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Press release

EIOPA IORP Stress Test results not surprising - PensionsEurope ready to co-operate with EIOPA to further develop cash flow analysis

European Insurance and Occupational Pensions Authority (EIOPA) published the results of 2019 IORP (Institutions for occupational retirement provision) stress test on 17 December 2019. 176 IORPs from 19 countries participated in this third Europe-wide IORP stress test whose objective was to assess the resilience of IORPs to an adverse market scenario, and to analyse the second-round effects on the real economy and financial markets.

PensionsEurope is not surprised by the results. The 2019 stress test used the relatively challenging end-2018 as the reference date and applied a substantial shock on especially equity related investments on top of that. As some of the major stocks indices fell sharply in December 2018 – suffering one of the worst declines since the 2008 financial crisis – with an additional shock in the stress scenario had a significant impact on the results.

Janwillem Bouma, Chair of PensionsEurope, said:

"First of all, I would like to thank EIOPA for constructive dialogue with PensionsEurope again on this years' stress test. We have appreciated it, and we look forward to continuing the dialogue with EIOPA to improve the stress test methodology, in particular CFA.

The results confirm IORPs' countercyclical behaviour and important role in stabilising financial markets. As long-term investors, IORPs are able to mitigate financial shocks and work as stabilising factor for the financial sector. IORPs' long-term investment horizon and their ability to follow contrarian investment strategies support the proposition that IORPs can act as shock absorbers in the economy by providing liquidity and by not being forced to sell assets, when asset prices are squeezed, but buying these to rebalance to their strategic asset allocation. These results support the results of EIOPA's previous *IORP stress tests and confirm that IORPs have buy-and-hold asset strategies. It is important that legislation continues to allow IORPs' countercyclical behaviour."*

It is clear that EIOPA's severe stress scenario leads to lower funding ratios. If this unlikely severe scenario would happen, it would of course have impact on stakeholders in the form of higher contributions and (possibly) lower benefits. In many countries, sponsor(s) would have to pay higher contributions, and in some situations, this could also be the case for members. Some countries would grant less indexation or would even cut benefits.

The EIOPA stress test report highlights that the applied, extended cash flow analyses provided important insights in the effects of the stress on sponsors, members and beneficiaries. As EIOPA correctly notes in its report, the common balance sheet cannot provide information e.g. on the timing and allocation over time of the balance sheet items.

Matti Leppälä, Secretary General/CEO of PensionsEurope, said:

"Good risk management is very important for running IORPs, and appropriate stress tests can have added value in assessing IORPs' risks and impact on financial stability. PensionsEurope is happy that EIOPA also used the cash flow analysis approach to assess the financial position of IORPs, as it sheds new and more relevant light on the financial position of DB and hybrid schemes. It gives more insight in the timing and size of cash flows and can be related to economic indicators such as GDP and consumption."

The results of the 2019 stress test show that the EEA pension sector is, on average, better funded in the baseline compared to previous exercises. In the baseline scenario, the aggregated assets positively exceeded liabilities by 2% (= 19 billion euro).

In this year's exercise, EIOPA also explored the integration of ESG factors by IORPs. According to the results, the majority of IORPs have integrated all three ESG factors.

Niels Kortleve, Chair of PensionsEurope WG on Stress Testing, said:

"PensionsEurope Member Associations and their pension funds expect that the share of sustainable investments will continue increasing in the coming years. In general, ESG investments are becoming more are more mainstream, and there is an increasing awareness and interest in ESG consideration amongst pension funds and asset managers.

The results of the DB and DC stress tests were strongly influenced by only one country each: DB by the Netherlands and DC by Italy. Considering the continuing shift from DB to DC, a horizontal approach aligning DB and DC parts of the stress test is warranted in order to make the future IORP stress tests more relevant. PensionsEurope stands ready to cooperate with EIOPA to share our expertise and experience e.g. on CFA and ESG."

PensionsEurope will now carefully analyse EIOPA's publication and will provide a position paper on EIOPA 2019 IORP stress test, which will also contain PensionsEurope's further proposals on cash flow analysis. PensionsEurope is willing and ready to provide its expertise to EIOPA to further define its stress testing methodology in order to address all specificities of the IORPs sector.

About PensionsEurope

PensionsEurope represents national associations of pension funds and similar institutions for workplace and other funded pensions. Some members operate purely individual pension schemes. PensionsEurope has **24 member associations** in 18 EU Member States and 3 other European countries[1].

PensionsEurope member organisations cover different types of workplace pensions for over **110 million people.** Through its Member Associations PensionsEurope represents more than **€ 4 trillion of assets** managed for future pension payments. In addition, many members of PensionsEurope also cover personal pensions, which are connected with an employment relation.

PensionsEurope also has **29 Corporate and Supporter Members** which are various service providers and stakeholders that work with IORPs.

PensionsEurope has established a **Central & Eastern European Countries Forum (CEEC Forum)** to discuss issues common to pension systems in that region.

PensionsEurope has established a **Multinational Advisory Group (MAG)** which delivers advice on pension issues to PensionsEurope. It provides a collective voice and information sharing for the expertise and opinions of multinationals.

What PensionsEurope stands for

- A regulatory environment encouraging workplace pension membership;
- Ensure that more and more Europeans can benefit from an adequate income in retirement;
- Policies which will enable sufficient contributions and good returns.

Our members offer

- Economies of scale in governance, administration and asset management;
- Risk pooling and often intergenerational risk-sharing;
- Often "not-for-profit" and some/all of the costs are borne by the employer;
- Members of workplace pension schemes often benefit from a contribution paid by the employer;
- Wide-scale coverage due to mandatory participation, sector-wide participation based on collective agreements and soft-compulsion elements such as auto-enrolment;
- Good governance and alignment of interest due to participation of the main stakeholders.

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[1] EU Member States: Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Romania, Spain, Sweden, UK. Non-EU Member States: Iceland, Norway, Switzerland.