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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



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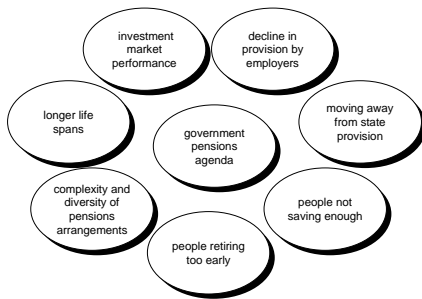
drivers for change

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



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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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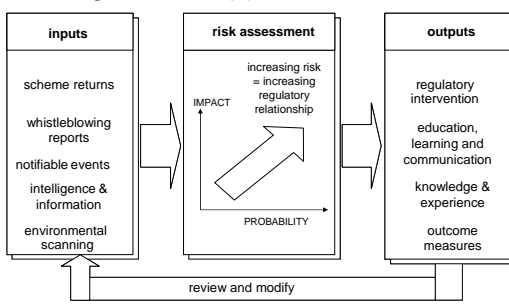
a risk based approach to regulation

- 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**

risks to members' benefits

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

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

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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

diagnostic	monitoring	preventative	remedial
scheme returns	research	education	improvement notices
whistle blowing	surveys	qualification design	directions
notifiable events	scheme visits	PR campaigns	trustee appointments
intelligence	stakeholder forums	codes of practice	sanctions
horizontal work		freezing a scheme	applying for return of scheme assets
		publishing fines	

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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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