Note on Enterprise Risk Management for Pensions

February 2011
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Addendum to the IAA document

Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry

This paper has been produced by the Pensions and Employee Benefits Committee of the IAA and has been approved by that committee.
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1. Introduction

With the publication of the Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry in March 2009, the Pensions and Employee Benefits Committee of the IAA deemed it important to summarize the pension industry’s perspective in a paper to be read alongside the ERM document.

The Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry (which we will refer to as the “ERM document”) addresses issues related to an insurance company. When discussing pensions, two issues related to the applicability of this document need to be taken into account. Whereas the document was developed for both life and non-life (general) insurance businesses:

- in pensions the sponsoring company is generally not an insurance company and therefore pension issues should, in the sponsoring employer, be dealt with in the general framework of ERM, not just in a framework adapted to insurers; and
- while pensions have much in common with insurance contracts, there are quite a few differences, meaning that the framework adapted to insurers is not directly applicable to pension funds.

The ERM document starts from the following stated principles:

- ERM is concerned with all risks faced by insurers; and
- ERM is concerned with creating value for the owners of an insurance enterprise whilst ensuring that promises made to policyholders are kept.

These principles can clearly be adapted to pensions for the sponsoring employer or the fund alone. The principles are then made more explicit:

- ERM is concerned with the totality of systems, structures and processes within an insurer that identify, assess, treat, monitor, report and/or communicate all internal and external sources of risk that could impact on the insurer’s operations
- ERM implies a common risk management “language” across the operations of the insurer
- ERM involves systematic organisation of and coordination between risk functions, i.e., specialist risk “silos” operating in isolation from each other are inconsistent with ERM principles
- ERM includes both the management of downside as well as upside risks

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1 See Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry, March 2009, page 2
2 Ibid., page 4
3 Ibid., page 5
ERM seeks to quantify all risks but acknowledges that not all risks can be measured in currency/financial terms.

ERM is concerned with both behaviours (the risk management culture) and risk control processes.

ERM involves holistic consideration of risk information relating to past events (e.g., losses), current performance (e.g., risk indicators) and future outcomes (e.g., the risk profile or risk assessment).

When looking at ERM from the point of view of the sponsoring employer, the ambitious approach of the Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry is certainly well motivated in the area of pensions. Generally, however, from the point of view of an average pension fund it might be reasonable to aim solely at the level of risk measurement and management as per the following framework:4

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4 Ibid., page 4.
The ERM thinking of the document goes beyond downside risks and their elimination, with a company choosing the risks it is willing to take and then managing them well. For an employer, even setting up and maintaining a pension scheme is a risk that it has chosen. This leads to the rational question of whether the employer creates value for the owners of the company with this choice or whether the employer is actually destroying value. Therefore it is quite clear that the employer will in its ERM analysis calculate both the downside and upside risks of the pension scheme.

For a pension fund/trustee the situation is somewhat more restricted. The coverage is often decided by the employer and the fund/trustee is not in a position to decide on every important risk of the fund (usually the fund cannot apply active underwriting and pricing). Further, the expectation for the stakeholders of a fund may be more on the elimination of risks than the choice of possibly risky alternatives for managing the fund. That being said there are elements that might fit for a fund/trustee:5

Effective upside risk management is underpinned by a mindset that views all risks as opportunities:

- Opportunities to implement mitigation or risk transfer strategies for identified risks
- Opportunities to develop plans to proactively prepare for low likelihood – high impact scenarios, e.g., by running crisis simulations
- Opportunities to invest in new capabilities to manage longer term risk potentially impacting future profitability.

The ERM document notes that management commitment and leadership are essential to successful enterprise risk management:6

Moreover, public statements by the CEO and the leaders of the insurer that describe risk management as an insurer’s “core competency” or in similar terms further reinforce the view that proper management of risk is seen as critical to the insurer’s sustainability.

This, mutatis mutandis, is important for the fund/trustee and employee/beneficiary when applied to the sponsoring employer, and to the employee/beneficiary when applied to the fund/trustee.

The Note on Enterprise Risk Management for Capital and Solvency Purposes in the Insurance Industry documents eight key features, which are analyzed from different standpoints at the end of this paper.

5 Ibid., page 23.
6 Ibid., page 13
2. What about pensions?

When people talk about pensions, it too often becomes clear that there is a lack of common understanding of the concept. Confining the discussion to occupational pensions, we will first try to create a general description of an occupational pension and address its risk management from the point of view of the different actors. By defining a clear but restricted setting to address the issue, it can then by extension be applied to other more complicated situations.

