

# It takes two to tango

*A case study of the partnership between a Dutch institutional investor and a global asset servicer joining forces to implement a new governance model aimed at improving transparency, oversight and control of the investment process.*

In the wake of the financial crisis institutional investors are facing new regulatory challenges and more stringent transparency and governance requirements. Nowhere more so than in The Netherlands, where the Dutch central bank – the pensions supervisor – has subjected pension funds to tightened supervision after funding ratios plummeted as a result of the crisis. In response, pension funds are taking measures to improve transparency and risk management capabilities in order to enhance the governance of the investment chain and ensure that trustee boards are in control at all times, as required by law. As a result, pension funds and other institutional investors are increasingly turning to asset servicers for assistance with these needs, according to Frans Hofkens, Senior Vice President, Institutional Investor Group at Northern Trust.

In the case of Stichting Pensioenfonds ING (PFI) this meant implementing a new governance model, an undertaking the pension fund embarked on together with its asset servicer, Northern Trust. “The supervisor came down especially hard on pension funds that experienced significant funding rate losses, and our scheme was one of them,” says Rob Schouten, Head of Risk Management at PFI. “In response we needed to radically improve our asset management governance structure.”

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Rob Schouten, Head of Risk Management, Stichting Pensioenfonds ING

The pension fund set an ambitious goal: on a scale from 1 to 5 PFI intended to upgrade its investment administration and governance quality level from 1 to 4+ in just 18 months. This required something of a giant leap, says Schouten, “as we had to transition from plain vanilla custody services to a new, far more enhanced set of services in a relatively short time.”

So in 2010 the scheme launched a rigorous selection process in search of a partner with the capabilities to provide not only basic custody services but also detailed performance attribution and risk services. “As a further requirement PFI was largely invested in fund (of fund) structures so we needed a provider that would be able to deliver look-through information. Last but not least: we were looking for a service provider with the ability to help our pension fund make the transition from asset pools and funds to discretionary mandates,” explains Schouten.

PFI selected Northern Trust because the asset servicer met most of the scheme’s requirements “and because we knew that Northern Trust’s sophisticated tools and technology could support our governance goals,” says Schouten.

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Frans Hofkens, Senior Vice President, Institutional Investor Group, Northern Trust

With a robust platform in place, the asset servicer and the scheme agreed to join forces to further develop and fine-tune a solution that would provide detailed, tailored portfolio transparency and enhance investment control and governance to meet PFI’s standards.

## No easy feat

There were quite a few hurdles to overcome along the way. Just getting the data – and getting it on time – was a challenge, says Schouten. “Imagine trying to wrangle a tremendous amount of data from a large number of very different asset managers all over the world, each with their own system and their own corporate idiosyncrasies – while you want their data to be delivered in a more or less universal format and against a tight deadline. I can assure you, that is no easy feat. We charged Northern Trust with doing this, and I’m frankly glad we weren’t in their shoes. But they got it done.”

In addition the project required the seamless cooperation of multiple players as several external consultants were involved besides PFI and Northern Trust.

To complicate matters the pension fund was going through some major organisational changes even as the new governance system was being implemented: “The scheme’s executive office, which is responsible for day-to-day management, had just been established and over the course of this time period our staff expanded from 4 employees to 21 at the end of 2012. Our risk management and control team wasn’t even fully installed until September 2011,” explains Schouten.

“It did take some effort, in particular due to the tight transition timeframe” concedes Hofkens. “But we started from a solid base. While we do of course provide core custody services, data warehousing and asset servicing in a much broader sense, has been our core business for some time, so the necessary infrastructure was already in place. In close

consultation with PFI, we leveraged these existing capabilities to meet PFI’s enhanced requirements for performance reporting and risk services. Because of our global network, we were already dealing in one capacity or another with many of the managers we requested data from. As this was ground breaking territory, often legal and operational hurdles had to be overcome to obtain the necessary robust and consistent data. However, most managers understood that increased transparency is part and parcel of a worldwide trend, and this has enabled us to provide aggregated, independent data – integrated within the daily, monthly, etc. reporting cycles – to all of PFI’s stakeholders.”

## Ahead of the pack

Getting the system up and running was well worth the effort, say Schouten and Hofkens. “The Dutch are trend setters and early adopters when it comes to what we call Institutional Governance Services which are geared to helping institutional investors meet their increasing governance requirements and associated data needs,” says Hofkens. “We were fortunate to have a well-established presence in this market. This allowed us to be at the forefront of developing an in-depth and versatile suite of governance services that can be tailored and rolled out across the globe.”

“When the crisis hit we were behind the curve. But with this system we now have a sophisticated governance structure in place that has moved us to the head of the pack,” says Schouten. “We are already thinking ahead and anticipating new challenges, including new domestic and international legislation.” He adds: “Partnership may be a buzz word, but to me it has substance. Over the course of the implementation of this system, we developed a close collaboration with Northern Trust. It really does take two to tango.”

“Demand for Institutional Governance Services is on the rise globally, not just to make up for shortfalls in transparency and oversight that were revealed by the crisis but also because the current low-yield environment is driving institutional investors to invest more in less liquid asset classes lacking the desired level of transparency,” says Hofkens.

“We’re already seeing interest in other markets where we service clients, including the UK, the Nordics and the Middle East. Because one thing is for certain: governance and risk management will continue to be centre stage and the demand for services to support these requirements can only increase.”



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