

# IOPS work on pension intermediaries

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# What is meant by pension intermediaries?

- Individuals and institutions selling or advising on pension products to individual members of pension plans
- Including staff directly employed by pension providers themselves, ‘tied agents’ selling the products of only one provider as well as ‘independent financial advisors’ and sales agents who can sell a range of pension products

# Why is pension intermediation an issue?

- Financial products in general, and pensions in particular, are complex and suffer from an asymmetry of information when it comes to their selling
- Individuals increasingly have to take decisions relating to their pensions – but numerous studies show that these are not decisions that most members are well equipped or disposed to take
- Therefore they are often highly dependent on intermediaries for help
- There is ample opportunity for intermediaries to take advantage of consumers by mis-selling products
- How they are supervised and controlled is therefore very important
- Financial crisis revealed mis-selling of financial services – hence major reviews in several countries (UK/ Netherlands/ South Africa/ Australia / HK/ Bulgaria/ EU/ G20)

## Why is unique about pension intermediation?

- *Occupational plans* – sponsor/ trustee/ employer makes decisions so pension plan members not consumers - interaction between these parties and intermediaries is an important (but separate) issue
- *Personal pension plans* – sold like other financial products but:
  - Series of decisions (whether join plan/ how invest / decumulation product)
  - Not made frequently (like car / house insurance) / lock in for long time/ pensions don't function like other markets
  - Charges particularly important (1% 40 years reduces pension by 20%)
  - Maybe forced / strongly encouraged to buy a pension – suitability therefore difficult concept (other products if not suitable don't buy)
  - Tax impact (contributions from pre-tax income)
  - Issues around decumulation phase (locked into provider/ need help choose right product / type of annuity)
- *Mandatory pension plans*: may **not** have a choice of provider / investment product/ retirement vehicle – controlled by regulation therefore limited role for intermediaries

# What is the structure of pension intermediation?

- *Pension fund employees – common in Latin American*
- *External intermediaries - most countries also*
  - *Tied - more common in CEE*
  - *Independent – common in UK*

Country	Pension Fund Itself	Tied Agents	Independent Agents
Albania	X	X	
Australia	X	X	X
Austria	X		
Bulgaria	X	X	
Brazil	X		
Chile	X	X	X
Colombia	X		
Costa Rica	X	X	
Czech Republic	X	X	X
Hong Kong	X	X	X
India	X	X	X
Israel	X	X	X
Jamaica		X	
Korea			X
Lithuania			
Macedonia	X	X	
Pakistan	X	X	
Poland	X	X	X
Romania		X	X
South Africa	X	X	X
Spain	X	X	X
Tanzania	X		
Turkey	X		
Ukraine	X	X	

# Who supervises pension intermediation?

- Netherlands/ Australia ‘Twin Peaks’
- ASIC - sampling and targeting approach to supervising intermediaries
- Chile - intensive oversight/ data collection (type of advice given, outcomes and how people make decisions)
- Lithuania – LSC ‘mystery shopping for investment products and are thinking of doing the same for pension funds
- Turkey - combination ad hoc suitability and misguidance check calls / analysis of sales and pension contract transfer data/ supervisory interviews selected intermediaries regarding switching /on-site inspections with pension funds regarding commissions paid, the policy of the pension company (all risk-based)

Intermediaries supervised by pension supervisory authority		Intermediaries supervised by the conduct of business authority	Others (coordination with other agencies)
Albania	Jamaica	Australia	Austria
Bulgaria	Korea	Netherlands	Germany
Chile	Macedonia	Poland	Hong Kong
Costa Rica	Romania	South Africa	Ukraine
Czech Republic	South Africa		
Ghana	Spain		
Israel	UK		
Zambia			

