

DNB: Dutch plans took too much risk

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NETHERLANDS – De Nederlandsche Bank, the Dutch central bank, said it plans to improve the risk management functions at local pension funds after a review of the industry found schemes took on too much investment risk.



In its latest Quarterly Bulletin, the pensions watchdog said many plans paid inadequate attention to the governance and management of investment risks. In addition, the report said asset managers investing on behalf of pension funds were given too much leeway to act.

The DNB said although the research covered a period of severe market turbulence the results were largely unrelated to the crisis.

It added: "This has prompted DNB to act to improve risk management at pension funds, partly in cooperation with the sector. DNB will also advocate changes in the legal framework."

According to the central bank's data, in 2008 Dutch pension funds lost a total of €219bn (US\$314.1bn). Around €112bn was lost due to a decline in the value of investments, while the rest was lost due to falling bond yield used to discount liabilities values.

The Dutch Association of Industry-wide Pension Funds (VB) spokesperson Gert Kloosterboer said recent VB research had come to the same conclusions as the DNB.

He said: "We saw in a number of cases pension funds board lacking sufficient investment information to perform their duties in an effective way.

"We are available to work together with the DNB and the other industry stakeholder to improve this situation."

Mercer principal Paul Duijsens said investment risk is and also will be necessary for affordable pensions.

However, he added: "It is important to exclude non rewarding risks as much as possible. The available risk budget should contain the most (expected) rewarding risks.

"Prudent assumptions for expected asset returns contribute to sound financing, too positive returns erode pensions."

He also said: "The ultimate challenge of pension funds is an adequate risk management with clear links between long term strategy, efficient execution and actual risk monitoring of the investment policy. This will help pension funds to be 'in control'."

Dutch Association for Pension Interests (NBP) chairman Kees de Lange noted the DNB's conclusion did not come as a surprise to many observers.

He said: "In order to keep pension premiums below true cost levels and therefore artificially low, many funds have taken excessive risks in their investment strategies.

"Moreover, even after the positive developments on the stock market of the last few months, for many funds the possibility to pay inflation-corrected pensions is still as remote as before. This makes those presently on a pension the immediate victims of this irresponsible behaviour of many funds."

He added: "Since most funds offer very little transparency when it comes to their investments, this signal given by DNB is very welcome indeed. It increases the pressure on pension funds for more transparency and for more influence on their affairs by those who directly suffer the risks of current bad practices."