



AAE pension risk management

IORP survey, IORP II ORA versus Solvency II ORSA
... And general views on risk management

Agenda

- Background & some numbers
- IORP survey
- Own Risk Assessment (IORP II) vs.
Own Risk and Solvency Assessment (Solvency II)
- General views on IORP Risk Management vs.
Pension- & insurance risk management
- Discussion & next steps



Risk management
& policy holder
protection in new
light

Background

Background

New working group: **Pension Risk Management**

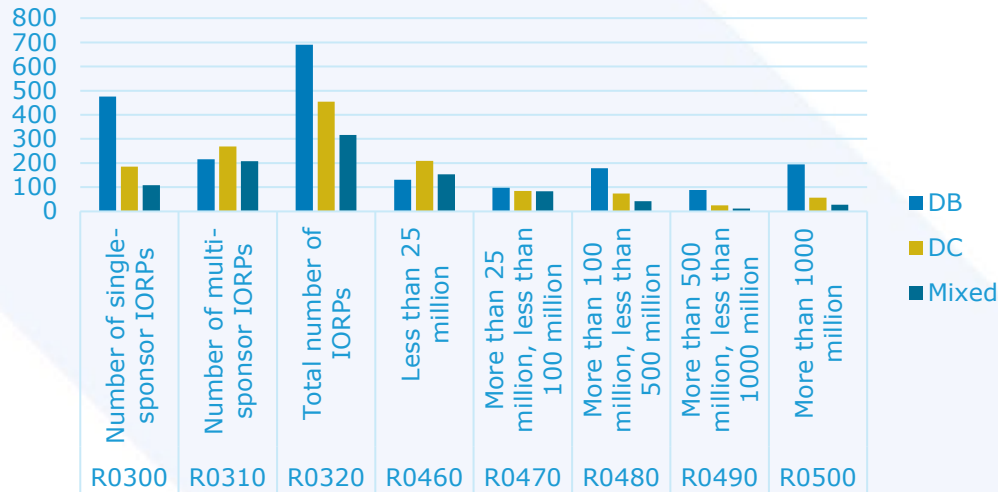
First priority in WG: **IORPs**

WG Purpose

- Support AAE visibility in EU political environment
- Provide input and views on sound risk management to ensure sufficient amounts of pension benefits
- Provide easy access to actuarial risk management knowledge and networking

NOTE: Only pensions in scope – not insurance

IORPs vs. "normal" pensions – the numbers



A lot of money in IORPS

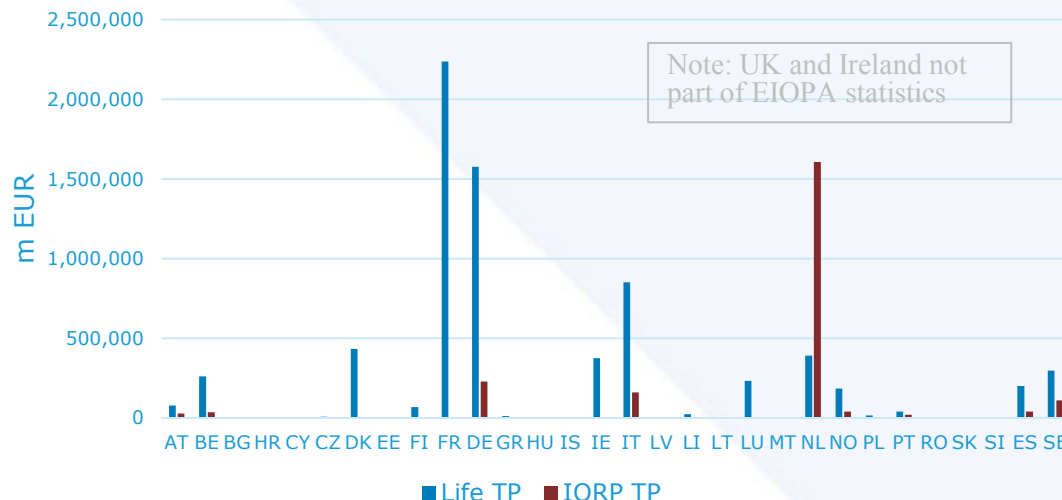
EU IORPs: more than 2300 bn € or 25%* of total 2nd and 3rd pillar Life insurance and unit linked provisions

* Although just 700 bn € or 7% when we omit the Netherlands

Big differences from country to country

Some countries have almost no IORPS and/or only very small IORPS and vice versa

Technical provisions (m EUR)



Makes you wonder:
Why the difference
and who's got the
better protection?

