Framework for Assessing the Effectiveness of Plan Administrators, Investment Managers and Trustees

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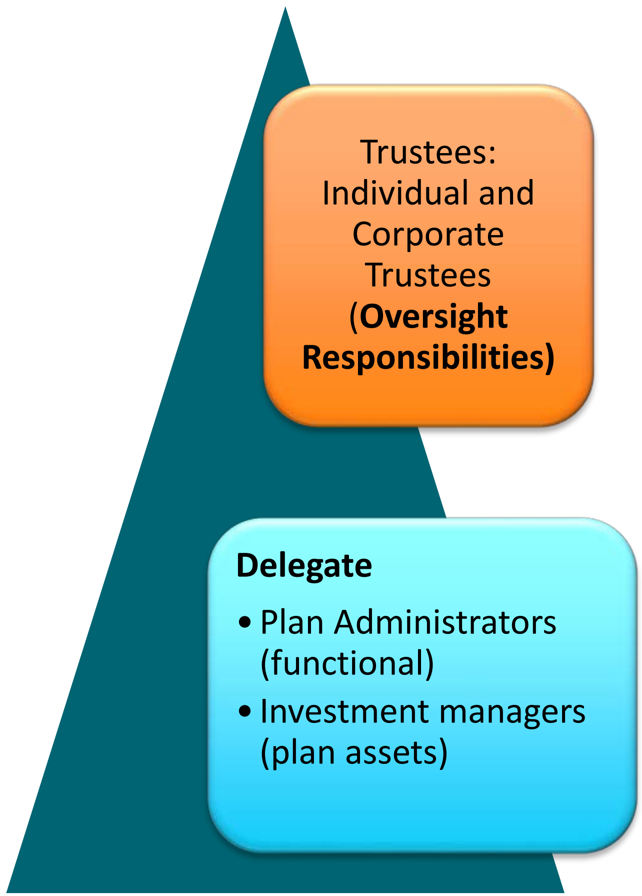
Agenda

- Context: Plan Administrators, Investment Managers (Intermediaries), Trustees
- Various Approaches to Supervision of Intermediaries/Trustees
- Main Challenges to the Supervision of Intermediaries
- Risk Based Approach: Powers and Objectives
- Documents used in the Assessment of Intermediaries
- Risk Based Approach: Framework & Regulatory Response
- Framework used to assess Trustees (Individual and Corporate)
- Decision Point: Regulated and non regulated entities and Trustees
- Highlights

Context: Plan Administrators, Investment Managers (Intermediaries), Trustees

- Responsibilities



Oversight Responsibilities

- **The Board of Trustees** (Individual and/or Corporate Trustees): ultimately responsible

Delegated responsibilities:

- **Plan administrators:** administers the plan e.g.. Benefit calculations, Benefit statements, statutory reports, record keeping
- **Investment mangers(corporate entity):** manages the plan’s assets, prepares reports

Self administer the plan

(Administrative and Investment Management functions)

Various Approaches to Supervision of Intermediaries/ Trustees

Intermediaries

- Supervisor supervises directly: e.g., Bermuda (admin), Chile, Costa Rica & Jamaica
- Intermediaries supervised by separate Regulator; e.g., the conduct of business authority; UK & Italy
- The responsibility is shared with other Regulators e.g., Austria and Hong Kong
- OSFI provides special monitoring of administration and asset management activities as part of the plan assessment
- Intermediaries/trustees are not regulated (corporate investment managers are regulated by another entity)

Trustees

- supervised by the Regulator e.g., Jamaica & UK

Main Challenges to Supervision of Intermediaries

Main Challenges	Remedies
High charges: Intermediaries fees will affect the rate of return of plans. Regulation controlling setting of fees does not exist in all jurisdictions.	**Require intermediaries to structure and disclose all fees (hidden fees);**
Conflicts of Interest: the intermediaries may have ties to the pension plan; rates, fees may not be at market value	**Prohibit investments of the plan in the business of the administrator or investment manager**
Inappropriate advice	**Publish or legislate conduct of business requirements**
Lack of knowledgeable intermediaries: affects how investments are made and the information given to Trustees/members	**Mandate that professionals satisfy certain knowledge requirements/courses**
Complex information is provided : does not aid the understanding of Trustees	**Request that information is provided in clear and simple language**
Poor Service and Insufficient Information	**Legislate the requirements for certain reports and content;** **Penalize intermediaries through higher ratings and increase Supervisory interventions**

Risk Based Approach: Powers

Powers to monitor and supervise

- Licence or register
- Request information within specific timelines and forms
- Take enforcement action
  - Issue notices for specific actions to be taken within a certain time
  - Obligation to take professional course
  - Temporary suspension
  - Cancel licences
  - Issue fines for breach of the law

Risk Based Approach: Objectives

Proactive: major risks are identified and necessary action taken to mitigate those risks

Focused: Resources should be placed where there are higher risks

Proportionate: Intervention activities of the regulator should consider the risks of the Intermediary

Consistent: The framework should encourage consistent application by the Regulator. For example, Investment Managers under similar circumstances should be treated the same way.

