

Consultation paper on draft Opinion on the supervision of long-term risk assessment by IORPs providing DC schemes

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the draft Opinion on the supervision of long-term risk assessment by IORPs providing DC schemes.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Thursday, 22 July 2021, 23:59 CET** by responding to the questions below.

Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the survey below. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents [1] and EIOPA's rules on public access to documents[2].

Contributions will be made available at the end of the public consultation period.

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[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

[2] [Public Access to Documents](#)

[3] Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45 /2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

About the respondent

* Please indicate the desired disclosure level of the responses you are submitting.

- Public
 Confidential

* Stakeholder name

Assoeuropea - Assoeuropea gathers the main representatives of Italian IORPs (Assofondipensione, Assoprevidenza and Mefop); the association represents 6 million active members and 150 billion Euros of assets under management.

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Questions to Stakeholders

Q1: Do you agree with the focus of the draft Opinion on the quantitative elements in operational risk management and long-term risk assessment from the perspective of members and beneficiaries?

- Yes
 No

Please explain and provide any suggestions for further aspects of DC risk management that need attention.

The Italian landscape of IORPs is mainly composed of DC schemes, so the initiative of EIOPA is of paramount importance and we welcome the opportunity to further reflect on these topics.

In DC schemes the ultimate bearer of the risks is the member/beneficiary, so it is necessary that these IORPs consider the risks from the perspective of members and beneficiaries. The IORP2 directive goes in the right direction when requesting IOPRs in which members and beneficiaries bear risks, to consider in the risk management system, the risks from the perspective of members and beneficiaries. Also, it is important that the Own Risk Assessment requests IORPs to assess the risks to members and beneficiaries relating to the paying out of their retirement benefits. IORPs are aligning their risk management systems to the requirements stemming from the IORP2 directive, moreover, at least in certain jurisdictions (Italy, for example), the consideration of the risks from the perspective of members and beneficiaries, as envisaged by EIOPA, at least for some features, is nothing new and is a common tool (please, refers to the answer to Q 9 for a detailed explanation of the Italian landscape).

As regards the consideration of quantitative elements in operational risk management, we deem positive that IORPs may start to do these evaluations.

Against this background, Assoeuropa is not convinced that the best way to proceed on these topics for EIOPA is to make references to models and formulas. IORP2 is a minimum harmonization directive as the EU IORPs are not a monolith; DC schemes themselves differ across the EU, being organized in different ways. It follows from these differences that the “one-size-fits-all” approach does not seem the best way to proceed. Assoeuropa calls for a bottom-up process, based on an assessment of the current models used by IORPs for quantitative evaluations of operational risks as well as for the consideration of the risks from the perspective of members and beneficiaries, once the directive has been fully implemented, and carried out by NCAs. The national assessment should be the basis to define models and formulas that could be used by IORPs as standards. After that, the national experiences could be shared also at EU level, to explore the opportunity to find commonalities between different DC IORPs experiences. In our view, the national dimension seems more appropriate to define such models and formulas. The advantage of the bottom-up process we suggest EIOPA to evaluate, is that formulas to measure quantitatively the operational risks as well as models for the risk assessment on the perspective of members and beneficiaries, would be based on the experiences that DC IORPs are developing in that period.

Q2: Do you agree that Annex 2 provides a balanced view of the costs and benefits of the draft Opinion?

- Yes
- No

Please explain and provide any suggestions.

Annex 2 seems to provide general expectations in terms of costs and benefits stemming from the expected Opinion, on which we agree.

It may be important to encourage IORPs to start to quantify operational risks exposures in terms of asset value losses, also if the IORP2 directive only requests for qualitative measurements.

Assoeuropea deems positive that DC IORPs use projections for future retirement income to assess the risks from the perspective of members and beneficiaries. We agree on the fact that stochastic projections may be more insightful than deterministic, but they come with higher costs and so we appreciate the proportional approach followed by EIOPA to leave some room at national level (stochastic vs. deterministic). However, an effective analysis of the real costs that IORPs should bear to implement the proposed new risk management requirements is missing while being a relevant piece, not only for small DC IORPs, but also for schemes where such projections are already made. For the latter, even though EIOPA is planning to allow for sufficient flexibility in order not to interfere, even the mere definition of a limited number of high-level principles may be problematic, in the measure in which they are not aligned with those in place. In our view, such costs assessment could be better done at national level, as the NCAs are well placed to do these evaluations, given that IORP2 directive does not back or propose risk management models and DC IORPs are free to define the stochastic (or deterministic) approach that better fit its needs. It should follow the assessment of the risk management methodologies used by DC IORPs to take into account risks in the perspective of members and beneficiaries, as a step of the process to define the national best practices. EIOPA bases the will to define rules on the measurement of operational risks and on the risk assessment in the perspective of members and beneficiaries on the finding that only in few Member States national regulations and/or supervisory guidance are in place. However, the reason for these findings is that IORP2 has been fully transposed in the Member States only recently and NCAs are currently gradually issuing the second level regulation. It means that IORPs are aligning to the directive (at least it is the case of Italy). Based on that, the findings of the survey are not a surprise, IORPs need time to fully implement the new and costly provisions of the IORP2 directive. As regards operational risks, it is worth to remind that IORP2 only requests for qualitative evaluations.

