

THE INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS (IOPS)

PROGRAMME OF WORK AND PROJECT PROPOSALS 2012/2013

24th October 2011

Cape Town, South Africa



DRAFT PROGRAMME OF WORK 2012/2013

I. On-going Projects

1. The following projects are currently being undertaken by the Technical Committee and will continue in 2012:

- ***Structure and Organisation of Pension Supervisory Authorities:*** the issue of how pension supervisory authorities should be structured in order to execute their functions most efficiently and effectively has often been raised at discussions surrounding the *IOPS Toolkit for Risk-based Supervision* and at various IOPS workshops. The topic of how to organise financial supervision in general is also high on the agenda of policy makers in several countries, following the financial and economic crisis of recent years and the perceived failings in the oversight of financial systems. This paper will gather and summarize the information touching on this subject, which has already been produced by the Organisation in relation to various projects and working papers and the Toolkit. IOPS members will provide case studies explaining how their organisations are structured, as well as how these structures have altered in recent years and why. As well as being of practical use to IOPS members, this paper may prove useful to the wider financial community and could be used to promote the work of the IOPS within other international fora. ***Project team: IOPS Secretariat, UK***
- ***Intermediaries:*** the goal of the project is first to establish how pensions are distributed in different IOPS member countries, and how pension intermediaries involved in the advice and sales process are regulated and supervised. The project will identify common problems encountered by IOPS members, and look at different regulatory mechanisms and supervisory tools which have been used to try and overcome these issues. The paper will aim to be descriptive rather than normative - which the project team do not see as appropriate given that other international organisations set standards in this area and intermediaries are not within the scope of some IOPS members' supervisory jurisdiction. The project will not try to draft a set of guidelines, but will rather provide a snapshot of practices in members' jurisdictions of how the supervision of intermediaries is undertaken. Given this is the first time the IOPS has tackled this large topic, the paper will be at a fairly high level, and will likely cover a wide range of issues. This project could then be followed up with more in-depth work on selected issues as needs arise. ***Project Team: South Africa, Chile, Italy, Turkey, Poland, Hong Kong, India and Spain.***
- ***Consumer Protection:*** The OECD is currently developing High Level Principles on Financial Consumer Protection for the G20 (the IOPS has been represented at the Task Force drafting these Principles by the Secretariat). The IOPS may be involved in follow up work relating to these Principles (specifically any sectoral based work relating to pensions). This work will be coordinated with the IOPS Intermediaries project. ***Project Team: IOPS Secretariat, OECD Secretariat - countries tbc***

II. Other On-going Work:

- **Tour d' horizon:** as part of the Tour the Technical committee regularly reviews major developments related to the supervision of private pensions, building on information provided by members on major reform in their countries. As previously agreed, it is envisaged that urgent projects or work priorities may arise from discussions which take place as part of the Tour, and that the review may also include discussion papers on topical issues provided by the Secretariat. Likewise, papers on research issues or describing particular supervisory experience may be drafted by IOPS members.
- **IOPS Toolkit:** it is also envisaged that further work will be undertaken on the IOPS Toolkit. This would include updating and adding case study material to illustrate practical challenges which were encountered by IOPS members when moving to RBS and how these were overcome. **Key Risk Indicators:** One topic risk assessment/ risk management topic which could be explored in greater depth (either within the Toolkit or as a stand-alone but related paper) is early/ forward-looking detection of risk exposures. The IOPS could evaluate early warning risk indicators, commonly referred to as Key Risk Indicators (KRIs) as they are applied by pension funds, looking specifically at the following: What are KRIs? The role of KRIs; Types of KRIs; KRI methodology (high-level overview); Use and current practices of KRIs in pension funds (comparative member study); Future trends (e.g. linking KRIs to a measure of capital or reserve). **Project team: IOPS Secretariat**
- **Statistics / Database:** IOPS Members currently provide statistical data via the OECD's Global Pensions Statistics Project. This data collection process will be reviewed and strengthened during 2012. In addition, the International Social Security Association (ISSA), IOPS and OECD have previously coordinated to produce a comprehensive data source on the regulation of private pension systems worldwide. The latest version of this database was published in 2009. Building on this database, pension system overviews and detailed regulatory and supervisory information for the majority of IOPS members are available on the IOPS website. The statistical information is updated annually (in time for the Annual General Meeting). Due to changes in funding, the role undertaken by the partners of this project will be adapted and the resources need to continue with the database will be reviewed. **Project team: IOPS Secretariat, OECD**
- **Technical Assistance - outreach meetings:** in 2012 a regional workshop to be held in Brazil is planned for the Latin American region. Other events could be organized if demand arises and resources allow.

