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EUROPEAN INSURANCE

AND OCCUPATIONAL PENSIONS AUTHORITY

European solvency regulation for pension funds

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- Revision IORP (Institutions for Occupational Retirement Provision) Directive
 - o Background
 - o IORP II
 - o EIOPA Opinion to EU institutions
- First pensions stress test

- April 2011 - Commission's Call for Advice
 - Harmonised solvency regime for IORPs
- February 2012 - EIOPA's advice
 - I. Valuation and solvency requirements
 - II. Governance and supervisory review
 - III. Transparency requirements
- July 2013 – Report on quantitative impact study (QIS) for pensions
 - EIOPA concluded that further work is needed on solvency of IORPs

Revision of the IORP Directive (IORP II)



May 2013	Commission announcement: I. Solvency rules not in IORP II
March 2014	Commission's IORP II proposal: II. Governance requirements III. Information requirements
December 2014	Council's general approach
January 2016	European Parliament ECON Committee's Report
Now	Trilogue negotiations

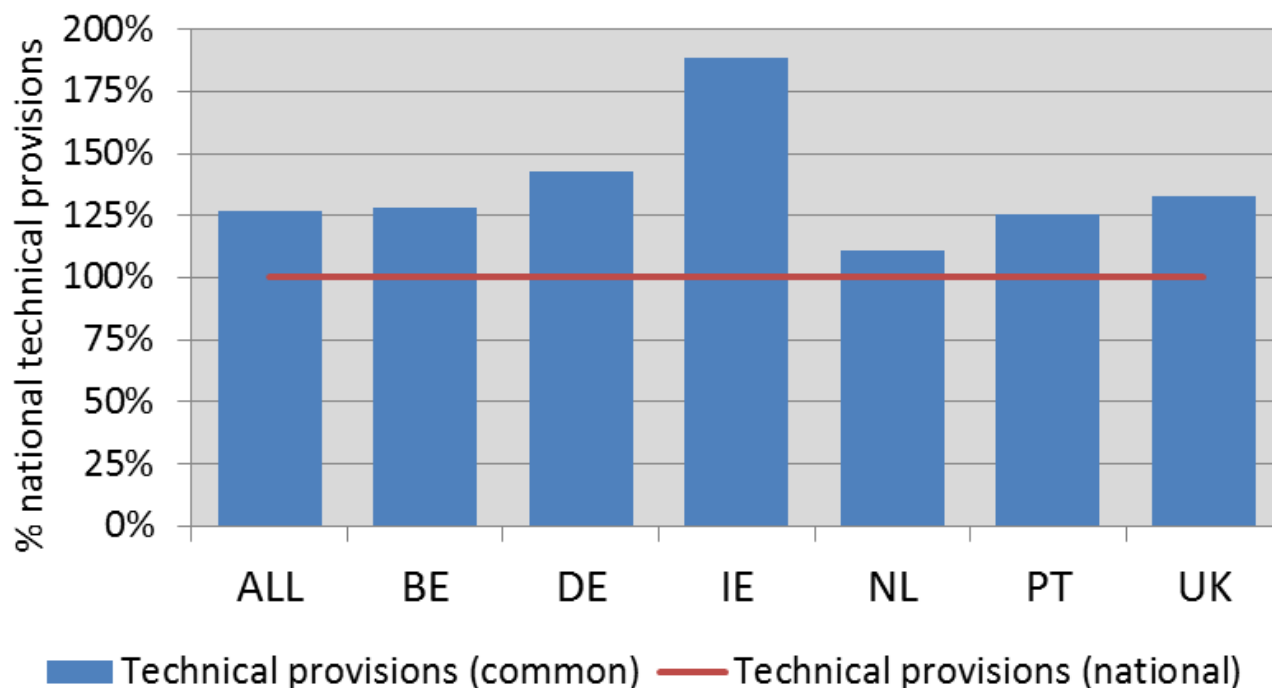
Three years of further work on solvency of pension funds

