

CIRB 2019

06 Sep 2019

Global Developments in Actuarial (Funding/Investment) Compliances

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Demographic Evolution



Stage 1 (Young)

>15 Contributors for
each pensioner

Stage 2 (Expanding)

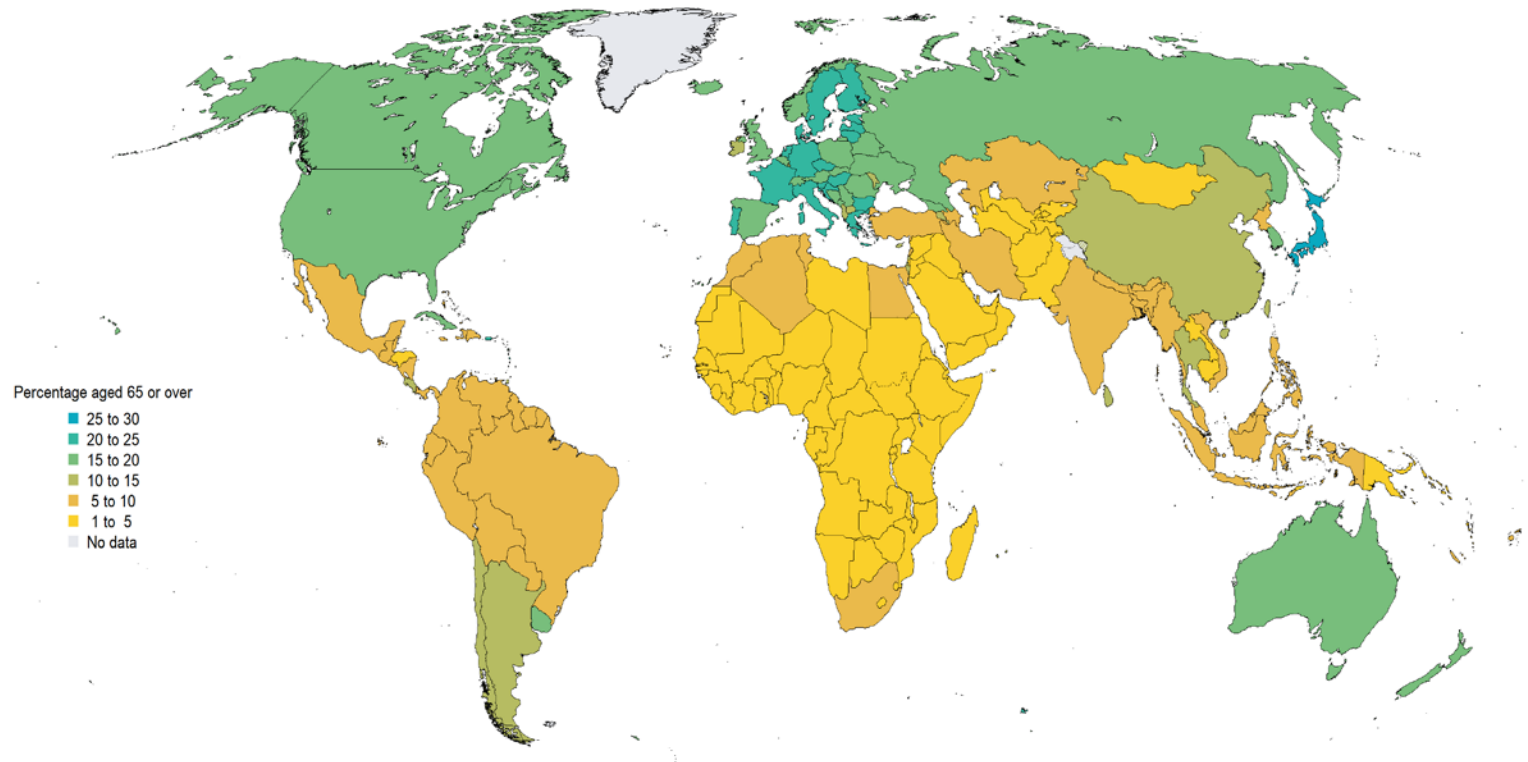
8-16 Contributors
for each pensioner

Stage 3 (Mature)