III. On-going Projects with Other Institutions

- **Pensions and Financial Sector Stability:** the IOPS has been in contact with the Financial Stability Board regarding their work on financial sector stability and Systemically Important Financial Institutions. The IOPS will continue the dialogue with the FSB to ascertain whether the pension sector can be included in their macro stability work.
- **OECD Projects:** the IOPS has partnered successfully with the OECD in previous years on projects of joint interest. For 2012, the OECD is working on the following topics, which the IOPS could potential contribute to:

- **Licensing Guidelines:** the Working Party on Private Pensions (WPPP) will be reviewing the implementation of the OECD's *Core Principles of Occupational Pension Regulation* – including the *Guidelines on Licensing of Pension Entities* produced jointly with the IOPS. IOPS members could be invited to provide comments too on how /whether principles are implemented in their jurisdictions. **Project Team: IOPS Secretariat, OECD Secretariat - countries tbc**
- **Long-term Investing:** The OECD is currently developing a project looking at how to encourage institutional investors to provide long-term capital. This is a broad ranging project, looking at a number of issues, from infrastructure investing to corporate governance issues. IOPS Members expressed interest in the project when it was presented at the joint IOPS/ OECD WPPP meeting in Mexico in June. IOPS contribution to the project could therefore be explored during 2012 (for example, identifying *supervisory approaches to encourage long-term investing, case studies on IOPS (non-OECD) member experience with infrastructure investments*, contribution to OECD surveys on the *impact of solvency regulations on infrastructure investing*, and *how to oversee and encourage pension funds to exercise their shareholder ownership rights*). **Project Team: IOPS Secretariat, OECD Secretariat - countries tbc**
- **Longevity:** The OECD is launching a project comparing longevity assumptions used by pension funds in different jurisdictions. The IOPS could contribute to this work, for example by adding non-OECD country comparisons and information .This project would be coordinated with other international organizations working on the topic (such as the IAIS, IAA). **Project Team: IOPS Secretariat, OECD Secretariat - countries tbc**
- **Retirement savings adequacy:** the OECD is currently developing a methodology for measuring the retirement savings adequacy of different cohorts in several OECD countries, using household surveys and data (initial findings to be presented at the Global Forum in Cape Town). IOPS members who have the necessary data for the calculations would be welcome to take part in the project. **Project Team: OECD Secretariat - countries tbc**

IV. New IOPS Projects

2. At the occasion of the IOPS Technical Committee meeting held on 1 November 2010 in Sydney, Australia, the IOPS members voted on the following project for which they wished to launch work (resources should be available from 2012):

- **Stress Tests for DC Pension Funds:** IOPS Members should note that the IMF recently published a comprehensive report on stress tests for DB pension plans.¹ In order to avoid duplication, it is

¹ Impavido, G., (2011), 'Stress Tests for Pension Plans: A Primer' <http://www.imf.org/external/pubs/ft/wp/2011/wp1129.pdf>

and OFSI Canada (2011) 'Stress Testing Guidelines for Plans with Defined Benefit Provisions' http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/pension/guidance/stresstest_e.pdf

See also IAIS Guidance Paper No. 8 (2003) 'Stress Testing by Insurers' http://www.iaisweb.org/_temp/Stress_testing_by_insurers_guidance_paper.pdf

therefore proposed that the IOPS project focuses on stress tests for DC funds – which is the topic which IOPS Members have previously expressed greater interest in. In terms of the proposed content of the project, the IOPS Secretariat could conduct a qualitative study on stress testing of DC funds – exploring and comparatively assessing the current DC stress testing models and mechanisms in place, and possibly producing some high level ‘guidance’ drawn from the comparative analysis on the elements and factors that should be considered by both pension funds and pension supervisors in designing, applying and evaluating stress testing models. Further quantitative work could be developed with assistance from delegates or external experts. **Project team: Mexico, Australia**

