Risk Management Implementation in Strengthening Good Pension Fund Governance: A Case Study at Pension Fund XYZ

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Abstract. Pension funds are crucial for ensuring the financial well-being of retirees, yet they face complex risks that could threaten their sustainability. This study examines the implementation of risk management to support Good Pension Fund Governance (GPFG) at Pension Fund XYZ. Using a qualitative case study approach, including interviews, document analysis, and observation, the findings show that Pension Fund XYZ has aligned with key Financial Services Authority (OJK) regulations, such as active oversight, updated risk policies, and risk-based internal audits. However, challenges remain in information systems, setting risk limits, and human resource capacity. Management commitment, regulatory compliance, and a risk-aware culture serve as enablers, while weak information systems and insufficient control mechanisms pose significant obstacles to effective risk management. Strengthening risk management is therefore essential for achieving accountable and sustainable pension fund governance. The Health Level Assessment indicates that Pension Fund XYZ is in a Fairly Healthy condition, with sufficient capacity to withstand changes in business conditions and external factors.

Keywords: Pension fund, risk management, Good Pension Fund Governance

Introduction

The development of pension funds in Indonesia has been relatively volatile, with the number of pension fund institutions declining to 187 as of the end of February 2025. The number of pension fund participants has also decreased. Nevertheless, pension fund assets have shown stable growth, particularly with an increase recorded in 2024. The overall trend from 2023 to early 2025 reflects challenges in terms of participation rates and the number of providers, yet also demonstrates a maintained resilience in asset stability.

	2023	2024	2025 (Februari)
Number of Pension Fund Companies	199	191	187
Pension Fund Participants	4.153.600	4.100.126	4.066.549
Pension Fund Asset Development (in billions of rupiah)	368.702	382.535	381.132

Table 1. The Financial Services Authority (OJK) (2023, 2024, 2025), diolah penulis.

Pension funds are institutions that collect contributions from their members to prepare for retirement, maintaining a balance between contribution collection, investment management, and benefit payments to participants. Pension funds are inherently exposed to a wide range of complex risks, such as strategic, operational, investment, liquidity, credit, compliance, and reputational risks that may affect their sustainability (Indryani et al., 2024). Therefore, an effective risk management system is required to anticipate potential losses that could disrupt the continuity of pension fund operations, ensuring that all components function in a sustainable and accountable manner. Proper risk management is not only essential for protecting pension fund assets but also forms an integral part of implementing Good Pension Fund Governance (GPFG).

The Financial Services Authority (OJK) plays a central role in regulating, supervising, and dissolving pension funds in cases of regulatory violations. There have been significant findings related to mismanagement in pension funds. For instance, on October 3, 2023, the Minister of State-Owned Enterprises (SOEs), Erick Thohir, reported suspected misuse of SOE pension funds to the Attorney General's Office. Preliminary audit findings indicated potential state losses amounting to IDR 300 billion (Ginting, 2023). According to Ginting (2023), this issue was caused by fraudulent investment transactions that disregarded sound governance principles. Such cases reflect weak risk and governance practices, resulting in declining public trust in pension funds, especially those managed by SOEs, which ideally should set an example in implementing GPFG.

In response to the high level of risk in pension fund management, OJK has reinforced the regulatory framework through several strategic policies. Key regulations include POJK No. 27/2023 on Pension Fund Operations, SEOJK No. 4/SEOJK.05/2024 on Investment Valuation Guidelines, POJK No. 15/POJK.05/2019 on Pension Fund Governance, and SEOJK No. 28/SEOJK.05/2020 on Risk Management Implementation for Pension Funds. These regulations serve as guidance to ensure the continuity of pension funds and to uphold governance standards while minimizing risks to achieve GPFG.

Pension Fund XYZ is one of the institutions managing a pension scheme. It is an employer-sponsored pension fund tasked primarily with managing contributions and providing retirement benefits for its employees. This study aims to examine the implementation of risk management at Pension Fund XYZ and to identify the factors that support and hinder its efforts in achieving Good Pension Fund Governance.