First WG deliverables

Survey

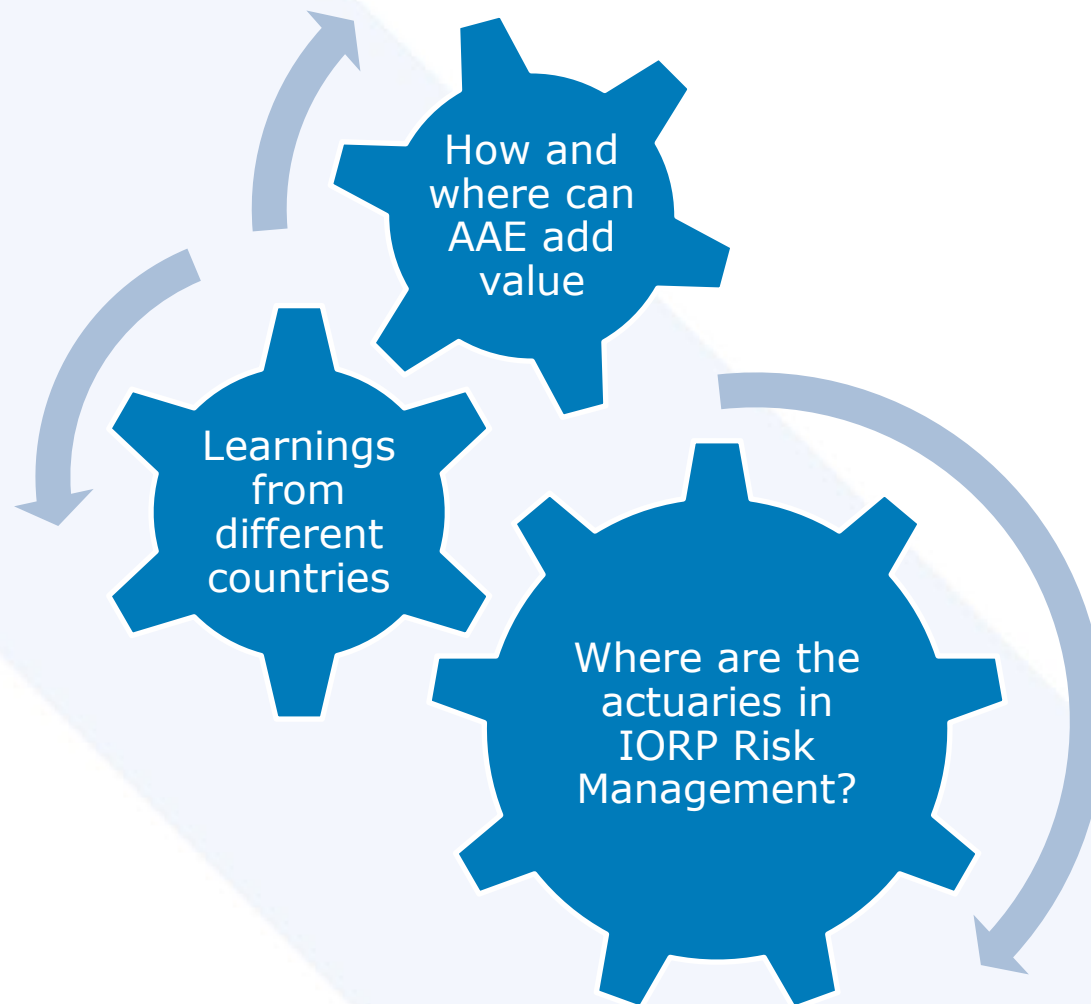
- To give knowledge and insights for future planning
- Assess position of actuaries in Risk Management for IORPs
- insight in country specific approaches to the role of the actuary

ORA vs. ORSA

- comparison of risk management in IORPs versus Solvency II
- to sum up the best of two worlds
- insight in country specific approaches to risk management

IORP survey

Appetizer – Insights and learnings



Thank you!

