



Insurance and Pensions Symposium

From Capital Allocation to Impact: The Role of Insurance and Pension Assets in Driving Sustainable Development

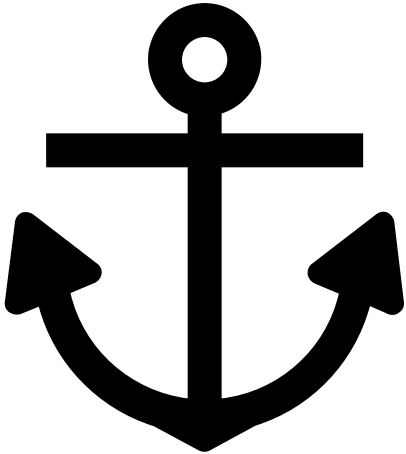
Fiona Stewart
World Bank



Enabling Conditions

Importance of Unlocking the Potential of Institutional Investors

Insurance Companies
and Pension Funds
can play an important
role in boosting capital
markets



They serve as catalysts for the development of stock exchanges and corporate bond markets

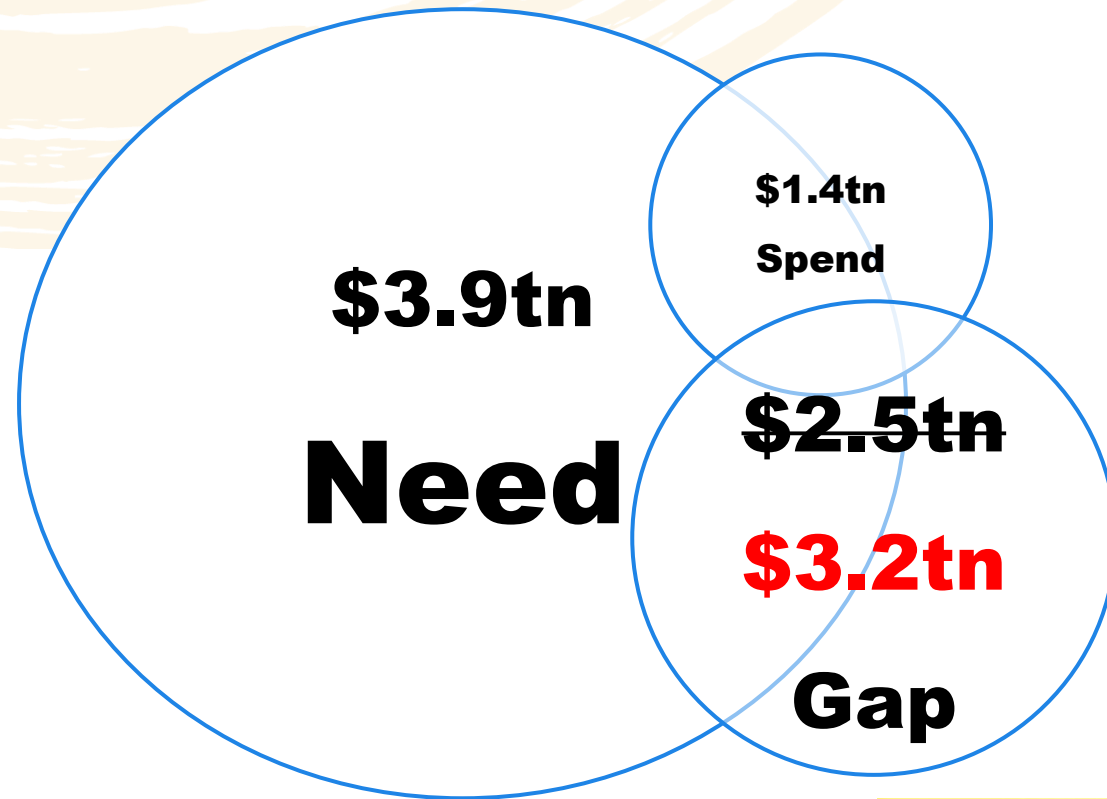
They can improve the depth of capital markets by boosting trading volumes and market liquidity

They increase stability in capital markets, enhancing investor confidence and resilience

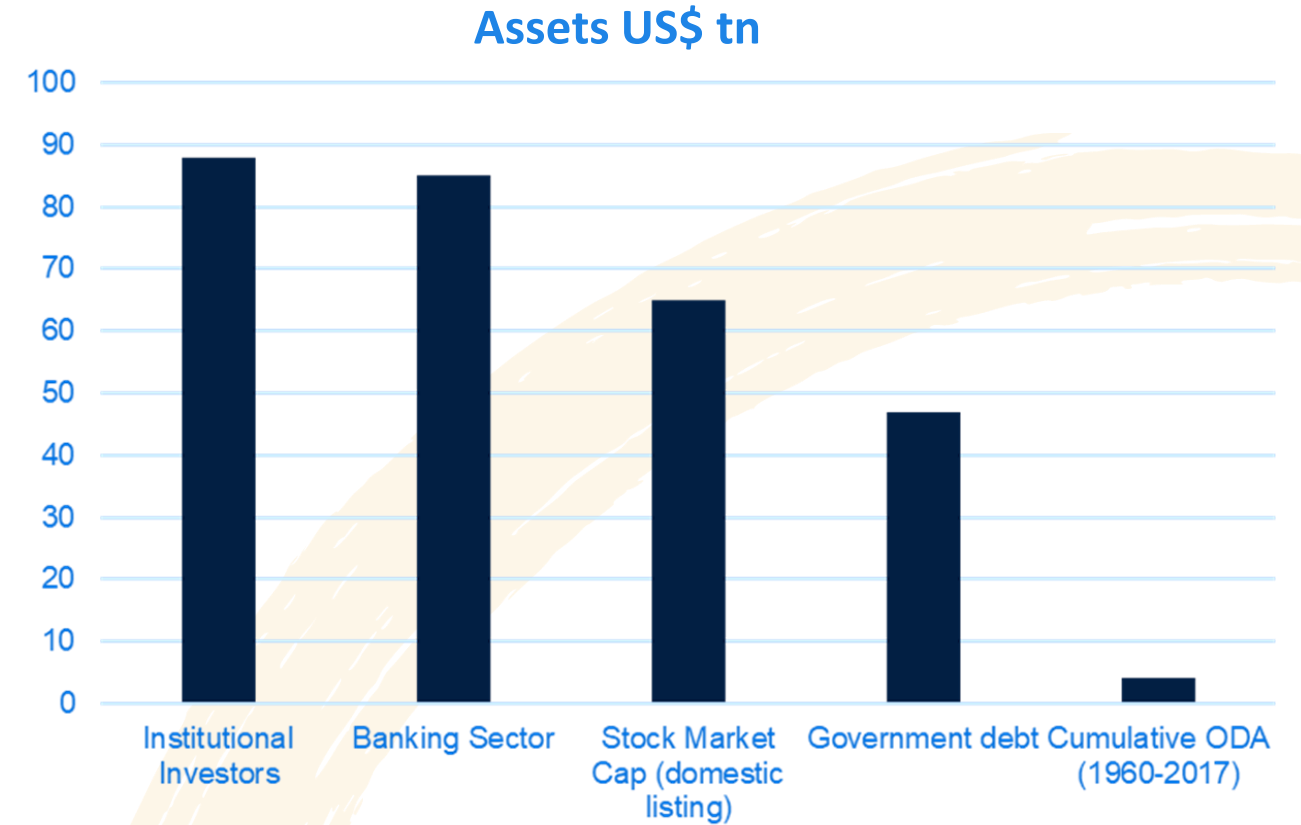
They can help address Africa's infrastructure gap via investment in instruments that fund this.



Vital Sources of Long-term Capital

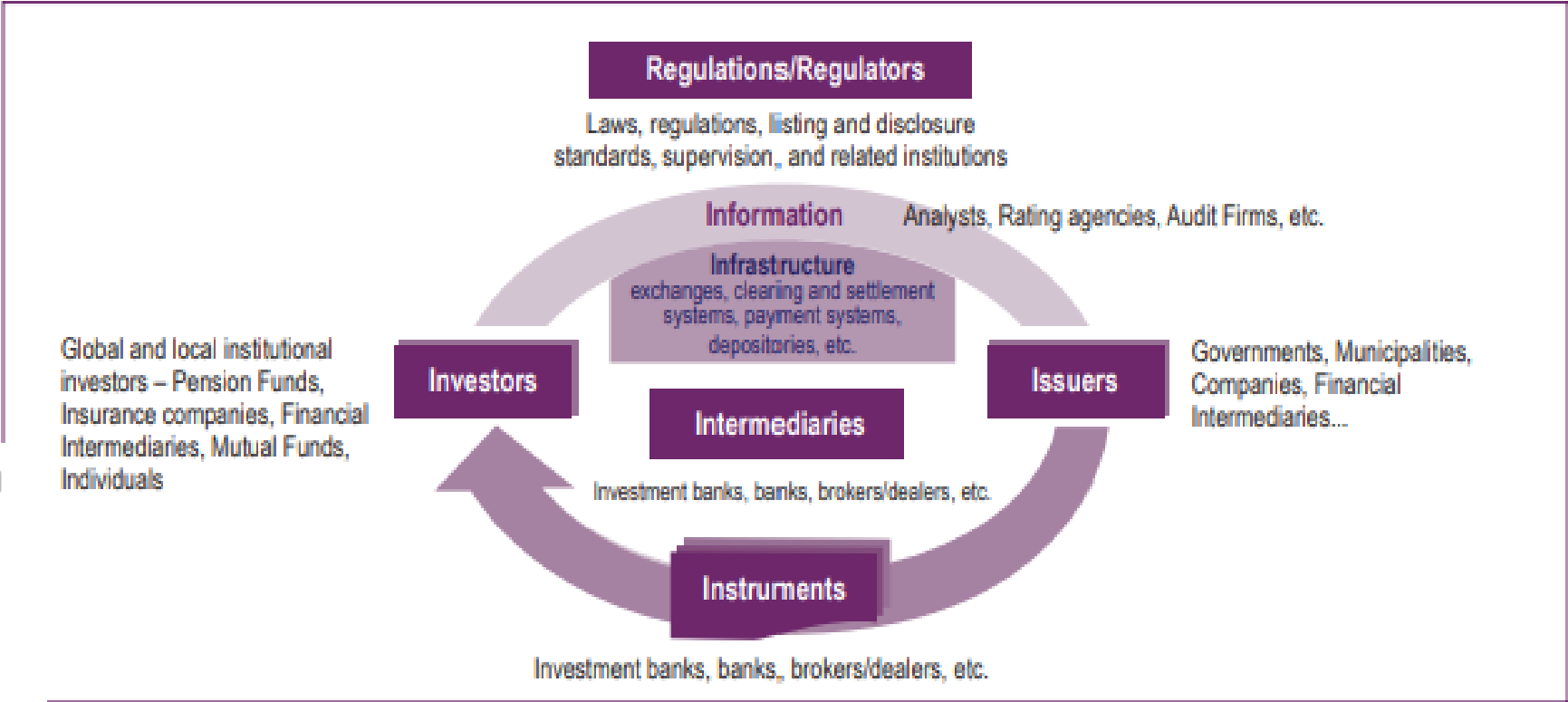


Annual Investment Needs
Developing Countries



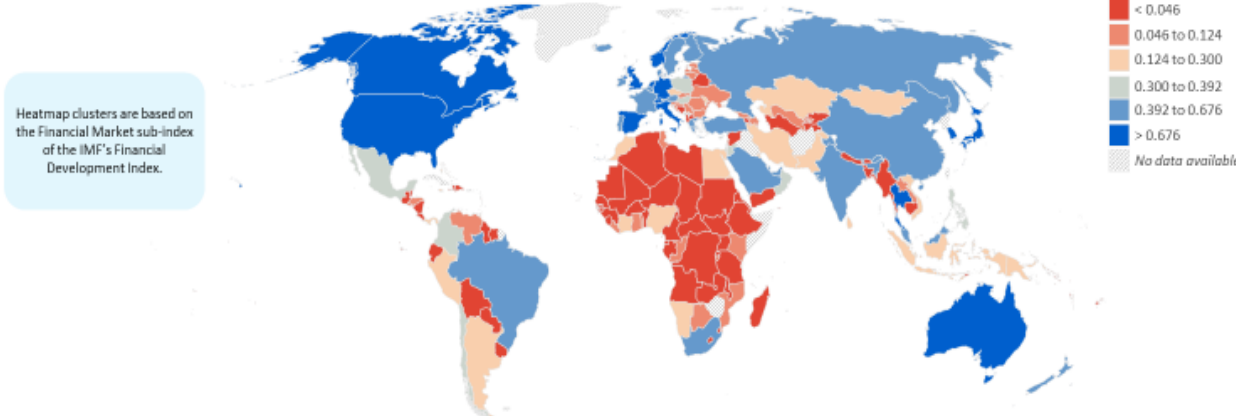
Challenges in Emerging Markets

Figure 1. Capital Markets Ecosystem



THE ROLE OF CAPITAL MARKETS IN EMDES In the majority of developing and emerging markets, the local capital markets are at best only partially fulfilling the roles above

World Map of Financial Market Development, 2016



	Nascent	Basic	Intermediate	Advanced
	78 Countries	54 Countries	36 Countries	15 Countries
Depth	VERY SHALLOW	SHALLOW	LESS DEEP	VERY DEEP
Access	INACCESSIBLE	LESS ACCESSIBLE	ACCESSIBLE	VERY ACCESSIBLE
Efficiency	INEFFICIENT		LESS EFFICIENT	VERY EFFICIENT

Pension Fund Enabling Conditions

World Bank

- A strong and lasting political commitment to the reform
- A well-designed fiscal strategy for financing the transition.
- A sound financial infrastructure
 - Legal framework
 - Institutional framework (payment systems/ securities settlement/ electronic trading/ custodian institutions/ accounting & audit)
 - Available financial instruments
 - Regulatory & supervisory framework

