

Summary

Whose responsibility? - State
supervision of information on the
occupational pension market
(RiR 2013:1)



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Whose responsibility?

- State supervision of information on the occupational pension market RiR 2012:16

The Swedish National Audit Office (Swedish NAO) has audited the efficiency of the occupational pension market supervision performed by Finansinspektionen (the Swedish Financial Supervisory Authority) and Konsumentverket (the Swedish Consumer Agency). The occupational pension affects many people and has, due to the reform of the public pension system, an even greater impact on the final pension. Around 90 per cent of workers are covered by a collectively agreed occupational pension. Calculations reveal that the occupational pension could constitute up to half of the final pension. The collectively agreed occupational pension is primarily regulated by social partners whilst the State works towards sound consumer protection and supervises the market.

Audit background

Motive: There are a number of factors that a consumer on the occupational pension market should take into consideration when choosing a pension fund manager and type of occupational pension. Information about these factors is issued by life insurance companies and others. In accordance with the Government's consumer policy goals, information directed to consumers must be easily accessible and trustworthy. Consumers have a responsibility to be active, whilst the authorities shall endeavour via their supervision to ensure information is presented in a way that helps consumers to make informed choices.

Studies show that many pension savers have difficulty understanding the information they receive from companies. The media and other actors on the occupational pension market have also on a number of occasions criticised the pension system and pointed to a lack of transparency regarding life insurance companies' terms for occupational pensions. A brief comparison with a previous audit from the Swedish NAO reveals that supervision is still limited in areas of importance to the consumer.

Aim: The aim of the Swedish NAO's audit was to study the efficiency in Finansinspektionen's and Konsumentverket's supervision from a consumer perspective. In order to do so, the Swedish NAO has based the study on the following question:

Have Finansinspektionen's and Konsumentverket's supervision ensured that consumers are able to make informed choices in the occupational pension system?

Starting points: The Swedish NAO has based its work on the Government's consumer policy goal, i.e. that consumers have the power and the opportunity to make active choices. The goal is based on consumers' ability to be active and make informed choices. This means that consumers have a responsibility to be active, whilst consumer policy should provide consumers with the necessary tools.

The consumer policy goal is further clarified in two underlying goals: *broad consumer protection at a high level* and *the provision of easily accessible and reliable consumer information*. 'Easily accessible' and 'reliable' implies that consumer information should be formulated in accordance with the needs of the consumers. Furthermore, the high level of consumer protection should be achieved by means of effective supervision. The Government clarifies that effective supervision also includes "... assessing whether information directed to consumers is easily accessible and reliable".¹

¹ Budget bill for 2008, Govt. bill. 2007/08:1, p. 60.

Audit findings

The regulatory framework is a satisfactory foundation for supervision

The supervision of consumer information requires the existence of rules and regulations that support the goal of sufficient and appropriate information for consumers. The audit reveals that Finansinspektionen and Konsumentverket, as well as the researchers behind the report "Better regulation of consumer information in the area of financial services"², consider the current regulatory framework to be a satisfactory foundation for supervision. The Swedish NAO's assessment is therefore that the regulatory framework does not constitute an obstacle to supervision in the area.

Consumers are unable to make informed decisions

The audit reveals that there is a lack of information on the assumptions that occupational pension disbursement is based on. The assumptions concerned are predicted interest rates and life expectancy. Nor does the consumer receive information on certain fees. The Swedish NAO therefore considers the consumer information to be insufficient.

The information that consumers receive is presented in a manner that makes it difficult to understand. Research shows that the formulation of the information has a significant impact on how the consumer chooses to act. It is therefore important for the information to be tailored in accordance with consumer needs. One example is the accountability of fees. Both research and consumer surveys show that the average consumer finds it difficult to understand how fees affect capital in the long term. Despite this, no outlining of the long-term effects of fees on occupational pension capital is performed. The Swedish NAO therefore does not consider the information to be tailored to the needs of consumers.

