



INDONESIA PENSION CONFERENCE

25 YEARS OF PENSION SAVINGS

“Way Forward for Next Quarter Century”

25-26 April 2017
Grand Hyatt Hotel, Jakarta



GOVERNANCE FOR PENSION FUNDS

**Hotbonar Sinaga,
Member KNKG, Former
director PT. Jamsostek**



TYPES OF PENSION FUNDS

1. *Employer's Pension Fund (EPF)*/ **Dana Pensiun Pemberi Kerja**
2. *Financial Institution Pension Fund (FIPF)*/ **Dana Pensiun Lembaga Keuangan**
3. *Benefit Based Pension Fund (BBPF)*/ **Dana Pensiun Berdasarkan Keuntungan**



ISSUES ON PENSION FUNDS IN INDONESIA

1. Low on Participation in Pension Fund Program

Pension funds in private sector still voluntary, therefore several companies not participate in pension program.

2. Frequent liquidation of Employer's Pension Fund

Liquidation shows weaknesses in managing EPF/DPPK, cause by lack of professionalism.



ISSUES ON PENSION FUNDS IN INDONESIA

3. Quality Assurance of Marketing Agent

To ensure and maintain quality and professionalism of marketing agent

4. Problematic investment

Effort in avoiding problematic investment to ensure pension funds sustainability

5. Pension Funds Program Development

Effort in optimizing benefit for members of pension funds, such as ibadah haji, housing and other benefits.



LEGAL FORMS OF PENSION FUND & GOVERNANCE IMPLICATIONS

- **Institutional: fund is an independent entity, with a legal personality and its own internal governing board (sometimes 2 tier).**
Denmark, Hungary, Italy, Japan, Netherlands
- **Contractual: fund is a segregated pool of assets without legal personality governed by a separate entity, typically a financial institution such as a bank, insurance company or pension fund management company.**
Czech Republic, Portugal, Mexico, Turkey
- **Trust: pension fund assets owned by trust, but administered in the interests of beneficiaries. Trustees are the governing board of the fund –can have corporate trustees.**
UK, Ireland, Australia, South Africa
- **Closed vs. Open: funds which do or do not restrict membership. Market discipline aids governance but costs are an issue.**
- **Occupational vs. Personal: plans sponsor vs. individual vacuum**

Source : Stewart, F. and J. Yermo (2008), "Pension Fund Governance: Challenges and Potential Solutions",
OECD Working Papers on Insurance and Private Pensions, No. 18, OECD publishing, © OECD.



PRIVATE PENSION GOVERNANCE

- ***Involves: managerial control and organization, including the regulation, supervision and accountability of management boards***
- ***Goal: minimize potential agency problems or conflicts of interest between fund members and the fund administrator which can adversely affect the security of pension savings and promises***
- ***Benefits: may improve the performance of the fund and creates trust amongst stakeholders***

Source : Stewart, F. and J. Yermo (2008), "Pension Fund Governance: Challenges and Potential Solutions",
OECD Working Papers on Insurance and Private Pensions, No. 18, OECD publishing, © OECD.



Governance Structure

“The governance structure should ensure an appropriate division of operation and oversight responsibilities, and the accountability and suitability of those with such responsibilities.”

- Identification of responsibilities
- Governing body
- Delegation /Expert Advice
- Auditor / Actuary / Custodian
- Accountability
- Suitability

Source : Stewart, F. and J. Yermo (2008), "Pension Fund Governance: Challenges and Potential Solutions",
OECD Working Papers on Insurance and Private Pensions, No. 18, OECD publishing, © OECD.



Governance Mechanisms

“Pension funds should have appropriate control, communication and incentive mechanisms that encourage good decision making, proper and timely execution, transparency and regular review and assessment.”

