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## Book Review

# Pension fund governance: A global perspective on financial regulation

John Evans, Michael Orszag and John Piggott

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There seems to have been an obsession in government with pension fund governance ever since the Maxwell episode in the early 1990s. We have had the Goode Report (1993), a stream of legislation and regulation (about 3,000 pages a year over ten years), and more recently the Myners Report and ancillary reports promoted by the Treasury. On the international front, the OECD and the EU have published their own versions of how pension funds should report and behave. (Pension fund governance should be distinguished from corporate governance, ie the obligation of pension funds to take an interest in the proper governance of the companies they invest in.)

It is true that pension funds are important both for their individual members and for governments. They manage a huge amount of money; if things were to go wrong (and they do) the political repercussions are significant, and their role in the support of capital markets and the necessary liquidity is crucial (at least in the Anglo-Saxon style pension systems). So it is hardly surprising that their governance has attracted attention.

This book examines the main frameworks of such governance practice around the world; there are studies of US and Australian practice, and then, most pertinent in recent years and for the UK in particular, the role of government (and quasi-government) guarantees.

Most of the chapters are readily accessible even for those who are not primarily academic

(for whom the book is primarily designed); the authors seem to have insisted that straightforward writing should be a pre-requisite. Only a few of the authors delve into economic models for which extensive maths seems essential. And it leans pretty heavily on Australian experience, generally regarded as offering some useful examples for the rest of us, especially in the UK where the fiduciary and trustee models are replicated. There is a handy analysis of the underlying costs of the Australian system, which might have an application to the forthcoming personal accounts in the UK — but it marks an academic over-concern with costs without an analysis of benefits — or an exploration of why market forces or competition or disclosure or transparency do not operate to drive down costs and expenses. Nor does the study devote much effort to considering the impact of legislation and regulation on the operating costs — nor whether higher charges might result in higher performance and higher benefits (especially in defined contribution systems). Adair Turner, another academic manqué in his Pensions Commission that lead eventually to the adoption of a funded fourth state pension system in the UK made similar omissions.

Rather more fascinating is a comparative study of systems of pension supervision in the US, Australia, Ireland, the UK, Hungary, Hong Kong, Argentina, Mexico and Chile, which provides a table contrasting the licensing, analysis intervention and correction mechanisms in each

jurisdiction. It is, however, absent the cultural differences in each system, virtually impossible to determine which is the most efficient — and more importantly least destructive — of the systems, and the surveys seem to lack that essential minor cynicism, which is usually necessary when considering regulatory frameworks. It would have been handy to have had some passing observations on issues such as regulatory creep, excess regulation, counter-productive regulation, and indeed whether there are any excesses in the system that need to regulatory correction and any what elements of public protection are necessary or merely desirable or politically driven — and indeed necessary or even destructive. The drive to more controls, even as the systems (especially in the UK) crumble under excess government direction, is nowhere explored. Maybe it is not feasible to perform academic analysis of the worth or otherwise of certain regulatory frameworks; the only mild criticism is of the role of lay trustees who are considered to have inadequate skills to manage the organisations for which they bear responsibility. Curiously for a governance text, none of the contributors have any legal background — they are predominantly economists — and the study might have added value with some help from public policy regulators and lawyers, considering the dilemmas of governance.

Perhaps these mild criticisms are unfair; it is complaining about something the book was not intended to do. And as the Introduction spells out, this is the first academic consideration of the subject there has been and as such is warmly

welcomed. It has brought the issue into wider focus, so that the regulators and others can take into account first the issues in general and secondly how other jurisdictions cope with some of the perceived problems. It is a fine start; and the editors have gathered together some of the most distinguished commentators from around the world including Michael Orszag (from Watson Wyatt), Professor Olivia S. Mitchell (from the Wharton School) and contributors from the World Bank, the Tanaka Business School and elsewhere.

The final chapter, on trying to price the cost of defined benefit pensions insurance, by David McCarthy and Anthony Neuberger, shows how complicated these schemes are, how flawed are their structures and how inevitably (especially in the UK) they are bound to fail as the better risks select against them by buy-out with an insurer or elsewhere. Inevitably the modelling ignores the effect of behavioural economics (as does government policy), but it sensibly criticises the current policy of trying at vast expense to build up resources to meet catastrophic failures of the future.

This collection of essays on a rapidly developing topic is a valuable addition to the field and the editors must be congratulated on beginning to bring the area to the attention of thinkers and government (not necessarily the same thing), who are charged with dealing with the challenge of controlling private pension provision. Any future edition will no doubt be bigger and cover a broader policy review.

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