

## Penad Pensioen Services

Speech by dr. E. D. Tromp at the occasion of the opening of Penad Pension Services  
December 14, 1999

Ladies and Gentlemen, good afternoon.

It is with a great deal of pleasure that I accepted the invitation to share with you some thoughts about the emerging trends in the field of pension schemes and their implications for the Netherlands Antilles.

Beyond the recent economic turmoil affecting our economy, one facet of our longer-term prospects not often remarked upon is that our population is aging. This fact will influence the long-term development of the economy affecting labor markets, saving and investment, growth rates and posing policy challenges for government particularly in the social sectors.

The aging of a country's population poses important long-term public policy challenges. Educational systems will need to adapt and rapidly modernize, while aging societies will confront difficult challenges in meeting the growing and shifting demands for medical care. Social insurance mechanisms will be necessary to ensure that the elderly have adequate financial resources when they retire, particularly since traditional extended family support systems normally weaken as economies mature.

Forecasting the budgetary effects of aging is always problematic. As we are standing here today our governments are working on a new pension scheme for their own employees. The reforms in the public sector pension plan L+G are not only being forced by the budgetary constraints in the public sector. International developments and the aging population have increased the operational cost of many pension systems here as well as in Europe, the US and Canada. Therefore, we will have to come up with new alternatives and solutions to cope with the rising costs of future retirement plans or else run the risk of ending up with undercapitalized funds.

In addition to the fiscal effects, one should ask whether our governments should pursue more actively the privatization of the social security system rather than put more efforts in a concentration of the old age and sickness benefits into one or a few entities. Competition in this area will contribute to lower premiums and will also create an environment conducive for high level and professional services to the customers.

As we are entering a new millennium, one has to reflect on the many challenges that the demographic factors are posing to public policy. During this century, for instance, we have witnessed how information technology and globalization have changed our way of life in the social, economical and financial context. They have brought along changes in family values and the financing of and plans for the retirement benefits.

Globalization, as a result of the increasing use of information technology, has created opportunities for all economic agents to swiftly and at very low cost do business around the globe. This development has also influenced traditional labor mobility in the sense that nowadays more and more people have a flexible attitude in pursuing various job opportunities. Compared to, for instance, some years ago you will rarely find today an employee working for the same employer during his or her entire life. Increased labor mobility has become a universal phenomenon and we are no exception in this matter. This development in turn has affected the way the younger generation or the active population sees their role with respect to financing the care for the elderly in the community.

In the social context, the traditional role of a strong family tie and the responsibility of the children for the parents have been replaced by the individual responsibility for one's own future well being. Therefore, the design of a good pension plan is of the utmost importance for the future well being of every single member of this community.

All of these important changes in our social and economic environment have resulted in various new challenges for us as supervisor of the financial sector in the Netherlands Antilles. In addition, some trends in the international supervisory field will likely bring their pressure to bear on the supervisory agenda as we are entering a new millenium.

One major trend is the shift from a defined benefit to defined contribution pension plan. For instance, in Europe defined contribution plans are becoming extremely popular with employers and employees. The popularity of defined contribution plans in the United States and Canada was the catalyst behind the current developments in Europe.

An employee's defined contribution plan accumulates assets as the employee and employer make their premium contributions and the plan earns investment returns. Defined contribution plans give employees a sense of ownership and control over their ability to plan for retirement.

These plans are also flexible in that the employee can take his investment away when he or she changes from one job to another. In doing this, the defined contribution plan stimulates the labor mobility within the economy without hampering the pension plans of the contributors.

Ladies and gentlemen, in the last decade we have experienced that the outcome of investment returns of pension plans are increasingly sensitive to developments in the stock markets. Pension funds and other financial institutions are being affected by the volatility of stock markets. As supervisors we are therefore focusing on structured information on the investment portfolios of institutions under our supervision.

Another important change in the global economy is the move towards more transparency in corporate organization management and this is clearly evident in the pension sector. The publication of pension funds annual reports contributes to greater openness towards pensioners. In view of the financial interest involved in the adequate operations of a pension fund, there is also a growing demand for those who determine the policy in the pension funds to be reliable and have the required expertise in this field.

The Bank in this regard has an important supervisory task to assess the fund's administrative structure and internal controls and also verify the compliance of the funds to the existing rules and regulations. The Bank has also adopted as a standard policy for the financial sector, the "fitness and proper test" for the persons that manage the institutions in our jurisdiction. The focus here is the reliability and expertise of the management and the supervisory board.

Because of all the changes and particularly the rapid pace of the changing structure of our community and the high cost and risks involved in defined benefits pension plans we will have to come up with new alternatives for the future retirement plans here. The time has come that we will have to review and adapt present policies to anticipate on the future changes.

As the environment in which pension plans operate continue to change, pension plans will demand superior level of service and responsiveness. Plan sponsors will expect perfection from their service provider. To continuously meet the expectations of the plan sponsors, service providers will have to make significant investments. Investing in operating systems and back office. Success also requires keen strategic decisions, marketing and sales techniques geared specifically toward the market and a good understanding of the different requirements of each type of retirement plan.

An important issue is that the back office - the administrative side of the business - is very capital intensive. As pension plans continue to grow, both the investments required will continue to increase, as the knowledge level required to guarantee quality service. The pension industry will continue to evolve and will reward those that are well prepared to assist clients in developing, administering and providing value added actuarial and investment advice to their plans.

The expectations and requirements of plan sponsors will continue to change. This change will be driven by the evolution in technology. In the past, plan sponsors used to look for a basic record-keeping service.

Nowadays they are considering total outsourcing, whereby the plan sponsor or Management board is involved only at a strategic level. This is perhaps the biggest contribution the establishment of companies such as Penad can make to the Netherlands Antilles.

Experience has shown that the outsourcing of such tasks will result in:

- Increase profitability through reduction of operating costs;
- Sharpen the board's focus on strategy;
- Improve business processes;
- Adopt best practices;
- Strengthen control; and
- Exploit advanced technologies.

As a result of outsourcing, plan sponsors can get back to the core of their own business.

Penad's ultimate mission should be to assist pension plans imbed the characteristics which will make them successful. You should focus on:

- Meeting the client's needs (custom tailored.)
- Eliminate complexity--make it simple for everyone to understand.
- Reduce fiduciary risk.
- Reduce the time and expense involved in the administration of the plan, and
- Compliance with all the regulations of the regulatory agencies.

I am convinced that with the opening of the Penad office today, we all will have a good opportunity to better structure our own individual retirement plan.

I like to conclude by wishing the new company Penad N.V. the best of luck and all the wisdom to confront the challenges ahead.

I thank you for your attention.