Public Disclosure Authorized

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POLICY RESEARCH WORKING PAPER

4890

Enabling Conditions for Second Pillars of Pension Systems

*Heinz Rudolph
Roberto Rocha*

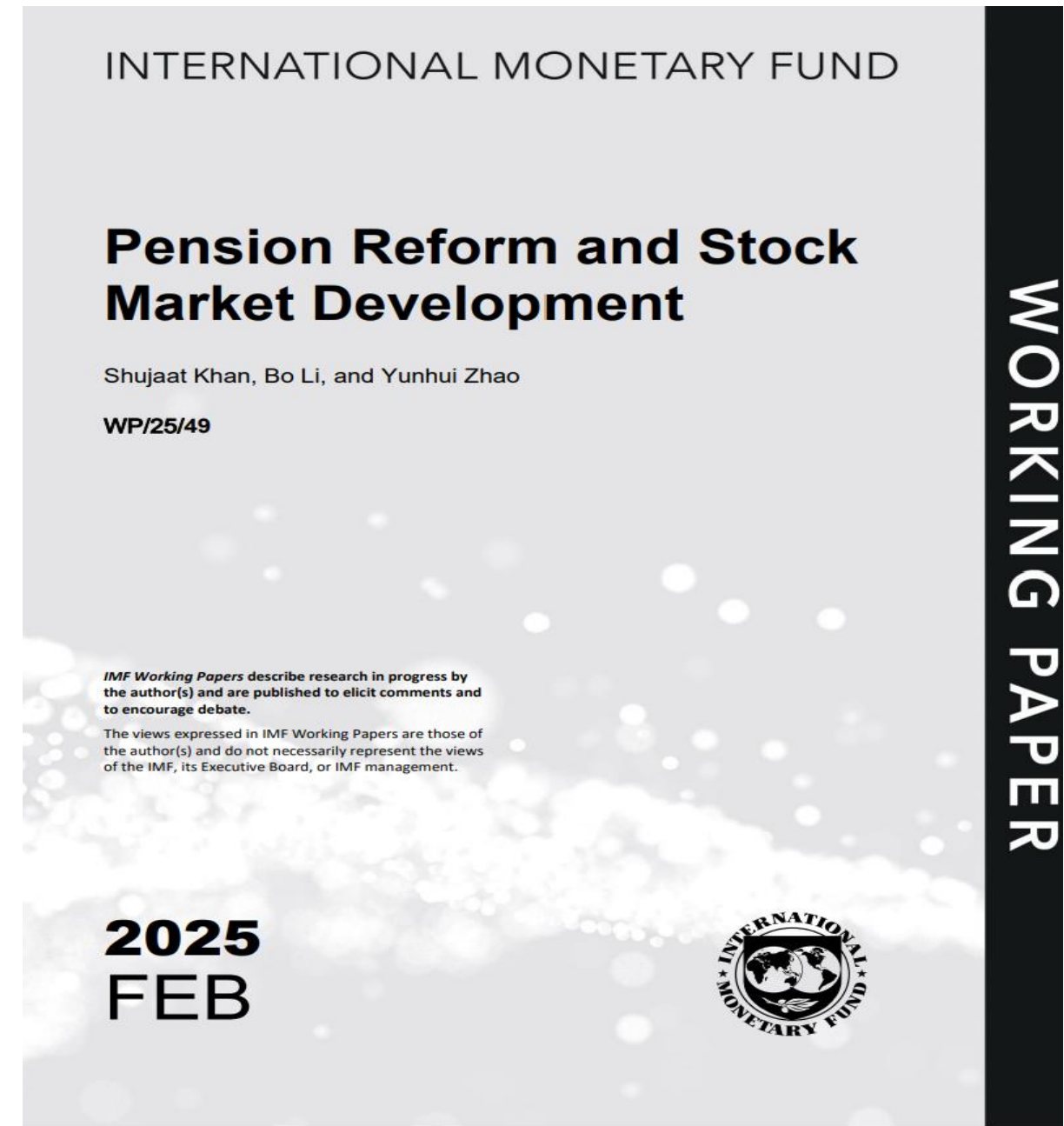
The World Bank
Financial Systems Department
Policy Development Division
April 2009



Stock Market Enabling Conditions

IMF

- Funded pillar has to be sufficiently large
- Country needs to implement vigorous structural reforms to meet enabling conditions
 - robust fiscal strategy
 - sound financial infrastructure.
- Imperative for policymakers to act promptly, decisively, and persistently – strong and long-lasting political commitment a prerequisite
- Younger nations benefit considerably from developing a funded pension pillar early.
- For a number of emerging market economies such as China, technological innovation is essential to escaping the middle-income trap in the next twenty years - pension reform can play a vital role in supporting stock market development, which in turn will be key for providing long-term equity financing that is crucial for technological innovation.