Pensions can generally be arranged through the following three mechanisms:

1. by the government or otherwise more or less statutorily to all employees or employees in a certain group;
2. by an employer as part of the remuneration to its employees; or
3. through individual savings.

In many cases this categorization results in oversimplification and it is often difficult to assign certain pension arrangements to just one category. To make things simpler we will look at occupational pensions, i.e., pensions sponsored by an employer to its employees, as described in the second category above. We will however redefine the issue still further; by occupational pensions we will mean a situation where:

- there is a voluntary or other commitment from the employer to provide a certain pension cover for its employees; and
• this pension cover is financed by the employer so that the employer essentially bears the risk of the financing. (In fact some pension plans in category 1 above might more easily be treated as if they were occupational pensions, while some other arrangements such as certain multi-employer plans might also be included in the first category. In addition, many defined contribution plans where the risk lies with the employee might fall into the third category.)

As regards the employer, one must define the enterprise in ERM here to mean the totality of the company and its pension plan. This could be extended to public sector plans where the ERM can take into account the fact that ultimately the pension cover can be safeguarded by taxation.

With this it seems that the existence of risk is essential to the concept of occupational pensions in the sense that:
• the employer is committed to pay a contingent cash flow to the employee; and
• the employer substantially bears the risks (actuarial and investments risks) of this commitment.

Essentially, the employer commitment is based on the labour law of the jurisdiction where the commitment is given. From the start this creates different flexibilities for the commitment: in some cases the pension promise is a firm commitment where the employer bears the risk of the cost of its own insolvency; in other cases the commitment can be modified should the finances of the employer deteriorate. There can be other differences from jurisdiction to jurisdiction: for example, in some jurisdictions indexation is compulsory, whereas in others indexation is done only when the funding level is sufficient. It is clear that these flexibilities need to be taken into account when pension fund risk management is considered.

It is thus clear that our starting point is a holistic view of the occupational pension promise. When the employer has in exchange for the labour of the employee promised a contingent cash flow in the form of a pension, it is the employer that ultimately bears the risk. The risk can then be sliced differently depending on the way this occupational pension cover is financed. Roughly speaking we have at a minimum the following mechanisms for the implementation of the pension cover:
Irrespective of these different financing mechanisms, the essential relationship exists between the employer and the employee. The choice of a certain mechanism can, depending on the jurisdiction, mean that the quality of the commitment of the employer actually changes when a certain choice is made. In choosing anything other than a promise based on a book reserve, additional obligations are created for the employer. From the point of view of risk management, however, this should not be essential but rather treated as belonging to the content of the promise.

It is important to note that what is stated here with regard to occupational pensions can be applied to other employee benefits as well, with the defining factor there being the risk to the employer for the provision of these benefits.

We have not mentioned the difference between defined benefit (DB) and defined contribution (DC) schemes. This distinction is not needed as in many cases it tends to make things more obscure. References to DB or DC further on should be viewed as examples and are not indicative of creating a difference in the management of risk.

It is quite possible to think that there are conflicting views on ERM when comparing the point of view of the sponsoring employer to that of the trustee or employee/beneficiary. This results from the fact that generally the employer prefers to have predictable and affordable costs for the pension scheme. On the other hand, trustees and employees/beneficiaries would stress the importance of pension security – of course on the understanding that surprises to the employer could jeopardize this security.

3. Main risks in pensions

Typical categorization of risks in insurance is to divide them into:

- life/non-life risk
- market (or investment) risk
- liquidity risk
- default risk
- operational risk.

This categorization applies equally well to pensions with perhaps a few observations:

- the first category is of course limited to life risk. It must also be understood that in pensions the mortality risk – or actually the longevity risk – is predominant. This risk has more weight in pensions than it has in most insurance companies.
- market risk and default risk can to a large extent be handled in accordance with insurers, although from the point of view of a pension fund default risk connected to the sponsoring employer needs to be given special consideration. (One might consider identifying the default risk of the sponsoring employer as one separate risk because it may actually be the most important single risk to the fund.)
• operational risk might play a different role in pensions when looked at either from the point of view of the sponsoring employer, or from the point of view of the pension fund or other funding vehicle used to manage the pension promise. Note that in DC arrangements operational risk may be the most important risk to the fund.

• in pensions one might identify regulatory risk as a separate issue which is more important than in insurance. Typically in insurance the possibility to change products exists, in some cases even retroactively, if legislation changes. In pensions there have been many situations where changes in regulation have resulted in difficulties for employers. These could be changes to indexation rules, accounting/solvency requirements, or even changes in the area of equal treatment.