# Main problems pension intermediation?

<b>Problems + Countries where problem noted</b>	<b>Solutions</b>
<p><b>High charges:</b></p> <p>Australia, Chile, Costa Rica, Czech Republic, Israel, Poland, South Africa, Zambia</p>	<p><i>Ban intermediaries</i></p> <p><i>Cap Fees</i></p> <p><i>Ban Inducements</i></p> <p><i>Disclosure</i></p>
<p><b>Conflicts of interest:</b></p> <p>Australia, Bulgaria, Chile, Costa Rica, Czech Republic, Israel, Jamaica, Poland, South Africa, Spain, Zambia</p>	<p><i>Transparency via Codes of Conduct</i></p> <p><i>Prudential Regulation</i></p> <p><i>Fiduciary Duty</i></p> <p><i>Complaints Mechanism</i></p> <p><i>Corrective Measures Regulation</i></p>
<p><b>Inappropriate advice:</b></p> <p>Australia, Austria, Brazil, Bulgaria, Chile, Costa Rica, Czech Republic, Israel, Macedonia, Poland, South Africa, Spain</p>	<p><i>Suitability tests</i></p> <p><i>Product restrictions</i></p> <p><i>Independent adjudicator / ombudsman</i></p>
<p><b>Lack of knowledge on part of advisers:</b></p> <p>Australia, Brazil, Bulgaria, Chile, Costa Rica, Czech Republic, Hong Kong, India, Macedonia, Romania, South Africa, Spain</p>	<p><i>Licensing – including fit + proper requirements and minimum qualifications</i></p>
<p><b>Overly complex information provided:</b></p> <p>Australia, Brazil, Chile, Costa Rica Israel, India, South Africa</p>	<p><i>Information Disclosure</i></p>
<p><b>Others (such as poor service, insufficient information):</b></p> <p>Hong Kong, Jamaica, Korea, Poland</p>	

# Solutions?

## 1. Transparency and Information

- Information Disclosure
- Suitability Requirements

## 2. Soft Regulation

- Codes of Conduct
- Supervisory Guidance
- Fiduciary Duty

## 3. Hard Regulation

- Prudential Regulation
- Fit and Proper Requirements
- Remove intermediaries from system
- Fee controls
- Ban Inducement Commissions
- Product Restrictions
- Corrective Measures



# 1. Transparency + Information

Country	Product Characteristics	Cost	Investment Risk	Guarantees	Expected Performance	Recommended Duration	Conflicts of Interest	Remuneration	Others
Albania	✓	✓	✓			✓			
Australia	✓	✓	✓	✓	✓	✓	✓	✓	
Bulgaria	✓	✓	✓	✓	X	✓	✓	X	
Colombia	✓	✓	✓	✓	✓	✓	✓	X	
Cost Rica	✓	n/a	X	X	X	X	X	✓	
Hong Kong	✓	✓	✓	✓	X	X	✓	✓	✓
India	✓	✓	✓	n/a	✓	✓		✓	
Israel	✓	✓	✓	✓	X	X	✓	X	
Lithuania	✓	✓	✓	✓	X	✓	✓	X	
Macedonia	✓	✓	✓	X	X	X	X	X	
Mexico	✓	✓	✓	n/a	X	X	X	X	
Namibia	✓	✓	✓	✓	✓	✓	✓	✓	
Nigeria	✓	✓	n/a	n/a	n/a	✓		n/a	
Netherlands	✓	✓	✓	✓	✓	✓	✓	✓	✓
Pakistan	✓	✓	✓		✓	✓			
Serbia	✓	✓	✓	n/a	X	X	X	X	✓

# Suitability Requirements

Country	Age	Investment Experience	Risk Appetite	Family Situation	Income	Net Worth	Tax Position	Others
Albania	✓	✓	✓		✓	✓	✓	
Australia	✓	✓	✓	✓	✓	✓	✓	
Colombia	✓	✓	✓	✓	X	X	X	
Costa Rica	✓	X	X	X	✓	X	X	
Hong Kong	✓	✓	✓	X	✓	✓	X	✓
India	✓	X	X	X	✓	X	✓	
Mexico	✓	n/a	✓	✓	n/a	n/a	n/a	
Namibia	✓	✓	✓	✓	✓	✓	✓	
Nigeria	✓	n/a	n/a	n/a	n/a	n/a	n/a	
Netherlands	✓	✓	✓	✓	✓	✓	✓	✓
Pakistan	✓		✓	✓	✓		✓	
Slovakia	✓	✓	✓	✓	✓	✓	✓	✓
Thailand	✓	✓	✓		✓			
Turkey			✓		✓		✓	

## 2. Soft Regulation

- ***Codes of Conduct*** – apply in around ½ IOPS Member jurisdictions (responding to Intermediaries questionnaire)
- ***Supervisory Guidance*** – most IOPS Members provide (some specifying fairly detailed rules)
- ***Fiduciary Duty*** – applies to intermediaries in around ¾ IOPS Member jurisdictions (responding to Intermediaries questionnaire)

## 3. Hard Regulation

- **Prudential Requirements**
  - Internal control systems
  - Suspension transactions
  - Conflicts interest restrictions + checks
  - Bans on cross selling products
  - Cooling off periods