This topic has also been addressed in previous research, including a study by Indryani et al. (2024), which emphasized essential aspects for the effectiveness and efficiency of pension fund sustainability to ensure the financial welfare of participants in their retirement years. The findings highlighted key success factors such as good governance, internal control, strategic investment management, risk management implementation, regulatory compliance, transparency, accurate reporting, and continuous audit oversight, all contributing to the development of effective and efficient pension fund operations.

Methods

This study employs a descriptive qualitative research method. Qualitative research emphasizes an in-depth understanding of a particular issue or problem. Specifically, descriptive qualitative research aims to describe and interpret a phenomenon based on existing relationships or emerging perspectives (Rusandi & Rusli, 2021). Data collection methods include observation, interviews, and literature review. The subject of this research is Pension Fund XYZ. Through this study, the researchers directly observed operational practices, conducted interviews with relevant stakeholders, and analyzed internal documents as well as related publications to obtain a comprehensive understanding of risk management implementation and pension fund governance.

Result and Discussion

Risk Management Implementation

The implementation of risk management serves as the backbone for achieving Good Pension Fund Governance (GPFG) at Pension Fund XYZ. GPFG, as defined in Article 1 Number 3 of POJK No. 16/POJK.05/2016 refers to "a process and structure used by pension funds to achieve the objectives of pension program administration, taking into account the interests of all stakeholders involved, based on prevailing laws and commonly accepted practices." This concept emphasizes that sound pension fund governance must be proactive, structured, and stakeholder-oriented. Within this conceptual framework, risk management plays a pivotal role as the operational mechanism that translates governance principles into practice by GPFG standards.

This section analyzes the contribution of risk management implementation in addressing eight key risk categories and how these relate to the achievement of the five core principles of GPFG as outlined in the appendix of POJK No. 16/POJK.05/2016:

a. Transparency – ensuring risk reporting is accurate and accessible to participants.
b. Accountability – establishing clear responsibilities in the risk decision-making process.
c. Responsibility – applying risk policies that ensure program sustainability.

d. Independence – maintaining oversight structures free from conflicts of interest.
e. Fairness – ensuring all participants are treated fairly and equitably.

Through evaluating the risk management cycle, risk identification, risk assessment, strategy development, implementation, monitoring, and evaluation, this study measures the effectiveness of Pension Fund XYZ in internalizing these five pillars to guarantee sustainable pension benefits for its members.
The fundamental objective of Pension Fund XYZ is to provide income continuity to ensure the welfare of its retired participants.
Risk Management Implementation

1. Risk Management Policy at Pension Fund XYZ
   The risk management policy is designed to support the achievement of sound pension fund governance. In terms of regulatory compliance, Pension Fund XYZ strives to maintain 100% adherence to OJK regulations, including regularly updating Standard Operating Procedures (SOPs), submitting quarterly reports, conducting annual audits, and submitting mandatory reports to the OJK.
   The organizational structure complies with the latest regulation, POJK No. 35/POJK.05/2024 on Pension Fund Licensing and Institutional Requirements. The policy designates the President Director as the ultimate person responsible, supported by a clearly defined organizational structure. The Risk Management Function operates directly under the President Director, tasked with real-time risk monitoring. The Internal Audit Function, which also reports directly to the President Director, ensures independent oversight. A key challenge remains the limited human resources, which hinder the institution's ability to fully meet regulatory mandates.
1. Risk Management Process

