

Interview with Justin Wray, Deputy Head of the Policy Department of the European Insurance and Occupational Pensions Authority, conducted by Evgenia Tzortzi for Kathimerini

How would you describe the private pensions and occupational sector in Europe? Which are the main challenges and trends?

The best word to describe pensions in Europe is “diverse”. Each country has a different balance between what is provided by the state and what is provided privately; and within private pensions what is provided via employers and what is provided directly by pension providers.

Pensions continue to face significant demographic and financial challenges. These arise from population aging: a smaller proportion of working age citizens supporting a larger proportion of elderly citizens. In financial terms, the biggest challenge is low interest rate environment affecting both, the asset and liability side of pension funds.

Even more fundamentally, citizens need to trust their pension provider, whether this is the state or a private fund. That requires good governance and good provision of information to pension scheme members.

We recently learned of the Pan-European Personal Pension Product (PEPP), a new initiative promoted by EIOPA. What are its main characteristics and why does it make sense?

The PEPP is a proposal for a product regulation put forward by the European Commission on which EIOPA worked on extensively during the last years and provided an advice to the European Commission in 2016. The creation of a trustworthy European personal pension product will benefit those mobile European citizens who currently may not have access to high-quality private pension products. It will **encourage personal pension savings for individuals** and enable **important long-term investments**. The product will be relatively simple and transparent, with a default option and a limited number of investment choices. The draft regulation proposes that EIOPA would authorise PEPP products and serve as an information hub by centralising information on its website. EIOPA will also play a key role in coordinating the supervision in a consistent way throughout Europe.

What are EIOPA's aims and ambitions within the European insurance and pensions arena in 2018?

On the insurance side, now that the legislative part of Solvency II is completed, we are putting ever more emphasis on supervisory convergence. In the area of pensions, the development of the PEPP and the implementation of key parts of the new Institutions for Occupational Retirement Provision Directive (IORP II Directive) such as on risk management and information to members give us a full agenda. Furthermore, sustainable finance will be an increasing theme, which – through the consideration of environmental, social and governance (ESG) factors – is a natural driver of pension funds' corporate financial planning and governance models.

EIOPA argues that there are three fundamentals for improving pensions provision in Europe: strong governance, enhanced sustainability and full transparency. What is EIOPA currently doing to achieve these goals?

We are currently working on three main areas to improve the pension provision. First of all, IORP II for the first time sets out at European level some specific requirements for pension scheme governance. We will be developing approaches in areas such as risk management, building on previous work such as EIOPA's common methodology. Secondly, this year's pension's stress test will provide an assessment of how sustainable pensions are in case of adverse economic developments. We are also working on improving information to pension scheme members in order to aid transparency.

Our work on developing the pan-European personal pension market will likewise emphasise governance, sustainability and transparency.

Under what circumstances could future deficits of state pension systems affect private pension schemes? In your opinion, what role will private insurance play in the future of pensions in Europe?

There is a saying in English "do not put all your eggs in one basket", which applies to pension systems. All those who provide pensions, whether it is the state, employers, or insurers, face different risks to their sustainability. A pension system which has a role for all three pillars: state, occupational, and personal is likely to be more robust than one which has a role for only one pillar.

The application of Solvency II, the new regulatory framework for insurance and reinsurance companies, signalled a shift in the assessment of solvency, moving to a more risk-based approach. What are the main findings from the Solvency II framework?

Implementation of Solvency II has been relatively smooth and being successfully implemented during the times of a challenging macro-economic environment. Specific transitional measures, and measures to mitigate the impact of volatility on balance sheets, are playing a significant role. Overall, the industry is adequately capitalised.

How do the ultra-low – and in many cases negative interest rates - affect the investment policies of the insurance sector? How do the European Central Bank's policies affect the sector overall?

What is striking is in fact how relatively little investment allocation by insurers has been affected by the low interest rate environment. Investment allocation across the main asset classes of bonds, equities and other investments was pretty steady between 2011 and 2016. Within that, there is a trend towards more illiquid investments such as non-listed equity and non-mortgage loans.

Are insurance-related investment products where the policyholder bears the risk a credible savings tool in the current environment?

We can see a trend across Europe in pensions moving away from defined benefit pensions underpinned by guarantees to defined contribution pensions where the policyholder bears the risk. While there is nothing inherently sub-optimal about policyholders bearing more of the risk, it does make features such as provision of information more important.

Insurance companies are subject to Solvency II, while pensions funds are not. EIOPA proposes a Holistic Balance Sheet (HBS) approach for occupational funds. Could you describe its basic framework?

Given their long term nature, members of occupational pension funds need to trust their providers. Trust will be enhanced if there is a common and transparent framework for assessing risks. EIOPA's common methodology provides a standardised basis for this. It means that supervisors of occupational pensions throughout the European Union have agreed a common means of measuring financial and other risks.

Occupational funds have recently undergone stress tests. Could you give us some insights of assumptions and results?

The 2017 stress test is currently underway. The previous stress test in 2015 showed that a prolonged period of lower interest rates will pose significant future challenges to the resilience of defined benefit pension funds. It also showed that adverse market developments were a greater risk than increases in longevity.

How could occupational funds be successfully incorporated in a specific country's pension system?

The diversity in pensions in Europe is the friend of any country wanting to incorporate occupational pensions into their system. There are multiple paths that a country starting out can follow. In particular, this can be an opportunity to learn from the different experiences some countries with occupational systems have had. EIOPA and its members closely follow and analyse the different systems throughout Europe.