

# High-level overview of the EIOPA advice on the review of the IORP Directive

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- EIOPA's Advice as a whole package covering areas:
  - ✓ Scope
  - ✓ Governance
  - ✓ Cross-border activity
  - ✓ Supervision
  - ✓ Information to members and beneficiaries
  - ✓ Holistic balance sheet
- Limitations of the EIOPA's Advice:
  - ✓ Technical not political
  - ✓ EIOPA's legislation remit
  - ✓ Limited to questions asked by the Commission
- EIOPA's Advice approach:
  - ✓ Europe-wide
  - ✓ Future-oriented

- Only dealing with **occupational** pensions
- Must not forget that members and beneficiaries of **all** types of pensions should be protected
- Protection of members and beneficiaries in pension schemes falling outside the current scope:
  - ✓ Pillar 1-bis schemes
  - ✓ Individual pension schemes

# Advice as a whole package: Governance



- High level of consensus
- Importance of proportionality
- IORP's management:
  - ✓ competence and integrity
  - ✓ fit and proper
- IORP's robust internal and external controls:
  - ✓ risk management
  - ✓ internal control
  - ✓ audit
  - ✓ appointment of a custodian
  - ✓ appointment of a depository

## Advice as a whole package: **Cross-border activity**



- Benefits of Pan-European pension schemes for employers and employees
- Internal market - potential to improve
- 140,000 pension schemes of which **only** 84 are cross-border
- Development of the internal market easier and quicker with **convergence** towards common standards and processes

# Advice as a whole package: Supervision



- Set of principles on ring fencing assets and liabilities
- Protection of members and beneficiaries and sound and prudent management as objectives of supervision
- Potential pro-cyclical impact of supervisors decisions
- Common set of principles for supervision:
  - ✓ **Prospective** approach
  - ✓ **Risk-based** approach
  - ✓ **Proportionality** in implementing the principles
  - ✓ **Transparency** of conduct, structures and processes
  - ✓ **Increased harmonisation of information** to supervisors
- Power to carry out stress tests on IORPs

## Advice as a whole package: Information to members



Information to members and beneficiaries of defined contribution schemes should be:

- **Correct** – regularly updated
- **Understandable** – all documents written in a way and having a lay-out:
  - ✓ clear
  - ✓ understandable
  - ✓ useful
- **Not misleading** – members should not receive information that gives unjust impression of the functioning of the pension scheme

# Key Information Document (KID)

elements:



- Identification of the IORP
- Brief description of objectives and investment policies
- Information on performance
- Costs/charges
- Risk/reward profile and/or time horizon of the investment policy
- Contribution commitments of employer and employee as a % of the salary
- Practical information - allowing MS to add its specifics
- Cross-references to other relevant documents



# Advice as a whole package: **Holistic balance sheet (HBS)**



- Principles for the valuation and capital requirements of IORPs:
  - ✓ Transparency
  - ✓ Comparability
  - ✓ Comprehensiveness
- Valuations should be **market consistent**
- Incl. actuarial value of all enforceable obligations
- Incl. all security mechanisms
- HBS adoption subject to:
  - ✓ Further investigation
  - ✓ Development of a methodology for the quantification of security mechanisms and if it is cost-effective

- Different ways of providing secure pension provision throughout Europe:
  - ✓ key role of the sponsoring employer or
  - ✓ key role of the pension protection schemes
- Prudential supervisory assessment tool rather than a “usual” balance sheet based on general accounting standards
- Conditional on the results of the Quantitative Impact Study (QIS)

- Results - end of Q3 2012 fed into impact assessment conducted by the Commission
- Limited to the impact of quantitative requirements
- Development of methods and technical specifications:
  - ✓ 7 MS participating:  
Belgium, Germany, Ireland, the Netherlands, Portugal, Sweden, the United Kingdom
  - ✓ European level:  
methods, technical specifications, final report
  - ✓ Member State level:
    - national supervisory authority (real data, aggregate data)
    - approaching real IORPs

- Goal: Comprehensive Europe-wide supervisory framework
  - ✓ Robust solvency requirements
  - ✓ Strong governance structures and processes
  - ✓ Enhanced transparency requirements
  
- EIOPA's Advice:
  - ✓ Whole package
  - ✓ Europe-wide
  - ✓ Future-oriented
  - ✓ First stage of a long process

- Need to find the adequate balance between different objectives like **security and affordability**
- Continue to use valuations and risk assessments that deny economic reality is not an answer:
  - ✓ Does not contribute to a better management of the risks
  - ✓ Fails to reflect the true risks that the different stakeholders are running
  - ✓ Helps to preserve schemes that are clearly unsustainable postponing the taking up of measures in due time
  - ✓ Inevitable consequences in the short to medium term - lower pensions for the members and beneficiaries, higher concentration of costs for employers and ultimately intergenerational conflicts

- We need to maintain proper consultation processes and appropriate dialogue with all interested stakeholders
- We need sufficient time to test and find the most suitable solutions
- We need to properly look at the necessary transition periods for the schemes already in place
- But we should not miss this historic opportunity

***"The best way to predict the future is to create it."***

***Peter Drucker***



Thank you

Gabriel Bernardino  
Chairman of the European Insurance and Occupational  
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