- 2013 – Quantitative impact study (QIS)
- 2014 – Consultation paper
 - Valuation of technical provisions and sponsor support
 - Six examples of supervisory regimes
- 2015 – Quantitative assessment (QA)
 - BE, DE, IE, NL, PT and UK
- Today – Opinion to the EU institutions
 - Issued on EIOPA's own initiative
 - Not intended to interfere with IORP II proposal

- Maintain current funding requirements in pillar 1
- Common framework in pillar 2/3 of IORP Directive
 - **Market-consistent balance sheet**, incl. all security and benefit adjustment mechanisms
 - **Standardised risk assessment** based on common, pre-defined stress scenarios (0.5% probability of occurrence)
 - **Public disclosure** of main outcomes accompanied by appropriate explanations
 - **Sufficient powers for NSAs** to take supervisory action based on conclusions risk assessment
 - **Proportionate application**, allowing for simplifications

Objective view of pension obligations

- Heterogeneous discount rates range from risk-free market rates to expected returns on assets
- Market-consistent technical provisions 27% higher than under national regime

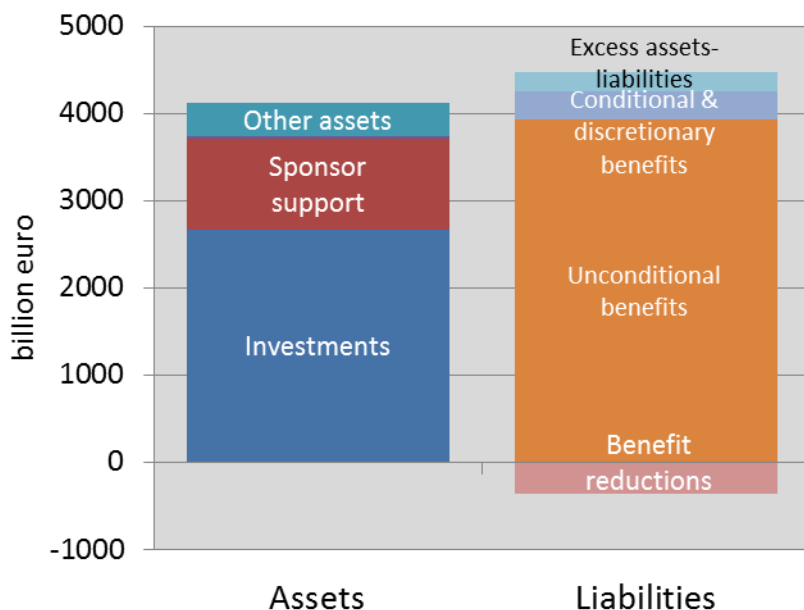


Risks and vulnerabilities

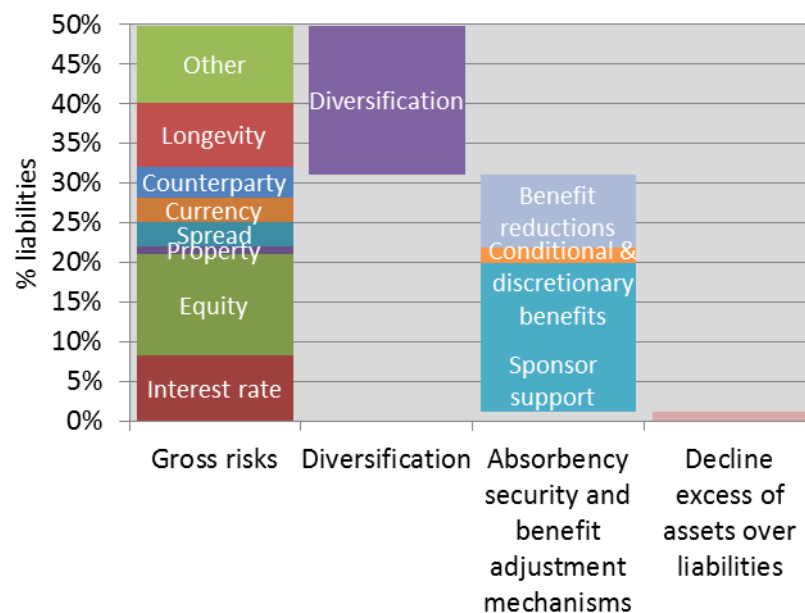


- Reliance sponsor support (€1,037bn) and benefit reductions (€363bn)
- Exposure to mostly equity, interest rate and longevity risk
- Sponsor support doubles to €1,737bn and benefit reductions to €727bn under 0.5% probability shock scenarios

