

# Update on stress test for IORPs

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## Two-stage approach



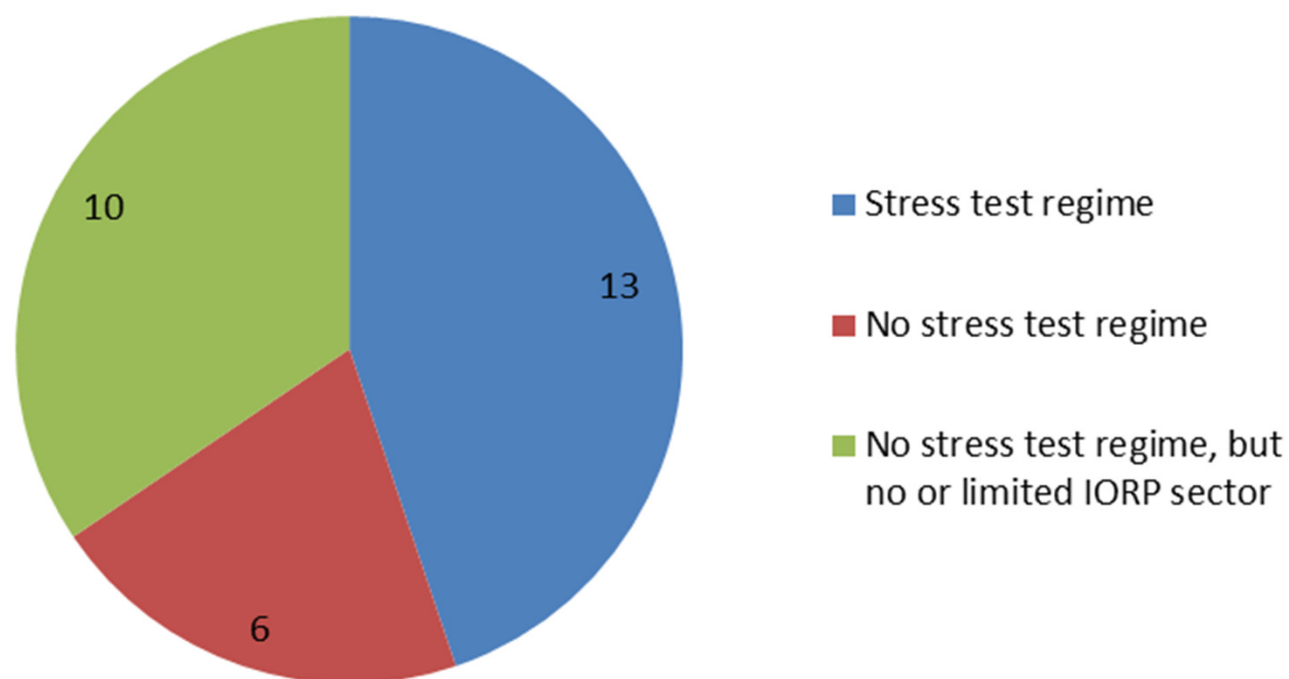
- **Stage 1** - Preparatory work in 2014
  - o Role of IORPs in financial stability
  - o Methodologies and specifications stress test
- **Stage 2** - Stress test exercise in 2015
  - o EU-wide, including DB, hybrid and DC
  - o National as well as common valuation standard
  - o Taking into account the specificities of IORPs

# Why pensions stress test?



- EIOPA's regulation
  - initiate and coordinate Union-wide stress tests
  - ensure an as consistent as possible methodology
- Resilience to adverse market developments
- Systemic relevance
- Interconnectedness of economies and markets
- Enhance stress tests in other sectors
- Disseminate good practice

