



INDONESIA PENSION CONFERENCE

25 YEARS OF PENSION SAVINGS

“Way Forward for Next Quarter Century”

25-26 April 2017
Grand Hyatt Hotel, Jakarta



SESSION 5

Governance of Public Sector Pension Funds

**Antony Randle,
26 April 2017**

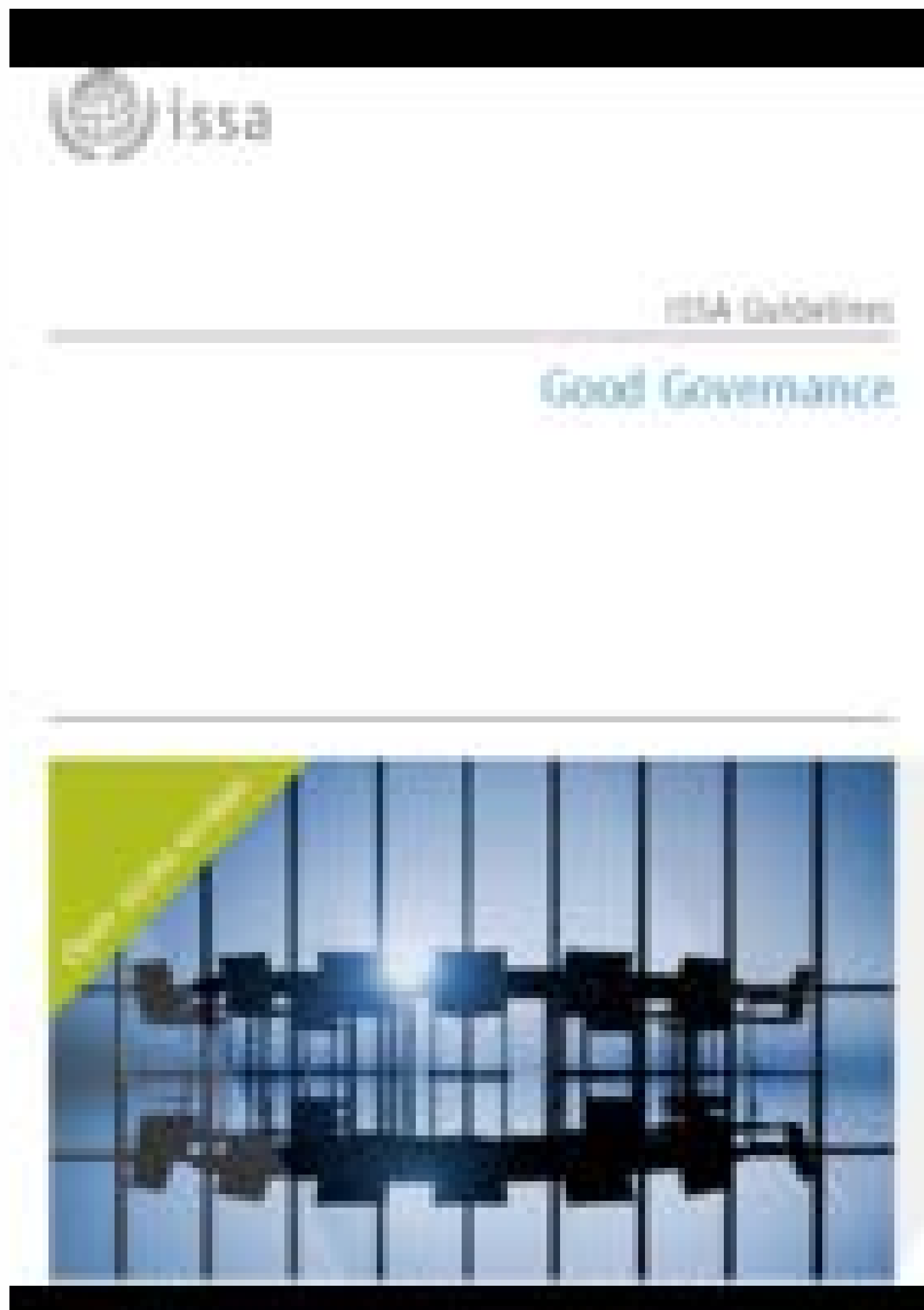


CHALLENGES OF PUBLIC PENSION OVERSIGHT

- Governing Boards Government +/- or stakeholder representatives (ex officio cannot remove)
- Governed by own legal statute / reporting to Ministry and /or parliament
- No independent regulatory oversight
- Reserve funds:
 - Ultimate beneficiaries (the general population) do not have legal or beneficial ownership over the reserve funds' assets
 - No specific liability or payout



