WEALTH MANAGEMENT
Pension Funds

Reforming the pensions system

Today, immediacy is everything, and not everyone thinks about a pension plan. The pensions sector's answer to enduring low growth is a customer-led revolution, and in the World Finance Pension Fund Awards 2016, we acknowledge those companies addressing this issue

The outlook for the pensions sector is not much changed this year from the last, and with growth at a wholly unimpressive level for most, funds are particularly averse to excessive risk-taking. Nonetheless, while the situation for pension funds is little changed, this isn't to say the sector itself is the same, and it appears the regulatory and technological challenges sweeping the sector at times, border on the revolutionary. This year's World Finance Pension Funds Awards delve into these developments in more detail, and shine a light on some of the brightest names in the business.

Dealing with low growth

There are many challenges for pension funds, though no other issue has been paid more mind than the unaccommodating economic landscape that binds them all. According to an OECD report on the matter: "Although pension fund assets have grown steadily since 2008, the current environment of low growth, low inflation, and low interest rates poses serious challenges to pension systems."

The report continued: "Understanding how the underlying risk associated with each asset class contributes to the risk of the portfolio as a whole is essential for regulators and supervisors to monitor the extent to which 'search for yield' may become a threat to pension systems. Even pension funds that are decreasing their exposure to alternative asset classes may actually increase the risk-profile of their portfolio if they invest in less secure forms of bonds or equities."

Undoubtedly, the answer to this low growth environment is reform. The best funds have made a point of bringing together stakeholders from all parts of the value chain. Employees, employers and governments all have a part to play, whether that means better education for investors, greater variety of products or improved efficiency. All things considered, these issues and others are critical if pension funds really are to enhance the sustainability of existing systems and boost social and financial wellbeing in retirement.

The composition of investment portfolios has changed greatly amid this same low interest rate environment, and popular characteristics have also changed in order to align assets and liabilities. Given clients continue to demand around seven to eight percent return on investment, pension funds are resorting more to alternative assets, as the market becomes more regulated, institutionalised and liquid.

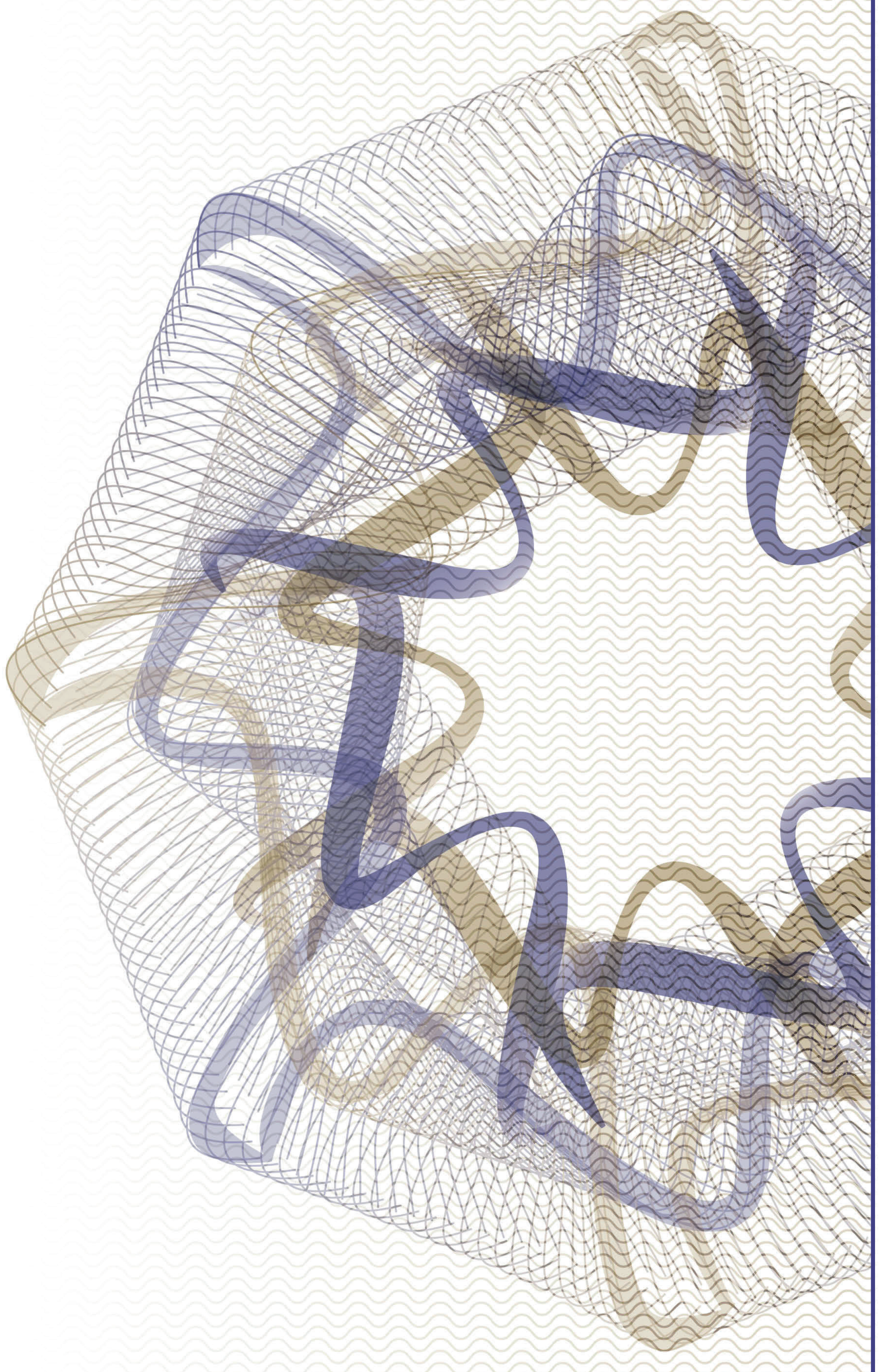
This ongoing diversification of pension portfolios has given rise to a sharper focus on governance, and the growing complexity of fund management has demanded that funds take note of the highest international standards if they are to shield themselves from any crisis. As fund managers begin to pile their investments into real estate, private equity and infrastructure, the gathering complexity of pension investment strategy means more must be done to improve both governance and transparency.

