IOPS Project: Impact of digitalisation on supervisory practices in private pension sector

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Aim of the project

- **Paper** reviews:
  - the major FinTech developments in private pension sector (some of them prompted by supervisors)
  - evolving supervisory approaches and practices to the most significant FinTech developments
  - the ways the supervisors are using innovative technologies to make oversight and communication more cost-effective and efficient
- Three countries' **case studies** form part of the project (Hong Kong (China), Kenya and Mexico)
- Depending on ultimate results, potentially to develop at Good Practices

Main observations

- **FinTech innovations** in private pension area are still **in a nascent and experimental stage**
  - Complexity and optionality with private pensions
  - Systems are highly regulated
- Certain FinTech developments observed **in most of the jurisdictions**
- Innovations are an area of **increased supervisory attention**. Supervisors adopt a *dual approach* by*:*
  - Offering support
  - Closely monitoring any emerging risks
- Pension supervisors in some cases [HK, MX, KE] are *at* **the forefront and are driving forward** innovation in pension sector

I. Use of digital technologies in private pension sector

- Expand coverage (informal sector, self-employed)
  - ➢ Use of mobile money transfer platforms/pension app.
    - ▪ Mbao pension plan in Kenya, using mobile companies' money transfer platforms (M-Pesa or Airtel Money)
    - ▪ In 2017: 100,000 members, assets Kshs. 130 mln
    - ▪ Challenges/lessons learned (voluntary nature of the plan, infrastructure to be further improved; diverse membership needs)
- Engaging individuals and encouraging retirement savings
  - ➢ Mobile applications, on-line platforms, dashboards
    - ▪ Offering pension services/key information on-line and in real time (ePA, HK)
    - ▪ Role of supervisors (MPFA, CONSAR)

I. Use of digital technologies in private pension sector

- Engaging individuals and encouraging retirement savings (cont.)
  - ➢ Building financial digital ecosystem (case study of Mexico)
    - ▪ Strategy for Digitalisation of the pension system (CONSAR)
    - ▪ Key elements: new regulatory framework, digital file, biometric authentication, mobility, SupTech
    - ▪ <u>Major results</u>: complete visibility/audit of operational transactions

          commercial malpractice diminished

          commercial expenses decreased

          100% paperless operations and communications

          voluntary savings increased (15 to 65 bn pesos)
  - ➢ Digital initiatives MPFA focusing on trustees, intermediaries, scheme members, SupTech

I. Use of digital technologies in private pension sector (cont.)

- Improve administration, operational efficiency and pension services
- Use of cloud technology and on-line platforms
  - Measures to centralise and automate pension schemes administration (e-MPF system, HK)
  - UK – for auto-enrolment, Iceland, others
- Investment process
- Rapid emergence of crypto-currencies
  - Potential issue of concern for pension supervisors
  - Such investments (indirect via hedge funds) are either not regulated or not allowed (BG, CO, NI)
  - Experience of an Ontario pension plan

I. Use of digital technologies in private pension sector (cont.)

- RegTech – early stage of development
  - Blochchain, AI, big data, cloud computing – emerging technological trends in this area
  - Only limited experiences in this area, mainly to support KYC compliance
  - Shared utilities/information – online platforms, cloud tech.
  - Technology that converts regulatory/supervisory text into a programming learning [machine readable regulations or supervisory guidance]
  - Robo-handbooks – technology that allows firms to interact with regulatory/supervisory requirements and understand its impact on their system and processes
  - Modelling/visualisation technology that can help understand impact of regulation before its adoption, etc.

II. Supervisory approaches to FinTech

Advancements of digital technologies in financial sector become **important focus** for supervisory authorities:

- To reflect/implement right-size regulations
  - BR, HK, IN, MU, MX, LI

- To support financial innovation
  - Maintaining close dialogue/working with the industry and other stakeholders
    - Meetings, guidance (ASIC, MPFA), interactions through Authorities' website
  - Creating an environment to test innovative ideas or products
    - Innovative hubs, FinTech supervisory Sandboxes, etc.

- To closely monitor and address any potential risks
  Remain proactive and forward-looking

II. Supervisory approaches to FinTech

Other supervisory measures

- Developing supervisory skills and resources
  - Learning more and understanding better FinTech
    - Creation of dedicate Unit/Division; joint Units between authorities
    - Organisation of training sessions for staff
- Publicity and launching of organising awareness campaigns
- Maintaining close co-operation
  - Joint FinTech Working Groups/Committees
  - MoUs (LI-SG), FinTech bridge (UK-AU)

III. Use of technology by supervisors

- Use of innovative technologies by public authorities
  - ➤ Blockchain, cloud technologies: IBM report
- Supervisory authorities – **early stage of use** of innovative technology, but much interest to learn
- Collected experiences:
  - Putting certain regulatory and supervisory services on-line (licensing/registration, lodging complaints)
  - IT solutions to streamline reporting
  - Creation of a fully automated data collection and standardisation of the process to receive granular data
  - On-line platforms to facilitate remote on-site inspections
  - ▪ Technological platform to supervise AFOREs (MX)
  - ▪ HK experience, Liechtenstein (e-Service platform), MU

III. Use of technology by supervisors (cont.)

- Creation of single centralised pension database (BE, Province of Alberta (CA), FI, GG, MX)
- Record and sharing of supervisory data between supervisors (blockchain/DLT technologies)
- On-line whistleblowing mechanisms

Benefits of the use of innovative technologies by supervisors

- IT solutions to streamline reporting/fully automated data collection

  → Collection of granular data, which can be accessed and used any time → more straightforward compliance

- Analysis tools

  → provide for more controls that allow early alerts/detection of conduct issues

- Central database or online platforms

  → direct and on-line access to information

  → reduce time for supervisory responses

  → better visibility pension service providers' activities

  → more proactive, structured, (risk) focused supervision

Next steps

- Members are invited to check and complete country information

- Provide comments <u>by 29 June 2018</u>

- Further interactions with the Team Members to finalise the project

- New draft will be prepared for discussion at the next Technical Committee meeting to be held on 24 October 2018 in Beijing, China.