1-6 Contributors
for each pensioner

Demography 2020

Percentage of population aged 65 or over, 2020



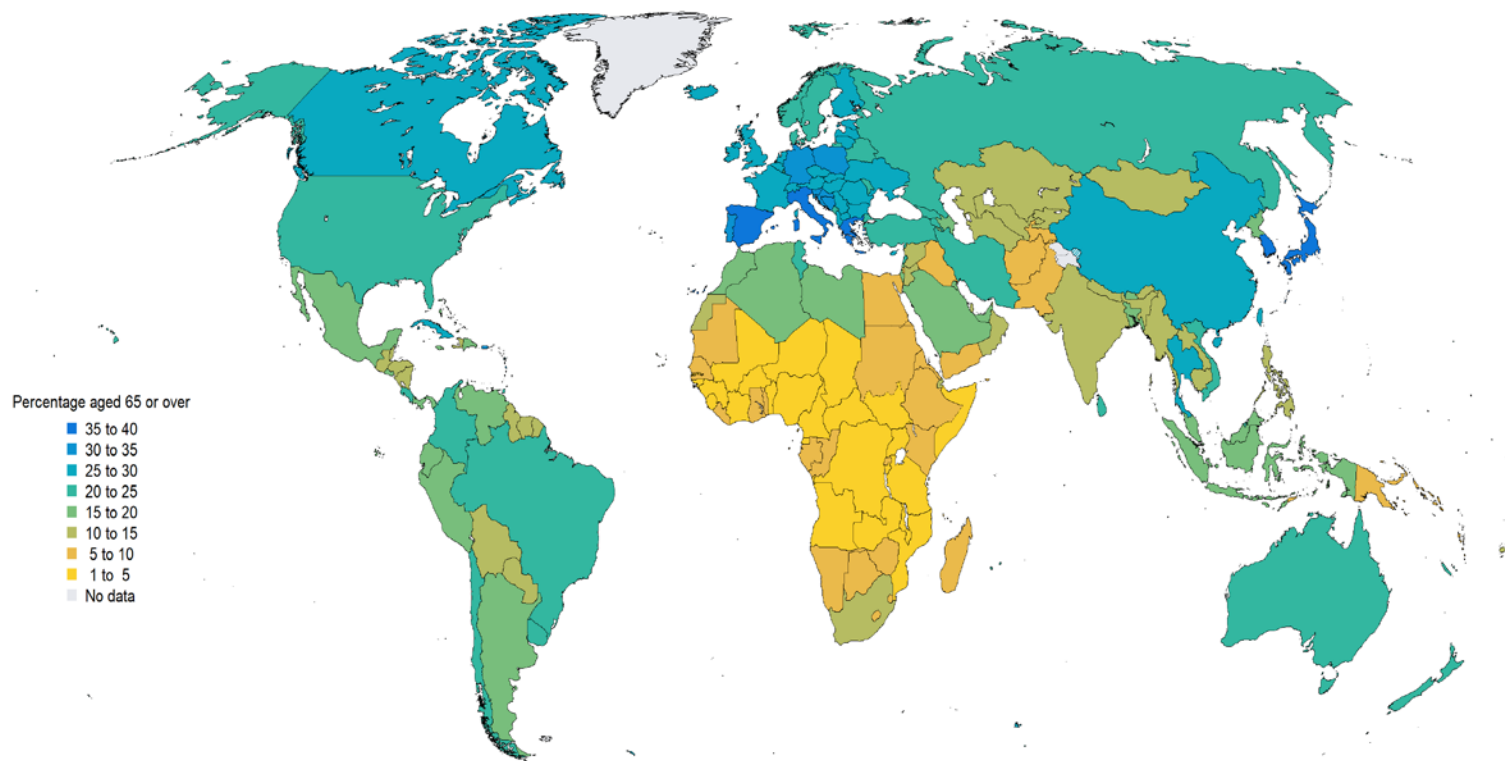
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Data source: United Nations, DESA, Population Division. *World Population Prospects 2019*. <http://population.un.org/wpp/>

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Demography 2050

Percentage of population aged 65 or over, 2050 (medium-variant projection)



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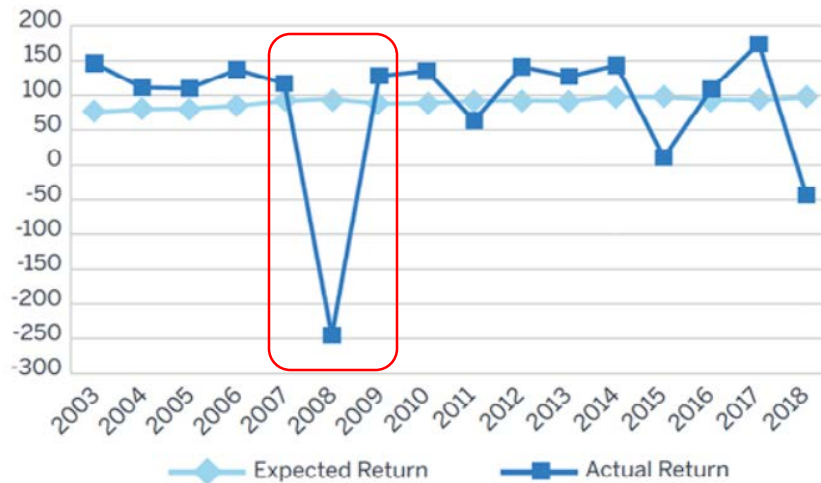
Global Pension Index



