

Insurance and Re-insurance Stakeholders Group

Opinion on EIOPA Draft Advice on IORP Revision –
Outline of OPSG main proposals

IRSG Meeting
12 December 2011, Frankfurt am Main

OPSG Opinion: Process/1

- **OPSG meeting 20 July 2011:** Set up Steer Group + Exchange of views: CfA 1 – scope; CfA 4 - prudential regulation; CfA12&20 – outsourcing; CfA 16 - internal control.
- **OPSG members invited to submit inputs:** 19 September 2011
- **OPSG written inputs – 1st round closed:** 7 October 2011
- **Steer group meeting:** 18 October 2011
- **OPSG Meeting – 1st discussion Steer group proposal – 19 October 2011** [CfA1 – scope and main messages]

OPSG Opinion: Process/2

- **OPSG written inputs – 2nd round closed: 4 November 2011**
- **Steer group meeting: 16 November 2011**
- **Steer Group Meeting – discussion draft proposal: 22 November 2011**
- **OPSG Meeting – 22 November 2011: discussion Steer group proposal [CfA 5, 6, 7, 8, 9, 10, 11, 12, 13, 17, 18, 23]**
- **Steer Group meeting: 8 December 2011**
- **OPSG draft Opinion : to be circulated by 13 December 2011**
- **OPSG meeting – 19 December 2011: adoption of Opinion**



OPSG: Main messages

- **Objectives of IORP Review** – the primary objective should be to **improve the security** of pension benefits across EU, taking into account the particular nature of institutions for occupational retirement provision
- **Security shall be enhanced through a holistic approach:** balance between affordability, adequacy and level of security
- Both **quantitative impact studies and qualitative impact assessments at every stage of the legislative process** are needed.

CfA-1, 2: Scope of the IORP Directive and Cross-border activity

- **CfA 1:** OPSG recommends the complete review of Regulation 883/2004, the **clarification** of division between the **3 pillars** of pension provision
- OPSG supports EIOPA's option 1 accepting that be **excluded**: Individual voluntary pension plans, book reserves and 1st pillar bis (mandatory DC schemes in CEEC)
- **CfA 2:** Need more **precise definition**. Definition not the reason for limited prevalence of CB activity.
- New option proposed: Host MS defined as that whose SLL is applicable to the scheme.
- There should be a single Home Supervisor and

CfA-5,6,8: Quantitative requirements

(1): General Points

- Do not pile prudence on prudence
- Level of security up to Member States
- Uniform security level is unwarranted (part of the pension promise)
- Different pension promises lead to difference in valuation of liabilities
- Adequate recovery periods (long)
- Holistic Balance Sheet (HBS): a theoretical instrument and very unclear impact
- Quantitative impact assessments are essential
- Supervisory flexibility
- Revise Art.17 and allow room for hybrid schemes

CfA 5,6,8: Quantitative requirements (2): Holistic Balance sheet approach

- **Pros:**
 - Avoidance of arbitrage
 - Appropriate account of IORPs' specificity
 - Assessment different contracts at abstract level possible
 - Considering steering mechanisms in the balance sheet
- **Cons:**
 - Objective not clear and pseudo security
 - Difficulties in calculating (**complex** techniques, incomplete markets, incomplete pension contracts...)
 - Impact still unclear (level 2 parameters to be defined)
 - Not proportionate for small funds

CfA 5,6,8: Quantitative requirements (3): Valuation

- Transfer value is not a good concept for IORPs
- Market consistent \neq market valuation
- Consider different nature/content of the contract
- Member States to decide on valuation rules
- Special assumptions necessary for valuating of conditional promises such as indexation
- No allowance in technical provisions for pure discretionary benefits
- Obligation of a complete contract leads to limitation of freedom of social partners and trustees

CfA-5,6,7,8: Quantitative requirements (4)

- **Procyclicality:**
 1. **Harmonisation** with life insurance reinforces procyclical effects
 2. **Discount rates** can be used as counter-cyclical element
 3. Long enough (and flexible) **recovery periods**
- **Investment rules - Key responses:**
 1. **Prudent person principle:** DB and Hybrid schemes
 2. Default investment options for DC: a useful way
 3. Member States' option for quantitative restrictions in DC: a highly political option

CfA 7: Investment rules

- Investments should be made **in the best interest of members/beneficiaries**
- **Prudent Person** should remain guiding principle; qualitative investment rule
- Quantitative restriction accepted for **self investment**
- Investment rules consistent with retirement objectives of an IORP based on future liabilities - **Asset Liability context**
- Limits on investments in foreign currencies unwarranted
- Subordinated loans to be exempted from the prohibition of borrowing

CfA 9-18: Governance and other qualitative requirements

- **CfA 9** : Importance of **proportionality** when applying supervisory requirements. Take into account different cultures and history of occupational supplementary pensions
- **CfA 10**: Include **stress testing** for IORPs. Publicity of **Penalties**: MS to decide. Host Supervisor should not intervene directly, without advising Home supervisor
- **CfA 11**: Current supervisory review should be retained and **capital add-ons** not appropriate for IORPs
- **CfA 12**: Art 38(1) Solv. II could be introduced into IORP Dir. No modification of “Home State” definition unless evidence.
- **CfA 13,17, 18**: Support for EIOPA proposition. Governance elements to be used in proportionate/reasonable manner

CfA 14 & 23: Fit/proper & Information to members/beneficiaries

- **CfA 14:** Importance of **fitness, probity** and **integrity**. No need to add further requirements.
- **CfA 23:** Information to members/beneficiaries:
 - Information should be correct, understandable (expressed in a *simple way*), useful and not misleading.
 - Importance of **IT tools**
 - **KIID-like** document:
 - For pre-enrolment information (identification, scheme rules, institution, performance, costs/charges, risk/reward profile)
 - Ongoing information: Annual statement to each member, personalised pension projection (DC), information on benefits.

Thank you!

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