SUMMARY RECORD

OECD/IOPS MENA WORKSHOP ON PRIVATE PENSION REGULATION AND SUPERVISION, Cairo, Egypt, 2-3 February 2009

The first workshop on private pension regulation and supervision in the Middle East and Northern Africa (MENA), organised by the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Pension Supervisors in collaboration with the Egyptian Insurance Supervisory Authority, was held on 2-3 February 2009, in Cairo, Egypt.

The Workshop brought together high level governmental officials from the regulatory and supervisory authorities from the MENA region – including Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, Qatar and the UAE - as well as representatives from OECD and IOPS Member countries and pension industry stakeholders. The representative of USAID, Technical Assistance for Policy Reform programm, also attended the workshop.

The conference was opened by the welcoming remarks provided by Dr. Adel Mounir, Chairman of the Egyptian Insurance Supervisory Authority. In his opening speech, Dr. Adel Mounir highlighted that following the global trend towards the expansion of pension fund industry, development of complementary private pension arrangements is also becoming a central policy priority for the governments of the MENA region. Dr. Mounir stressed that as pension reform process advances in the region, installing a solid legal framework and effective supervisory practices will be important. Also following sound macroeconomic policies aimed at achieving strong economic growth, low inflation and sound public finances are key elements to sustaining the pension reform process. In this respect, Dr. Mounir welcomed the timeliness of the OECD/IOPS regional workshop, which provided participating countries with an excellent opportunity to exchange views and expertise. The opportunity to strengthen working relationships also proved to be a highly beneficial experience, aiding the further development of pension reforms in the region. Opening addresses were also delivered by Mr. Ross Jones, the President of IOPS, the Deputy Chairman of APRA and Mr. André Laboul, Head of the OECD Financial Affairs Division and the Secretary General of IOPS, who presented the work developed by their respective organizations and introduced to the audience to the OECD and the IOPS guidelines and principles on pension fund regulation and supervision.

Session 1 focused on development of risk-based approach to pension supervision which is being adopted by the increasing number of pension supervisory authorities around the world. Dr. Ali Al-Ashry updated the audience on the recent developments in the private pension system in Egypt where DB schemes are still very much dominant and elaborated on a new pension draft legislation, [expected to pass the parliament in 2009], which should reinforce the administration and management capacity of pension schemes and strengthen supervisory oversight through the implementation of a risk-based supervisory model. The proposed legislation requires the governing board of directors to acquire higher levels of expertise in the management of pension schemes, especially in relation to the asset management process. The supervisory authority is also called upon to play an important role in providing appropriate training and enhancing the financial and legal awareness of pension scheme managers. The new legislation further aims to reinforce the role of auditors and qualified actuaries in the pension risk management process and to strengthen reporting requirements by private pension entities. Particular attention in the presentation was devoted to the introduction in the Egyptian regulatory context of a new risk-based approach to the supervision, the further development of which should take into account international experience and agreed international guidelines elaborated in the area.

Dr. Ibrahim Muhanna provided an overview of the main features of pension systems in the MENA region, focusing on the major challenges for their development. The expert highlighted that pensions systems tend to be highly fragmented, providing coverage only to a limited portion of the population (slightly more than 30 % of labour force is covered in average). Most funds are accumulating large and unsustainable unfunded pension liabilities (due to high replacement rates, low contribution rates and increasing life expectancy at retirement) and concerns have been raised regarding the equity, efficiency, governance patterns and administration capacity of both social security and occupational pension schemes. Although most of the countries in the region have opted to overhaul and strengthen pension legislation, due consideration should be given on the part of the policymaker when devising new regulations/or reviewing existing ones to the following areas: establishment of appropriate funding levels and efficient investment rules (including rules on asset segregation, asset diversification, investment limits); reinforcement of transparency and information disclosure, setting up of proper governance rules, etc.

In the following two presentations, given by Mr. Ross Jones, President of IOPS, and Dr. Paul Cavelaars of the Dutch National Bank, the speakers elaborated on the design and experience of risk-based pension fund supervision in their respective countries, i.e. Australia and the Netherlands. Mr. Ross Jones - drawing on the experience of his own integrated authority as well as to the IOPS work developed in the area - provided general policy guidance with special consideration to the needs of developing countries of the MENA region when moving towards risk based supervision (RBS) of pensions. The major areas elaborated in the presentation included: careful adaptation of existing risk-based models/approaches for pension industry; undertaking reorganisation of the structure of supervisory authority/or gradually building a new administrative structure (e.g. the creation of specialised departments within existing authorities) according to the nature of the pension system and type of entities supervised; building a rigorous data collection process and integrating this efficiently into the risk-based analysis and planning for future interventions; achieving the right staffing and providing on-going training for staff members; successfully communicating and explaining risk-based supervisory techniques to the pension industry; ensuring legal powers are in place to enforce the new risk-based supervisory system, etc. Mr. Ross Jones informed the audience that the IOPS was currently developing the Toolkit for Risk-base Supervision, aiming to provide practical guidance for supervisory authorities on how to introduce and develop a risk-based system of supervision for pension funds.