Common framework's balance sheet



Standardised risk assessment



- Protection of members and beneficiaries
 - Better understanding of vulnerabilities and risks
 - Transparency and scope for supervisory action encourage dialogue and timely adjustments
- Functioning of internal market
 - Supervisory coordination
 - Identification and prevention of regulatory arbitrage
 - Cross-border activity
 - Cross-sectoral consistency with insurance framework

Objectives of the first pensions stress test at EU level

- To **produce a comprehensive picture** of the heterogeneous European occupational pensions landscape
- To **test resilience** of defined benefits (DB) and hybrid pension schemes against adverse market scenarios and increased life expectancy
- To **identify potential vulnerabilities** of defined contribution (DC) schemes
- To reveal areas that require **further supervisory focus**

Participation



- 17 European Economic Area countries with material IORP sectors took part in the exercise
- Threshold for participation: EUR 500 million in assets

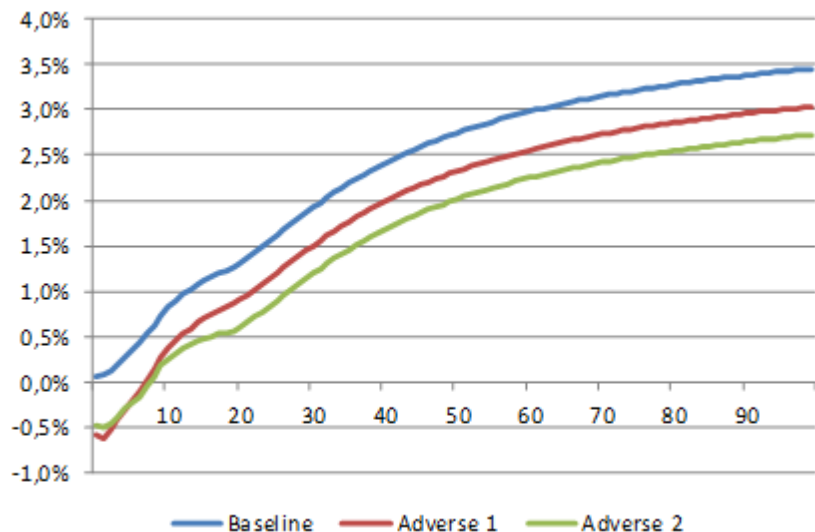
DB/hybrid core module	BE, CY, DE, DK, ES, IE, IT, LU, NL, NO, PT, SE, SI, UK	140 IORPs	Over 50% of total assets in almost each country
DC satellite module	AT, CY, ES, IS, IT, NL, PT, SK, UK	64 IORPs	Over 50% of total assets or number of members in almost each country

Overview of adverse scenarios for DB/hybrid module

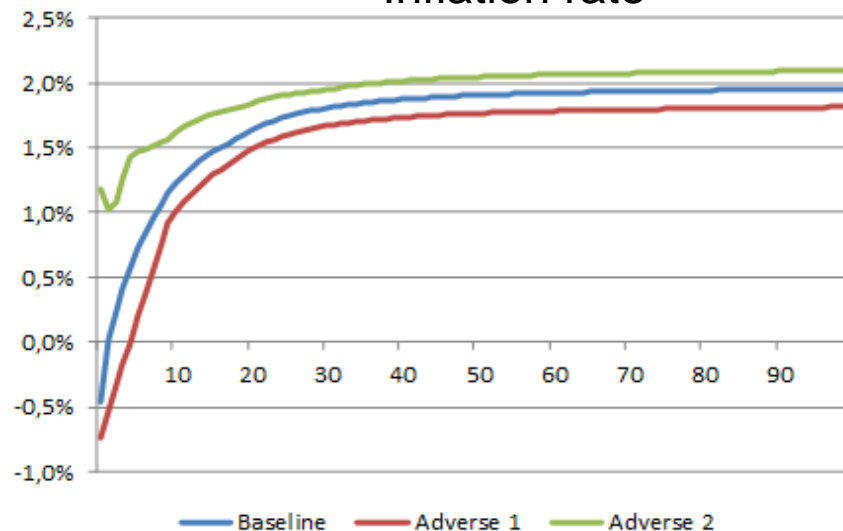
Main stress impacts in adverse market and longevity scenarios

