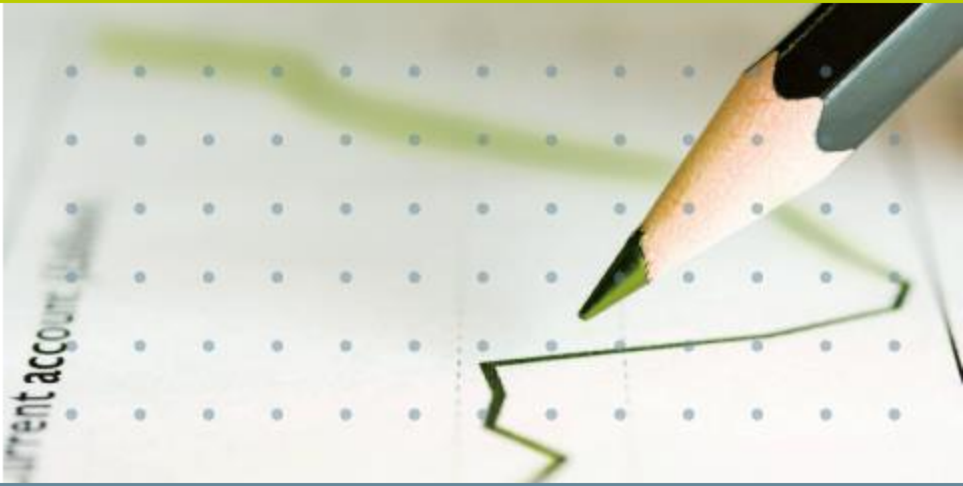
Prudential Supervision of IORPs

FSMA – Supervision of Pensions

FSMA

AUTORITEIT
VOOR FINANCIËLE
DIENSTEN
EN MARKTEN

AUTORITÉ
DES SERVICES
ET MARCHÉS
FINANCIERS



Survey – SRI and Pension funds in Belgium

Dalia Noskowicz – Financial Analyst

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Definitions – Pension pillars

1st

- Statutory/legal pension
- « *Pay as you go* »

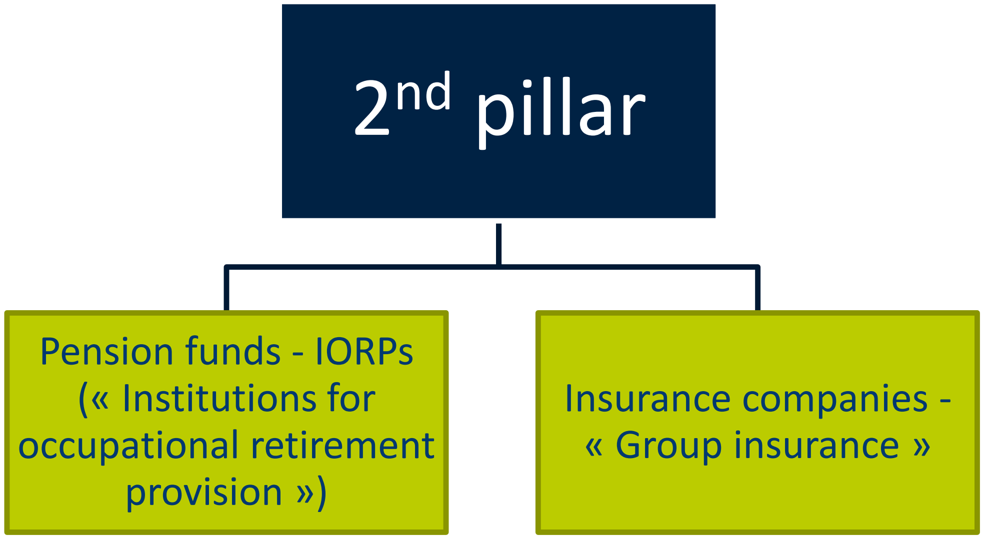
2nd

- Supplementary/occupational

3rd

- Personal savings

Definitions – 2nd pillar



- Provide retirement benefits related to a professional activity
- Employer/employee/self-employed contributions are invested to build pension benefits