a. Risk Identification
   Risk identification is conducted through a structured mechanism tailored to the relatively simple scope of the pension fund. The primary methods include document analysis, brainstorming sessions, and business process mapping. A major constraint is the reliance on historical data, which limits the fund's ability to anticipate emerging risks such as cyber threats or demographic changes among participants.
b. Risk Measurement
   Risk assessment is performed based on POJK No. 28/2020. The measurement approach is straightforward, considering the simplicity of the fund's operations.
c. Risk Management
   Mitigation strategies are formulated during internal meetings with the Board of Management, guided by the fund's established risk appetite. A significant gap identified is the absence of a structured hedging strategy to manage interest rate fluctuations. Control mechanisms include segregation of duties (between the investment and risk teams), automated oversight through compliance software, and the development of a disaster recovery plan outlining procedures for unexpected disruptions to pension fund operations.
d. Risk Monitoring
   Monitoring is conducted using Key Risk Indicators (KRIs), internal audits, gap analyses, and periodic reviews by the Board of Management.
e. Risk Reporting
   Risk management reports are submitted to the Supervisory Board and are directly integrated with the Risk Management Function, ensuring transparency and accountability in governance.

1. Risk Analysis of XYZ Pension Fund

Risk Profile	Individual			Consolidation		
	Inherent Risk Rating	Risk Management Implementation Quality Rating	Risk Level Rating	Inherent Risk Rating	Risk Management Implementation Quality Rating	Risk Level Rating
Strategist Risk	2	3	2	-	-	-
Operational Risk	2	3	2	-	-	-
Credit Risk	3	3	3	-	-	-

Market Risk	3	3	3	-	-	-
Liquidity Risk	2	3	2	-	-	-
Legal Risk	2	2	2	-	-	-
Compliance Risk	2	3	2	-	-	-
Reputational Risk	1	3	2	-	-	-
Composite Level			3	-	-	Risk Profile Rating

XYZ Pension Fund exhibits a moderate composite risk profile, indicating management that meets basic regulatory standards but still presents strategic vulnerabilities. The analysis reveals positive performance, particularly in Reputational Risk, reflecting a track record of consistent compliance with obligations and a minimum of reputational incidents. This stability is supported by a relatively simple business model and compliance with core legal frameworks. Two risk dimensions, credit risk and market risk, exhibit portfolio sensitivity to interest rate volatility and the pension fund's investment performance. Overall, this simple pension fund has adequate risk management to address the risks of each risk profile. This profile places the Pension Fund in a stable position, ensuring the fulfillment of short-term obligations, but with the potential for future rating enhancements to enhance pension fund risk management.

1. Good Pension Fund Governance

Implementing good pension fund governance requires a comprehensive approach encompassing the pension fund structure, oversight processes, and a culture of transparency. Accountability of the management and supervisory board is crucial. The management carries out its duties and responsibilities with prudence and prioritizes participant interests. Meanwhile, the supervisory board maintains an independent oversight principle. The role of subordinate functions, such as risk management, administration and finance, and internal audit, is crucial and well-functioning. These functions are mandatory under the latest Financial Services Authority Regulation (POJK), which aims to ensure optimal internal control, proactive risk management, and fair and sustainable policies.
The audit and compliance functions are quite optimal, as they serve as the backbone of oversight. These functions play a role in assessing the health of the Pension Fund, creating an independent and integrated function with the supervisory board, and providing direct reporting. The implementation of the compliance function is supported without obstacles, as evidenced by the established compliance guidelines. The purpose of these guidelines is to identify policies related to the compliance and internal audit functions.

Transparency and reporting are also quite optimal. Investment governance is based on the investment plan, but information technology governance still requires improvement. XYZ Pension Fund has a business plan used for pension fund operations. The Business Plan was created to direct the pension fund and carry out its functions sustainably. Challenges such as limited human resources, regulatory dynamics, and market changes require the pension fund to develop strengthening strategies such as regular outreach, the use of information technology in pension fund operations, and enhanced oversight.

Application of GPFG Principles in Risk Management

1. Transparency
   The Pension Fund has demonstrated strong transparency by ensuring easy public access to information and data. All information, including routine financial reports, is available on the website and reported regularly to the Financial Services Authority (OJK).