	Adverse market 1	Adverse market 2	Longevity
EU property (price downward shock)	-55%	-36%	-
EU stock prices (price downward shock)	-45%	-33%	-
EU government bonds (spread widening)	120 bps	67 bps	-
Corporate bonds (spread widening)	120 bps	204 bps	-
Euro-dollar exchange rate	+20%	-2%	-
Mortality rates (permanent decrease)	-	-	- 20%

Interest rate



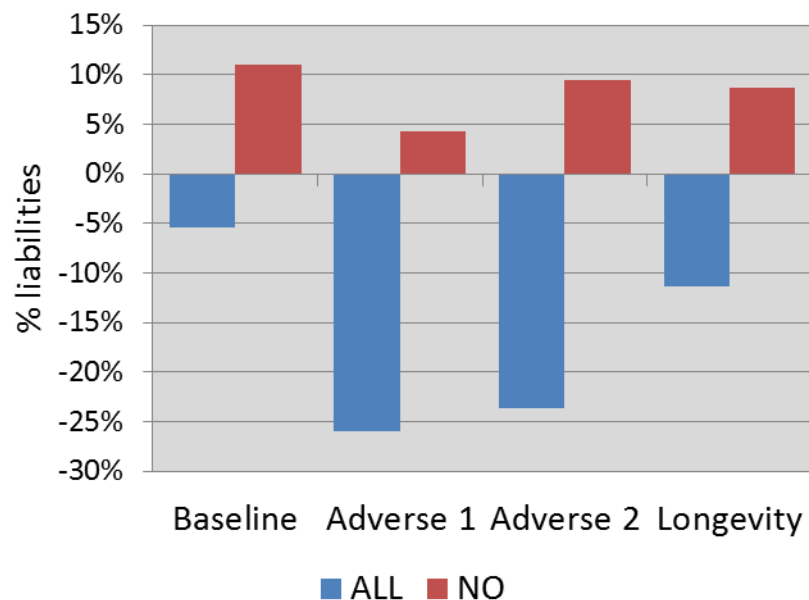
Inflation rate



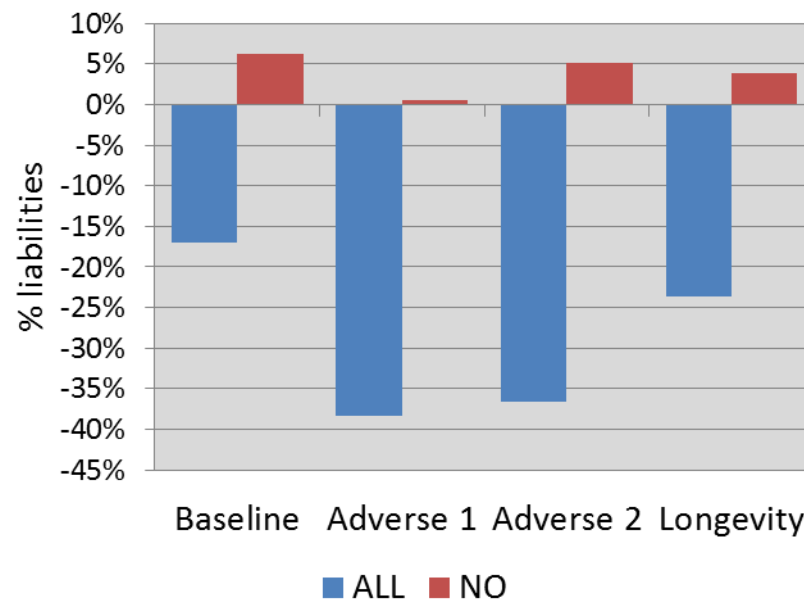
Impact stress scenarios on national balance sheet