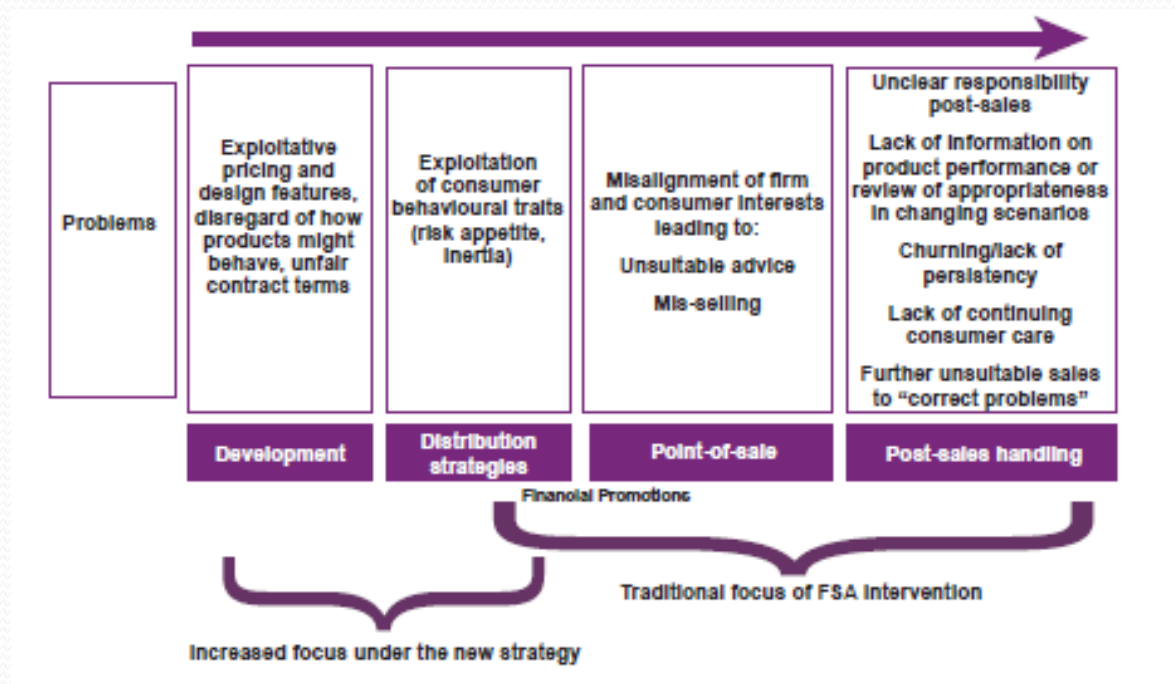
## 3. Hard Regulation

- **Fit + Proper Requirements**

- Precluding conditions standard (no criminal record/ not bankrupt)
- Positive criteria also standard (financial capacity, professional honesty)
- Knowledge requirements (finance, economics) – general and can be quite low
- Specific training sometimes required – courses approved by authority (Australia) or provided by them directly (Chile)

## 3. Hard Regulation

- **Product Restrictions**
  - Trend in other financial sectors
  - Appropriate for pensions?



## 3. Hard Regulation

- **Fee Controls / Ban commission**
  - Usually some control on fees can charge
    - Czech – ceiling amount
    - Slovakia – limit on switching charge
- **Not-excessive check** – Macedonia
- **Ban on inducements general trend** – i.e. intermediaries charge flat fee rather than being paid by commission (UK, Australia, South Africa)

## 3. Hard Regulation

- **Corrective Measures**
  - Complaints mechanism
  - Supervisory investigations
  - Corrective measures
    - Fine
    - Ban
    - Publicize
    - Criminal prosecution



# Conclusions

- One result of the financial crisis of recent years was to highlight a myriad of on-going problems around the advice given on and the selling of financial products – with the pensions sector not immune to such scrutiny
- Much review of financial intermediaries underway around the world - interesting reforms also in pensions sector
- Pension intermediation has some unique challenges + is complex to analyse due to the different pension systems in place around the world and the different roles which intermediaries play in these systems.
- Are broad trends can identify:
  - *Intermediaries have been removed completely from some mandatory pension systems*
  - *trend to ban commissions*
  - *training and qualifications requirements strengthened*
  - *softer' control measures (information and self-regulation )have not been seen to be successful, financial oversight authorities have been strengthening their powers, including to conduct more intensive oversight of intermediaries*