Documents used in the Assessment of Intermediaries

- Statutory reports
- Audited Financial Statements
- Annual reports
- Other requirements such as insurance; professional indemnity and fidelity guarantee insurance
- Promotional material
- Leverage reviews done by other industry sectors such as Securities and Insurance Regulators. FSC Jamaica incorporates these reviews within its early warning template

Risk Based Approach: Process

Identify the risks to the industry and categorize these risks

Risk Category and Factors (examples)

Reporting (Regulatory risks)		Internal controls (Operational risks)	
Consistent late submission of reports and poor quality	Failure to comply	Inadequate internal processes, staff and systems (e.g. poor record keeping, inaccurate calculations)	Ineffective decision making processes

Risk Based Approach: Process

Identify the risks to the industry and categorize these risks

Conduct of Business (Strategic risks)			Impact on Solvency (Financial risks)			
Media reports: misleading or false information	Significant corporate transactions	Significant number of complaints	check that the company meets any regulatory/ industry capital requirements	If no requirement, establish a benchmark	Assess profitability of the company	Insurance protects the company from administrative or financial errors

Risk Based Approach: Analysis

Risk scores

Use a tool to score and calculate:

- Individual risks
- the overall risks
- categorize risks to identify problem areas

Risk score: probability and impact to determine risk for each risk and overall risk score

- **Probability**: the likelihood of the risk occurring
- **Impact:** major factors that may trigger an adverse effect on the industry. E.g. assets under management and number of members

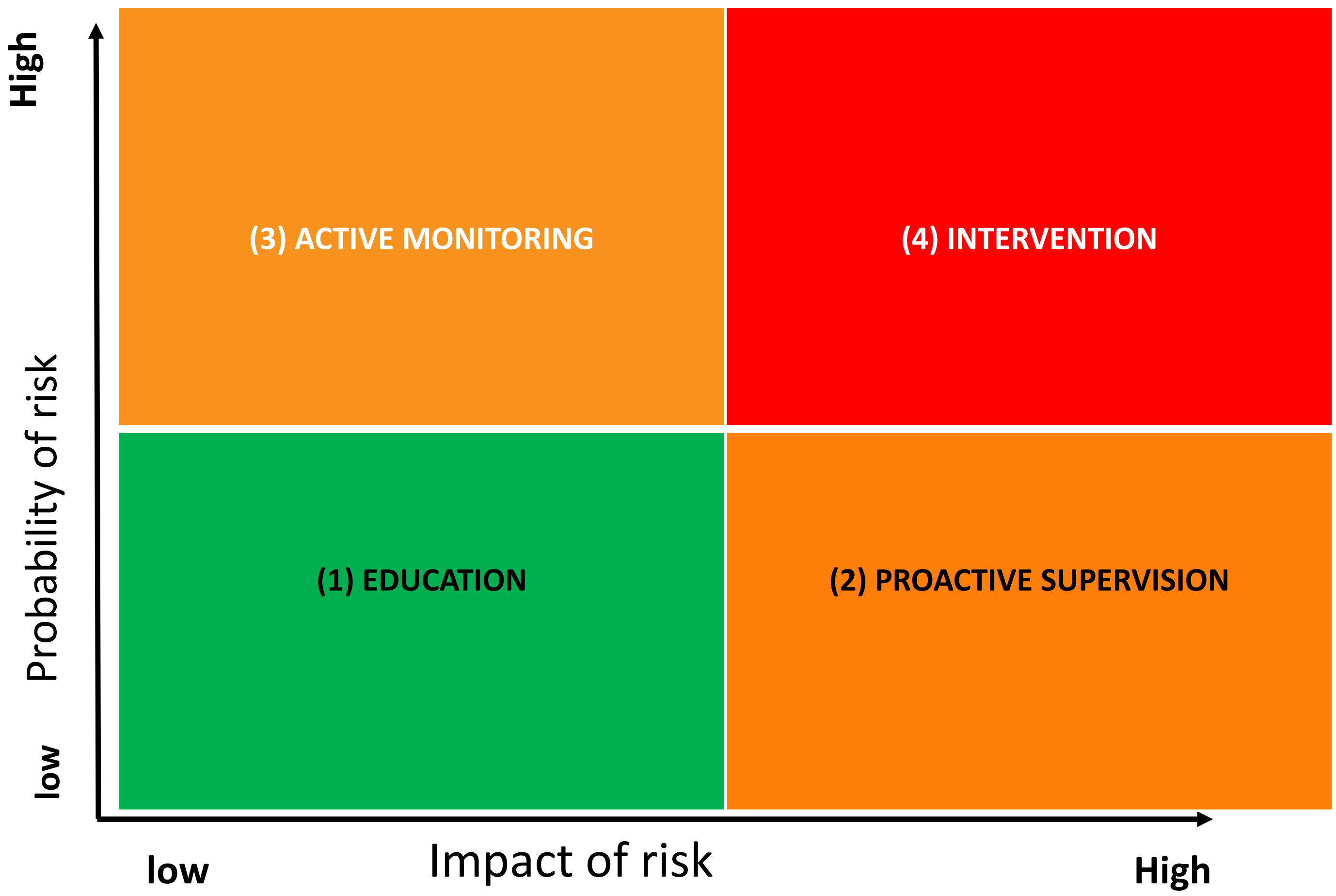
Supplemental: Include trend analysis, monitoring of agents by Trustees and reviews by other regulators

