

# How might Solvency II apply to pensions?

**Chris Daykin**

**Immediate Past Chairman, PBSS Section of the IAA**

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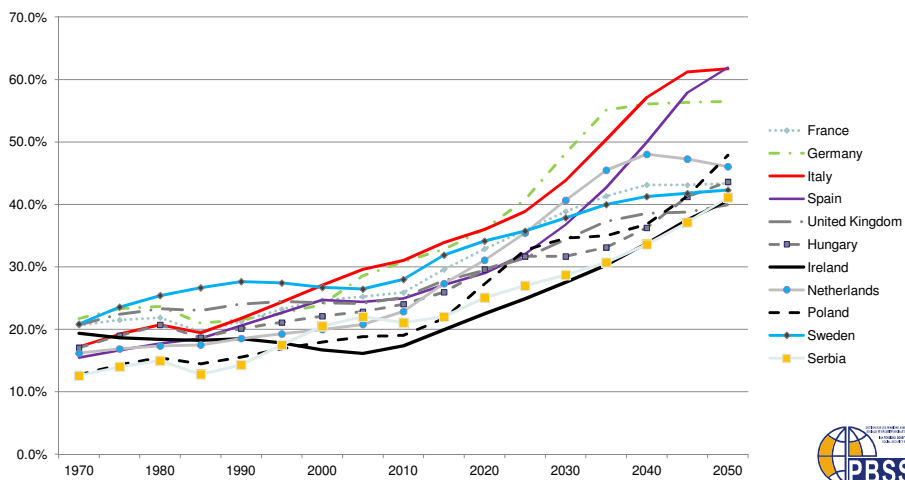
**Conference of Udruženje Aktuara Srbije**

**Belgrade, 12 June 2012**



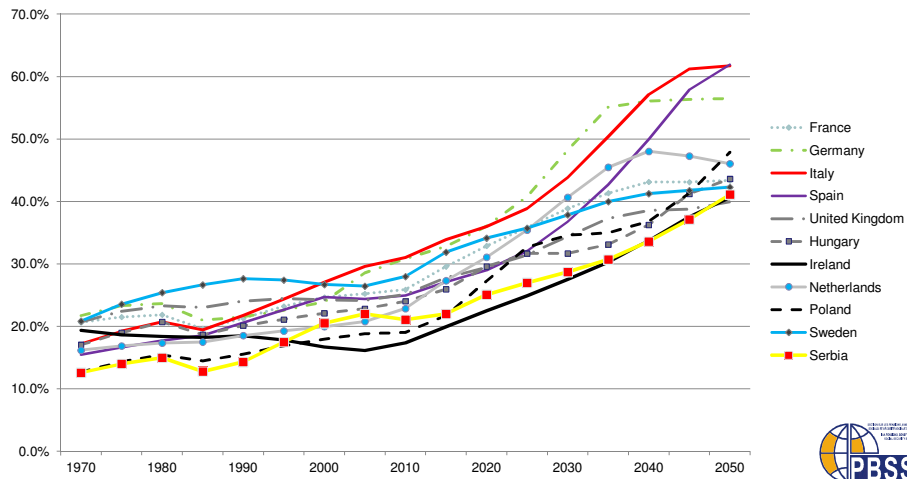
## Demographic background in EU

### Old-age dependency ratios in selected countries to 2060



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## Demographic background in EU

### Ageing population all over Europe

- > low fertility (although coming up again)
- > steadily rising expectation of life
  - > especially at ages over 60
- > inwards migration helps but only for a few countries



## Demographic background in EU

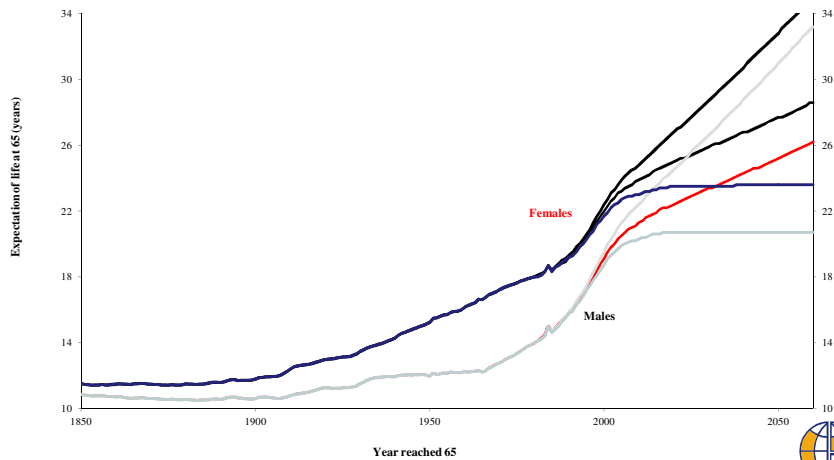
### Pension age in 2050 to maintain dependency ratio

Country	Pension Age
United Kingdom	71.7
Hungary	72.1
Serbia	72.3
France	72.8
Germany	73.9
Italy	74.7
Netherlands	75.5
Spain	76.0