Background

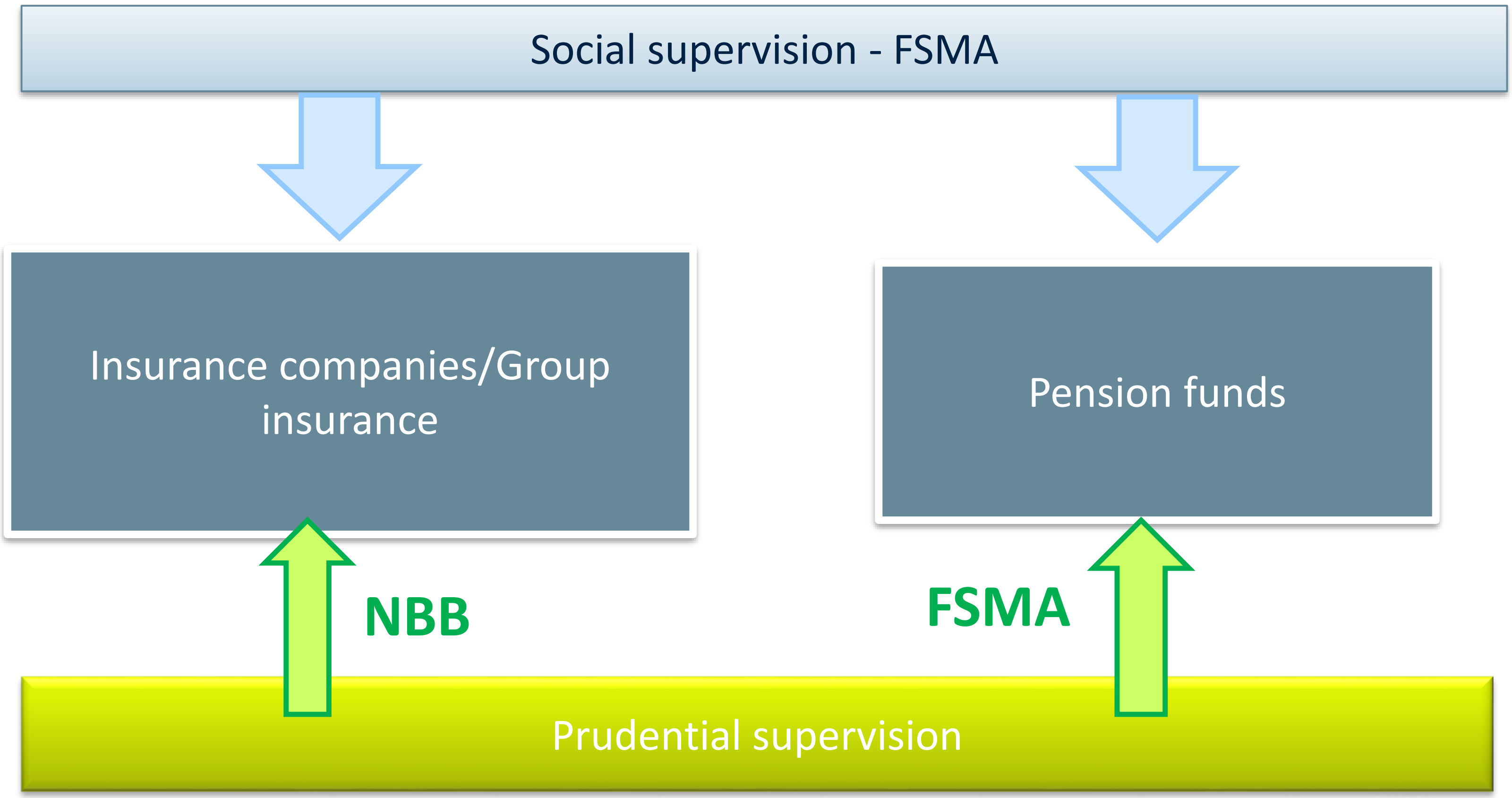
- FSMA – prudential supervision of pension funds -
  - EU Directive 2016/2341 (14 December 2016)
  - Law of October 27, 2006*

- FSMA – carries out supervision of the *social and labor* law aspects of pension built through pension funds *and* insurance co./group insurance (insurance companies - prudential supervision of National Bank of Belgium)

** LIRP - Loi relative au contrôle des institutions de retraite professionnelle, WIBP - Wet betreffende het toezicht op de instellingen voor bedrijfspensioenvoorziening, as amended by the Law of January 11, 2019*

