Pensions without borders

Pooling internal pension and investment resources across countries can be advantageous for multi-national employers but it brings complex challenges, writes Stephanie Baxter

Summary
- Multinational companies are looking for consistency in investment decision making and to improve the efficiency of scheme management.
- Pooling internal resources can reduce operational complexity, maximise efficiencies and deliver cost savings.
- It is resource-intensive, creates regulatory and operational risks, and requires having the right risk and IT systems in place.

For multi-national companies that sponsor several pension funds around the globe, there are many advantages to pooling internal pension and investment resources.

The sponsor may be able to reduce operational complexity, maximise efficiencies, simplify reporting structures, provide cost savings and improve governance. But while increasing scale brings opportunities, companies also need to be aware of several challenges.

World Pensions Council executive director, Nicolas Firzli, who is also an adviser to the World Bank, says the rush for scale is driven by several financial considerations deriving from economies of scale but also non-financial ones such as managerial efficiency.

He points out that the biggest asset owners in the world are public pension and sovereign wealth funds from eight countries – Abu Dhabi, Australia, Canada, Holland, Norway, Saudi Arabia, Singapore, and the United States – and these are most likely to pool resources. Pooling by even the largest private sector multinational companies has been far less prevalent.

Firzli says: "Now, there's a belated realisation among policymakers in London, Berlin, Paris, and Rome – the headquarters of many multinational corporations – that [*companies*] need to merge their atomised private pension funds to catch up with these foreign financial juggernauts and restore some balance."

Mercer senior international consultant in New York, Peter Stewart, says multinational companies are looking for consistency in their investment decision making to ensure their best investment ideas are reaching all their retirement schemes around the world.

"They are also looking to improve the efficiency of plan management while mitigating fiduciary risks through plan oversight and ongoing monitoring. In addition, they are looking to ensure that employee outcomes are being enhanced while optimising vendor resources and reducing plan administration," he says.

Many multinational companies have in-house fund managers that oversee assets across the global investor pool. However, this is not an option chosen by all multinationals as some would prefer to outsource these responsibilities and focus on their core business, says Stewart.

Benefits of pooling

There are three clear benefits from pooling internal pension and investment resources across multiple countries, according to Aon senior partner, Paul Bonser.

"Firstly, improved governance, with central oversight across the whole portfolio rather than on a country-by-country basis," he says. "Secondly, greater efficiencies through centralising and standardising the process and delivery requirements needed to run global retirement plans. And thirdly, economies of scale with all schemes at the local level benefiting from innovative thinking."

There is widespread agreement that it is easier to pool resources in HR and financial services than to set up asset pooling vehicles. Bonser says: "More multinationals have set up centres of excellence to deliver HR and finance services across their whole businesses and this includes the operational support for retirement plans – centres include Ireland, the Netherlands, Greece and Eastern Europe."

However, only a few of the largest multinationals have set up asset pooling vehicles to serve their pension schemes because it is resource intensive, in part because implementation is not always straightforward.

Others have adopted a virtual pooling approach using a global custody platform as this is often more effective and simpler to implement, says Bonser.

A company needs to be large to be able to launch its own pooled investment funds that can be used by pension schemes in multiple countries.

While dependent on the asset class, roughly a minimum of $250 million of pooled assets would be required, says Stewart. But he adds that pooling often only makes sense for pooled assets over $1 billion, whether internally or externally pooled.

Van Lanschot Kempen head of fiduciary management and institutional

solutions, Wilse Graveland, says there is probably an optimum level between €30-100 billion of assets to experience the full benefits of scaling while simultaneously remaining agile.

"If you are a big pension scheme that operates in a small financial market with a lot of homogeneity between investors, you run the risk of everyone trying to exit through the same door at the same time – just as we saw *[with the LDI crisis]* in the UK recently," he warns.

"If you operate in deeper and larger markets, you will find more buyers and sellers and therefore better prices when you need to move your investment portfolio. However, even then, if you become too big, it becomes increasingly hard to move."

What are the challenges?

Pooling brings many challenges: It takes up a huge amount of time to manage in-house, and creates regulatory, reputational, and operational risks. Pensions legislative frameworks and requirements also differ from country to country and across regions, further complicating the task.

Isio investment partner, Emily McGuire, says the company ultimately needs to think about what its goals are as a sponsor.

"There might be different objectives around the world – from de-risking to using the scheme for talent recruitment and retention – depending on where the company is on its pensions journey in that jurisdiction," she says.

"Tax positioning can make it hard to gain the full benefits of global relationships, which can also influence the products and solutions available in different parts of the world."

It may also be difficult for all the different boards of trustees to agree on global policies.

McGuire points out that there is a lot more consolidation within regions than between them, due to companies more commonly acquiring peers in related markets and taking on their pension schemes.

"This way, companies can combine assets in existing vehicles, or create collective investment funds that are able to keep a specific, chosen strategy. This helps to increase companies' buying power, which could give them access to a range of alternative funds – which typically have high minimum allocation hurdles – and better fees."

It is important to have the right risk systems, resources and IT systems in place, as well as being able to meet all the different regulatory requirements.

As Pensions and Lifetime Savings Association deputy director, Joe Dabrowski, says: "There is a lot of tactical stuff to do, as well as making sure you have the resources and understanding of the risks and funding requirements on an ongoing basis. How will you resource your teams? And can you offer competitive rates compared to third-party providers?"

Given that employers have different rules and agreements in each country, it is hard to achieve economies of scale unless all the approaches can be transformed into a uniform approach, which is very difficult to do, says Graveland.

Pooling can be very efficient if investment policies, preferences and risk appetites are similar, but not if there is a lot of differences between them.

Other key considerations include whether to manage everything internally, or work with a partner, and the level of risk and complexity a fund can handle.

"If there's a lot of variety among pension funds, combining schemes might become problematic," says Graveland. "You need to be able to deal with powerful players in the financial markets."

There could also be the potential to see what works well in one jurisdiction and then adopt that best practice across all the multi-national company's pension schemes.

Dabrowski says: "If you're looking across a wider region and noticing how people do things in different countries, for example a strategy for member communication, there is a good opportunity to pick up what works more widely. You can then take that knowledge and apply it across the business."

However, there is a point at which the advantages of gaining economies of scale are outweighed by disadvantages caused by size and complexity.

Graveland says it is important to have solidarity between employers and employees, in addition to solidarity between groups of employees, before asking what the employer should commit to. For example, are national entities required to make additional payments to maintain a certain coverage ratio?

"In the Netherlands, we have seen a 'silent revolution' in which most employers capped or ended additional payment obligations, shifting some of the risks to the pension funds. Consequently, the funds' balance sheets simply got too big compared to company size. We are now observing a similar thing happening in the UK, while employers there are still committed to additional payments and inflation correction."

Going forward, Firzli is confident more multinationals with global footprints will follow the Mars and Unilever model: Rationalising and centralising their disparate employee pensions programmes within a single fund management entity as much as possible.

"This will happen in spite of lingering regulatory obligations – including for solvency, liquidity and ESG – currency, and fiscal differences at national level. Once thought insurmountable, these differences are now easier to resolve through modern administrative and HR systems, and new fintech and regtech tools."

Written by Stephanie Baxter, a freelance journalist