

IN BRIEF

#OCCUPATIONALPENSIONS #IORPS #STRESSTEST #EIOPA

2022 CLIMATE STRESS TEST ON IORPs

In its **first climate stress test**, EIOPA assessed the exposure of the European IORP (Institutions for Occupational Retirement Provisions) sector to environmental risks.

Unlike traditional stress tests that typically examine the impact of low-probability shocks, the scenario for this exercise **simulated a sudden, disorderly transition to a green economy** that results from the delayed implementation of climate policy measures.

For the sake of a broader view, EIOPA adopted a **full balance sheet approach** and calculated the impact of the adverse scenario not only on IORPs' asset portfolios but also on their long-term liabilities.

While the stress test is not a pass or fail exercise, findings indicate that **IORPs have a material exposure to transition risks**.

KEY ELEMENTS

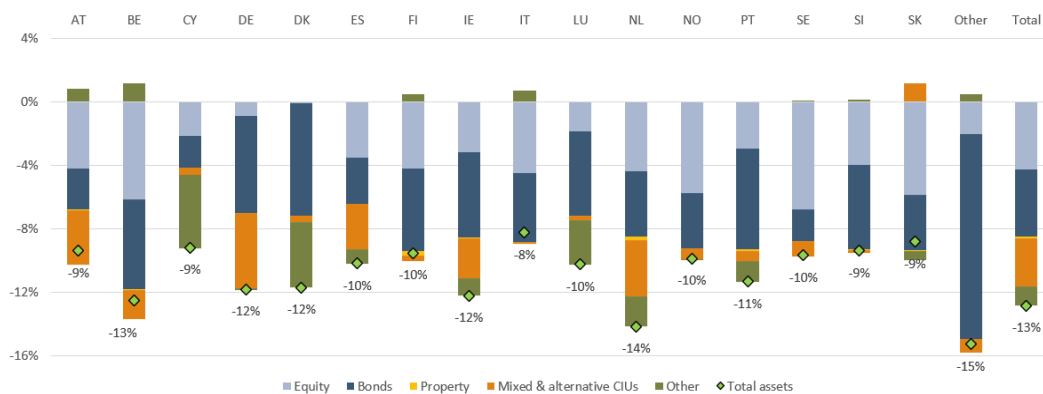
OBJECTIVES	<ul style="list-style-type: none"> > assess the sector's vulnerability to transition risks as part of a learning exercise in an emerging field > better understand potential risk drivers and identify pockets of risks > complement quantitative analysis with qualitative surveys on ESG factors and inflation management
SCENARIO	<ul style="list-style-type: none"> > abrupt, disorderly transition to a less carbon-intensive economy following delayed policy action > instantaneous economic shock triggered by a sharp increase in the price of carbon emissions > developed in cooperation with the ESRB and the ECB based on previous work by NGFS
APPROACH	<p>national balance sheet (NBS): based on national valuation regulation AND common balance sheet (CBS): marked-to-market to allow for meaningful comparisons</p> <p>investments related to carbon intensive industries</p>

SCOPE

187 IORPs **from** **18** countries
covering all European Economic Area (EEA) countries with significant IORP sectors

1.98 trillion € in assets **=** **65.3%** market coverage in EEA based on total assets

IMPACT ON ASSETS ACCORDING TO COMMON METHODOLOGY



MAIN FINDINGS BASED ON COMMON METHODOLOGY

The first climate stress of the sector at a European level shows that **IORPs have a material exposure to transition risks.**

The stress test scenario provoked a **sizeable overall drop of 12.9% in assets**, corresponding to asset valuation losses of some €255 billion.

A **drop in liabilities** due to rising risk-free rates **helped cushion the impact** of asset-side losses on IORPs' funding ratio, but it did not fully offset it. Financial positions therefore still worsened slightly (-2.9 percentage points).

Post-shock funding ratios in defined benefit (DB) schemes **stay above 100% in most Member States** due, in part, to strong pre-shock positions. The funded status of defined contribution (DC) schemes is balanced by definition.

More than **90% of IORPs consider ESG factors** when determining their investment policy. Nonetheless, IORPs still experience hurdles in allocating investments to climate risk-sensitive categories.

RESULTS

	IMPACT OF CLIMATE CHANGE SCENARIO		
	PRE-STRESS	POST-STRESS	IMPACT
TOTAL ASSETS - CBS	1.985 trillion	1.730 trillion	-12.9%
FUNDING RATIO* - CBS	119.9%	117.0%	-2.9pp
FUNDING RATIO* - NBS	122.7%	120.2%	-2.5pp

*defined benefit schemes

LEARN MORE



Visit the dedicated webpage:
www.eiopa.europa.eu/climate-stress-test-occupational-pensions-sector-2022_en

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