



2 April 2007

Mr P Thornton  
Review of Pensions Institutions  
c/o DWP  
3rd Floor  
The Adelphi  
1-11 John Adam Street  
London  
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Dear Mr Thornton

### **Review of Pensions Institutions**

I am very grateful for the opportunity to provide comments to your review of UK pensions institutions from an international perspective. The International Organisation of Pensions Supervisors (IOPS), which I chair, represents over 50 organisations worldwide, with a role in supervising the effective implementation of pensions regulation. Its goals include the drafting of guidelines for supervisors and collation and dissemination of good practice. IOPS also provides a forum for sharing experience and enabling supervisors to learn how similar challenges have been addressed elsewhere in the world.

The first major output from IOPS has been a set of principles for pensions supervisors, which I attach for information. You may find these helpful in setting out the criteria which should underpin pensions supervision, however it is structured. One of the principles refers to risk orientation.

The way in which supervisors have been developing their approach to risk-based supervision has been another of our major projects. Our initial findings show that throughout the world there are strong pressures on supervisors to become more risk orientated, to reflect the increasing appreciation, range and complexity of the risk environment and to reduce burdens on the regulated community. The effort involved in transition should not be under-estimated, nor should the methodological problems. Data gathering can be a particular issue. While the transition is possible without accompanying legislative change, such change can make it easier to undertake quickly.

What is clear is that the differing circumstances of different countries' pension, social and legislative systems need to be reflected in the design of the risk-based approach

adopted. Many of the key issues in pensions are not found in other financial services products, not least the sectoral drive to improve the extent and penetration of provision, seen in the development of mandatory and quasi-mandatory provision, of which the UK's Personal Accounts proposals are but one example. One-size most definitely does not fit all.

IOPS has not given any consideration to the funding or solvency standards used by its members, and has no plans to do so.

IOPS has some 50 members and observers across the world and there is considerable variety in pension systems, regulatory frameworks and supervisory arrangements of our members. We have seen a trend towards pensions supervisors being merged with supervisors of other financial services, particularly insurance. But this is far from universal and at least 15 IOPS member countries do not have integrated structures. IOPS has been considering the arguments that can be deployed for and against integration, which include:

- In some countries private pension schemes are financed with vehicles that have characteristics in common with life insurance, for instance by using products employing mutual funds as investment instruments;
- Insurers are also major providers of personal pension plans or act as managers of funds;
- It can be argued that the achievement of economies of scale, the treatment of financial conglomerates, the greater competitive neutrality, and transparency and accountability would all be enhanced by the incorporation of the pension regulator into an integrated agency;
- But, social welfare considerations and extensive government involvement in the pension system make pension funds fundamentally different from other financial services. In many countries the assets in pension funds represent a greater portion of household wealth of the average participant than other types of financial asset, and reach more deeply through the socio-economic strata than other types of financial intermediaries. Preferential tax treatment for pension savings and explicit compensation guarantees make the government a major stakeholder in the pension system.
- Information considerations are very important in pensions – the complex and long-term nature of the products creates asymmetries whereby the customer is less informed than the service provider.
- The specific nature and circumstances of pensions – particularly the high level of consumer protection required – may therefore be used to argue for a specialised regulatory approach. There are potential benefits from maintaining a specialised agency relating to the expertise that the agency can provide in an area with unique risks, tax treatment, public guarantees and deeper welfare implications than many other financial services

I can send you the draft paper these comments are taken from when it is finalised later this year, but I would take an overall conclusion that the diversity of pension models is such that there can be no hard and fast rules – the organisation of pensions regulation depends heavily on local circumstances and this in turn influences how the supervision of the sector is organised.

Finally, in your letter you also ask about our relations with the International Association of Insurance Supervisors (IAIS). During the earlier part of 2006 we discussed within IOPS the question of whether the two organisations should merge.

We concluded that there are still sufficient stand-alone pensions supervisors to merit a separate organisation. It was also felt that it would be better for IOPS to develop into a strong organisation with a credible track record before either would benefit from merger. We agreed that this would be an issue we would return to in a few years. Since then we have signed a Memorandum of Agreement with IAIS setting out how we will work co-operatively, and there is no longer significant pressure in either organisation towards merger.

I hope these comments will be useful to you as you complete your review.