

Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Silke Wettach, WirtschaftsWoche (Germany)

Mr Bernardino, how much does EIOPA currently know about occupational pensions in the EU?

Bernardino: We currently have very little data from pension funds at the European level. We don't have a common language and national regimes considerably vary from each other, which makes it even more difficult to have comparable data for different countries. We cannot easily assess the sustainability of the funds and the soundness of their promises. A common and transparent framework that ensures comparable data would be extremely useful in this case.

So how are you going to proceed with it?

Bernardino: If we had comparable data we could conduct stress tests the way we already do for insurers. We have no scheduled date, but this is in our plans in the near future.

What do you expect from the IORPs stress test? After the stress tests in the banking sector the picture was insufficient.

Bernardino: European pension funds manage in total 3 trillion EUR in assets. They are represented in assets everywhere which makes them relevant for the economy and for the stability of our financial system. That is why EIOPA proposes to conduct annual stress tests for the big pension funds at the European level. At the same time supervisory authorities should perform stress tests at the national level. Smaller IORPs can be tested on a less frequent basis.

What we want to know while conducting stress tests is where the future vulnerabilities are? But here we are talking about a very long-term perspective.

With the banking stress tests there were a lot of national reflections. Nobody wanted to see national „champions“ failing. Will the situation in occupational pensions be different?

Bernardino: We have now a very sensitive discussion on the pensions side and it was expected. The truth must finally be put on the table.

And how exactly does the truth look like?

Bernardino: Occupational pensions are now under a great pressure. Everywhere be it Germany, the Netherlands or the UK population and labour force are contracting. At the same time stock markets become very volatile and have a tendency to go down. The long-term interest rates are also decreasing. All this threatens those pension promises that were made in the past. But if we deny the reality, we will not take any action. And I am afraid that on the occupational pensions if we don't act, we might be heading towards an inter-generational conflict, when the pensions of future generations might be significantly reduced.

What are policy holders going to face?

Bernardino: It is quite simple: if I make a promise to pay based on a certain assumption and this assumption changes, then either I can pay less or I request higher contribution. In the Netherlands we already witness the consequences: occupational pension funds cut their payments because market interest rates are lower than it was originally anticipated.

Are the Netherlands smarter than the others?

Bernardino: Some countries are more transparent. And this is exactly what we require from others when we suggest a "holistic balance sheet" or an extended solvency balance sheet. Each employee will exactly know the risks he bears and which payments he will get. So such a reality-driven check-up would be beneficial for everybody.

Perhaps some funds are absolutely not interested that their true condition comes to light?

Bernardino: Some funds discount long-term liabilities with too high interest rates. If you use more prudent and real discount rates they will report huge underfunding. And of course companies do not want that it comes out, but it is not a secret.

How good are the funds' managers?

Bernardino: The quality varies and in any case it must be improved. The current low

interest rates make IORPs search for interesting investments. And this makes it very important for fund managers not just to outsource asset management. Those who, however, instruct a third party to invest in derivatives or structured financial instruments, should at least have a thorough understanding of the possible consequences.

The industry expects that the EU is going to set up the same capital requirement for the IORPs as for the insurers. Is that correct?

Bernardino: We do not want just to copy the requirements for insurers. However, let's take a situation when a company has a pension plan and transfers the risk to the IORP like it used to do with an insurance company. In this situation why can't the same regulation be applied to the IORP?. But this should not be the case if pension funds act as investment vehicles and their risk is taken by the company or a protection fund.

Some German critics fear that the Commission's plans could destroy the German system. Do you understand their fears?

Bernardino: It is not our intention to destroy any kind of systems and our goal is not to design a perfect regulation, which makes occupational pensions so expensive that nobody can afford them. But the worst scenario would be if those pension promises on which everybody counted, fail. This is why we must act. Ultimately, it is like the debt crisis: it emerged not because people know little about economics, but because they were denying the reality. And this is always expensive.