

EIOPA Stress Test for IORP 2022

Outcomes and main findings

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Main outcomes

Stress test was conducted with main focus on climate transition risk

	IMPACT OF CLIMATE CHANGE SCENARIO		
	PRE-STRESS	POST-STRESS	IMPACT
TOTAL ASSETS - CBS	1.985 trillion	1.730 trillion	-12.9%
FUNDING RATIO* - CBS	119.9%	117.0%	-2.9pp
FUNDING RATIO* - NBS	122.7%	120.2%	-2.5pp

*defined benefit schemes

Timeline

- Specifications were published on 31 January 2022
- Participating IORPs are invited to EIOPA's launch event on 7 April 2022.
- From 13 April to 16 May 2022, participating IORPs can make use of a dedicated EIOPA Q&A process by contacting their national competent authorities. Q&As will be regularly published on EIOPA's website.
- By 13 June 2022, participating IORPs are expected to complete the exercise and submit the results to their national competent authorities.
- The results of the stress test were published on 13 December 2022.
- *Note: The inputs helper tool has been extended to support the application of the corporate bond shocks. The addition was made on April 6, 2022.*

Key Elements and Market Coverage

OBJECTIVES	<ul style="list-style-type: none">> assess the sector's vulnerability to transition risks as part of a learning exercise in an emerging field> better understand potential risk drivers and identify pockets of risks> complement quantitative analysis with qualitative surveys on ESG factors and inflation management
SCENARIO	<ul style="list-style-type: none">> abrupt, disorderly transition to a less carbon-intensive economy following delayed policy action> instantaneous economic shock triggered by a sharp increase in the price of carbon emissions> developed in cooperation with the ESRB and the ECB based on previous work by NGFS
APPROACH	national balance sheet (NBS): based on national valuation regulation AND common balance sheet (CBS): marked-to-market to allow for meaningful comparisons investments related to carbon intensive industries

187 from **18**
IORPs countries
covering all European Economic Area (EEA) countries
with significant IORP sectors

1.98 = **65.3%**
trillion € in assets market coverage
in EEA based on total assets

Main Findings

The first climate stress of the sector at a European level shows that **IORPs have a material exposure to transition risks.**

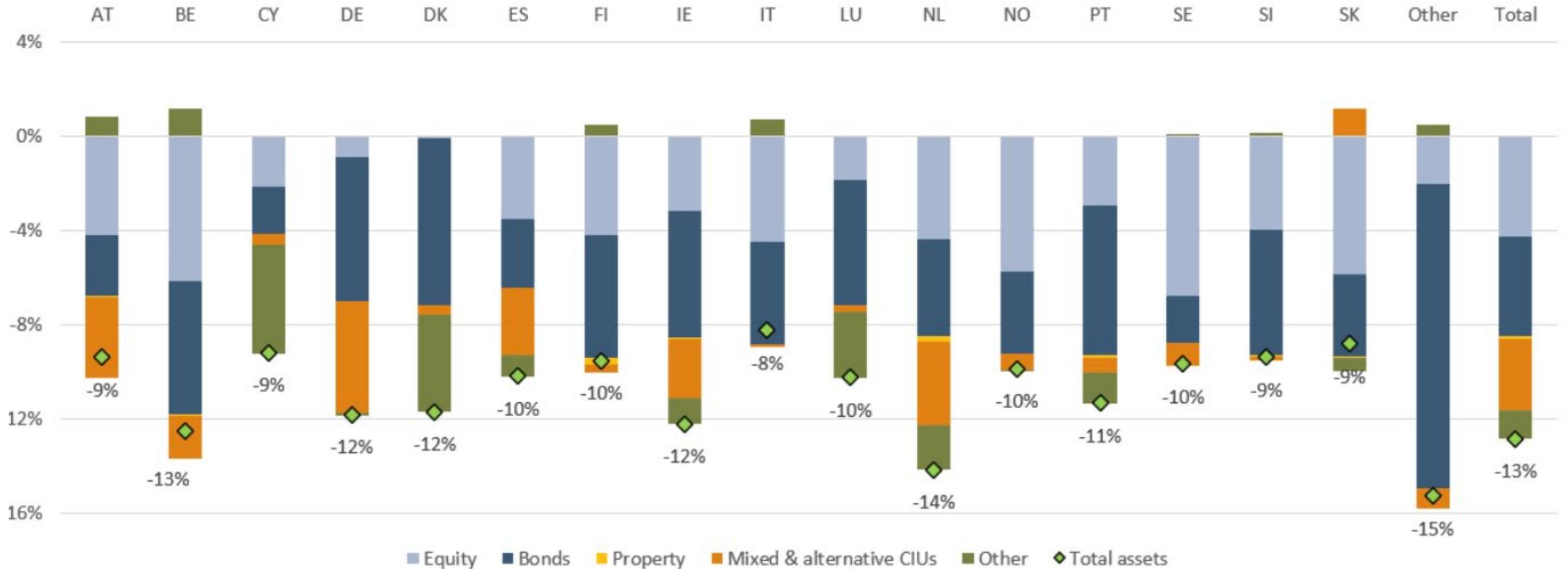
The stress test scenario provoked a **sizeable overall drop of 12.9% in assets**, corresponding to asset valuation losses of some €255 billion.