Many thanks to the Member Associations

Austria (AT)	Italy (IT)
Belgium (BE)	Netherlands (NL)
Bulgaria (BG)	Norway (NO)
Croatia (HR)	Spain (ESP)
Denmark (DK)	Sweden (SE)
France (FR)	Switzerland (CH)
Ireland (IRL)	United Kingdom (UK)

- 12 of 21 member states for which EU reports data on occupational pension institutions
- UK and CH additional
- Intermediary report
- Incomplete data

Actuaries as Function Holder

All Actuarial Function Holders are actuaries and almost all are qualified actuaries (exception Norway)

- **Actuaries are Risk Management Function Holders in 50% of IORP in EU**

IE:	90%
B:	60%
IT:	50%
NL:	22%
DK:	10%
NO:	9%

- Actuaries are covering the Actuarial Function (in some cases compulsory) in all countries
- Actuaries are covering 50% of the Risk Management Functions, but unequal spread
- Asset managers are often referred to
- DB or DC can be determining factor

- Pensions Committee takes care of preparing the European actuaries for the Actuarial Function
- Risk Management Committee could consider the contribution of the AF to the Risk Management System

Actuaries are not necessarily the risk managers of pension institutions

- It is not the nature of IORP that is the reason : 58% of IORPs are managing DB or mixed schemes
- Actuaries do play a role in RM in 6 on 12 countries : corresponding MAs can have need for exchange with MAs in same position
- Are pension actuaries interested in RM ?
- Who supports the IORP in modelling cash flows and evaluating the risk position ?
- Who supports the IORP when deciding on risk appetite, risk tolerance and limits ?
- Who supports the IORP for Asset Liability Management ?
- Who takes care of Risk Management system and ERM of IORP ?
- Opportunity to search contact with professional organisations representing RMF holders of IORP cfr asset managers

Key observations and conclusions

Observation from the survey:

- Some countries have more tendency to have actuaries in Risk Management
- Some countries tend to have a regulatory requirement such as “scheme actuary”, pension expert, ...
- Is this the way forward? For both Solvency II and IORP II to

Scheme Actuary – Our “made up” definition:

Actuary, that is responsible for ensuring fair pension products, monitoring fair distribution of funds and fairness in products and risks and protection mechanics related to benefits.

Member association input

- Expectations of MAs are different
 - Content legislation
 - Defend limitation to actuarial intervention when no guarantee
 - Stress need for application of proportionality principle
 - Professionalism
 - Need for guidelines
 - Need for best practice
 - Need for exchange
- Expectations are not uniform
 - If political needs : avoid actuarial intervention
 - Need for information and exchange

ORA vs. ORSA

ORA versus ORSA

Similarities

- Board responsibility
- Assessment of risk (obviously...)
- Part of business strategy and management system

