

Backdrop to the Pacific century

Richard Newell looks at some of the key dynamics at play in the Asian region

The launch of Investment & Pensions Asia is a reflection of the increased focus on this region, economically, structurally and as an investment destination. The following are some of the key factors at work in our market.

■ **The development of pension systems:** Traditional Asian pension systems are either being extended or dismantled in favour of systems that are more easily funded. As this process evolves, the growth in assets is expected to be huge. Investment of pension assets will require more sophisticated management.

■ **The growth of fund management:** Institutions and private savers are beginning to acknowledge that a diet of domestic bonds is not the best opportunity for them to meet their retirement obligations. Fund investment is already well entrenched in places like Japan, Australia, Taiwan and Hong Kong. The Asia Pacific region will see the fastest growth of assets under management globally in the next five to 10 years.

■ **Outsourcing:** Western companies continue to relocate towards cheaper Asian sources of labour, while Asian governments and institutions are increasingly tapping the global knowledge bank. Tighter regulation to increase the responsibility of pension fund trustees will see much more of the operational and supervision work being farmed out to specialist firms.

■ **Improved macroeconomic stability:** Since the Asian crisis, Asian economies have shown a greater resilience. This is expected to result in better government, more stable markets and improving corporate governance. The recent crackdown on corruption in Shanghai and the exposure of false accounting by senior officials in Taiwan can be seen as a sign that the governance systems are working.

Growth of pension assets

Asia is home to 60% of the world's population – 3.9bn people, or 10 times the size of the EU.

In the next 10 years, the OECD expects pension assets in Asia to grow by more than 250%, to €3trn under management. In its own in-depth report, Allianz believes Asian pension assets will grow five-fold outside Japan and Australia by 2015.

At present, pension coverage is low and most of Asia's public pension systems are unfunded. But governments around the region are working

Size of key pension fund markets

	Current (\$bn)	Expected 2015 (\$bn)
Australia	487.9	1,765.7
China	7.6	124.6
Hong Kong	35.7	103.6
India	4.5	150
Japan	704.	822.3
South Korea	29.0	254.4
Singapore	63.7	114.6
Taiwan	2.5	91.2
Thailand	7.5	30.5
TOTAL	1,342.5	\$3,306.9bn

Source: ????

to resolve this. There are two main approaches to pensions in Asia. The first is the Central Provident Fund type used in Singapore, Malaysia and to some extent Thailand as well as the Mandatory Provident Fund in Hong Kong. Each of these is essentially a

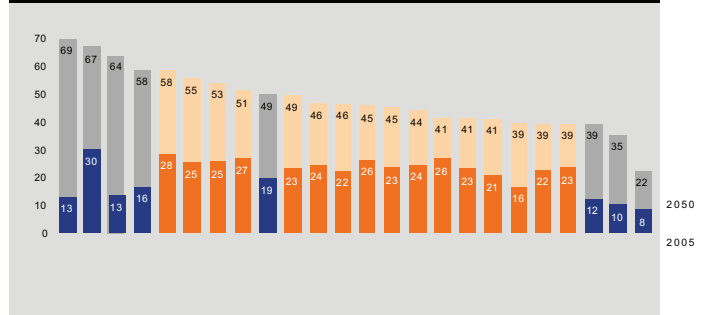
DC approach. They contrast with the various civil service and private employer-based DB schemes in India, Korea, the Philippines and Thailand. For the DB schemes, the coverage of the labour force ranges from very low (India) to 30% (Thailand) to largely universal (Korea). Replacement rates for covered workers range from 30% in Thailand to 50-60% in Korea and the Philippines. Because most of the DB schemes are pay-as-you-go, it is assumed they will be prone to the same financial pressures as industrial countries once the elderly dependency rate (EDR) rises.

Parker also forecasts that most countries will see the fastest growth in the personal pensions area of investment.

Chart 1

Old-age dependency ratios

(Ratio of 65 year -olds and older to 15 to 64 year -olds).



Source: Allianz Global Investors

‘There are two main approaches to pensions in Asia. The first is the Central Provident Fund type used in Singapore, Malaysia and to some extent Thailand as well as the Mandatory Provident Fund in Hong Kong. Each of these is essentially a DC approach. They contrast with the various civil service and private employer-based DB schemes in India, Korea, the Philippines and Thailand’

Harald Conrad of the German Institute for Japanese Studies (DIJ) says “A number of Asian countries have pre-funded mandatory savings schemes that do not enjoy functional autonomy from government and have done a poor job of managing their investments. There is a need for policies and institutional and regulatory frameworks to ensure better investment returns.”

Bob Parker at Credit Suisse says that with Asia Pacific assets under management due to grow to \$24trn by 2009, from \$17trn currently, “this is the

Demographics

Although they lag two decades or so behind the industrialised countries, the sharp decline in fertility rates and rising longevity in Asia will result in a growing proportion of elderly people in Asia, relative to both the overall population and the number of working age people. Economist Peter Heller, in a report to the IMF's Finance & Development journal, says, “Asian countries sit astride the ‘demographic transition’. Some, such as Korea, Taiwan and Singapore, are much more

Asian life expectancy trends

	Retirement age (male)	Life expectancy at age 65 (male) 2005-2009	Life expectancy at age 65 (male) 2035-2039
Main mandatory pension schemes			
China	60	78.2	80.7
Indonesia	55	77.8	79.9
Korea, Rep.	60	78.8	81.2
Malaysia	55	78.1	80.6
Thailand	55	77.5	79.7

Source: ????

area of the largest growth globally”. A move away from bonds is evident in the forecasts, with the big winners likely to be enhanced index products, ETFs and alternatives, particularly private equity, hedge funds and structured products.

advanced in the process, with the EDR converging to industrialised nation levels by 2030 and with further dramatic increases forecast in subsequent years.

By 2010, the population over 65 in Japan will be