

# Clearing and Settlement Advisory and Monitoring Experts Group (CESAME)

User's Views on Post-Trading Barriers

“Pension funds and transaction costs”

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- **Presentation of PensPlan**
- Pension funds and transaction costs
- The role of pension funds in monitoring the evolution of transaction costs

# Presentation of PensPlan

- **PensPlan key figures:**

- **The PensPlan Project** was **set up** 1997 by the Italian Region Trentino South-Tyrol **to promote second pillar pension funds and savings in the region;**
- **Today ca. 6.000 sponsors** contribute for **ca. 100.000 members** (more than **35%** of the work force: Italian average **13,2%**) to **three PensPlan pension funds**, supported and advised by **three PensPlan companies;**
- Pensplan has as of today ca. **€ 1,4bn of AUM**, which **increase yearly by ca. € 100m; members increase yearly by ca. 10.000** (2007: estimated an increase of ca. 30-40.000!)

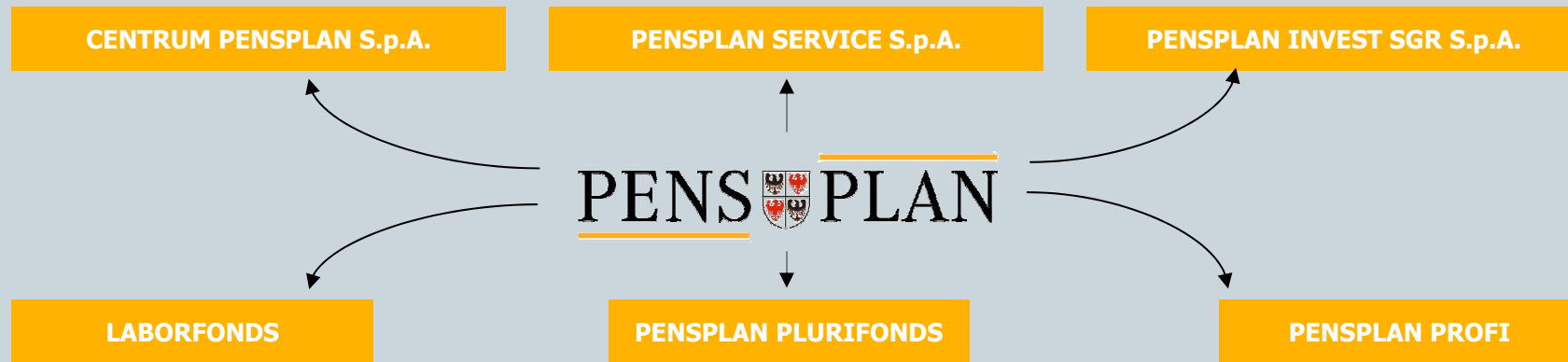
# Presentation of PensPlan

- **Location:**

The Region of **Trentino South-Tyrol** is one of the **ten richest regions in Europe**. Due to its location between two of the biggest European economies, and because its population is bilingual (German-Italian), the region **has a clear European vocation**.



