




AAE pension risk management

IORP II ORA versus Solvency II ORSA + IORP survey

Agenda

- Background & some numbers
- ORA: Own Risk Assessment (IORP II) vs.
ORSA: Own Risk and Solvency Assessment (Solvency II)
- IORP survey



Risk management
& policy holder
protection in new
light

Poll 1

Are you familiar with? (only 1 answer)

- IORPs and the IORP II directive?
- Insurance companies and Solvency II?
- Both IORP II and Solvency II?

Background

Background

AAE working group: **Pension Risk Management**

First priority in WG: **IORPs**

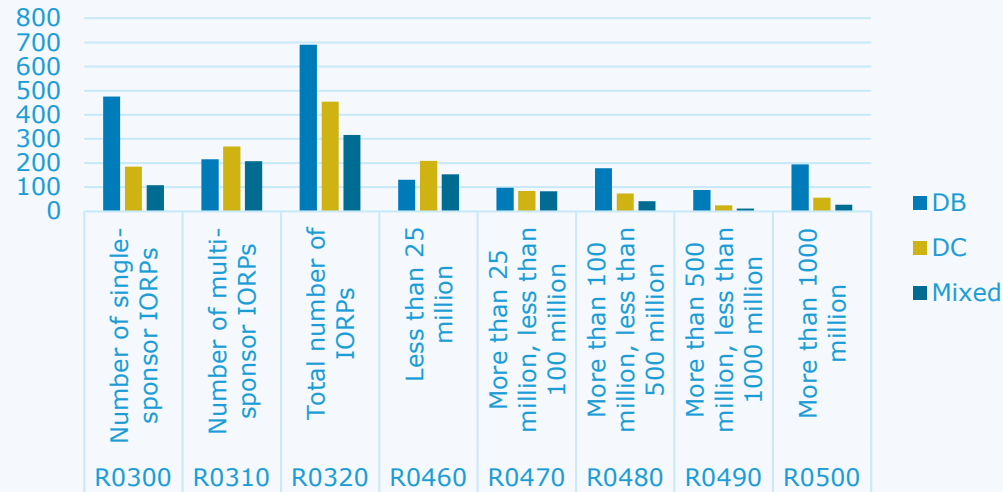
WG Purpose

- 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

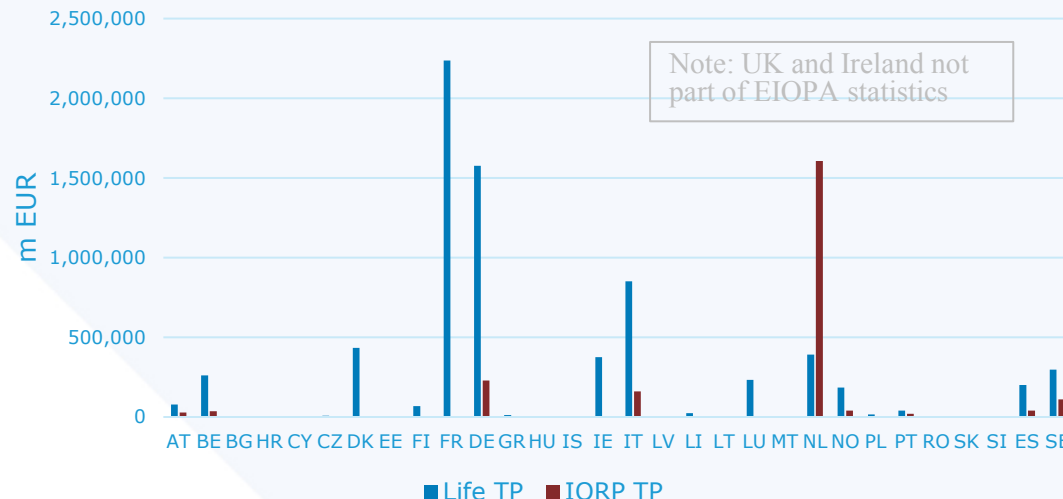
NOTE: Only pensions in scope – not insurance

IORPs vs. "normal" pensions – the numbers

Source: EIOPA insurance statistics and Occupational pensions statistics.



Technical provisions (m EUR)



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

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

ORA vs. ORSA

Why the comparison?