Supervision of pension institutions

Supervision through FSMA/NBB -



Survey - Purpose

- Conducted in the summer of 2018 after the EU/ international initiatives on sustainable investing
- FSMA initiative - measure to what extent environmental, social and governance (ESG) aspects are taken into account in the investment policy
- Complete the information available in the "*transparency report*"* and in the "*Statement of Investment Principles*"**

** Annual report on the management of the pension promise, required by art. 42,2° of the Law of 28 April 2003 on Supplementary Pensions (social)*

*** As required by art.95 of the LIRP/WIBP of 2006 (prudential)*

Limited available information

- Transparency report: obligation to disclose to what extent ESG aspects are taken into account in the investment strategy
- Statement of Investment Principles: no obligation to disclose under the law of October 27, 2006

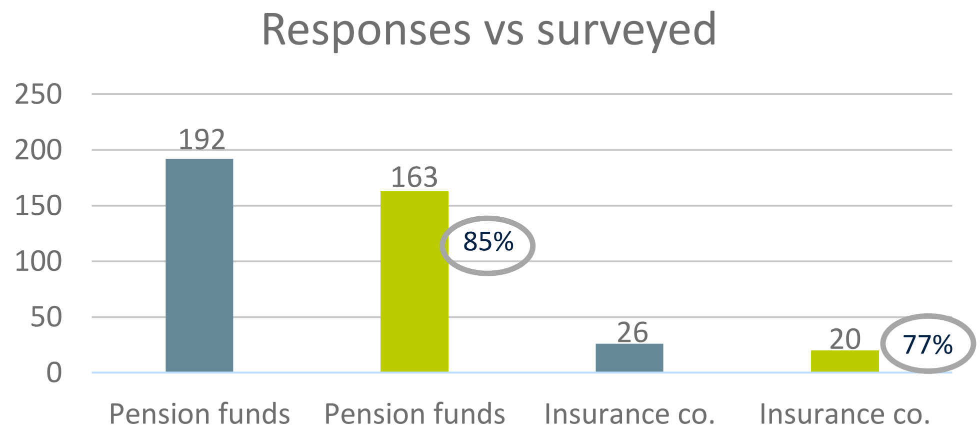
Information asked through the survey

- Existing practices in the field of sustainable investing
- How this is communicated to (potential) employers/sponsors and members
- Potential problems or difficulties in this area

Methodology

- Survey sent to 192 pension funds and 26 insurance companies that manage 2nd pillar benefits
- Responses from 163 pension funds (85%) and 20 insurance companies (77%)

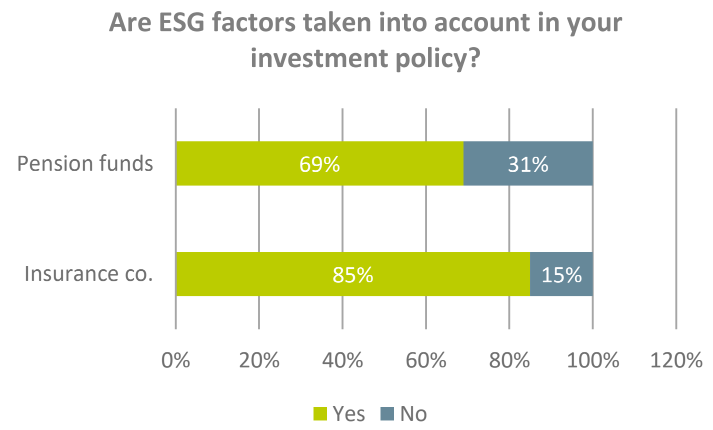
	Surveyed	Respondents	
Insurance companies	26	77%	20
Pension funds	192	85%	163



Main results (1/5)

- ESG factors are already taken into account to some degree -
  - 69% of responding pension funds (113/163) and 85% (17/20) of responding insurance co. take ESG factors into account in their investment policy

