17 April 2020

Subject: **CRISIS 2020 – UPDATE 5**

Impact on pension funds of current financial markets turmoil and challenges to Europe and global economy

Action required:
For information

1. EIOPA statement on principles to mitigate the impact of COVID-19 on the occupational pension sector

On April 17th, EIOPA released a statement on principles to mitigate the impact of COVID-19 on the occupational pensions sector.

1. The European Insurance and Occupational Pensions Authority (EIOPA) has been closely monitoring the coronavirus/COVID-19 developments in relation to the occupational pensions sector. As long-term investors Institutions for Occupational Retirement Provision (IORPs) can play a stabilising role in current volatile markets.

2. Occupational pension systems across Europe are very diverse. The IORP II Directive sets minimum prudential rules for IORPs in the EU and, in consequence, prudential regulation varies considerably between Member States. In addition, occupational pension arrangements depend on national social and labour law, resulting in differences in the extent to which risks are borne by members and beneficiaries, the IORP itself, sponsors and pension protection schemes.

3. Recognising this diversity, considering the current coronavirus/COVID-19 situation, and to mitigate the impact on IORPs and their members and beneficiaries, as well as to avoid pro-cyclical effects on the real economy and financial system, EIOPA expects national competent authorities (NCAs) to adhere to the following principles using a risk-based and proportionate approach.

Business continuity and operational risks

4. NCAs should ensure that IORPs prioritise the continuity of key operational activities, including outsourced ones, like the timely investment of contributions, the management and safekeeping of assets, the timely and accurate payment of retirement benefits and service continuity towards members and beneficiaries. NCAs should allow IORPs flexibility in the collection of contributions from employers facing liquidity pressures, also in anticipation of envisaged wage support measures.

5. NCAs should expect IORPs to carefully consider and effectively manage the increased risk exposure to fraud, other criminal activity, cyber security and data protection due to the disruption of society and, in particular, staff working remotely.

6. To accommodate IORPs' focus on key operational activities, NCAs should be flexible with respect to deadlines for publication of documents and data considered less urgent given the current circumstances as well as in respect of national reporting requirements. The timings for the provision of occupational pensions information to EIOPA are extended by two weeks for the information regarding the first quarter of 2020 and by eight weeks for the information regarding annual reporting with reference to the year-end 2019.

Liquidity position

7. NCAs should monitor the liquidity position of IORPs carefully and proportionately. IORPs may face significant liquidity pressures due to:

- delayed or missing contributions from employers and employees;
- the potential need to cover cash margin calls on derivative hedging positions;
- any moratorium on payments on loans and mortgages;
- expected declines in dividend payments on IORPs' equity holdings;
- difficulties in selling assets under current market circumstances.

Funding situation and pro-cyclicality

8. NCAs should closely monitor the impact of financial market developments on the financial position of IORPs providing defined benefit (DB) schemes and their compliance with national funding requirements.

9. In their supervisory responses, NCAs should seek to find an appropriate balance between the primary goal of safeguarding the long-term interests of members and beneficiaries and the aim of avoiding short-term pro-cyclical impacts on the real economy, most notably sponsoring employers, and the wider financial system.

Protection of members and beneficiaries

10. NCAs, where relevant in collaboration with the national legislator, should encourage flexibility to safeguard members' pension rights and, particularly in defined contribution (DC) schemes, allow plan members to choose delayed application of lump sum payments or of mandatory annuitisation.

Communication

11. NCAs should expect IORPs to communicate to sponsors, members and beneficiaries in a balanced way on the impact of the coronavirus/COVID-19 developments on the IORP's service continuity and, as the financial and economic impact of the COVID-19 starts to become clearer, on the impact on (future) retirement income of members and beneficiaries. In particular in DC schemes, IORPs' communications should aim to discourage potential short-term decisions by plan members that may jeopardise long-term pension outcomes.

2. Impacts on IORPs and measures adopted in MS – (based on various external sources)

The Netherlands

The Dutch pension funds for the building, metal and cleaning sectors and the scheme for hairdressers have allowed employer companies to defer premium payment by up to two months. The schemes for hospitality workers, the travel industry and the retail sector introduced similar measures. De Nederlandsche Bank (DNB), emphasised that pension rights will remain if contributions aren't paid, and a two-month leeway is legally possible. At the presentation of DNB's annual report last month, it was indicated that the cabinet and the industry organisations were discussing options in case of a continued crisis.