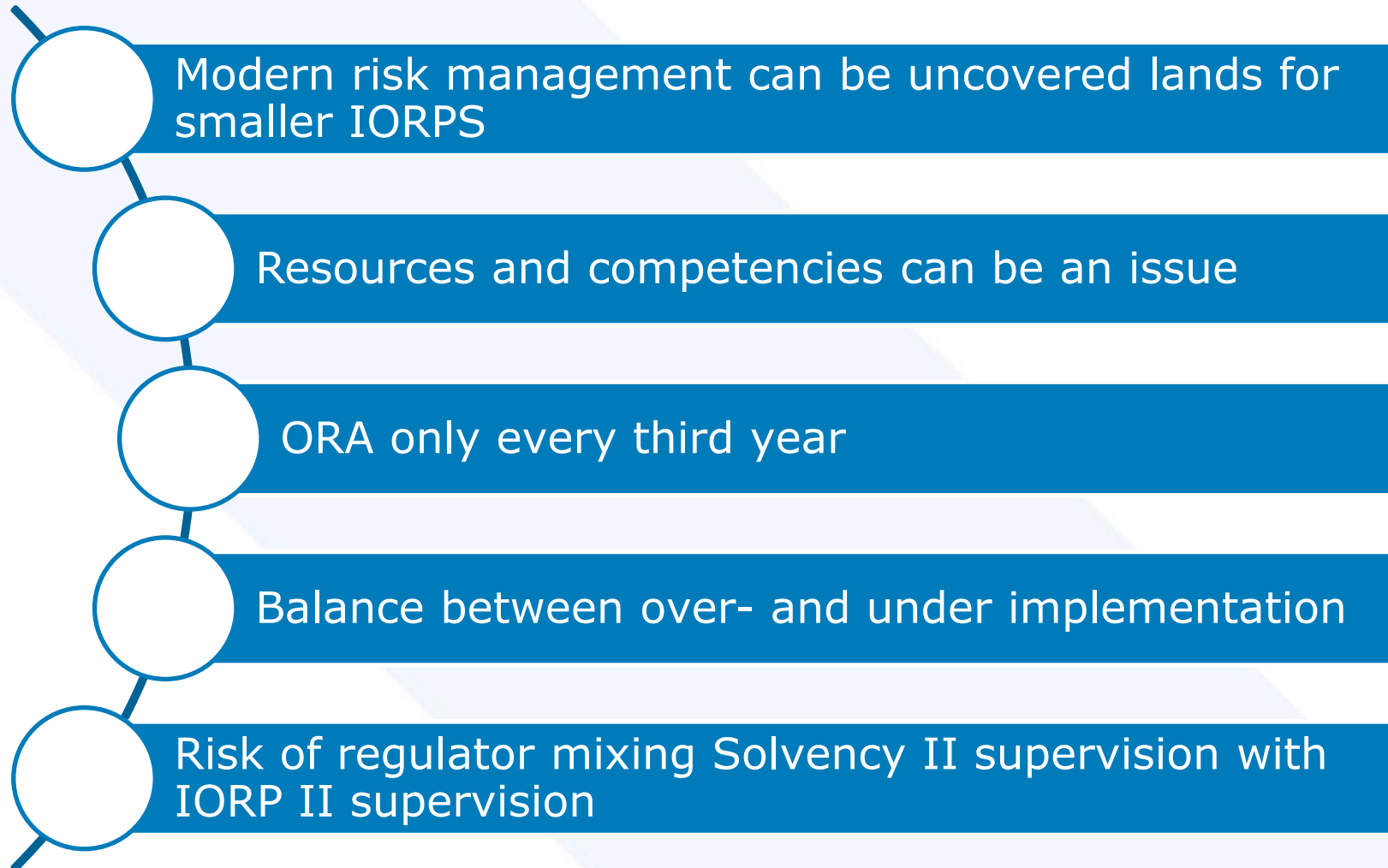
ORA key specifics

- Assessment of the risks related to the policyholder benefits
- Assessment of mechanics protecting retirement benefits
- Conflict of interest with sponsor when key functions are outsourced to sponsor
- ESG
- Every 3 years (at least)

ORSA key specifics

- Assessment of the solvency capital requirement
- Assessment of own risk versus SII standard model (if standard is being used)
- "Regularly"
- (ESG with the SII review)

ORA process – typical IORP challenges



Thoughts on general risk management

IORPs versus Life insurance

Similarities

The general idea of having a sound Risk Management System is common and based on

- Explicit policies
- Role of key functions
- Governance

The concept of proportionality is present in both

The integration in business strategy and management decisions is common

Thoughts on general risk management

IORPs versus Life insurance

Differences

IORP II purpose

- Support cross-border collaboration
- good governance and risk management, to invest in the best interest of members and beneficiaries and to have environmental, social and governance considerations
- provide comparable and relevant information to prospective, current and future members and beneficiaries

Solvency II purpose

- aim to ensure the adequate protection of policyholders and beneficiaries
- risk-based approach that enables to assess the “overall solvency” of insurance and reinsurance undertakings through quantitative and qualitative measures

Thoughts on general risk management

IORPs versus Life insurance

Differences

IORP II risk assessments

- Prudent regime
- No clear regulatory requirements for methods, systems, models,...
- Focus on risks related to benefits and benefit protection mechanics
- Balanced reporting

Solvency II risk assessment

- Best estimate and risk based regime
- Quite detailed regulatory requirements
- Focus on contractual risks for the insurance company
- Extensive reporting

- IORP regulation could use more guidance on risk assessments?
- Solvency II not considering “all” risks from the perspective of beneficiaries – maybe covered by Insurance Distribution Directive?
- Is there good value of reporting requirements? For whom?
- Is the “scheme actuary” the way forward for both regimes?