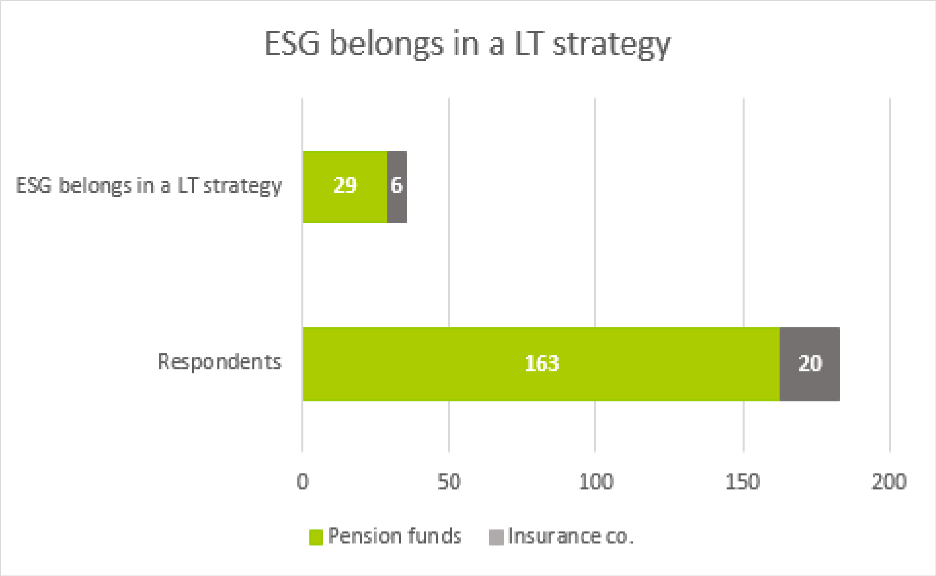
	Surveyed	Respondents		Take ESG into account	
Insurance companies	26	77%	20	85%	17
Pension funds	192	85%	163	69%	113

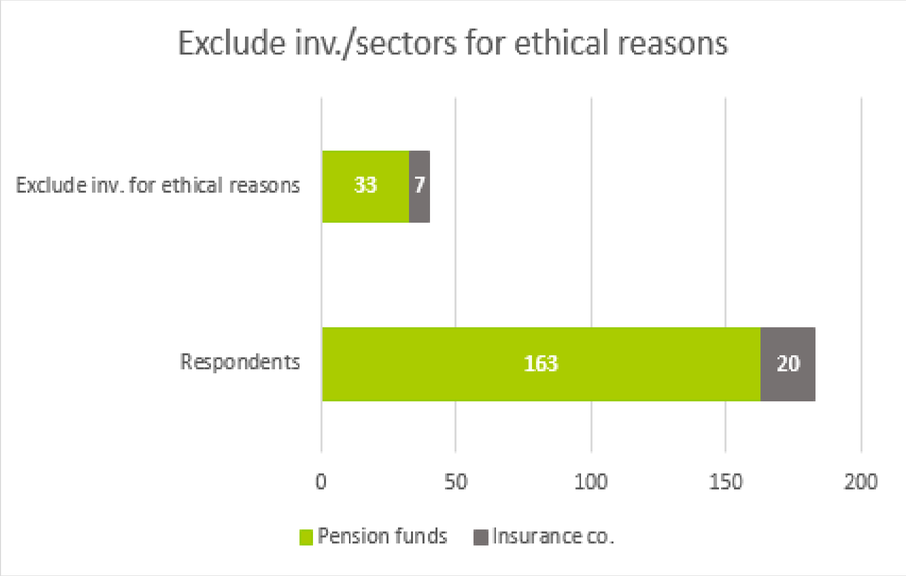


  - Usually, all ESG factors are taken into account

Main results (2/5)

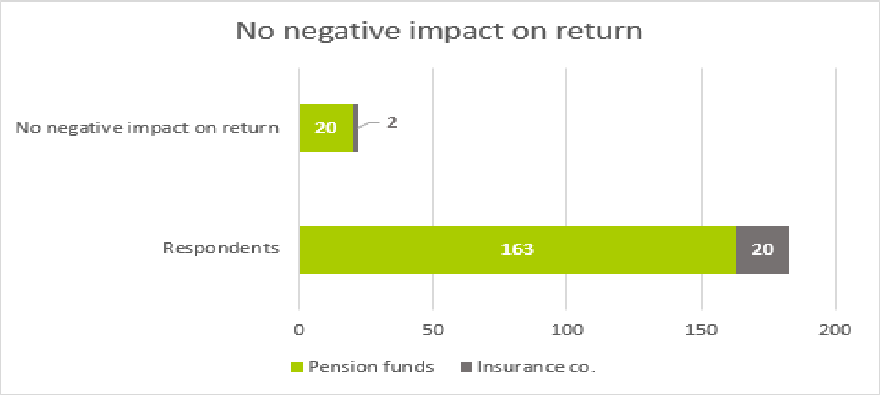
- 18% (29/163) of pension funds and 30% (6/20) of insurance co. believe in taking ESG factors into account in a long term strategy. Investments may be refused based on ESG factors
- 20% (33/163) of pension funds and 35% (7/20) of insurance co. exclude investments and sectors for ethical reasons (UN Global Compact Principles, controversial countries, controversial weapons, speculation on food prices,...)

