



## HBS 'interesting' but not yet ready for use – Actuarial Association of Europe

12 May 2015 By [Barbara Ottawa \(URL=/barbara-ottawa/2482.bio\)](#)

The European Insurance and Occupational Pensions Authority (EIOPA) needs to “take another look” at using the holistic balance sheet (HBS) approach as a means of calculating capital requirements, according to Falco Valkenburg, chair of the Actuarial Association of Europe’s (AAE) pensions committee.

Valkenburg said the HBS was “an interesting concept that should be explored further, maybe as part of pension funds’ risk management”, but he also stressed that the HBS concept was “quite new”.

“Not even we at the AAE are fully convinced it will lead to something that can work in practice,” he said.

[EIOPA announced the details of its first stress test](#)

([URL=http://www.ipe.com/news/regulation/eiopa-details-first-stress-test-for-workplace-pension-funds/10007967.article](http://www.ipe.com/news/regulation/eiopa-details-first-stress-test-for-workplace-pension-funds/10007967.article)) for occupational pension funds on Monday.

While the German pension fund association and PensionsEurope [criticised](#)

([URL=http://www.ipe.com/news/regulation/stress-tests-should-not-be-based-on-something-hypothetical/10007966.article](http://www.ipe.com/news/regulation/stress-tests-should-not-be-based-on-something-hypothetical/10007966.article)) the inclusion of the HBS in the assessment, Valkenburg said it made sense from “an efficiency point of view” to have pension funds calculate the HBS for the quantitative assessment and then use them in the stress test.

But the actuary also argued that it was “very difficult to have a single framework for capital requirements” in the pensions sector, as schemes are “executing pension promises in very different ways”.

He said using a single risk-free rate would work if all the pensions funds used stochastic evaluations, and the risks were modelled in the same way.

But he said this was not the case in reality.

“Using a risk-free rate to give a good estimate of the valuation of pension promises that are not fully guaranteed would lead to too high values if the risks are not modelled in the cash flows,” he said.

Valkenburg said one of the most “valuable” aspects of the stress tests EIOPA will conduct among European IORPs will be the assessment of defined contribution (DC) plans.

While industry group PensionsEurope has questioned whether the stress tests will yield any useful results regarding DC scheme members, Valkenburg stressed the importance of “informing members about how a stressed situation can impact them”.

He added: “It is good to see DC is included in the stress tests for the first time because most new accrual of pension assets in Europe is in DC.”

One of the goals of the stress test is to assess the impact on the macro economy, which, according to Valkenburg, will not be as great as the impact on individual members who “might have less money to buy a pension” on retirement.

“This is important to be aware of, and, hopefully, we can help members to navigate through their lives and minimise the impact,” he said.

The AAE issued a [paper](#)

([URL=http://www.actuary.eu/documents/AAE\\_Decumulation\\_Report\\_Feb2015.pdf](http://www.actuary.eu/documents/AAE_Decumulation_Report_Feb2015.pdf)) in February on decumulation in which it warned that the requirement to buy an annuity on the day of retirement might force people to buy at the wrong time.

Valkenburg said the stress test might also highlight the problem of guarantees being much higher than the current interest rate.

“Guarantees are very expensive, and they were given in times when stakeholders were not expecting a sudden change in the environment like we have seen in the past couple of years,” he said.

Valkenburg expects guarantees to come down or be removed altogether in the wake of the stress tests, which he said would, in turn, highlight the problem of people having to work longer.