Germany

The Pensions-Sicherungs-Verein VVaG (PSVaG), the mutual insurance association for German occupational pension schemes, expects a high number of insolvencies, despite the efforts of the government to mitigate the consequences of the COVID-19 crisis on the economy. This will also lead to a higher burden for PSV as a large number companies may not survive the period of prolonged lockdown and will have to file for bankruptcy. The PSV will have to act for those that have made pension commitments. PSV is the statutory insolvency insurer for occupational pensions in Germany, covering direct pension promises, support funds, Pensionsfonds and certain types of direct insurance.

BaFin, the German financial supervisory authority, has decided to relax rules requiring employers to restore the coverage of guarantee assets for Pensionsfonds. Under the new scheme, BaFin allows employers to submit a plan to restore the coverage of up to 10% provided by guarantee assets until 1 October at the latest, and not within three months from the start of the underfunding period. Initial payments to restock the cover of assets can be made in 2021 instead of this year. BaFin, in this particular case, refers only to Pensionsfonds, which in Germany fall under the EU supervisory directive IORP II. The authority also addresses Pensionskassen by waiving objections to a temporary passive excess of the proportion of real estate assets held through investments funds mentioned in the sections 3 and 5 of the Anlageverordnung (AnlV) legislation. Investment funds will no longer be able to make new real estate investments for as long as the proportion is exceeded, in order to ensure compliance with the proportion of real estate held and safeguard the stability of the financial market.

France

CRPN, the pension provider for professional flight crew in France, has allowed airline companies to delay employer contributions for five months to help with short-term cash management – and protect the demographic profile of the pay-as-you-go scheme.

Switzerland

The recent decline of pension funds assets, which has been caused by the COVID-19 crisis, makes for a reform of Switzerland's occupational pensions even more urgent (Roland Müller, Managing Director of the employers association Schweizerische Arbeitgeberverband). Social Partners made a series of proposals to the Federal Council to review the second pillar pension system with the goal to reduce occupational pensions' funding problem, secure a certain level of pensions payments and to improve social security for low-income workers. Despite the coronavirus crisis has forced an extension on the reform consultation until May 29, the delay should not have an impact on the final result. An occupational pensions reform is inevitable in Switzerland due to demographic developments, the ongoing low interest rate environment, and other social changes. The points of the proposal from social partners include a reduction of the minimum conversion rate to 6% from the current 6.8%, a lifelong monthly pension premium for recipients of old-age and disability pensions from the occupational pension scheme, and an adjustment of the retirement credits.

Finland
The government has temporarily lowered earnings-related pension contribution requirements from employers by around 2% and allowed businesses unable to operate during the crisis to postpone contributions completely for up to three months. The measures which have been decided upon will reduce the premium income of pension institutions by about €1bn for the current year. This loss would be made up for by rai-sing emplo-yer cont-ri-bu-tions in 2022–2025. contribution income was also set to decrease significantly this year due to job losses, with the Finnish Centre for Pensions expecting to see around 300,000 employees laid off for different durations during the first half of this year. Earnings-related pension system has been wea-ke-ned by falling share prices amid turbulent market conditions, which had con-si-de-rably re-duced pen-sion pro-vi-ders' sol-vency buf-fers.

Ilmarinen, the biggest of Finland's pensions insurance companies, reports that nearly all of the companies so far applying to delay handing over pension contributions under new coronavirus crisis provisions, have opted for the maximum period of four months.

United Kingdom
Isio, a UK pensions advisory firm, estimates that the pension savings of individuals close to retirement are likely to have declined on average by 8.7% during the first quarter of 2020. Members at the start of their careers and who still have about 30 years until retirement have seen their pension savings fall between 13.2% and 20.8% over the past three months since they have a heavier exposure to equity-driven strategies, which were generally the worst hit by the recent market sell-off. regional allocations and the impact of currency had an impact on performance for providers with similar equity exposures. Additionally, exposure to listed alternatives, such as REITs, has hurt performance given their higher correlation with equity markets.

The UK's Pension Protection Fund (PPF) announced that the aggregate deficit of DB schemes potentially eligible for entry to the PPF is estimated to have increased from £124.6bn (€141bn) to £135.9bn over the course of March. This is equivalent to a fall in the funding ratio from 93.2% at the end of February to 92.5% at the end of March. There were 114 more schemes in deficit at the end of March than one month before. The deficit of the schemes in deficit grew £9.3bn, from £244.8bn at the end of February to £254.1bn. The drop in schemes' funding position over March was caused by a decrease in equity prices, the effect of which was offset to an extent by a decrease in liability values of around 1.6% due to an increase in index-linked bond yields.