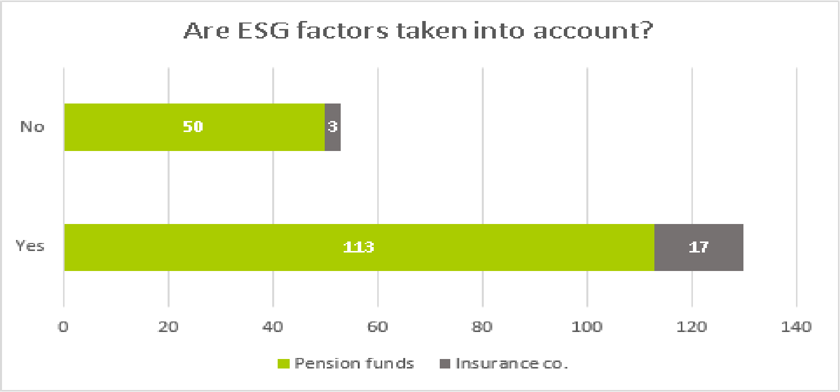




Main results (3/5)

- Return is sometimes more important than ESG -
  - 12% (20/163) of pension funds and 10% (2/20) of insurance co. only take ESG factors into account if no negative impact on return
  - 15% of insurance co. (3/20) and 31% (50/163) of pension funds do not take ESG factors into account, only consider return as a factor for investing



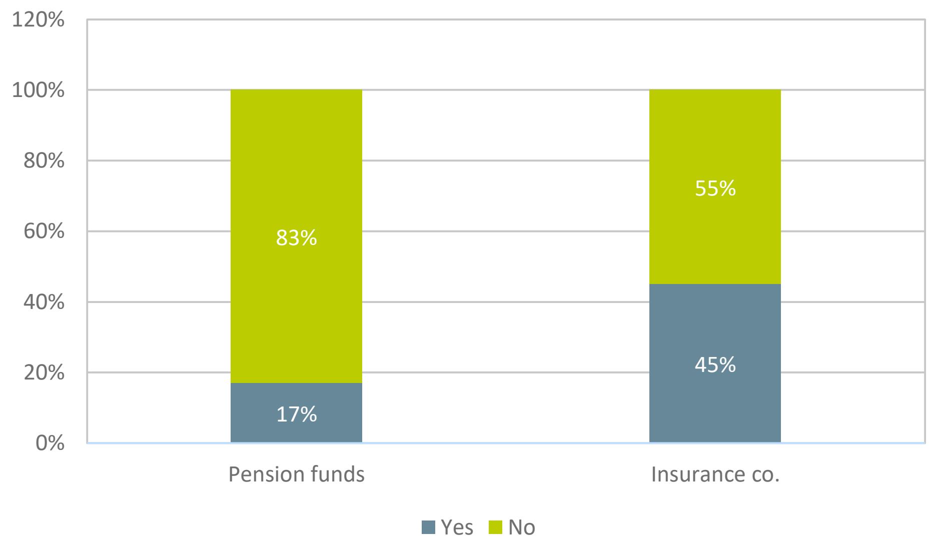


Main results (4/5)

- Main reasons for the lack of interest: few products available, passive strategy (benchmark), fund investing (no impact on asset selection)
- Possible interest if increased offer of investment products

Main results (5/5)

- 17% of responding pension funds and 45% of insurers have already conducted an analysis of the assets in their investment portfolios that score poorly on ESG