	<u>Rank</u>	<u>Country</u>	<u>P.I.</u>
Adequacy	1	Netherlands	80.3
	2	Denmark	80.2
	3	Finland	75
Sustainability	10	Canada	68
	15	UK	63
	19	US	59
Integrity	33	India	45

2008 Crises

INVESTMENT RETURN ON PLAN ASSETS



FUNDED RATIO, ASSETS/PBO



The Need



1

Diversification &
Operational
Efficiencies

2

Investment
Regulations

3

Sound
Governance



Trend (Asset Allocation)



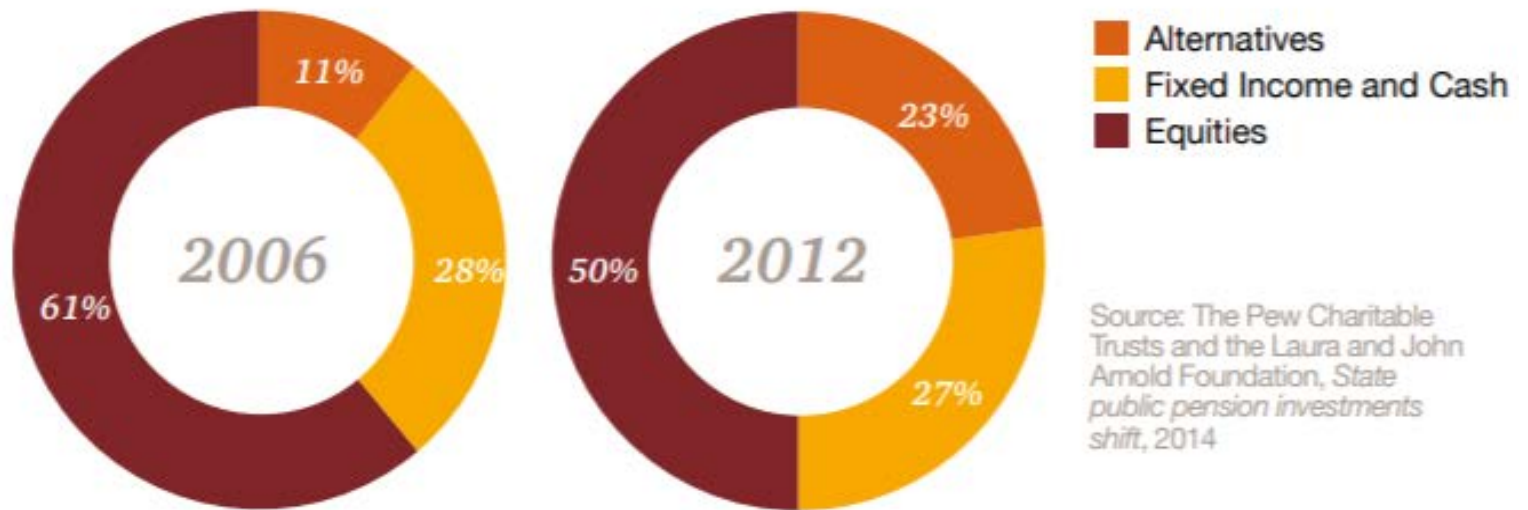
Returns

Low volatility

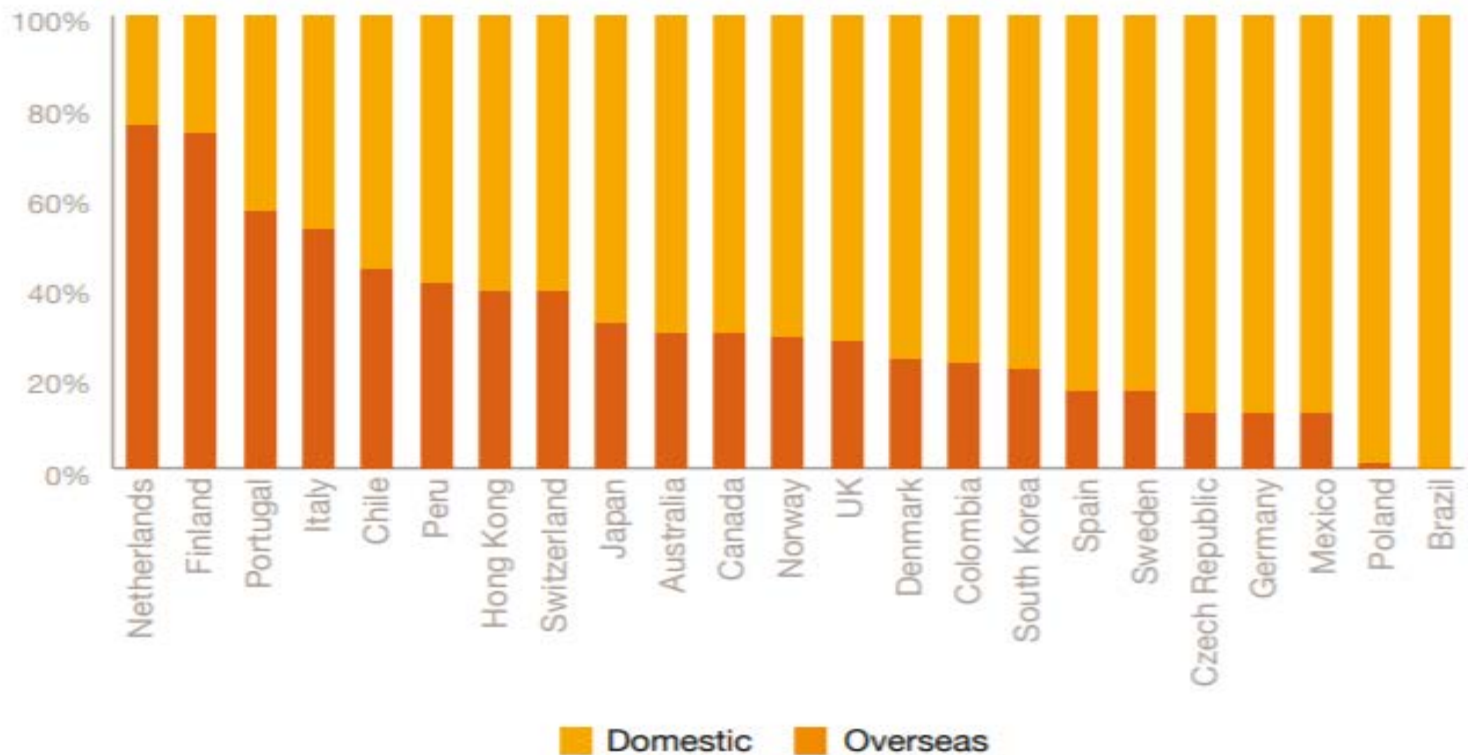
Cost

Liquidity

US Public pension funds include more alternatives



Trend (Geographical Diversification)



Investment Regulation of Pension Funds



Cap on Specific Asset Class

Equities

- Voluntary Schemes vs Mandatory Schemes
- Listed vs. non-listed equities

Bonds

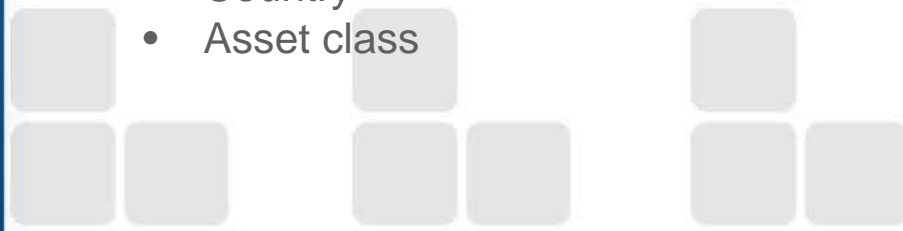
- Caps on Govt bonds less stringent than on corporate bonds

Real Estate

- Some countries completely prohibit *direct* investment in real estate including India
- Most allow indirect investment like bonds of RE companies, REITS

Foreign Investments

- Country
- Asset class



Investment Regulation of Pension Funds



Cap on Specific Asset Class..