Australia

Nearly 800,000 Australians have requested early release of part of their superannuation savings to tide them over financial hardship during the COVID-19 economic shutdown. Such is demand for early release that questions have been raised about the ability of some funds to meet their obligations. There have even been suggestions that the government might have to step in by issuing special bonds to create liquidity. Some conservative politicians blame the cash squeeze on industry funds for having invested heavily in illiquid assets, such as infrastructure and property. An analysis shows that, if just 1% of members choose to go for early release, this would be manageable, assuming all funds were equally impacted. The Australian Prudential Regulation Authority has issued guidance requiring funds to process approved claims within five working days.

World Pension Alliance Members' reactions

The World Pension Alliance (WPA) is a collective organization made up to be the main advocacy associations representing pension plans and providers in the world, including Europe, the United States of America, Canada, Latin America, and Australia. PensionsEurope is a founding member of WPA.

Today, through its members, the WPA represents more than 400 million people covered by retirement plans, and roughly 5000 pension providers managing more than 7 trillion US $.

The WPA members are exchanging information about their actions and the measures undertaken by governments in their respective regions. You can find below the information collected so far.

1) AIST – Australian Institute of Superannuation Trustees

AIST has not published any formal statement. However, they have shared with us an update on measures about to take effect in Australia:

- The Australian government has legislated a scheme for people in Australia to be able to access their superannuation early as an additional fiscal measure to help people suffering financially during this health crisis. From 20 April people will be able to access $10,000 from their superannuation account for this financial year (to 30 June) and then if they wish, a further $10,000 between 1 July and 30 September.

- More than 600,000 Australians have already registered their interest to get access to their superannuation early, out of a total of 15 million superannuation accounts. The superannuation system is primarily DC. It has put enormous pressure on our superannuation funds to rebalance portfolios ahead of the 20 April deadline to make them more liquid.

- There are some restrictions on who can access their superannuation account in this way, however, it is very broad. It is expected that Australians will withdraw between $27-50 billion from the system through these measures.

2) AEIP - European Association of Paritarian Institutions of Social Protection

AEIP published a press release on April 16th. The statement gives a concise overview of the challenges faced by paritarian institutions in the current pandemic situation, while highlighting their importance from a social and financial aspect.
Given the significant support that paritarian institutions provide to European citizens in the current crisis, AEIP calls the authorities and institutions at the EU level to:

- continue displaying significant flexibility in the implementation of supervisory practices and regulations in close consultation with the industry.
- EIOPA should also use the present circumstances in order to reflect on a Stress Test (ST) methodology for IORPs which takes into consideration the different national recovery mechanisms.
- DG FISMA and EIOPA should consider the particular social character of the paritarian funds – including IORPs and provident institutions- and not treat them as pure financial institutions.

To read AEIP's statement, please see here.

3) FIAP – International Federation of Pension Funds Administrator

On 27 March 2020 FIAP published a declaration. The declaration analyses the current situation, recognizing that fund assets have declined in value, but highlighting that they are still owned by members and, given their robust nature, should begin to recover their value as soon as this crisis is over, as has occurred in all past crises. FIAP calls on all its members to stay calm and collected, avoiding hasty decisions to opt out of funds, within a context of such high uncertainty and complexity as we are currently experiencing.
To read FIAP's declaration, please see here.
In addition to the declaration, FIAP is regularly providing reports on progress in pension matters. The February-March edition includes relevant information on Covid-19 measures.

4) ABC – American Benefit Council[1]

On 20 March 2020, ABC, together with many other organizations representing plan sponsors and service providers, sent a letter to the members of the US Congress urging immediate Congressional action to provide relief to employers that offer retirement plans, plan participants, and retirees in response to the current crisis created by the outbreak of COVID-19. They tabled several recommendations that would provide financial assistance to workers who may be unable to work and to preserve current cash flow to employers to ensure that they can pay workers and continue their businesses.
To read ABC's letter, please see here.
ABC has also sent other letters addressing several other Covid-19 issues (retirement policy-related, but also health, telemedicine, paid leaves, etc.) and has created a section in their website that provides daily updates.

[1] ABC is no longer a member of the WPA.

