CONSULTATION PAPER

FOR DISCUSSION PURPOSES ONLY

Reform of the Occupational Pensions and Benefits Act, CAP 350B

FINANCIAL SERVICES COMMISSION

Event: 15th Anniversary Industry Stakeholder Consultation on Legislative Reform Project

Focus: Day 4: Pensions Reform – Safeguarding Long-Term Security

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Contents

EXECUTIVE SUMMARY

This Consultation Paper outlines overarching proposals for a reform of legislative framework for Barbados' pensions sector. The objective is to establish a risk-based regime that protects the interests of pension fund members and beneficiaries, supports provision of pensions by employers, and aligns with the International Organisation of Pensions Supervisors (IOPS) Core Principles.
Key pillars of this reform include:

- **Clear Licence Categories:** Establishing specified licences for different regulated activities which require a licence.

- **Licensing Requirements:** Streamlining and enhance licensing requirements including making provision for licensing of new types of regulated entities and retirement products; and providing clarity on the licensing requirements for multi-jurisdictional pension plans.

- **Member Protection and Asset Security:** Strengthening member protection including through asset segregation regimes and improved investment frameworks; clear withdrawal requirements and provisions.

- **Financial Supervision and Reporting:** Establishing clear risk-based filing and reporting requirements for pension plans.

- **Governance and Fiduciary Duties:** Strengthening governance and risk management frameworks for trustees and plan administrators.

- **Wind-Up and Insolvency Protection:** Strengthening resolution and recovery frameworks within the pensions sector.

Key Gaps and Challenges with Current Legislation

- **Unregulated private pension plans:** market conduct concerns including those related to the adequacy of disclosures, conflict of interest management, segregation and safeguarding of customer assets, and governance in terms of whether the pension plans are administered in the best interest of customers vs the providers are key considerations in why regulation of private pension plans may be timely.
- **Lack of clarity on cross-border plans**: it is necessary that the legislation explicitly and clearly outline requirements related to plans operating in/originating from other jurisdictions and provided for the benefit of employees within the jurisdiction.

- **Licensing requirements for service providers such as plan administrators**: The proper execution of duties and responsibilities of service providers, particularly plan administrators, is a critical component of safeguarding the interests of pension plan members and beneficiaries. While the existing legislation imposes certain requirements, strengthening oversight may include imposing a licensing requirement for specific service providers, making them subject to fitness and propriety evaluations including ensuring that they have the capacity and expertise to administer pension plans.

- **Inclusion:** The current pensions environment does not cater to people with low or irregular sources of income. Micro-pensions can offer a flexible mechanism to enable persons to save small amounts of money for retirement. The regulatory regime will need to be "right-sized" to facilitate the provision and adoption of this financial product.

- **Risk-based requirements:** The current legislation does not adequately reflect a risk-based approach to supervising pension plans. Solvency requirements for Defined Benefit (DB) and Hybrid (Defined Benefit & Defined Contribution) plans vs DC plans are similar notwithstanding the difference in risk levels. Regulators in other jurisdictions such as Canada have introduced more risk-sensitive requirements for DC plans.

- **Inadequate regulatory powers:** The regulatory powers of the existing legislation may be enhanced in a number of areas including:
    - Access to information: provisions to support regulator obtaining information from custodians, administrators, actuaries and plan sponsors
    - Ability to grant exemptions from legislative requirements in the pensions legislation
    - Power to issue guidelines for strengthening pension plan management and governance
    - Exercise administrative enforcement powers

BACKGROUND & CONTEXT

Purpose of Reform

At present, regulation of the pension sector is limited to occupational pensions which are provided for under the Occupational Pensions Benefits Act, Cap. 350B (the "OPBA"). Since the entry into force of this legislation, the pensions landscape has evolved significantly. In this context, a thorough review of the existing legislative framework has revealed areas of ambiguity, inconsistency and occupational rigidity which may impede the effective supervision and efficient functioning of pension plans. A new regime for occupational pension plans should therefore be fit-for-purpose, responsive to current industry practices and capable of accommodating future developments.