Risk Based Approach: Results and Action

Use the overall risk score to guide intervention

Immediate action based on initial score	Further analysis-in depth review (confirm or revise initial score) • Comprehensive • Targeted: Area of concern (risk category)	Onsite examination (combined with other reviews used to finalize risk score) • Comprehensive • Targeted: Area of concern (risk category)

Risk Based Approach: Summary Framework



Risk Based Approach: Regulatory Response

Examples of Intermediaries' Issues	Regulatory Responses (Intervention)
Quadrant 1: Education **Low risk, Low impact**	**Quadrant 1: Education** **Low risk, Low impact**
Investment managers with very little or no risk indicators If the impact based on plan size and assets on the industry is low	Provide these companies with relevant information as needed e.g.. Bulletins, industry training
Quadrant 2: Proactive Monitoring **Low risk, high impact**	**Quadrant 2: Proactive Monitoring** **Low risk, high impact**
Very large companies may fall within this category; Potential adverse impact on a large number of members or high asset value for a few members.	Assign onsite examination (operations, governance etc.) Ongoing monitoring of industry, sponsor

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Risk Based Approach: The Regulatory Response

Examples of Intermediaries' Issues	**Regulatory Responses (Intervention)**
Quadrant 3: Active Monitoring **High risk, Low Impact**	**Quadrant 3: Active Monitoring** **High risk, Low Impact**
Small companies with risk factors such as operating on a deficit	-Communicate with Intermediary, areas for improvement and recommendations. -A discussion with the company may be necessary -In depth review may be required -Potential onsite examination
Quadrant 4: Intervention **High Risk, High Impact**	**Quadrant 4: Intervention** **High Risk, High Impact**
-,High risk events e.g. Major risks facing intermediary industry - Major corporate restructuring which may have a potential adverse impact on plans under management - Significant member complaints; inaccurate statements; errors - Trustee complaints; consistent poor quality of reports, acting outside of agreement/SIPP; rate of return objectives/benchmarks are consistently not achieved	Regular meeting with the representatives of the company to address the highlighted issues. Plan of action to be developed. Reports to the regulator outlining any new issues and actions taken as agreed. Implementation of regulatory enforcement of appropriate sanctions or court proceedings.

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Framework Used to Assess Trustees

The Board of Trustees

- Corporate Trustees
- Individual Trustees

Supervision: (approaches)

- Registration: greater oversight
- Fit and proper assessments at registration and ongoing
- Legislation/guidelines on Trustees' roles and responsibilities: training, Trustee Toolkit(UK),Governance Regs. & Trustee Handbook(WIP)- Jamaica, Onsite examination; polices and procedures, Board minutes (how decisions are taken)
- Corporate Trustee: require submission of audited reports/annual reports, coordinate with other regulators

Self administered Plans

- the framework of the intermediaries becomes applicable

Decision Points

Jurisdictions with no regulation for Intermediaries and Trustees

- Should intermediaries be licenced or Trustees registered?
  - what information should be requested and the timeline
  - availability of resources/reliance on other regulators
  - Cost benefit analysis
- What additional information should be provided to guide Trustees
- How to assess the intermediaries? Risk Based Approach?

Jurisdictions with regulation for Intermediaries and Trustees

- Assess whether the current information being requested is adequate
- Is the current information efficiently utilized? Supporting mechanisms required?
- Apply the Risk Based Approach: focus and priority

Highlights

1. Assessment of Intermediaries and Trustees are critical
2. Acquire the necessary powers
3. Request relevant information to facilitate assessment
4. Utilize efficient method of supervision/RBA
5. Use the aggregate information to identify and address risks

Thank you!

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