• sometimes but not always there is flexibility in the pension promise. This is a “positive” risk for the sponsor as regulatory risk or investment losses can be mitigated by changes to benefits.

4. Employer view on pension ERM

From the employer perspective pension risk management should be integrated into other risk management. The commitment to provide pensions to current or former employees is just one commitment amongst many and should, from the risk management point of view, be treated cohesively with the employer’s other risks. The relation between the employer and employee is generally as shown here:

From an employer’s point of view it must be recognized that there are enormously different situations as regards pensions. Some extremes include:

• a large multinational with pension plans in different jurisdictions versus an enterprise operating and having a pension plan in just one country;

• internal (with total or almost total control by the sponsoring employer) versus external pension fund (with other stakeholders playing a more or less strong role, or benefit rules with less flexibility);

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7 Not to say that in an ideal situation pension commitments should have no additional requirements.
• a small and simple pension plan versus a large plan, perhaps in the form of a plan covering not only the employees of a single enterprise but those of a certain sector; and
• a pension plan maturing in line with a growing employer versus a diminishing company with a huge liability for pensions of former employees.

It is clear that governance in general – and risk management in particular – are different in these very diverse situations. In ERM it is understood that, under the new discipline, fragmented risk management and silo attitude is integrated into one single methodology. This is then applied using the proportionality principle to smaller enterprises. One could speculate whether the problem, i.e., fragmented risk management and silo attitude, is encountered mainly in larger corporations and larger pension funds. With fewer resources smaller players are obliged to retain integrated risk management instead of allowing fragmentation to happen. Perhaps a natural starting point would be to say that integrated risk management is something that is natural for smaller players and ERM is needed in larger entities to get back this natural attitude to risk. Maybe proportionality should actually be applied in the other direction than what is usually done: smaller entities have a natural way of applying ERM and this needs to be extended to larger entities in a proportionate manner.

Especially in the case of a large multinational enterprise, but also for a smaller undertaking with a very simple pension plan, there is a risk that legislation sets requirements to apply silo thinking to pensions. However, it can also be true that silo thinking happens voluntarily. This can for example surface in the form of a pension fund diversifying its investments away the employer specific risk. Nevertheless, from a corporate finance point of view, an enterprise is expected to concentrate on the risks that in accordance with its strategy are thought to be greatest. Therefore, from the standpoint of the sponsoring employer pension risks should not be analyzed separately, in a silo, but in a holistic manner taking into account the whole business strategy of the employer. In this area what is stated in paragraph 2.7 (Importance of a Common Risk Language in the Insurer) is crucial when ERM is applied to pensions.

For the risk management of the employer it is essential to understand the nature of the commitment to pay pensions. This commitment can be very different in various situations within a single jurisdiction but especially so in different countries. Sometimes the commitment is formulated so that it solidly protects the rights of the employee/pensioner. In other cases the commitment can be extremely flexible. In the latter case the possible funds covering pension liabilities can at least to some extent be thought of as a risk buffer, covering not only risks to pension funding but also risks to the enterprise generally. Thus for risk management it is essential to analyze the commitment and its flexibilities or inflexibilities carefully.

Pension commitments are by and large different from an employer’s other commitments. At a minimum they usually obey the same rules set out in employment legislation that are applied to employee wages. Pension commitments can in a certain sense be understood as deferred wages; therefore, generally what is applied to wages also applies to pensions. This also has a bearing on the seniority of the commitment, as when employee wages and pension claims are

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8 It should be noted here that this statement applies only with regard to the ERM of the sponsoring employer and a different conclusion would be drawn from the employee/beneficiary point of view.
paid before other debtors get their share. Such circumstances would then influence the employer’s risk management.

Pension liabilities typically have special accounting treatments based on either local GAAP or applicable international standards. This results in the different treatment of pension liabilities than any other claims on the company. This may restrict the possibility of the company integrating pensions uniformly within the framework of other risk management.

An employer usually has many alternatives for organizing and financing pensions. By and large, risk management should not depend on the vehicle chosen as long as the use of this vehicle does not interfere with the decisions of the employer. However, in many cases there are rules that complicate matters, such as:

- investment restrictions for the financing vehicle chosen;
- solvency requirements for the fund and sometimes indexation rules that depend on the solvency of the fund;
- restrictions on how much a fund can return to the employer even in the case of significant overcapitalization.

Such rules will clearly have an influence on the risk management of the sponsoring employer.