Our possible next important topics

Prudent Person Principle (SII) vs. Prudent Person Rule (IORP II)

Investment strategies & Prudent person

Prudent Person Principle (SII)



Invest according to nature and duration of liabilities



Invest in best interest of all policy holders



Diversification



Identify, measure, monitor, manage, control and report

Prudent Person Rule (IORP II)



Assets not on a regulated market kept to prudent levels



Invest in best long-term interests of members

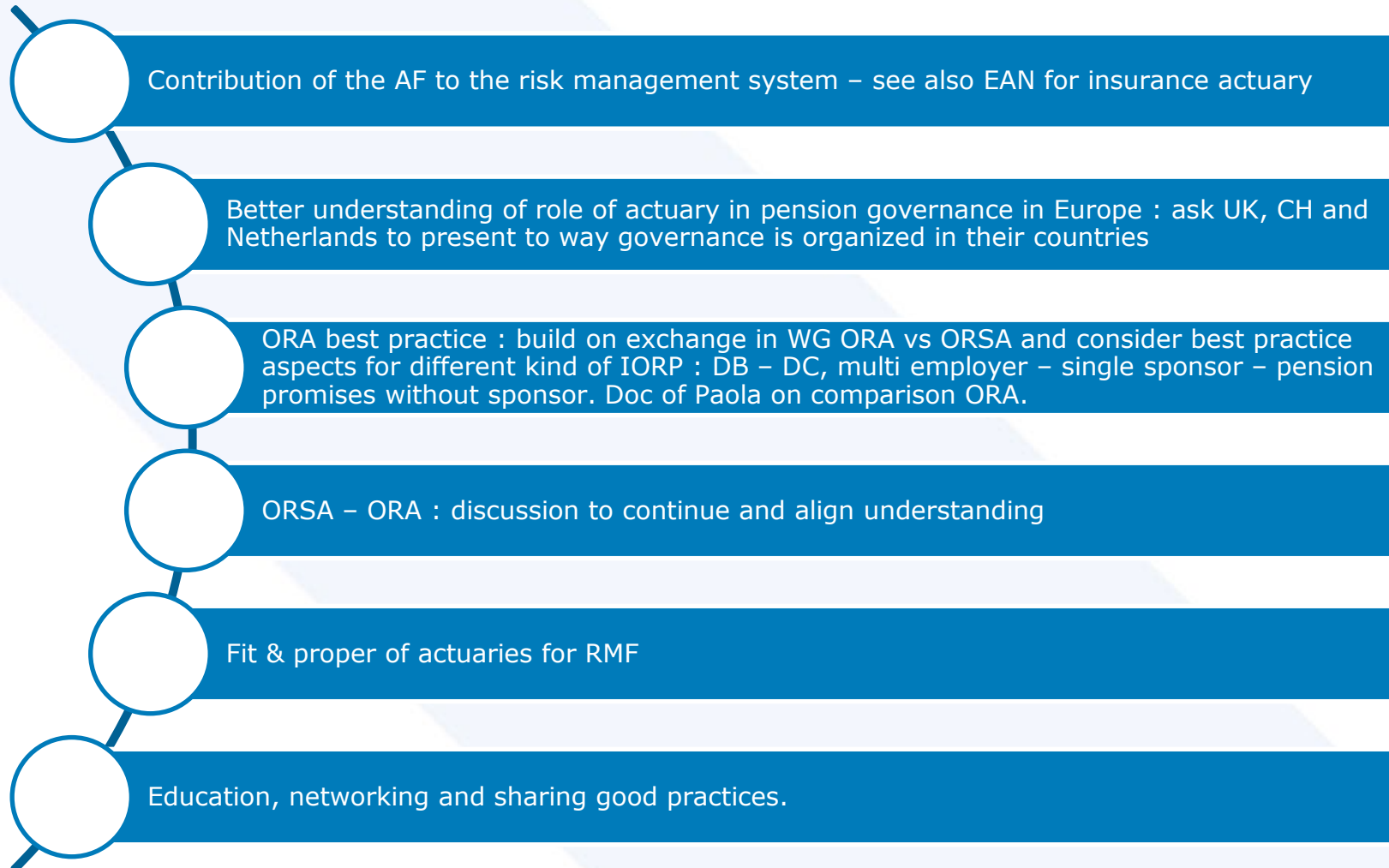


Diversification



Security, quality, liquidity and profitability

More topics considered in the WG



Discussion and thoughts

Topics to inspire discussion and thoughts

IORP RM vs.
SII RM

Scheme
actuary

Policy holder
protection

Company
protection

What about RM
for Pay As You
Go schemes?

