



CEIOPS

Committee of European
Insurance and Occupational
Pensions Supervisors

Solvency rules for pension funds

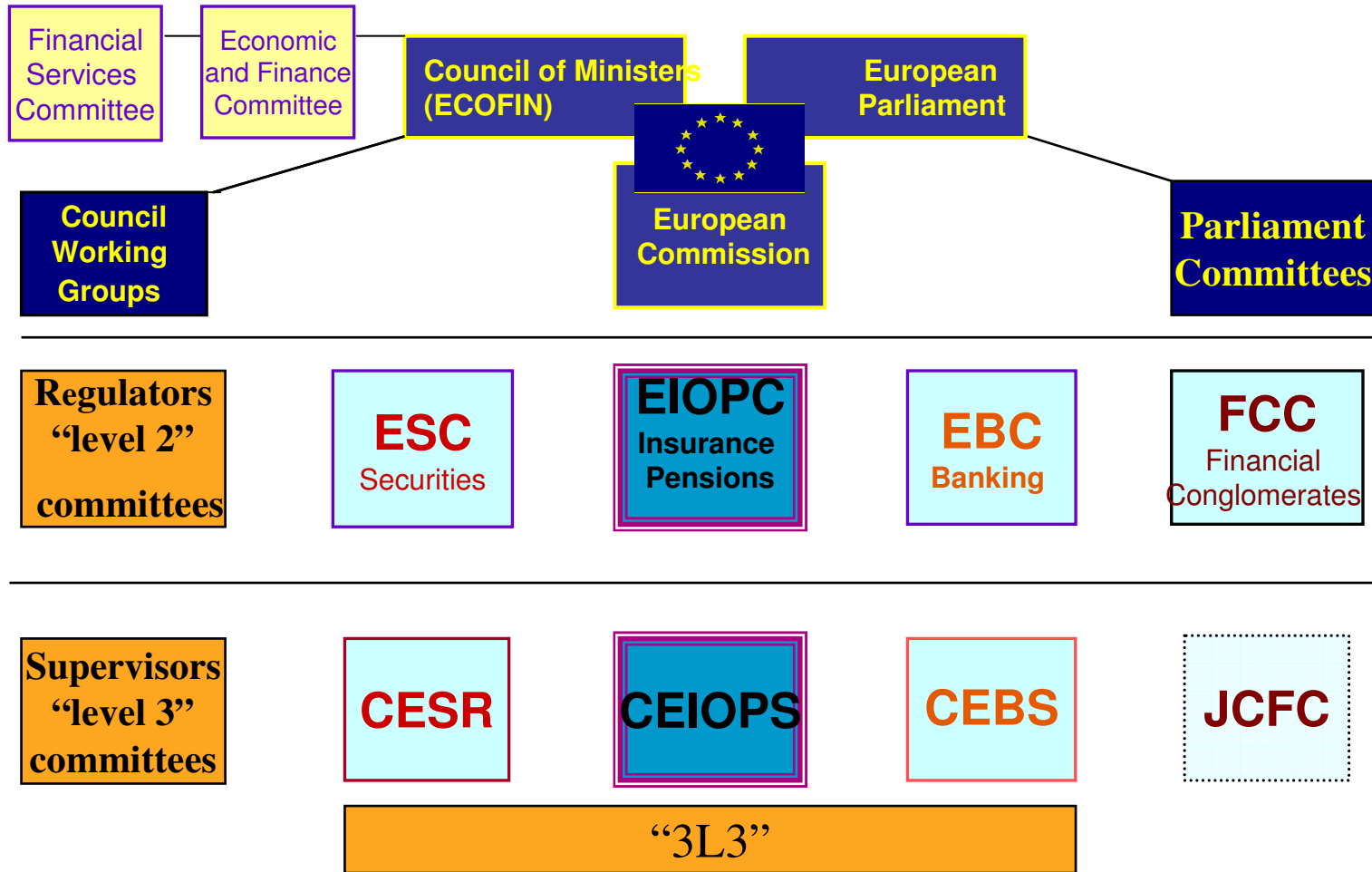
Teresa Turner, CEIOPS Secretariat

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Executive summary

- About CEIOPS
- Solvency rules & pension funds – where are we?
- Risk based supervision – can pensions learn from Solvency II?