Creating Investment Opportunities

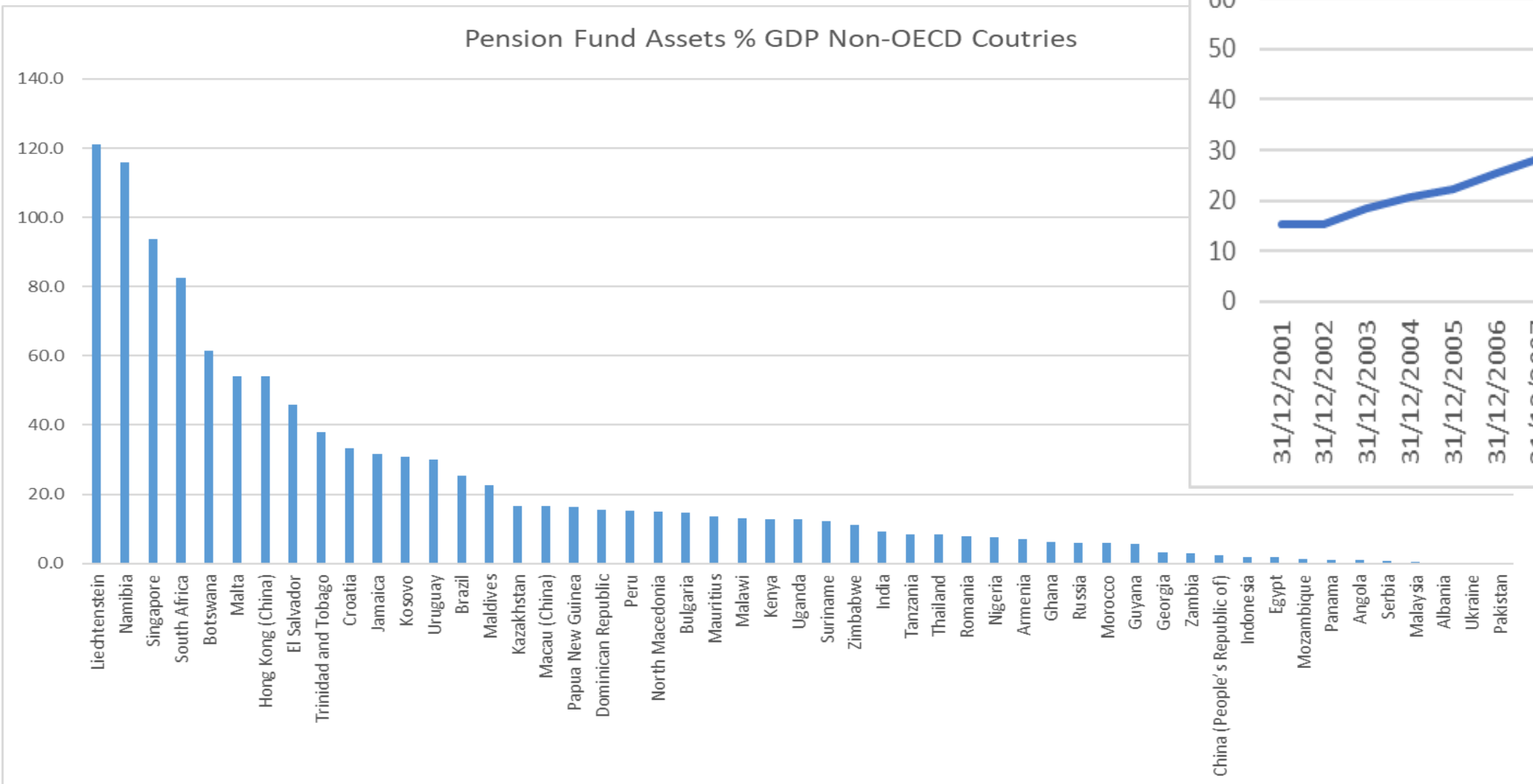
Pension fund investment trends

Global Pension Assets heading for \$70tn

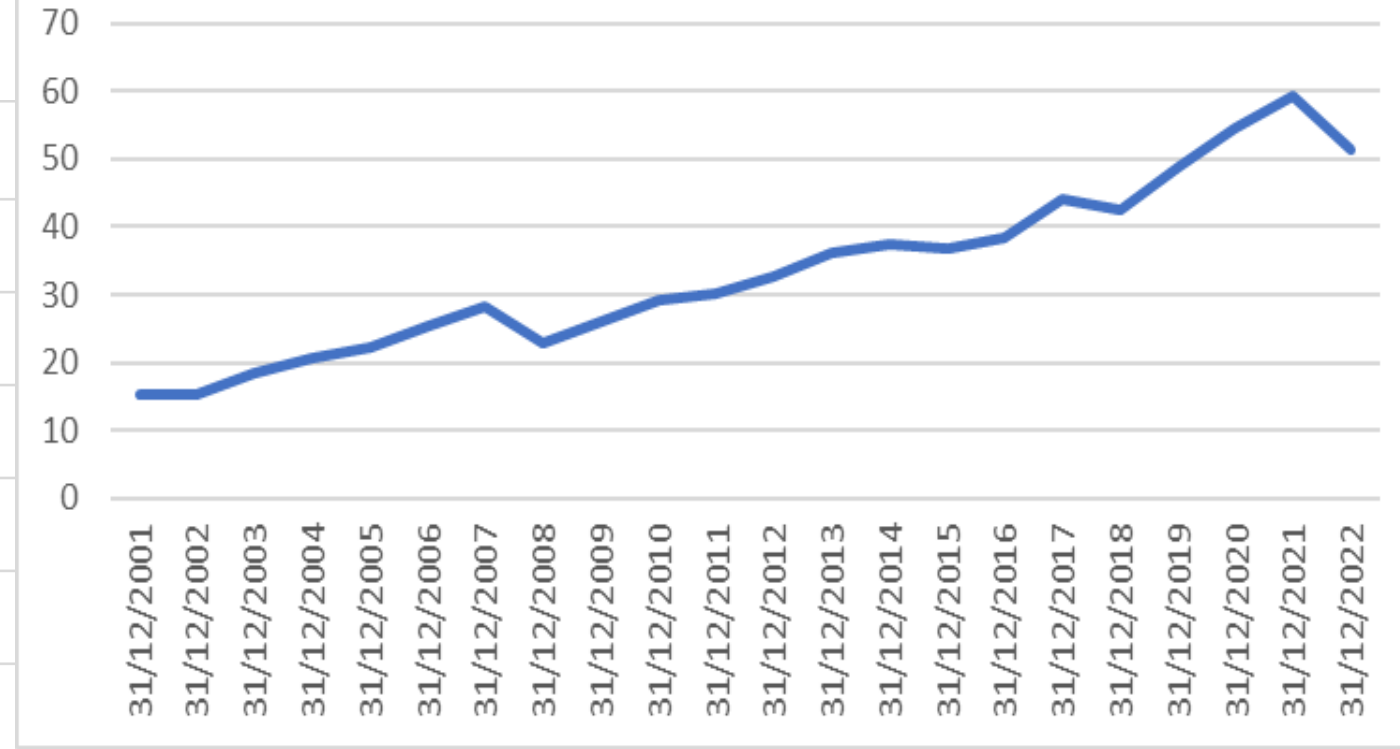
70% USA <5% non-OECD + China

EMDE pension funds can be large % GDP

Pension Fund Assets % GDP Non-OECD Countries



Global Pension Fund Assets
US\$ trillion

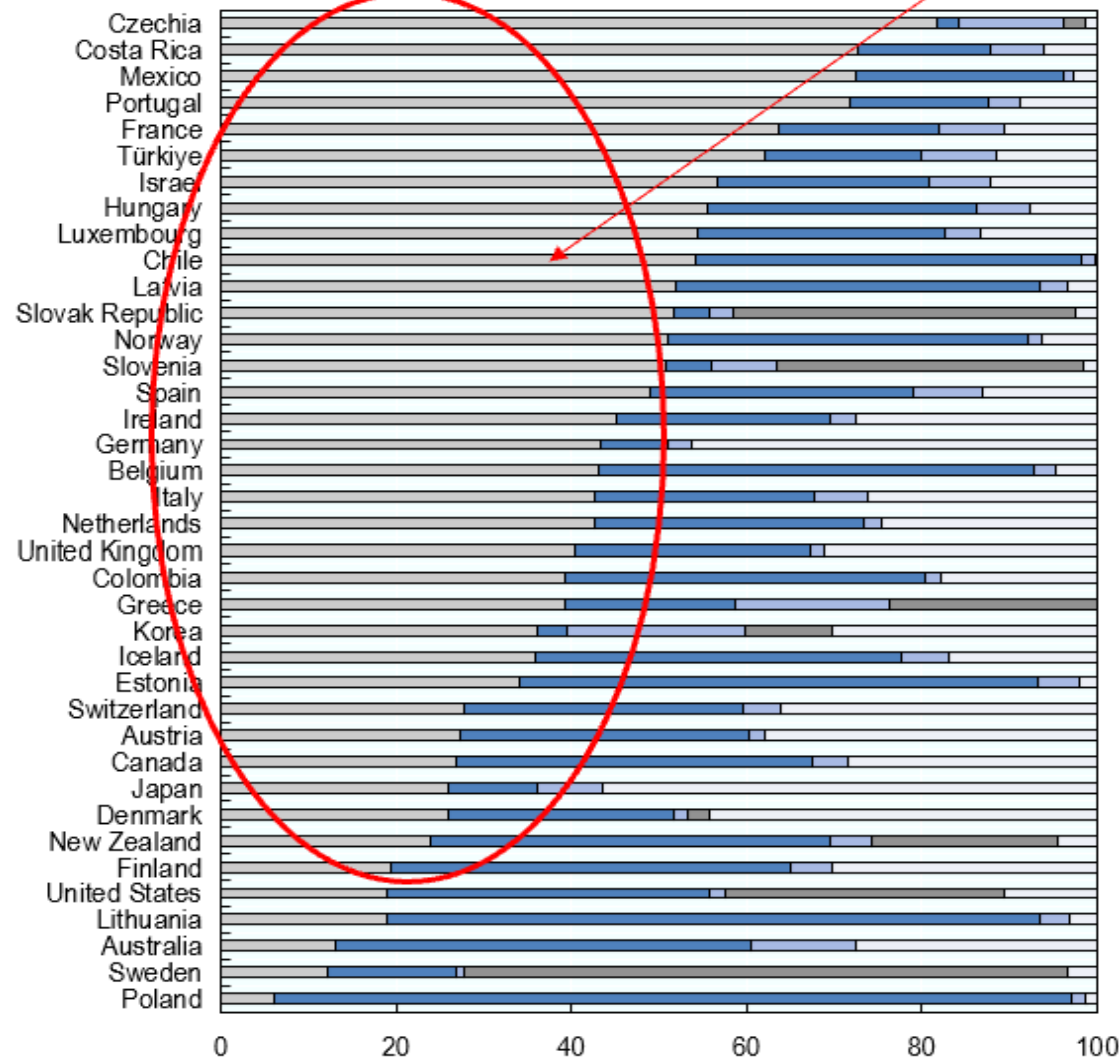


Source: OECD

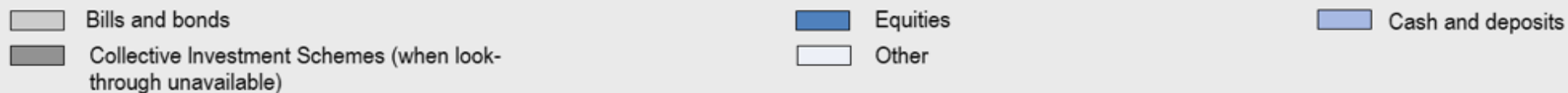
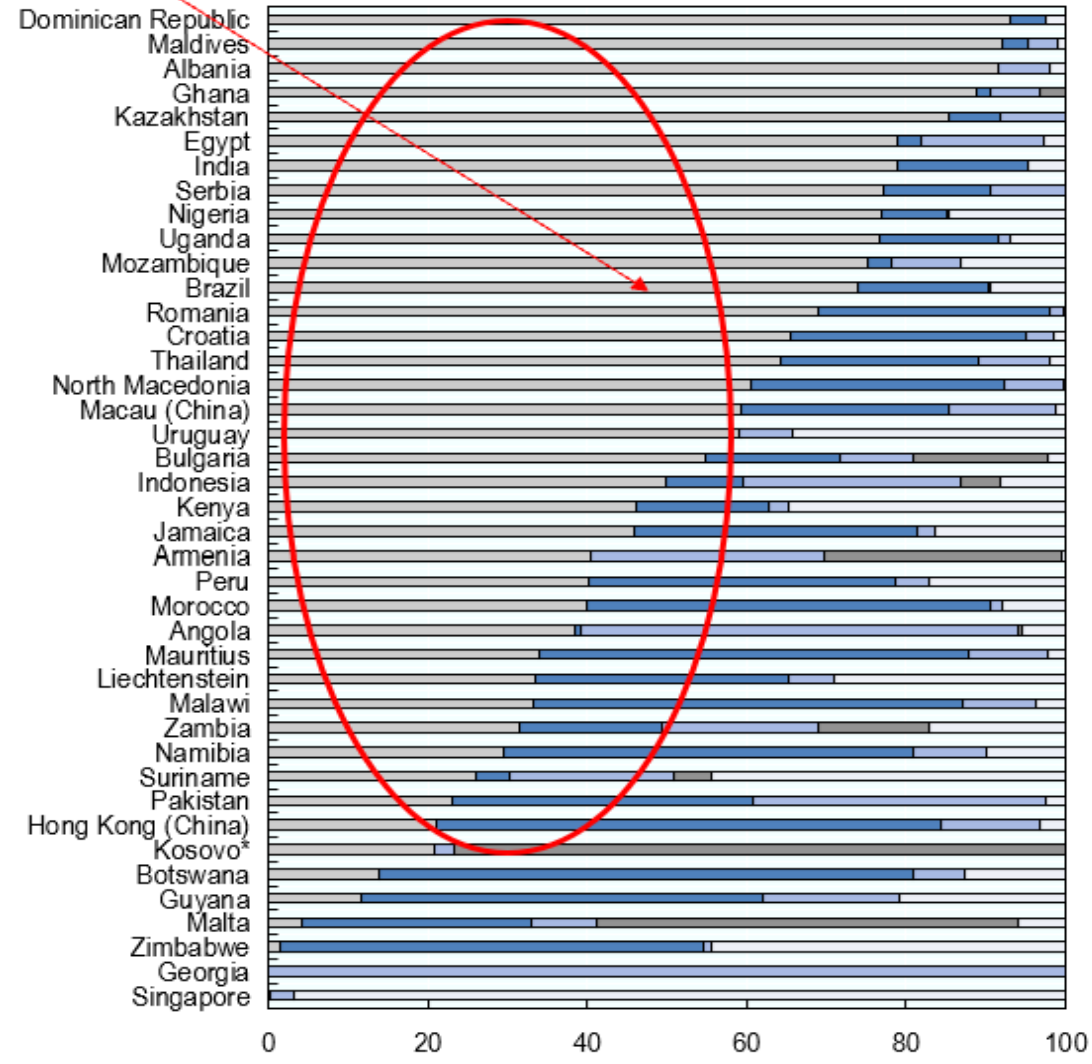
Pension fund investment trends

BONDS 42% VS. 51% (also higher % gov. vs. corporate)

ASSET ALLOCATION OECD



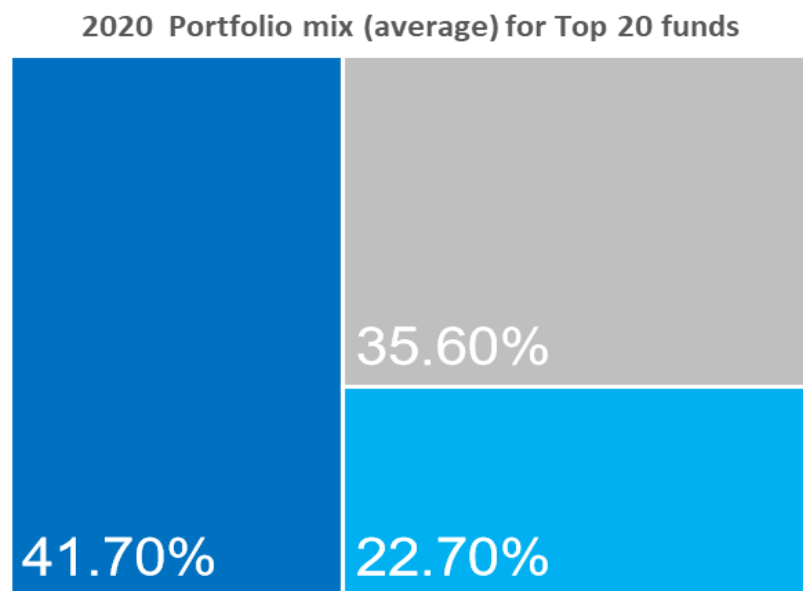
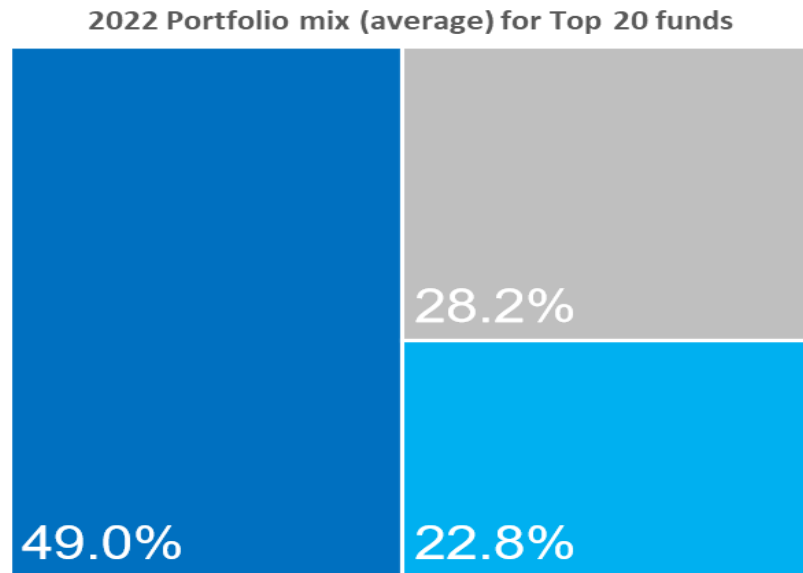
ASSET ALLOCATION NON-OECD