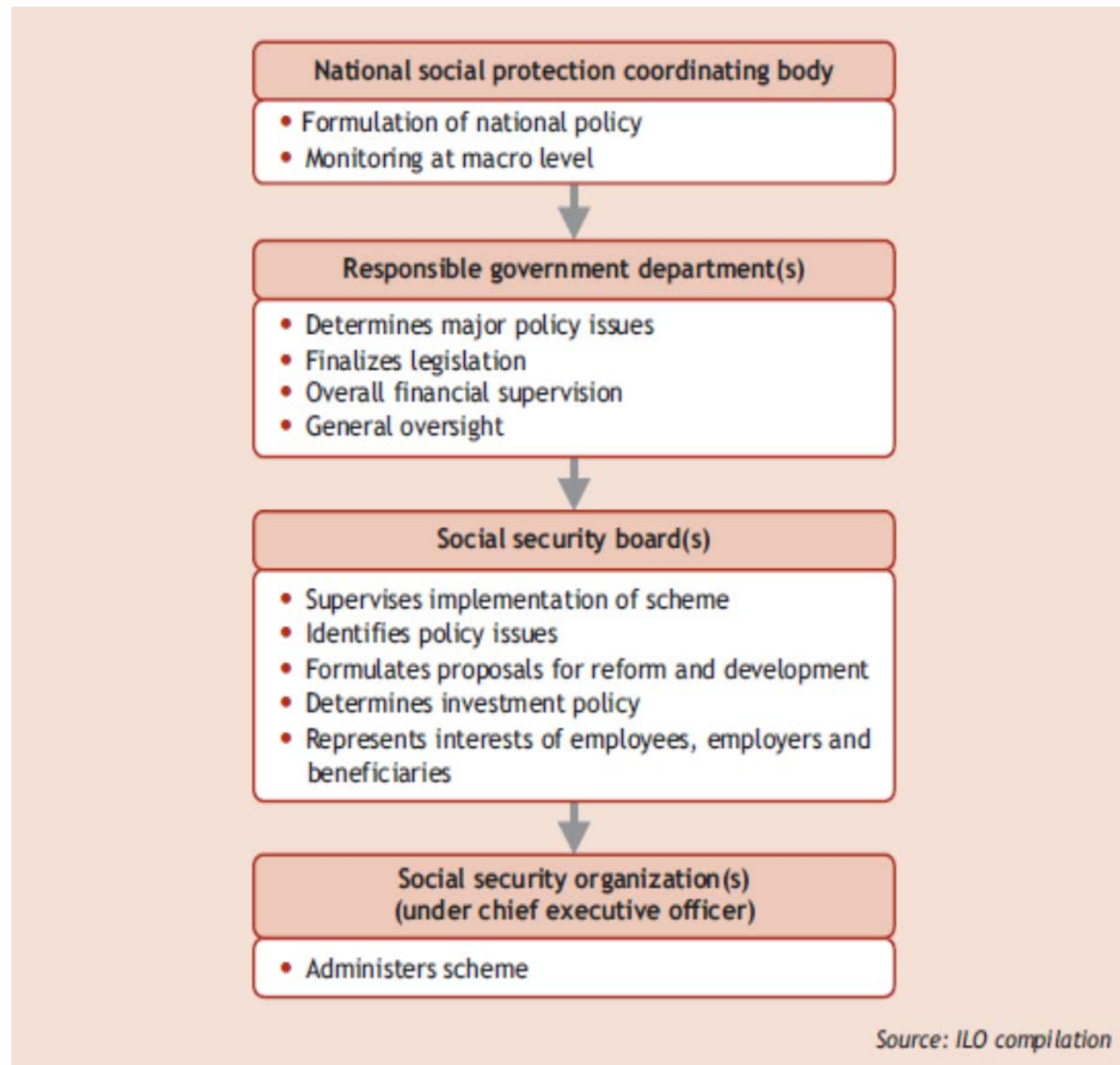
GOVERNANCE OF PUBLIC FUNDS



1. Governance
2. Board
3. Administration
4. Finance
5. Benefits
6. Investments
7. Non-contributory Schemes
8. Planning



GOVERNANCE STRUCTURES



SUPERVISION PUBLIC FUNDS

• Challenges

- Political Boards
- Political involvement in investments
- Size of assets vs. economy/ markets
- Interaction between supervisor and ministry



SUPERVISION PUBLIC FUNDS - SOLUTIONS

- **Ensure have legislative /regulatory power**
 - Have to report to supervisor
 - Have right to audit the fund
 - Can ask for information/ inspect
 - Can publish reports
 - Should follow investment guidelines
- **Find a champion to support Regulator**
- **Get own governance right so have credibility and independence**
- **Reduce dominance of assets**
 - Enforce diversification requirements
 - Some overseas
 - Some outsourcing / competition
- **Report**
 - Publish findings (stop rumors)
 - State publicly if not able to enforce supervisory duties
- **Sanction**
 - Be prepared to fine fund if rules broken (power back to regulator) / explain why done so



OVERSIGHT OF BPJS

- OJK Regulation on Supervision of BPJS (OJK Regulation # 5/POJK.05/2013) – powers fairly comprehensive – have authority to investigate/ request information / oversee investments etc.
- BPJS reporting requirements comprehensive - responsibility of OJK to disclose information to public = important tool
- OJK consumer protection also an important role
- International good practice – should treat social security / public sector funds like other occupational/ private funds
- MOU with DJSN



POSSIBLE IMPROVEMENTS

- Full written investment policy statement
- Follow investment policy
- Comply with any legal restrictions on asset holdings
- Clear procedure for hiring and terminating asset managers
- Reasonable rate of return compared to other similar pension funds
- Valuation of plan assets
- Amount of illiquid assets strictly limited
- Assets in default small



REFERENCE PAPERS

- ISSA Guidelines Good Governance
<http://www.issa.int/excellence/guidelines/good-governance>
- Yemo, J. (2008), "Governance and Investment of Public Pension Reserve Funds in Selected OECD Countries", *OECD Working Papers on Insurance and Private Pensions*, No. 15 <http://dx.doi.org/10.1787/244270553278>
- Musalem, A., Souto, (2010), "Assessing the Governance and Transparency of National Public Pension Funds" *Review of European Studies* Vol. 4, No. 2; June 2012
<http://www.ccsenet.org/journal/index.php/res/article/viewFile/17728/11927>
- Iglesias, A., Palacios, R., (2000), "Managing Public Pension Reserves Part I: Evidence from the International Experience" *World Bank*
<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0003.pdf>
- Iglesias, A., Palacios, R., (2002), "Managing Public Pension Reserves Part II: Lessons from Five Recent OECD Initiatives" *World Bank* http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/08/23/00160016_20050823154600/Rendered/PDF/334070SP021901see0also0213111.pdf