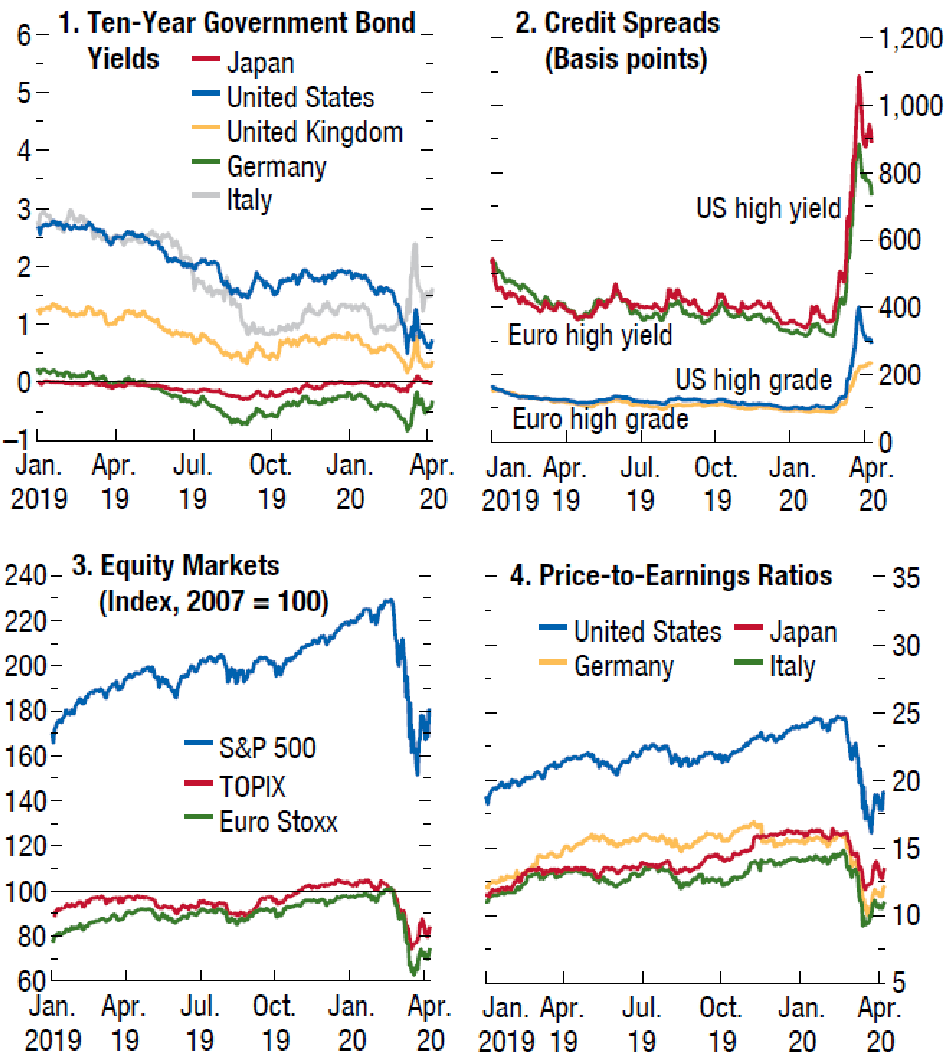
3. Wider economic impact and measures

The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. According to the recent IMF World Economic Outlook (April 2020), as a result of the pandemic, the global economy is projected to contract sharply by -3 percent in 2020, much worse than during the 2008–09 financial crisis. In the IMF baseline scenario - which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound - the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support. The risks for even more severe outcomes, however, are substantial. The IMF stresses that effective policies are essential to forestall the possibility of worse outcomes, and the necessary measures to reduce contagion and protect lives are an important investment in long-term human and economic health.

Figure 1: IMF Overview of the World Economic Outlook Projections (Percent change, unless noted otherwise)

		Projections		Difference from January 2020 WEO *Update*[1]		Difference from October 2019 WEO[1]	
	2019	2020	2021	2020	2021	2020	2021
World Output	**2.9**	**–3.0**	**5.8**	**–6.3**	**2.4**	**–6.4**	**2.2**
Advanced Economies	**1.7**	**–6.1**	**4.5**	**–7.7**	**2.9**	**–7.8**	**2.9**
United States	2.3	–5.9	4.7	–7.9	3.0	–8.0	3.0
Euro Area	1.2	–7.5	4.7	–8.8	3.3	–8.9	3.3
Germany	0.6	–7.0	5.2	–8.1	3.8	–8.2	3.8
France	1.3	–7.2	4.5	–8.5	3.2	–8.5	3.2
Italy	0.3	–9.1	4.8	–9.6	4.1	–9.6	4.0
Spain	2.0	–8.0	4.3	–9.6	2.7	–9.8	2.6
Japan	0.7	–5.2	3.0	–5.9	2.5	–5.7	2.5
United Kingdom	1.4	–6.5	4.0	–7.9	2.5	–7.9	2.5
Canada	1.6	–6.2	4.2	–8.0	2.4	–8.0	2.4
Other Advanced Economies[2]	1.7	–4.6	4.5	–6.5	2.1	–6.6	2.2

