

INTERVIEW

# Navigating stormy skies



Icelandic pension fund managing director, Snædís Ögn Flosadóttir, tells Francesca Fabrizi how the country's pensions industry navigated the challenges of 2020 and what her priorities are for the coming year

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## What does your role as managing director of EFIA, LSBI and Lífeyrisauki entail?

As a managing director, I answer to the board of the pension fund for the administration of the fund and everything that entails. I work closely with the board on strategic planning and it is then my responsibility to implement that strategy successfully.

I am fortunate to work with a team of excellent people, which is made up of both experienced members with a deep knowledge of the industry, as well as newcomers who provide a new perspective and vision.

## What were the main challenges you faced in 2020?

As for so many others, the main challenges of last year originated from Covid-19. For a pension fund, the impacts were multi-faceted. Economic effects poured into the markets, into companies' operations as well as into the daily lives of our members.

This led to challenges on the asset and liabilities side, as well as on the front end in relation to the service to our members who, in some cases, faced both unemployment and fears for their pensions and general wellbeing.

On a more practical level, the

challenges of moving daily operations into the often challenging home environment called for innovative and functional solutions.

The unprecedented difficulties of the lockdown also proved to be a heavy burden on companies and whole industries in general. In the case of Iceland, the unpredictability and abruptness of the shutdown of the travel industry that has, over the years, become indispensable to the Icelandic economy, had a dramatic effect on unemployment rates.

This increased the risk of defaults or the standstill of payments on the credit side as well as on the pension funds' member-mortgage side. Inflows were affected as well and temporary authorised early withdrawals were allowed from supplementary pensions, which increased the outflow at the same time.

In hindsight, the main challenges this past year were mainly navigating, monitoring and managing the constant changes, and surfacing risk factors. Simultaneously, keeping up a steady flow of quality information to our members was a priority.

## How did the Icelandic pensions industry cope?

Remarkably well. Compared to any given year, the results that we are seeing are quite acceptable overall.

According to the Icelandic Pension Funds Association, the estimated average real return of the Icelandic pension funds for 2020 was around 9 per cent.

Domestically, swift actions were taken. Pension funds play a significant role in Iceland when it comes to the listed and unlisted market, and the financing of companies and homes through direct lending to members. As such, they aim to be a part of the solution needed within the limits set by law and their fiduciary duty.

The government of Iceland, the Icelandic Financial Service Association and the Icelandic Pension Funds Association released a mutual declaration in March 2020 in response to the coronavirus pandemic. Based on this declaration, pension funds set up a framework meant to provide means to fund members as well as companies that had temporary payment difficulties.

The government of Iceland also temporarily authorised early withdrawals from supplementary pension savings. These actions proved to be vital as evidenced.

At the beginning of the crisis, the Iceland currency (ISK) proved to be volatile and vulnerable to the economic effects of the pandemic. To counter this, the Central Bank of

# Icelandic pensions

Iceland approached the local pension funds and reached a somewhat unorthodox consensus with them on a hiatus. The pension funds agreed to suspend their foreign currency purchases for six months, from March to September, in response to the severe contraction in export revenues caused by the Covid-19 pandemic and to minimise the downward pressure it could potentially exert on the ISK exchange rate.

Quoting the Governor of the Central Bank: “It is clear that this hiatus played an important role in maintaining macroeconomic stability during the shockwave that has struck the domestic economy in these months. With this, the pension funds demonstrated their commitment to supporting stability in the foreign exchange market.”

We would have expected some defaults on corporate credit in our portfolio, however this has not been the case. Companies were able to take advantage of the remedies available, giving them the standstill period and the time needed to hopefully recover.

## What are your priorities for 2021?

This will hopefully be a year of recovery for the world’s economy and its people. Plans will evolve around catching the right opportunities and navigating the months up until we start to see the light at the end of the tunnel.

Further development of our environmental, social and governance (ESG) strategy, technology and digitalisation improvements will also be key.

Our pension funds all have ESG policies, which we apply throughout the entire investment process where special emphasis is placed on certain areas. For the work related to domestic Icelandic companies, our pension funds are, for example, doing extensive engagement and analysis

on listed companies’ non-financial information, which includes pushing for increased information in the non-financial statement where needed.

Our funds’ shareholder policy provides our members and others public information on our voting and engagement activity. The focus this year will be on further implementing the strategy and broadening the emphasis spectrum.

Tech and digitalisation are meant to increase member engagement and aid more efficient processes throughout our operations. We have recently rolled out pension funds in Arion Bank’s app – a solution that we hope will benefit our members as well as drive deeper engagement. Via the app, we are pushing information closer to our members in their everyday lives, making it easier for them to set up pension plans, change their strategies or, when the time comes, make withdrawals. Developing technology solutions such as apps and other innovative ways of communicating with our members will continue to be a key focus area for us into 2021.

## What other themes are prevalent in the Icelandic pensions space?

ESG is the obvious one – I see a continuing momentum of ESG in the Icelandic pension space with the emphasis on the importance of asset owners, including ESG metrics throughout their investment processes and catching up to full compliance in all asset classes.

Another key theme in the Icelandic pension space during these times is the discussion on obligation target return for pension funds or, to be more specific, the discount rate used in actuarial asset liability calculation for the funds. The pension funds have actuarially discounted assets and liabilities at a rate of 3.5 per cent inflation indexed.

Historically, local government

- **EFÍA** is the pension fund of the Icelandic Air Line Pilots Association.
- **LSBÍ** is the pension fund of the employees of Búnadarbanki, a bank that merged with the predecessors of Arion bank. The pension fund is closed to new members.
- **Lífeyrisauki** is a supplementary pension fund operated by Arion bank, open to everyone who wants to set up a supplementary pension plan.

bonds have had a higher yield than this. In recent years, the yield has dropped severely in line with global development, a situation which partly creates an asset liability imbalance. The pension funds have made capital gains on their holdings of government bonds due to this but, from an ongoing discounting perspective, the yield on local bonds is generally well below the actuarial discount rate, with exemptions. Given the current and expected state of the markets, the liability rate will be challenging to meet, and the situation is likely to push pension funds further towards increased risk

## Finally, what changes do you think are needed to help the pensions space flourish?

I would like to see the entire pension space take a giant step forward when it comes to engaging and educating members via technology. The challenges of lockdown have sped up this process, but more is needed.

We also need to keep our eyes wide open to any ways we can simplify the system. Having a system that members find hard or in some cases close to impossible to understand cannot be the best solution. Furthermore, we need to be susceptible to sharing ideas across borders. ■