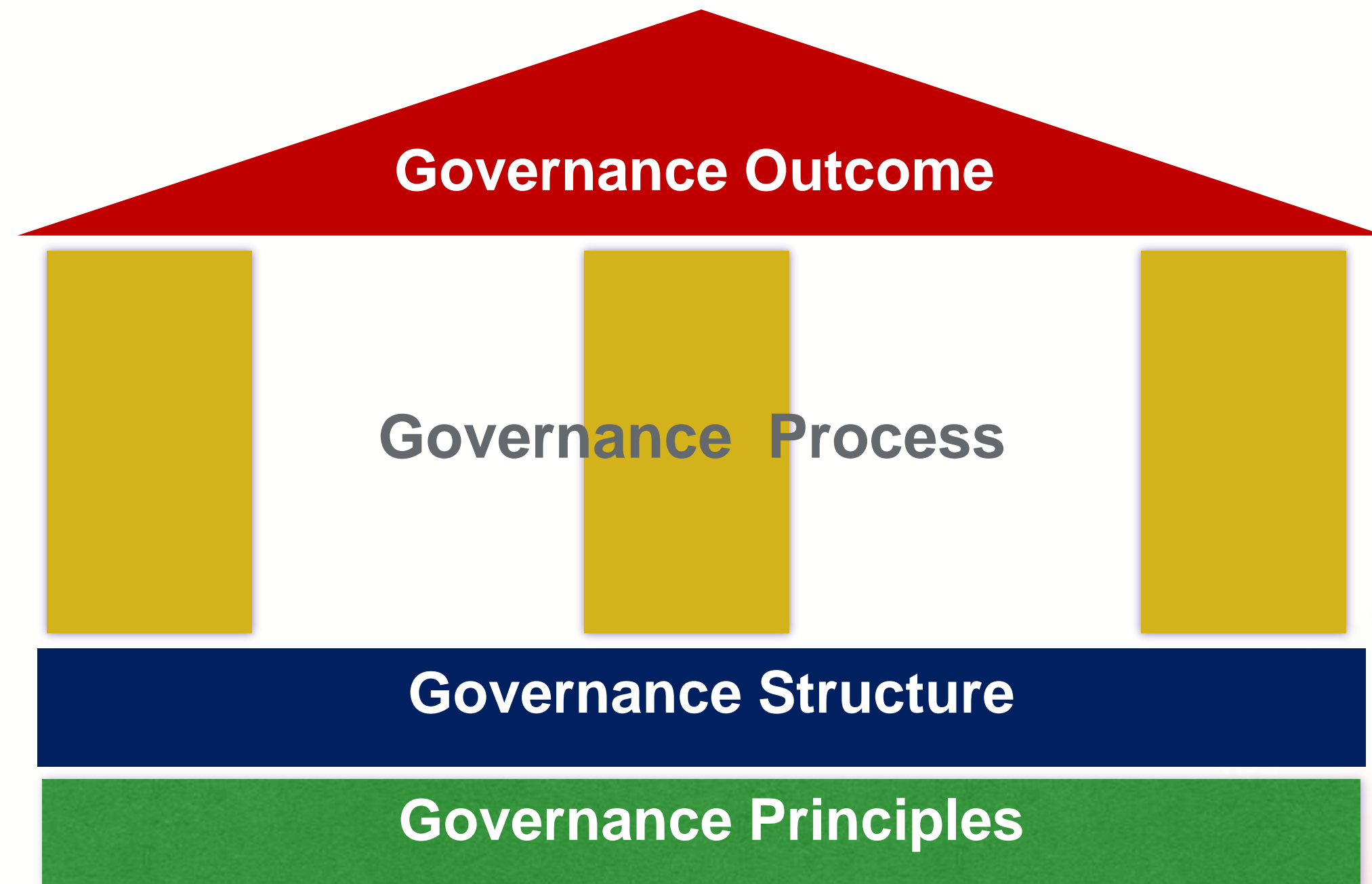
- Risk-based Internal Controls
- Reporting
- Disclosure

Source : Stewart, F. and J. Yermo (2008), "Pension Fund Governance: Challenges and Potential Solutions", *OECD Working Papers on Insurance and Private Pensions, No. 18, OECD publishing, © OECD.*



RUMAH GOVERNANCE

MODEL IMPLEMENTASI GOOD GOVERNANCE



POJK ABOUT GOVERNANCE ON PENSION FUNDS

Article 3 point 3 :

Founder, employer, Supervisory Board, Management, and other related parties with Pension Fund responsible for the implementation of Code of Pension Funds as mention in point (I) according to each functions and duties.

Source : POJK No. 16/POJK.05/2016 tentang Pedoman Tata Kelola Dana Pensiun



POJK ABOUT GOVERNANCE ON PENSION FUNDS

Code of Governance on Pension Funds at least consist of :

1. Objectives of the Code
2. Code of conduct, consist of governance principles, and code of ethics based on common practices
3. Structure, duties, function, role and responsibility every party related to pension fund
4. Technical guidelines, consist of accounting principles, investment, internal control system, risk management, etc.;
5. Compliance statement about the Code

Source : POJK No. 16/POJK.05/2016 tentang Pedoman Tata Kelola Dana Pensiun



CONCLUSION

- **Accountability is one of the highlighted aspects in the pension funds industry.**
- **Therefore, the governance system in pension funds should be well-designed, well-implemented, and well-supervised.**
- **The governance system includes governance structure, governance process, and governance outcome.**
- **Every aspect in the system contributes to ensure effective implementation of pension funds governance, and in the end, pension funds will achieve sustainability.**

