



# **RISK-BASED SUPERVISION**

## **R.B.S.**

### **SOME REFLECTIONS**

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2. CURRENT SITUATION
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# SUPERVISION ACTIVITY : GOALS



# GOALS

1. **STABILITY**
2. **CONFIDENCE: AVOID UNCERTAINTY**
3. **FOSTERING: IMPROVE QUALITY & SOLVENCY**
4. **PROTECTION**



# CURRENT SITUATION



- CURRENT ADMINISTRATIVE MEASURES
  - DIVERSIFICATION RULES
  - DISPERSION RULES
  - CONCENTRATION RULES
  - TYPE OF ASSETS
  - ASSESSMENT RULES
  - ACTUARIAL METHODS REVIEW
    - ECONOMIC ASSUMPTIONS
    - DEMOGRAPHIC ASSUMPTIONS
  - SOLVENCY MARGIN
  - TECHNICAL PROVISIONS



- ASPECTS TO IMPROVE:
  - FLEXIBILITY
  - FAIR PLAY
  - EQUALITY: TREAT IN DIFFERENT MANNER DIFFERENT SITUATIONS
  - RIGOR& PROFESSIONALISM
  - AUTARKY: INTERNATIONAL COORDINATION



# NEW FRAMEWORK.



- **U.E. MACROECONOMIC ASSUMPTIONS**
  - LOW INTEREST RATE & PRICES
  - STABILITY AND GROWTH **PACT**
  - **GOPES**: STRUCTURAL REFORMS
- **INSTITUTIONAL FRAMEWORK**: LAMFALUSSY
- **FINANCIAL FRAMEWORK**
  - FINANCIAL SERVICES ACTION PLAN ( 2000/2005)
  - COOPERATION:OECD/FMI/BASLE/IOSCO/IAISS/ASSAL
  - FISCAL HARMONIZATION
- **SOCIAL ITEMS**
  - WELFARE STATE: REREAD
  - VESTED RIGHT : CROSS-BORDER PORTABILITY
  - IORP DIRECTIVE 41/2003, JUNE, 3<sup>TH</sup>



# PENSION FUND RISKS: SOME REFLECTIONS



- RISK TAXONOMY

- Market risk variability in the market value of assets.
- Credit risk: non-recovery of receivables.
- Operational risk: internal failures in systems and processes: fraud, error, incompetence, misselling, criminal intentions, etc..
- Liquidity risk: not being able to liquidate its assets to meet financial obligations.
- Matching risk: liabilities and assets are not appropriately matched: currency & timing mismatch, interest rate risk and inflation risk, etc.
- Legal risk associated with the financial impact of changes in regulation and law.
- Systemic risks related to local or global economic or social factors that will indirectly have an impact on the industry.
- etc.



- RISK TREATMENT
  - SUPERVISION ONLY OF SOME OF THEM:
  - SCARCE LINKS WITH REAL BUSSINES
  - NO DIFFERENCE BETWEEN ENTITIES,  
SECTORS, GROUPS AND CONGLOMERATES
  - ROLE OF THE COURT
    - JURISPRUDENCE
    - LEGALITY PRINCIPLE



# RISK BASED SUPERVISION (R.B.S)



- IT'S POSSIBLE TO COMPLETE THE CURRENT SYSTEM WITH RISK SUPERVISION MODELS :
  - INDIVIDUAL MONITORING & CONTROL
  - COMBINING QUALITATIVE AND CUANTITATIVE ELEMENTS
  - EACH PENSION FUND MUST COMPULSORILY DEVELOPS A INTERNAL CONTROL SYSTEMS



- INDIVIDUAL MONITORING & CONTROL OF EACH PENSION FUND, ACCORDING TO THEIR PECULIARITIES:
  - STRUCTURE: GROUP & CONGLOMERATES
  - GUIDELINES AND POLICIES
  - HUMAN & MATERIAL RESOURCES
  - QUALITY & WHOLE & FLUIDITY OF INTERNAL INFORMATION
  - AUDIT



## – REVIEW INDIVIDUAL RISK MANAGEMENT MODELS

- KINDS OF RISKS STANDINGS IN THE PENSION FUND
- RISKS MEASURE
  - FACTORS TO MITIGATE
  - FACTORS TO INTENSIFY
- TO JUDGE CONTROLS SUITABILITY
- IF WERE NECESSARY TO CORRECT OR TO MEND THE SITUATION
- TRANSFORM IN ECONOMIC TERMS: ADITIONAL OWN FUNDS.



# CONCLUSIONS