5. Pension fund/trustee view on pension ERM

Pension funds can have many different forms in different jurisdictions and also within a single jurisdiction. In some cases a pension is fully under the control of a single employer. In other cases a pension fund has a separate legal identity. In the latter case the persons responsible for the fund (trustees) often represent not only the employer but also the employees or beneficiaries to a smaller or larger degree. In the following we will concentrate on the situation where the fund is a clearly separate legal entity and where the trustees bear responsibility for the fund to all stakeholders.

In the case of a separate legal entity, the fund is itself responsible for managing its business to a fairly large degree. Of course the sponsoring employer is financially responsible for covering the service cost of the fund resulting from the covered service of the employees. Often the sponsoring employer covers at least to some degree the investment risk of the fund, but in any case the Key Features of the ERM document easily apply.

In this setting it is clear that the pension fund can and should have its risk management procedures. It can apply the risk categories given above and divide its risks into the following components:

- life (/non-life) risk
- market (or investment) risk
- liquidity risk
- default risk
- operational risk.
It seems that the ERM document is readily applicable to a pension fund. As mentioned previously, it is quite clear that a pension fund usually needs to address only a subset of the issues that are referenced in the ERM document. Proportionality principle can then be utilized to select the features of the process that add value to the risk management of a pension fund and its trustees.

A special concern of this ERM is to appropriately analyse conflicts of interest that might arise between the employer and the pension fund/trustees.

6. Insurer view on pension ERM

Insurance, as stated above, can be addressed as one possible financing vehicle in the structure described above. Because there is some thinking that pensions are similar to insurance it might be necessary to discuss this area separately.

Insurance can be used as an instrument to provide occupational pensions. Then wholly or partially the burden of paying the pensions is transferred to the insurer who receives a premium, making it possible to assume this responsibility.

For the insurer and its ERM insuring occupational pensions is basically not different from other long-term lines of business. As managing occupational pensions is group insurance by nature, there are restrictions in underwriting that need to be taken into account in the insurer’s ERM. The insurer should of course make sure (as also needed in other forms of insurance) that it is only responsible for the benefits corresponding to actually paid premiums should the employer go bankrupt.

From the employer’s point of view it must be understood that insurance is usually only a vehicle to operate a pension plan. As a rule this means that the employer cannot escape the ultimate responsibility for the pensions, meaning:

- if the insurer for one reason or another is unable to pay the pensions (i.e., becomes insolvent) the employer will often be responsible for the cover; and
• only seldom can the insurer guarantee pension accrual based on future wage increases, therefore, the employer, often in the form of additional premiums, is responsible for this part of the cover.

It is evident from these examples that in the employer’s ERM there is a clear need to address pension risks even in a situation where insurance is used.

From an insurance company point of view there are situations where the insurer both insures pensions for its clients and provides pensions for its own employees through a pension fund. These areas should be handled in a consistent manner. It might however be that the seniority of the insured pensions is higher than that of pensions paid to employees.

7. Employee/pensioner view on pension ERM

An employee or pensioner cannot by definition have their own ERM; however a few remarks can be made from their particular point of view.

To a lesser or greater degree an employee or pensioner is dependent for their old age living on an occupational pension. This means that the employer/pensioner should have a great deal of interest in how well the risks of the pension commitment are managed. The interests of an employee/pensioner are not always aligned with those of the employer: for example, an employee would expect that the pension fund should diversify to investment instruments that are not correlated to the success of the employer.

It would seem that ERM should facilitate creating better information for the employee/pensioner. This should plainly outline how safe the pension is and how much need there is for additional saving.

In addition, individuals often do not interact directly with the pension fund and the employer but may be represented by unions, work councils, etc. These bodies could use adaptations of ERM to help them appropriately represent their members. A special concern of this type of ERM is to appropriately analyse conflicts of interest that arise between the employer and the employees/beneficiaries.

Situations where the risks of the pension rest with the employee/pensioner were omitted in previously discussed risk management. In such a situation the employer pays a certain annual contribution and the risks after that are carried by the employee. Therefore the employer does not have to deal with risk management (or this is limited to operational risk, i.e., safeguarding that the fund delivers appropriate fund management to its beneficiaries). This clearly points to the necessity for the employee to carry on a certain amount of risk management. There would be scope for extensive work in the area of IRM (Individual Risk Management) to give individuals better tools to manage their pension risks. One could for example surmise that the expected pension of an individual should not be calculated based on the full amount on their
pension account. Instead there should be a way to indicate a “risk neutral pension”, where based on the investment policy of the individual, a certain part of the amount on the pension account would be treated as a solvency margin that would create a degree of certainty for this risk neutral pension.