Dr. Paul Cavelaars analysed the Dutch supervisory approach developed by De Nederlandsche Bank for the oversight the pension fund industry, which mainly preserves its defined benefit character. Providing the rational for introduction of risk-based supervision in Netherlands, Dr. Cavelaars focused in his presentation on the development and utilization of risk-based methods [the Dutch risk-scoring model (FIRM)] applied to pensions that assist supervisors to plan the supervisory cycle and frequency and nature of interventions. He also provided a preliminary assessment of RBS practices' impact on the pension fund industry.

Session 2 addressed regulatory initiatives aimed at strengthening pension fund governance –which can be considered as one of crucial aspects for the efficient operation of private pension systems. Recognising the positive correlation between governance quality and pension fund performance, public authorities, industry association and international organisations are increasingly undertaking efforts to implement efficient regulations and are elaborating codes/best practices aimed for improved pension fund governance. Ms. Fiona Stewart presented the work of the OECD, which has been a leading international body in the field of pension fund governance, and which is currently in the process of revising its guidelines for pension fund governance (targeting the OECD Council approval in 2009). Ms. Stewart stressed that the recent financial turmoil underlined the continuing weaknesses in the operation of pension fund and revealed the urgent need to foster reform in governing practices.In particular, a major challenge in a number of countries relates to “governance vacuum” within contract-based DC schemes and governance gaps pertaining to the operation of small-scale pension funds. The expert discussed successful initiatives/practices undertaken in a number of OECD countries towards strengthening pension fund governance practices, which include introducing more clear and rigorous fit and proper requirements, conducting on-going education/training of Board members/trustees, encouraging self-assessment efforts by boards, promoting more balanced representation of stakeholders in governing boards and reinforcement of transparence and disclosure requirements, etc.

Mr. Alistair Elliott gave a presentation on the UK regulatory developments with respect to governance. Underling that the reinforcement of governance standards of pension funds remains one of the key regulatory priorities in UK, Mr. Elliott pointed out seven key areas which remain matter of policy concern and require further improvements: 1) enhancing trustees knowledge and understanding of good pension scheme administration; 2) management of conflicts of interest; 3) monitoring of employer covenant; 4) relations of governing board with financial advisers; 5) administration process ; 6) processes for investment choice and 7) governance during winding-up. Mr. Elliott Elaboration also elaborated on specific tools developed by the Pensions Regulator for trustees, employers and other stakeholders aimed at improving their knowledge on regulatory requirements and the understanding of good pension fund management and administration practices, namely: the creation of a dedicated web-site (pensionwise); development of trustee toolkit, codes of practice, guidance (dealing with conflict of interests; scheme funding guidance, guidance on record-keeping) and other support material, etc.

Mr. Leslie Primo reviewed the pension governance arrangements in South Africa and presented in detail the recently released Financial Services Board (FSB) Circular PF 130 on good governance of retirement funds focusing on three broad areas: governance of the board of trustees; governance of the fund’s business and the management of relationships.

The session 3 addressed various types of approaches and techniques adopted by the supervisory authorities experiencing the shift in their pension system from defined benefit (DB) to defined contribution (DC) style- arrangements. Mr. Ross Jones stressed that in Australia the change in pension legislation that introduced compulsory employer pensions was the main factor contributing to the shift from DB to DC pension plans, which are currently hold the dominant majority of pension fund assets in his country. The expert focused on recent regulatory reform initiatives designed to provide sufficient safeguards for sound and efficient functioning of superannuation (pension) fund industry in Australia, which consisted of introducing a comprehensive licensing process for trustees (in line with insurance and banking sectors) and developing a rigorous risk-based approach to supervision. Mr. Jones presented in detail the key foundations of APRA risk-based framework, which included the introduction of a structured risk assessment and supervisory response tools system (PAIRS/SOARS); the implementation of prudential review models for performing on-site and off-site activities; and building up specialist risks units. He also elaborated on lessons learned and remaining challenges for the conduct of more efficient supervision of pension funds (including improving prudential oversight and reporting on problem institutions).