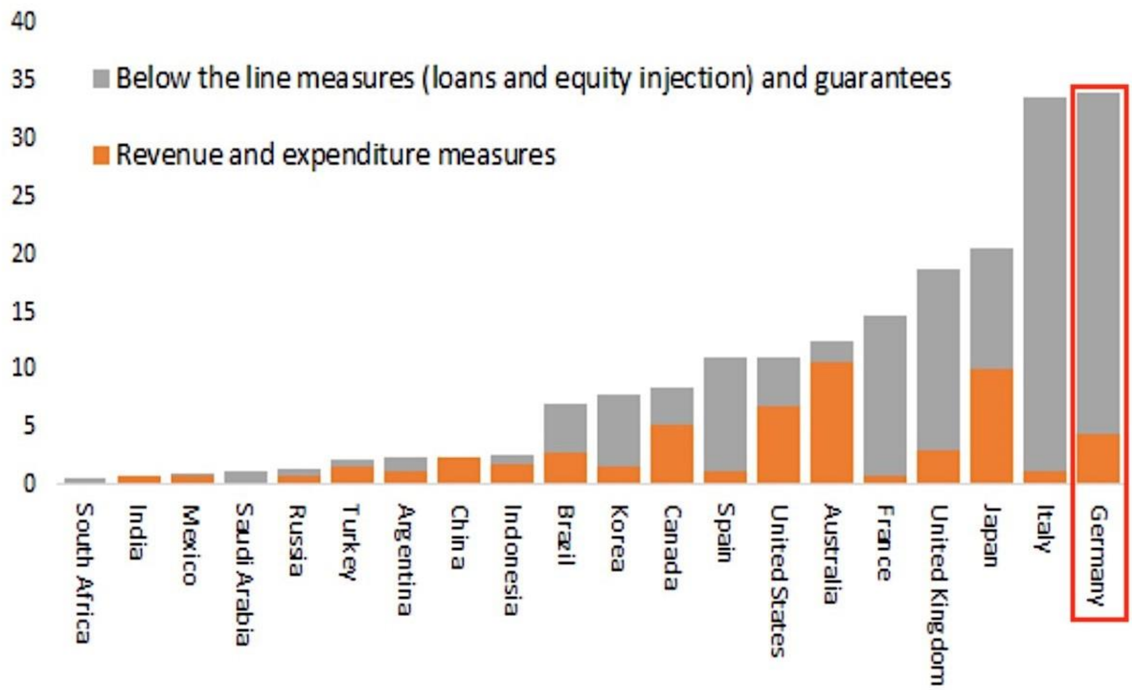
Figure 2: Advanced economies: Monetary and Financial Market Conditions (Percent change, unless noted otherwise)



Sources: Bloomberg Finance L.P.; Haver Analytics; Thomson Reuters Datastream; and IMF staff calculations.
Note: S&P = Standard & Poor's; TOPIX = Tokyo Stock Price Index; US = United States. Data are through April 7, 2020.

Measured by GDP, Germany has been mobilising most financial stimulus in the fight against COVID-19 worldwide. Economic stimulus packages and guarantees add up to >€1.1tn. This corresponds to around one third of Germany's economic output.

