

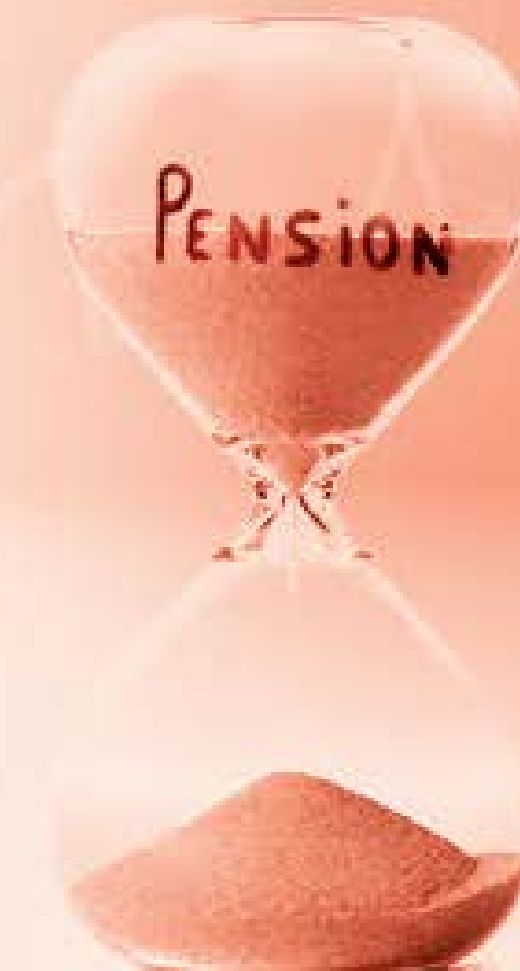


INDONESIA PENSION CONFERENCE

25 YEARS OF PENSION SAVINGS

“Way Forward for Next Quarter Century”

25-26 April 2017
Grand Hyatt Hotel, Jakarta



SESSION 4

Harmonization in Regulatory Framework for Pensions and Savings

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26 April 2017**



AGENDA

Establishing a solid regulatory framework for pensions

- Formal sources of guidance/principles
- Informal observations



ESTABLISHING A SOLID REGULATORY FRAMEWORK

“Regulation” vs “supervision”

Regulation is the rule set which sets out enforceable requirements for a specific group

Supervision is the process by which a supervisory authority seeks to ascertain that regulations are complied with and includes the processes for enforcing those requirements



ESTABLISHING A SOLID REGULATORY FRAMEWORK

1. Formal Sources (OECD, World Bank, IOPS)
2. Informal observations



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (I)

I. OECD Core Principles of Private Pension Regulation (2009/16)

- Pension arrangements should work in the best interest of members and beneficiaries: the people, the savers, current and future retirees.
- Structure:
 - General Principles
 - Principles specific to occupational plans
 - Principles specific to personal pension plans



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (2)

OECD General Principles

1. Conditions for effective regulation
2. Establishment of pension plans, pension funds, and pension entities
3. Governance
4. Investment and risk management
5. Plan design, pension benefits, disclosure and redress
6. Supervision



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (3)

OECD Principles specific to occupational plans

7. Occupational pension plan liabilities, funding rules, winding up and insurance
8. Access, vesting, and portability of occupational pension plans



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (4)

Principles specific to personal pension plans

9. Funding of personal pension plans, wind-up and insolvency
10. Equal treatment, business conduct, competition and portability of personal pension plans



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (5)

II. OECD Roadmap for the Good Design of DC Pension Plans (2012)

1. Coherence – accumulation, payout, and overall pension system
2. Encouraging enrolment and long-term contribution
3. Improve incentives to contribution
4. Promote low-cost savings instruments
5. Establish appropriate defaults



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (6)

II. OECD Roadmap for the Good Design of DC Pension Plans (2012)

6. Consider default life-cycle investment strategies
7. Encourage annuities
8. Promote supply of annuities
9. Develop appropriate information and risk hedging instruments
10. Ensure effective communication to address financial literacy



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (7)

III. IOPS Principles of Private Pension Supervision (2006/10)

1. National laws should assign clear and explicit objectives to pension supervisory authorities
2. Pension supervisory authorities should have operational independence
3. Pension supervisory authorities require adequate financial, human and other resources
4. Pension supervisory authorities should be endowed with the necessary investigatory and enforcement powers to fulfill their functions and achieve their objectives
5. Pension supervisory authorities should adopt a risk-based approach



ESTABLISHING A SOLID REGULATORY FRAMEWORK – FORMAL SOURCES (8)

III. IOPS Principles of Private Pension Supervision (2006/10)

6. Pension supervisory authorities should ensure that investigatory and enforcement requirements are proportional to the risks being mitigated and that their actions are consistent
7. Pension supervisory authorities should consult with the bodies they are overseeing and cooperate with other supervisory authorities domestically and internationally
8. Pension supervisory authorities should treat confidential information appropriately
9. Pension supervisory authorities should conduct their operations in a transparent manner
10. The supervisory authority should adhere to its own good governance practices – including governance codes, internal risk-management systems and performance measurement - and should be accountable



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (I)

I. Policy-makers face conflicts of policy priorities

Retirement Savings Policy vs

- Revenue/Taxation Policy
- Labour Policy
- Competition Policy
- Market Development needs
- Financial services policy



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (2)

2. Policy-makers face conflicts of policy priorities within retirement savings policy

- Government programs v private savings
- Government welfare v government savings systems
- Private mandatory v voluntary
- Voluntary pension savings v other private savings



