

CEA position on Solvency II and pension funds

CEA reference:	VIE 8028	Date:	8 April 2008
Referring to:	Solvency II and Pension Funds		
Related CEA documents:	-		
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The CEA¹ would like to express its view regarding the debate on the possible application of Solvency II rules to occupational pension funds.

The CEA fully supports any plan to further examine how to apply solvency requirements to occupational pension funds on the basis of the proposed Solvency II framework for insurance. We understand that the European Commission will consider this issue when conducting its 2008 review of the IORP Directive (Institutions for Occupational Retirement Provision).

The risks to which an insurance company may be exposed are varied and include the insurance risk, the catastrophe risks, the financial risk and the operational risk. The draft Solvency II proposal seeks to incorporate the latest risk management techniques, to provide all policyholders across the EU with same levels of protection,

¹ CEA is the European insurance and reinsurance federation. Through its 33 member bodies, the national insurance associations, CEA represents all types of insurance and reinsurance undertakings, e.g. pan-European companies, monoliners, mutuals and SMEs. CEA represents undertakings which account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1,065bn, employ over one million people and invest more than €6,900bn in the economy. In 2007, European insurers generated premium income in pension savings in the 2nd pillar of €105 bn whereas non-insurers generated €120 bn (estimated data).

and to achieve a much greater level of harmonisation across the EU to help consumers realise the benefits of increased competition.

Solvency II adopts a complementary three pillar approach:

- Pillar I – a quantitative assessment of the risk using an economic risk-based approach where all risks are explicitly allowed for, ensuring earlier detection of new and emerging risks thereby, giving greater scope for preventative action;
- Pillar II – a more qualitative assessment of the risks that a company is exposed to and the quality of its internal risk management processes and controls, etc.
- Pillar III – enhanced transparency through supervisory and public disclosure, the latter seeking to use market forces to encourage best practice.

The key benefits of the proposed Solvency II regime will be greater consumer confidence, enhanced policyholder protection, cost-effective protection and more innovative and competitive products. European insurers are collaborating fully with CEIOPS, the EU institutions and supervisors to ensure that the proposed Solvency II regime is successful in delivering a modern and effective regulatory framework.

Occupational pension funds and life insurers are pension providers. However, a broad spectrum of pension fund arrangements exists across the EU, provided by both life insurers and occupational pension funds, even in the same member state. While individuals with pensions provided by life insurers will benefit from the high levels of protection to be delivered by Solvency II, those with pensions provided by occupational pension funds will not benefit from the same protections. The Solvency II regime is primarily being designed to deal with all forms of risk to which insurance companies, among which those providing occupational pensions are exposed. However, we believe the proposed framework is sufficiently flexible to enable it to take into account the specificities of different pension providers, of the schemes they offer and of member states.

Occupational pension funds and life insurers are in competition across the EU. Pension funds in several Member States are offering the same products as insurance companies but without the same capital backing. There is no reason why beneficiaries of pension funds should have a lower security level than beneficiaries of pensions provided by life insurance companies. The application of the Solvency II regime to pension funds would be in the interest of consumers. In addition, the application of Solvency II to occupational pension funds would lead to efficient and consistent supervision of pensions across the EU, better overall risk management, improved mobility of workers and a level playing field for all pension providers (as also underlined in the European Parliaments Report on the Commission's White Paper "Financial Services Policy 2005 – 2010").

A consequence of the IORP Directive is the cross-border extension of freedom of choice between different types and providers of pensions. According to a Towers Perrin study on Europe's Corporate Pensions Mix (2007), a quarter of European employers are already considering organizing occupational pensions on a cross-border basis. However, the current application of the IORP Directive has resulted in variations in national solvency standards, which has in turn lead to regulatory arbitrage between Member States. In addition, transferability of pension rights is made more difficult. This divergence is in marked contrast to the Solvency II proposal for insurance companies, which is intended to bring about consistent and harmonized supervision across the EU. In

a single EU market for pensions, competition should be between providers and variations in scheme characteristics, rather than between supervisory regimes.

The CEA is confident that the CEIOPS will conduct a thorough and effective fact finding exercise and analysis, leading to a well considered proposal. In conducting this work, it is important to recognise the need for appropriate transitional arrangements in some Member States, so as not to damage or destabilise pension saving.

The CEA is of course keen to participate in any fact-finding or consultation exercise on this important issue, and to provide any additional contribution which CEIOPS or the Commission would require in the further steps. However, CEA must underline the importance for the insurance industry that the implementation of Solvency II for insurance companies is not delayed by the debate on pension funds.