GFIA comments on OECD Core Principles of Private Pension Regulation

GFIA acknowledges that the world is experiencing an unprecedented demographic transformation, which risks making it increasingly difficult to maintain an adequate living standard for retirees. Governments around the world should aim to increase the sustainability of their pension systems and complement statutory pensions with supplementary pension systems, arranged on an occupational and/or personal basis.

GFIA welcomes the updated OECD Core Principles of Private Pension Regulation, as they encourage more efficient regulation of occupational and personal pensions across countries and the sound management of very diverse pension systems. GFIA believes that the implementation of Core Principles can help develop pension markets and ultimately address the worldwide pension challenge.

GFIA agrees that consumer protection and information are paramount elements to ensure trust in the market and shares the OECD’s view that “appropriate disclosure and education should be promoted regarding benefits and members’ rights and responsibilities, especially when individual choice is offered”. However, policy measures that aim to protect members and beneficiaries should be proportionate and adapted to the characteristics of pension products and the specific choices that people in different jurisdictions have to make. With regard to disclosure, GFIA agrees that pension information should be designed to allow savers to properly understand the risks they may bear and help them make informed decisions to mitigate pension-related risks.

The ability to invest long-term is fundamental to match the long-term liabilities generated by pension products, on top of contributing to sustainable growth. Excessive capital requirements can prevent insurers from doing so. Therefore, GFIA appreciates that the Core Principles address prudential regulation and emphasise that it should be balanced, proportionate, and conducive to longer-term investment. Besides, solvency rules for pension providers should be based on a “same rules for same risks” approach.

GFIA however has some reservations on OECD Core Principles’ recommendation that “pension-fund assets should be legally separate from the assets of any other legal entity.” While preventing co-mingling of such assets with those of any sponsoring employer is prudent, third party custody, management and pooling of pension assets can reduce costs, enhance yield and provide significant benefit security, whether those assets are held as deposits, insurance contracts, or under a trust. Only the latter might be characterized as “legally separate”, while the former two structures would provide separate benefit interests. Clarification of the limited scope of any intended asset segregation would be useful.

Similarly, GFIA has concerns regarding the recommendation that “personal pension plans should, in general, be fully portable between providers”. To channel funding to long-term illiquid investments, insurers need to be able to generate long-term liabilities. If savers switch or surrender at any time - without any specific limit or minimum holding period – long-term investments would not be possible. Moreover, there is a risk that savers switch at the wrong moment, leading to lower individual investment returns and in turn less adequate pensions. For these reasons, it could be justified and in the interest of savers to have limits to the ability to switch personal pension providers and/or surrender.
With a long track record of tackling demographic challenges, life insurers are major providers of pension and long-term savings and income products that members and beneficiaries can trust. GFIA stands ready to collaborate with the OECD to ensure that private pension regulation is fit for purpose thereby contributing to sustainable and adequate pension systems.

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About GFIA
Through its 41 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 60 countries. These companies account for around 87% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.