# Edinburgh Councillor blogs – Jim Orr on Pension funds

Last week the National Association of Pension Funds sponsored a discussion on “The opportunities and risks for pension fund investment in an independent Scotland”.

The panel was of a high standard and the debate enlightening and so I have written this (hopefully) impartial account for your readers who may be interested. Given the size of the Scottish financial sector, it’s clearly an important consideration in the independence debate.

The panellists were:

Gavin Brown MSP, Scottish Conservative Party
Iain Gray MSP, Scottish Labour Party
Owen Kelly OBE, Chief Executive, Scottish Financial Enterprise
Eilidh Whiteford MP, Scottish National Party
Rachel Holmes, employed by Edinburgh Napier University but speaking in a personal capacity

The event was chaired by David McGibbon, Chairman of NAPF Scotland.

Rachel Holmes spoke first and emphasised the benefits of independence to countries which have strong financial sectors like Singapore and Luxembourg. In her view, it would be better for the “one size fits all” framework of Westminster to be substituted for that of a more agile, and strengthened, local parliament with powers to “give Scottish pension companies the edge”, such as lowering the corporation tax rate.

Owen Kelly was next. He spoke well and stressed his impartiality but, understandably, tended to highlight the uncertainties and potential difficulties of a Yes vote (such as those around EU terms, taxation, regulation and currency) rather than the opportunities which are arguably less certain to be realised and might be realised over a longer term. New EU members must have their own regulatory systems he said, which would add costs to Scottish businesses, as they would also have to adhere the UK regulatory system to continue to do business there. Rachel disputed this and insisted that Luxembourg and Germany shared a regulator. Owen questioned a number of elements of the Scottish Government's plans, in particular the 18 month transition to independence following a theoretical Yes vote.

Iain Gray supported these arguments, and suggested that while the Scottish Government's white paper stressed that little would change there was no evidence for this and assumptions around, for example, the continuation of the Pension Protection Fund (PPF) highlighted the "uncertainty" which was his central theme. He was a little downbeat ending with "reject separation on the 18th of September!"

Gavin Brown was in my view a more effective speaker as he was more analytical in his defence of the status quo. He claimed that the Scottish Government's promises did not stand up to scrutiny. The promises, he said, are that Scottish pensions will be higher than the UK; will increase faster than the UK; and be obtained at a younger age than for the rest of the UK. Given the demographic challenges we face Brown said: "Delivering what we have now will be difficult enough." On financial services, the Yes case has simply not been thought through and is not substantiated by enough calculations, he concluded.

Eilidh Whiteford began with the subject of Scottish pensioners, rather than the pensions industry, stressing that all too few Scots are enrolled in a pension plan, with women even less likely than men to have a pension plan. We need to improve provision for those on low to moderate incomes, she said. On the industry level, she defended the Scottish Government position that regulations could be harmonised and stated that 70% of regulations existed EU-wide anyway. “The quality of our industry is the key to continued success.” On the uncertainty of the referendum she made the very valid point that the EU referendum planned for 2017 was a much bigger and more unwelcome risk than the independence referendum.

A good Q and A followed the speakers. I asked the panel whether more and better physical infrastructure is needed in the Lothians to sustain the financial sector and compete with London. Iain Gray complained that EARL and GARL should have been completed as well as the tram system which he initiated. Another speaker responded that the asset servicing sector was already healthy in Edinburgh and Glasgow (with companies such as BNP Paribas investing here) and by implication indicating that the existing infrastructure was adequate.

One or two members of the audience indicated that, given the size and quality of the existing pension industry in Scotland, a Yes vote provided an opportunity to do more and generally, there was a little more support for this in the audience than might have been expected. Rachel highlighted the parlous state of many UK pensions and the UK’s recent low rating in an index of the world’s best pensions (by Mercers, the actuary company) as an indication that change could be beneficial. She also highlighted, without endorsing, the Irish policy of rewarding savers differently depending on their age as an example of the flexibility of an independent state. And she stated that there were plenty of economists who believed that Osborne was “just wrong” in ruling out a currency union.

The discussion broadened with statements from the floor that the pension industry was primarily dependent on the need for growth and a successful economy simply to pay pensions, on which subject Iain Gray asserted that MOD shipbuilding contracts on the Clyde would depart on independence as we would then be a foreign country. With this he had the last word.

On the subject of “uncertainty”, something that business leaders never like, I would just add from memory that at last year’s NAPF full conference one very high profile speaker expressed a view that China would continue to perform well financially as long as there was no kind of revolution (like the Arab Spring) which might bring uncertainty or disruption to the asian economy.  I found this logic rather perverse.

Transitions to better democracies can take time to become established and settle down, that’s true, but in the long term, who could doubt that fully democratic countries invariably perform better economically and are better societies than undemocratic ones?  Of course, the situation in China has few parallels with modern Scotland but legitimate, informed democratic decisions are generally good for business in the long run.  And “political risk” to businesses is arguably an inherent element of a vibrant democracy, as the plans for an EU in/out referendum in 2017 demonstrate.

Councillor Jim Orr is an Independent councillor for Southside/Newington Ward.