Salutations:

Mrs Nicolette Jenez, President of the Caribbean Association of Pension Supervisors (CAPS);

Mrs Rosina Knight, Vice President, CAPS;

Distinguished Presenters & Discussants;

Fellow Regulators; Ladies & Gentlemen…

Good Morning.

Introduction

It is my pleasure to address the conference this year. I am delighted that after three years of virtual meetings the organizers were able to marshal us into a face to face setting, providing us the opportunity to better connect and engage with each other.

From the topic at hand, key themes that stand out include: the importance of resilience; the protection of the industry; as well as the transformation of the industry. These themes are paramount given the many changes in the financial sector over the last decade, and most recently, changes necessitated by the Corona Virus (COVID-19) pandemic.

The pandemic up-ended strategies, and prescribed a ***new normal…*** a new normal for work, a new normal for engagement, and a new normal for conducting business. It exposed existing vulnerabilities and created new challenges. The pandemic further accelerated the pace of change to an extent that was once unimaginable, which in turn, continues to require us to not only adapt, but to balance near-term crisis solutions with the treatment of risks over the medium- and long-term.

The main theme of the conference is resilience and the need to reinforce it in what remains a challenging and highly uncertain environment. It is within this context, that I'll open today with an overview of the uncertainty and risks currently faced in the sector, detail the importance of building resilience and enhancing protection, and finally, introduce next steps for technical solutions that our distinguished presenters will discuss in detail.

A. Uncertainty and Risks

Current Economic Challenges:

Without a doubt, the last three years have been challenging. The pandemic triggered the largest global economic crisis in more than a century[1], highlighting pre-existing vulnerabilities, including rising corporate debt, increasing sovereign debt, fragility in non-deposit-taking institutions, and declining profitability in some deposit-taking systems regionally.

The intensification of inflationary pressures, and the associated tightening in global financial conditions since the pandemic led to a material deterioration in economic outlook for the region, and resulted in, inter alia, the following economic shocks:

i. Volatility in financial markets, with significant rises in government bond yields and large fluctuations in exchange rates.
ii. Significant deterioration of the global economic outlook;
iii. Heightened geopolitical risks; and
iv. Recessionary fears as leading multi-national organizations, the International Monetary Fund (IMF) and the World Bank, have forecast lower GDP growth for many countries[2].

Impact on Defined Benefit Pension Plans:

Defined benefit (DB) pension plans were affected by the spikes in market volatility. As a result of this, global pension funds were impacted, with the severity of shocks varying from country to country and plan to plan. Examples include, inter alia:

a. **Worsened credit risks:** individuals, corporate entities, and governments saw less revenue, that resulted in increased non-performing loans, deficits, and national debt;
b. **Lower investment returns**: lower returns diminish asset values, while low yields on public debt instruments increase the present value of liabilities;

[1] https://www.worldbank.org/en/publication/wdr2022/brief/chapter-1-introduction-the-economic-impacts-of-the-covid-19-crisis
[2] https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023#:~:text=The%20baseline%20forecast%20is%20for,at%203.0%20percent%20in%202024.

c. **Negative operating cash flows**: the disruption in economic activities impacted the capacity of sponsors and members to make contributions, resulting in a significant decline in contributions and investment returns; and

d. **Asset price shocks**: the value of liabilities exceeded the value of assets, causing a deterioration in funding and solvency positions for DB pension plans.

For us here in Jamaica, these macro-financial pressures have resulted in a marginal decline of 1.4 per cent in pensions asset to JMD$703 billion as at December 2022 relative to December 2021 (JMD$713.4 billion). Additionally, pre-COVID-19 annual compounded growth rate of 15.7 per cent has decelerated to an estimated 3.0 per cent post-COVID-19.

Other Challenges:

Regionally, the financial sector has grown at pace, resulting in a larger, outward-looking, more complex sector, which includes new business models driven by innovation and advancements in technology. In this vein, the sector continues to be challenged by threats associated with these rapid technological advancements, including the changing demographics and increased cybercrime and fraudulent activities.

There are also internal risk factors that must be properly managed, to include the following non-exhaustive list:

i. Over crediting of interest;

ii. Failure to ensure that actuarial assumptions are reasonable and incorporate actuarial assessments in organisational planning and investment policy;

iii. Related party risk and lack of diversification, which impact pension adequacy through insufficient returns; and

iv. The search for higher yields. It is crucial to have the right balance between risk and return ensuring plans have real returns without undue risk, underscored by sufficient market research.