A **drop in liabilities** due to rising risk-free rates **helped cushion the impact** of asset-side losses on IORPs' funding ratio, but it did not fully offset it. Financial positions therefore still worsened slightly (-2.9 percentage points).

Post-shock funding ratios in defined benefit (DB) schemes **stay above 100% in most Member States** due, in part, to strong pre-shock positions. The funded status of defined contribution (DC) schemes is balanced by definition.

More than **90% of IORPs consider ESG factors** when determining their investment policy. Nonetheless, IORPs still experience hurdles in allocating investments to climate risk-sensitive categories.

Impact on assets according to common methodology



Remarks on climate stress test

- From EIOPA's report:
 - It should be noted that the participating Dutch IORPs reported that the voluntary exercise was relatively time-consuming. This may be a consideration should comparable exercises be considered in the future, especially considering the diversity of IORPs across the EEA and the fact that the majority of IORPs participating in the stress test faced challenges in allocating their assets even to high level sector classifications.
 - However, as classification systems, their consistency and IORPs ability to employ them are expected to improve over time, future exercises could also consider elements such as increased granularity when it comes to the inputs and the outputs of the scenarios and the modelling framework, a targeted in-depth analysis of certain sectors or asset classes or even centrally provided tooling
 - The results suggest that a stress test with more granularity can provide additional insight. This seems especially so if the goal is to get insight in IORPs' climate risk exposure with respect to individual investments, for example within a certain asset class and within specific economic sectors. This may be a relevant approach to the IORP stress test in an effort to also raise IORPs' awareness of the climate sensitivity of assets held in their portfolios, e.g., carbon footprint, transition risk or climate goal-alignment of their (individual) assets.

Subjective Impression of a German IORP

- The starting point for the stress test were the balance sheets and figures at the end of 2021. This was necessary for the process
 - However, with the rise in interest rates in February, all statements that could be interesting for an IORP beyond the stress test were outdated
 - So, this stress test was more of an arithmetic finger exercise than a helpful tool
- Assigning the assets to the individual classes that needed to be stressed was difficult because no uniform assignments or codes had yet been established
- The processing time was sufficiently set, but was also completely needed
- Due to the one-time shock of a climate crisis, a scenario was given that will not play out in reality. As this transition will be somewhat slower, investors will react. Thus, the results exaggerate these effects
- EIOPA's toolbox has many more tools up its sleeve, but the selection for this stress test was appropriate without too much additional effort for IORPs



Used Links

- [EIOPA's first IORPs climate stress test shows material exposure to transition risks \(europa.eu\)](#)
- [Climate stress test for the occupational pensions sector 2022 \(europa.eu\)](#)
- [Occupational pensions stress test 2019 \(europa.eu\)](#)