Dialogues

Supervisory Issues Related to closing the Retirement Protection Gap

26 November 2020

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Supervisory issues related to closing the retirement protection gap

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26 November 2020

WHO? WHAT? WHY?

NÁRODNÁ BANKA SLOVENSKA EUROSYSTÉM

THE WORLD BANK IBRD • IDA

IAIS INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

OECD

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TORONTOCENTRE Global Leadership in Financial Supervision

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CGAP

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Public vs. Private Pensions

Purpose of the Webinar

Pension Schemes in Post-COVID era

Incentives vs. Structural Reforms

Closing Retirement Protection Gap 1/2

Impacts of current developments to pension schemes

Key factors

- Employment developments
- Labour market changes
- Search for yield
- Solvency of defined pension schemes

Closing Retirement Protection Gap 2/2

Policy considerations

- Risk sharing between pension schemes
- Capacity to access additional funding
- Pension policy reforms continuity

Housekeeping Ideas for Further Discussion

Be interactive

Next steps

- Best Practice
- Questionnaire
- Examples

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THANK YOU FOR YOUR PARTICIPATION

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Pension income gap: role of supervisors

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Contents

- Income at retirement and pension income gap
- Areas that may affect income at retirement – focus on private pensions:
  - Policy areas
  - Supervisory areas
- Impact of Covid-19 on private pensions
- Conclusions

International Organisation of Pension Supervisors

- 90 Members and observers in 89 jurisdictions;
- is **a standard-setting body** on pension supervisory matters and regulating issues related to pension supervision;
- promotes **international co-operation** on pension supervision and facilitating contact between pension supervisors and other relevant parties;
- provides **a worldwide forum** for policy dialogue and exchange of information on pension supervision;
- participates in the work of relevant **international bodies** in the area of pensions, including joint activities to improve statistical collection and analysis;
- promotes, conducts and facilitates the distribution and communication of **research, and collecting information** in co-operation with relevant international bodies.

Income at retirement

- Typical measure of retirement financial well-being: replacement rate RR calculated as retirement income/ last salary
  - retirement income usually from various pillars (public, corporate, individual pensions)
  - variations (individual RR, average RR)
- European “(g)old standard” 70%.
- Now RR decreasing rapidly (20-30%?) due to
  - demographic changes (fertility, life span)
  - low interest rates (linked to demography)
  - indexation rules (price vs wage)
  - changing (or not improving) labour market structure (informality, zig-economy)
  - Covid-19 and any other systemic shocks (climate change?)

Impact of COVID-19 on private pension systems

- decreased values of **pension investments** with increased liquidity and counterparty risks;
- worsened **funding positions** of DB pension schemes;
- decreased values of **DC balances;**
- worsened **liquidity positions** of pension schemes;
- risk of **locking in investment losses** by some members;
- reduced **ability** of some employers and employees to continue paying their pension contributions;
- **operational disruptions** as a result of working remotely;
- increased risk of **pension scams, frauds and cyber-attacks** for pension scheme members;
- shrinking members' **trust and confidence** in the system as a long-term retirement savings vehicle.

Pension gap

- OECD definition (Pensions at a Glance, 2013) sees pension gap as an extra effort needed to achieve the average OECD replacement rate:
  - “The pension gap measures how much people would have to contribute to voluntary, private pensions to lift overall replacement rates from the national, mandatory level to the average for OECD countries.”
- In this presentation I use my own working definition, i.e. gap understood as a difference between income at retirement and actual expenditures at retirement…
  - …but it can also relate to gender (gap in income between women and men) or time (gap in income between current and future pensioners) aspects…
  - … one could also think about pension gap as a difference between desired, expected, or indispensable/minimum/poverty line income at retirement and the actual one

Areas impacting income at retirement from private pension systems

- Policy areas
  - Role public and private pensions (e.g. Iceland), level of redistribution (DB vs DC, guarantees – e.g. minimum pension), interaction with social policy (safety nets, social assistance vs non-contributory pensions – e.g. Chile)
  - Participation (mandatory, semi-mandatory – autoenrollment, industrial arrangements e.g. Netherlands, voluntary with/without incentives)
  - Industrial organisation (market structure and incentives for pension entities, their legal structure, collective vs individualised, decisions' complexity faced by members, for-profit vs non-for-profit, life-cycle funds and target-date funds, active-passive investment management)
  - Tax incentives (perception by public, targeting)
  - Financial education, financial literacy campaigns (costs, effectiveness, robustness over time)
  - Labour market (the key for public pensions and developing countries)

