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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

2019 IORP Stress Test Update

EIOPA Occupational Pensions Stakeholder Group meeting
Frankfurt, 21 February 2019

IORPs Stress Test 2019

Objectives



- To assess the vulnerability of IORPs and plan members to an **adverse scenario**;
- To analyse the second-round effects on the real economy and financial stability, in particular:
 - ✓ quantitative assessment of the impact on sponsor's projected additional contributions and benefit reductions over time, for which a relevant 'cash flow analysis' will be carried out;
 - ✓ qualitative/quantitative assessment of the implications of specific activities and common behaviours (for example search for yield, flight to quality, herding behaviour); as well as to investigate the assessment of IORPs' exposure towards ESG risks
- The **stress scenario should reflect on the current key risks** – market risk premia reassessment scenario

- All types of IORPs, i.e. IORPs that provide **defined benefit** (DB), **hybrid** and **defined contribution** (DC) schemes
- Aim to reach a coverage rate of at least **60% of assets of the DB/hybrid** IORP sector and of at least **50% of assets of the DC** IORP sector per participating country in the EEA
- A lower coverage than 60%, yet not lower than 50%, is acceptable if, after including the largest IORPs, IORPs with less than EUR25 million balance sheet total or less than 100 members and beneficiaries would need to be included in the exercise
- For the required coverage of the DC sector, proportionate approach should be used to address extreme national specificities (very high number of very small DC IORPs)
- The exercise covers **all EEA member states** with material IORP sectors - **exceeding EUR500 million in assets** by year-end 2018

- Horizontal assessment: second round effects on financial markets and analysis of ESG risks
 - ESG risks qualitative and quantitative
 - Qualitative assessment on contributing to mitigating risks/exposures
 - Breakdown of investment assets by economic activity (NACE code)
 - rough indication of the exposure of IORPs to 'brown' assets -
 - assessing the impact of transition scenarios towards a low-carbon economy
 - Investment behaviour - search for yield, flight to quality
- Additional components for DB cash flow analysis

- Addressing the comments from the informal consultation
- Approval of the stress test specifications by end of March 2019
- Publication of the specifications and launch of the exercise in April 2019
- Q3/Q4 EIOPA analysis of results
- Publication of the results in December 2019