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The Pensions Regulator

A new approach to regulation





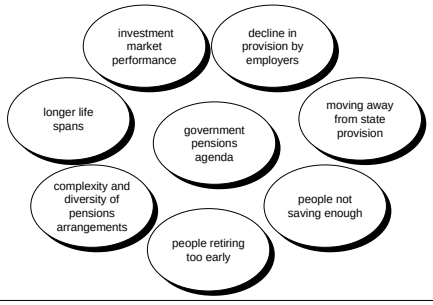
what we will cover today

- drivers for change
- proposed regulatory strategy
- next steps

drivers for change

- changing pensions environment
- learning from the last six years
- European legislation
- principles of good regulation

the pension environment



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the first six years

- lack of clarity about objectives and functions
- powers linked to breaches
- blanket whistle blowing
- reacting to all breaches and output focused
- similar regulatory approaches applied
- little market information or segmentation
- poor quality information

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Government reform

- security
  - ➢priority on wind up
  - ➢the Pensions Protection Fund
  - ➢the Pensions Regulator
- simplicity
  - ➢tax regime
- choice
  - ➢extended working lives

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vision

- “Working to improve confidence in work based pensions through protecting the benefits of scheme members and encouraging high standards and good practice in the running of schemes

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a new regulator that is…….

- outward looking
- proactive and flexible
- targeted and proportionate in its responses
- focused on outcomes
- brings about long term changes in behaviour
- effective and efficient

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statutory objectives

- protecting members’ benefits
- reduce calls on the Pensions Protection Fund
- promoting good administration

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a new approach to regulation

- focus resources where risk to members' benefits is greatest
- segment schemes according to risk assessment
- risk assessment based on information from schemes
- plus environmental scanning and themed work

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what is risk?

Oxford English Dictionary definition of risk…….

- *a situation involving exposure to danger*
- *the possibility that something unpleasant will happen*
- *a person or thing causing a risk or regarded in relation to risk: e.g. a fire risk*

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what is risk?

- Risk is assessed by combining a measure of the **impact** and **probability** or **likelihood** that something will happen

➢where impact is *a noticeable effect or influence*

➢and probability is *the extent to which something is likely to happen*

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a risk based approach to regulation

- we have used the term risk to mean **risks to members' benefits**
- to the regulator, mitigating risk means reducing the risk of members not receiving their benefits **to an acceptable level**

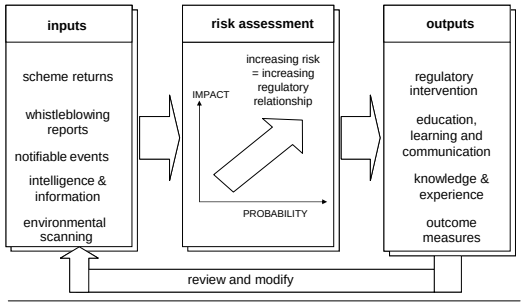
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risks to members' benefits

- funding ➢ *assets do not meet liabilities*
- investment ➢ *poor investment performance*
- administration ➢ *records are lost*
- trustee knowledge and understanding ➢ *trustees do not act properly*
- employer solvency ➢ *employer stops making payments*
- member understanding ➢ *member doesn't pay in enough*
- fraud ➢ *someone steals the funds*

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the segmented approach



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likely effect of scheme segmentation

- majority of schemes will be subject to automated monitoring through the scheme return
- active intervention where significant risks are identified
- very large schemes subject to ongoing monitoring and two- way communication
- very small schemes receive 'lighter touch' regulation

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the scheme return

- facilitates proactive identification of scheme risk
- allows quicker reaction to potential issues
- reduces ad hoc information demands on schemes
- facilitates identification of trends and themes

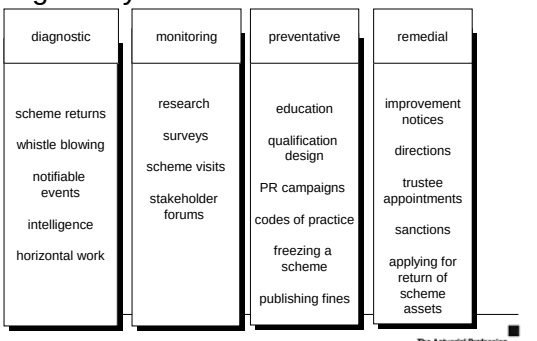
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testing the scheme return

- two pilots so far – December 03 and February 04
- positive response
- feedback incorporated
- issues to consider
  - multi employer schemes
  - electronic filing
  - pre-population
- further piloting later this year

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regulatory tools



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education and guidance

- detailed customer segmentation
- targeted messages
- web-based guidance
- electronic communication channels
- partnership working

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values

- providing excellent customer service
- achieving worthwhile results
- being professional in all we do
- working in partnership

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reality check

- we can't act on every issue
- we can't eliminate all risks
- we will have to work to improve and maintain the knowledge and expertise within the regulator
- we have to evaluate our progress and review our methods regularly

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next steps

- DWP led programme
- working in partnership
- industry consultation and communication
- piloting new ways of working
- Opra's business continuity

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