# Incidence of pensions stress test regimes in EEA



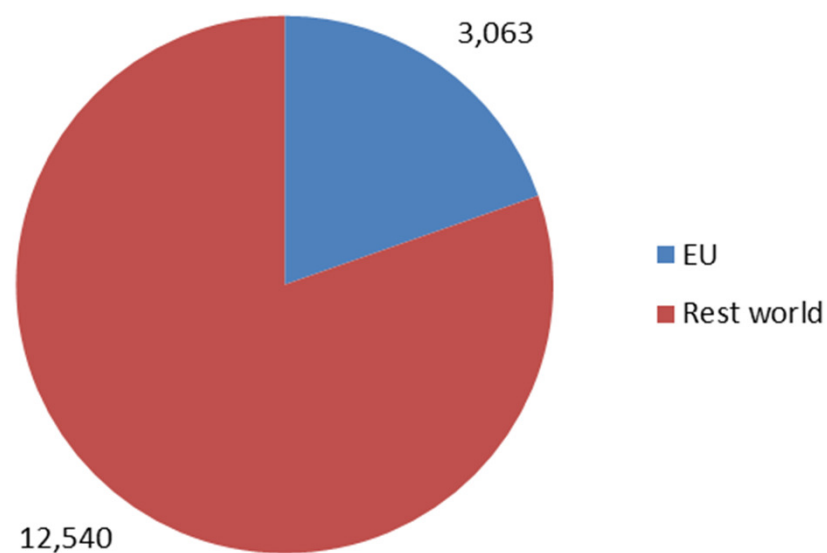
Source: EIOPA survey (2013)

# Role of IORPs in financial stability

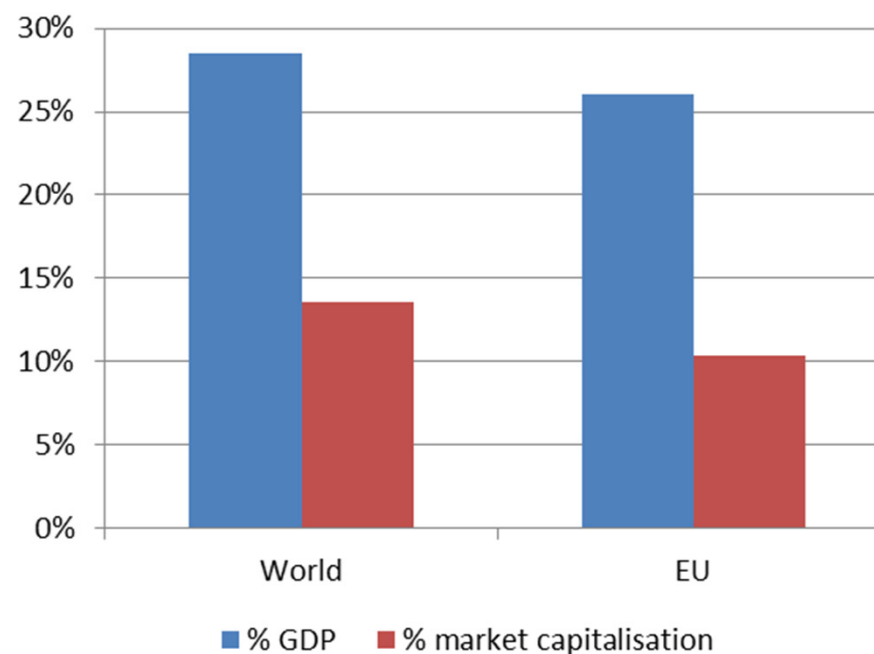
- Impacted by adverse developments
  - o Market risks
  - o Liquidity risk
- Transmission channels
  - o Sponsor contributions and pension benefits
  - o Government finances
  - o Other financial institutions via direct linkages
  - o Financial markets

# IORPs are large institutional investors

**Pension fund assets in EU and rest of the world (EUR billion)**



**Pension fund assets relative to GDP and debt & equity market capitalisation**



Sources: EIOPA , IMF and OECD

# Data collection on investment behaviour of IORPs

Was investment policy counter-cyclical or pro-cyclical during crisis ?

- IORP data collection over past ten years
  - o Asset allocations, net buying/selling, funding positions
- Survey with background questions
  - o Factors impacting investment behaviour
    - Responsibility, i.e. IORP's board or plan members
    - Risk tolerance
    - National prudential regime's and accounting standards
    - Derivatives, securities lending, repo's
    - Transfers and/or redemptions of pensions
  - o Description of investment policy and trends

# Methodologies and specifications stress test

- Dimensions stress test framework
  - o Type of scenarios
    - economically consistent scenarios
    - statistical single/multi-factor scenarios
  - o Specific risk factors
  - o Time horizon of scenarios
    - instantaneous
    - multi-year shocks
  - o Top-down versus bottom-up exercise
  - o Common balance sheet and role of security and benefit adjustment mechanisms
- Methodology micro simulation DC plans



- Q4 2014 – Data collection investment behaviour
- Q1 2015 – Report role of IORPs in financial stability
- mid-2015 – IORP stress test (together with 2<sup>nd</sup> QIS)
- end-2015 – Report on IORP stress test



**Thank you**

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