



Understanding the European pensions landscape

Pre-Summit on Pensions

Amsterdam, 2 November 2011

Prof. Karel van Hulle

Head of Insurance and Pensions Unit

European Commission 
Internal Market & Services DG

EU-wide consultation on pensions completed

- Green Paper of 7 July 2010
- Integrated approach: coordination of financial market regulation with economic and social policies.
- Over 1600 responses (350 organisations)
- Report of the European Parliament (16/02/2011)
- Summary of the European Commission (07/03/2011, see <http://ec.europa.eu>)

Main messages from the consultation

1. Sustainability of the public budgets and adequacy of pensions remain the main goals of pension policy.
2. A higher effective retirement age is required.
3. Tracking services in the Member States for EU citizens to facilitate the overview of all their pension rights.
4. EU should continue to support national pension policies through supervision, coordination and mutual learning.
5. Single Market can support sustainability and adequacy through **efficiency** (cross-border activity) and **safety** (risk-based supervision).

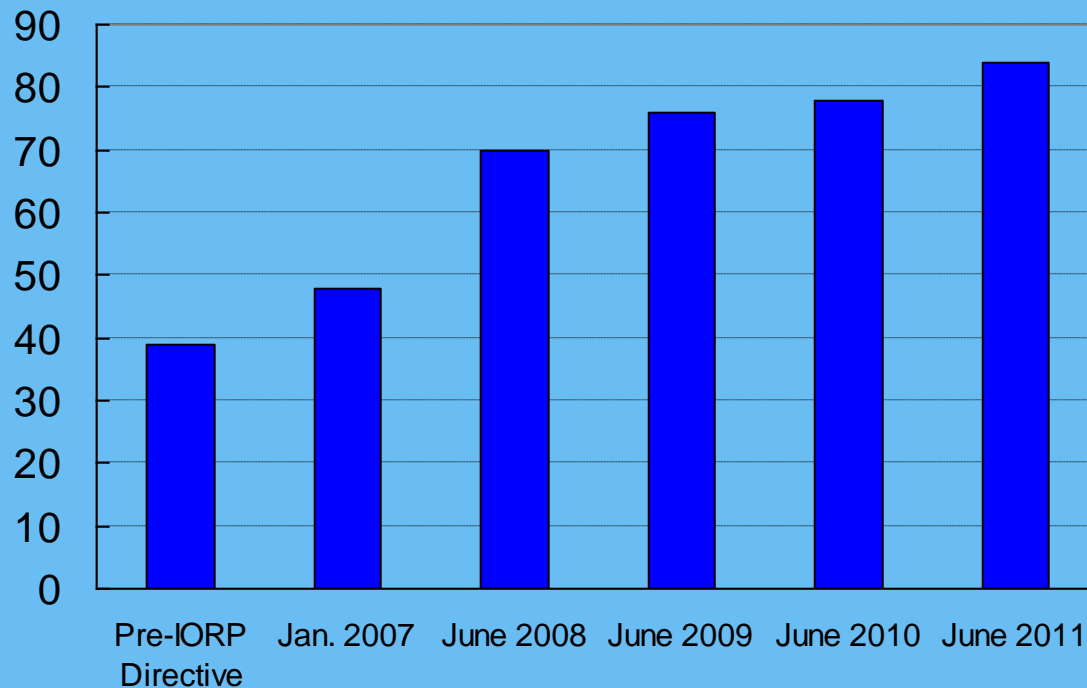
Three main follow-ups taking place in parallel

- White Paper on pensions (by the end of this year)
- Structured pension reform discussions with Member States as an essential part of economic policy – European Semester
- Deepening the Single Market: **review of IORP Directive** (institutions for occupational retirement provision) by Q4 2012

Agenda

1. Why is the Commission reviewing the IORP Directive?
2. State of play

Still a long way to go ...



**84 cross-
border cases
in EEA**

Source: EIOPA.



Strengthening the Single Market

- IORP Directive adopted in 2003; but just an “enabling” directive: minimum harmonisation.
- Review aims to:
 1. Facilitate cross-border activity for IORPs
 2. Introduce risk-based supervision for IORPs and ensure regulatory coherence with Solvency II for insurers
 3. Increase transparency

1. Facilitate cross-border activity

Objective

Reduce costs for employers by simplifying the legal, regulatory and administrative environment.

How?

- Clarify the definition of cross-border activity.
- Eliminate additional rules for cross-border activities: shorter recovery plans, investment rules and disclosure requirements.
- Clarify the scope of prudential regulation (in relation to social and labour law).
- Expansion of the scope of the IORP Directive to other types of occupational pension schemes, particularly pension schemes operated by private financial institutions.

2. Risk-based supervision and coherence with Solvency II

- Controversial issue in the European Union
- Complex because occupational pensions exist in various forms:
 - Insurers (subject to Solvency II);
 - pension funds with own funds (subject to Solvency I);
 - pension funds backed by the sponsoring employer (subject mostly to national funding rules).

Review of solvency rules for pension funds

- Most EU stakeholders feel that Solvency II rules should not be directly copied and pasted to the IORP Directive!
- Need to create a level playing field between IORPs and insurers offering pension products (modern risk-based regimes)
- Make sure pension fund characteristics are taken into account → divergences from Solvency II must be justified.

Main proposals currently envisaged

- Introduction of risk-based supervision (also to account for diversification)
- Market consistent valuation of assets and liabilities
- Pillars 2 and 3 of Solvency II contain useful principles to promote good governance and transparency
- For Pillar 1 -> substance over form:
 - The IORP takes risks -> IORP II should allow for additional security risk mitigation mechanisms: eg benefit cuts, conditional indexation, contingent assets and liabilities, reinsurance, pension protection fund.
 - The IORP takes no risks -> no capital requirements, but there should be a simple illustration of the liabilities and assets (eg sponsor covenants) to ensure comparability.

3. More transparency for scheme members and beneficiaries

- Particularly for defined contribution (DC) and mixed defined benefit (DB) systems: claims, guarantees, risks and costs
- Key Investor Information Document (Kiid) for PRIIPs (investment products for retail investors) as a good starting point?

Next steps?

- Call for Advice from EIOPA sent on 7.4.2011 (www.europa.eu)
- Influential role for the European supervisory authority
- 5 main themes:
 - Scope of the IORP Directive
 - Cross-border-activity
 - Risk-based supervision (incl. solvency rules)
 - DC schemes
 - Statistics for the impact assessment study: focus on the MS which are particularly affected (eg NL, DE, UK)
- Consultation in the EIOPA Pensions Stakeholder Group launched on 25.10.2010

Next steps?

- Technical advice from EIOPA by mid-February
- Impact assessment study: impact on the cost and supply of occupational retirement provision
- Public Hearing for the IORP Directive review in Brussels on 1 March 2012
- Q4 2012: Commission proposal for a revised IORP Directive; framework directive (principles based)



Understanding the European pensions landscape