It should also be noted that there are more and more examples of hybrids where the risks are divided amongst the sponsoring employer, employees, and former employees who are now beneficiaries. When addressing employer ERM, it was stated that understanding the nature of the pension commitment required special care. Hybrid plans are but one example of different pension commitments. For employees, the ERM of the employer should provide tools to understand the pension promise and the risks that are left to be carried by the employee/pensioner.

8. Regulator/Supervisor view on pension ERM

Prudential supervision is accepted worldwide as an integral component of the regulation of pensions. The fundamental premise underpinning the supervisory role is that the primary responsibility for financial soundness and prudent risk management rests with the Board and the senior management of the sponsoring employer and, when pensions are managed in a separate entity, with the trustees, etc., of that entity. It is also understood that it is efficient to give supervised entities incentives to improve their risk management structures which should then result in fewer crisis situations.

In relation to pensions, prudential supervision involves establishing a system of:

- Financial oversight
- Mandatory licensing
- Ongoing operational requirements, e.g., prudential standards
- Procedures and processes for monitoring compliance with licence conditions and ongoing operational requirements
- Where necessary, undertaking enforcement action either to force a non-compliant fund into compliance or liquidate it.

Supervisors adopt a risk-based approach to supervision. In practice this means that institutions facing greater risks receive closer supervisory attention. Therefore, in order to effectively manage the supervisory process, supervisors must form their own view of risks, and the effectiveness of the management of risks, for each supervised institution. It seems therefore clear that applying ERM methodologies to pensions should also provide tools for supervisors to improve the procedures applied and to enhance employee and pensioner protection.
### Key Feature 1
As part of its overall governance structure, an insurer should establish, and operate within, a sound ERM framework which is appropriate to the nature, scale and complexity of its business and risks. The ERM framework should be integrated with the insurer’s business operations, reflecting desired business culture and behavioural expectations and addressing all reasonably foreseeable and relevant material risks faced by the insurer in accordance with a properly constructed risk management policy. The establishment and operation of the ERM framework should be led and overseen by the insurer’s board and senior management. For it to be adequate for capital management and solvency purposes, the framework should include provision for the quantification of risk for a sufficiently wide range of outcomes using appropriate techniques.

This key feature is clearly applicable to pension risks and offers a way of systematically integrating pension risks into the overall ERM of the employer. Needless to say, good and clearly communicated ERM makes employees/beneficiaries feel better at ease with their concerns over their pensions.

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<th>Key Feature 1</th>
<th>Sponsoring Employer</th>
<th>Pension fund/trustee</th>
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<td>The employer should as much as possible integrate pension risks into its overall ERM. As the sponsoring employer of a pension fund is only seldom an insurer, the ERM document is generally too restricted to be directly applicable. Pensions as such might traditionally be a prime example of an area that is treated in a silo manner. This is even more so when the sponsoring employer is itself not an insurer qualified in addressing risks related to longevity, etc. This being said it must also be understood that there are regulatory, etc., requirements that make it necessary to treat pensions to some degree in a silo manner. There might for example be conditions that restrict the investing of the assets that are ring fenced for pensions. It must also be understood that pensions are actually wages that are postponed to retirement and therefore employees/beneficiaries have legitimate claims on pension risk management in particular and ERM in general.</td>
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<td>A pension fund and its trustees can in a rather straightforward manner adapt the ERM document to their operations. The key concept is that of proportionality as the risk landscape of a pension fund is generally easier to navigate than that of a large employer.</td>
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### Key Feature 2
An insurer should have a risk management policy which outlines the way in which the insurer manages each relevant and material category of risk, both strategically and operationally. The policy should describe the linkage with the insurer’s tolerance limits, supervisory capital requirements, economic capital and the processes and methods for monitoring risk.

This key feature is easily adaptable to pensions. A pension fund and its trustees must not only create their own risk management policy but this must also be analyzed by comparing it to the ERM of the sponsoring employer.

<table>
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<th>Key Feature 2</th>
<th>Sponsoring Employer</th>
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### Key Feature 3
An insurer should establish and maintain a risk tolerance statement which sets out its overall quantitative and qualitative tolerance levels and defines tolerance limits for each relevant and material category of risk, taking into account the relationships between these risk categories. The risk forbearance levels should be based on the insurer’s strategy and be actively applied within its ERM framework and risk management policy. The defined risk tolerance limits should be embedded in the insurer’s ongoing operations via its risk management policies and procedures.

