



08.

*Position OPSG  
on EIOPA Stress Test 2017*

/////////  
**Dr. Stefan Nellshen,  
Bayer-Pensionskasse VVaG,  
Leverkusen,  
Member of the OPSG**

**Leverkusen, 6<sup>th</sup> March 2018**





# Disclaimer

The following information should not be construed as advice or an offer, nor does it constitute any instruction, recommendation or motivation in respect of specific actions. Interpretations or opinions in this presentation are solely reflections of the author at this present time.

The following case studies are fictitious and are presented solely for the purpose of aiding understanding. They should not be construed as substitutes for individual advice. Although all of the elements of this presentation, including calculation methods, representations, methods, figures and examples, have been compiled to the best of our knowledge, neither the author nor Bayer-Pensionskasse VVaG, Bayer AG or any other company within Bayer Group accepts any warranty or liability for their correctness.



# Content

- ❑ Introductory Remarks
- ❑ General Remarks regarding Methodology
- ❑ Comments regarding the Results



# Introductory Remarks

- OPSG clearly appreciates execution of stress test
  - ✓ using the right methodology it can give valuable inside regarding the impact of stress scenarios on the pan-European occupational pension landscape
  - ✓ can be a piece of IORP's risk assessment
  
- EIOPA has a macro-prudential role
  - ➔ no regulatory actions against single IORP's (nor other consequences on a micro-prudential level)



# General Remarks regarding Methodology (1)

- ❑ OPSPG appreciates, that cash-flow analysis shall be further enhanced; much more suitable than the Common Balance Sheet (CBS) approach
  - ➡ However: no „parallel run“ forever
- ❑ there should be no concrete assessment of impact of stress scenarios on sponsor companies
- ❑ IORP's should share some results with their beneficiaries in case there is a significant risk of benefit reductions after sponsor support and pension protection schemes
  - ➡ can be part of IORP's risk assessment communication (IORP II)
- ❑ although improvements have been reached compared with last stress-test: still high level of complexity; more generous time-frame for conducting advisable



## General Remarks regarding Methodology (2)

- ❑ also some smaller IORP's should be included (50 % of assets is not a good measure for representativeness)
- ❑ inclusion of DC plans is appreciated
- ❑ unrealistic scenarios should be avoided: “double-hit-scenario” as used here is not really plausible (but of course, scenarios must be very adverse)
- ❑ market value of sponsor support is still very problematic to determine for IORP's having a high number of small sponsor companies
- ❑ cash-flows from sponsor support should be taken into account also in the cash-flow-analysis (if legally enforceable)
- ❑ OPSG would like to enter into discussion with EIOPA regarding the further enhancement of cash-flow-analysis
- ❑ OPSG appreciates the omission of solvency capital requirements



## General Remarks regarding Methodology (3)

- ❑ OPSG appreciates simplifications, which have been made, and the possibility to use simplifications without determining degree of model error ex ante
- ❑ deriving future trends for mortality can be problematic (e.g. if cohort-based tables are not used)
- ❑ risk-margin should be completely excluded in case of non-for-profit-IORP's (since these do not have to earn cost of capital)
- ❑ OPSG still sees the CBS approach as not being suitable (reasons sufficiently explained in the past)
- ❑ Stress test should be cash-flow-based and (more) principle-based (in order to take all important national and individual specifics into account)
- ❑ some flexibility must be given to use alternative models (if proven, that they are more suitable)
- ❑ results should not contradict national stress-tests





# Comments regarding the Results (1)

- ❑ OPSPG feels a lack of representativeness:
  - participation rate only 39 % (influenced by UK)
  - in many member states smaller institutions not included
  - “decomposition of sample” differs “significantly from the composition of the overall European IORP sector”
  
- ❑ CBS deficit of 38 % after stress looks exaggerated given that stress scenario is by far not realistic
  
- ❑ Pre-stress deficit of 20 % (CBS) is
  - a) largely driven by UK
  - b) influenced by valuation conventions significantly differing from national ones (general weakness of CBS methodology)





## Comments regarding the Results (2)

- ❑ IRR needed to finance all future unconditional benefits
  - a) pre-stress: 2.1 % = only 0.3 % higher than risk-free rate
  - b) after stress: 2.8 % => in this scenario normally risk-premiums would have increased
- ❑ Since results differ considerably from country to country and from IORP to IORP no valid conclusions can be made regarding the financial situation of single IORPs
- ❑ Comparison between market value of sponsor support and market value of sponsor company tells nothing about probability that support can be given
- ❑ Argumentation regarding spill-over effects into real economy too general, unspecific and self-evident
  - => more detailed research also regarding financial stability needed



## Comments regarding the Results (3)

- ❑ Integration of ESG-aspects into financial management of IORPs is necessary, but: integration of such aspects into stress test is more than problematic and should be avoided!
- ❑ OPSG suggests to report on two levels: with and without UK
- ❑ Some members feel that EIOPA draw too strong conclusions out of the stress-test (esp. in the press-release)



*Thank you for  
listening!*

