

Cologne, 21.07.2021

## **Comments of the German Association of Actuaries (DAV) on EIOPA's Consultation Paper on draft Opinion on the supervision of long-term risk assessment by IORPs providing DC schemes**

### *Questions to Stakeholders*

*Q1. Do you agree with the focus of the draft Opinion on the quantitative elements in operational risk management and long-term risk assessment from the perspective of members and beneficiaries?*

Yes

No

*Please explain and provide any suggestions for further aspects of DC risk management that need attention.*

Yes, it does make sense to do long-term risk assessment from the perspective of members and beneficiaries for **pure** DC plans.

A quantification of operational risks is difficult as also recognized by EIOPA, methods to measure operational risk should be implemented with care to reach transparency where possible and avoid misinterpretations, e.g. taking the size of IORPs.

*Q2. Do you agree that Annex 2 provides a balanced view of the costs and benefits of the draft Opinion?*

Yes

No

*Please explain and provide any suggestions.*

In general more information is beneficial, however the generation of information comes at a cost. According to 2.8 ("Considering the principle-based and proportionate approach"), EIOPA is confident that the potential benefits of the Opinion exceed the potential additional costs for DC IORPs. EIOPA clearly sees the need for a proportionate approach and that cost considerations are an important part of such an approach. This should be reflected in any principles adopted and requires more work on a detailed level.

*Q3. Do you agree with the scope of application of the Opinion, i.e. all IORPs providing schemes where members and beneficiaries bear material risks, or should the scope of the Opinion cover only IORPs providing schemes where members and beneficiaries bear all risks?*

- Yes, Opinion should apply to all IORPs where members and beneficiaries bear material risks
- No, Opinion should apply to IORPs where members and beneficiaries bear all risks

*Please explain and provide any alternatives that EIOPA should consider.*

The scope of the application should be restricted to pure DC schemes (i.e. where members and beneficiaries bear all risks). In Germany this would only apply to the schemes "Reine Beitragszusage" according to German law BRSg ("Betriebsrentenstaerkungsgesetz") passed on 2017/07/17 and not to DC schemes implemented to other German legislation. The collective nature of DC-elements in German pension plans according to "Reine Beitragszusage" should be an essential part of risk management.

*Q4. Do you agree that the use of quantitative elements in operational risk assessment should be encouraged?*

- Yes
- No

*Please explain how this could best be done in your view.*

We do think that quantification of operational risks is a very difficult task and requires detailed analyses and a very balanced approach to achieve comparability: E.g. in Annex 3 EIOPA suggests VaR measures which are purely based on quantitative inputs, not reflecting differences in the processes to avoid or mitigate operational risks.

*Q5. Are in your view the Value at Risk (VaR) formulas presented in Annex 3 helpful for better understanding the possible quantitative impact of operational risk exposures of DC IORPs?*

- Yes
- No

*Please explain and provide any suggestions or alternatives that EIOPA should consider.*

To our understanding VaR calculations would lead to the same results for IORPs with the same quantitative input, i.e. not consider any differences in their processes to mitigate operational risks. According to 3.1. pure DC schemes with the same amount of expenses would report the same VaR.

*Q6. Do you agree that the risk assessment from the perspective of members and beneficiaries should include a long-term assessment using projections of future retirement income?*

Yes

No

*Please explain.*

Members and beneficiaries should be aware of the potential developments of their retirement benefits. However, it is most important that the information is understandable for the recipient.

Collective risk sharing is an essential part of German DC schemes. Collective elements lower the risk of each beneficiary and increase the average benefits for all scheme members. From the members' perspective, collective elements are an essential part of long-term assessment of future benefits.

*Q7. In your view, what are the potential benefits and limitations of using pension projections for long-term risk assessment in the context of DC-based pension schemes that are prevalent in the EU Member States or your Member State? Please explain and provide any alternative methods that should be considered.*

Obviously all models do just provide estimations. Long term projections require sophisticated models with a number of simplifying assumptions and a number of input parameter for a very long time horizon. We think that the overall approach and the possible estimation error might be difficult to understand for members and beneficiaries.

*Q8. Could you provide information on the use in practice of pension projections for the purpose of risk management and/or the design of investment strategies (e.g. in Europe, your country or within your IORP)?*

Yes

No

*If yes, please provide this information.*

Not yet available in Germany for DC schemes "Reine Beitragszusage" according to German law BRSG ("Betriebsrentenstaerkungsgesetz")

*Q9. Do the principles for conducting projections of future retirement income strike the right balance between setting sensible minimum standards and recognising the specificities of DC schemes in the various Member States?*

- Yes
- No

*If not, please explain your suggestions to make the principles more or less specific and/or to add or remove principles.*

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*Q10. Do you agree with the content of the below principles, as put forward in paragraphs 3.14-3.28 of the draft Opinion:*

	Yes	No
Stochastic scenarios of asset returns	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Market-sensitive and realistic assumptions	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Characteristics of members and beneficiaries	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Pension scheme characteristics	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Target variables and risk & performance indicators	<input checked="" type="checkbox"/>	<input type="checkbox"/>

*If not, please provide your suggestions to improve the principles.*

Generically yes, but we would suggest to allow for scenario based approach, given that stochastic simulations are subject to a number of estimation errors.

*Q11. The supervisory expectations recognise and allow different methods to establish the risk tolerance of DC members and beneficiaries. Do you agree or would you propose more specific guidance?*

- Yes, agree to recognise and allow different methods
- No, would propose more specific guidance

No comment

*Please explain and provide any suggestion.*

No comment

*Q12. Do you agree that the design and the periodical review of the investment strategy, or investment strategies in case of multiple investment options, should consider the long-term risk assessment using projections of future retirement income, taking into account their risk tolerance?*

Yes

No

*Please explain and provide any suggestions.*

No comment

*Q13. What should in your view be the frequency of conducting the risk assessment using pension projections? Is at least every three years sufficient, unless there is a significant change in the risk profile, as provided by Article 28 (ORA) and Article 30 (SIPP) of the IORP II Directive. Or should DC IORPs conduct these projections more regularly, as suggested by Article 25 (Risk-management system).*

At least every three years, unless there is a significant change in the risk profile

More regularly

*Please explain.*

3 years seem to be appropriate given the long-term nature of DC schemes.

*Q14. Do the expectations put forward in the draft Opinion achieve a proportionate approach to DC risk management, fitting small-, medium- and large-sized IORPs?*

Yes

No

*If not, please provide your suggestions to improve proportionality of the draft Opinion.*

Given the high level arguments and considerations this is difficult to access, the proportionality has to be assessed on a more detailed operational and implementation level.

*Q15. Do you have any other comments on the draft Opinion?*

Yes

No

*If yes, please provide these other comments.*

We think that it is extremely important that members and beneficiaries are able to understand the information they will receive and base their decisions on them, otherwise the information is just a costly exercise for the schemes. We would suggest to look at other areas like insurance to see which publically available information is really used by individuals (e.g. owner of insurance contracts).