# Presentation of PensPlan



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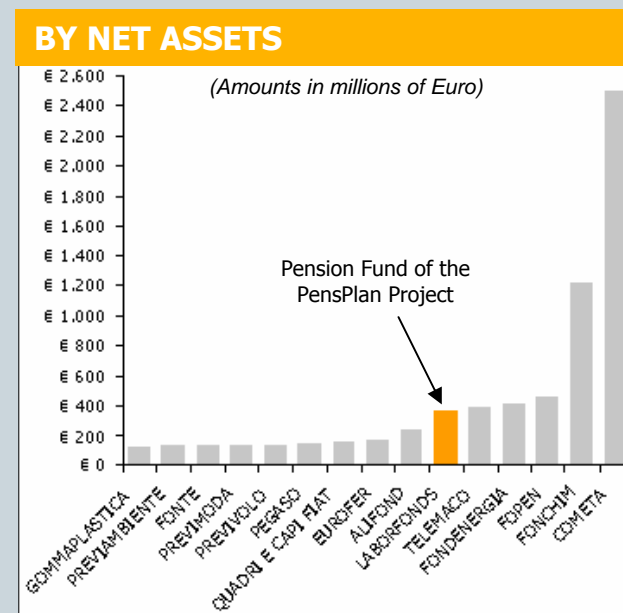
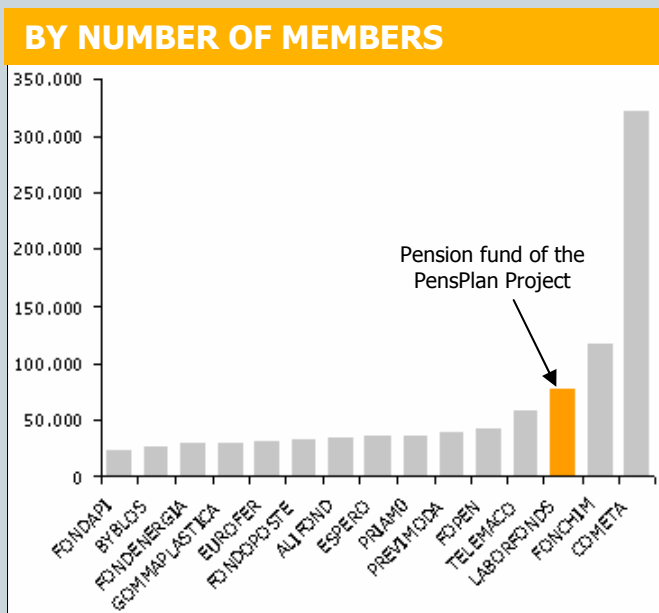
**IHR PLAN ZUM LEBEN**  
IL TUO PIANO PER LA VITA

**PENS PLAN**

05 10 15 20 30 40 50 60 70 80 90 95

## PENSPLAN: KEY FIGURES

Position of the closed-pension fund Laborfondi, advised and supported by PensPlan within the market of closed-pension funds in Italy



Data on 31/12/2005



**IHR PLAN ZUM LEBEN**  
IL TUO PIANO PER LA VITA

**PENS PLAN**

# Presentation of PensPlan

- **PensPlan assets and liabilities**
  - PensPlan is **diversifying the assets** of the pension funds **worldwide**;
  - PensPlan recently decided to diversify **the project's liability side as well**, asking for authorization for the PensPlan Profi pension fund to operate cross border. PensPlan Profi, by accepting German sponsors, may be one of the first "pan european" pension funds in Europe.  
**PensPlan is willing to contribute to the development of a true European pension fund market!**

# Presentation of PensPlan

- **PensPlan mission (among other)**
  - **Reduce** as much as possible **the cost of second pillar saving for the population** by creating economies of scale in administration of the individual accounts, pooling of assets, etc..
  - **By reducing these expenses, it is possible for PensPlan to increase**, in a medium/long term perspective, the **return of investment of the second pillar savings of the population by ca. 15%.**

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## Pension funds and transaction costs

- **Cost efficiency** is one of the **driving forces** behind the PensPlan Project.
- In the fall of 2006 PensPlan started **to analyse into detail administration/safekeeping and transaction costs charged by custodians** to the PensPlan pension funds.

## Pension funds and transaction costs

- **PensPlan sent to a group of custodians a portfolio of assets** (shares and bonds) **and the amount of transactions on the same portfolio** registered the year before, asking the custodians to make a administration/safekeeping and transaction fee proposal (cost per operation done by money managers).
- **The portfolio of assets was diversified among the major European and international markets.**