The Swedish NAO's conclusion is that consumers have received information which is insufficient and not tailored to their needs. Finansinspektionen and Konsumentverket have not focused their supervision on rectifying deficiencies in the information on the collectively agreed occupational pension market.

Finansinspektionen's supervision of consumer information is insufficient

The Swedish NAO's review of Finansinspektionen's supervision reveals that the authority has prioritised the supervision of financial stability over that of consumer information. Furthermore, Finansinspektionen has not had any specific goals for the supervision of consumer information.

During the reorganisation of 2009, the previous departments were replaced with departments organised by subject area. In connection with this, the reporting on the field of consumer protection has reduced in scale.

Finansinspektionen's reports and surveys reveal that the authority has been aware of problems on the pension market for a number of years. The authority has also learned of deficiencies in consumer information in the occupational pension sector via the Swedish Consumers Insurance Bureau. Despite this, Finansinspektionen has not carried out any direct supervisory initiatives such as investigations and sanctions in the occupational pension sector. The initiatives have been limited to informal contacts and dialogue with individual companies. Finansinspektionen has prioritised the supervision of financial stability over that of consumer information. The Swedish NAO's overall assessment is that Finansinspektionen's supervision of the area is insufficient.

² Anderson och Korling (2012).

Konsumentverket prioritises other markets

Konsumentverket has not prioritised the occupational pension market, despite the fact that it covers around 90 per cent of workers and may constitute up to half of an individual's pension.

Konsumentverket has done a certain amount of surveying of the insurance sector in general. The Swedish NAO deems that the problems identified by the authority also apply, wholly or in part, to the collectively agreed occupational pension market. Konsumentverket also receives information from the Swedish Consumers Insurance Bureau regarding consumer issues in the occupational pension sector and others. The authority is therefore aware of the problem but has not taken any measures to improve the information consumers receive on occupational pensions. Konsumentverket has not prioritised the occupational pension market, despite its importance for the consumer. The Swedish NAO's assessment is therefore that Konsumentverket's supervision of the area is insufficient.

Social partners were not aware of all factors

In negotiations surrounding the collectively agreed occupational pension, social partners have not set requirements for all important information to be made available to workers. The Swedish NAO can also establish that the partners' agreements have not entailed assisting the consumer in making informed choices.

The Government's prioritisations have no impact

The Government is conducting a number of different initiatives in the area of consumer protection. Examples of special investments initiated by the Government are targeted training initiatives. The effects of such initiatives are however limited according to research. The Government is also investing in raising consumers' level of knowledge within private economy at the upper secondary school level. Such investments can strengthen consumers' position on the financial market in the long term.

In order to reduce the problem in the short term, however, supervisory initiatives aimed to improve information for consumers are required. The Government states that the work to improve information relating to financial issues is prioritised. The Government has however not ensured that the prioritisation is reflected in the authorities' supervision on the occupational pension market.

Swedish NAO's overall assessment

The Swedish NAO's overall assessment is that Finansinspektionen and Konsumentverket have not endeavoured to ensure that consumers have the opportunity to make informed decisions in the occupational pension system. The Swedish NAO therefore draw the conclusion that the authorities have not fulfilled their supervisory responsibility in the area.

The Swedish National Audit Office's recommendations

Based on the results of the audit, the Swedish NAO makes the following recommendations:

To the Government:

- Take measures to ensure that Finansinspektionen and Konsumentverket fulfil their supervisory responsibility in the occupational pension sector.

To Finansinspektionen:

- Increase their supervision of the information provided by life insurance companies to consumers in the occupational pension sector, so that consumers can make informed choices.

- Define concrete goals for the supervision of consumer information and specify the various roles and division of responsibility in order to clarify how the work is to be carried out.
- Develop the cooperation with the Swedish Consumers Insurance Bureau so that consumer issues can be more speedily rectified.

To Konsumentverket:

- Take or propose measures to strengthen consumers' position in the collectively agreed occupational pension sector.
- Use available methodological tools for the analysis of problems in the occupational pension market, and take measures based on the analyses.