- IORPs more vulnerable to a severe drop in assets prices (adverse scenario 1)
- IORPs relatively more resilient to the permanent decrease of 20% in mortality rates than to market adverse scenarios

Excess of assets over liabilities



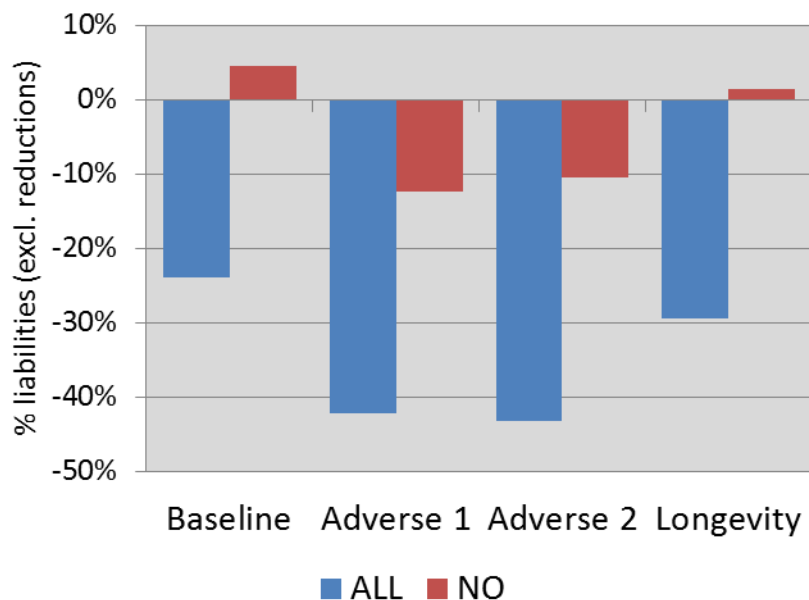
Surplus over capital requirement



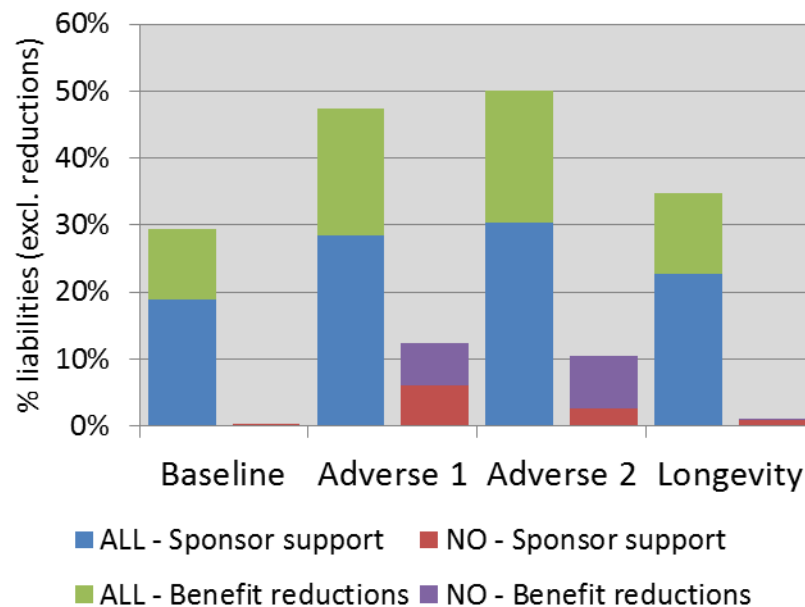
Impact stress scenarios under Common Methodology

- IORPs more sensitive to an abrupt drop in interest rates and increase in inflation rates (adverse scenario 2)
- Shortfalls are covered by future sponsor contributions and/or benefit reductions

Excess of assets over liabilities



Sponsor support & benefit reductions



Note: Excess of assets over liabilities excludes sponsor support and benefit reductions

- To develop a deeper understanding of the **impact** of the pressures in the pensions sector on **financial markets** and the **real economy**
- To continue working on a **common market-sensitive methodology** for the purposes of stress testing
- To continue providing an up-to-date picture of the European Union pensions landscape, including the **different prudential mechanisms** used to deal with the identified risks and vulnerabilities



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Thank you

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