Mr. Allistor Elliott gave a presentation on supervisory methods adopted in UK to oversee an occupation pension market where DC plans have become the most common form of private sector employer pension provision (including among large employers). Mr. Elliott outlined that focus of the UK supervisory approach is directed towards regular interaction with the pension industry, with major efforts placed on educating and training trustees/employers and enabling them to fulfill their legal obligations and fiduciary management duties in a responsible manner. Discussing key regulatory priorities, the expert identified five major areas of focus which guided recent work: investment (providing support for the creation of default option in DC pension schemes and the development of investment related material and guidance for the pension industry); members' communication (elaborating trustee guidance on providing necessary information/improving communication with members); administration (focusing on transfers of accumulated assets between the schemes); winding up procedures; and the decumulation phase and charges.

Ms. Hicran Aktas Cosar outlined the main features of individual retirement system in Turkey, which functions on the basis of voluntary participation in DC plans, and where regulatory functions and supervisory tasks are split between three major institutions: the Undersecretariat of Treasury, the Capital Markets Board and the Pension Monitoring Center (PMC). The Turkish model represents a successful example of public-private partnership in the area of controlling pension companies' activities. Discussing different intervention tools used by the authorities during on-site and off-site supervisory process, the expert explained the PMC's main functions, which are primarily responsibility for daily electronic monitoring, surveillance and the analysis of pension companies' activities and e-reporting to authorities; collecting and storing statistical data on transactions and individual accounts, as well as conducting public awareness campaigns and education programmes for pension intermediaries. The expert also referred to the crucial role played by independent auditors (which perform controls over pension companies on a yearly basis and over pension funds on quarterly basis) and actuaries (which are required to carry out an examination each year) in the Turkish supervisory model and pointed out on focused efforts made on part of regulators to build strong/appropriate internal control mechanisms in retirement companies and pension funds.

The purpose of the last **session 4** was to address issues of crucial importance for the governments around the world relating to the need to improve financial awareness and knowledge of individuals , an issues further highlighted in the context of the current financial crisis. Recognising the increasing complexity of financial landscape and greater transfer of risks towards households, (who often do not dispose sufficient knowledge and capability to understand changes and manage inherent risks), governments are taking measures to devise efficient strategies and approaches designed to strengthen financial literacy. Ms. Flore-Anne Messy elaborated on the work of the OECD in the area of financial education, which aims to support governments' efforts and provide policy guidance to encourage national policies that promote financial literacy, as well as to raise awareness of the importance of financial education at the international level. Ms. Messy presented the main achievements of the OECD project that included the publication of several international analytical studies as well as elaboration of principles and good practices for improving financial education and awareness in general and on insurance and private pensions in particular. Summarising the key policy messages emerging from the good practices, Ms. Messy advocated the need when developing efficient financial education programmes to 1) carefully assess needs and gaps in national finance education plans; 2) establish clear and realistic policy goals; 3) target groups that should be prioritized; 4) integrate evaluation of programmes' effectiveness; 5) create strategic partnerships between the government and other relevant stakeholders to attain common goals; 6) implement life-long financial education strategies, to be initiated at earliest stages, and if possible at school; 7) use a variety of channels and medias to deliver simple and engaging messages, etc. Ms. Messy concluded by presenting the major goals and activities of the OECD in the area of financial education: and firstly the International Network on Financial Education created in 2008, and currently gathering the representatives of more than 50 countries. She also invited the authorities present at the meeting and involved (or with an interest) in the financial education to join the Network. She then presented the International Gateway for Financial Education, the first global clearinghouse on financial education set up by the OECD in 2008 (accessible at www.financial-education.org). She encouraged present authorities to visit the website and to provide any information relative to financial education initiatives in their countries which they would like to be also made available online.

This session also included interventions from the representatives of South Africa, Jordan, Egypt, Turkey, United Kingdom, Palestine, Australia who offered their views on education initiatives and programmes to improve financial literacy of the citizens in their respective countries.

Concluding remarks:

The workshop was concluded by Dr. Adel Mounir who thanked the speakers and participants for a very engaging and informative workshop which offered a useful international platform for discussion and reflection on crucial policy issues related the private pension reform in the MENA region – a process that will take time. On a broader front, Dr. Adel Mounir stated that the current event marked the important first step along the path toward the development of closer and broader regional co-operation and expressed the hope that other events and targeted co-operation project could be undertaken in the future with the participation of the OECD and the IOPS.