Moreover, in general, given that the adequacy of the retirement income is the institutional goal of IORPs, the management of the IORPs themselves already takes into account the risks from the perspective of members and beneficiaries. It happens both in the case in which risks are borne by the sponsors, and in the case in which risks are borne by members and beneficiaries. As an example of that, EIOPA should consider that the investment of the assets obey the prudent person principle and the assets shall be invested in the best long-term interests of members and beneficiaries as a whole (Directive 2016/2341, art. 19). Since the risk management system also has to consider the risks stemming from investments, it means that, by definition, risk management already takes into account the risks in the perspective of the members and beneficiaries. Assoeuropea is concerned by the will of EIOPA to ensure cross-sectoral consistency with the PEPP regulation. EIOPA contradicts the recital 19 of Regulation (EU) 2019/1238 which states that the PEPP Regulation won't affect occupational schemes and products. Moreover, recital 20 states that a PEPP is an individual non-occupational pension product. We do not recognize neither the opportunity nor the need to ensure cross-sectoral consistency between DC IORPs and PEPPs. Of course, an IORP providing a PEPP will have to abide by the PEPP regulation.

Q3: Do you agree with the scope of application of the Opinion, i.e. all IORPs providing schemes where members and beneficiaries bear material risks, or should the scope of the Opinion cover only IORPs providing schemes where members and beneficiaries bear all risks?

- Yes, Opinion should apply to all IORPs where members and beneficiaries bear material risks
- No, Opinion should apply to IORPs where members and beneficiaries bear all risks

Please explain and provide any alternatives that EIOPA should consider.

Assoeuropea agrees that the expected Opinion should apply to all IORPs where members and beneficiaries bear material risks, even though the concept of materiality does not seem to be well defined, and boundaries between IORPs are becoming blurred. As EIOPA itself recognizes, also in DB schemes with full guarantees members and beneficiaries are exposed to some risks and it appears to be restrictive to limit the expected Opinion to schemes where risks are fully borne by members and beneficiaries. The risk management in the perspective of members and beneficiaries should be carried out by all IORPs for which these risks matter. Assoeuropea is of the opinion that the IORPs themselves are better placed to determine when members and beneficiaries bear material risks, especially once the alignment to IORP2 will be fully realized.

Q4: Do you agree that the use of quantitative elements in operational risk assessment should be encouraged?

- Yes
 No

Please explain how this could best be done in your view.

Assoeuropea encourages a quantitative risk assessment of operational risks by IORPs. However, the IORP2 directive only requires quantitative measures of these types of risks; this desirable step forward should be the result of an evaluation of the IORP itself and not be linked to regulation.

The category of operational risks is very wide and takes into account very different types of risks, consequently it is extremely difficult to define a common quantitative measure of operational risks. Any formula would be based on some assumptions and the measurement of the same phenomenon could differ based on the formula (and underlying assumptions) used by the IORPs.

EIOPA suggests limiting the quantitative assessment of operational risks to those related to the activities performed directly by the IORPs themselves, given that the quantitative evaluation of operational risks stemming from outsourced activities would be even more challenging. While fully supporting the judgment on the quantitative evaluation of operational risks related to outsourced activities, we question the insightfulness for the boards of IORPs to have a partial quantitative assessment of operational risks, especially where IORPs outsource a large share of their activities. In Italy, for example, usually IORPs outsource to third parts relevant activities like, for example investments, administrative services, supervisory reporting (the list is not exhaustive); a quantitative evaluation of the residual operational activities would be not insightful while, at the same time, would be very costly for IORPs and, in the end, for members and beneficiaries.

Q5: Are in your view the Value at Risk (VaR) formulas presented in Annex 3 helpful for better understanding the possible quantitative impact of operational risk exposures of DC IORPs?

- Yes
 No

Please explain and provide any suggestions or alternatives that EIOPA should consider.

Assoeuropea disagree with the will of EIOPA to back quantitative measures for operational risks; we are of the opinion that the possible appropriate quantitative measure should be freely decided by each IORP, based on its own characteristics.

Value at risk measures suggested by EIOPA are one method to quantitatively evaluate operational risks but other methods are also in place and should be up to the IORPs to decide the more appropriate, in the case in which it would approach the step.

