

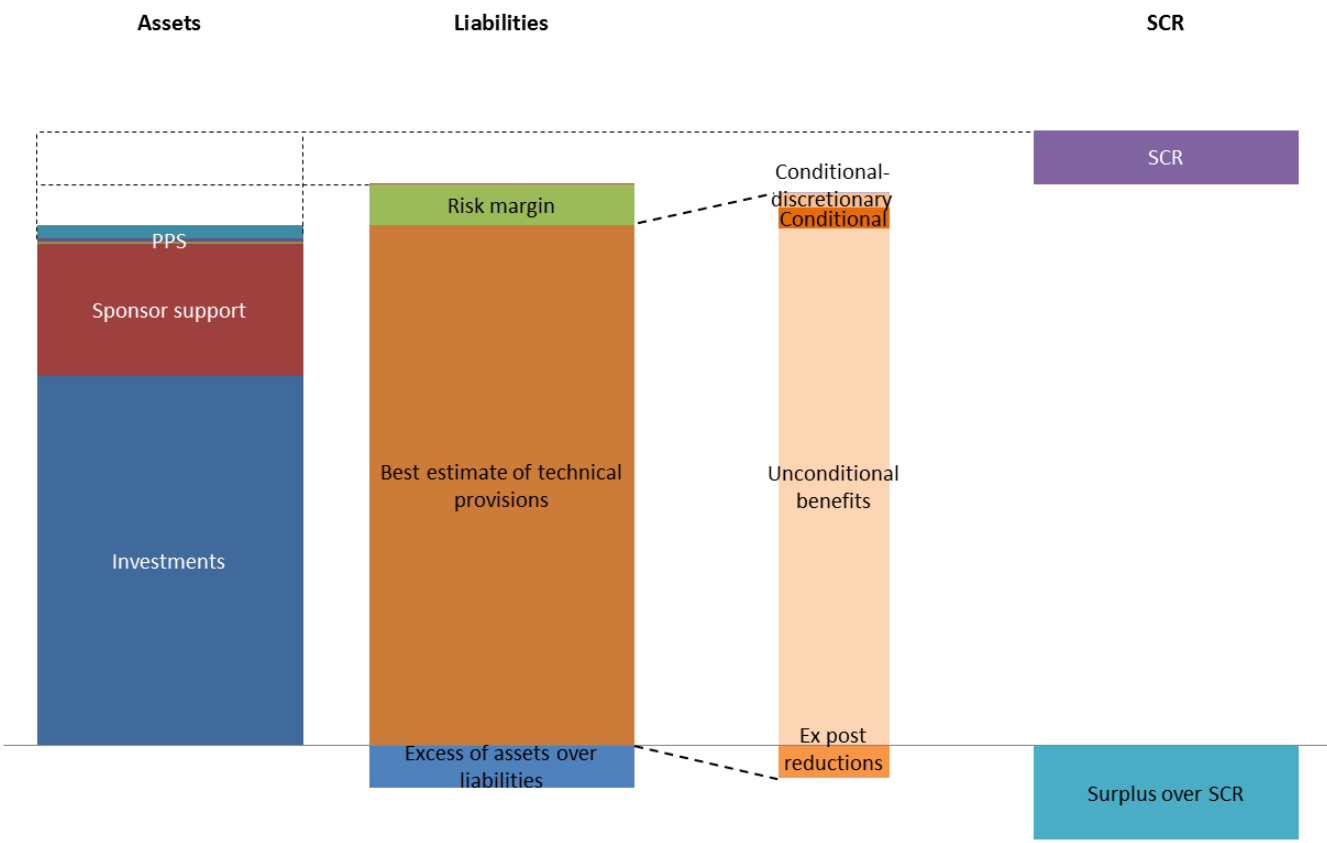


eiopa
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Update further work on solvency

Barthold Kuipers
OPSG
Frankfurt, 19 May 2014

Holistic balance sheet



- Market-consistent valuation basis
- All security and benefit adjustment mechanisms included
- Risk-based solvency capital requirement

Further work on holistic balance sheet: five workstreams

OPC will conduct further work on holistic balance sheet during 2014 in five areas:

- Sponsor support
 - Discussion paper published on 4 July 2013
- Supervisory responses
- Discretionary decision-making processes
- Benefit reduction mechanisms
- Contract boundaries

Valuation holistic balance sheet

- Mapping exercises
- Sponsor support
 - o Probability of default
 - o Maximum value of sponsor support
 - o Simplifications
 - Alternative simplified approach
 - Sponsor support as balancing item
- Valuation technical provisions
 - o Contract boundaries
 - o Benefit reduction mechanisms
 - o Discretionary decision-making processes

Building blocks supervisory framework (I)

- Solvency capital requirement (SCR)
 - o Harmonised versus non-harmonised
 - o Recovery periods
- Holistic balance sheet (HBS)
 - o Items
 - Pension protection schemes
 - Ex post reductions/reductions in case of sponsor default
 - Pure discretionary/mixed benefits
 - o Long-term adjustment to risk-free interest rate
 - Volatility adjustment
 - Adjusted volatility adjustment: expected return on assets

Building blocks supervisory framework (II)

- Liabilities to be covered with financial assets
 - o Harmonised approach
 - Risk-free level of technical provisions
 - Short recovery periods
 - o Non-harmonised approach
 - Minimum level based on expected return
 - Member state specific recovery periods
 - Additional requirements:
 - National prudential regimes
 - National social and labour law
- Related to fully funded at all times issue for cross-border IORPs

Three types of options for supervisory frameworks

- Protect pension promises under 'normal' functioning of IORPs
 - exclude pension protection schemes
 - exclude ex post reductions/reductions in case of sponsor default
- Protect pension promises in accordance with pension scheme as well as national SLL
 - include all security and benefit adjustment mechanisms
- Holistic balance sheet as risk management tool
 - minimum funding/valuation requirements in accordance with current IORP Directive
 - Holistic balance sheet part of risk evaluation for pensions

- End-September 2014
 - Consultation paper on further solvency work
 - Report on mapping exercises
- Q4 2014 – public consultation
- Beginning 2015
 - Report on further solvency work/technical specifications
- Mid 2015
 - Quantitative impact assessment further work
- End 2015
 - Tested proposal for European Commission



eiopa
EUROPEAN INSURANCE

AND OCCUPATIONAL PENSIONS AUTHORITY

Thank you

EIOPA

email: barthold.kuipers@eiopa.europa.eu

www.eiopa.europa.eu