| "Name of Bank"                             |                              |                         |            |                  |              |                  |            |                  |
|--|------------------------------|-------------------------|------------|------------------|--------------|------------------|------------|------------------|
| Markets                                    | Administration / Safekeeping | Assets Under Management | Client Fee | Transaction fees | No. Holding  | No. Transactions | Fee Client | Total Fee Client |
| Australia                                  |                              | 12.000.000              | 0          |                  | 132          | 528              | 0          | 0                |
| Austria                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Belgium                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Canada                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Chile                                      |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Czech Republic                             |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Denmark                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Ecuador                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Euromarkets (Euroclear - Eurobonds only) 2 |                              | 674.000.000             | 0          |                  | 445          | 890              | 0          | 0                |
| Finland                                    |                              | 58.000.000              | 0          |                  | 297          | 1.188            | 0          | 0                |
| France                                     |                              | 22.000.000              | 0          |                  | 104          | 416              | 0          | 0                |
| Germany                                    |                              | 14.000.000              | 0          |                  | 108          | 432              | 0          | 0                |
| Greece                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Hong Kong                                  |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Hungary                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Indonesia                                  |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Ireland                                    |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Israel                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Italy                                      |                              | 30.000.000              | 0          |                  | 136          | 544              | 0          | 0                |
| Japan                                      |                              | 8.000.000               | 0          |                  | 85           | 340              | 0          | 0                |
| Malaysia                                   |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Mexico                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Netherlands                                |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Norway                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Philippines                                |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Poland                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Portugal                                   |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Singapore                                  |                              |                         | 0          |                  |              |                  | 0          | 0                |
| South Africa                               |                              |                         | 0          |                  |              |                  | 0          | 0                |
| South Korea                                |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Spain                                      |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Sweden                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Switzerland                                |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Taiwan                                     |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Thailand                                   |                              |                         | 0          |                  |              |                  | 0          | 0                |
| Turkey (Equities)                          |                              |                         | 0          |                  |              |                  | 0          | 0                |
| UK (CREST eligible Equities/Bonds/MMI's)   |                              | 25.000.000              | 0          |                  | 165          | 660              | 0          | 0                |
| United States (DTC/FRB)                    |                              | 126.000.000             | 0          |                  | 459          | 1.836            | 0          | 0                |
| <b>TOTALI</b>                              |                              | <b>969.000.000</b>      | <b>0</b>   |                  | <b>1.931</b> |                  | <b>0</b>   | <b>0</b>         |

## Pension funds and transaction costs

- **Six custodians presented a fee proposal** (in total we received 7 proposals, 2 of which were sent, respectively, by the Italian and the German branch of the same custodian bank).
- **The fee proposals received by PensPlan can be summarized as follows:**

# Pension funds and transaction costs

## Administration/safekeeping fee proposals

| Bank         | Administration /<br>safekeeping fees | percentage<br>of assets u.m. | Comparison |
|--------------|--------------------------------------|------------------------------|------------|
| Bank 1 (GER) | 112.375                              | 0,0116%                      | 77         |
| Bank 2       | 128.010                              | 0,0132%                      | 88         |
| Bank 3       | 129.820                              | 0,0134%                      | 89         |
| Bank 4       | 145.350                              | 0,0150%                      | 100        |
| Bank 5       | 176.460                              | 0,0182%                      | 121        |
| Bank 1 (ITA) | 193.800                              | 0,0200%                      | 133        |
| Bank 6       | 204.000                              | 0,0211%                      | 140        |

# Pension funds and transaction costs

## Transaction fee proposals

| Bank          | Transaction fees | percentage of assets u.m. | Comparison |
|---------------|------------------|---------------------------|------------|
| Bank 4        | 88.842           | 0,0092%                   | 76         |
| Bank 6        | 98.038           | 0,0101%                   | 84         |
| Bank 2        | 111.125          | 0,0115%                   | 95         |
| <b>Bank 3</b> | <b>117.036</b>   | <b>0,0121%</b>            | <b>100</b> |
| Bank 1 (GER)  | 159.900          | 0,0165%                   | 137        |
| Bank 5        | 194.787          | 0,0201%                   | 166        |
| Bank 1 (ITA)  | 205.020          | 0,0212%                   | 175        |

# Pension funds and transaction costs

## Total fee proposals

| Bank                | Total fees     | percentage of assets u.m. | Comparison |
|---------------------|----------------|---------------------------|------------|
| Bank 4              | 234.192        | 0,0242%                   | 86         |
| Bank 2              | 239.135        | 0,0247%                   | 88         |
| Bank 3              | 246.856        | 0,0255%                   | 91         |
| <b>Bank 1 (GER)</b> | <b>272.275</b> | <b>0,0281%</b>            | <b>100</b> |
| Bank 6              | 302.038        | 0,0312%                   | 111        |
| Bank 5              | 371.247        | 0,0383%                   | 136        |
| Bank 1 (ITA)        | 398.820        | 0,0412%                   | 146        |