3. Following the self-assessments undertaken by a number of IOPS Members vs. the IOPS Principles of Private Pension Supervision, the following Principles were highlighted as being less well implemented by pension supervisory authorities, and consequently possible areas for the IOPS to undertake further work on: *No. 10 Governance; No. 9 Transparency; No. 2 Independence; and No. 4 Powers*. Derived from these reviews, the following set of operational guidelines is suggested:

- **Good Practices for Internal Governance of Pension Supervisory Authorities:** IOPS Principle 10 on Governance states that “the supervisory authority should adhere to its own governance code and should be accountable.” The self-assessment review noted this as being one of the less well implemented Principles, noting, for example, that some respondents did not have governance rules (such as codes of conduct) and procedures specific to their supervisory authority. The need to strengthen checks within the decision making process, along with other forms of internal control, was also highlighted. The lack of formal performance evaluation systems within many IOPS Members has also been previously discussed. Building on the work and surveys already undertaken by the IOPS on the topic of internal governance (i.e. Working Paper No. 10 ‘Governance and Performance Measurements for Pension Supervisory Authorities’), it is proposed that the IOPS draft a set of Good Practices for the Internal Governance of Pension Supervisory Authorities. As well as being a useful check of the governance practices of the more established IOPS members, it is hoped that these good practices would be a useful guide for newer IOPS members who have recently established their supervisory authority. **Project team: IOPS Secretariat**

4. At the occasion of the 2011 Annual General Meeting, held in Cape Town, the IOPS Membership voted to launch the following additional new projects in 2012.

- **Design and Development of Default Investment for DC Pension Funds + Auto-enrolment:** Many members of pension funds, particularly in mandatory contribution systems and where investment choice is available to members, lack the skills and /or interest to make decisions about their pension fund investments. While financial education can assist interested members, the fact that a high proportion of employees do not make a choice and are defaulted into a particular option in a particular fund means that the composition of the default option is of paramount importance in achieving the retirement outcomes for these members. The goal of this project is to identify the factors that need to be considered in designing a default option, drawing on members’ experience and relevant work of the IOPS and OECD. The project will aim to be sufficiently broad to refer to jurisdictions where quantitative investment restrictions and / or guarantees are in place, as well as age-based defaults. However, the principal focus of the paper will be on arrangements where the composition of default options is left to the trustee/ governing board of the fund. Work has also been proposed regarding the regulation and supervision of auto-enrolment procedures for pension plans. A section of this topic could also be included in this project. **Project team: Australia, Italy, Chile, Romania, Armenia, Brazil, Jordan, Namibia (auto-enrolment Chile, Brazil, Colombia, Ghana)**

- **Update of IOPS Work on Costs and Fees:** the IOPS previously undertook work analysing the costs and fees which apply to pension funds in different IOPS jurisdictions. This work will be updated with current data and analysis. Further work on the methodology for constructing cost indicators may also be included in the project. *Project team: Cost Rica, Hong Kong, India, Italy*

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Timetable 2012 / 2013

Project	February-2012	June-2012	November-2012	Q1 2013	Q2 2013	Q4 2013
<i>Structure and Organisation of Pension Supervisory Authorities</i>	Approve as working paper					
<i>Intermediaries</i>	Update	Update	Approve as working paper			
<i>Good Practices for Internal Governance of Pension Supervisory Authorities</i>	1 ST Draft	Revised Draft	Approve GPs			
<i>Stress Testing for DC Pension Funds</i>	Outline	Update	Update	Update	Approve as working paper	
<i>Defaults and Auto-enrolment</i>	Outline	Update	Update	Approve as working paper		
<i>Costs and Fees</i>	Outline	Update	Approve as working paper			
<i>Toolkit Material / Key Risk Indicators</i>	Update	Update	Update			
<i>Statistics / Database</i>	Request information	Update Database				
<i>Technical Assistance</i>	Q1 CEE Workshop (tbc)	Q4 Latin America Workshop				