

## Closing remarks for Loic Chiquier for the Fifth Contractual Savings Conference.

I wanted to spend 5 minutes or so bringing the conference to a close by trying to pull out some of the key messages that we have learnt over the past 2½ days.

I'm not going to attempt to summarize every session but rather highlight some key themes that I know we will be thinking about as we work with our clients countries in the future. And there are many insights – I'm sure you share with me a feeling of how impressive the knowledge and expertise has been from all participants.

- We started with the challenges of second pillars under attack. I think we heard that 2<sup>nd</sup> pillars are necessary not only to ensure fiscal sustainability but also to deliver affordable and sustainable pensions for future retirees.
- 2<sup>nd</sup> pillars will continue to be an important part of the design of pension systems in emerging economies – but only as long as the essential preconditions are there in terms of government and market capacity. We should not rush into reform to introduce funded second pillars in countries where the pre-conditions are not there.
- We heard from Augusto de la Torre of a powerful framework that can help us to think clearly about how to deal with the benefits and the problems caused by using financial markets rather than just governments to deal with pension problems. We need to take the risks seriously and deal with them at the outset.
- The crisis must not distract our attention from the huge challenges that countries are facing from rising longevity and falling fertility. These challenges are too big for any one part of the pension system to deal with on its own. Equally it must make us redouble our efforts to improve second pillar systems. Some of the attacks may have been opportunistic. But some were aided by poor performance – either through high fees or low investment returns. We can do better on both as we heard later in the conference.
- You cannot hide fiscal or investment risk. If countries dismantle second pillars that will mean greater costs of governments or worse pensions for members.
- Delivering better outcomes means taking the tough decisions to put real resources into the pension systems that will deal with the costs everyone is going to face. This means tax financing the transition - at least in large part – rather than relying on debt.
- We heard that politics and building consensus matters. It may sometimes lead to compromises on the technical details – but as we have seen in many countries if a broadly agreed reform can be implemented there is then scope in the coming years to improve and refine the basic model. And amidst some gloomy stories we must remember, and support, countries that are continuing to develop and implement second pillar pensions such as the Czech Republic.

- We learnt or perhaps re-learnt that volatile economic conditions make it challenging to deliver and sustain any kind of major pension reform. The reforms to have funded second pillars are essential to deliver long term fiscal sustainability. But equally achieving some degree of stability, and being able to deal with shocks, is essential to protect those pension reforms.
- In this respect, we heard a number of times that for EU countries the Stability and Growth Pact may be making this challenge more not less difficult – and may be creating perverse incentives for countries to try and hide their pension problems in implicit debt.
- There is a need for a more commonly agreed approach to measure and publicize these combined liabilities. It will be interesting in the future to see if the ratings agencies are guided more by the explicit debt figures or increasingly assess countries on implicit debt too.
- I think we also learnt the importance of stepping back from short term problems to focus on the big picture. The scale of the demographic challenge is huge – and the evidence on mortality is that many developing countries have huge improvements to come before they begin to converge to the leading country in their region. They dwarf the short term fiscal issues. So even if countries have to introduce temporary measures that reduce the funds going to the pension system it is vital that these are quickly restored.
- There is also a strong degree of cross over between pension reforms and domestic capital market reforms. Both together create a strong positive impact. But it is wrong to think that just doing the pension reforms will somehow automatically lead to the development of modern, liquid and high performing capital markets. There needs to be complementary work on the capital market at the same time.
- Similarly we heard that risk based supervision is a potentially powerful tool to help supervisors focus on the risks to their objectives, but it is only part of the story. Those objectives had to clearly focus on achieving the best outcomes for members. And once the risks had been identified supervisors actually needed to act – with a full range of tools.
- It was fascinating in this context to hear the sessions recent developments in the BRIC countries and East Africa – where the challenges are huge, but the potential to learn the lessons from past policy reforms across the world are also huge.
- We then had a series of fascinating sessions on the right investment approach, the role of guarantees, and the different options for the payout phase.
- A common message appeared to be that the default options for accumulation and decumulation were hugely important. Governments, regulators or groups of wise people needed to find ways to set sensible defaults to protect members of pension schemes who are almost always unable to navigate the huge complications.

- And default funds can also help to build longer term horizons for investment managers. They are not without problems – and like the issue of guarantees they should not be introduced without checking for unintended consequences. But they offered greater prospects for focusing attention on achieving better outcomes for members than many of the types of investment regulation currently being used around the world.
- In addition we heard the very clear message that if you are going to introduce a guarantee – it was vital to know how much this really cost – and be clear on who was going to pay the bill.
- On the pay-out phase I think we took the message that retirees should be offered a restricted menu of options initially – with greater liberalization as pensioners have other sources of income. And the public needs to be educated about the advantages and the risks of alternative retirement products. We heard that there are tried and tested solutions for which many of the regulatory aspects have been well developed.
- We also heard discussions at the frontier of knowledge in this area – and the issues are sure to take increasing attention in the coming decade, and at future Contractual saving conferences – particularly the issues of longevity risk and risk sharing in the payout phase more generally.
- We also discussed the perennial issue of costs and fees. But I think we moved the debate forward – with an emerging consensus based around three factors.
- First we need to examine the supply side and remove costs created by unnecessary processes that don't help members. Second we need to examine the industrial organization and see if the real problem is collusion among suppliers. And third we need to also focus on the demand side where there have to be large, powerful operators on the demand side acting in members' interests if we are going to ensure that lower costs actually lead to lower fees for member.
- We started the final day with perhaps the most important question – that of coverage. We must never lose sight of the fact that most people in the world are not in pension systems. If we really are going to achieve a world free from poverty we must improve coverage.
- So – finally – let me thank you again for your participation – your stamina, insights and co-operation. We have taken a wide range of important lessons from the conference and we hope to work together with many of you in the years to come to put them to work improving and extending our pension systems.
- I'd like to extend to you an invitation to the sixth Contractual Savings Conference in 2014.
- When we meet again I hope that we will have built on the World Bank's role as a knowledge hub working with global partners for example at the OECD, and in partnership with our client countries. I want to offer my personal commitment that we stand ready to follow up the conference with work on country projects. And I sincerely hope when we meet again we will be able to show the examples where we worked with countries across the world to turn the great insights at this conference into practical examples of real change.
- So – thank you once again – and I wish you a safe journey home.