

Climate stress test for the occupational pensions sector 2022

In 2022, the European Insurance and Occupational Pensions Authority (EIOPA) carries out its first climate stress test to gain insights into the effects of environmental risks on the European occupational pension sector. Sustainability and the management of environmental risks have become key considerations for long-term investors and in particular for European institutions for occupational retirement provision (IORPs).

Scenario

The 2022 IORP stress test is testing the resilience of European IORPs against a climate change scenario, which was developed together with the European Systemic Risk Board and the European Central Bank.

It reflects a sudden, disorderly transition to climate neutrality due to delayed policy action, which results in a sharp rise in carbon prices. This abrupt carbon price increase triggers transition risk effects to the entire economy.

Objective

The stress test focuses on the impact on IORPs' investments, yet also addresses the effects on IORPs' financial situation, including the financing by sponsoring undertakings. Therefore, the climate change scenario is applied to the balance sheet - both national valuations and the common balance sheet. The scenario sets out sector-specific shocks that provide insights into the IORPs' investment portfolios, reflecting the corresponding impairment of the investments, broken down by the most relevant sectors and business activities.

The exercise also includes two specific questionnaires, one to request information following up on the ESG analysis of the 2019 IORP stress test, and another one to allow an analysis to identify and understand the potential effects of inflation on members' and beneficiaries' retirement income, focusing on the extent to which scheme characteristics and national frameworks provide for mitigating measures or adaptations to protect against inflation.

Scope

The stress test is a European-wide exercise, covering IORPs with defined benefit (DB) and defined contribution (DC) schemes. All EEA countries with material IORP sectors, exceeding EUR 500 million in assets, are participating in this stress test.

EIOPA's mandate

According to Article 32 of Regulation (EU) No 1094/2010 (EIOPA Regulation), EIOPA has to initiate and coordinate Union-wide assessments of the resilience of financial institutions to adverse market developments. In such assessments, EIOPA should consider the effects of economic scenarios on the IORP's financial position, taking into account specificities of the scheme types, i.e. defined benefit (DB) and defined contribution (DC), for the effects on the financial position of the IORPs and on the members and beneficiaries of IORPs. Hereby, EIOPA is mandated to assess the potential impact posed by IORPs on financial stability and the real economy. Further, environmental risks and their effects on the financial stability of the IORP sector should be analysed.

Background information

The exercise is carried out in close cooperation with the national competent authorities, which are the direct contact points for the participating IORPs.

Between 9th and 21st February 2022, EIOPA had obtained feedback on the draft stress test technical specifications from EU pension stakeholders, including EIOPA's Occupational Pensions Stakeholder Group (OPSG).

Timeline

- Participating IORPs are invited to EIOPA's launch event on 7 April 2022.
- From 13 April to 16 May 2022, participating IORPs can make use of a dedicated EIOPA Q&A process by contacting their national competent authorities. Q&As will be regularly published on EIOPA's website.
- By 13 June 2022, participating IORPs are expected to complete the exercise and submit the results to their national competent authorities.
- The results of the stress test are expected to be published in December 2022.

Note: The inputs helper tool has been extended to support the application of the corporate bond shocks. The addition was made on April 6, 2022.

Supporting documents

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