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (3)

3. Short term politics can interfere with long-term policy settings
 - The need to “tinker”
 - The need to offer “something new”
 - The need to respond to public dissatisfaction



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (4)

4. The need for “all of government” policy coordination and control

- Challenging as retirement savings crosses many policy areas
- The need for central policy setting
- Co-ordination (vs control) possible but very difficult to do well
- Government commitment to a long-term set of principles is a start
- Supervisors need to actively contribute to policy development



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (5)

5. Black letter vs Principle-based Regulation

Traditional Model

- Detailed legislative requirements
- Compliance focus.
- Often resulted in regulation “through the rear view mirror” and “functional” organizational culture.
- Required frequent legislative change to keep pace with rapidly changing industry and changing risks.
- Sometimes became totally divorced from the objectives government had in mind in regulating the sector – to reduce potential harm



ESTABLISHING A SOLID REGULATORY FRAMEWORK – INFORMAL OBSERVATIONS (6)

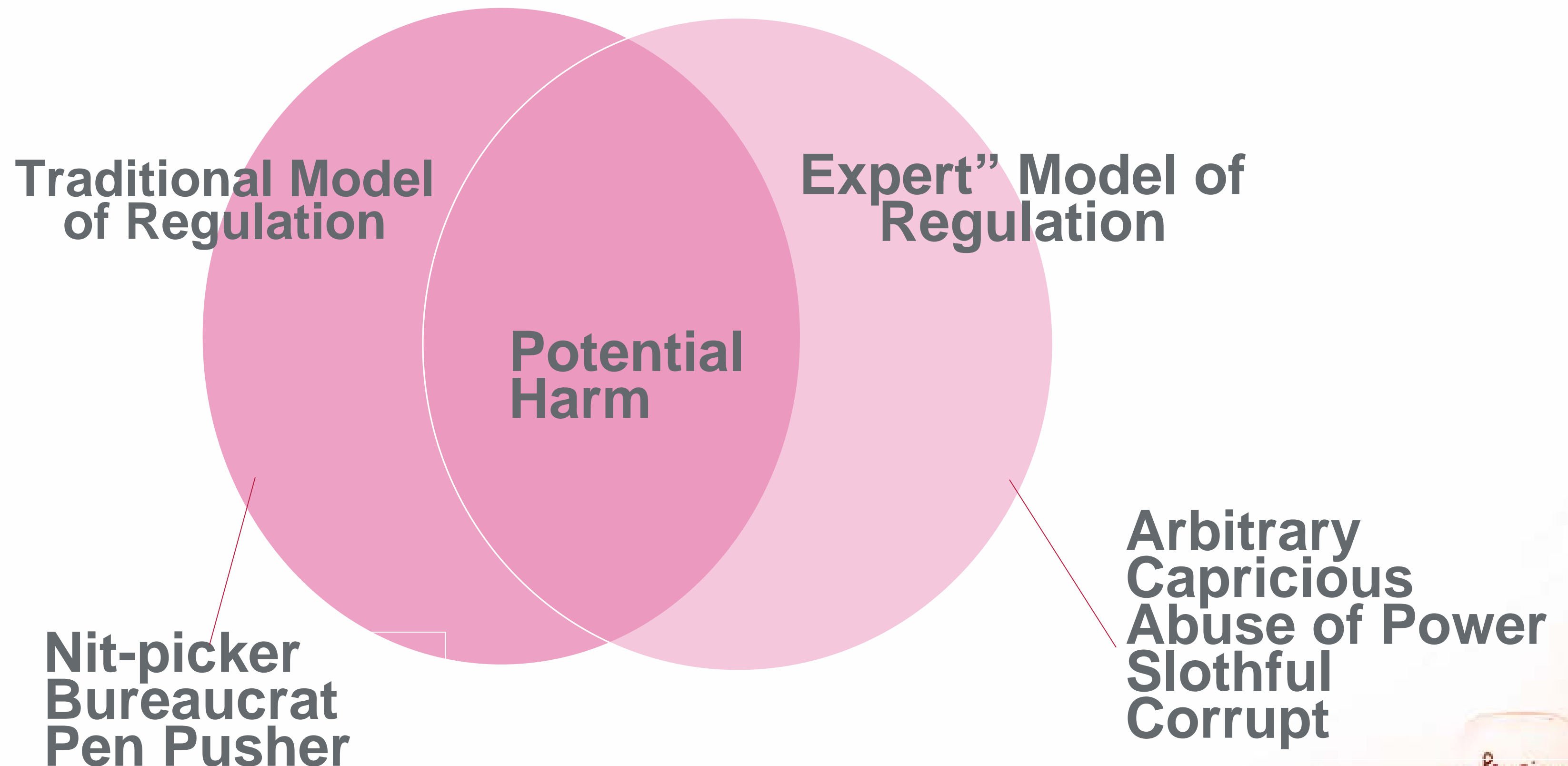
5. Black letter vs Principle-based Regulation

Towards an “expert” model of regulation/supervision

- Many governments recognize that financial regulation is technically complex and requires “expert” supervisors with good judgement to be effective.
- Legislative authorities tending to give Supervisors broader powers and greater discretion to make supervisory decisions (e.g. risk based supervision depends on such powers).
- However, greater discretion creates new challenges for supervisors (e.g. greater scope for legal or political dispute).



THE DANGER OF DISCRETIONARY POWERS



QUESTIONS ??

