

IOPS Project & Financial consumer protection in the Austrian private pension system

1. IOPS Project on Consumer Protection

- Aims and outputs
- Coverage
- Regulatory and supervisory tools used in pension consumer protection
- Preliminary results (Main responsibilities of pension supervisory authorities for protection of pension consumers)
- Preliminary results (Main challenges from pension supervisory perspective)

2. Financial consumer protection in Austria

- Information to beneficiaries
- Business plan
- Security mechanisms
- Supervisory disclosure
- Practical experience



IOPS Project 2: Role of Supervision related to Consumer Protection in Private Pension Systems

- **The International Organisation of Pension Supervisors** (IOPS) has started a project on *the Role of Supervision related to consumer protection in private pension systems* as a part of its 2015-2016 work programme.
- **Motivation:**
 - protecting the interest of members and beneficiaries (consumers) in private pension systems is crucial
 - there has been substantial work in the area of consumer protection in general (G20, WPPP, INFE, other IOs), but the research on consumer protection in private pension systems is still at a nascent stage.

- to review the role of pension supervisory authorities in enhancing consumer protection in private pension systems (=working paper)
- to issue reference material (=good practices) for pension supervisors and other stakeholders in their efforts to improve consumer protection in the pension area
- to provide input to the work developed by the G20/OECD Task Force on Financial Consumer Protection

The project will benefit from the input/feedback by the G20/OECD Task Force on Financial Consumer Protection, OECD WPPP and OECD INFE.

Use of the work by G20/OECD, the OECD WPPP, the OECD INFE and other international organisations in the area of Financial Consumer Protection.

Focus on selected G20 High Level Principles and related Effective Approaches that are most relevant for pension consumer protection from the pension supervisory perspective:

HLP 2: Role of Oversight Bodies

HLP 4: Disclosure and Transparency

HLP 5: Financial Education and Awareness

HLP 6: Responsible Business Conduct of Financial
Services Providers and Authorised Agents

HLP 9: Complaints Handling and Redress



Regulatory and supervisory tools used in pension consumer protection

- Consumer education and financial literacy programmes
- Anti-fraud rules
- Disclosure rules
- Pension products/schemes standardisation
- Fiduciary rules
- Governance regulations
- Market conduct regulations
- Regulations limiting individual choice
- Default rules
- Licensing, registration and approval requirements
- Rules addressing conflicts of interest
- Regulation of fees and costs
- Supervisory mechanisms, etc.



Main responsibilities of pension supervisory authorities in CP: Preliminary results

- Authorities have a mandate to issue regulations in (31) jurisdictions, guidelines in (29) and standards in (20) on consumer protection relating to private pensions
- Authorities (21) are involved in reviewing pension product design and governance, and pension services
- Monitoring compliance with legal requirements – minimum standards, Code of conduct (mand. or vol.), CP rules
- Supervisory responses and enforcement actions (publishing)
- Disclosure and transparency:
 - Requirements for standardised disclosure (22) - KIDs, PBS
 - Requiring or offering comparable information (11): supervisors offer comparison platforms (CL, HK, PK)
 - On-line interaction tools (pension calculators: CL, CO, TR)
 - Benefit projections (10 require on private pensions)
 - Info on default funds/schemes; low-cost providers/products



Main responsibilities of pension supervisory authorities in CP: preliminary results (cont.)

- FE and awareness
 - Ongoing awareness and FE programmes ('laymen/'keen to know', HK);
 - Targeted FE programmes (on members, trustees, plan administrators and managers, young, self-employed)
 - Assessment of FE programmes
- Responsible business conduct of pension services providers and authorised agents
 - Approval of content of contracts (CO, LT, PT) marketing/advertisement materials (NG, PK, RS), guidelines
 - Authorisation/licensing/registration of providers/agents
- Complaints handling and redress
 - Publishing info on complaints;
 - monitoring complaints handling process
- Evaluation of effectiveness of supervisory interventions



Main challenges for pension consumers from perspective of pension supervisors

- Consumers' **lack of understanding** of pension products/schemes and basic concepts (schemes' rules, their rights, risks, asset value, guarantees, benefits...)
- **Lack of** clear, concise and comparative **information** or **insufficient disclosure** to make adequate decisions
- **Lack of easy optimal solutions** for members and **unbiased recommendations** (such as target dates funds, life-cycle funds, or defaults)
- **High fees** and administrative **charges**
- **Unsatisfactory returns** in the environment of low interest rates
- **Unrealistic expectations**
- **Wrong or inadequate advice, fraud, etc.**
- **Unstable legal environment**

Consumer Protection in Austria

- Information to beneficiaries
- Business plan
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Information to beneficiaries (1)

- Regular (yearly) information to beneficiaries (as of 31 December)
 - development of the capital
 - administrative expenses withheld
 - forecast of the expected amount of the pension payments
 - investment
 - performance of the relevant investment and risk sharing group
 - (to compare with the performance in the quarterly reports on FMA-Homepage)
- Information on occurrence of the benefit event
 - amount of the pension payments (old age-, surviving- or invalidity pension)

Information to beneficiaries (2)

- Further details are determined through **FMA Regulation** on the content and structure of information to beneficiaries to be provided by pension companies
- **FMA Minimum Standards** (beyond explicit legal basis) for informing the beneficiaries
 - Information to beneficiaries (entitled) upon their inclusion in the pension company provision
 - Information at the time of leaving the pension company prior to the occurrence of a benefit event
- The financial statements as well as the reports on activities of the investment and risk sharing groups shall be submitted to the beneficiaries at their request.

Pension companies must establish a business plan outlining their actuarial bases and technical provisions.

The business plan must be reviewed by an independent external actuary and approved by the FMA. It must contain:

- types of benefits offered
- bases of calculation (probability tables, assumed interest rate, targeted technical surplus)
- formulas for calculating the contributions and the benefits

The approval of the business plan is a supervisory tool providing insight into the technical design of a product. Consequently, the FMA is in a position to prevent unsound business practices as concerns pension products.

Security mechanisms

- The investment of the assets allocated to an investment and risk sharing group
 - belongs to the beneficiaries only
 - is a separated fund of assets
- Appointment of an independent actuarial expert (auditing actuary) for actuarial auditing
- State commissioner (participation in meetings of shareholders and the supervisory board, reports to the FMA)
- External auditor
- On-going off-site and on-site supervision by the FMA

Supervisory disclosure

The following information is disclosed on the FMA website:

- Explanation of the pension system
- Legal framework (laws, regulations and minimum standards)
- Important parameters (e.g. limit for lump sum payment)
- Description of guarantees
- Quarterly reports on pension markets and companies
- FMA annual reports
- Press releases

Practical experience

- Lack of understanding of relevant issues of the pension system
- Hybrid DC/DB approach with complex features
- Collective vs. individual approach
- Sponsor/provider conflict of interest issues
- Life cycle plans
- Beneficiaries' expectations
- Short term volatility vs. long-term pension horizon