Source: OECD

Official Use Only

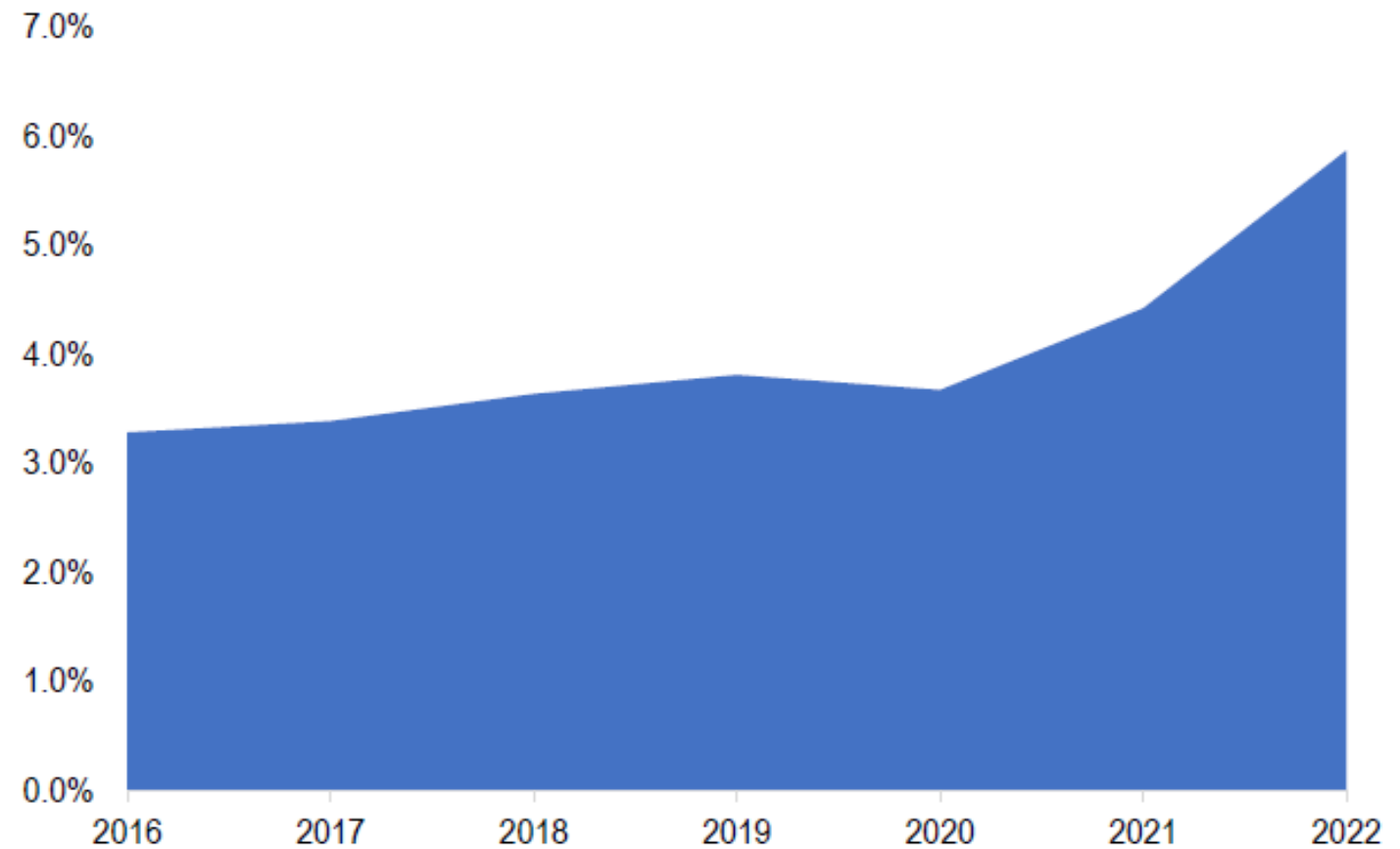
Pension fund investment trends



■ Equities
 ■ Bonds
 ■ Alternatives & Cash

Figure 14. Unlisted infrastructure investments of top 20 LPFs, 2016-22

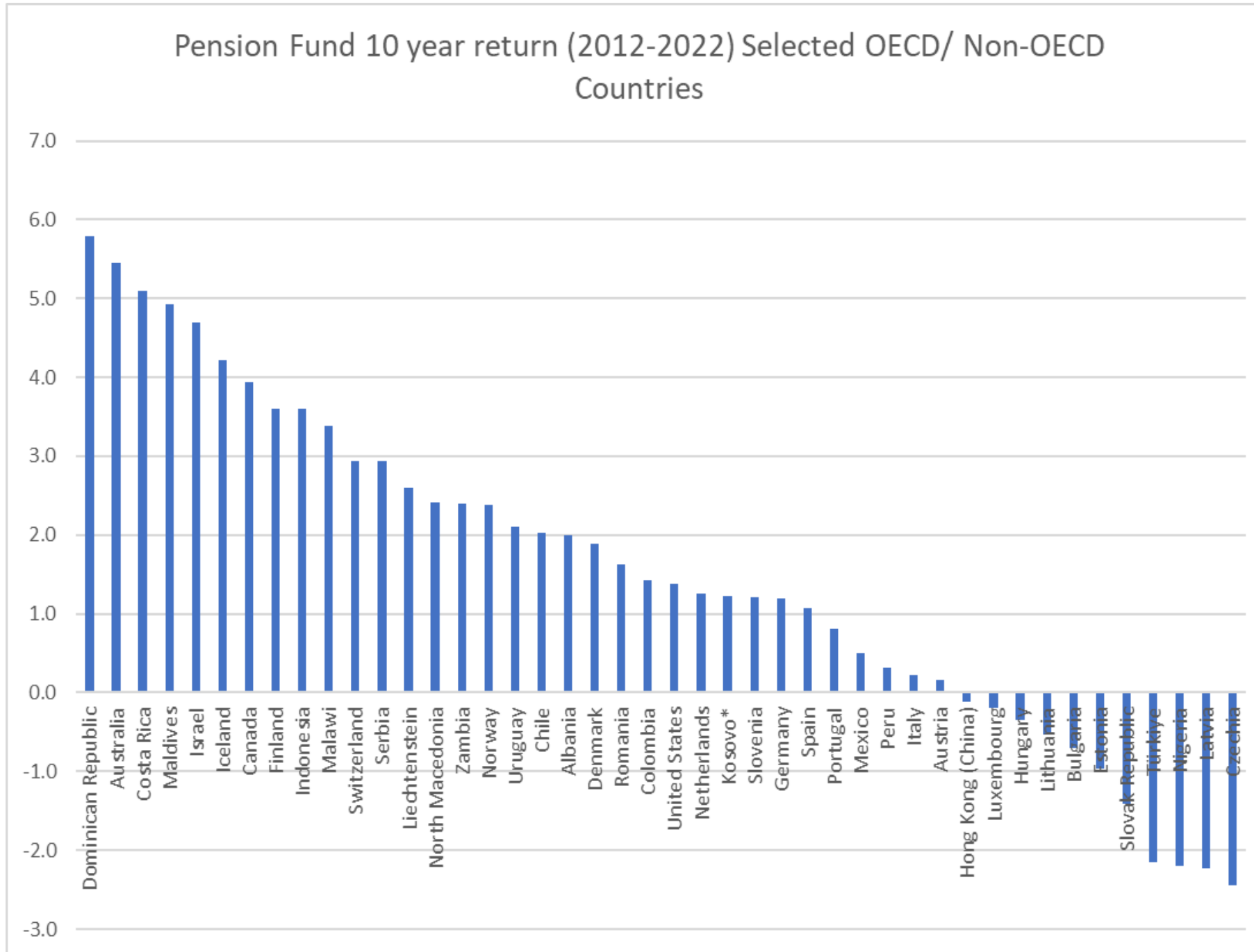
As percentage of total investments



Source: September 2023: Global top 300 pension funds – A Thinking Ahead Institute and Pensions & Investments joint study

Note: Asset allocation for the National Social Security fund of China, for the Central Provident Fund of Singapore and for the Employees' Provident Fund India was not available

Pension fund investment trends



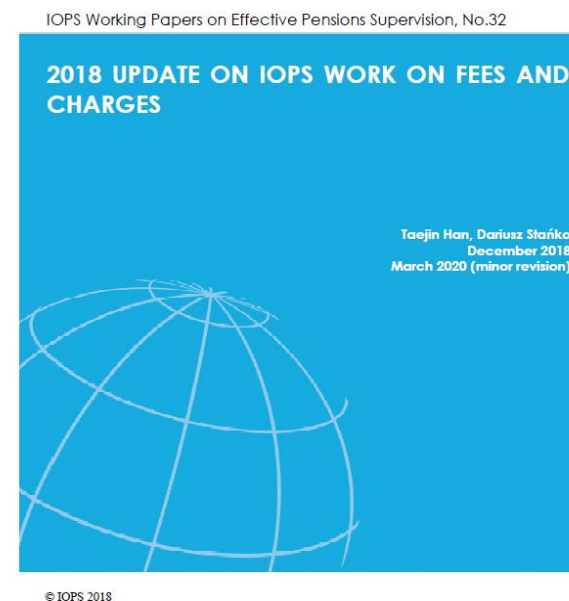
- Real returns averaged 1.5% 10 years (~2% 20 year- smaller sample)
- Mixed across countries
- Public pension funds slightly better (3-4% 10/20years)

NB MEASUREMENT CAVEATS

Source: OECD

Pension fund investment trends

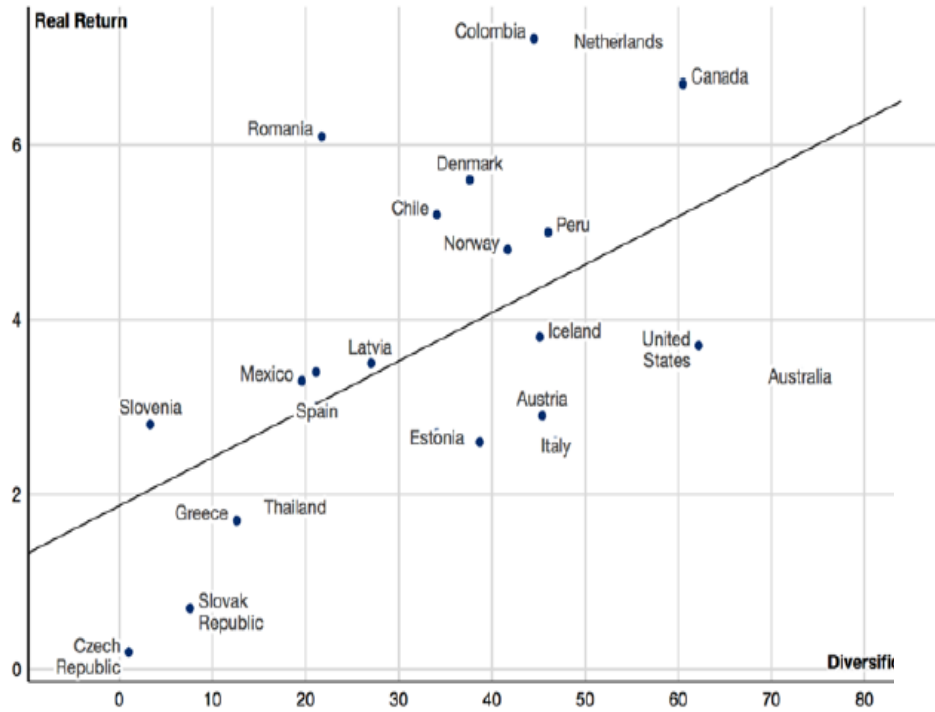
- Costs and fees key driver of investment performance
- Comparisons difficult – 2019 IOPS survey 40-year charge ration range 15-25% (<pension after fees)
- Compared with 2014 survey charges declines in ~75% of countries
- 2/3 have cap on fees – most actual charges below the cap (40% case close to/at cap)
- Evidence that occupational DC / personal plans linked to employment much more cost effective than personal plans



Centralized services	Partial centralization
Sweden (PPM)	Colombia
Denmark (ATP)	Poland
Bolivia	Bulgaria
Kosovo Pension Trust	Hungary
	Mexico
	New Zealand
	Chile

Source: OECD

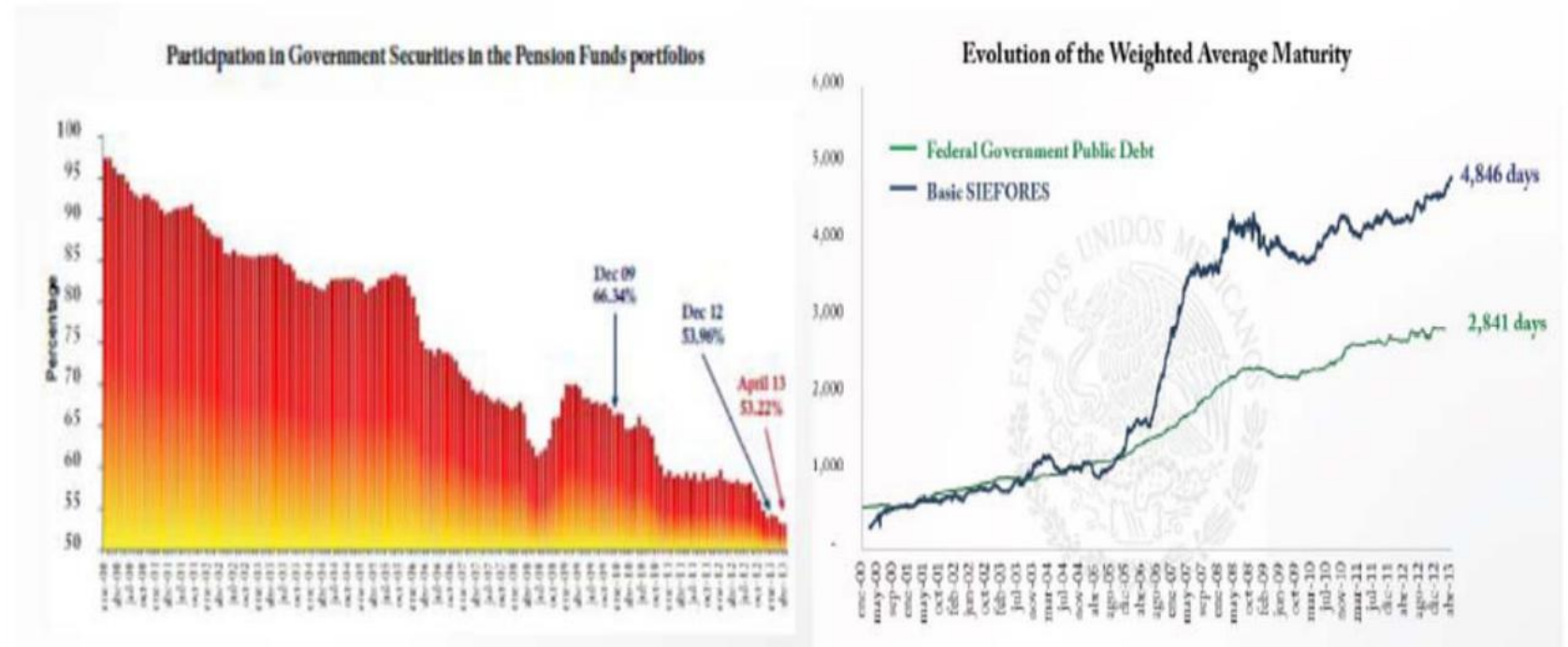
Diversification Drives Investment Returns



Portfolio Diversification vs. REAL Investment Returns, 2009-2015

Despalains, Remizova & Stewart (2017)

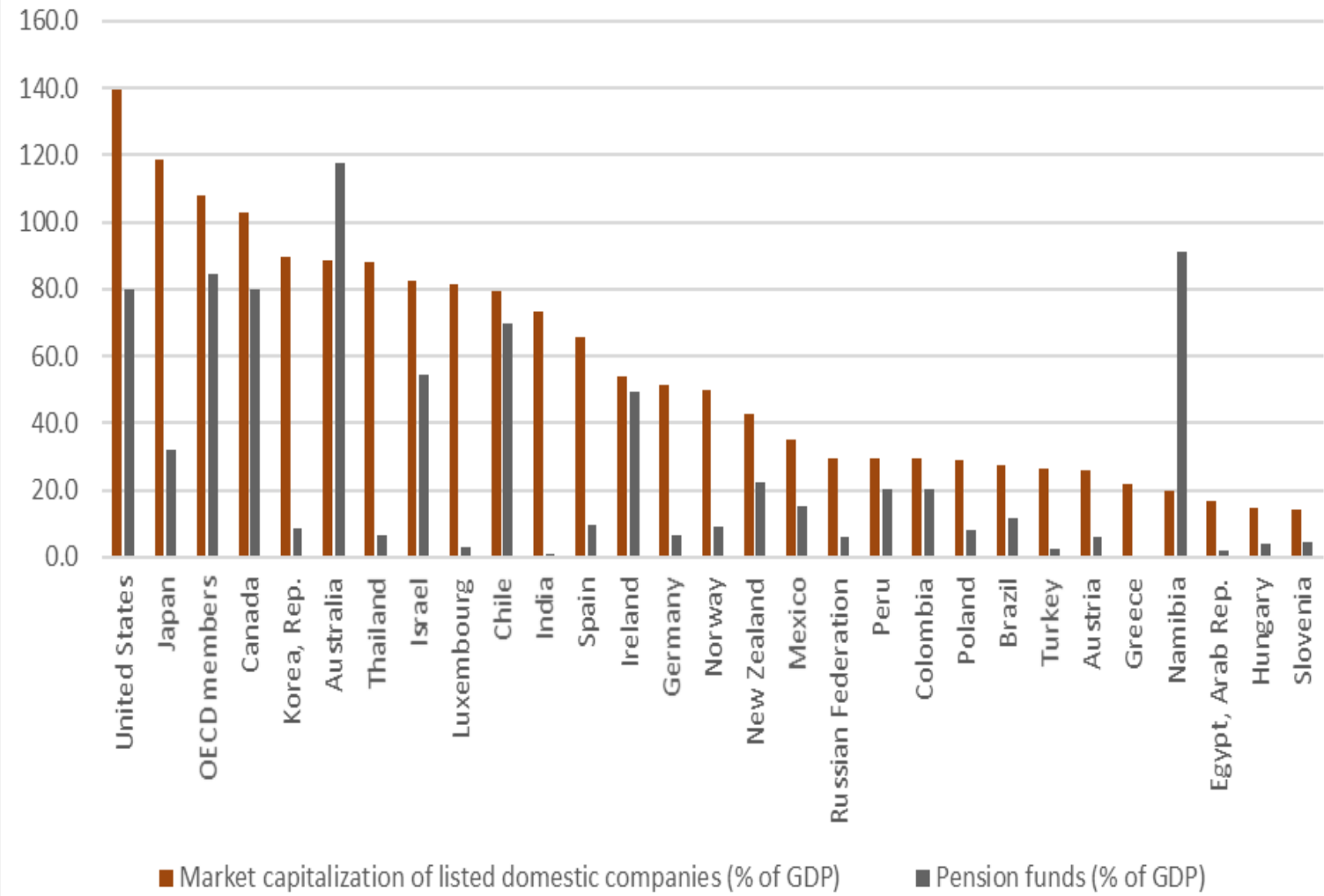
Source: authors' calculations based OECD Global Pension Statistics



