

First QIS for IORPs: some insights from pension funds performing the QIS

OPSG, Frankfurt February 14th 2013
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Agenda

- Feedback on three levels
 - Based on position papers PensionsEurope and Pensioenfederatie (and own involvement)
- Should supervision be harmonised?
- Political feedback
- Can the HBS be used as supervisory framework?
- Can the HBS be calibrated in reliable way?
- Feedback on process

Can HBS be used for supervision? (1)

- HBS intellectually tempting, having advantages, but ...
 - HBS discloses value of contingent assets and liabilities
 - HBS can check whether financial set up is sound and sustainable
- Seems not appropriate for supervision (yet?)
 - No proposal of prudential framework yet (needs to be tested)
 - Tension between including steering mechanisms in HBS as well as in SCR (also see following sheet)

Can HBS be used for supervision? (2)

- Model risk cannot be avoided (also see 'can HBS be calibrated reliably?')
- Dynamic inconsistency if steering rules depend on HBS
- If $SCR > 0$, IORP has no recourse to extra funding since all steering mechanisms have already been included
 - IF IORP would find extra funding, this will impact value of other balance sheet items, leading to new underfunding (e.g. 10 extra funding will lower sponsor support and increase indexation)
- If inclusion of conditional benefits (like conditional indexation) leads to underfunding, IORP possibly will have to cut benefits to be able to grant future, conditional indexation
- Changes in HBS items over time can be difficult to explain

Can HBS be calibrated reliably? (1)

- Broad bandwidth of outcomes
 - Many possible scenarios in QIS
 - Difference in holistic funding ratio between upper and lower bound scenario can be > 50%
- Further research needed on many items
 - A.o. Sponsor support, pension protection schemes, discretionary benefits, confidence level other than 99.5%
 - Also see draft specifications sent to EC by EIOPA (October)
- Model choices complex and subjective
- Outcomes limitedly comparable due to model choices (even within countries)
 - Similar funds, different outcomes in QIS

Can HBS be calibrated reliably? (2)

- Model choices complex and subjective
 - Sponsor support and UFR: see next sheet
 - Stochastic versus deterministic valuation
 - Inclusion/exclusion of new accrual (open, closed or something difficult in between)
 - Plan horizon (how many years of future sponsor support etc are included?)
 - Strong dependency on credit ratings
 - Many items not available in market (e.g. long term volatility, correlations, (wage) inflation)

Can HBS be calibrated reliably? (3)

- Issues around sponsor support
 - 0 (for “political” reasons of IORP vs company) or high (for other “political” reasons)
 - Claim on sponsor can be unavailable due to liquidity constraints or other claims
 - Difficult for multi-employer, public sector and not-for-profit
 - Difficult for sponsor with more IORPs
- UFR leads to inconsistencies
 - UFR inconsistent with stochastic valuation (e.g. risk neutral valuation)
 - Impact on volatility of interest rates
 - After applying shocks scenario sets difficult to calibrate

Feedback on process

- Two months far too short
 - Not always timely and adequate answers from EIOPA/supervisors
 - Possibly inconsistent replies by local supervisors (and EIOPA)
- Calculations complex, time consuming and costly
- QIS not representative
 - Only 8 European countries participated
 - Performed by IORPs, supervisors, actuarial firms
 - Esp. bigger IORPs performed QIS
 - Aggregation within and between countries difficult or even unreliable