- We are seeking answers:
 - Should policyholders expect different levels of protection and risk management?
 - If so, is it fair?
 - Is one better than the other?
 - Can we learn from each other?
- Where to start: Let's look at the purposes of the regimes

Regime purposes



EIOPA: IORP II purpose

- Support cross-border collaboration
- Ensure 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



EIOPA: 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

Note: Not completely fair comparison... IORP II is broader than Solvency II

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)

Conclusions... and more questions to be answered

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?
- Are there significant differences in the investment strategies in IORPs vs. insurance?
- Is prudence better than risk based capital requirements? For whom?



IORP survey

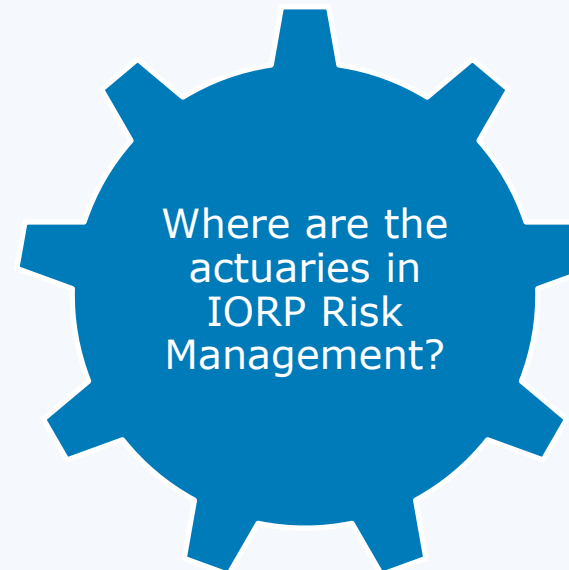
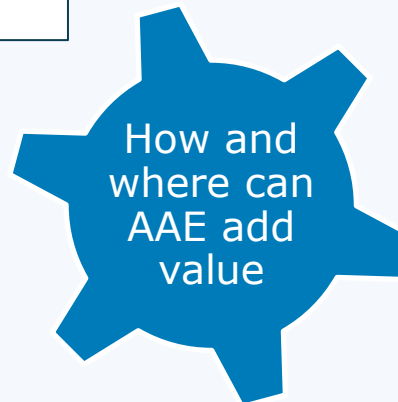
Why organise a survey ?

- SII introduces RMF and AF for insurance companies : survey 218 :
 - All AFH are actuaries
 - 50% of RMFH are actuaries
 - EAS and EAN have been created for both
 - CERA supports actuaries oriented RM

=> *similar evolution for IORPII ?*

Thank you

- 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

• 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 (bias influenced by Ireland with high number of IORP)
- Risk Management Function and Actuarial Function are not combined
- 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

=> RMC to organize adapted environment for actuaries in RM

IORP Legislation

- The IORP EU Directive is implemented in all countries
- Differences in B – DK – ES – NL - 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 – SE (and UK)
- Supervisors have published guidelines for the RMF in B – ES – SE (and UK)
- Other roles for actuaries are often included in legislation

Key observations and conclusions

Actuaries are not necessarily the risk managers of pension institutions

- Actuaries do play a role in RM in only 6 on 12 countries
- It is not the nature of IORP that is the reason : 58% of IORPs are managing DB or mixed schemes
- 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

- The Pension environment is very different all over Europe
- The organisation of pensions legal and private (occupational and personal) is specific for each country
- The Institutions for Occupational Retirement Provisions (IORP) are not used in all countries (number – size – nature)
- The IORP Directive does not cover the first pillar

=> *Approach of risk management for IORPs is different*

=> *The role of the actuary for IORPs is different and by extension for occupational pensions*

- Actuaries are not necessarily the Risk Management Function Holder for IORPs: legislation and supervisors prefer other professionals such as asset managers
 - Is this because actuaries have other roles for occupational pensions ?
 - 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*

=> *Look for common ground : actuarial approach and professional framework (implementation on a local basis)*

Key observations and conclusions

- Solvency II covers the risks for the insurance company, not necessary for the occupational pension scheme of the policyholder
- IORP II covers the governance and reporting risk of the institution and of the occupational pension scheme
- Some countries tend to have a regulatory requirement such as “scheme actuary”, “pension expert”, ...
- Is this the way forward : the scheme actuary ?
 - Next or combined with SII or IORPII
 - Ensure respect of interest of all stakeholders
 - Manage risks and protection related to benefits
 - Monitor fairness of underlying products and distribution of funds

Poll 2

Does it make sense that the AAE creates a framework for risk management for pensions that can be implemented in the different environments?

- ☐ Yes
- ☐ No

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