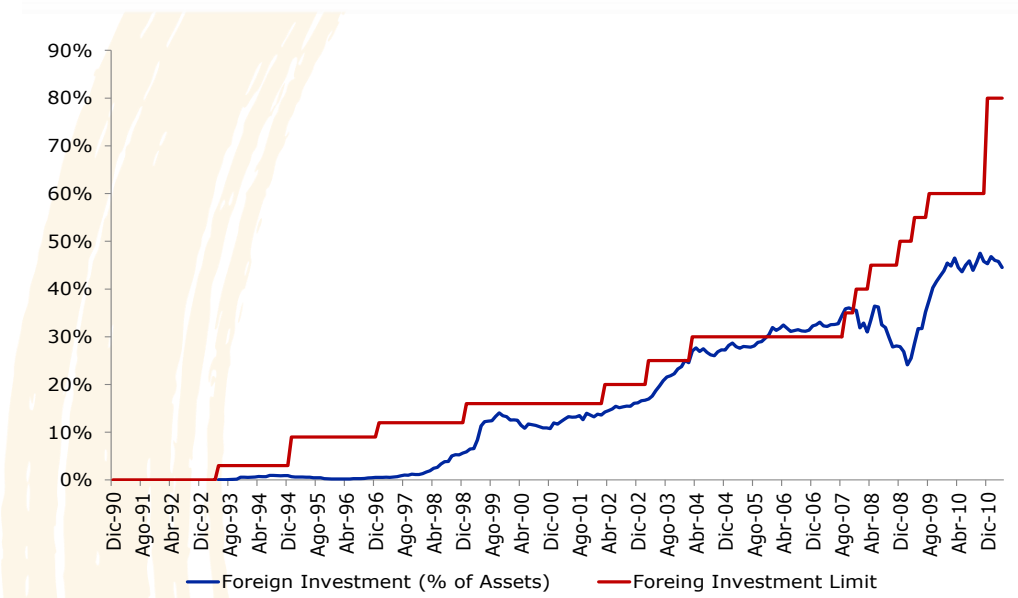
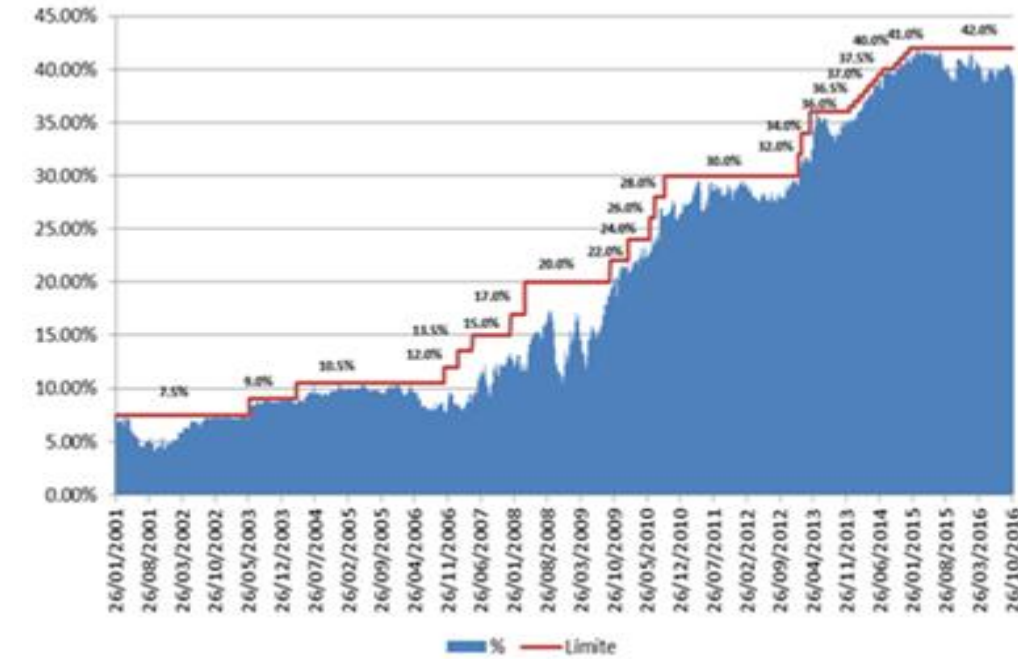
Source: CONSAR

Balance Local Development + International Diversification

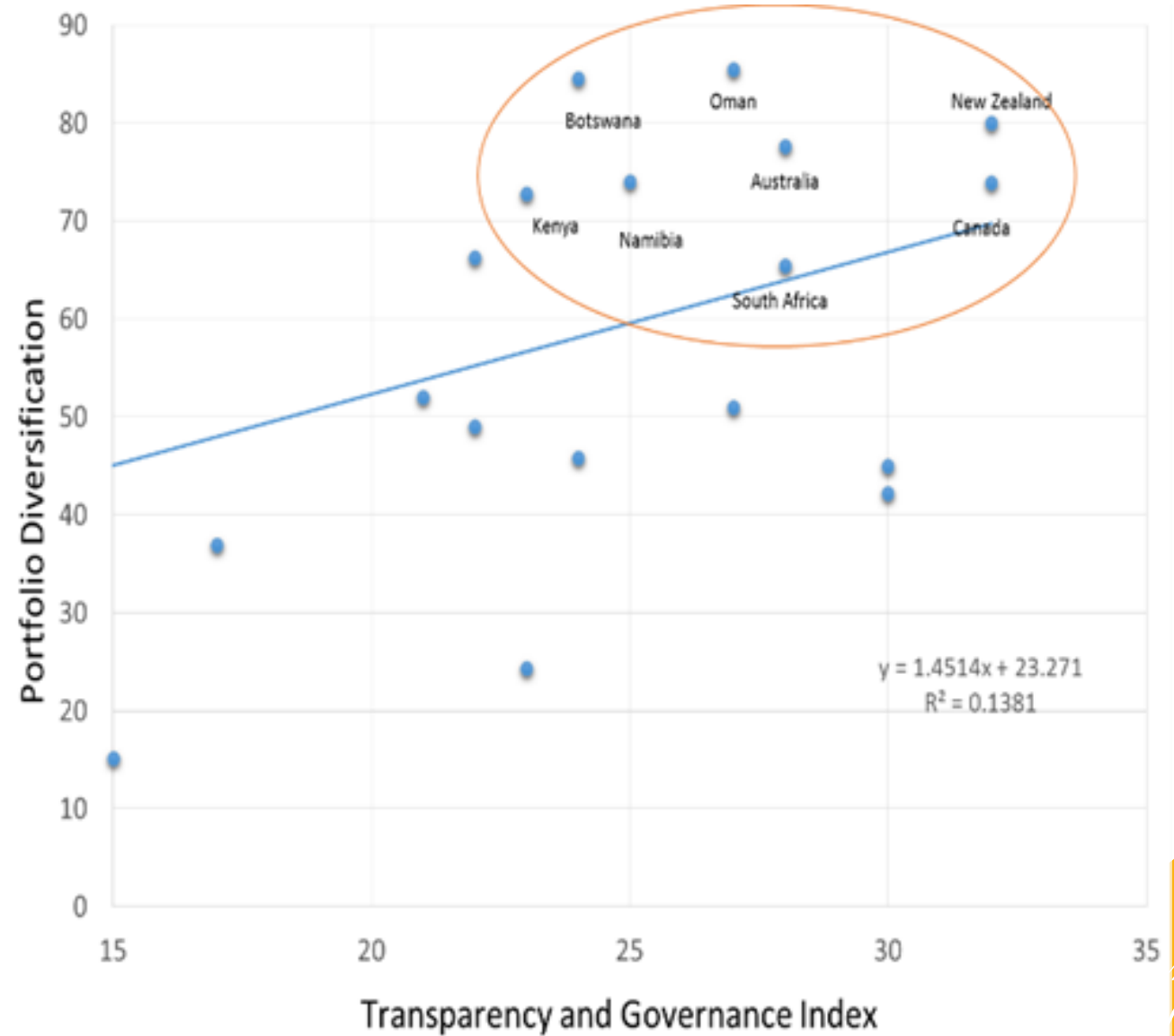
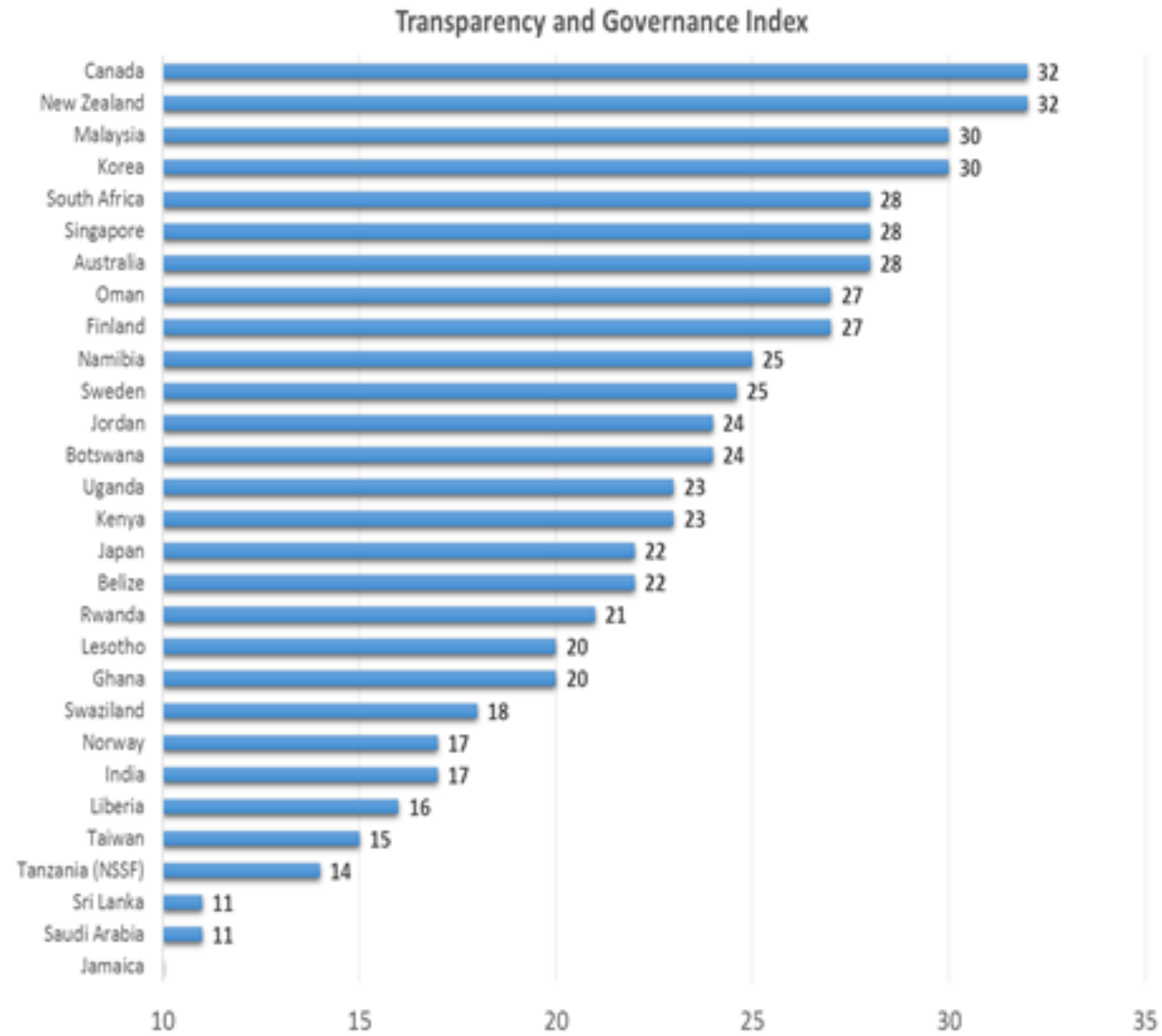
Stock Market Cap vs. Pension Funds AUM



