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Risk Management in Finnish Pension Funds: A Survey

Pension fund risk management currently attracts large interest, largely because of the demise of Enron's pension fund. Nearly $1 billion were wiped out of the fund due to its excessive position in the company's own stock. This spectacular risk management failure has even prompted the US Congress to draft a bill entitled "The Employee Abuse Prevention Act of 2002". (The Economist, 2002). Now more than ever, an investigation into pension fund risk management practices seems very much in the public interest.

We present results from a survey of risk management practices at 20 Finnish corporate pension funds. The survey was carried out in February–March 2002. A total of 20 corporate pension funds were identified as the target population of the survey. 62 students, working in teams of three or four, interviewed 19 pension funds. One of the authors interviewed the twentieth institution.

The funds surveyed have a total of 8.1 billion euros of assets under management. 54% of this wealth is allocated to fixed income instruments, 29% to equity, 15% to real estate, and 1% to other investments such as private equity.

Many of the Risk Standards proposed by the Risk Standards Working Group (1996) have been well implemented. For example, all funds surveyed have a proper set of investment guidelines approved by their board.

In many other areas of risk management, however, Finnish pension funds present an unfavorable contrast to US survey data. Additional work remains to be done in such diverse areas as risk measurement, historical and stress testing, and external oversight. It is particularly surprising to note that most funds do not use risk-adjusted return measures and that a few do not even measure their risk level in any quantitative way.