pension systems by assessing the potential viability of pension entities before they are set up and overseeing their performance and management. The objective is to protect workers’ pension monies from bad management, which is a growing concern given the increasingly volatile and complex financial environment.

Issues covered by the guidelines include minimum requirements related to the pension entities’ starting capital, funding policy and risk management mechanisms, as well as their governance structure and investment policy. They also outline the circumstances in which a licence to operate may be withdrawn.

“These joint guidelines are a major step forward for furthering international coordination among pension regulators and supervisors”, said Ambrogio Rinaldi, chairman of the OECD Working Party on Private Pensions and Pensions Director at COVIP, the Italian pension fund supervisor. “While they are respectful of differences in national approaches to pension fund regulation, they reflect a recognition of the need to ensure common, basic standards among pension entities wishing to enter the industry.”

Ross Jones, Chairman of the IOPS and Deputy Chairman of the Australian Prudential Regulatory Authority, said: “The guidelines provide opportunities to enhance the governance of the pensions industry and improve standards while enabling the industry to move to requirements consistent with those of other regulated financial institutions such as banks and insurance companies.”

The guidelines build on a substantial body of research carried out by the OECD and the IOPS over the past several years. They have benefited from input from the pensions industry, business and trade unions. They will be reviewed in three years during which time the OECD and the IOPS will monitor its implementation around the world.

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