About CEIOPS - CEIOPS' role in the Lamfalussy process



Solvency rules & pension funds – where are we?

□ Harmonisation and convergence:

- Prudential rules for IORPs governed by the IORP Directive – minimum harmonisation, subsidiarity principle
- Increased regulatory harmonisation would make supervisory convergence easier
- But no common view on how to achieve it
- Very wide diversity in national approaches, partially reflecting historical, cultural and social differences
- Views polarised between the insurance industry and the pensions industry

Solvency rules for pension funds – where are we?

□ Risk management

- Financial crisis has shown the need for effective risk management in the financial sector (both on the asset/investment side and the liability side, eg biometric risk side of the balance sheet)
- Current prudential framework for IORPs is not risk oriented
- CEIOPS survey shows a great diversity in risk-management rules and supervisory practices in relation to IORPs



NEED FOR RISK BASED SUPERVISION FOR IORPs ALLOWING FOR THEIR NATURE, ROLE AND INSTITUTIONAL CONTEXT

Solvency rules & pension funds – where are we?

- ❑ CEIOPS has identified 4 common over-arching principles:
 - **Forward looking risk based approach** to pension supervision that weighs the potential risks faced by IORPs as well as risk mitigants, and tailors the scope and intensity of supervision to this appraisal
 - **Market consistent valuations** of assets and liabilities for supervisory purposes (but no consensus here)
 - **Transparency** – IORP is open about how its financial position is determined, any funding surpluses in deficits the level of prudence embedded in the calculation of technical provisions and the security mechanism used
 - **Proportionality** – supervisory requirements are applied in a manner proportionate to the nature, complexity and the scale of the risks borne

Solvency rules & pension funds – where are we?

- CEIOPS believes that Pillars 2 and 3 of Solvency II could provide useful starting point for developing a risk based approach to the supervision and reporting of IORPs
- Views on approaches to the calculations of technical provisions and capital requirements very diverse - CEIOPS stands ready to work with the European Commission on developing a suitable approach