## Demographic background in EU

### Expectation of life at 65 on cohort basis. UK 1850 to 2060



## Pension policy in the EU

### Coordinating pension policy

- > stability pact on government deficits
- > The 2009 Ageing Report
- > The 2012 Ageing Report (published May 2012)



## The 2012 Ageing Report

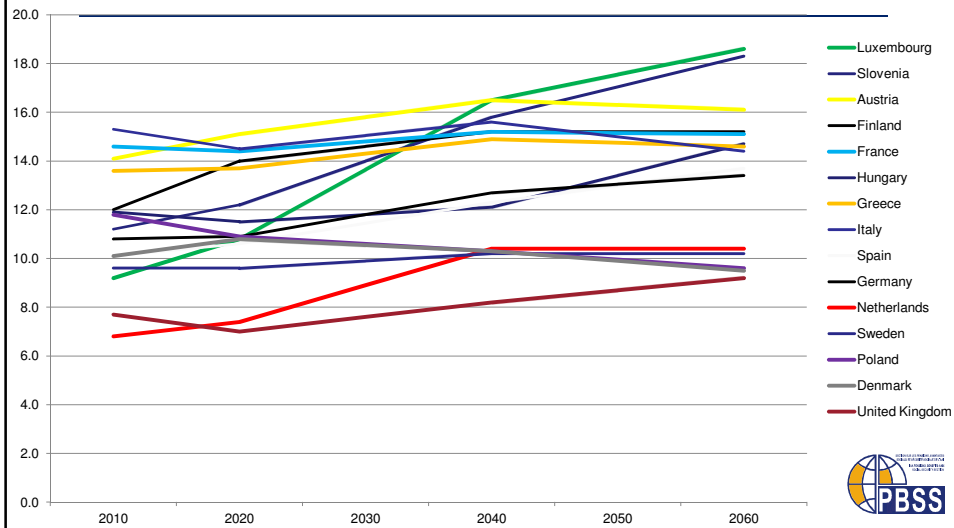
### Public pension expenditures in 2010 and 2060, % of GDP

Country	2010	2060
Luxembourg	9.2	18.6
Cyprus	7.6	16.4
Slovenia	11.2	18.3
Belgium	11.0	16.6
Germany	10.8	13.4
United Kingdom	7.7	9.2
Sweden	9.6	10.2
Italy	15.3	14.4



## The 2012 Ageing Report

### Public pension expenditures in 2010 and 2060, % of GDP



## Pension policy in the EU

### Coordinating pension policy

- > stability pact on government deficits
- > The 2009/2012 Ageing Reports
- > European Parliament – Pension systems in the EU
- > Directive 2003/41/EC – the IORP Directive
- > Green Paper – towards adequate sustainable and safe
- > European pension systems
- > Security in Occupational Pensions (May 2010) - GC
- > Commission Call for Advice to EIOPA
- > EIOPA's advice (February 2012)

## IORP Directive 2003/41/EC

### Activities and supervision of IORPs

- > separation of assets from sponsoring employer
- > governance and regulation
- > licensing and management of IORPs
- > actuarial valuation and funding
- > statement of investment policy principles
- > disclosure of information to members and to regulator
- > cross-border pension schemes



## Call for Advice from Commission

### CfA from Commission to EIOPA – April 2011

- > proposed revision and update of IORP Directive
- > harmonisation of pension regulation in the EU
- > facilitating cross-border pension provision
- > creating a more level playing field
- > could principles of Solvency II for insurers be applied ?



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- > could principles of Solvency II for insurers be applied ?
  
- > response of EIOPA in February 2012



## Solvency II for pensions?

### Main components of Solvency II for insurers

- > adequate financial resources
- > governance
- > disclosure



## Solvency II for pensions?

### What are the differences with pensions?

- > very numerous
- > mode of operation differs from country to country
- > depends on social security
- > many have very few members
- > close link with sponsoring employer
- > technical provisions less prudent than with insurers
- > no explicit capital held
- > future depends on strength of employer covenant



## Solvency II for pensions?

### Holistic balance sheet

- > technical provisions do not include a risk margin
- > there may be a deficit being paid off over a long period
- > employer covenant is critical
- > in some countries there is a guarantee fund
  
- > so can we create a different sort of balance sheet?





## Solvency II for pensions?

### Holistic balance sheet

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Insurance company	Solvency capital	Guarantee fund	Solvency capital
	Minimum capital requirement	Sponsor covenant	Minimum capital requirement
	Risk margin	Pension fund	Risk margin
	Best estimate liabilities		Best estimate liabilities



## Solvency II for pensions?

### What else is there in Solvency II?

- > governance
  - > actuarial function
  - > risk management function
  - > Own Risk Solvency Assessment (ORSA)
  - > Solvency and Financial Condition Report (SFCR)
  - > internal models integrated into risk management
- > disclosure



## Solvency II for pensions?

### What happens next?

- > Commission will consider advice and draft Directive
- > EIOPA is carrying out an initial impact assessment
- > political pressure from lobby groups and governments
- > Groupe Consultatif providing advice to EIOPA behind scenes
- > likely scenario :
  - > fairly slow progress towards a revised IORP Directive
  - > financial resources aspects will be watered down
  - > focus will probably be on governance and disclosure
  - > more substantial coverage of defined contribution schemes



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