The obvious lacuna in the current legislative framework is the lack of provision for non-occupational pension plans. These plans are presently only required to be registered with the Barbados Revenue Authority for tax purposes. There is no other meaningful regulation of this section of the pensions industry, which is only increasing in significance as public pension schemes experience stresses brought on by demographic challenges. The effective supervision of private pension plans is, therefore, vital to ensure the protection of contributors.

The reform also explores the next frontier for the pensions industry. At present, low-income and casually-employed persons are significantly underserved by existing public and private pension schemes. The nature of the income-earning activities of this section of the community acts as a barrier to effective participation in existing plans, due to design features such as minimum periodic contributions and contribution amounts. Internationally, "micro pension products" have been developed in response to this phenomenon and seeks to extend retirement savings to all sections of the national community.

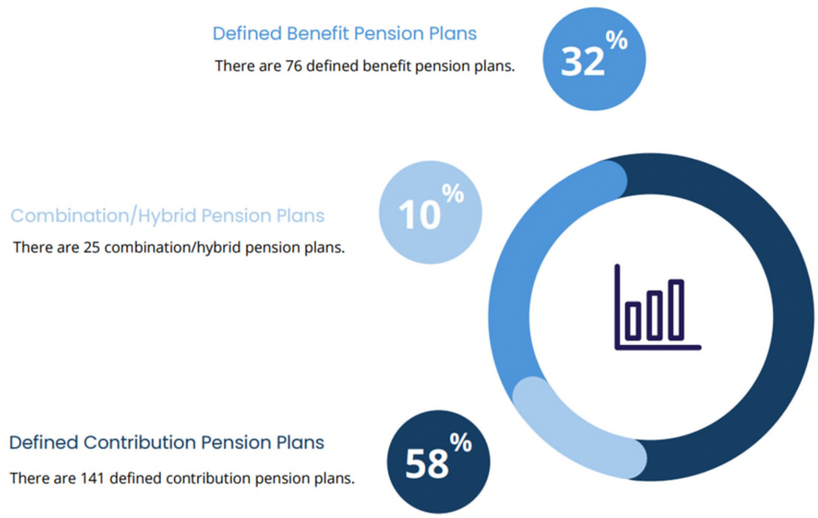
Regulation is currently limited to occupational pensions under the Occupational Pensions and Benefits Act, CAP 350B (the "OPBA").

This reform seeks to:

(a) expand the regulatory perimeter to include private pension plans and pension plan administrators;
(b) address gaps in governance and oversight;
(c) consider the treatment of State-Owned Enterprises (SOEs)
(d) Develop a framework for micro-pensions

Key Contextual Factor Impacting the Sector

There are currently 242 occupational plans registered with the Commission. The majority of registered plans are defined contribution plans, with one-third of registrants being defined benefit plans and one-in-ten being hybrid plans.



In the private pensions sector, a diverse range of pension products are offered including registered retirement savings plans, personal retirement accounts, segregated pension funds and deferred annuity plans.

Key contextual factors impacting the pensions sector includes:

- **Demographic Changes:** The 2021 Population and Housing Census estimated the population of Barbados to be 269,000, a decline of more than 8,000 persons since the previous census. This population contraction is driven by declining annual birth rate which is now outstripped by annual mortality as shown by the Vital Statistics Indicators published by the Barbados Statistical Service.

- **Stresses in the public pensions scheme:** The public pension scheme operated by the National Insurance and Social Security Service is experiencing unprecedented challenges to its long-term sustainability as outlined in the 17th Actuarial Review the National Insurance and other Funds.

- **Public pension plan adequacy:** A 2024 report by the Inter-American Development Bank (IDB) highlighted that public pensions only provide approximately 70% of pre-retirement income.

- **Under-coverage of the self-employed:** The IDB report also found that a mere 20% of self-employed persons are contributors to the National Insurance Fund, with the result that fewer than three-quarters of the population aged 65 or older presently enjoy pension benefit coverage.

