JULIA BERRIS FINDS OUT WHAT INTERNATIONAL PENSION VEHICLES CAN OFFER.

Reaping rewards

Global custody is praised for being a convenient and cost effective method of dealing with the complicated issues arising from pension funds. In the current climate of pension nightmares, any kind of help in this area is considered to be a godsend. But what exactly has global asset management got to offer the 21st century pension scheme?

The latest tool to make an impact is the international pension vehicle, which enables large multinationals to reap the rewards of unifying pension funds from their various operations around the world.

This scheme was created in the 1980s, so it is considered still to be in its youth by many who are not quite ready to deal with the complexities it offers alongside its benefits.

However, many argue that the plus points are significant and worth the effort that is required to set up such a system.

STREAMLINED FUNDS Head of Multinational Business at ABN AMRO Kerry White says: "A lot of multinationals are turning to international pooling of pensions because it is more cost effective than maintaining several smaller plans. There are significant benefits when it comes to asset manager charges and fees. This is especially relevant if you have a very large fee."

International pension pooling increases scale and so provides a more streamlined pension fund, explains Head of Relationship Management for UK and Ireland at ABN AMRO, Nigel Taylorson.

He says: "Recent pension activity has affected global custody quite significantly and there have been many developments over the last 10 years, one of which is the international pension pooling vehicle.

Executive summary

- International corporations can reap the benefits of unifying their various pensions across the world.
- A single fund with its streamlined process can be very cost effective.
- But setting up global custody can be complex, and daunting for trustees.

"The significance of pension pooling is scale. Having many separate pension funds worldwide is pretty inefficient. Small scale always means much higher cost. It makes the difference between playing with £500m and 10 times that amount.

"It is possible to negotiate much better rates and lower costs for the providers and get much better diversification."

White explains how streamlining the decision process can be a result of international pension pooling, allow key strategies and decisions to be made on a global scale rather than country-by-country or region-by-region.

She says: "If you have your various assets together in a single entity you can have just one committee overseeing this and implementing decisions. The process is very streamlined.

"Pooling lets you make a decision and apply it across many areas. This brings it all together and allows you to do things in a more consistent and unified format."

> DEVELOPING AN INTERNATIONAL PENSION VEHICLE REQUIRES A LOT OF RESEARCH INTO HOW IT SHOULD BE EXECUTED EFFECTIVELY, AND HOW MUCH MONEY WILL BE SAVED ONCE THE SYSTEM IS PROPERLY ESTABLISHED AND MONEY IS FLOWING INTO THE POOL.

Global consumer goods company Unilever is one of the first multinationals to opt for the pooling vehicle to help solve the problems that maintaining many different pension funds creates.

Vice President and Treasurer of Overseas at Unilever, Karl Howarth, explained why the company decided to set up its transparent, cross-border pooling vehicle Univest in 2005.

Howarth says: "The cost element is obviously a key factor in this. Having a separate pension fund for each country we operate in is costly for us and reduces scale.

"The way Univest works is that there are six asset classes around the world, rather than one large global fund. By using this method we have found that we have global classes and the best fund managers. This is because fund managers are obviously interested in billions rather than thousands. This type of pooling creates these kind of figures and gives us the benefit."

Howarth explains that Univest has enabled the company to take advantage of superb pension expertise in all countries.

He says. "It allows the company to leverage expertise globally and increase pension skills in the countries we operate in."

Univest was formally established in 2005 and is the result of a major project for the company, which had been in progress for a number of years.

COMPLEX PROCESS Setting up this kind of structure is a lengthy process and requires much more than just a dream of a convenient global fund. The complexities are diverse and can require a lot of time to work through.

White explains: "What this kind of thing means is moving all the company's assets from their current situation, which is not an easy task. If a company does not already have a pension fund in a particular jurisdiction the job is made all the more complicated.

"Companies are often very reluctant to move their assets to a place where they don't have a centre of operations already established."

It should not be overlooked that developing an international pension vehicle requires a lot of research into how it should be executed effectively and how much money will be saved once the system is properly established and money is flowing into the pool.

Howarth says: "It will be beneficial to us and we certainly think this is preferable to having 200 separate schemes across the world. But it does take time to work on it and to start seeing the benefits come to fruition."

Regulatory constraints have had an impact on every other area of treasury and global custody is no exception. Dealing with UK regulation can be a tricky task, but when embarking on this kind of project the regulatory impact is complicated even further by the individual sets of rules provided by other countries.

Howarth says: "We had a lot of regulatory hoops to jump through, which takes up a lot of time and effort."

White agrees, explaining that this element of setting up and implementing an international pension pooling vehicle is what takes the most time.

She says: "A lot of work goes into meeting the different regulators to demonstrate that the vehicle does provide tax transparency and that the service providers will be able to segregate a report on the assets from the various jurisdictions where they come from. This is a lengthy process."

Taylorson highlights this as part of the problem of pension pooling's immaturity. These vehicles are still developing and need to be improved in certain areas. Dealing with the various tax rule differences is one of these issues.

Taylorson says: "I don't think it is highly mechanised yet and people are still working on these kind of problems. There is a lot of research going into the tax side of things at the moment. There are undoubtedly efficiencies but overcoming the tax issue is the important thing at this stage."

A key part of creating a vehicle that incorporates a range of countries and their pension funds involves discussions with trustees, which is also a time consuming task and can mean a lot of time is spent convincing trustees that this method is beneficial and worthwhile.

Howarth says: "Pension funds are controlled by trustees, this can be problematic. However, once we have explained the benefits of this vehicle and they have seen the advantages it can provide, we've found that they have generally been very enthusiastic."

White emphasises this point, explaining that such a dramatic overhaul of an established system can seem like a difficult step to take for a trustee.

White says: "Changing to a system in which decision making is done via a central committee can be daunting for trustees who are familiar with a very different process of managing the pension fund." But this different process could be the future.

Julia Berris is a reporter on *The Treasurer*.
Editor@treasurers.org