Figure 3: Above-the-Line and Below-the-Line Measures, and Guarantees

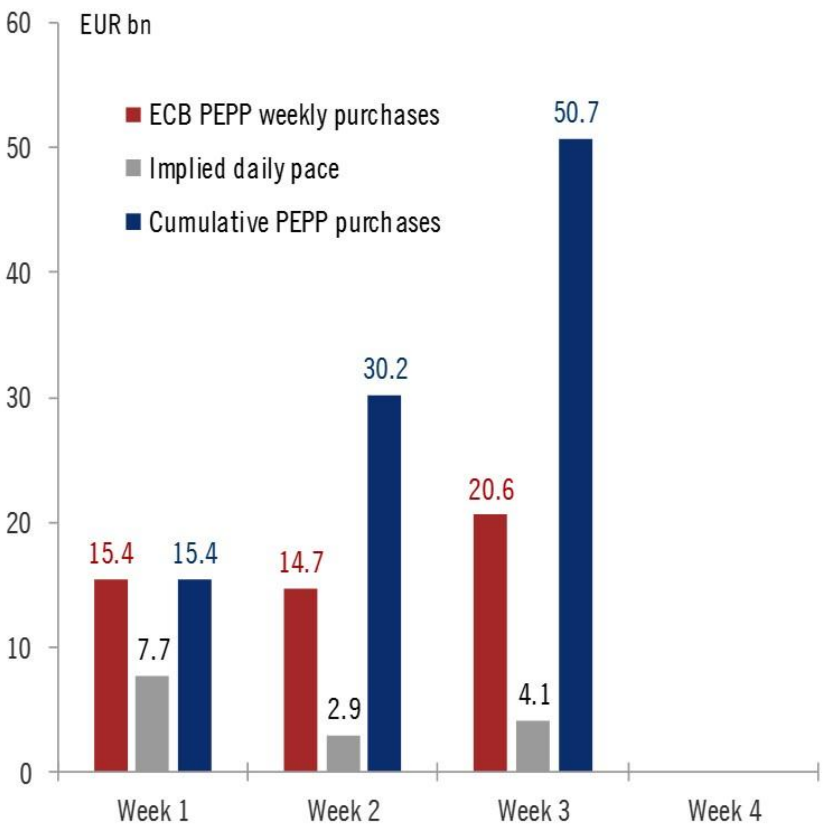


Central Banks:

On 15 April 2020, the ECB extended its support to the measures taken by euro area macroprudential authorities in order to address the impact of COVID-19 outbreak on the financial sector. It is noted that the ECB has issued a non-objection decision, thereby endorsing the measures taken to reduce capital requirements, including the countercyclical capital buffer. **On the same day, the ECB published a communication to reporting agents on the collection of statistical information in the context of COVID-19.**

Since last week, the ECB has continued its weekly PEPP purchases:

