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EIOPA committee chairman confirms 2015 'stress tests' for IORPs

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The European Insurance and Occupational Pensions Authority (EIOPA) is preparing stress tests for institutions for occupational retirement provision (IORPs) as early as next year, according to Patrick Darlap, chairman of EIOPA's Financial Stability Committee.

Addressing delegates at a recent meeting of the Austrian Actuarial Society in Vienna, Darlap also argued that the "biggest problem" for the European pension system was a lack of unified regulation.

Also speaking at the Austrian Actuarial Society meeting, Falco Valkenburg, chairman of the pensions committee at the Actuarial Association of Europe (formerly Groupe Consultatif), said EIOPA was now working on "open issues" from the first quantitative impact study (QIS) for IORPs such as sponsor support valuation, the supervisory response to and definition of "underfunding" and the reduction of benefits, among other things.

Valkenburg said a second QIS was likely to be combined with a stress test next year.

He argued that actuaries would support risk-based capital requirements for IORPs because, "if you have some form of guarantee, you should make sure you have a valuation best estimate".

However, the consultant and actuary also stressed that certain aspects of pension funds – such as demographic developments and the nature of the contract between employer and employee – also had to be taken into account.

The European Commission, in its proposal for a revised IORP II Directive, did not include risk-based capital requirements akin to those found of the first pillar of Solvency II, but it did say such requirements would be included in a revision scheduled for 2018.

"Listening to the Commission and EIOPA," Valkenburg told IPE, "it is very likely that some form of capital-requirement mechanisms will be introduced to the IORP Directive in future."

He said this would "make a lot of things clearer", if capital requirements were "adjusted to pension funds' needs" and took into consideration "national specifics".

Taking Germany as an example, he pointed out that there was "practically no risk" for IORPs, as the plan sponsor was obliged to make additional contributions if needed.

"That means there is actually no need for higher capital requirements for those IORPs," Valkenburg said.

He said it was much more important to identify where the risks in a pension contract were and to convey this information to members.

What's more, he called on the industry to admit that, "very often, too much is promised", and said this problem needed to be addressed.

Respecting the valuation of liabilities, he warned against applying counter-cyclical or matching premiums to "artificially shrink the value of liabilities", arguing instead for the use of these premiums in a fund's assessment of measures to be taken.

The Actuarial Association of Europe has proposed the introduction of a "continuity test" for IORPs in addition to a point-in-time valuation.

"It is basically an ALM test looking at how a pension fund will develop, and it will show whether the contribution level is still efficient, whether there is a risk of benefit cuts, etc.," Valkenburg said.

His main criticism regarding IORP II was the fact the full-funding requirement for new cross-border pension plans was re-introduced after it had been removed in a previously leaked draft.

"In the directive, there is a provision for underfunded IORPs to set up a recovery plan – so why not start with such a recovery plan straightaway?" he asked.

"This would help increase cross-border activity."