In this same vein, one important area in which the sector has evolved is in deciding to shake its more paternalistic leanings and embrace a more client-centric approach. As logical a step as this seems, it marks a much wider shift in the pensions sector to focus more on the customer.

Customer-led decisions

A recent EY report titled *The $500 trillion prize* outlines the steps to create a customer-centric vision for the global pensions and retirement market, though it concedes the situation for pension funds is far from ideal. 'The reform process is highly complex and demands making a huge array of choices. Few pension and retirement systems effectively educate and empower all stakeholders about the essential choices involved in retirement planning", read the report. "Ultimately, retirement systems will move toward a customer-centric model where policyholders and beneficiaries make well-informed decisions about their retirement security."

The solution is not, as many suggest, to draw on auto-enrolment schemes. The benefits, not just to firms but for retirees, of a pension are many, yet an inability to make good on liabilities in many places across the globe has bred a kind of inertia that only the most impressive funds have been able to overcome.



"Employees, employers and governments all have a part to play, whether that means better education for investors, greater variety of products or improved efficiency"

WORLD FINANCE
PENSION FUND AWARDS

Austria	Victoria Volksbanken Pension
Australia	Asgard
Belgium	Amonis OFP
Brazil	HSBC Fundos de Pensão
Canada	Ontario Teachers Pension Plan
Caribbean	NCB Insurance
Colombia	Proteccion
Croatia	PBZ Croatia Osiguranje
Chile	Sura
Czech Republic	Ceske Sporitelny
Denmark	Danica Pension
Finland	Bank of Finland
France	EADS
Germany	Allianz
Ghana	Pensions Alliance Trust
Hong Kong	Hospital Authority Provident Scheme
Iceland	Gildi
India	Tata AIG Nirvana
Ireland	Allianz
Italy	Fonchim
Israel	Menora Mivtachim
Japan	Government Pension Investment Fund
Kenya	Octagon Pension Services
Mexico	Afore XXI
Malaysia	Employers Provident Fund
Netherlands	Zwitserleven
Nigeria	Fidelity Pension Managers
Norway	Nordea Norge Pensjonskasse
Peru	Prima AFP
Poland	ING
Portugal	CGD Pensoes
Serbia	Dunav
South Africa	Sasol
Spain	Ibercaja
Sweden	Alecta
Turkey	AvivaSA
Thailand	EGAT Provident Fund
UK	Pension Protection Fund
US	Arkansas Teachers Retirement System

As much as education is important in bringing greater numbers into the pension system, incentives more than anything shape decision-making, according to EY. Against a low-yield environment, it seems differentiated investment strategies and round-the-clock services are two reasons of many – and more are entering the fray. Confidence in retirement funds is understandably low, though with time it appears retirement funds are slowly regaining trust, and, in some notable cases, outperforming expectations.

One important way in which pension funds have been looking to recoup customer confidence is by focusing more on the digital side of the business. Doing so can mean advantages for participating firms, namely an enhanced client experience, improved investor education and an ability on the part of clients to make more informed decisions. As much as digital channels present opportunities, they also present challenges, and a significant number of funds are struggling to come to terms with the technological demands of a new digital-first marketplace.

The scale of the changes sweeping the pensions market are such that some have gone so far as to call the current situation a "customer-centric revolution". Only a limited number of customers can access their retirement savings online, and the rate at which technology is moving means any fund slow to act risks falling by the wayside.

However, as much as there has been an increase in customer satisfaction over the past year or so, there is a long way to go before confidence is restored to its pre-crisis high. According to a recent KPMG report: "Ensuring sustainable retirement benefits is a global challenge. Plan sponsors, governments and the industry are constantly challenged to make informed decisions which will meet organisational as well as members' expectations."

The winners of this year's *World Finance* Pension Funds Awards offer an insight into the various ways in which the sector has evolved for the better and, more than that, an insight into where the sector is headed.

Each of the winners has done a fantastic amount to bring people back into the fold and address concerns regarding financial security – or lack thereof. If ever there were a collective that embodied the most positive stories in the pensions market, the winners of this year's Pension Funds Awards are surely it. ■