What should be
next step?

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Appendix

Detailed survey material

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Data : IORP and Actuaries

IORPs in the countries covered by EU data base

Single sponsor Funds	1678
Multi sponsor funds	462
Total	2149
DB	1024
DC	885
Mixed	240
DB + Mixed	1264 (58%)
Average AuM (known)	1038 M €

Actuaries working for IORPs

Countries covered by EU data	1297
UK + CH	2221
Total	3518

- Majority of IORPs manages DB or mixed pension schemes
- Average IORP in EU has significant size AuM
- In HR, IT, ESP most plans are DC
- Over 3.500 actuaries in AAE are working in context of IORP (special position UK)
- Heterogene IORP spread over Europe
- There are enough actuaries available : about 1 actuary per DB + Mixed IORP in EU

Actuaries as Function Holder

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- DB or DC can be determining factor

Actuaries do not combine Actuarial and Risk Management Function
(*except in Belgium*)

The Actuarial Function Holder is outsourced in most countries except in A – SE – DK – HR – BG

IORP legislation

- The IORP EU Directive is implemented in all countries
- Differences in B – DK – ES – IE - NO - BG
 - UK and CH have a specific legislation with legal roles for actuaries
- Supervisors have published guidelines for the AF in A – B – ES – IE - NL - SE (and UK)
- Supervisors have published guidelines for the RMF in B – ES – IE - NL - SE (and UK)
- Other roles for actuaries are included in legislation in:
 - DK : appointed actuary
 - IT : ordine attuari
 - UK : scheme actuary
 - CH : public pension actuary
 - NL : certifying actuary
- EU Directive is implemented but not in the same way over Europe

Position Association

- The association does not foresee a specific platform for pension and IORP actuaries in DK – HR – ES – BG
- Other associations organise a committee, working groups.
- In UK and CH there is a legal platform
- All associations are seen as a stakeholder except HR
- IT – ES – IE – NL – UK are recognised as a stakeholder by the financial markets and the public

- Pensions and follow up of IORPs are organised in different ways
- Structure goes together with number of IORPs
- In countries with mature pension markets there is a legal structure
- Stakeholdership is related to the size of the association

Position Association

- Expectations of MAs are different
 - Content legislation
 - Defend limitation to actuarial intervention when no guarantee
 - Stress need for application of proportionality principle
 - Professionalism
 - Need for guidelines
 - Need for best practice
 - Need for exchange of information
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Observations : MA and Pension

- More than 10% of FQA in AAE is involved in IORP
- The image of Occupational Pensions and the related institutions is different in Europe
- Pension legislation
 - Different needs implies adapted approach
 - Pension market can not be compared with insurance market with more homogeneous needs
- Number of pension institutions
- Size of pension institutions
- Nature of institutions (Single versus Multi Sponsor/ DB – DC – Mixed)
- The position of pensions and the actuaries working for pension institutions is different in the AAE
- Structure and professional framework depend on the relevance
- Local associations are stakeholders for the supervisors but only few are stakeholder for the market or the public
- Interest and knowledge is also visible in the response to survey

Observations : Roles of Actuaries

- Actuaries are in charge of Actuarial Function
 - Qualified actuaries are preferred choice
 - Fit & proper requirements are met
 - Some additional roles
 - Pensions Committee takes care of preparing the European actuaries for the Actuarial Function
 - Risk Management Committee could consider the contribution of the AF to the Risk Management System

Observations : Roles of Actuaries

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Conclusions and actions

In line with the image of the occupational pensions market in Europe also the actuarial involvement is very different in function of legislation and image.

- Organise a coordinated approach is a challenge
- Look for common ground : actuarial approach and professional framework (implementation on a local basis)

Actuaries are not always the Risk Management Function Holder for IORPs: legislation and supervisors prefer other professionals such as asset managers

- Is this because actuaries are not considered fit for the role ?
- Is this because the actuarial profession does not show interest ?
- Create better understanding and awareness

Conclusions and actions

Actuaries are the Actuarial Function Holder of IORP in Europe

- Pensions Committee : Focus on this role in function of art 27 IORP Directive
- Risk Management Committee : Give content to paragraph (h) contribute to the effective implementation of the risk management system.

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