

Welcoming address by Henk Brouwer, Executive Director, De Nederlandsche Bank
At the International Monetary Fund and De Nederlandsche Bank Seminar on *Ageing,
Pension Risk Management and Financial Stability*

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1. It is a great pleasure for me to welcome you at this seminar on Ageing, Pension Risk Management and Financial Stability. For this audience, I do not have to explain that this is an important and topical subject. In particular, both this time and this place are particularly suited for a seminar on pensions.
2. This is the right place to organize a seminar on pensions. The International Monetary Fund has taken a leading role in promoting sound pension systems across the world. This is done through its surveillance task, but also by many publications on pensions and related subjects. The IMF is a center of expertise in this field, so it is very appropriate for us to co-host this seminar on pensions within these walls. Pension funds are very important for the Netherlands. By the way, did you know that the total amount of assets accumulated in Dutch pension funds equals 125% of Dutch gdp? This makes them – in relative terms – the largest pension industry of the world¹. It also makes us acutely aware how important the condition and behaviour of this industry is from a macroeconomic and financial point of view. All the better, I would say, that at DNB, the Dutch central bank, we combine responsibility for monetary and financial stability with supervision of among other pension funds.
3. Why is this the right moment for this seminar? A couple of years ago, the pension industry experienced what has become known as a “perfect storm”: stock market corrections in combination with historically low interest rates. If that was a perfect storm, the next decades will be more like a climate change. As the ageing of population proceeds, it will be more and more difficult for pension funds to recover from a serious setback. Instead, it will become crucial to *prevent* serious imbalances. Hence, this is the moment to look forward and make our pension systems more resilient.

¹ OECD, *Pension Markets in Focus*, Issue 3, October 2006

4. Important ingredients for the robustness of pension systems are transparency with regard to the obligations in combination with well informed investment decisions. The movement toward fair value reporting and risk-based solvency regulations are important incentives in this direction. And equally important, better risk management techniques will lead to a more accurate pricing of pension risks. These developments are interrelated. I endorse a conclusion from a recent study of the Committee of the Global Financial System that ‘regulatory reforms should provide more incentives to institutions to manage risks prudently’².

5. Keeping pension systems sustainable not only means that funds should be able to cushion adverse shocks from the environment, but also vice versa. After all, if pension funds are hit by a storm, risks are transferred to the economy. In the Netherlands we experienced in the past years that having a large and well-developed pension system can also imply that your economy becomes vulnerable to market sentiment. The need to raise pension contributions partly explains why the economic slowdown in the Netherlands during the past years was more pronounced than in other countries, especially in comparison with countries with pay-as-you-go systems. [In this matter it is also an interesting question whether DC pension systems would be less procyclical than DB pension systems. Although it seems rational to compensate any loss in pension wealth by voluntary savings, it doesn’t seem common practice among households.]

6. So we are at the right place on the right moment. But it gets even better, because I am sure we also have the right people today. We have succeeded in bringing together a select group of high level participants, representing the financial sector, the authorities and academia. Therefore, I am confident that we will have a very open and fruitful discussion today.

7. Looking at today’s program, I am convinced that this will be a day well spent. In my opinion we will touch upon some of the most important questions regarding

² Dit betreft een beleidsuitspraak uit het CGFS- rapport ‘Institutional investors, global savings and asset allocation’ (laatste draft, dec. 2006). De volledige tekst is: ‘The regulatory reforms should provide more incentives to institutions to manage risk prudently, helping to mitigate episodes of severe pension fund underfunding such as that between 2000 and 2002.’

ageing, pension fund reform and financial stability. I am looking forward to the contributions of each of our distinguished speakers, all well known experts in their field. I am glad that they could find the time to share their insights with us.

8. In the morning session we will pursue with the implications of ageing and pension-related risk management on the financial system. In particular the challenges associated with managing pension risk, the availability of market instruments and the transfer of risk to households will receive greater attention.
9. Having benefited from this broader perspective, in the afternoon session we will investigate more specifically how these challenges are being addressed at the level of individual pension funds, what the role of regulation is in influencing their behaviour and, looking forward, how these developments may influence financial stability. And, I'd like to add, it will have a light Dutch flavour also.
10. In a few moments I will give the floor to Adair Turner, our key note speaker for today. Lord Turner combined careers in business, public policy and academia. As you probably all know, he also chaired the UK Pensions Commission, which according to *The Economist* provided 'New thinking on old age' and showed 'A way out of the mess' for the troubled British pensions system. Today he will set the scene for us by addressing the major policy concerns and challenges related to pensions and pension funds.
11. So, let us better get started than. Now it only remains for me to wish us all an interesting seminar with fruitful discussions. Thank you.