- **Multi-jurisdiction pension plans:** Several occupational pension plans may currently fall within the regulatory ambit of the Commission which are multi-jurisdictional in nature, in the sense that they are plans registered in Barbados for the benefit of employees in Barbados and elsewhere.

- **Member protection:** Pension plans are unlikely to be, or become, systemically important, but the failure of one has far-reaching and direct consequences for its members, especially those nearing retirement or already retired.

Summary of Gap Analysis & Benchmarking

The Commission undertook a thorough review of the existing legislative and regulatory framework governing occupational pension plans, together with an assessment of the possible regulation of other private pension plans and, potentially, micro-pension products. This legislative review also involved consideration of existing approaches in peer jurisdictions with respect to private pensions generally, and pioneering jurisdictions with respect to micro-pension products.

Gap Analysis

- **Overly Prescriptive and Inflexible Legislative Framework:** The current regime is characterised by a high degree of prescriptiveness, which inhibits the regulator and industry participants from fully and effectively responding to evolving market conditions and new pension structures.

- **Weaknesses in Member Protection and Transparency:** While the Act contains core protections, there are gaps in the mechanisms that ensure transparency and safeguard member interests, including
    - Inadequate disclosure requirements (particularly timing and content)
    - Absence of mandatory notice and consultation processes for plan amendments
    - Ambiguities affecting entitlement to benefits (e.g., spousal rights, treatment of non-vested members)
    - Limited provisions supporting informed member participation in investment decisions

  These gaps may undermine confidence in the pension system and weaken accountability.

- **Inadequate Solvency and Funding Framework:** The existing provisions governing funding, solvency, and corrective measures are fragmented or underdeveloped. For example, there is a lack of clarity in the calculation and treatment of solvency deficiencies, an inadequate articulation of special payment requirements to liquidate deficiencies and the absence of alternative mechanisms (e.g., letters of credit) to address funding shortfalls.

- **Misalignment with Market Practice:** Aspects of the legislative framework have been overtaken by time or events, or otherwise do not align with existing market and regulatory practice. This heightens the risk of uneven application of the legislation and a lack of clarity in the regulatory space.

- **No Regulation of Private Pensions:** The segment of the private pensions industry which is non-occupational in nature is almost entirely unregulated. Such pension plans are only registered with the Barbados Revenue Authority for tax purposes, but are not otherwise the subject of meaningful regulation. This leaves a sizeable section of the market entirely outside of the ambit of regulation.

- **Inadequate Social Security Coverage for the Informal Sector:** Barbados has a sizeable informal sector, the majority of whose participants do not contribute to the public pension scheme and are unable to contribute to private pension plans by virtue of barriers to access in the form of minimum contribution frequencies and values.

Benchmarking

Peer jurisdictions adopt a more principles-based legislative approach, especially in areas such as plan governance, investment and funding. Such frameworks are more flexible and allow for more nimble regulation and are better facilitators of growth in the sector. Peer jurisdictions also provide greater member protections. These jurisdictions also integrate all private pension plans into one legislative framework ensuring universal regulatory coverage.

Pioneering jurisdictions in the micro-pension space have sought to provide a developmental framework to enable the growth of these products, which are also specially designed to meet the unique needs of contributors to such products.

Core Directions for Legislative Reform

In light of the identified gaps and the benchmarking against peer jurisdictions, the proposed legislative reform is guided by several core directions aimed at transforming the existing framework into a modern, coherent, and adaptable regime.

- **Extend the legislative and regulatory ambit to all private pensions:** The Commission proposes that the new Act should comprehensively regulate all private pension plans/providers.

- **Modernize and rationalize the legislative framework:** The Commission proposes to address deficiencies in drafting, structure, and internal consistency. This includes clarifying and standardizing key definitions, correcting errors and omissions, and ensuring alignment between the Act and the Regulations. The objective is to produce a more intelligible and user-friendly statute that reduces interpretive uncertainty and supports consistent application by both the regulator and industry participants.