Pillar 2: Qualitative risk based supervision

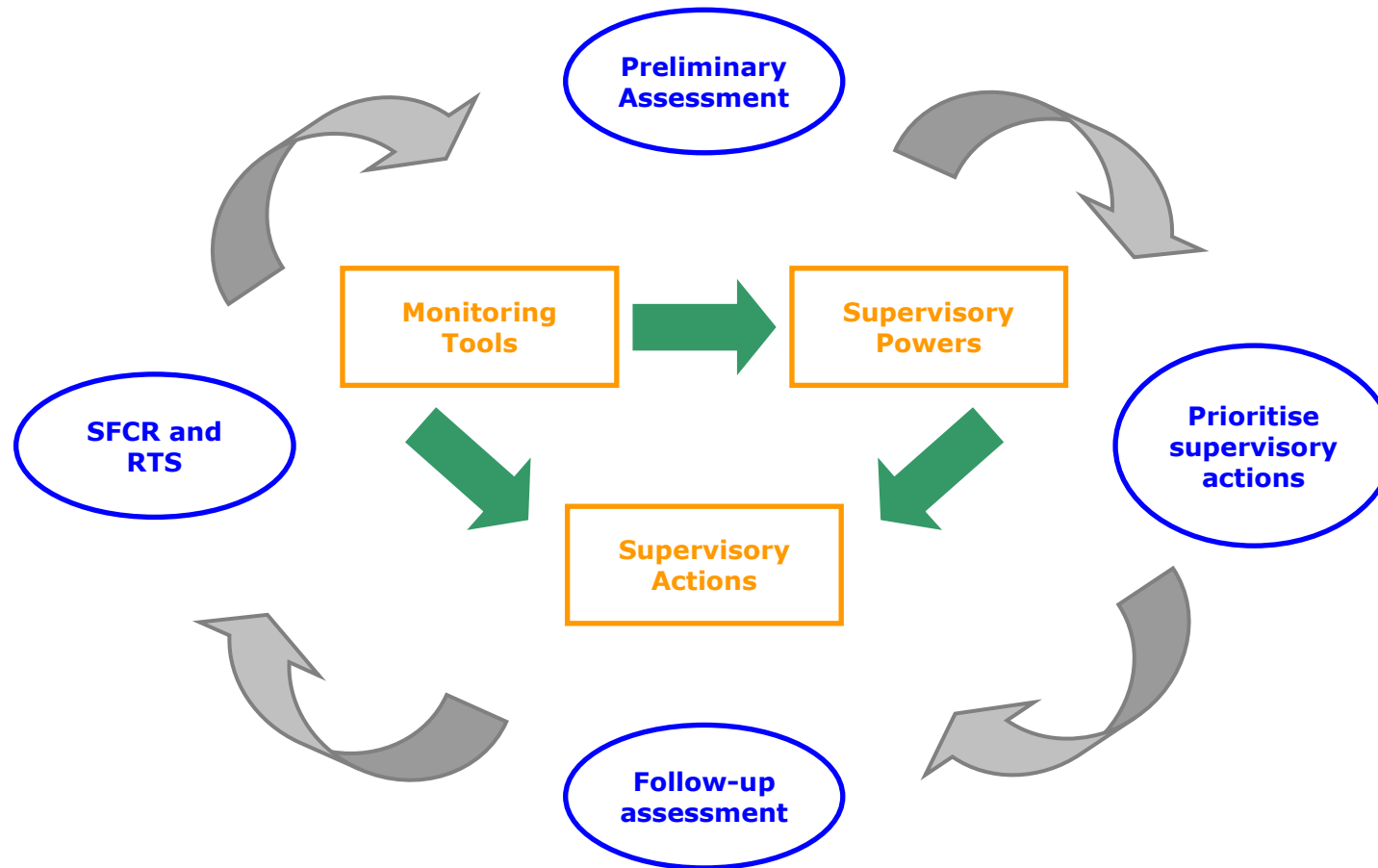
- Sets a complete governance framework for supervised entities
- Supervision to aim at identifying undertakings with a high risk profile
- Supervisors must have sufficient and effective powers and tools
- Transparent and accountable supervisory review process (SRP)
- Introduces the ORSA at entity level
- Supervision to be proportionate to the nature, scale and complexity of the operations



PROVIDES RIGHT INCENTIVES FOR BETTER RISK MANAGEMENT

Risk-oriented supervisory review process

The SRP cycle



Pillar 3: Supervisory reporting and public disclosure

- Solvency and financial conditions report (SFCR)
 - ✓ public, underpinned by the principles of transparency and proportionality
 - ✓ published annually
 - ✓ CEIOPS believes that as much information as possibly should be disclosed publicly

- Regular supervisory reporting (RSR)
 - ✓ to the supervisor
 - ✓ more detailed information than that disclosed publicly
 - ✓ frequency and detail depend on supervisory assessment of how much risk an undertaking bears, its scale and complexity

Pillar 2 & 3: Next steps

- Final batch of CEIOPS Advice on Level 2 implementing measures delivered in January 2010
- Level 3 guidance on a large number of Pillar 2 and Pillar 3 issues finalised in 2011, including:
 - ✓ that on qualitative and quantitative reporting by the insurance undertaking to both the general public and supervisory authorities. Harmonised reporting for insurers from 1 January 2013
 - ✓ the ORSA (process)
 - ✓ Consultation on the system of governance in 2010



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Thank you

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