B. The Importance of Resilience:

A resilient system has the capacity to respond to shocks, large and small, and to innovate appropriately over time. While we cannot anticipate every shock type, we can build resilience.

Following the financial crisis, substantial progress was made in rebuilding the resilience of financial systems, which restored confidence and trust in their functioning. That resilience put systems in a better position to absorb some pandemic related shocks, effectively support economies, consumers and investors, and mitigate the worst economic and financial effects.

Notwithstanding, the system is currently in need of restoration to ensure its readiness to navigate any potential challenges and shocks, and maintain its ability to "***enhance protection amid macro uncertainty and systemic risk***". We all as regulators must cultivate strategies to rebuild resilience over time, including addressing old vulnerabilities and testing for new ones. In that respect, what recent and current shocks show us is the need to think more deeply about how we view risks and probabilities, and how we build resilience.

Macro-prudential Framework for Defined Benefit Pension Plans:

As you know, DB pension plans are invested in different asset classes, such as bonds, stocks, real estate, and cash equivalents (short-term securities). During 2022, bonds and stocks suffered major losses due to supply chain disruptions, sustained high interest and inflation rates, and international geopolitics that negatively impacted pension funds globally. Accordingly, intervention was required at a global level.

Thanks to resilience, the international outlook is for stability to return to financial markets. Still, systemic vulnerabilities were highlighted, which gave rise to market integrity and financial stability concerns. In that regard, while we monitor the global market, there is a need to enhance and develop, where necessary, a complete macro-prudential framework for the sector to mitigate systemic risk and ensure that services continue to be effectively provided.

C. Conclusion: Thinking About New Probabilities

Albert Einstein once said, ***"In the midst of every crisis lies great opportunity."*** There are opportunities for us to be better enabled to manage these challenges.

Preparedness and resilience are critical, not just in the face of shocks, but in the face of the rapidly changing nature of the financial services sector itself. Regulation is about supporting positive outcomes. As Regulators, our focus is simple: we want to enable the benefits of change, innovation and competition for consumers, investors, and the economy as a whole while ensuring risks are managed.

Some regional pension funds are showing signs of recovery from the losses of 2022. Notwithstanding, the following areas are essential to rebuilding continued resilience in the system.

1. **Risk-based approach to supervision**: we should commit to accelerating the development and implementation of the risk-based supervisory approach, such that it becomes more agile and scalable.

2. **Enhancement of the consumer protection and market conduct framework:** In addition to the above, the interests of consumers are paramount. Accordingly, a thorough review of the consumer protection and market conduct frameworks can be undertaken to ensure they are suitably robust to address risks and emerging trends, and better protect consumers.

3. **Effective governance:** Effective governance, accountability, behaviours and conduct in our institutions, is essential if the sector is to be resilient, trustworthy, adapt to shocks and rise to the challenges ahead. The relevant agents of pension plans must ensure robust risk management strategies are employed.

4. **Enhancement of AML/CFT framework:** A focus on anti-money laundering and countering terrorist financing is paramount. Recent scandals have shown that the current framework to fight financial crime and money laundering is not as effective as desired.

5. **Collaboration and corporation:** The rapid pace of change and expectations of stakeholders means that we must remain well-connected and engaged. By sharing knowledge and best practices, we can collectively work towards improving the management and oversight of our pension plans in the Caribbean.

6. **Improved financial education:** Technological innovations are reshaping investment decision-making, risk management, and operational efficiency. As pension plan supervisors, we must stay informed about technological advancements and enhance our abilities to monitor the industry more efficiently and effectively.

   By extension, we must continue to provide financial education to members, especially on pertinent issues. Equally important is that we provide guidance to the trustees that will enable them to ask the right question and make sound decisions.

   Finally, continuous learning and professional development are critical. Staying abreast of industry trends, regulatory updates, and best practices is essential for pension fund supervisors to carry out duties effectively and make informed decisions that benefit pension plan members and beneficiaries.

In closing, as pension plan supervisors, our responsibility is immense. We can assist the financial future of countless individuals who rely on pension plans for their retirement security. By embracing sustainable investing practices, leveraging technological advancements, managing risks, fostering transparency, and committing to on-going professional development, we can ensure that pension funds remain robust and resilient in the face of an ever-changing financial landscape.

I will now turn over to the experts to delve further into these areas. I wish you all the best in your endeavours and thank you for your dedication to the well-being of pension fund members and beneficiaries.

I am sure we all value this time together.

Thank you for your attention.