- Self-Investment
- Foreign currency measure
- Derivatives and concentrations
- Single issuer

Floor on certain asset class

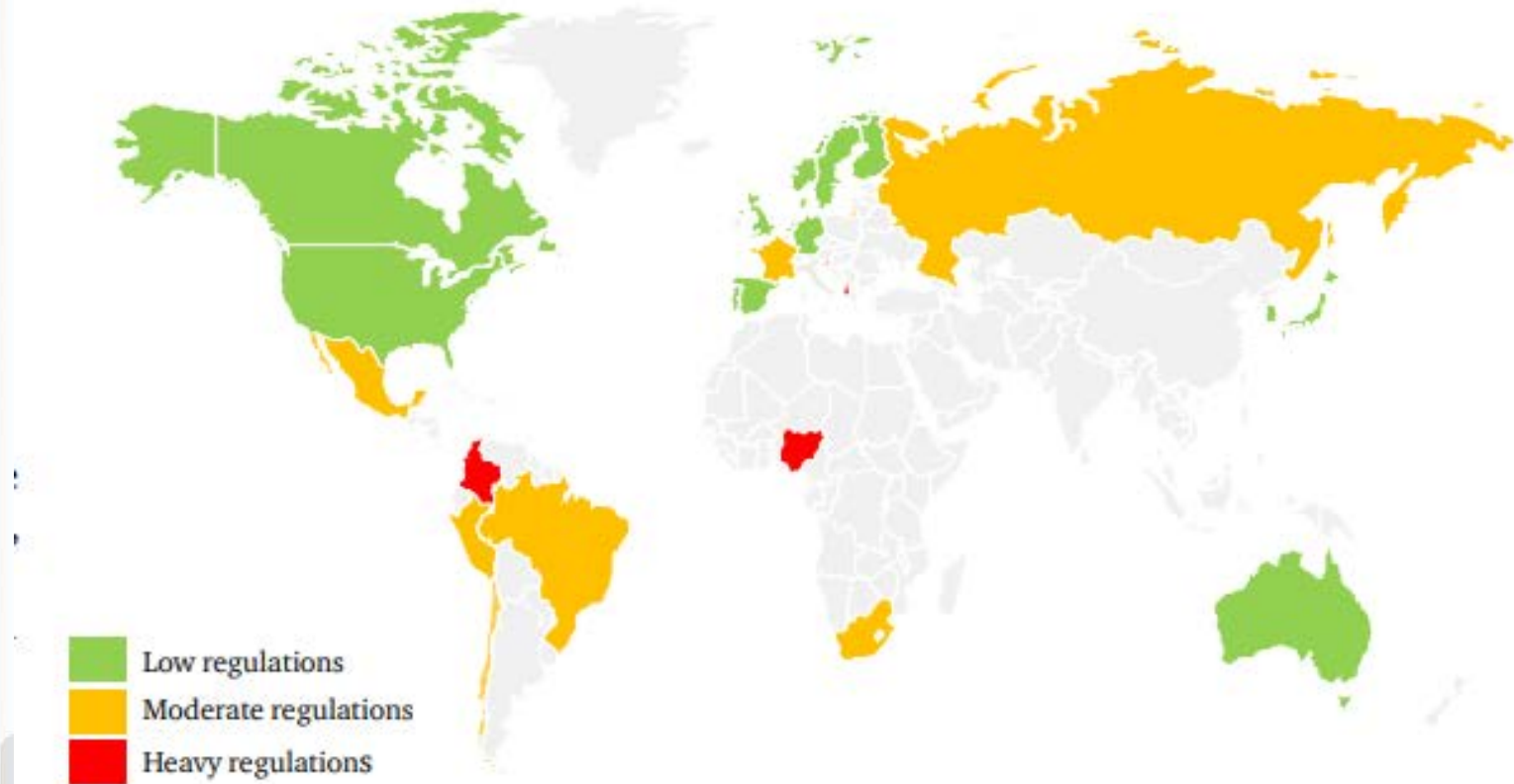
- Israel – Min 30% in earmarked funds
- Poland and Zambia –A min share in equities for open funds

Overall trend – Softening of limits and allowed more discretion to pension funds.

Regulatory Landscape



Institute of Actuaries of India





If you make 10,000 regulations you
destroy all respect for the law.

— *Winston Churchill* —

Sound Governance Framework



- Identifying and separating responsibilities - Investment Operations vs Reporting
- Using Expert Advise
- Adhering to regular reporting and disclosure reports
- Ensuring suitability of pension board members - Employees, employers, external experts, pensioners and even customers
- Due diligence in decision making in the investment process – **Time taken** to invest and **valuation period** differs in investment types
- Risk management - Internal RM team is preferred. Stricter control for Alternative assets

Summary



Trends:

- PAYG - to - Individual and Corporate Responsibility models
- Asset Types - Equity and Bonds to Alternative assets – RE, PE, Infrastructure and hedge funds
- Liberal rules on investment decisions – asset types and geography

Key Aspects:

- Balance inhouse (Better Control, low cost) and external investment management and Risk Management
- Sound governance structure – ensure sound processes and organization