Also in this case Assoeuropea prefers a bottom-up process, based on an assessment of the current models used by IORPs for quantitative evaluations of operational risks as well as for the consideration of the risks from the perspective of members and beneficiaries, once the directive has been fully implemented, and carried out by NCAs.

Q6: Do you agree that the risk assessment from the perspective of members and beneficiaries should include a long-term assessment using projections of future retirement income?

- Yes
 No

Please explain.

Assoeuropea does agree on the fact that the risk management should focus on the achievement of the target defined by the investment policy of the IORP. This activity starts with the set up of the investment options (where members are allowed to choose the investment option) and continues during the investment horizon. However, in the case of DC IORPs where members and beneficiaries fully bear the risks of the plans, they have to be fully aware that losses may arise. The risk assessment in the perspective of members and beneficiaries is not a guarantee against losses. Conducting long-term risk management without a disclaimer on that key feature of DC IORPs (members and beneficiaries bear the risks), risks confusing on the real nature of DC IORPs and, in the end, it could represent a risk for members and beneficiaries. Assoeuropea agree on the fact that the target on the investment options should be disclosed in the SIPP and in the other documents of the IORPs (if legally requested).

Assoeuropea agree that projections of future retirement income are a way to conduct the risk assessment from the perspective of members and beneficiaries. The projections have to be realistic and market consistent; stochastic projections are more insightful but also expensive and complex. IORPs should be free to define the best way to realize the projections, taking into account a proportionality principle, and based on the fact that the IORP2 directive does not define risk management techniques to which IORPs have to stick to. IORPs could also use other risk management tools.

The long term risk assessment should take into account the risks borne by members and beneficiaries (market, operational, ESG,...) as well as the characteristics and the costs of the plan.

Q7: In your view, what are the potential benefits and limitations of using pension projections for long-term risk assessment in the context of DC-based pension schemes that are prevalent in the EU Member States or your Member State? Please explain and provide any alternative methods that should be considered.

Pension projections are a common tool for Italian IORPs. The SIPP has to report the expected yearly average return (gross and net) and its volatility in the investment horizon, for every option offered by the plan to its members. The SIPP also reports the probability of not reaching the planned or targeted benefit payment. Projections are used to assess these characteristics even though no single model has been defined and each IORP has set up its own model.

Pension projections are a useful tool to define the investment options available for members. Right now, as SIPPs are available on web sites, pension projections could be also used by members to select the appropriate investment option, both at the enrollment and during the accumulation phase (in Member States where it is allowed to change investment option during the accumulation phase), but it is too early to assess on that. On this perspective, some concerns arise with the pension projections for the Pension Benefit Statement. Generally speaking, complex staff are not deemed helpful to select between different options. One limitation of pension projections for long-term risk management is the risk that the legislation relating to the first pillar could undergo some significant changes to maintain solvency. IORPs could explain this risk to members/beneficiaries and try to mitigate it.

Q8: Could you provide information on the use in practice of pension projections for the purpose of risk management and/or the design of investment strategies (e.g. in Europe, your country or within your IORP)?

- Yes
 No

If yes, please provide this information.

In Italy, NCA already requests a long-term risk assessment from the perspective of members and beneficiaries not so different from the one suggested by Eiopa. When defining the number of investment lines available for members, their risk/return profile and their investment strategies, IORPs have to take into account the socio-demographic characteristics of the eligible workforce and its retirement needs (adequacy of the income at retirement). The investment strategies of the lines are assessed every three years (or less, if needed) and are explained in the SIPP as well as in the pre-contractual documents. Right now, the SIPP is publicly available on the web site of the IORPs. The SIPP has to report the expected yearly average return (gross and net) and its volatility for the investment horizon of the options. It is also reported the probability of not reaching the planned or targeted benefit payment. To define the risk/return profile of the investment lines the current members are in general used as a proxy, data from the first pillar are usually derived from social security databases. Market and labor variables may be considered for the projections. No specific model is suggested and IORPs are free to define their own models (deterministic or stochastic).

Q9: Do the principles for conducting projections of future retirement income strike the right balance between setting sensible minimum standards and recognising the specificities of DC schemes in the various Member States?

- Yes
 No

If not, please explain your suggestions to make the principles more or less specific and/or to add or remove principles.

Assoeuropea disagree with the aim of the expected Opinion to set sensible minimum standards for conducting projections of future retirement income. While projections of future retirement income are a good technique to conduct the long-term risk assessment, the IORP2 directive does not back models for the risk assessment. It is up to the single IORP to define the model that better fits its characteristics.

The sensible minimum standards for projections could interfere with national regulations, as it is the case of Italy, where IORPs are free to define their projection methods. The sensible minimum standard defined by EIOPA would become a standard for IORPs across the EU, contradicting the spirit of IORP2 (minimum harmonization), and triggering a problem for IORPs that already abide by national provisions on this domain, like in Italy.