Areas impacting income at retirement from private pension systems

- Supervisory areas (non-exhaustive list)
  - Security/solvency (e.g. capital requirements) of pension entity and quality of its corporate governance (e.g. fit and proper requirements), especially for risk/investment management. Apart from monitoring compliance also providing guidelines – especially important for trustee-based systems
  - Investment (e.g. prudent person vs investment limits, NB limits/assets often political decision) – non-traditional assets (e.g. infrastructure, private equity, SPVs - Namibia), diversification of demographic risk (foreign investments)
  - Information disclosure & consumer protection (e.g. ombudsmen, claims setting, lost pensions)
  - Clarity of communication with members (e.g. pension projections – Belgium, Netherlands, Chile, or benefit statements –EIOPA)
  - Other areas if mandated: market conduct, market development, financial education

Areas impacting income at retirement from private pension systems

- Supervisory measures, recent trends
  - switching to RBS (risk-based supervision, e.g. IOPS RBS Toolkit) to increase efficiency of supervisory resources
  - focus on improving costs (e.g. marketing, fee auctions – Chile) and member outcomes risk-adjusted returns (e.g. benchmarking - Australia)
  - use of technology (mobiles, Internet) and behavioural science (e.g. framing of messages, encouraging microsavings) to increase pension coverage and voluntary savings (e.g. Mexico, Kenya), contributions sought at “output” (consumption) rather than “input” (wages) phase
  - response to COVID-19 (see IOPS Statement on pension supervisory actions to mitigate the consequences of the Covid-19 crisis)

Conclusions

- There is no magic way to create wealth. Income at retirement depends predominantly on country’s economic growth and its labour market, i.e. demography and public governance (quality of the state as organiser and arbiter of economic activities).

- However, within the existing constraints and institutions, efficiency of pension system can be improved (or worsen!) by policy measures with regard to pension system.

- Supervisors have an important role, too. Not only by providing stability to pension markets and security to pension market participants, but also by improving efficiency of pension saving process (cutting costs, improving risk-adjusted returns, facilitating processes, encouraging participation).

Pension Fund Regulatory and Development Authority (PFRDA)

Pension income gap: Role of supervisors

AII/IAIS/IOPS webinar "Supervisory issues related to closing the retirement protection gap"

26 November 2020

Pravesh Kumar , General Manager , PFRDA

Types of Retirement Benefits schemes

- Defined Benefit Scheme --- ‘PAYG’
- CPF – Contributory Provident Fund
- EPFO – EPF (Defined Contributory Scheme with Administered rate of Return and EPS (Defined Benefit Scheme with salary of less than Rs 15000)
- Pension plans by Insurance companies
- Superannuation funds & other schemes

(above mentioned schemes are managed by different regulators / departments)

- **Contributory Pension Schemes = At present , National Pension System (NPS) and Atal Pension Yojana (APY) are managed by PFRDA.**

Covid-19 – Short-term impact on the Pension Funds & outcome

- We have not seen any substantial impact on the inflows in our schemes i.e NPS and APY.
- Financial markets have shown down turn at the start of the pandemic (Feb - Apr 2020) but are stabilized post April 2020.
- Government has provided various stimulus packages for various sectors including loan moratorium to the borrowers including retail borrowers .
- Sectoral regulators in India (RBI , SEBI , IRDAI , PFRDA) have taken various measures to boost the sentiment of the markets .
- Considering the constrains faced due to COVID , all the regulators have relaxed certain regulatory and supervisory compliances to reduce the cost and ensure effective functioning during this period.
- Asset quality under NPS has not seen any deterioration .
- Diversification of investment in various asset classes i.e G-sec , SDL , Corporate Bonds , Equity , Money market instruments , AIFs etc has helped NPS to tide over this crisis and helped in generating good returns to the subscribers .
- Withdrawals under NPS and APY have also not gone up substantially in comparison to other schemes in India.

Growth under NPS and its various sub-segments as on Oct 2020

Growth Analysis - Scheme (segment) wise as on 31st October, 2020					
S.No.	Scheme Name	Mar-20	Oct-20	Growth Analysis Mar 20 to Oct 20	
				Amount (in INR Crores)	%
1	Central Government	138015	165711	27697	20.07
2	State Governments	211500	259890	48390	22.88
3	All Citizen & Corporate	53710	69383	15672	29.18
4	APY	10526	13610	3084	29.30
5	NPS Lite	3728	4158	430	11.53
Total		417479	512752	95273	22.82

Summary of Partial Withdrawal request processed during last 2 Financial years.

