3RD ASIA–PACIFIC PENSIONS FORUM

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Driving, informing and influencing regional dialogue

Welcome address

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Check against delivery

Welcome to the 3rd Asia-Pacific Pensions Forum. In the audience we have representatives from eight countries and our purpose today is to progress the conversations on pension delivery from theory to practice.

Countries across the globe are designing, developing, diversifying and even deconstructing their pension systems. There are always areas for improvement as systems mature and adjustment is needed as economies and demographics change. We are all at a different stage and this is why it is important we take the time to share our experiences and build global perspectives.

I invite you to spend time today thinking as a global pension practitioner rather than just focus just on your own patch.

In 2011, the OECD report on the ageing urged three fundamentals:

- encourage people to work longer
- ensure public welfare concentrates on the most vulnerable
- encourage people to save for their own retirement.

In 2012, the OECD Pensions Report urged for the expansion of private pension coverage as a means addressing the ageing world population and reducing birth rates.

There are numerous national and international reports on pension systems. The Melbourne Mercer Global Index is one example. It measures and rates pension systems, including measures such as adequacy, sustainability and integrity.

As global pensions systems are being compared, it opens up the opportunity for us to establish global measures of performance and fiduciary standards.

Pension systems by their nature must be aligned to the local environment but there is a growing realisation that there are many issues and elements in common, as well as many solutions that can and should be shared. Each system is fundamentally about providing income for people when they are no longer able to work. But there is also a growing watch on how pension capital allocated locally and globally. Recently, the OECD estimated that total pension fund is equivalent to US 21.8T, or 28 per cent of all institutional investment.

I ask you today to start thinking about the delivery of private pensions and governance as a ‘global brand’ and as a global conversation. Together, we need to foster, build and protect that brand. In my mind, it is the only way we will all be successful at delivering our mandates.

It is a complex conversation of many facets. As a starting point, may I share what I consider are the eight main parts to that conversation.

1. **Pension system design:** The OECD has published a roadmap for the good design of defined contribution pension plans. It outlined 10 elements of a well-structured defined contribution pension system. This builds on the Three Pillars design put forward by the World Bank in 1994. We now need to have more conversations about a pillar four to allow the extension of the systems into work life of the future and the three stages of retirement of active, passive and frail. We know some systems are not sustainable, contributions are too low, benefit replacement promises too high and coverage of the working population to small. Longevity issues are just not being addressed! We also need to think about the growing mobility of people, where people grow up, where they work and where they retire to many involve many different countries. There is currently little global portability of pension benefits.
2. **Link with other public policy:** The connection of pensions system with aged care, health care and other savings systems is growing. Many of our countries have an ageing population that are living much longer than previous generations. Few governments can afford to take full care of this growing part of our society. Governments are also looking to ensure that there is greater equity in retirement between the haves and the have nots.
3. **The role of pension capital in both local and global economies:** Pension funds are expected to bridge the needs between long-term savings and long-term capital needs. This requires a flexibility and freedom to diversify investment and in some cases reduce government control and mandates. The key focus of the G20 this year is infrastructure funding – new funding and financing models are being developed – pension capital is expected to be a key contributor in the future. We need to be a driver of these conversations.
4. **Regulatory and supervisory frameworks:** We have a great start with the work done by the International Organisation of Pension Supervisors (IOPS). But we are still a long way from seeing some consistency of approach within countries that have state-based regulators, never mind more global consistency. Pension providers are often global players and the cost of regulation needs to be on the agenda. More challenges will arise for supervisors as they drive greater transparency (particularly of fees) and comparability of performance, look to follow the underlying investments globally, address vested and protected interests, and leverage off big data. This challenge is increased by the increasing privatisation and sophistication of pension providers. We must find a better way to work with our regulators.
5. **System implementation and connectivity:** Pensions systems, by their nature, capture many stakeholders including employers and payment system participants. Streamlined contribution collection, updated technology, integration into payroll and accounting systems, as well as seamless connection into taxation systems and banking payment systems will increase as systems mature, work mobility increases and more people move into payout stage. Is there an ideal framework, can we develop global data and transfer standards?
6. **Fiduciary governance standards:** The nature of a fiduciary, particularly an investment fiduciary is unique in many ways. We must deliver to a higher standard than listed entities, banks, and fund managers because of the reliance of our members on us to deliver income in retirement. The standards and practices for fiduciaries must be set globally. Indeed, we should be designing global performance benchmarks and dashboards.
7. **Operational and investment delivery:** Fiduciaries must be experts in managing risk including investment risk, agency risk, inflation, liquidity, and sequencing risk. We are increasingly expected to deliver income streams and needed retirement outcomes on an individual member basis. Outcomes based accountability is what makes fiduciaries different. Education courses, best practice papers and operational benchmarks are needed here.
8. **Informed, advised and engaged members:** We serve our members, but how often are they omitted from our conversations. In the end, it is their system and their retirement and, increasingly, they will hold us accountable. How do we increase satisfaction, confidence, engagement and literacy? How do we ensure they have access to financial advice that is affordable, accessible and independent? How do we ensure that we are convenient to deal with, embrace the community expectation to be connected through their mobile devices 24/7, deliver the best possible returns with the least amount of cost and investment risk, while ensuring that where and how we invest provides a public good?

None of us have all the answers. But together we can make progress.

ASFA is part of the Global Pensions Alliance so that we can at least start to share on a more formal basis. Today, we see the combined support of many of many organisations, both directly and indirectly associated with pension industries. I hope by the end of the day you have not only learned about what you can do in your own country but how we can together start to set global pension fiduciary standards.