Main results – Role of the asset manager

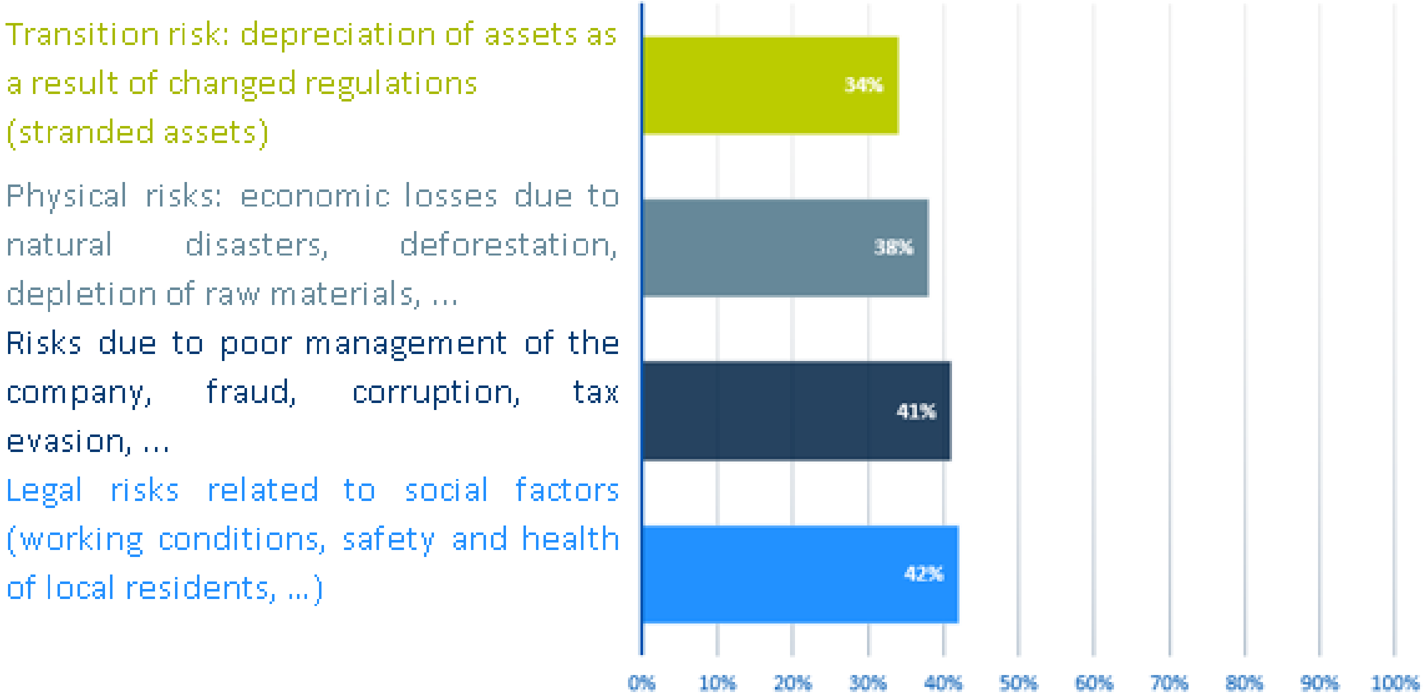
- Interest for sustainable investing also depends on the asset manager's attitude -
  - Pension funds: 19% - the agreement with the asset manager contains specific rules or provisions on sustainable investment
  - Insurance co.: 60% - the agreement with the asset manager contains specific rules or provisions on sustainable investment
  - No clear definition, taxonomy, or criteria for sustainable investment – depends on the manager

Main results – ESG risks (1/2)

- Based on recital 57 and article 25 (2) (g) of Directive 2016/2341, the risk assessment of pension funds should include risks related to climate change and the environment, social risks, and risks related to the depreciation of assets due to changes in the regulatory framework (“stranded assets”)
- Insurance companies are out of scope of this part of the survey because under prudential supervision of the NBB

Main results – ESG risks (2/2)

- Pension funds take into account the following risks to which the assets in their investment portfolios are exposed -



Pre-contractual information to employers (customers) and members

- 42% of pension funds and 50% of insurers have already received questions about this topic
- But, overall, little attention is paid to informing about sustainable investment policies -
  - 9% of pension funds and 15% of insurers provide information on their websites, in leaflets or in any other form of advertising
  - 20% of insurance co. discuss this item during sales talks; very rare in pension funds (2%)
  - 7% of the management agreements signed between pension funds and employers mention this topic; 10% of insurers mention this in the agreements with their customers.

Challenges to implementing sustainable investing

- Lack of clarity - biggest obstacle (classification, benchmarks, ...)
- Time and cost intensive to regularly update ESG policy - constant evolution of ESG standards, market practices, changing society, …
- Incorrect and incomplete information about ESG score of the companies invested in - not all criteria can be objectively quantified
- Interpretation that is too strict – limitation of product range - other risks, such as concentration risk, lack of diversification, bubbles, ...
- Deviations from benchmarks and market standards that do not yet include ESG factors