Development of Investment Abroad vs. Investment Limits Chile + Peru



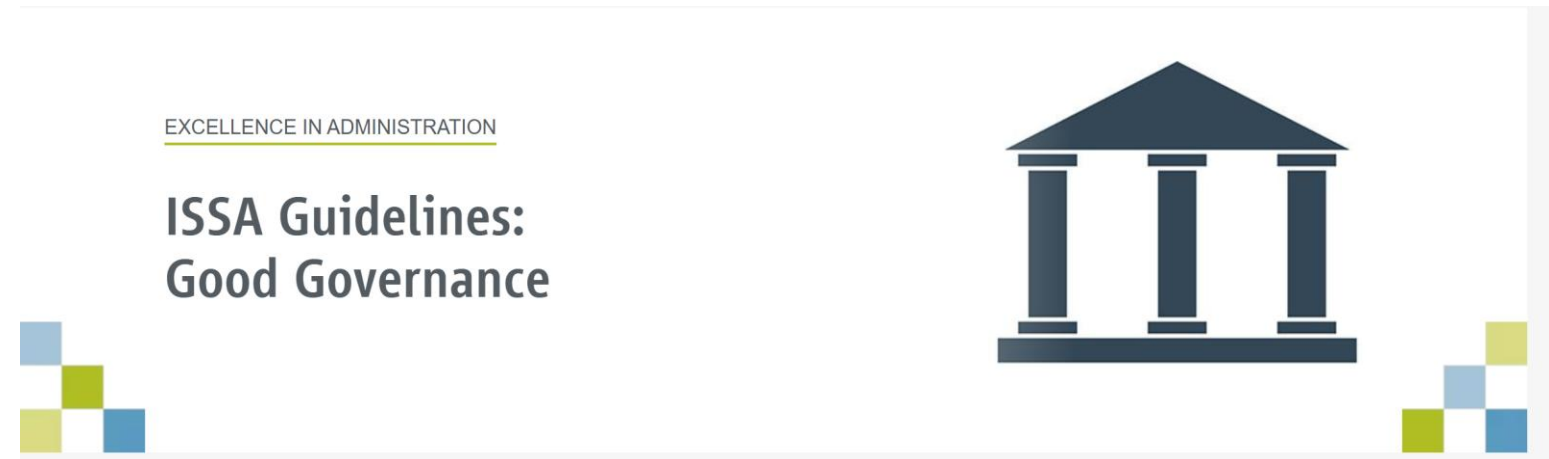
Governance and Investment Returns are Linked



Pension Fund Good Governance

In the ISSA framework there are 3 cross cutting – impacting all outcomes:

- Strategic Planning – Guidelines 45-49
 - Operational Risk Management – Guidelines 50-53
 - Internal Audit of Operations – Guidelines 54-57
-
- There are then six specific categories
 - Actuarial Soundness – Guidelines 58-61 (which will deliver financial stability)
 - Enforcing Prudent Person – Guidelines 62-70 (which will deliver sound investments)
 - Prevention and Control of Corruption and Fraud, and Service Standards for Members and Beneficiaries Guidelines 71-75 (which deliver Member Coverage, Contributions, Benefits and Services); and
 - HR Policies and Investments in ICT – Guidelines 76-85 (which refer to Resources).

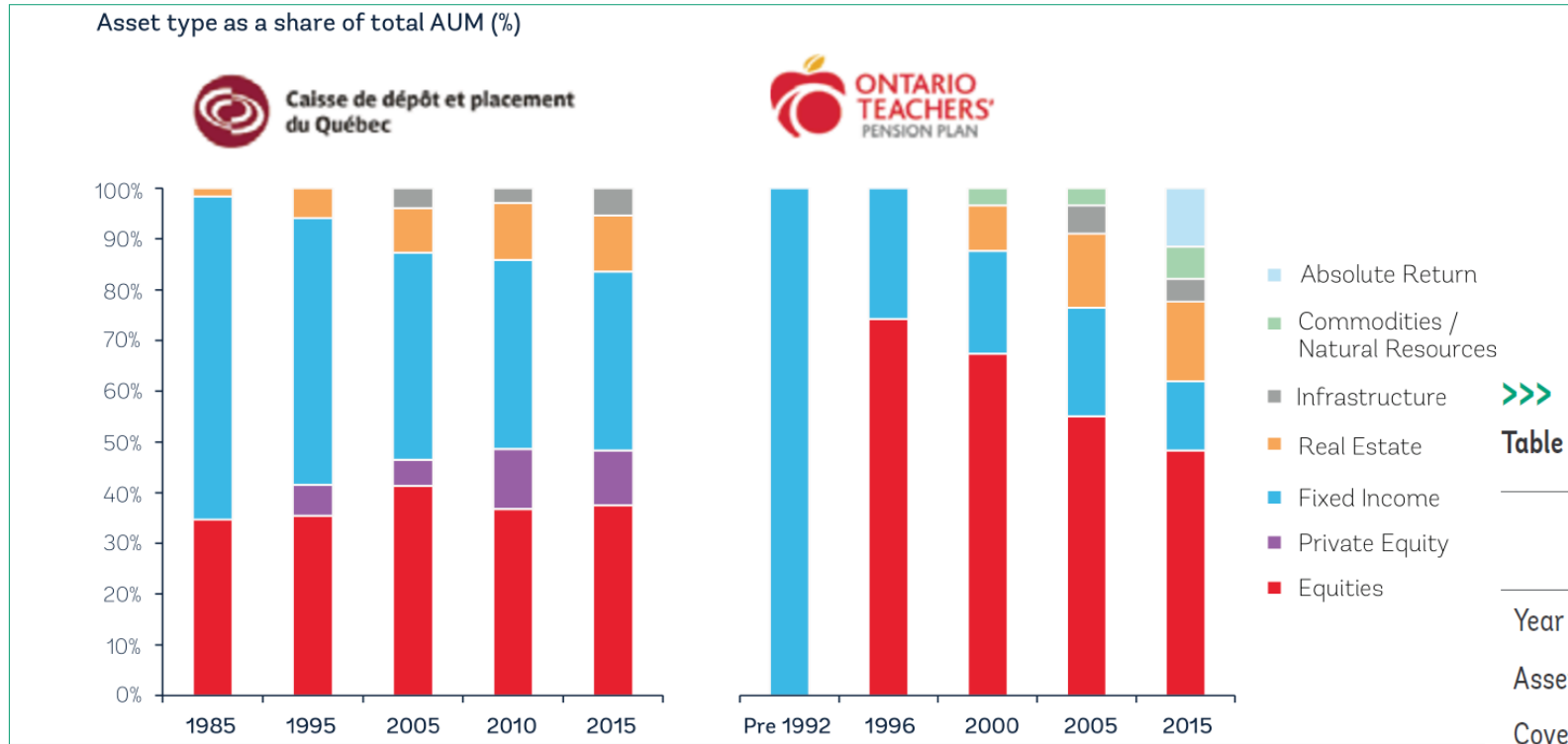


OECD GUIDELINES FOR PENSION FUND GOVERNANCE

These Guidelines were approved by the Working Party on Private Pensions on 5 June 2009.

Governance, Diversification, Investment Returns

>>>
Figure 4: Increasing Diversification of Canadian Pension Fund Asset Mix



Source: World Bank (2017), page 53.

>>>
Table 1: Asset Allocation, end-2018 (or nearest available date)

	India EPF	Indonesia JHT	Malaysia EPF
Year of establishment	1952	1992	1951
Assets relative to GDP	2%	3%	56%
Coverage relative to employment	9%	12%	50%
Asset allocation			
Government debt	79%	63%	28%
Non-government debt	8%	0%	22%
Deposits	9%	9%	6%
Equities	4%	27%	39%
Property, infrastructure and other investments	0%	1%	5%
Memo: foreign investment	0%	0%	27%

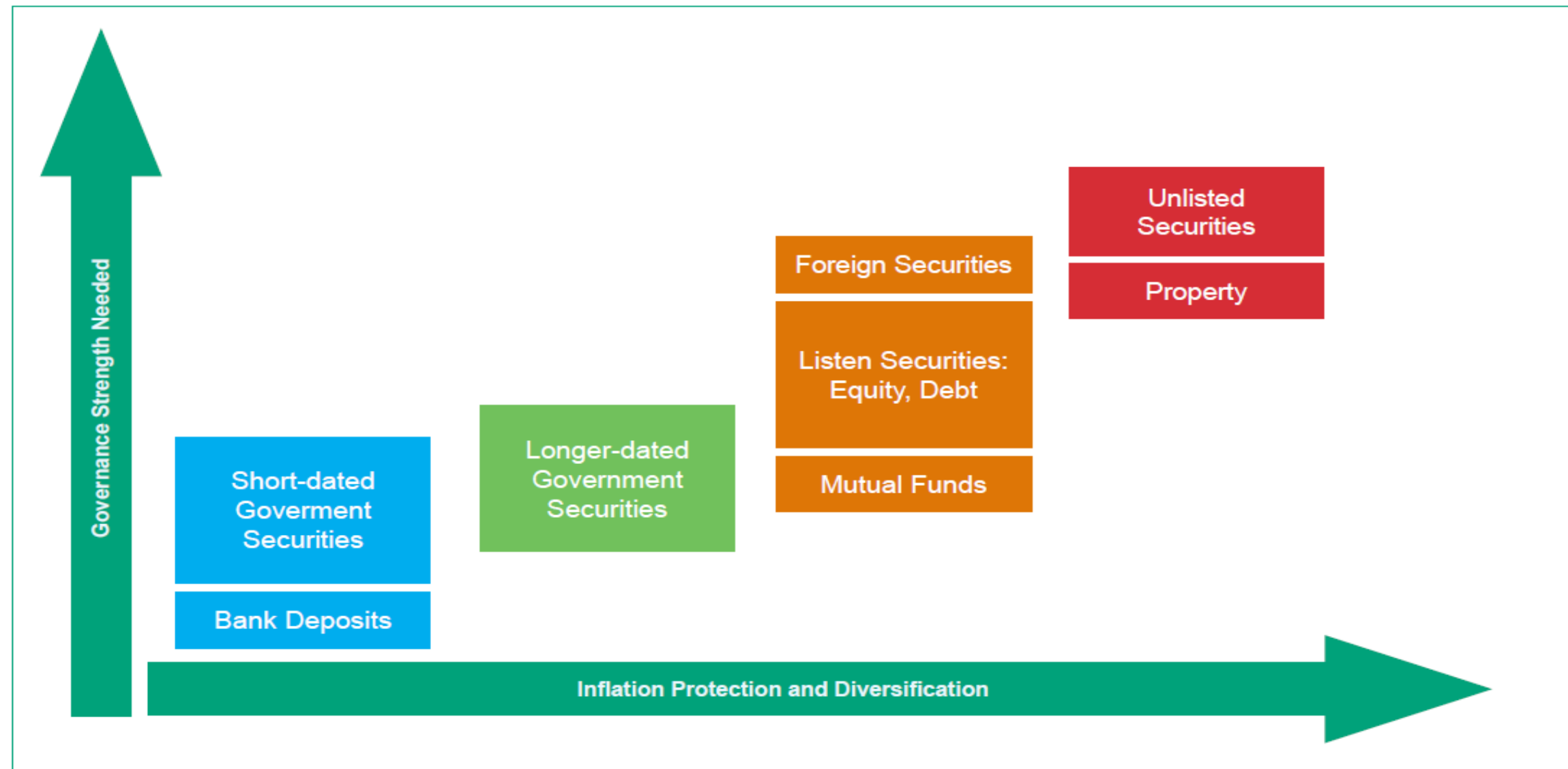
Source: Jackson and Inglis (2021), pages 2, 7 and 15.

Note: Assets relative to GDP in India are for March 2018. The asset allocation data for India and Indonesia are for the end of 2017. The government debt figure for Indonesia includes non-government debt.