- **Flexible, principles-based regulatory approach:** The proposed amendments introduce greater discretion for the Commission, reduce overly prescriptive requirements, and create enabling provisions to accommodate a wider range of pension plan structures and administrative arrangements. This shift is intended to ensure that the framework remains responsive to evolving industry practices while maintaining appropriate safeguards for prudential oversight.

- **Enhancement of regulatory effectiveness and administrative efficiency:** This is to be achieved through the introduction of clear procedural rules, including prescribed timelines, streamlined filing and registration processes, and improved mechanisms for regulatory review and intervention. In tandem, the reforms expand and clarify the powers of the Commission, thereby strengthening its ability to supervise the sector in a proactive and risk-sensitive manner.

- **Strengthen member protection and transparency:** The Commission proposes to improve disclosure requirements, introducing procedural safeguards (particularly in relation to plan amendments and winding-up), and clarifying benefit entitlements. These measures are designed to promote fairness, accountability, and informed participation by members and beneficiaries, thereby reinforcing confidence in the pension system.

- **Align the domestic regime with international standards and best practices:** This includes the incorporation of more sophisticated funding and solvency mechanisms, recognition of alternative financial instruments, and adoption of governance and investment practices consistent with modern pension systems. Collectively, these changes are intended to enhance the resilience, competitiveness, and long-term sustainability of the pensions sector.

Key Drivers

☑ Alignment with global standards (e.g., IOPS)
☑ Market competitiveness
☑ Risk Management
☑ Regulatory efficiency
☑ Growth (e.g., funds business)
☑ Innovation (e.g., virtual assets)

Consultation Objectives

- **Validate Recommendations:** To determine whether the Commission's proposed vision for a new legislative framework to govern private pensions will create a modern, coherent and resilient regulatory environment.
- **Define Scope of the New Pensions Framework:** To determine whether the new legislative framework should include non-occupational private pension plans within its ambit.
- **Strengthen Prudential and Governance Standards:** To develop prudential and governance standards that are flexible while also enabling the regulator to effectively ensure continued prudential soundness.
- **Enhance Member Protection and Confidence:** To identify additional provisions required to enhance member protection and secure confidence in private pension plans.
- **Promote Broader Pension Coverage and Inclusion:** To consider whether a legislative regime to govern micro-pension products targeted at the informal sector should be established.
- **Develop Industry-driven Solutions:** To incorporate practical, market-informed approaches into the legislative framework.
- **Identify Implementation Challenges:** To clearly identify potential challenges with proposed changes to the existing framework, in particular the extension of the regulatory ambit to all private pension plans.
- **Develop Drafting-ready Inputs:** To produce clear, actionable, stakeholder-validated recommendation for reform capable of being translated directly into legislation, regulations, guidelines and supporting policy.

ESG & Sustainable Finance

ESG Vision Statement

Barbados is committed to strengthening the resilience, integrity, and inclusiveness of its financial system through the integration of Environmental, Social, and Governance (ESG) considerations into its legislative and regulatory framework.

Global developments, including guidance from the Financial Stability Board and the United Nations Environment Programme Finance Initiative, have highlighted the growing importance of incorporating climate-related and broader sustainability risks into financial decision-making, governance practices, and supervisory approaches. Barbados recognizes the need to align with these evolving expectations while ensuring that reforms are appropriately calibrated to the domestic context.

This consultation therefore proposes the adoption of ESG as a cross-cutting principle across the non-bank financial services sector, with the following objectives:

- Strengthening the identification and management of climate-related and other long-term risks to support financial stability;

- Promoting financial inclusion and fair treatment of consumers;
- Enhancing governance, transparency, and accountability across regulated entities; and
- Supporting, where appropriate, the mobilization of capital toward sustainable and climate-resilient economic activity.

The proposed approach is grounded in proportionality and practicality, recognizing the diversity of institutions within the Barbadian financial system. ESG integration will be implemented on a phased basis, supported by clear guidance and ongoing stakeholder engagement, to ensure that requirements are aligned with the size, complexity, and capacity of regulated entities.

