

# Further work Sponsor Support, View of the industry...

---

By Philip Neyt  
President Belgian Association of Pension Institutions

**EIOPA Sponsor Support Event**  
**17 October 2013**  
**WesthafenTower, Westhafenplatz 1, Frankfurt am Main, Germany**



BELGISCHE VERENIGING VAN PENSIOENINSTELLINGEN  
ASSOCIATION BELGE DES INSTITUTIONS DE PENSION  
BELGIAN ASSOCIATION OF PENSION INSTITUTIONS

# Objectives

---

- EIOPA's objective
  - A comprehensive, realistic and consistent prudential framework for IORPs
  - Taking into account the specific reality of pension funds
- Adequate regulation to ensure solvency, continuity, affordability and sustainability of long term pension provisions based on two main principles:
  - Market-consistency
  - A principle risk based framework



## A view from the industry

- Pension obligations gradually transform
  - Best endeavors intentions → hard commitments
- Corporate bond holders and pension creditors
  - Shared exposure to a similar but different default risk
- Contamination risk in the sponsor's statutory balance?
- Will sponsor react?
  - Opt for risk avert investments = move to fixed income ?
  - Opt for risk avert plan designs = further move to “defined contribution” plans ?
  - Opt for a termination of existing benefit plans ?
- Calculations are complex, costly
  - Inappropriate for small and medium sized IORPS



# Nature of pension promise to clarify in social labor law

- Nature of pension promise ?
  - Need for common terminology/report
- Which risks we can accept, reduce, share, need to avoid ?
- Which risks can be taken by the sponsor, by the employee ?



# Relevant rating methodology available from debt market

- Unfunded pension obligations → corporate debt → covenant risk → default risk
- The rating methodology for quantifying default risk
  - Is widely used by banks and bank regulators
    - As a principal tool of risk management
    - In determining capital adequacy
  - Well known by sponsors
  - Best available estimate of the default exposure



# Solutions for a consistent and objective, integrated methodology

- Use of widespread debt risk measurement techniques to match pension credits: the norm?
- Superior senior status to other lenders?
- Affordability based on excess cash
- Integration with Asset Liability Modeling



# Appropriate and integrated risk approach

- To avoid systemic risk and to secure “sustainable” adequate pensions
  - Consistency: alignment with other objectives
    - Long term investment
    - Pan-European IORPS
    - Level playing field
    - ...
  - The contamination risk of a unilateral financial/solvency risk approach
    - Counterintuitive?



# Conclusion

---

- Do we prioritize risks correctly?
- Unilateral focus on financial/solvency risk : do we ignore
  - Economic risks ?
  - Systemic risks ?
  - Concentration risks ?
  - Maybe some others ?
- Aren't we going too quick too far?

