DEVELOPING PRIVATE PENSION REGULATION AND SUPERVISION IN RUSSIA

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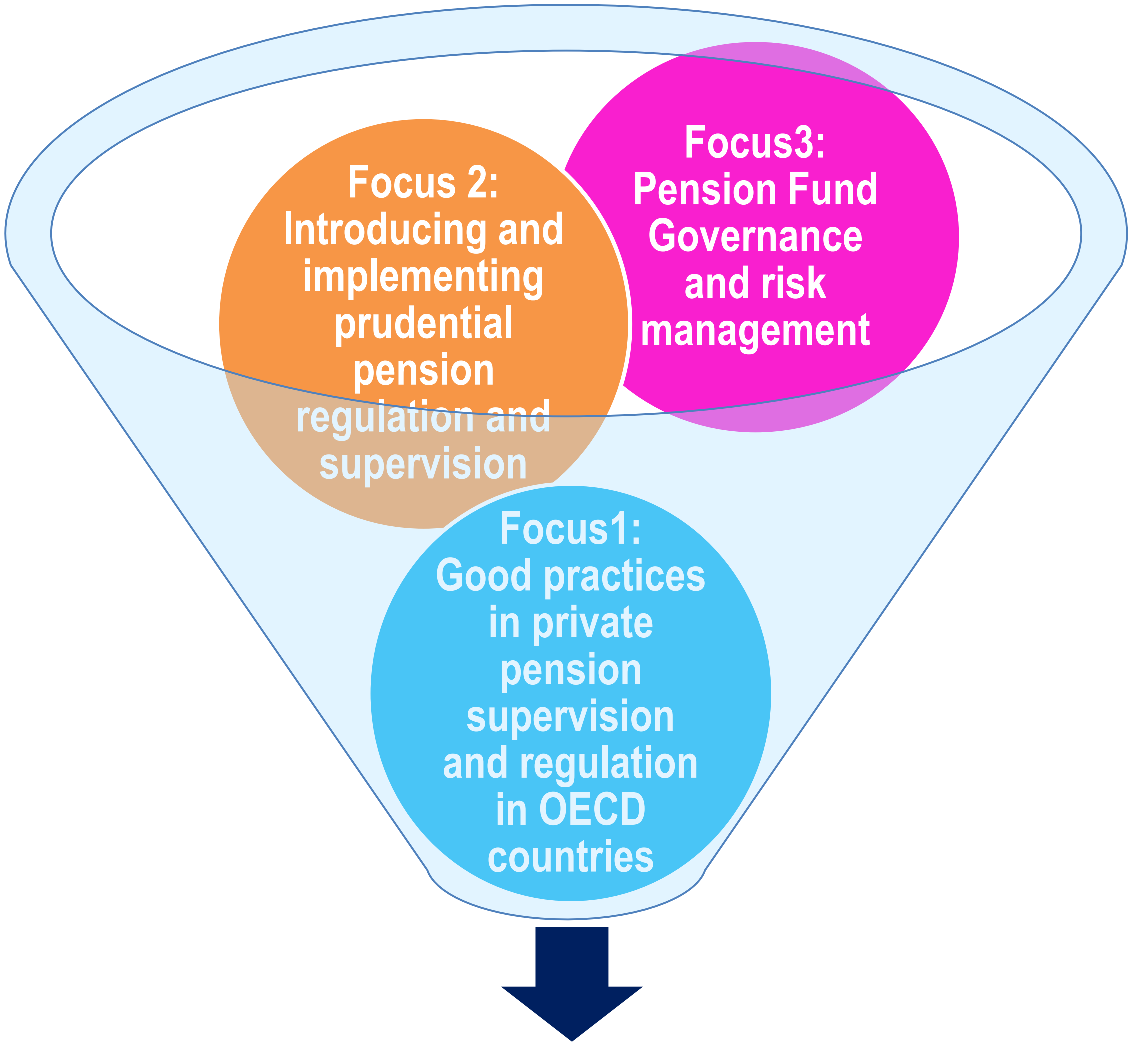
Asees Ahuja
Senior Consultant
Private Pension Unit
Financial Affairs division

BETTER POLICIES FOR BETTER LIVES

Developing prudential pension regulation and supervision in Russia



Bringing it all together!

