Opening Remarks by Joaquim Levy on the Case Study, "The Evolution of the Canadian Pension Model: Practical Lessons for Building World-class Pension Organizations"

Canadian Club Toronto, The Omni King Edward Hotel, November 22, 2017

Good morning. I am delighted to be here today for the launch of the report on "The Evolution of the Canadian Pension Model."

First, I would like to thank Christine Hogan for the great role that she and her office have played in helping make this project happen – as well as the Government of Ontario, which has been an important champion.

I also want to acknowledge Alex Mazer and Jonathan Weisstub of Common Wealth and Mahmood Nanji, Associate Deputy Minister at the Ontario Ministry of Finance, for developing the concept and bringing together a great group to contribute to the report. They have done an outstanding job showcasing the journey that funds have been on in the past 30 years.

As many of you know, the World Bank focuses on ending extreme poverty and boosting shared prosperity in a sustainable way. Pension funds have an obvious and direct role to play ensuring that people have an income in old age – and our strategic aim is to support the development of good quality pension programs.

Pension funds are also important allocators of capital, which makes them doubly important for us. We are in the process of developing a series of reports to follow the focus of today's panel on Canada. Led by Fiona Stewart and William Price, they will cover funds in Malaysia, Kosovo, the US, and Turkey. The reports will be released in the coming months, and we very much look forward to bringing them all together in a joint report at the time of the World Bank and IMF Spring meetings.

The Canadian case study launched today gives developing countries a unique insight into experiences from Canada over the past 20 to 30 years. The starting point will be far more familiar than they might expect. Issues have included:

- Poor governance and political interference;
- Lack of investment expertise;
- Investment required in non-marketable government securities;

- Lack of scale to drive down costs; and
- Outdated administration systems that struggled to keep up with the demands of the funds.

These are just the kinds of problems for which our clients ask for help.

What you will see in the report is that there is no single solution or silver bullet, but rather a need to focus consistently on a few key themes. Let me highlight two of these themes for you: governance and risk management.

First, the report found that governance was the single most important factor in the success of the Canadian pension fund model, with “Independence” being the most important principle. How can independence be established and maintained? Supportive legislation and the appointment of an independent board can help to ensure this. How is the Board structured? The Board Chair sets the tone. And accountability and transparency mechanisms must also be built into the governance structure.

Second, the management of risk and liabilities is central to establishing the investment strategy of a pension fund. We have seen that the position of Chief Risk Officer has grown in importance over time. A strong team with the appropriate tools to assess risk are a necessity for fund managers in order to achieve and maintain a fully funded status. But success requires more than this, the CULTURE of risk management needs to be an integral part of governing bodies’ culture.

The World Bank stands ready to help developing countries build strong pension fund systems. And I am pleased that pension funds in Canada are increasingly looking to partner with funds there. OPTrust has already travelled to Vietnam to speak to Vietnam Social Security, with whom we are working, and the Canada Pension Plan Investment Board (CPPIB) is working with the National Development and Reform Commission in China. I hope that others in the audience may also be interested in working with us to support making the ideas in this report a reality.

I would now like to turn to some of the broader economic benefits that can come from pension fund reforms. As many of you are aware, there has been a greater focus on attracting private capital flows to support sustainable growth. The World Bank has developed an approach to

“Maximize Finance for Development--MFD” to foster greater collaboration with pension funds and other institutional investors.

Experienced investors like you know that some good opportunities may be held back by market or regulatory barriers. In these cases, there may be sensible reforms a government can take to remove barriers from outdated policies or regulations.

Beyond this policy level, the World Bank Group can leverage more capital for investments through the new types of financial structures and risk mitigation instruments. What does this mean? Well, it leads to the development of projects as varied as toll roads in Colombia or a hospital complex in Turkey, or support for low-cost, low-emission power generation in Vietnam. For pension members in your countries, these projects can and do offer returns that are ever more valuable in the current low-interest rate environment.

Let me end here with my thanks again to all those who were involved in putting together this tremendous report. We look forward to working with you to help developing countries take the journey to excellence seen in Canada. Strong, independent, pension plans, in addition to bring better outcomes for their members, usually play an extremely valuable role in deepening capital markets and improving corporate governance in general, providing two important ingredients to achieve sustainable economic growth and development.

Lastly, I would like to introduce our panel and offer my thanks to Jim, Hugh, Kim and Kevin for coming here today and helping explain how you have created some of the world’s most respected pension funds – and also my appreciation to our moderator, Terrie. Thank you in advance for helping to draw out their combined wisdom.