1. Accountability

The Pension Fund has demonstrated strong accountability through the implementation of clear compliance guidelines, standard operating procedures (SOPs), and remuneration. They ensure that each employee is assigned according to their competency, and that each department functions independently to achieve the Fund's objectives. This demonstrates clarity in the implementation of internal duties.

1. Responsibility

   The Pension Fund has demonstrated strong risk control and regulatory compliance. They implement risk mitigation mechanisms through strategies of avoiding, reducing, transferring, and accepting risk. This is evidenced by the self-assessment report on governance and risk management submitted to the Financial Services Authority (OJK). With this policy in place, the XYZ Pension Fund hopes to continue implementing risk management in the future based on prudent principles and applicable regulations.

1. Independence

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1. Equality and Fairness

   The Pension Fund has implemented the principle of transparency well, ensuring full disclosure of information to the public and guaranteeing equal rights for all its participants.

The implementation of risk management at XYZ Pension Fund has had a significant positive impact on its sustainability and the achievement of good governance. First, effective risk management supports long-term financial stability, enabling the pension fund to face external challenges and guarantee the payment of pension benefits. Second, it ensures regulatory compliance and accountability through a transparent reporting system to the Financial Services Authority (OJK), enhancing participant confidence. Finally, risk management contributes to optimal and resilient operations, enabling the implementation of effective disaster recovery and critical response plans.

The implementation of risk management also presents several negative impacts that require attention. One is the significant burden of information technology costs, which can impact the pension fund's overall finances and pose long-term challenges. Furthermore, increasing regulatory complexity can slow strategic and operational responses, especially given limited human resources. Finally, the risk of rapid regulatory changes has the potential to disrupt strategic planning and long-term guidelines, as pension funds are required to continually update their internal guidelines by the latest regulations.

Several driving factors contribute to the effectiveness of risk management implementation in achieving good pension fund governance. Binding OJK regulations ensure compliance and avoid sanctions. A strong organizational culture helps socialize policies and enhances human resource understanding of risk management and good governance. Stable funding quality and thorough financial planning ensure operational sustainability. Furthermore, the effective implementation of Good Pension Fund Governance (GPFG) is a key driver of successful risk management. Transparent reporting, accessible to all stakeholders, enhances accountability and trust. Finally, external audits by third parties registered with the OJK ensure the objectivity and credibility of analysis results, supported by a regulated management team, an independent supervisory board, and an internal audit.

This implementation also faces several inhibiting factors. Limited human resources pose a challenge, particularly given the complex regulations that a relatively modest pension fund must comply with. Human resources competency development through training is necessary. Furthermore, rapid technological developments, coupled with limited information system development, make XYZ Pension Fund vulnerable to infrastructure disruptions or attacks. Finally, frequently changing regulations require XYZ Pension Fund to constantly update its internal guidelines, which can be a burden.

Conclusion

A case study of the XYZ Pension Fund revealed that risk management implementation is a key pillar in achieving Good Pension Fund Governance (GPFG). XYZ Pension Fund has strived to comply with regulations set by the Financial Services Authority (OJK), including adopting active supervision, updating risk policies, and conducting risk-based internal audits. Thanks to these efforts, the XYZ Pension Fund's health is classified as "Fairly Healthy," demonstrating its ability to adapt to changing business conditions and external factors.

Nevertheless, several obstacles remain to be overcome, such as limitations in information systems, difficulties in setting appropriate risk limits, and limited human resource capacity. Strong management commitment, regulatory compliance, and a risk-aware culture are driving factors for success. However, inadequate information systems and suboptimal control mechanisms remain significant barriers. Other challenges include reliance on historical data to identify risks, the lack of a structured hedging strategy, and the complexity and rapid pace of regulatory change.

Overall, strengthening risk management is a crucial step in achieving accountable and sustainable pension fund governance. The XYZ Pension Fund's composite risk profile is currently at a moderate level, indicating that its management has met basic regulatory standards, but still leaves some strategic vulnerabilities that need to be addressed.

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