Investment Vehicle Choices also Depends on Governance Capacity

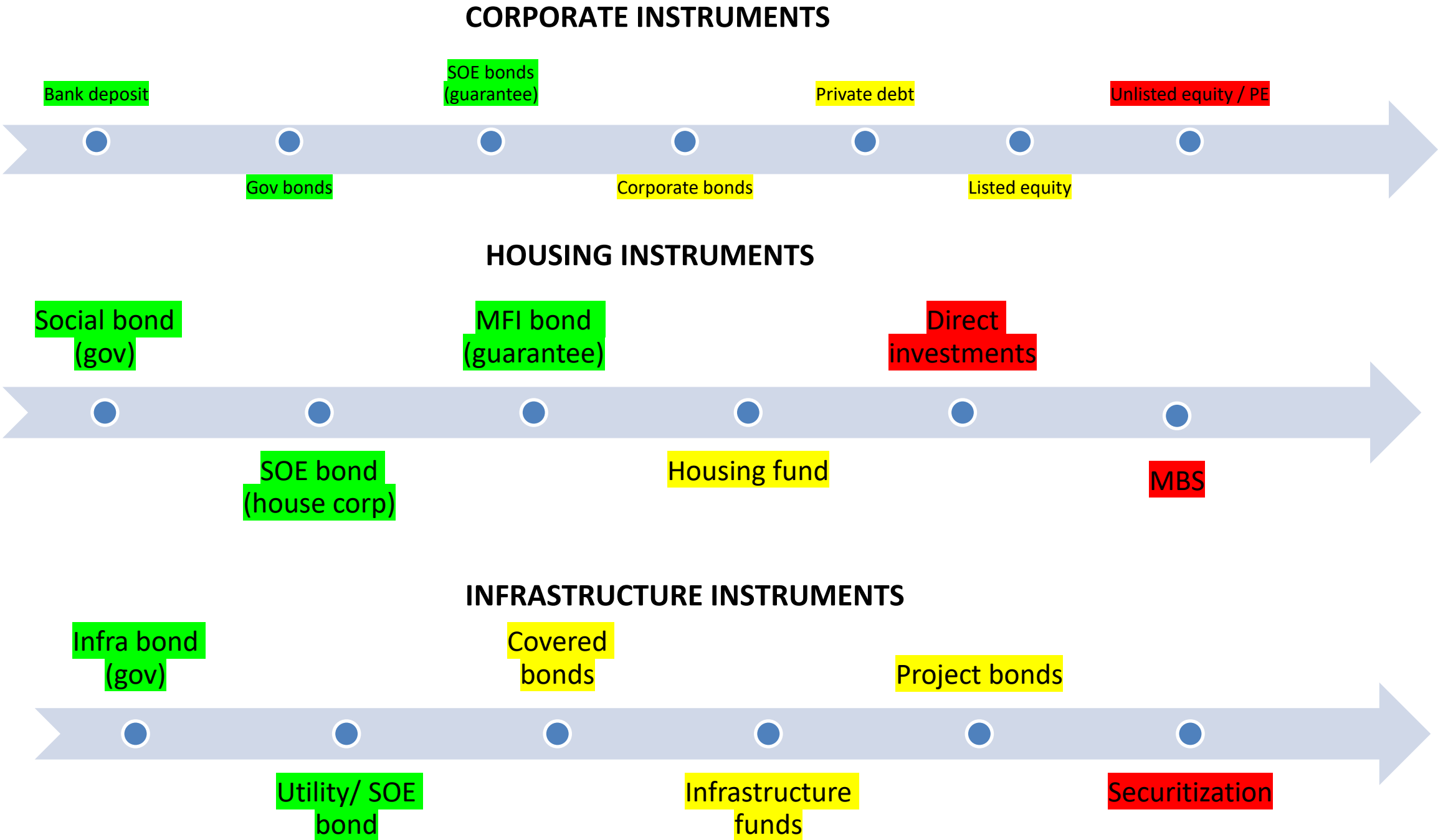


Figure 3: Investment Vehicle Choices depend on Governance capacity

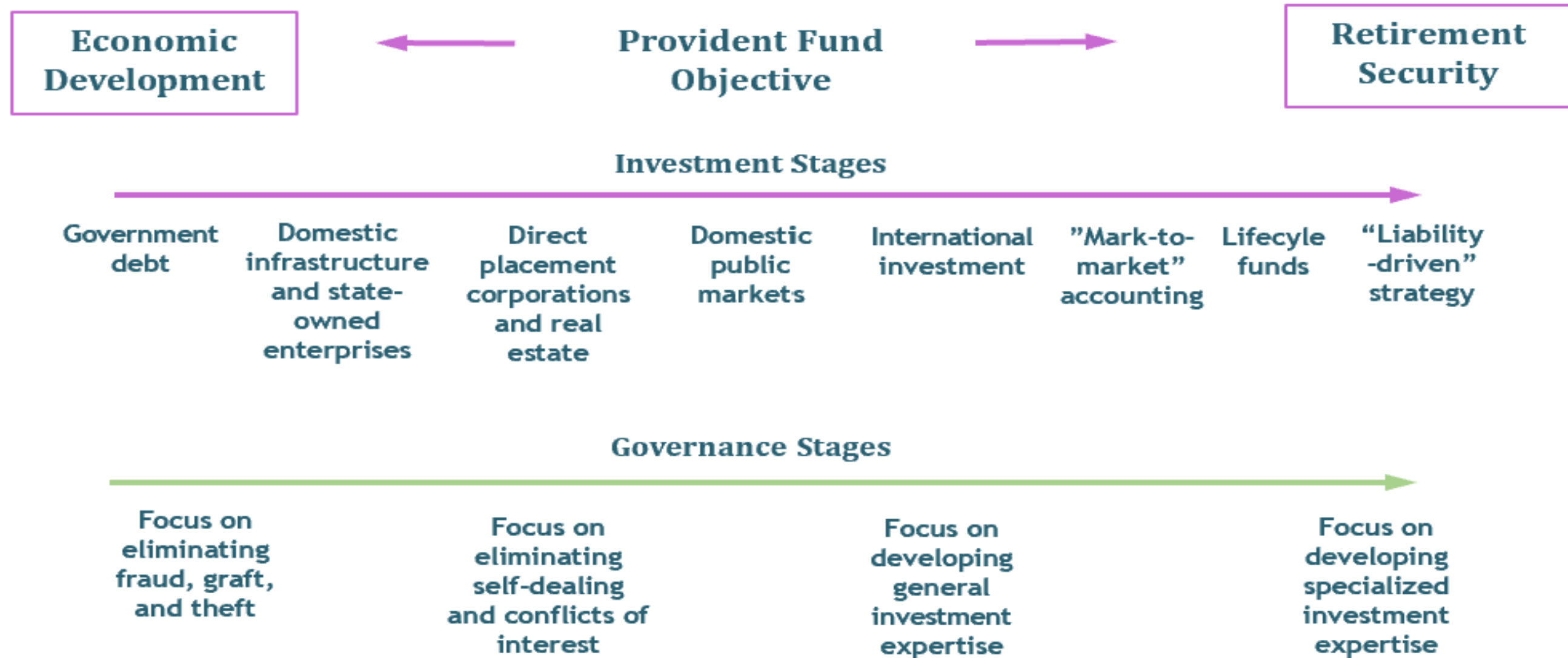


Source: Guven and others (2021), p. 73.

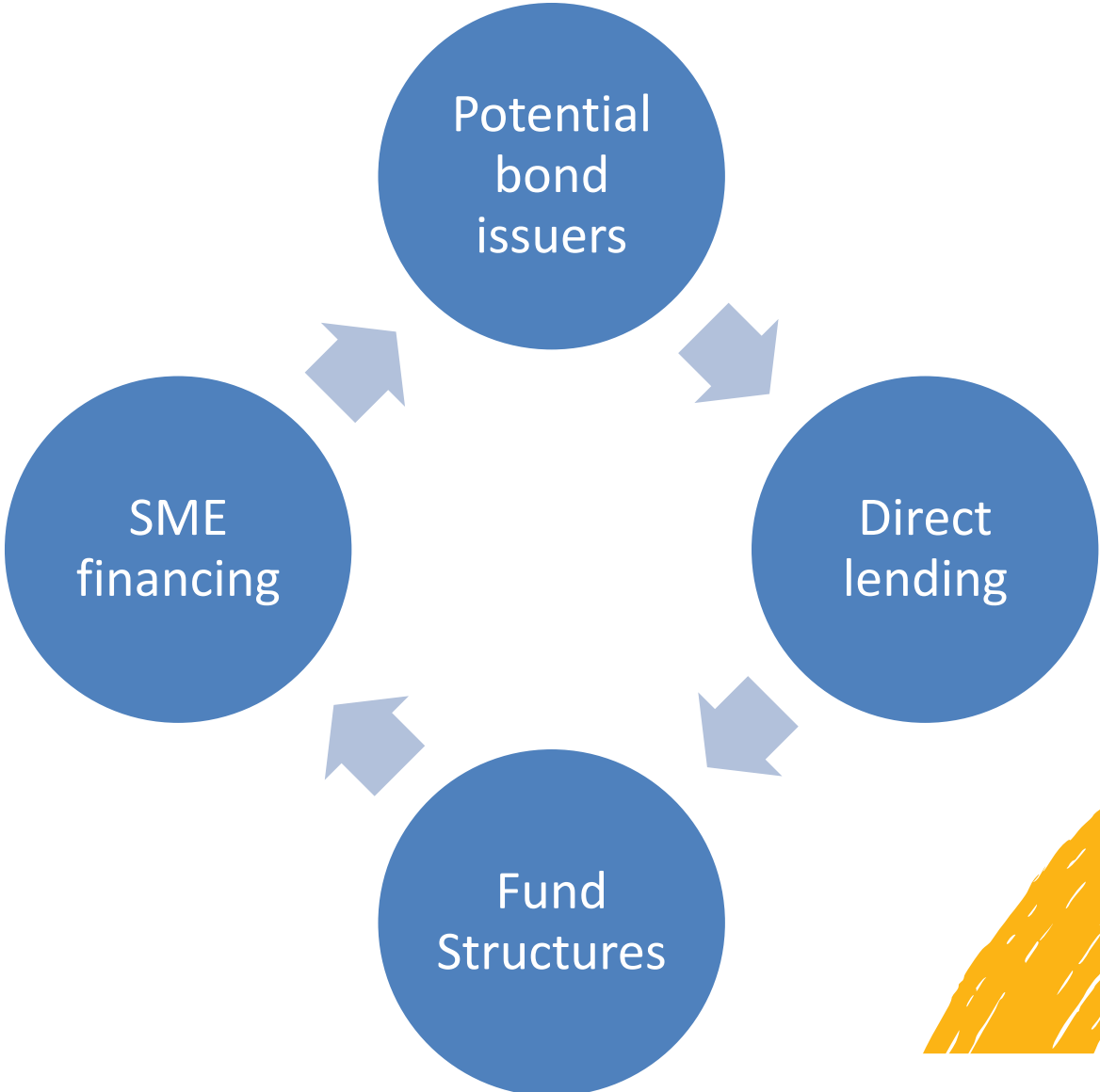
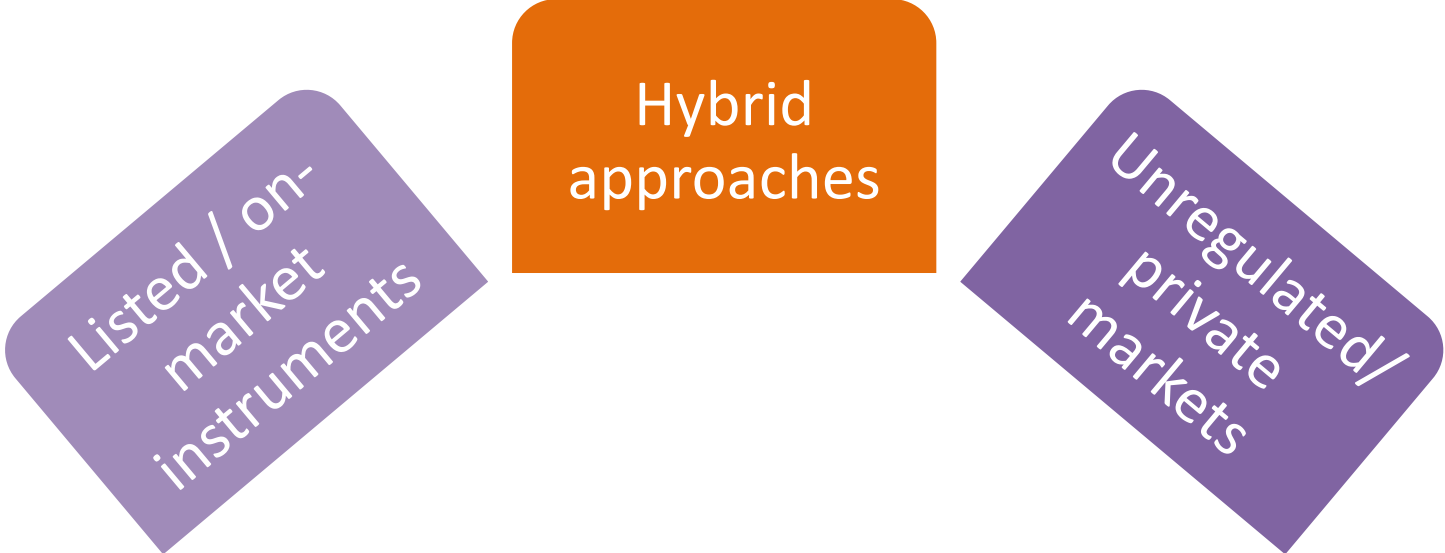
Capital Market Instrument vs. Risk Profile



Investment Vehicle Choices also Depends on Governance Capacity

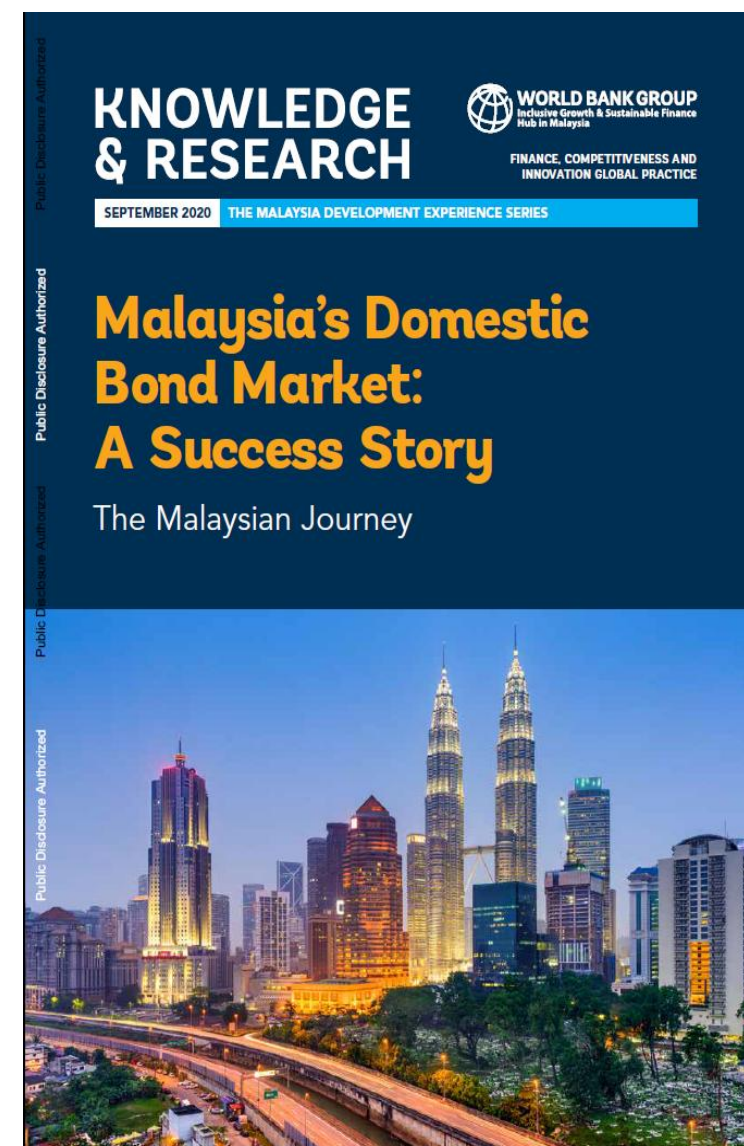


Rethinking Capital Markets



Potential Issuers

Potential bond issuers	
SOEs	ICE Costa Rica 1 st green bonds
Sector agencies / NBFIs	India (PFC, RFC, HDFC etc.)
Municipals	USA / South Africa
National development banks	Brazil (BNDS) South Africa (DBSA)
MFIs	Bancamia Colombia Kenya, Tanzania, and Zambia
Mortgage finance corporations	Nigeria (NMRC) Armenia (NMC) Cagamas Malaysia
Infrastructure bonds	Malaysia Chile (monlines)
Others	Covered bonds/ sukuks



