

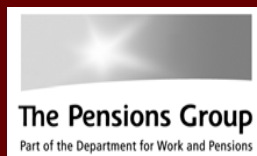


**The Actuarial Profession**

making financial sense of the future

# The Pensions Regulator

A new approach to regulation



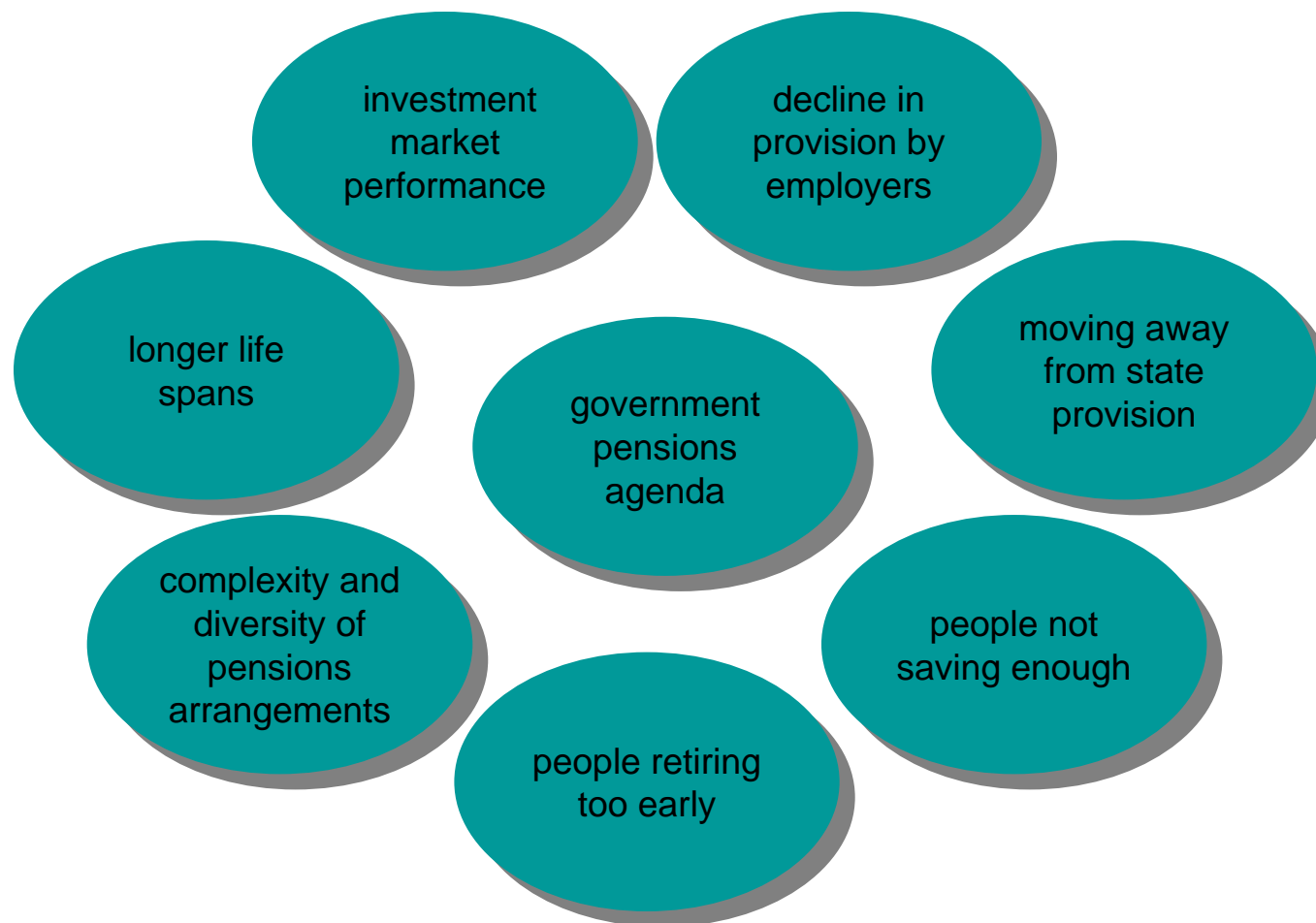
# what we will cover today

- 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



# 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

# Government reform

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

# 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

# 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



# statutory objectives

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

# 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

# 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*

# 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*

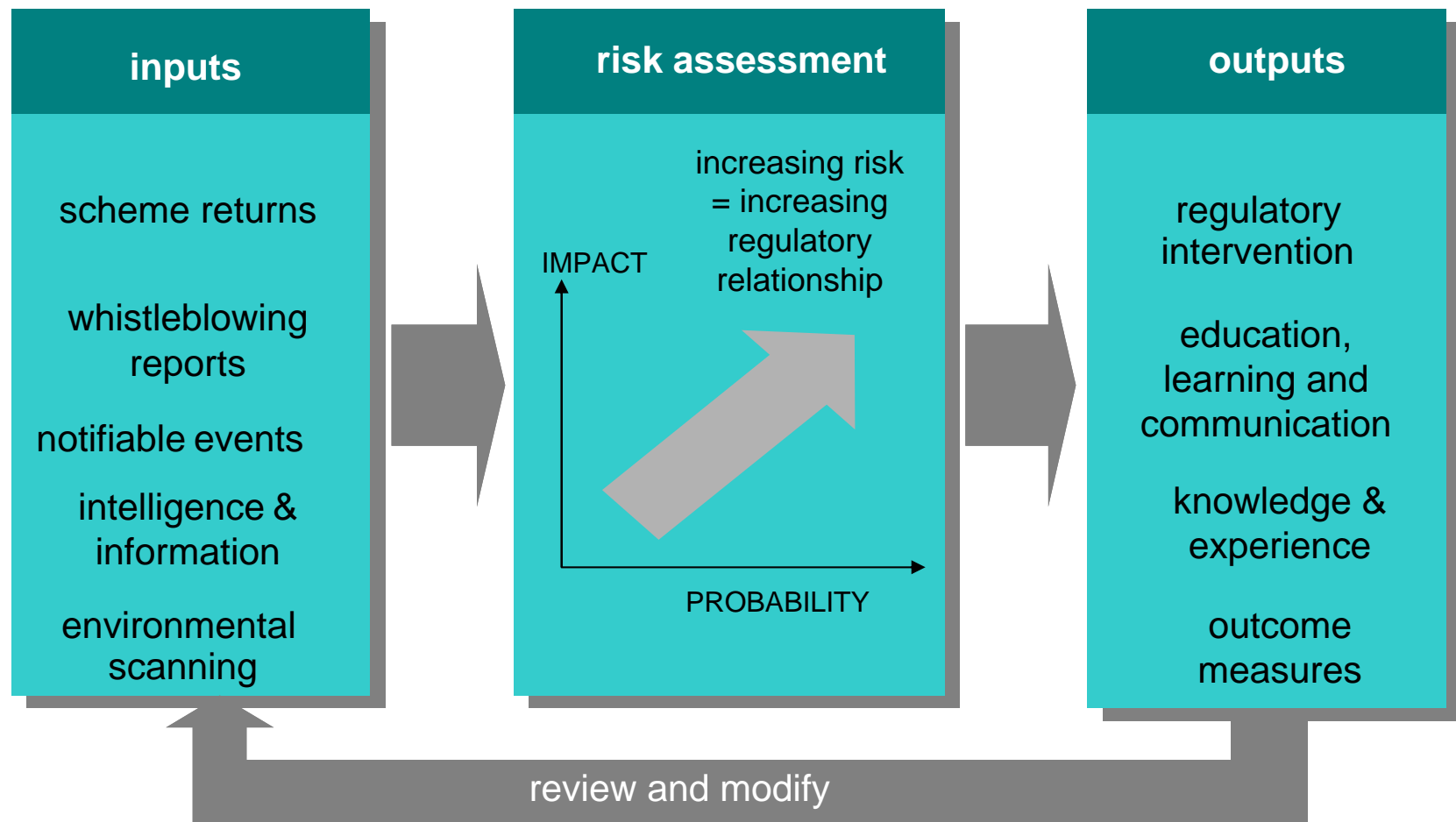
# a risk based approach to regulation

- 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**

# 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*

# the segmented approach



# 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



## 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

# 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

# regulatory tools



# education and guidance

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

# values

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

## *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

# next steps

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