An employer should also set quantitative and qualitative tolerance levels and tolerance limits for pension risks. This should then result in an evaluation of whether value is created or destroyed through the pension arrangements.

It is quite straightforward to apply this principle to a pension fund. However, when setting the tolerance levels it is clear that the aspirations of both the sponsoring employer and the employees/beneficiaries need to be taken into account.

### Key Feature 4
The insurer’s ERM framework should be responsive to change. The ERM framework should incorporate a feedback loop, based on appropriate and good quality information, management processes and objective assessment, which enables the insurer to take the necessary action in a timely manner in response to changes in its risk profile.

This feature is clearly applicable to pension risks as well.

The feedback loop here would include the evaluation by the sponsoring employer, its employees/beneficiaries and the supervisor. The ERM should then change based on the result of this evaluation.

### Key Feature 5
An insurer should regularly perform its own risk and solvency assessment (ORSA) to provide the board and senior management with an assessment of the adequacy of its risk management and current, and likely future, solvency position.

This is applicable to the pension risks of an employer in a straightforward manner.

Also a pension fund and its trustees would benefit from a well designed ORSA which would additionally produce valuable information to the sponsoring employer and to the employees/beneficiaries.
The ORSA should encompass all reasonably foreseeable and relevant material risks including, as a minimum, underwriting, credit, market, operational and liquidity risks. The assessment should identify the relationship between risk management and the level and quality of financial resources needed and available.

### Key feature 6

As part of its ORSA an insurer should determine the overall financial resources it needs to manage its business given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met. The insurer's risk management actions should be based on consideration of its economic capital, supervisory capital requirements and financial resources.

This feature is geared toward addressing the risks of a prudentially supervised employer. Generally the sponsoring employer does not belong to this category. Therefore this feature is only to a limited extent applicable to pensions. In cases where the sponsoring employer is a bank or an insurer this feature should be applied consistently to its pension commitments but recognising the difference between the seniority of the claims.

Even in jurisdictions where there are no statutory solvency requirements it would be advisable for a pension fund to estimate its capital requirements. This would create more transparent information for the sponsoring employer and communicate pension security to other stakeholders more easily. It is not however proposed here that pension funds should have statutory solvency requirements. Among the actuarial profession there is discussion as to how pension security can be analysed and improved. The European actuarial body, the Groupe Consultatif has published a report in May 2010 entitled, “Security in occupational pensions” that analyzes different options in this area. This report is available from [http://www.gcactuaries.org/publications.html](http://www.gcactuaries.org/publications.html).
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<th>Key Feature 7</th>
<th>Sponsoring Employer</th>
<th>Pension fund/trustee</th>
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<td><strong>Key feature 7</strong>&lt;br&gt;As part of its ORSA, an insurer should analyze its ability to continue in business, and the risk management and financial resources required to do so over a longer time horizon than typically used to determine regulatory capital requirements. Such continuity analysis should address a combination of quantitative and qualitative elements in the medium and longer term business strategy of the insurer and include projections of the insurer's future financial position and modelling of the ability to meet future regulatory capital requirements.</td>
<td>This is an essential part of the ERM of any employer. As regards pension risks the continuity analysis should in particular address the issue of whether the pension risks are in balance with the general evolution of the employer. This is especially important in situations where the pensions are not fully funded, but the age structure is biased towards pensioners, as this could threaten the sponsoring employer. If the employer is an insurance company it might both insure pensions of its clients and provide for pensions to its own employees – these should be managed in a consistent manner taking into account however that the seniority of these pension claims usually differs from one to the other.</td>
<td>The continuity analysis of a pension fund should concentrate on analyzing whether the pension fund is sufficiently in balance with the evolution of the sponsoring employer.</td>
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<th>Key feature 8</th>
<th>Sponsoring Employer</th>
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<td><strong>Key feature 8</strong>&lt;br&gt;The supervisor should undertake reviews of an insurer's risk management processes and its financial condition. The supervisor should use its powers to require strengthening of the insurer’s risk management, including solvency assessment and capital management processes where necessary.</td>
<td>This applies only in the situation where the sponsoring employer is a prudentially supervised entity (bank or insurer).</td>
<td>Clearly the supervisor should analyze the risk management process and utilize generally the results of the ERM of the fund. Prudential supervision is increasingly emphasizes so-called risk-based supervision which could greatly benefit from a broader application of ERM in pension funds (and also among sponsoring employers).</td>
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