Potential Structures

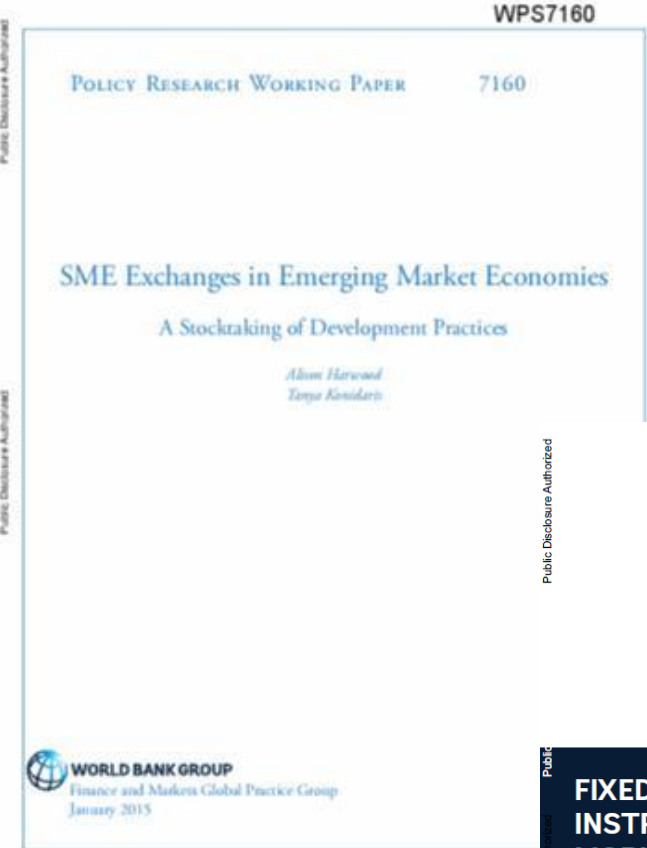
Funds	
Housing funds / REITS	South Africa
InfraREITS	India
TIMOs	Uruguay
SPV structures	Namibia LAC/ Peru
Infra debt funds	Colombia
Direct Lending	
Home loans	South Africa (“SAHL”) Malaysia Cagamas IFC warehouse/ line of credit
Infra asset recycling	Australia Indonesia
Loans	Malawi Canadian /European pension funds

The collage features three report covers from the World Bank Group:

- Top Report:** "Pension Fund Investment in Forestry". The cover shows a misty forest scene. It is part of the "FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | LONG-TERM FINANCE" series. Authors listed are Clark S. Binkley, Fiona Stewart, and Samantha Power.
- Middle Report:** "Leveraging Pension Fund Investment for Domestic Development: Namibia's Regulation 29 Approach". The cover features a construction site with a yellow excavator. It is also part of the "FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | LONG-TERM FINANCE" series.
- Bottom Report:** "Housing Finance: Investment Opportunities For Pension Funds". The cover shows a pink piggy bank in front of a house silhouette. It is part of the "FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | LONG-TERM FINANCE" series.

SME Financing

SME Funding	
-Bond issuances by SMEs/ Bond issuances by SME lenders	Peru
Securitization of SME loans	SME securitization Korea / India, Factoring funds Peru / Chile / China Factoring platforms – Costa Rica
SME debt funds	LAC
SME covered bonds	Turkey
Platforms	Peru

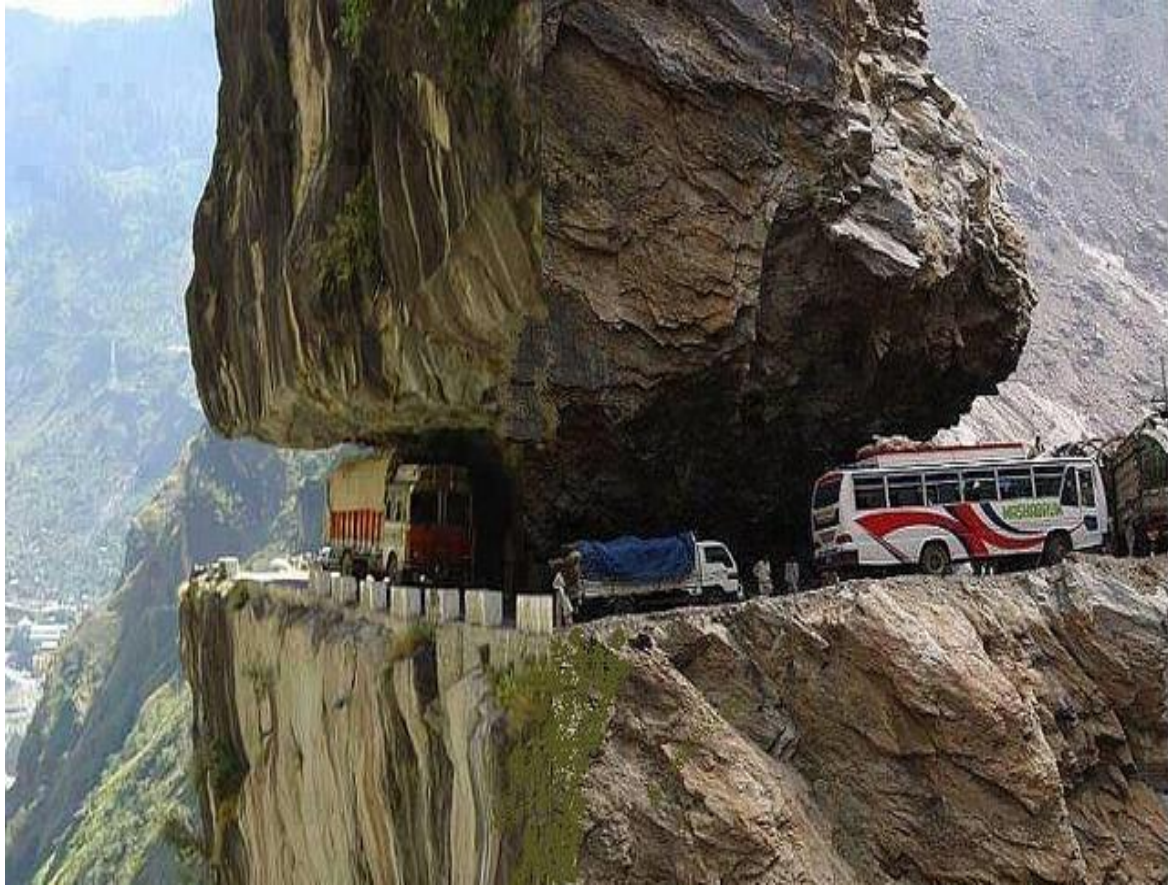


FIXED INCOME INSTRUMENTS TO MOBILIZE INSTITUTIONAL INVESTORS FOR SME FINANCING IN EMEs

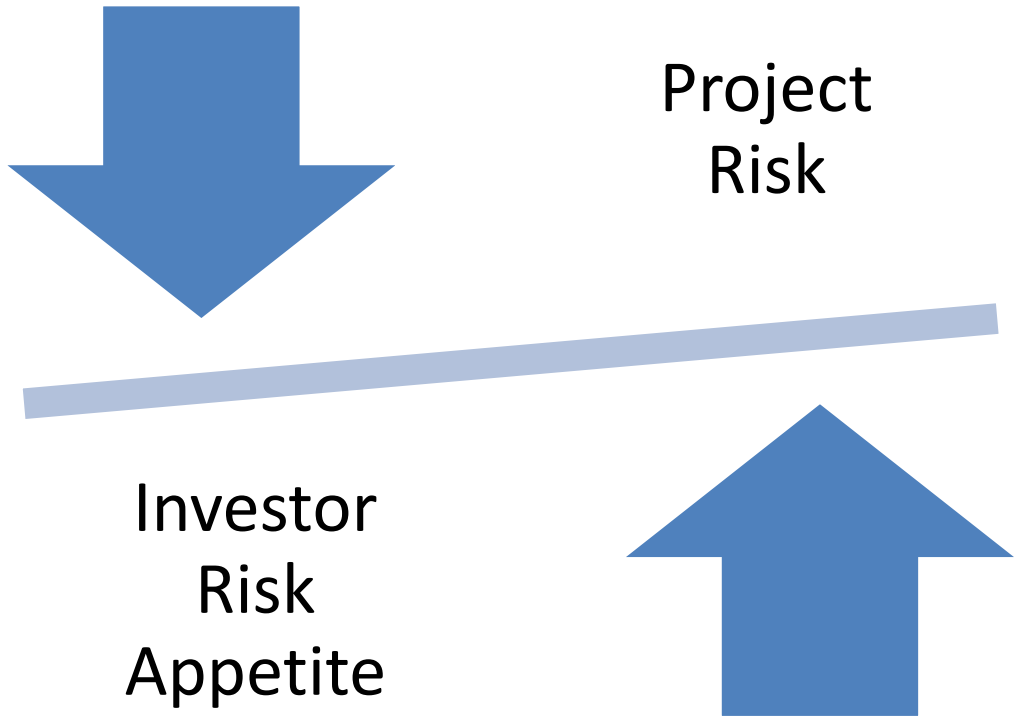
In Focus

Policy Notes

Infrastructure Financing – Matching Supply and Demand



How to Bridge the Gap?



Example- Colombia



Pension entities are combining their expertise and purchasing power



Co-Investment Options in Infrastructure
A GUIDE FOR INSTITUTIONAL INVESTORS



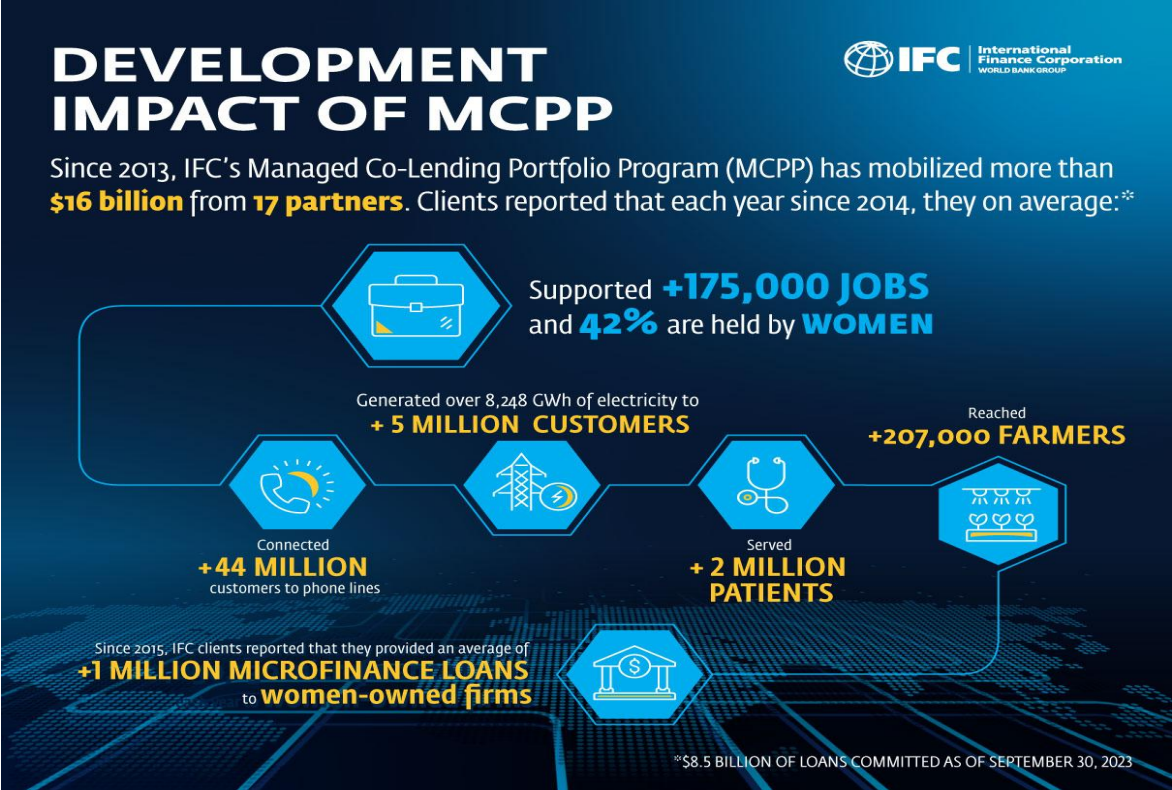
Pacific Islands
INVESTMENT FORUM



ASSET OWNERS FORUM
South Africa
Convened by Batseta



Kenya Pension
Funds Investment®
CONSORTIUM



Thank You



Your
Logo
Here