EIOPA should refrain from issuing such sensible minimum standards.

It may be worthwhile to remind that under the IORP2 directive the only reference to pension projections is under the domain of the Pension Benefit Statement (not for risk management purpose) and member states are entitled to define the rules for conducting such projections.

Q10: Do you agree with the content of the below principles, as put forward in paragraphs 3.14-3.28 of the draft Opinion:

	Yes	No
Stochastic scenarios of asset returns	<input checked="" type="radio"/>	<input type="radio"/>
Market-sensitive and realistic assumptions	<input checked="" type="radio"/>	<input type="radio"/>
Characteristics of members and beneficiaries	<input checked="" type="radio"/>	<input type="radio"/>
Pension scheme characteristics	<input checked="" type="radio"/>	<input type="radio"/>
Target variables and risk & performance indicators	<input type="radio"/>	<input checked="" type="radio"/>

If not, please provide your suggestions to improve the principles.

Stochastic scenarios are a good way to feed pension projections; while their results are highly reliable, they are complex and not easy to understand by members.

Assoeuropea agree on the need to define target variables and risk/performance indicators.

Assoeuropea deem inappropriate the reference to PEPP regulation as well as that to the OECD Pension Outlook 2020 – Selecting default investment strategies, Chapter 4, 7 December 2020. The IORP2 directive does not endorse risk management models (and the underlying assumptions), recognizing the differences across EU IORPs and the lack of the need for standardization. IORPs should be free to determine the target variables and risk & performance indicators, based on the characteristics of the schemes as well as of members and beneficiaries.

Q11: The supervisory expectations recognise and allow different methods to establish the risk tolerance of DC members and beneficiaries. Do you agree or would you propose more specific guidance?

- Yes, agree to recognise and allow different methods
- No, would propose more specific guidance

Please explain and provide any suggestion.

EIOPA is right in recognizing and allowing flexibility in the estimate of the risk tolerance of DC members and beneficiaries, as an objective methodology for defining such risk tolerance of members is generally not available. Members of the IORP should be adequately profiled, taking into account the age, the contribution flow, the expected retirement income, 1st pillar entitlements.

Q12: Do you agree that the design and the periodical review of the investment strategy, or investment strategies in case of multiple investment options, should consider the long-term risk assessment using projections of future retirement income, taking into account their risk tolerance?

- Yes
 No

Please explain and provide any suggestions.

Assoeuropea agree that the design and periodical review of the investment strategies should consider the long-term risk assessment using projections of future retirement income and taking into account the risk tolerance.
This activity should not be stand-alone, instead it should be conducted on a continuative basis to verify the achievement of the target of the investment strategy of each investment line.

Q13: What should in your view be the frequency of conducting the risk assessment using pension projections? Is at least every three years sufficient, unless there is a significant change in the risk profile, as provided by Article 28 (ORA) and Article 30 (SIPP) of the IORP II Directive. Or should DC IORPs conduct these projections more regularly, as suggested by Article 25 (Risk-management system).

- At least every three years, unless there is a significant change in the risk profile
 More regularly

Please explain.

Assoeuropea agree that at least three years is sufficient, unless the case in which there is a significant change in the risk profile of the investment options.

Q14: Do the expectations put forward in the draft Opinion achieve a proportionate approach to DC risk management, fitting small-, medium- and large-sized IORPs?

- Yes
 No

If not, please provide your suggestions to improve proportionality of the draft Opinion.

Assoeuropea supports the right objective to take the interest of members and beneficiaries at the heart of the risk management system and already right now, at least in some member states like Italy, this objective is already achieved. However, it may be worth to recall that the IORP2 directive states that it is up to every IORP to define the better risk management system and to carry out the own risk assessment, in a manner that is proportionate to its size and internal organisation, as well as to the size, nature, scale and complexity of its activities. The IORP2 directive does not define risk management systems.

We recognize that stochastic (or deterministic) projections could be used for risk management purpose. EIOPA's proposals could be one method to carry out stochastic projections, but it is not the only one. IORPs should be free to use other methodologies that better fit their characteristics.

* Q15: Do you have any other comments on the draft Opinion?

- Yes
- No

If yes, please provide these other comments.

One source of risk that should be considered in the long-term risk assessment which is not explicitly mentioned in the consultation document are ESG factors. They are explicitly mentioned in the IORP2 directive and should be considered in such assessment.

Another issue to consider could be the control of the flows of liabilities, providing for an asset allocation that specifically takes into account them. In the current environment of enduring low interest rates, with an increasing number of IORPs are pushing for illiquid asset. A control of flows could therefore be envisaged, especially for the community in a decreasing phase.

Contact

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