## Pension funds and transaction costs

- **The result of the analysis of the fee proposals is the following: (I)**
  - An **overall cost range from € 234.192,00 to € 398.820,00** among all the proposals;
  - A **wider cost range (€ 88.842,00 to 205.020,00) for transaction costs** than for administration/safekeeping fees (€ 112.375,00 to € 204.000,00)

## Pension funds and transaction costs

- **The result of the analysis of the fee proposals is the following: (II)**
  - **A cost range from € 5,00 to € 34,50 charged per transactions in the Italian market**
  - **A € 13,00 fee per transaction** charged by one of the custodians, **regardless of the market (major or minor)**
  - **A cost range from € 272.275,00 to € 398.820,00 between the German branch (which costs less!) and the Italian branch** of the same custodian bank;

# Pension funds and transaction costs

- **Our conclusion (I)**

- Due to the fact, that the portfolio is diversified only in the main European and international markets, **the cost range showed by the proposals of the custodians seems quite wide** for the type of services offered and the markets involved;
- If the number of transactions increases, **the cost range may widen even further**;

# Pension funds and transaction costs

- **Our conclusion (II)**
  - **The cost range for transaction charged by custodians for servicing the same markets, is too high** (example: Italy). It seems to us that there is no justification for such a difference.
  - It is crucial **that the major efficiency and transparency achieved by the European Clearing and Settlement Infrastructure is not only extended** to the benefit of custodians but also, by these, **to the benefit of their customers** (among them, of course pension funds).

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# The possible role of pension funds

- **Pension funds are gaining** more and more **importance** throughout Europe.
- Because of their social function, **pension funds may become a major driving force behind efforts to increase transparency in transaction costs charged to institutional and retail customers.**
- **AEIP** – The European Association of Paritarian Institutions of Social Protection, representing the major European pension funds and welfare organisations, **is able to coordinate every kind of action in this regard**

# The possible role of pension funds

- **AEIP – The European Association of Paritarian Institutions of Social Protection**
  
- **What is AEIP: at a glance:**
  - Social protection
    - Coordinated retirement schemes
    - Pension funds
    - Health and provident benefits
    - Paid holiday schemes
  - Joint management
    - Paritarian
    - Employees and Employers
  - Solidarity
  - Transparency



# The possible role of pension funds

- **AEIP – The European Association of Paritarian Institutions of Social Protection**

- **Associated Members**

- CTIP, France
- BKK-BV, Germany
- SOKA-BAU, Germany
- Integrale, Belgium
- Assoprevidenza, Italy
- AGIRC, France
- ARRCO, France
- Fondation de Prévoyance Lombard, Odier Darier Hentsch & Cie, Switzerland
- TELA, Finland
- VB, Vereniging van Bedrijfstakpensioenfondsen, The Netherlands
- Dexia Pension Fund, Luxembourg



# The possible role of pension funds

- **AEIP – The European Association of Paritarian Institutions of Social Protection**
  
- **Observers**
  - CWPS, Ireland
  - B & CE, Benefit Schemes, UK
  - BUAK, Bauarbeiter Urlaubs- und Lohnabfertigungskasse, Austria
  - Casse Edili, Italy
  - CIA, Switzerland
  - TEA – ELTA, Greece



# The possible role of pension funds

- **AEIP – The European Association of Paritarian Institutions of Social Protection**
  
- **Correspondent members**
  - Hellenic Bank Association, Greece
  - Central Union of Workers' Productive Cooperative, Bulgaria
  - Union Pension Services Ltd., United Kingdom
  - Confédération Nationale des Entités de Prévoyance sociale, Spain
  - Országos Nyugdíjbiztosítási Főigazgatóság, Hungary
  - CARCD, France
  - CAVAMAC, France
  - Mutua General de Catalunya, Spain
  - Adam Smith Centre, Poland



