

PENSION DAY



INDONESIA PENSION CONFERENCE YEARS OF PENSION SAVINGS "Way Forward for Next Quarter Century"

25-26 April 2017 **Grand Hyatt Hotel, Jakarta**

Canada

PENSION



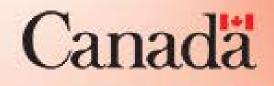
SESSION 5

Governance of Private Sector Pension Funds

INDONESIA PENSION CONFERENCE
25 YEARS OF
PENSION SAVINGS

"Way Forward for Next Quarter Century"

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Darren McShane, 26 April 2017



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



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OECD GOVERNANCE GUIDELINES

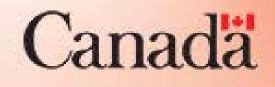
Governance Structure

"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**

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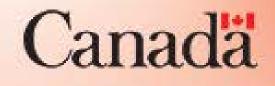
II. Governance Mechanisms

"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

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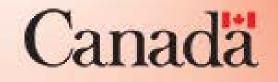


TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

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

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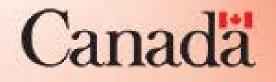
TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

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)

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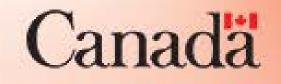


TYPICAL PROBLEMS/ SUGGESTED SOLUTIONS

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)

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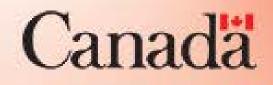




EXPERIENCE OF HK: CHALLENGES & SOLUTIONS

- 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?

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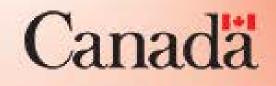




EXPERIENCE OF HK: CHALLENGES & SOLUTIONS

- 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
- Training

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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 <u>http://www.iopsweb.org/41269776.pdf</u>



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