FY 2019-20		FY 20-21 (till Oct 2020)	
No. of Subscribers	Amount (in Crs)	No. of Subscribers	Amount (in Crs)
28130	177.68	16795	114.96

Partial withdrawal cases for the reason "Covid -19"

FY 20-21 (till Oct 2020)	
No. of Subscribers	Amount (in Crs)
115	0.94

Above data shows that there was no rush for the withdrawal during the Pandemic

* we some restriction on the partial withdrawals

Supervisory Monitoring with Respect of the Pension Funds

NPS Trust monitors the day to day operations of the pension funds and **PFRDA supervises the conduct of the pension funds** vis-à-vis their adherence to the regulations, guidelines or directions issued to them.

The Supervision Dept.(Pension Fund), PFRDA evaluates and monitors the following:

Offsite monitoring:

- Regulatory parameters like entity, group and Industry exposures (prudential norms)
- Examination of the quarterly audit reports, yearly detailed audit reports
- Regular monitoring and evaluation of the scheme portfolios
- Cyber security and outsourcing policy compliances
- Examination of quarterly supervisory certificates exclusively submitted to the Authority
- Monitoring of downgrades in investments
- Monitoring of Non-performing Assets
- Adherence to the investment guidelines stipulations by the pension funds
- Examine the exception reporting done by the NPS Trust on the operations of the pension funds and custodian and take remedial action if required.
- Analysis of various MIS reports obtained from Pension Funds

Onsite monitoring:

- Conduct of annual inspections of the Pension Funds and Custodian
- Closure or follow up for the previously conducted inspections

Regulatory relaxations implemented during COVID-19 crisis wrt supervision of Pension Funds

1. The Authority has allowed additional exposure of 5% of the corpus in the 'Short-term debt securities and related investments' in Scheme E-I, E-II, C-I and G-I under NPS so that the Pension Funds may deploy additional cash and cash equivalents during the highly volatile market conditions.

2. Pension Funds have been allowed to invest in listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates, including banks and public financial institutions which have a minimum residual maturity period of less than three years from the date of investment, subject to a maximum limit of 10% of the corporate bond portfolio of the Pension Fund.

Supervisory lessons learnt from COVID-19 crisis wrt supervision of Pension Funds

- Enabled work from home for the PFMs & it went on seamlessly.
- Importance of Disaster recovery (DR) sites and Business Continuity plans were tested because of shifting of work due to lock down.
- Threat to cyber security and ensuring the robustness of cyber system and security.
- Provided an opportunity to access the flexibility of regulatory & supervisory compliances.
- Strengthening of offsite monitoring and surveillance.
- Increase of analytics to access the risks and taking remedial measures.
- Volatility in the various markets has necessitated the need of robust research team and higher frequency of monitoring .
- Co-ordination among various regulators has resulted positive result and helped providing stability to the various financial markets.
- Pace of adaptability of new scenarios and requirements to mitigate the risks.
- Importance of digital platform in accessing various MIS/compliances from the intermediaries.

National Pension System (NPS) – Efforts made during COVID-19 to ease the operations for subscribers and to increase the coverage under private sector

- Intermediaries can use video based customer identification process (VCIP) for the purpose on onboarding, exit or any other service request related to NPS.
- D- remit Facility to contribute into individual pension account from Net Banking . It provides same day NAV.
- Nomination through e-sign facility .
- Withdrawal process at the time of Covid-19 - Exit allowed through scanned/ self-certified images of exit documents through digital means to process the withdrawal request.
- Allowed partial withdraw to the subscribers who were affected by COVID.
- Ease of on boarding in a paperless mode – OTP based authentication and offline Aadhaar KYC .

Coverage of population under Pension – Atal Pension Yojana (APY) – Efforts made during COVID-19 crisis for coverage of people under unorganized sector

- The APY SPs are encouraged for online/digital on-boarding of APY subscribers through various modes like through net-banking, APT app, etc.
- Performance review meeting of APYSPs are conducted through VCs.
- For motivating and appreciating the officials of APYSPs , the Digital certificates for performance are being provided.
- For promoting the APY , the digital media is being used optimally. More emphasis is given on Social Media Campaign.
- More frequent information dissemination to the subscribers are being done through SMS and emails.
-
- From July 2020, the facility of upgrading and downgrading Pension Slabs has been be opened throughout the year which was available only in the month of April only.
- Subscribers were permitted to deposit contributions for the April –July 2020 by Sep 2020 without any penal provisions.

Coverage of population under Pension – Atal Pension Yojana (APY) – Efforts made during COVID-19 crisis for coverage of people under unorganized sector

APY enrolments and exit during the Covid 19 period(April-Sept 2020)

	Enrolments	Exit
April	36504	38814
May	76914	38691
June	399533	40618
July	642824	48471
August	785648	74798
September	909947	88258

Above data shows that there was no impact in the new enrollment under the scheme however exit has shown upward trend during the Covid 19 period (April-Sept 2020)

Thank You

Q&A Session

Thank you.

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