

# Alternative simplified approach to value Sponsor Support

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# General

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**Responding to the Cfa does not imply we now agree with the HBS approach**



## If EIOPA would continue on this SII route...

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- **We strongly advise the further simplification of the alternative approach for valuing sponsor support**
- **We believe the actual proposal is cumbersome to work with and is still unsuitable for**
  - IORPs with a “best effort” commitment
  - *Small and medium sized IORPs → proportionality, cost-effectiveness*



## If EIOPA would continue on this SII route...

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- ***HBS is based on elements which do not follow a same approach across Europe***
  - ***Different methods/assumptions to value sponsor support***
  - ***In case of alternative approach for valuing sponsor support***
    - ***Local GAAP - no common rules across Europe unless IFRS applies***
    - ***Recoveries - driven by national legislation***
    - ***Periods of additional contributions for sponsor support - can be overruled/limited by national legislation***



## If EIOPA would continue on this SII route...

- **Credit ratios (income cover/asset cover) for other than 1-1-1 (1 employer – 1 pension plan – 1 sponsor) situations**
  - **Industry wide/multi employer plans**
    - **Availability of data**
    - **Access to accurate, complete, consistent data?**
    - **Complexity**
  - **5 employers, each 2 pension plans**
    - » **Some plans are organized via a group insurance (no HBS?, no sponsor support?), others via a IORP**
    - » **Some plans are overfunded, others not**
    - » **The investments follow different asset allocations**
    - » **The demographical characteristics of the employees (duration of the liabilities) is very different**
    - » **Not all employers act in solidarity with the others**
    - » **Etc...**



# If EOPA would continue on this SII route...

- **Multinationals**
  - *Availability of data*
  - *Access to accurate, complete, consistent data?*
  - *Complexity*
    - *What if different companies all around the globe are involved? Assume a company with subsidiaries in EU, US and Asia Pacific*
      - » *How to avoid gearing effects?*
      - » *What is legally enforceable or not?*
      - » *A lot of the decision making is discretionary*
      - » *Intercompany loans, transactions, etc... make it valid to look at consolidated level*
- **But also**
  - **Not for profit organizations**
  - **Public authorities**
  - **Self employed**
  - **TAX impacts?**



# If EIOPA would continue on this SII route...

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- **Credit ratios**

- **Information needed to determine credit ratios (income cover/asset cover) → timing of data**
  - **End of sponsor's accounting year**
  - **Sponsor's information publicly available**
  - **IORP's need for this information**
  - **→ x months or even one year delay...? Usefulness?**



# If EIOPA would continue on this SII route...

- **Sponsor strength**

- Is based on a financial perspective only and discourages sponsors open for innovation and investments → impact on EU economical development/growth
- Will the information about sponsor support, sponsor strength become publicly available? This might impact the sponsor's reputation and credibility
  - It is possible that a big company sponsoring a big IORP gets a label of “weak sponsor” → immediate impact on the sponsor's credibility?
- Are 6 credit steps enough? There is an enormous gap between weak and very weak.





# If EIOPA would continue on this SII route...

- **Contribution periods**

- Does national regulation overrules the periods as set by EIOPA?
  - At EIOPA level market consistent approach = high volatility in the results  
→ requires looser rules in terms of recovery periods
  - At national level strict short term recovery periods
  - → the combination can cause a lot of pain to the sponsor's in already stressful periods

- **Affordability/willingness**

- A company that plans investments or innovation might prefer the investments above the sponsor support. This information is not visible and often is not disclosed
- Who determines sponsor support? The IORP or the company?
  - → how to avoid the available wealth/money is used twice
  - Immediate impact once the investment/innovation is started



## If EIOPA would continue on this SII route...

- **Probability of default is still based on credit ratings which**
  - Are driven by historical figures
  - US focused
  - Dependent on the credit agency used
  - Measure for illiquidity or insolvency
  
  - Do we have an alternative?
  - What is the value of the outcome?



## If EIOPA would continue on this SII route...

- Probability of default seem to be much higher than those used for the QIS (and SII). Why?

– AAA	0,002%	→	Very strong	0,1%
– AA	0,010%	→	Very strong	0,1%
– A	0,050%	→	Strong	0,2%
– BBB	0,240%	→	Mediumstrong	0,5%
– BB	1,200%	→	Medium	1,6%
– B	4,175%	→	Weak	4,5%
– CCC or lower	1,200%	→	Very Weak	26,8%



## If EIOPA would continue on this SII route...

- **We notice a mismatch between the reference period to determine the probability of default and the contribution period, e.g.**
  - **Very strong sponsor → contribution period 1/3/5 years (cfr. Table 6)**
  - **Probability of default based on suggested 1yr period based on 10yr cumulative rate divided by 10**

### **VERSUS**

- **Very weak sponsor → contribution period 20/30/50 years (cfr. Table 6)**
- **Probability of default based on suggested 1yr period based on 1st year rate**



## If EIOPA would continue on this SII route...

- **Loss absorbing capacity of sponsor support**
  - Still an iterative process?
- **Sensitivity analysis**
  - Too burdensome if to combine with SCR
  - Can this be used as a short cut for the complicated and iterative SCR calculation?



## Conclusions

- **We do not agree with the Cc SII approach in this proposal**
- **If despite all issues and scepticism EIOPA would continue on this SII route we need simple solutions**
  - **That fit the IORPs different from a 1-1-1 situation**
  - **That takes into account the limited resources of the many small and medium sized IORPs**
    - **Less complex (e.g. timely access to accurate/complete/consistent data, ...)**
    - **Less burdensome (e.g. iterative process, ...)**
  - **That supports further growth of occupational pensions in EU**
  - **That does not hamper EU economical development and growth**

