THE INTEGRATED PENSION GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

Management of defined benefit (DB) pensions is complicated for any organisation, but for multinationals the challenges are compounded because the pension funds are usually located in countries other than the sponsor’s headquarters. Many multinationals have now realised that they need to take a more active approach to tackling the complexity of the pension problem and the impact it has on their financial standing. This realisation gives rise to an integrated or strategic framework in which corporate governance and asset-liability risk management must be considered together.

Mercer has considerable experience in defining, establishing and implementing these global, integrated frameworks. With this experience, we are in a position to help multinationals tackle both corporate governance and asset-liability risk management within the same integrated framework.

GOVERNANCE AND RISK MANAGEMENT CHALLENGES IN A GLOBAL ENVIRONMENT

In a recent white paper, Mercer identified two major challenges for multinationals in the DB pension arena:

- **Global pension risks** – Foreign pension exposures create a number of financial risks for multinationals, particularly because these organisations report in a standard currency but are exposed to foreign pension obligations denominated in a range of local currencies. Pension exposures are often of very significant sizes compared with the balance sheets of the corporate sponsors, creating a “size” issue among the risks. These can significantly affect a company’s net debt, earnings, free cash flow and credit ratings.

- **Governance challenges** – The increased number of regulations, regulatory bodies, pension systems, investment vehicles and arrangements and third-party advisers add more complexity to the governance requirements of multinationals. Furthermore, local governance issues are often difficult to integrate at a central level when they originate from a large number of DB pension funds operating in very different environments.

HOW SIGNIFICANT ARE YOUR PENSION EXPOSURES?

- Is your organisation exposed to DB pensions in three or more countries?
- Are your global DB pension liabilities in excess of €500m?
- Have equity or credit analysts identified pensions as a significant issue?
- Could you benefit from a common pension risk committee or board?
- Do you still need to draft global pension policies and processes?
- Are you struggling to implement an effective risk monitoring system?
- Have you considered the possibility of moving to a global custodian?

If you answered “Yes” to any of these questions, it’s time to call Mercer.
A weak governance framework will affect a multinational’s capacity to deliver pension promises to its members. It could result in loss of control over pensions by central management and a lack of efficient and effective global pension management.

Corporate governance and financial risk management must be considered together – unmanaged pension risks exacerbate governance issues and weak governance leaves financial risks unchecked. Failing to consider both issues within a single, integrated framework leaves a multinational sponsor exposed to an unknown quantity of unknown risks.

BUILDING AN INTEGRATED FRAMEWORK
An integrated framework is based on five key pillars that address most (if not all) of the internal and external pension issues relevant to multinational companies:

- Ownership of pension issues
- Definition of appropriate investment and risk management policies and processes to solve these pension issues
- Design of investment and risk management strategies for both local and global purposes
- Proper assessment of risk exposures and their evolution
- Communication and engagement with internal and external stakeholders on pension issues

READ MERCER’S WHITE PAPER
Mercer’s new white paper, The Integrated Governance and Risk Management Framework, is a comprehensive, in-depth publication that provides tips and tools that will help you regain control and achieve satisfactory levels of governance and risk management.

To download this paper, visit www.mercer.com/pension-governance-risk-framework.
Investment in a quality framework will provide the most benefit during times of stress, when decisions have to be made quickly and under pressure, as it will supply vital information on pensions risk and exposure.

The integrated framework:

- Facilitates standardisation and allows stakeholders to communicate using a common pension language
- Raises the level of communication and dialogue between stakeholders
- Enables corporate management to understand local risk management and governance issues and how they interact with global issues in the face of differing local regulations and environments
- Allows for the integration of local investment and financial risk management strategies into the corresponding global processes

Flexibility is one of the most important aspects of the integrated framework and its successful implementation will depend on the ability to adapt to changing market environments. The involvement of third-party advisers can add flexibility and greatly increase the efficiency and effectiveness of the integrated framework.

**WHY MERCER**

- Vast experience in defining, establishing and implementing global integrated frameworks for multinationals from all sectors
- Unparalleled understanding of the specificities of local pension regulations
- Advisory services including strategic tools, best-in-class ideas and strategies and investment and risk management training
- Extensive expertise in working with trustee clients in cases where the sponsor is affected by changing regulations and standards
- More than 40 years experience working with pension funds, foundations, endowments, wealth managers and other investors in more than 46 countries

The benefits of relying on Mercer to implement an integrated framework range from the reductions in both risk exposure and global pension management costs to improvements in governance structure. Because of our unparalleled global reach, we can provide both central and local services with the highest quality of advice, needed to achieve global success.
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