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**ARE YOU READY?**

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FUNCTIONS**  
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GOVERNANCE  
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ASSET-LIABILITY MANAGEMENT

**RELEASE JULY 2018**

# Quality beyond assumption. Since 1985.

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**Everaert Actuaries is a leading actuarial consulting firm and partner to a wide range of financial institutions (mainly insurers, reinsurers, pension funds and mutuals) and corporate clients in Belgium, Luxembourg and the Netherlands.**

For over thirty years, our company is owned by the founding family. We guarantee independent advice and long-term commitment based on trust and personal responsibility.

Everaert Actuaries focusses on creating competitive advantages and opportunities for our clients by developing intelligent and cost-effective solutions.

Our team-oriented corporate culture is reflected by our six competence centres dedicated to innovation, excellence and dynamic interaction between experts.

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# TEAM

*Our team consists of over 15 dynamic, talented and highly motivated professionals with an actuarial, mathematical and/or economical background. Our consultants are pragmatic team players, eager to assume responsibility and to continually improve and share their skills.*

*Everaert Actuaries was awarded a first place for the “Quality” criterion in the “External Expert” tender of the National Bank of Belgium for the assessment of the best estimate of the technical provisions of a major Belgian insurer. This mission involved life, non-life, health and workers’ compensation portfolios.*

## Competence Centres

*Our multidisciplinary team is organised in six competence centres spanning the complete actuarial spectrum:*

- Life
- Non-Life
- Health
- Employee Benefits
- Reinsurance
- ALM

*This enables us to offer state-of-the-art tailored solutions in every domain of the insurance industry, especially for pension funds.*

# ARE YOU READY FOR IORP II?

The new European Pensions Directive (2016/2341) came into force on 1 January 2017 aiming at a better protection of the pension benefits of members and beneficiaries. Implementation into national legislation is expected January 2019. This is much more than a revision as it transforms the old directive with extensive new requirements on governance, risk and communications. The number of articles rises from 24 to 67.

## WHAT DOES IORP II MEAN FOR PENSION FUNDS

The IORP II Directive sets common standards ensuring the soundness of occupational pensions by means of

- new governance requirements
  - independent key functions
  - remuneration policy
  - written policies regarding outsourced activities
- new rules on pension funds’ own risk assessment
  - attention to conflicts of interest with sponsoring undertaking
  - overall funding needs, stochastic projections and recovery plans
- new requirements to use a depository

Each pension fund is required to install key functions, e.g. a **new risk management function** is introduced in addition to the **internal audit** and **actuarial function**. Also, they shall carry out their **own risk assessment** at least every three years.



This risk assessment is an important element of the Directive under which schemes will need to **identify long and short-term risks** that could affect the scheme’s ability to meet its obligations. Environmental, social and governance (ESG) factors are also firmly on the agenda as IORP II calls to invest in accordance with the ‘prudent person’ principle.

Trustees will need to have **suitable qualifications, knowledge and expertise** to enable them to carry out their role.

# KEY FUNCTIONS

## RISK MANAGEMENT

According to the Directive it is essential that pension funds **improve** their **risk management** while taking into account the aim of having an equitable spread of risks and benefits between generations in occupational retirement provision. Thus, **potential vulnerabilities** in relation to the **sustainability** of pension schemes can be properly understood and discussed with the relevant authorities.

The risk management system shall **cover an extensive range** of areas including

- underwriting and reserving
- asset-liability management
- investment, in particular derivatives, securitisations and similar commitments
- liquidity and concentration risk management
- operational risk management
- insurance and other risk-mitigation techniques
- ESG risks relating to the investment portfolio and the management thereof

Where members and beneficiaries bear risks, the risk management system shall also consider those risks from their perspective.

### Risk management in place

The risk management function needs to adopt strategies, processes and reporting procedures necessary to regularly identify, measure, monitor, manage and report to the management the risks to which the pension schemes are or could be exposed. The risks should be **addressed** at an **individual** and at an **aggregated** level, including a focus on their **inter-dependencies**.

## INTERNAL AUDIT

The internal audit function shall, in a manner that is proportionate to the funds' size and internal organisation, as well as to the nature, scale and complexity **of its activities, include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance**, including, where applicable, outsourced activities.



### Fit and proper

All persons who effectively run the pension fund, persons who carry out key functions and, where applicable, persons or entities to which a key function has been outsourced shall have the necessary qualifications to ensure a sound, adequate and prudent management, as well be of good repute and integrity.

## ACTUARIAL FUNCTION

As under IORP I an effective actuarial function shall be in place to, among others, coordinate and oversee the calculation of **technical provisions**, to assess the **appropriateness** of the methodologies and underlying models used. It will also express an **opinion** on the different policies and arrangements, including the risk management system.

