

**Comments to EIOPA's
Discussion Paper on a Methodological Framework for Stress-Testing IORPs**

**EIOPA-21-399
21st June 2021**

Responding to this paper

EIOPA welcomes comments on the "Second Discussion Paper on Methodological principles of insurance stress testing".

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email to CP-21-003@eiopa.europa.eu by **22nd September 2021**. Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be considered.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents¹ and EIOPA's rules on public access to documents². Contributions will be made available at the end of the public consultation period.

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Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725³ on the protection of the individuals with regards to the processing of personal data by the Union institutions and bodies and on the free movement of such data. More information on data protection can be found at <https://eiopa.europa.eu/> under the heading 'Legal notice'.

¹ Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

² Public Access to Documents (See link: [https://eiopa.europa.eu/Pages/SearchResults.aspx?k=filename:Public-Access - \(EIOPA-MB-11-051\).pdf](https://eiopa.europa.eu/Pages/SearchResults.aspx?k=filename:Public-Access - (EIOPA-MB-11-051).pdf)).

³ Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

Reference	
Name of the Stakeholder	DAV – German Association of Actuaries IVS – German Institute of Pensions Actuaries, branch association of DAV
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Disclosure of comments	
<p>EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.</p> <p>Please indicate if your comments should be treated as confidential, by deleting the word “Public” in the column to the right and leaving only the word “Confidential”.</p>	Public

General comments		
reference	Comments	[EIOPA response]
General	<p>Creating a framework for testing the vulnerability of IORPs, sponsors and beneficiaries of pension schemes is probably feasible. The framework, however, can probably not be the same for all jurisdictions and all types of schemes.</p> <p>Developing a framework for environmental stress testing is a more challenging task. It involves many more aspects than purely pensions and IORPs. It should be based on a deep analysis of the influence of each IORP and - as an extension - of the whole pension system on all economic and social flows. This implies macroeconomic modelling and analyses which are normally done by the Central Planning Bureaus with extensive capacity.</p> <p>It seems that such analyses are needed so that the position of IORPs on the one hand but also of Pensions second pillar on the other hand is clear and can be discussed objectively.</p>	
15 and 192 ff	We completely support the approach that local supervisors should select most appropriate participants for each exercise. To ensure consistent and comparable results, we would suggest to add the recommendation that alternation of participating IORPs between each stress test should be reduced to the necessary minimum.	
20	We much appreciate that EIOPA considers the specific situation of occupational pension providers	
Chapter 3 in general	A horizontal approach across member states and pension schemes (DB and DC) could lead to apparent comparable results but due to the huge differences between member states and pension schemes this aim is hard to achieve.	
44	<p>A large toolbox combined with a changing selection of tools makes more automated processes more inefficient. This results in higher workloads and cost for participating IORPs.</p> <p>We fully respect that EIOPA wants to provide a comprehensive toolbox for many purposes, but cost-benefit analyses should be kept in mind, too.</p>	

58 and 59	<p>Before applying the risk-free interest rate, IORP-specific adjustments will be required. Various approaches could be discussed – we are of course at EIOPA’s disposal for further explanations</p> <p>Possible calculation of the appropriate risk margin is not explained in the document or template. But this issue needs to be discussed as the methodological approach for Solvency II doesn’t fit for IORPs.</p>	
68	<p>Including management actions is an important part to achieve reliable results. On the other side, implementation of management actions after each year of projection is very challenging. With each year, uncertainty about current market conditions, labour law or tax implications is increasing and could impact the “real” management action. So, the significance of results is decreasing with each year of projection. Interpretation of results should always respect the number of years projected.</p>	
70	<p>All three different types of projection tools differ completely with regard to the way results can be interpreted and to the purpose results can be used for. Therefore, we highly recommend not to use results from one tool for other than the specific stress test goal.</p>	
73	<p>The IRR gives more insight in the “financial ambition” than in the financial situation of an IORP.</p>	
75	<p>This request results in a high complexity of calculation. The national balance sheet must be simulated as well as cash flows and their mutual reaction, together with management reactions (see 68). This is a really challenging task and results in some simplification to be applied during projection. Therefore, interpretation of results should include all model assumptions.</p>	
77	<p>Regarding the time horizon of cash flows we would like to mention that it is obvious that with increasing years of projection uncertainty and reliability of results will decrease. General conclusions on the long run are reliable but after about 20 years no result should be allocated to specific years.</p> <p>We would like to add that some assumptions should be used consistently for the projection of assets as well as provisions, e.g. inflation rate.</p>	
112	<p>In Germany, pure cash flow analysis is complex and needs deep insights into local solvency regulations. In many IOPRs the national balance sheet can not be derived only from contribution and benefit cash flows.</p>	

168	Some tools seem to be redundant. Perhaps a matrix “for which goal of stress test which tool” could provide more insights.	
177	We really appreciate this table; it is helpful to classify different cash flows in a consistent way.	
182	One more aspect for IOPRs should be the „reasonable additional time and money effort “. Selection of tools should respect the cost-benefit-ratio within any IORP.	
314	The stress test does only refer to operational risk as a part of the ORA exercise to be implemented by each IORP. It could be helpful to refer to the ORA exercise for more aspects and why not ask IORPs to consider certain scenarios and consolidate the conclusions and recommendations of the ORA.	
336	<p>A higher level of granularity in equity shocks would not be very useful. When a general stress scenario is applied, no individual “types of business” will be spared (or even benefit from that); all types of business would be adversely affected.</p> <p>Specialised shock scenarios in which many types of business suffer and only a few benefit can of course be created (e.g. COVID-19 pandemic in which streaming platforms, e-commerce suppliers’ benefit). But that would not be a general stress scenario. Furthermore, such periods with stressed types of business can better be considered as market cycles which are to be countered through an appropriate degree of diversification.</p>	
Chapter 6 in general	<p>We support EIOPAs view that environmental stress testing is just a variation of “traditional” stress testing, thus the same tools should be used to limit the burden for IORPs by introducing new additional approaches or tools. A time saving approach could be to conduct both traditional and environmental stress testing simultaneously using the same tools but different stress scenarios.</p> <p>We ask EIOPA to consider that environmental risk faces lack of historical data, so there is a high uncertainty about how and when risk may materialize. Environmental stress testing should focus on assets only, as an effect on liabilities of an IORP is hard to estimate and assume.</p> <p>If NACE code is used for categorization of assets to assign shocks, it should be used on the most granular level to enable realistic results. EIOPA should provide input on how to categorize illiquid assets for which no NACE code is available.</p>	

	As a quantitative environmental stress testing includes many simplifications, qualitative comments should be considered in addition and for explanation.	
397	We completely understand the aim of EIOPA and ESRB to implement climate stress. But implementation of climate stress is currently really challenging, even with an indication as provided in 409 ff. Many indicators like NACE are currently not available for all asset classes.	
445	Each IORP participating in stress testing should be allowed to decide whether the name is published or not – this disclosure could have an impact on main sponsors of each IORP.	