insurance europe

Position Paper

Response to EIOPA consultation on long-term risk assessment of DC IORPs

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General comments

Introduction

Insurance Europe wishes to share general comments on EIOPA's draft opinion on the supervision of the long-term risk assessment of defined contribution (DC) institutions for occupational retirement provision (IORPs). **Requirements applicable to IORPs can have an impact on insurers (either directly or indirectly), although this varies greatly across Europe**. More details and national views will be shared separately in the responses submitted by Insurance Europe's member national associations.

While it makes perfect sense to consider risks from the perspective of DC members and beneficiaries, the insurance industry believes that EIOPA's proposals should take better account of the IORP II Directive requirements and the diversity of occupational pensions across Europe. The design of pension products and schemes varies greatly across Europe and, therefore, a one-size-fits-all risk measurement is unlikely to work.

Scope of the consultation

The definition of DC schemes used in the draft opinion (3.2) is often broader than national ones. This would have far-reaching consequences, while bringing no added value to supervisory authorities or to IORPs' members and beneficiaries. On the contrary, it would create unnecessary additional costs and compliance burdens because DC IORPs are already subject to comprehensive regulation and supervisory scrutiny both at national and European level. **Against this background, the insurance industry recommends narrowing the definition to pure DC commitments only**.

Regardless of their definition, DC pension schemes sponsored by employers should not fall within the scope of EIOPA's proposals because of the protection such sponsoring entails. Other security mechanisms used across Europe to protect members and beneficiaries should be considered when defining the scope of EIOPA's opinion on long-term risk assessment.

Risk-based approach

The supervisory risk-based approach proposed by EIOPA in the draft opinion should take into account not only differences in the design of DC schemes across Europe but also existing regulations and/or social partners' agreements.

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Given the diversity of DC pensions across Europe, the insurance industry believes that a harmonised approach to the operational risk measurement applicable to DC IORPs cannot be defined at European level. Such an approach would only be an additional burden, as it is unlikely to allow for adaptation to specific risks. In addition, it contradicts the essence of the IORP II Directive, which allows member states to define measures that are better suited to their own markets (as per articles 28 and 25). **Against this background, any further specifications/recommendations dealing with risk assessment should remain optional for DC IORPs**. In addition, the design of DC schemes often already take into account members' and beneficiaries' risk preferences by default. For instance, in many countries, the interests of members and beneficiaries are adequately safeguarded by social partners.

Quantitative risk measurement and stochastic modelling

Factoring in stochastically so many elements would result in very volatile and unreliable pension projections, which are not only hard to understand but also challenging to perform. When it comes to measuring the risks and performance of saving products over such long periods, the consideration of too many risk variables could result in very volatile and unreliable outcomes. The work conducted by the Organisation for Economic Co-operation and Development (OECD) on stochastic modelling for the pan-European personal pension product (PEPP) shows that the investment risk is the only decisive risk. Additional factors such as unemployment, wage growth, etc. have little influence and lead to unnecessary complexity.

Insurance Europe would like to reiterate that performance projections are always an estimation and never a guaranteed outcome. As a result, projections can never be "real"; considering projections as guaranteed outcomes could be very detrimental to consumers' understanding and would bring no added value for national supervisors.

Moreover, the use of stochastic models for risk assessment is not always necessary. Some providers, depending on their size and activities, may be better using deterministic models, eg, deterministic, scenario-based asset liability management (ALM) has proved to be a real added value for all stakeholders, including from a cost/benefit point of view.

In general, the insurance industry would urge EIOPA to be cautious when replicating discussions that took place on the PEPP to other types of pensions. The PEPP framework is yet to implemented and its workability is still to be assessed. Personal pensions and DC occupational pensions can be very different in practice and blind replication could have detrimental consequences.

Use of opinions

Last but not least, **Insurance Europe has noted the increased use of supervisory tools (Level 3) in relation to IORPs since the adoption of the IORP II Directive**. During the negotiations on the Directive, policymakers willingly agreed not to introduce any Level 2 measures, leaving it up to members states to implement and supplement as they see fit the minimum harmonisation requirements it introduced. As a result, Insurance Europe feels that such detailed Level 3 provisions somewhat contradict the political agreement. **It is important that the "soft" powers granted to EIOPA by its establishing regulation do not replace ordinary regulatory and legislative procedures**. The impact of the use of these tools is significant and interferes with the existing regulatory framework. Therefore, the insurance industry strongly encourages EIOPA to only use them when there is a sufficiently clear and defined legal mandate stemming from EU legislation.