The actuarial function is a measure of **quality assurance** with a view to safeguarding that certain important decisions can be taken based on **expert technical actuarial advice**.

*All members of our Actuarial Function team are **IA|BE Qualified Actuaries** and work according to the standards of actuarial practice of the IA|BE (Institute of Actuaries in Belgium). Likewise, our auditors are member of the IAA-Bel (Institute of Internal Auditors-Belgium).*

### Functional interplay

The risk management and actuarial function may be combined, whereas the internal audit shall be independent from the other key functions.

A general provision in the Directive is **impartiality**, which states that the single person or organisational unit carrying out the key function shall be different from the one carrying out a similar function in the sponsoring undertaking. Exceptions may be granted by national authorities provided that the pension fund explains how it prevents or manages any conflicts of interest with the sponsoring undertaking.

### All three key functions are allowed to be outsourced.

A possible strategy for a pension fund is to opt for **countervailing power** and keep a function itself within the organisation but does outsource the technical work related.

# OWN RISK ASSESSMENT

At least **every three years pension** funds will assess their own risk in a holistic fashion that combines all material risks and connects the strategy of the fund with its risk appetite and profile. It enables the management to take **risk-based decisions** taking into account governance, risk culture and asset-liability projections. For (re)insurance companies the Solvency II equivalent is called ORSA.

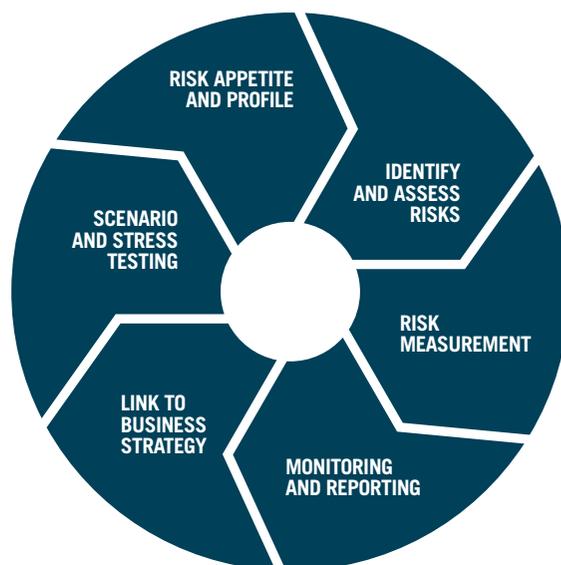
## GOVERNANCE

A description of how the own risk assessment is **integrated** into the **management** process and into the **decision-making** processes shall be provided. For each of the persons running the pension fund, carrying out key functions or whose professional activities have a material impact on the risk profile, a **remuneration policy** shall be established, implemented and maintained. The own risk assessment shall check that this policy is in line with the long-term interests of members and is aimed at avoiding conflicts of interest.



## RISK CULTURE CYCLE

The risk assessment will evaluate the effectiveness of the risk-management system with the help of **stress testing** and **prospective scenario analysis**. Operational risks and mechanisms protecting retirement benefits shall be measured qualitatively. Where environmental, social and governance factors are considered in investment decisions, an assessment of new or emerging risks, including risks related to climate change, use of resources and the environment, social risks and risks related to the depreciation of assets due to regulatory change ('stranded assets'), will be performed.



## ASSET-LIABILITY MANAGEMENT (ALM)

The **prospective stochastic modeling** of assets and liabilities enables to **quantitatively** assess the overall funding needs and the setting up of a recovery plan. Also, a sound appreciation of the risk culture cycle depends on a **realistic projection of future P&Ls** and balance sheets. In relation to the statement of investment principles, an ALM study can **optimize** the **strategic asset allocation**. The Directive also stresses **transparency** and accessibility of **adequate information** to prospective members, members and beneficiaries to support their decision-making about their retirement. It will ensure a high level of transparency throughout the various phases of a scheme comprising pre-enrolment, membership (including pre-retirement) and post-retirement. In particular, information concerning accrued pension entitlements, **projected levels of retirement benefits**, risks and guarantees, and costs should be given. Where projected levels of retirement benefits are based on **economic scenarios**, that information should also include an unfavourable scenario, which should be extreme but plausible. **Without ALM, a prospective stochastic modeling of the assets and liabilities, the information provided to stakeholders can hardly be deemed in accordance with IORP II.**

*Based on our ample experience with a.o. ORSA in Solvency II we are **readily prepared for the own risk assessment** required in IORP II. Our internally developed ALM software **Ev-AL-U** can be **tailored to match each client specifically**. Ev-AL-U performs risk neutral (valuation) and real world (risk analysis) calculations using state-of-the-art techniques. Moreover, this enables to **optimize your asset-mix** according to the risk appetite and liabilities of the pension fund.*

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