Through this reform process, Barbados seeks to ensure that its financial sector remains resilient and well-regulated, while also positioning itself to respond effectively to emerging risks and opportunities in a rapidly evolving global environment.

ESG as a Cross-Cutting Theme

ESG considerations are increasingly central to financial sector development, shaping risk management, capital allocation, and regulatory expectations globally. For Barbados, ESG is not only a matter of international alignment but also a strategic national priority, given its vulnerability to climate change and its commitment to sustainable and inclusive growth. Global standards and guidance from bodies such as the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), International Organisation of Securities Commissions (IOSCO), International Credit Union Regulators Network (ICURN) and the United Nations Environment Programme Finance Initiative are increasingly emphasizing:

- Integration of climate and broader ESG risks into financial decision-making;
- Enhanced disclosures, including climate-related and sustainability reporting; and
- Consideration of long-term systemic risks, particularly those related to climate change.

For Barbados, embedding ESG into legislative and regulatory reform supports multiple policy objectives:

- **Financial Stability:** Improving the identification and management of long-term and systemic risks, particularly climate-related risks
- **International Competitiveness:** Aligning with global expectations to maintain credibility and market access
- **Inclusive Growth:** Expanding access to financial services and supporting underserved communities
- **Climate Resilience:** Mobilizing capital toward adaptation and mitigation efforts

A key policy consideration is adopting a proportionate and phased approach, ensuring ESG requirements are:

- Commensurate with the size and complexity of regulated entities
- Operationally feasible for smaller institutions

- Supported by clear guidance and capacity-building initiatives

Sector-Specific ESG Calibration: ESG as Long-Term Stewardship

For the pensions sector, ESG considerations are most directly linked to long-term investment performance and the fulfilment of fiduciary duties. In this context:

- **Environmental** factors relate to the incorporation of climate-related risks and opportunities into investment decision-making processes.
- **Social** considerations include the responsibility of plan administrators to use their best efforts to support adequate and equitable retirement outcomes, as well as the obligation of plan administrators and sponsors to facilitate effective retirement planning and member education; and
- **Governance** considerations focus on strengthening the accountability, oversight, and decision-making frameworks of plan administrators, trustees, and sponsors.

Over time, the effective integration of ESG principles has the potential to strengthen the resilience and performance of the pension funds sector, positioning it to play a more meaningful role in supporting long-term national socio-economic priorities. Accordingly, the proposed regulatory approach emphasizes oversight of ESG integration within investment governance structures, disclosure practices, and fiduciary frameworks.

Unifying Policy Approach

Across all sectors regulated and supervised by the Commission, ESG integration would be anchored on three consistent principles:

1. **Proportionality:** requirements should reflect the size, complexity, and risk profile of entities.
2. **Phased Implementation:** the intention is to start with high-level principles and disclosures, with scope for gradual enhancement.
3. **Alignment with National Priorities:** ESG frameworks should support Barbados' broader goals, particularly:
   (a) climate resilience
   (b) financial inclusion
   (c) sustainable economic development

CONSULTATION QUESTIONS: Pensions Reform

Pillar 1: Clear Licence Categories

Licence categories and sub-categories including for the following:

- Occupational Pension Plans: DC, DB, Hybrid (DC & DB)
- Private Pension/ Savings Plans (e.g. RRSPs) Providers
- Multi-Employer Pension Plans (MEPPs)
- Micro-pension plans

CONSULTATION QUESTIONS

1. Do the outlined plan categories and sub-categories reflect the range of activities and products that should be regulated? Are any categories unclear?
2. What are the operational, cost, administrative implications for providing micro-pensions that need to be taken into consideration?
3. What are the opportunities and threats associated with introducing micro-pensions?

