



Turning theory into action

Cross-border pension schemes have many potential benefits to employers – most notably the significant cost savings and greater purchasing power resulting from the consolidation of administration and fund management across the different countries of activity. Whilst differing legislative regimes can be seen as an impediment, the potential upside is growing as the risks increase both in the assets and liabilities of schemes. At *aquila* we are seeing increasing interest from employers and insurers investigating ways to transition to a centralised cross-border arrangement.

No commonalities in the Common Market

Multi-national companies have his-

Chris Connelly highlights the merits of a centralised cross-border pensions arrangement

torically established different pension arrangements in the different countries in which they operate. As each arrangement was established so a local system or provider was used to service each country. This makes it difficult for the corporate headquarters to know the liabilities across all countries and there are no opportunities for economies of scale.

Because the decision to create these arrangements within each state is one borne out of the historic local taxation regulations, the decision to use a local system

or provider was seemingly obvious at the time. It is easy to understand why: different tax and labour laws in each country have particularly discouraged the establishment of multi-country administrative arrangements and there has, until now, been a perceived lack of systems support.

Breaking down borders

Differing local legislation is not necessarily a barrier to reaping the benefits from cross-border pensions administration. There are excellent opportunities to reduce



costs, improve worker migration and enhance employee benefits and it may well turn out that the market actually forces the steps towards legislative and regulatory harmonisation. The first indication of that was seen in the Danner case which has paved the way for closer harmony on cross-border taxation issues. To exploit these opportunities early, organisations should be proactive in devising a strategy as technology can make taking such action cost effective.

There have been efforts to promote a single market for occupational pension provision across the EU since 2003 with the introduction of the Institution for Occupational Retirement Provision (IORP) directive. The directive set out the legal and regulatory framework for the operation of pan-European occupational pension schemes with the simple objectives of facilitating cross-border membership, defining minimum standards of communication, solvency and regulation and ensuring security for members and beneficiaries.

Whilst the objectives to facilitate cross-border membership were standards-based focussing on the members, the practical responses to the challenge are focussing on the wider management issues and where efficiencies of scale can add benefit. Primarily these are in the areas of asset pooling and a centralised view of liabilities and other key pieces of management information.

What's for starters?

In order to establish overall control of pension liabilities, a central administrative arrangement may need to first cope with all the existing country arrangements in situ. It may be possible to create a new 'universal' scheme for new employees but the liabilities of

existing arrangements need to be accounted for. Then subject to local legislation, employees could be moved to the new central arrangement with their existing benefits transitioned or preserved.

Asset pooling may be the first step towards centralisation with greater control over investments and more bargaining power with fund managers. Without changing any pension arrangements, investments can flow through to a central point and be placed in the optimal way with different fund managers.

A next step to asset pooling is to understand the associated liabilities. Again, without changing existing arrangements, modern rules-based administration engines such as *administrator* can provide a central record of those liabilities and a central database that permits the projection and matching on assets and liabilities. Subsequently the centre can take more control by handling more of the administration of pensions from each country. Centralised information also improves the reporting capability and will increase management control and facilitate better decision making.

And to follow?

Asset pooling and liability reporting may be relatively straightforward back end processes, but then comes the opportunity to consolidate administrative control. As a starting point, details of benefits down to an individual level could pave the way for centrally controlled member communication for consistency and branding. Next could be contribution processing and, over time, central control over more complex and locally dependent workflow processing. An alternative slicing of that same project might be to transition services from one state at a time. This can be especially beneficial if there are immediate

problems with one particular state's systems or processes.

The design and functionality of the technology is crucial to achieving a smooth transition. The chosen system needs to be rich enough to provide centralised information gathering but also have the flexibility to be able to take on additional services and run efficiently despite the fact that the same processing across different jurisdictions may have different controls and regulations imposed upon them. Solutions such as *administrator* support these different complex arrangements at each phase of this transition and shows that technology need not be a barrier for introducing cross-border pensions.

Jeux sans frontières

The key to success in a sustainable technology strategy is to select the solution that can not only be the effective platform for the future of centralised services, but the solution that can get you there too. The ability to deliver evolution in phases will be critical to supporting client business cases and ensuring transition is performed in manageable, business-driven steps.

Through innovative software solutions which provide clients with an easy to use, single, cost effective and efficient system to administer pensions there are fewer reasons why the theory laid out in the 2003 IORP directive cannot become a practical reality.

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