



INDONESIA PENSION CONFERENCE

25 YEARS OF PENSION SAVINGS

“Way Forward for Next Quarter Century”

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SESSION 5

Governance of Private Sector Pension Funds

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GOVERNANCE OF PRIVATE PENSION FUNDS

- *Involves:* managerial control and organization, including the regulation, supervision and accountability of management boards
- *Goal:* minimize potential agency problems or conflicts of interest between fund members and the fund administrator which can adversely affect the security of pension savings and promises
- *Benefits:* may improve the performance of the fund and creates trust amongst stakeholders

Good pension fund governance is a vital element for the efficient functioning of pension systems



OECD GOVERNANCE GUIDELINES

I. Governance Structure

“ The governance structure should ensure an appropriate division of operation and oversight responsibilities, and the accountability and suitability of those with such responsibilities.”

- Identification of responsibilities
- Governing body
- Expert Advice
- Auditor / Actuary / Custodian
- Accountability
- Suitability



OECD GOVERNANCE GUIDELINES

II. Governance Mechanisms

“Pension funds should have appropriate control, communication and incentive mechanisms that encourage good decision making, proper and timely execution, transparency and regular review and assessment.”

- Internal Controls
- Reporting
- Disclosure
- Redress



TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

Composition + Suitability of Board

- Encourage employee/ member nominated representatives
- Provide templates for ideal board mix
- Describe fit + proper more accurately (including collective knowledge of the Board + requiring sufficient training)
- Consider the costs + benefits of licensing trustees
- Allow + encourage the use of independent, professional trustees



TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

Ensure regular self-assessment + training

- Encourage self-assessment by Boards
- Allow third-party monitoring
- Provide guidance on level + types of knowledge required of trustees
- Encourage trustee training – ongoing basis
- Provide free training (e.g. on-line)
- Advise trustees where training can be obtained
- Approve training courses
- Allow fund to pay for training of trustees
- Encourage use of experts to provide technical support (though stress trustees should not rely on one source + require knowledge to assess such advise adequately)



TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

Handling Conflicts of Interest

- Require a policy for identifying potential conflicts of interest and for dealing with them + require Board members to notify compliance on an annual basis
- Disclose conflicts (in minutes of Board meetings)
- Conflicted trustees abstain from voting (resign as last resort)
- Authority should have the ability to appoint independent trustees
- Appoint an independent trustee where the sponsor is the sole trustee + sponsoring firm is in liquidation
- Templates for ideal boards (representation good way to avoid conflicts)



EXPERIENCE OF HK: CHALLENGES & SOLUTIONS

1. Culture, culture, culture!
 - Needs to be led from the top
 - Reinforce board responsibility
2. Supervisory approach affects governance outcomes
 - Placing responsibility on Board
 - Communicate with board directly
 - Resist handholding.
3. Inherent conflicts within group structures
 - Independence of the trustee?
 - Who is the real client?
 - Fees most obvious conflict
 - Is member appointment a solution?



EXPERIENCE OF HK: CHALLENGES & SOLUTIONS

4. The “expert stamp of approval” problem
 - Over-reliance on experts
5. Weak Role of Independent Directors
 - Statutory need but role unclear
 - Who is their master?
6. Small talent pool of directors
 - Potential COI impacts
7. Training



REFERENCE PAPERS

- OECD Guidelines Governance for Pension Fund Governance
<http://www.oecd.org/daf/fin/private-pensions/34799965.pdf>
- IOPS Working Paper No. 8 *Supervisory Oversight of Pension Fund Governance* <http://www.iopsweb.org/41269776.pdf>