Figure 4: ECB PEPP weekly purchases

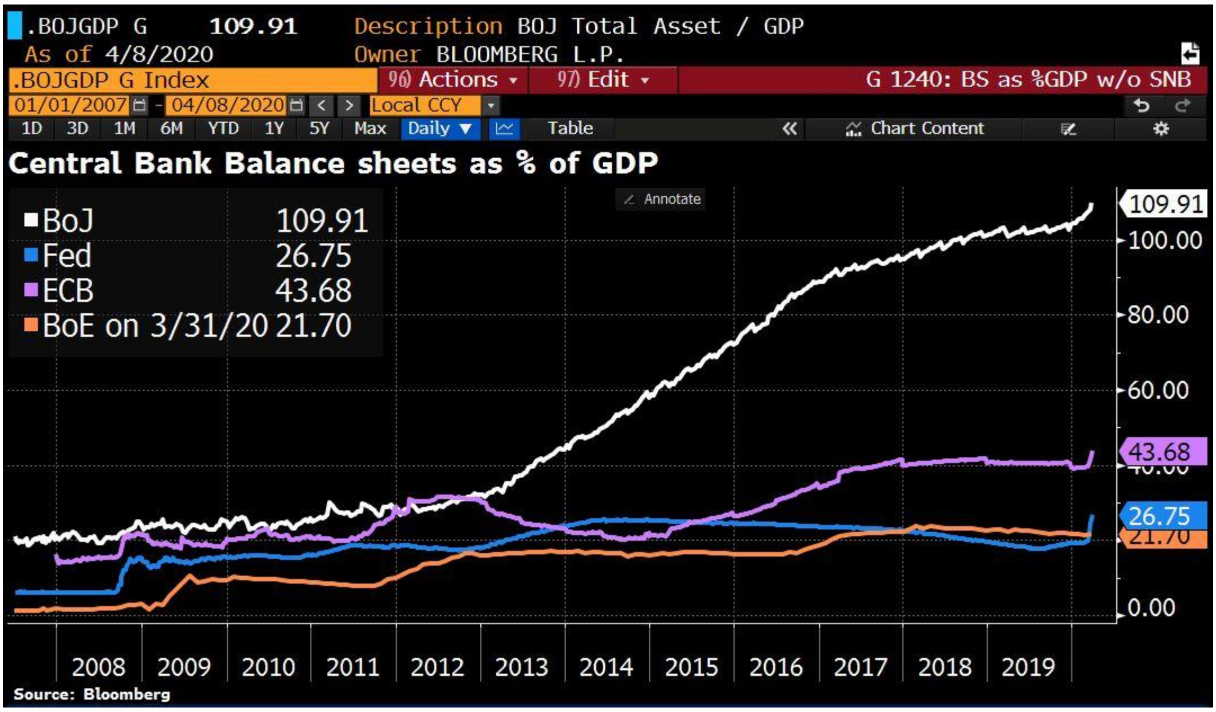


The ECB Balance sheet has hit a fresh record at €5,257.5bn with total assets increasing by another €58bn on QE & as commercial banks took another €19.3bn in TLTRO loans. The ECB Balance sheet now equals to record 44% of Eurozone GDP.

Figure 5: ECB Balance sheet

Not only the ECB, but also other Central Banks, are currently increasing their balance sheets.

Figure 6: Central Bank Balance sheets as % of GDP



EC:

You can find a good overview of the Commission's crisis response here. Some (recent) snapshots:

- **On 15 April 2020, the EC published a roadmap to phase-out the containment measures due to the coronavirus outbreak.** The Commission points out that each country will have to follow its own path, but that national actions should be based on certain criteria including timing, epidemiological advice, health system capacity, coordination between Member States and enhanced testing capabilities. In terms of next steps, the Commission calls for a very gradual approach to phasing out containment measures and for internal border controls to be lifted in a coordinated fashion.
- **Since last week, the EC has continued approving, under the State aid Temporary Framework, numerous additional national schemes, aimed at supporting the economy in the context of the COVID-19 outbreak.**

ECOFIN:

The last ECOFIN videoconference took place on 16 April 2020.

- **European Semester:**
  - **The economics and finance ministers agreed on the simplification of information requirements for this year's cycle of the European Semester.**
  - Given the high degree of uncertainty as a result of the socio-economic fallout of the COVID-19 pandemic, the Commission has put forward a simplified process for this year's European Semester exercise. This is intended to preserve the European Semester's main milestones, while taking into account the challenging times member states are facing. In particular, there would be a streamlined approach for the submission of national reform and stability or convergence programmes (NRPs and SCPs) by member states. The Commission expects to present its Spring forecast, as well as draft country-specific recommendations in early May 2020.
- **Economic impact of the COVID-19 crisis and policy response**
  - Ministers called for the speedy implementation of the emergency measures, in line with the principles agreed by the Eurogroup. The Croatian presidency undertook in particular to proceed quickly with negotiations on the Commission's proposal for a temporary instrument to mitigate unemployment risks in an emergency (SURE).

G20:

On 15 April 2020, following a virtual meeting, the G20 Finance Ministers and Central Bank Governors issued a Communiqué taking note of the measures taken to address the COVID-19 pandemic and its impacts and stating that these efforts must continue and be amplified. Annexed to the Communiqué is also the Action Plan, which they endorsed and which is foreseen to be regularly reviewed as the impact of the COVID-19 pandemic unfolds. **They intend to track the implementation and report on this plan at the G20 Finance Ministers and Central Bank Governors Meeting in July 2020 and for the G20 Leaders' Summit in November 2020.**

ESRB:

You can find a good ESRB spreadsheet providing information on the policy measures taken by Member States, EU institutions and national authorities in response to the coronavirus (COVID-19) pandemic here (it is updated on a regular basis). The information is collected in cooperation with the ECB, the EC, the ESAs and national authorities.

FSB:

On 15 April 2020, the Financial Stability Board (FSB) published a report **on international cooperation and coordination to address the financial stability implications from COVID-19.** The report was delivered to G20 Finance Ministers and Central Bank Governors ahead of their virtual meeting on 15 April. It is underlined that the FSB is supporting international cooperation and coordination on the COVID-19 response in three ways:

- by regularly sharing information among financial authorities on evolving financial stability threats on the policy measures that financial authorities are taking or are considering, and on the effects of those policies.
- by assessing potential vulnerabilities in order to better understand the impacts of COVID-19 on financial markets in individual jurisdictions and across the globe and inform discussions of policy issues; and
- by coordinating the responses of its members to policy issues, including measures that standard-setting bodies and national authorities take to provide flexibility within international standards or reduce operational burdens.

