# SPEECH

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Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Meeting of Dutch Pension Funds
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Thank you for this opportunity to speak to you. I want to focus mainly on EIOPA's forthcoming advice to the Commission on the review of the IORP directive.

Let me start though by acknowledging the success of the Dutch pension system. Firstly, in securing one of the lowest levels of pensioner poverty anywhere in the world. The level of pensions relative to earnings in the Netherlands is one of the highest in the OECD – almost 90 per cent compared with an OECD average of just over 60 per cent.

Secondly, in the balance in the sources of pension funding. Roughly half of Dutch pension expenditure is from public sources and half from private sources. That balance increases the chances of pensions being sustainable.

Of course you are aware of the challenges posed by ageing populations and financial constraints. Again, though the agreement reached in the Netherlands between employers, unions and government in June 2011 recognises these challenges by for example linking the retirement age for state pensions and occupational pensions to life expectancy.

Let me turn to EIOPA. As you know, we are currently drafting the advice to the Commission on a review of the IORP directive. There are four areas I would like to cover tonight. Firstly, to describe the process by which we will deliver the advice. Secondly, to encourage you and others to look at the advice as a whole. Thirdly, to cover the areas of capital requirements, which has caused the most controversy. Finally, to encourage you to be open-minded about the gains to a Europe-wide approach.

The process of providing advice is framed by the European Commission. The Commission decided that this was the right time to review the IORP directive. It set the timetable, a very tight one if I may say so! It also set the questions for EIOPA to answer in its advice. This is important: a typical question sought advice on whether articles of the Solvency II directive should be amended or removed to adequately address the specificities of IORPs. That is of course asking EIOPA to consider its advice from the point of view of Solvency II, albeit modified for IORPs.

EIOPA will provide concrete advice in response to the Commission. In our recent consultation we have been blessed with comments! At the moment we are considering the 170 responses we received. We are grateful for these, including the one from the Federation of Dutch Pension Funds and from many Dutch funds in their own right.

It is important to note that this advice is only the first step in the process and that further reflections will be made taking into account the results of the quantitative impact study which a number of NSA's, including a large contribution from the Netherlands, are helping EIOPA to carry out. The advice will also acknowledge there are issues which, though they have a technical dimension, are essentially political. The question of whether to adopt a common standard for solvency of IORPs throughout the EU is an obvious example.

The advice will be a stage on a journey not an abrupt outcome. Many details, particularly about how to incorporate different pension security mechanisms need still to be worked on. I must emphasise that where there are genuine differences between IORPs and insurance products these will need to be recognised. One example, of particular interest to this audience, is the extent to which pension benefits can be reduced in times of financial stress.

I would urge everyone to look at the advice as a whole. For example the governance of IORPs is vital: pension schemes look after their members' money, sometimes for decades. It is vital that those who run IORPs are individuals of competence and integrity. The starting point of the advice will be that those who look after pension members' money should be subject to the same standards as those who look after insurance policyholders' money. Therefore:

- Individuals should be fit and proper
- IORPs should be subject to robust internal and external controls in areas such as risk management, internal audits, appointments of custodian and depository.

So far there has been a large degree of consensus in this area.

The importance of proportionality in this area must also be emphasised.

Other areas covered by the advice are on the scope of the directive, and whether some definitions can be simplified: for example what is a cross-border scheme, what is the scope of prudential regulation.

The advice is moreover not only about what legislation should apply to IORPs but about the supervisory framework. For example that the potential pro-cyclical impact of their decisions should be considered by supervisors. This of course is an area where the coordination of decisions at a European level may be particularly effective.

The advice also covers the vital area of defined contribution schemes. The Call for Advice notes that today nearly 60 million Europeans rely on a defined contribution scheme for an adequate retirement income. EIOPA's aim is that members should have confidence in their DC IORP regardless of where in the EU it is located.

One issue I would like to stress is what information should be provided to members and beneficiaries. Where members bear the investment risk, information is vital to helping them make appropriate decisions.

EIOPA proposes a Key Information Document which would contain:

- a brief description of the scheme's objectives and investment policies;
- information on performance;
- costs and charges;
- a risk/reward profile and the time horizon adopted for the investment policy;
- contribution arrangements and in particular contribution commitments of the employer and the employee as a percentage of the salary.

I am convinced that the Key Information Document will be a huge step towards more transparency and confidence in the occupational pensions field. It is not intended, I must stress, to lead to a reduction in standards in those member states where there are already substantial requirements to provide information to members.

Let me turn to capital requirements. This has been one of the most contentious areas in our consultation.

EIOPA's starting position is protection of pension scheme members. We make no apology for wanting all occupational schemes throughout Europe to have sufficient capital to meet their promises under a reasonable, but realistic and transparent, framework.

EIOPA supports the following principles for the valuation and capital requirements of IORPs:

- Transparency i.e. the derivation of how a valuation was reached should be clear
- Comparability – it should therefore be possible to compare the valuation of one IORP's liabilities with another, and likewise the value of the assets which support that liability
- Comprehensiveness – all potential security mechanisms should be included

EIOPA therefore recommends that:

- Valuations should be market consistent
- The valuation should include the actuarial value of all enforceable obligations of the IORP
- The "holistic balance sheet" should be the means in principle of including all security mechanisms
- The adoption of the holistic balance sheet in practice is subject to further investigation and in particular, the development of a methodology for the quantification of the security mechanisms, and whether that methodology is cost effective

The "holistic balance sheet" approach we propose reflects the different means by which pensions throughout Europe provide security for their members. In some member states for example the sponsoring employer plays a key role and this should be recognised. In others pension protection schemes play a role. I have already mentioned the need to have regard to the position where benefits are genuinely discretionary.

As the European authority for both occupational pensions and insurance we will take a consistent approach to both sectors. But consistent does not mean identical. The holistic balance sheet approach we propose recognises the differences between pensions and insurance in areas such as sponsor support and pension protection schemes.

In closing, let me say that EIOPA believes that there are gains to a European and ambitious approach to pensions. We need a new regulatory framework that enhances consumer confidence by introducing risk sensitive requirements, fostering good risk management and reinforcing transparency. It is surely beyond dispute that there is potential to improve the internal market in a sector which has 140,000 pension schemes of which only 84 are cross-border. We would need to explain why, if a Europe-wide approach can be agreed for insurance, and for other financial products, pensions are so different that this is not possible. At the end of the day employers and employees will gain from making it easier to offer pension schemes cross-border.

I believe that in a risk-based solvency system for the IORP's it is no longer possible to ignore the market value of pension liabilities. We have abundant lessons of the consequences of mispricing risk. Only by recognizing the real value of pension liabilities we can take measures to increase the future sustainability of the pension promises and improve the risk management processes applied.

However, this change needs to be done in an intelligent manner, avoiding disruptions and providing the appropriate transition measures.

Thank you for listening, I look forward to questions during the round table discussion.