

INTERNSHIP PROJECT PROPOSAL

Title	Robeco-01: International IORP funding requirements and stress test – regulatory arbitrage or European common methodology?
Research Area	Pensions / Asset management
Dutch language mandatory	Yes
Internship period	To be discussed: in principle 3-6 months Preferably March – September 2017
For students in	All programs
Organization and (sub)section	Robeco

Background

Occupational Pension institutions (IORPs) which run pension schemes and provide financial minimum guarantees or biometric risk cover (e.g. longevity risk) have to follow funding rules. For instance, in The Netherlands applies the FTK funding and solvency regime.

The regulatory requirements differ considerably across EU memberstates. Some memberstates stipulate rules “cast in stone”. Others grant more discretionary power to the local supervisory authorities and apply tailored requirements. Some memberstates identify many risks and have as such strict (high) funding requirement, others apply a “laissez-faire” approach. Differences do exist with regard to the discount rate (fixed, market rate), ambition level (nominal, real) and actuarial assumptions to be being used to calculate the technical provisions. Moreover, various security mechanisms are acknowledged: in The Netherlands solvency buffers on the IORPs balance sheet are the main mechanism, next to conditional indexation or even downgrading of vested pension right and pension benefits in payment, while in many other countries plan sponsor covenants or a national guarantee fund for non-performing IORPs are available.

At EU level (European Commission and European pension authority EIOPA) initiatives have been launched to streamline the funding requirements for pension institutions and aim for a gradual convergence process. The second objective is to streamline the requirements across banks (Basel 3), insurers (Solvency2), assets managers and IORPs (IORP2) as all four financial institutions operate alongside each other in the occupational pension market and different regulatory requirements distort fair competition and level playing field. Same risks, same rules adagio.

The EU initiatives encounter opposition from the EU memberstates. In the meantime, multinational employers are struggling with the diverging requirements for the numerous local pension institutions. In addition, the newly founded cross-border pension institutions leverage on the European passport thereby actively looking into regulatory arbitrage openings to found the institutions in the memberstates with the most relaxed, flexible requirements.

In Autumn 2016 the revised IORP Directive is expected to be adopted. There will be no EU harmonized IORP funding rules, but the objective is to introduce an EU harmonized stress test for IORPs, alike for the banks. This stress test is amid final final tuning in EIOPA.

Research questions

Inventorize, compare and analyse the key differences in funding requirements for occupational DB pension funds (IORPs) in The Netherlands (FTK), in the intended EU stress test and – if time permits - also in 2-3 other relevant EU memberstates (UK, Belgium, Germany?). Extra: Assess whether there will be any impact of the (EU) initiatives on the optimal investment strategy of a Dutch DB pension fund.

Output

Next to the thesis, we would welcome a summary version of the thesis in the format of a Robeco White paper and a presentation/handout (both for internal knowledge sharing and for clients) .

Parties involved

Robeco Investment Research is available to pinpoint the research question, gather the relevant information and assist in the analyses. Moreover, the intention is to contact various parties (interviews, meeting) to gain more insights: mainly international policymakers e.g. DNB, EIOPA, foreign supervisor, European Commission) and/or cross-border IORPs and consultants.

Literature

- Various DNB, EU and EIOPA publications (surveys, IORP2)
- To be identified