The structure of today´s presentation

Key risks for effective prudential regulation and supervision in Russia

Implications of each risk scenario

The way forward

Risk 1: The preconditions for effective regulation and supervision are not stable

1. The mandatory funded scheme is no longer mandatory
2. The timing of the reform keeps has been continuously postponed
3. A number of changes are being introduced in the regulations steering the operations of NPFs
4. The structure of the pension supervision is being changed
   - The reorganisation can be tedious and costly

Implication: It is hard to hit a moving target!

1. Uncertainty about the size of the market
   - Member participation - individuals tend to be complacent
   - Re-licencing of market actors
2. Less diversification of risks if move away form a three pillar system
3. Pension supervision is difficult to plan
4. Negative implications for the development of financial markets

Way forward: Stay the course!

1. Create a politically stable and adequate private pension regulatory framework
2. Facilitate information disclosure to clearly communicate the impacts of individual´s choices
3. Ensure the independence and adequacy of the pension supervision and regulation

**Focus 1:
Good practices in private pension supervision and regulation in OECD countries**

Risk 2: Pension supervision has been fragmented and inefficient until now

1. The supervision and regulation of private pensions in Russia has been fragmented
   - Consolidating supervision under the CBR
   - BUT the FFMS currently only annexed to the CBR

2. Private pension regulation and supervision is compliance based
   - Focus on licensing and fulfilment of quantitative criteria
   - A significant number of funds participating in the private pension market
   - The funds differ in size

Implication: One size does not fit all

1. Supervision and regulation may not take a holistic view
   – Do not deal with the convergence of financial services and instruments

2. All the risks are not supervised
   – financial sector and market risks
   – subjective risks such as governance
   – Weak regulation and supervision of voluntary schemes

3. Tendency to impose unnecessary regulation to ensure prudent behaviour
   – Stringent investment regulations
   – Rigorous licencing procedures
   – The possibilities of smaller pension funds to compete can be compromised

Way forward: Create a consolidated, risk based framework

1. Ensure a smooth and full integration of pension supervision into the CBR
   – Integration of the FFMC
   – Supervision should not wane during the transition
   – A hybrid organisational structure creates synergies in different departments

2. A risk-based approach to supervision
   – Adapt supervision to a changing market
   – Manage ALL risks, but proportionately
   – "First line of Defence" reporting
   – Implement RBS gradually and flexibly
   – Build adequate human capital
   – Do not reinvent the wheel

Focus 2: Introducing and implementing prudential pension regulation and supervision

Risk 3: The operations of pension funds are unsynchronised with regulation

1. Pension funds have to adapt to new regulations
   – From not-for-profit to joint stock companies
   – Guarantees, funding criteria

2. Pension funds have to adapt to a changing market.
   – Competition and dealing with member choice
   – Market volatility
   – Low real returns and investment restrictions

3. Weak prudential regulation in certain areas
   – Governance
   – Risk management
   – Voluntary pension schemes
   – Pay-out phase

Implication: Returns and benefits may not be optimised

1. Inefficient competition – survival of the biggest?
2. High fees
3. Inefficient investment strategies
4. Low real returns
5. Conflicts of interest
6. Inefficient reporting to the CBR - especially with a move to RBS

Way forward: Prepare the market

Focus 3:
Pension Fund Governance and risk management

1. Guiding rather than imposing regulation
   – Prudent investor principle and moving away from quantitative restrictions
   – Maximise returns

2. Educate the market

3. Adopt sound risk management practices and good governance
   – Regular internal controls
   – Whistle-blowing obligations
   – Control all quantitative and qualitative risks
   – Reporting

Bringing it all together!

- Create politically stable and effective reforms to foster public confidence in the private pension system
- Create a consolidated and risk based supervision to monitor <u>all</u> market and systemic risks efficiently with adequate focus on private pensions
- Create conditions for good pension fund governance and risk management with the aim of maximising pension benefits

СПАСИБО!

Asees.Ahuja@oecd.org

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