Pillar 2: Licensing Requirements

- Licensing requirements applicable to the different forms of pension plans
- Licensing of key service providers including pension plan administrators
- Clear criteria for licensing including requirements related to:
  - Plan documents
  - Funding policy
  - Governance framework
  - Fitness and propriety

CONSULTATION QUESTIONS

1. What challenges are envisioned with requiring (professional) pension plan administrators to be licensed and meet licensing criteria including fitness and propriety requirements?
2. What are the potential benefits of requiring plan administrators to be licensed?

Pillar 3: Member Protection including Asset Security

Ensuring member protection through updated requirements including:

- Statutory trust: pension assets protected from employer creditors
- Mandatory independent custodian (bank/trust company)
- Segregation of assets from employer and administrator
- Vesting requirements (immediate or within defined short period)
- Locking-in rules to preserve retirement income
- Annual member statements (contributions, returns, benefits)
- Statement of Investment Policies and Procedures (SIPP), including risk, asset allocation, ESG
- Enhanced Disclosure requirements to members and the regulator including disclosure of proposed or anticipated material changes e.g. changes impacting the plan sponsor's operations that are likely to have an impact on the pension plan

CONSULTATION QUESTIONS

1. What additional safeguards for members are required?
2. What challenges are experienced with respect to the current requirements?
3. What challenges may be anticipated with the requirements outlined?

Pillar 4: Financial Supervision & Reporting

- Requirements for timely remittance of contributions (e.g. within 30 days)
- Mandatory reporting of missed and late contributions by custodians and administrators
- Mandatory reporting on inadequate special payments and failures to make special payments by custodians and administrators
- Actuarial valuations (risk-based; more frequent for underfunded plans)
- Solvency thresholds based on the type of pension plan – more stringent solvency standards applied to DB and Hybrid pension plans
- Annual audited financial statements (risk-based i.e. based on size thresholds – raising the threshold for the requirement for audited financials)
- Ongoing regulatory filings and event-based reporting
- Annual return filings by providers of private pension plans e.g. information about the number of plans issued, demographic information etc.

CONSULTATION QUESTIONS

1. The legislation imposes different requirements for audited financial statements based on the size of the pension plans. The threshold is reportedly too low, and it has been proposed that it should be

raised. Aside from pension plan size what other criteria should be considered in determining which pension plans should be required to submit audited financial statements?

2. Currently, DC and DB plans have similar requirements in respect of solvency thresholds - What are the implications with respect to plan administration, for plan members, for sponsors if existing DC plans to less stringent solvency standards?
3. Are there any material concerns with the new financial supervision and reporting requirements i.e mandatory reporting requirements outlined?
4. Are there any other requirements that should be considered or re-considered?

Pillar 5: Governance & Fiduciary Duties

- Updated administrator fiduciary duty (prudence, care, diligence)
- Internal controls and risk management systems requirements including having adequate policies and procedures
- Data accuracy and compliance monitoring requirements
- Clear accountability of administrator to members

CONSULTATION QUESTIONS

1. Are there material concerns with introducing internal controls and risk management requirements, and if so, what are they?
2. What timeframe is required for adopting and implementing internal and risk management requirements?

Pillar 6: Wind-Up & Insolvency Protection

- FSC approval required prior to wind-up
- Updated Wind-up report requirements
- Priority of member benefits over employer claims
- Deemed trust for unpaid contributions on insolvency
- Power for FSC to appoint independent trustee
- Transfer of assets to insurer or successor plan
- Framework for surplus distribution
- Consideration of Pension Guarantee Fund

CONSULTATION QUESTIONS

1. What additional wind-up and insolvency provisions are required to protect members?
2. What are the advantages and anticipated challenges of developing a Pension Guarantee Fund? (Prompts: - Cost, Complexity in administering, Funding, Market support)
3. When should a Pensions Guarantee Fund be introduced - now, in a year, two years, or not at all? – Provide your rationale.

CONSULTATION QUESTIONS
Other Legislative Considerations

1. Are there any material concerns with the type and nature of the expanded regulatory powers outlined?
2. Are there other general revisions to the legislation to be examined?
3. What other areas do you want to have specific consultation on that we have not already covered?