

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 8 Future Steps

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SUMMARY PAPER

Privately managed funded schemes are at the heart of any successful retirement income policy.

- Aging populations make it difficult to finance retirement income from the tax base
- There is a role for compulsion but compulsion can not mean that people are forced to pay for their tax-financed state pension
- A voluntary privately managed funded scheme can be supported by tax preference; there is scope for such schemes to be partly funded through some form of claw back of the tax financed pension.

Privately managed schemes will be more successful if they operate within a sensible regulatory structure

- Long term investments are involved and investors need to know how their money will be managed; they need to have confidence that they will be compensated for the consumption they have foregone from saving and the risk attached to the investments they have made.
- With compulsory schemes, the case for regulatory oversight is overwhelming. It is hard for governments to force people to save and then not to accept any responsibility for how the money is managed.

It is clear from the Mercer Report that much work needs to be done in the region. It is easy enough to identify what a proper functioning regulatory system might look like but more difficult to set up a roadmap.

- Regulatory systems tend to grow out of the particular needs of individual countries and often are structured to deal with past problems
- Countries like Australia can help with capacity building. However individual countries need to know what skills they need to develop and what their objectives are.
- It is usually very difficult for outsiders to design a sensible road map

However it is not just a question of building up the regulators. In many cases it is necessary to build and strengthen private sector institutions. Effective regulations

require a wide range of private sector services as does a successful fund and money management industry.

- Outsourcing the custodian function to specialist global custodians is a major step.
- Specialist custodians can provide much of the information that regulators need; there are large economies of scale and many local firms would find it difficult to build the systems to make it possible.
- Funds and money managers need a wide range of professional inputs. They need to be able to manage their liabilities and risks.
- They need accounting and actuarial services

In some countries there are issues to do with market access for foreign financial service companies.

- Some countries attempt to develop local service providers in situations where the existence of large economies of scale make it difficult for local firms to even exist

A willingness to see global service providers within the financial sector as part and parcel of developing a proper functioning retirement income structure might be helpful.

- Outsourcing functions to global service providers can often enable local firms to expand and thrive.
- If a country's retirement income structure is built entirely around foreign firms it is unlikely to develop the critical mass or momentum necessary to succeed.
- Good judgement is needed when considering foreign investment policy to ensure that the overall impact provides for a growing and successful industry
- Successful local firms can be a catalyst for reform and the development of good policy.