

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 1

International Directions and Issues in Private Pensions

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SUMMARY PAPER

In my role as chairman of the International Investment Funds Association (IIFA), whose members manage more than US\$22 trillion, I have found there to be an ever increasing interest amongst all IIFA members on how the lot of private pensions can be advanced. Five broad themes have emerged and these tend to dominate our discussions, viz:

- Governments need to be proactive.
- Good regulation is paramount.
- Private sector providers will play a lead role in the delivery.
- Competition is critical.
- Advice and information is important.

All of the industry groupings in IIFA are keenly interested in their government taking on a more proactive role in retirement incomes policy. Usually, government initiatives begin with an assessment of the importance of household savings and where the economy benchmarks relative to others. The next dimension concerns the demographic and longevity challenge and how well the economy has addressed age pensions, health and age care policy. Governments can take the lead in regularly publishing data on progress in this area.

Once a pension policy need is identified then fertile ground exists for government intervention. In the Asia/Oceania region a significant number of countries have agreed to pursue a defined contribution savings target system with savings targets of between 3% and 20% of wages and salary. In some cases compulsion has been the outcome, in others tax incentives and in others a mix of the two. There has been a somewhat cautious approach taken when it comes to setting target replacement income outcomes. In some jurisdictions this reluctance is because governments do not wish to be seen as the underwriters of a final pension outcome. Another reason is that a private pension outcome is only one measure of financial well being in retirement – house ownership, bequests and other savings and public pensions also contribute.

The work of the World Bank in developing the conceptual three pillar framework, and the UN in publishing age dependency data has greatly assisted and led recent developments in pension policy.

The regulatory model is perhaps the keystone of a private pension system. Systemic failure and investor protection all need to be managed at the regulator level. Whether

the regulatory requirements are delivered via a one size fits all regulator agency or multiple regulators is a matter for each economy. What is important is the clear enunciation of regulatory principles and - where there is more than a single regulator - the need to delineate between each regulator.

The trustee/fiduciary model has delivered sound prudential results in most jurisdictions. Good regulatory models have accessible dispute resolution, custody requirements, operational capability provisions, compensation for theft/fraud, restrictions on related party investments, and borrowing restrictions (although special provisions for risk management/derivatives are needed). There also needs to be an appreciation that overly onerous regulation comes at a cost – it can serve as a barrier to entry for new participants, it can drive up fees and charges and it can act as a brake on achieving long term returns.

There are two long term success measures of any regulatory model. Returns to investors and the percentage of funds lost relative to funds managed. Fortunately, Australia's record has been sound under both benchmarks.

A private pension system by definition implies that the players will be privately owned and managed institutions as opposed to government agencies. Provided the regulatory platform is soundly based private pension providers should be free to enter and leave the market. Financial institutions and mutual structures should compete for business, and all participants should compete on price and value.

Investor information must be clear, concise and effective, and where information asymmetry arises regulatory guidance should be implemented. Also, given the complexity of pensions, tax structures and investment strategy, advice can be a beneficial service, but must be accessible/affordable. Here the law needs to distinguish between personal advice and general or product information, that way consumers can access basic information without having to pay for more expensive and complex personal advice.



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