



Pensions Highlights

December 17th 2007

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Risk Management

Diversifying the pension funds portfolio

- Pension funds have gradually broadened the number of investment funds, seeking greater diversification and return, with the purpose of offering more options for members to adjust their portfolios in accordance with their preferred risk tolerance and age bracket. Furthermore, with this structure, members take an active role in shaping up their pensions schemes.
- In recent years, options for members have gradually increased. In Latin America, members decide mainly on two points: funds manager and features of funds associated (multi-funds).
- [Chile](#) for example offers 5 pensions funds, [Mexico](#) currently has 2, though from 2008 onwards 5 pensions funds will start operations. [Peru](#), meanwhile, established a system with 3 pensions funds. In [Colombia](#), the addition of multiple funds in the system is still being discussed.

Behaviour of members

- The issue is that when persons select an investment fund, they should take into account their individual preferences in terms of risk/return equation and use available information to decide on the best investment option in accordance with their individual characteristics. However, this decision does not seem to follow a traditional pattern as predicted by economic theory. This is shown in the OECD's recent [publication](#). The study indicates different reasons affecting the behaviour of subscribers, including, *inter alia*, lack of proper information, inertia, etc.
- In other words, [designing](#) options by default - not necessarily conservative, but fully aligned with the age profiles and the risk/return equation – is of essence in evaluating this type of model.

What to expect in terms of investment.....

- Latin America's experience with multi-funds has a relevant track record. In this line, it is necessary to establish investment alternatives, design efficient default options for funds, and to go deeper in the capital markets' development trends.
- Furthermore, insofar as pension funds go larger and are an important class in markets, it would be necessary, *inter alia*, to modify the investment limits in both fixed income and equity, in domestic and foreign markets alike, in order to guarantee the minimum return on these investments and offer a greater range of options.
- BBVA inhouse estimate thru' 2050 support that funds will grow from 27% of PIB to 47% on average in Latin America. In paralel, the supply of instruments will also have to grow substantially to be able to absorb this larger liquidity.