OECD:

On 15 April 2020, also a Report **by the OECD was presented during a virtual meeting of G20 Finance Ministers and Central Bank Governors. The report takes stock of the emergency tax and fiscal policy measures introduced by countries worldwide.** In addition, the report discusses how tax and fiscal policy can cushion the impact of continued containment and mitigation policies and subsequently support economic recovery. Furthermore, it also outlines the major policy reforms that will be needed to prepare for restoration of public finances.

IASB:

On 14 April 2020, the International Accounting Standards Board (IASB) announced that it will be holding a supplementary meeting on 17 April 2020 to discuss timeline reconsiderations as well as IFRS 16 and rent concessions granted as a result of covid-19.

Upcoming:

On 23 April 2020, the EU Council will discuss how the "Recovery Fund" from the crisis will be financed.

4. Financial markets and European authorities

a. Banking sector

- **ECB Banking Supervision provides temporary relief for capital requirements for market risk**
  The SSM (ECB Supervision) announced a temporary reduction in capital requirements for market risk, by allowing banks to adjust the supervisory component of these requirements. With this decision, the ECB is responding to the extraordinary levels of volatility recorded in financial markets since the outbreak of the COVID-19. As well as smoothing procyclicality, it aims to maintain banks' ability to provide market liquidity and to continue market-making activities. This decision will be reviewed after six months on the basis of observed volatility.

- **ECB supports macroprudential policy actions taken in response to coronavirus outbreak**
  The ECB supports the swift action taken by euro area macroprudential authorities to address the financial sector impact of the coronavirus outbreak by releasing or reducing capital buffers. Macroprudential measures will free up more than €20 billion of bank capital to absorb losses and support lending. Measures complement and reinforce microprudential measures taken by ECB.

- **EBA concludes that EU banks sail through the Corona crisis with sound capital ratios**
  EBA published its quarterly Risk Dashboard covering Q4 2019 data and summarising the main risks and vulnerabilities in the EU banking sector. Ahead of the Corona crisis, EU banks' capital ratios and asset quality have improved. However, return on equity (RoE) has further worsened.

- **Dutch banking sector to support the economy**
  Since the corona crisis outbreak in March, the Dutch banks have, in addition to the support package by the government, offered temporary financial relief to over 105,000 entrepreneurs and over 17,000 consumers. A total of 5.4 billion euros has been made available through the postponement of repayments and the provision of additional credit to companies.

- **UK: Banking and finance sector provides over £1.1 billion to SMEs through Covid-19 lending scheme**
  The banking and finance sector has lent over £1.1 billion to SMEs so far through the Coronavirus Business Interruption Loan Scheme (CBILS), UK Finance has revealed. Total lending under the scheme has grown by £700 million in the last week, an increase of 150 per cent.

- **Finland: Finnish banks offer extra flexibility to clients**
  To help businesses and households struggling in the coronavirus crisis, Finnish banks offer extra flexibility for loan repayments. As many as 63,000 private customers and 12,000 companies have already sent banks applications for extra grace periods. The figures are based on a survey sent to Finnish banks by the FFI on 6 April 2020.

b. Short selling

- **ESMA issues positive opinions on short selling bans by Austrian FMA, Belgian FSMA, French AMF, Greek HCMC and Spanish CNMV**
  All five national competent authorities (NCAs) had imposed restrictions in March 2020, which were due to expire in April, and all five decided to renew those restriction until 18 May.

c. Insurers

- **The UK FCA has ordered insurance companies to pay out claims to firms "as soon as possible"**
  The FCA has urged insurers to pay up quickly to businesses affected by coronavirus. If there are reasonable grounds to pay part of a claim but not the full claim, they must make an interim payment. If not, insurers must tell the FCA how they reached the decision and how it is "a fair outcome for customers". The move is aimed at relieving pressure on firms during the Covid-19 lockdown.

- **Irish insurers to reduce premium costs for customers during the Covid-19 crisis.**
  Vhi, Ireland's largest health insurer, has announced it will waive an average of 50% of customers premiums over the next three months. Irish Life Health also announced it is to give a rebate of between 36 and 60 per cent for those on advanced plans.

d. Credit rating agencies

- **CRAs should avoid intensifying the impacts of the crisis on countries and companies**
  Steven Maijoor, chair of the ESMA said the authority has intensified its interactions with rating agencies (CRAs) to understand how they are responding to the COVID-19 crisis. CRAs should avoid deepening the coronavirus crisis by quick-fire downgrades of countries and companies as the pandemic pushes economies into recession.