

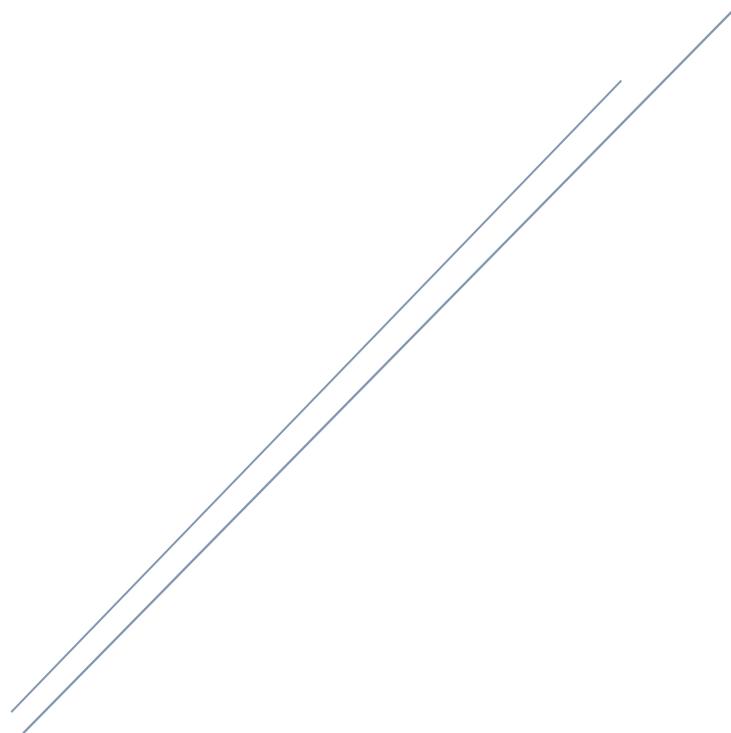


Association Européenne des Institutions Paritaires
European Association of Paritarian Institutions

The need to support paritarian institutions of social protection in light of the Covid-19 challenges

AEIP Statement

16 April 2020



European Association of Paritarian Institutions- AEIP

The European Association of Paritarian Institutions – AEIP, founded in 1996, is a Brussels-based advocacy organization, representing Social Protection Institutions established and managed by employers and trade unions on a joint basis within the framework of collective agreements.

In the context of social protection, paritarism is a type of self-organization of social relationships which on the basis of equal negotiations, brings about agreements which are equally binding on both employers and employees. This kind of self-organization goes from the paritarism of negotiation to the paritarism of management and results in various types of agreements, from adhesion to a particular form of cover to the creation of a paritarian institution.

The Association has 20 Associate and Affiliate members - all leading large and medium-sized Social Protection Institutions, from 12 European countries, as well as 13 Task Force Members from 3 European countries. All AEIP members are not-for-profit organizations.

In particular, AEIP deals – through dedicated working groups – with EU coordinated pension schemes, pension funds, healthcare, unemployment and provident schemes, paid holiday and health & safety at work schemes. Complementary to their role as non-for-profit social protection providers, AEIP members are also long-term institutional investors.

AEIP represents its members' values and interests at the level of both European and international institutions.

For more information: www.aeip.net

The detrimental effects of Covid-19

The unprecedented situation caused by the Covid-19 outbreak constitutes a hard blow to economies and societies inside and outside of the EU. The initial estimations of well-established public institutions are rather bleak. The Managing Director of the International Monetary Fund stated that the current crisis will lead for 2020 to a “recession at least as bad as during the global financial crisis or worse”¹. The initial estimations of the OECD show that in some EU countries the direct effects of the shutdown measures could lead to an output decline accounting for more than 25% of GDP in total². The OECD stated in its first impact evaluation that “changes of this magnitude would far outweigh anything experienced during the global financial crisis in 2008-09”³. In addition, a preliminary assessment of the International Labour Organization (ILO) specified that a rise in unemployment globally could reach 24.7 million under a high-impact scenario⁴.

This shock is substantial also for paritarian occupational funds of social protection, in the first place because they are on the front line to protect people (particularly the most vulnerable, for their health and the continuity of their incomes) and to support companies and their salaries for their economic resilience. AEIP members represent occupational pension schemes, first pillar bis pension funds, provident institutions of social protection providing healthcare and provident insurance, as well as vocational training schemes and paid holiday schemes. They currently face the severe economic impact of response policy measures to the covid-19 pandemic. All of them experience substantial challenges and pressure in performing their social role and the support they give to their members and beneficiaries.

The importance of paritarian institutions of social protection

Now more than ever, paritarian institutions of social protection have an important social function in supporting the EU economies and citizens. They ensure adequate benefits for old age income, healthcare and long-term care services while they work as much-needed automatic stabilizers in times of economic strain. Thanks to their joint decision-making process and management by the social partners, they promote transparency, inclusiveness and democratic legitimacy.

At the same time, paritarian institutions of social protection are important institutional investors and can contribute to fostering long-term investment and sustainable economic growth, also in light of the development of the Capital Markets Union (CMU). They also have a substantial role in maintaining financial stability. They often act counter-cyclically by maintaining their long-term strategic asset allocation in stressed market conditions, meaning they rebalance and buy assets whose prices have diminished abruptly. In the current economic environment of persisting low interest rates and the detrimental effects of the covid-19 pandemic, there is a growing interest among these institutions to invest in the real economy. This includes investments in alternative asset classes such as infrastructure and private equity.

¹ IMF Managing Director Kristalina Georgieva’s Statement Following a G20 Ministerial Call on the Coronavirus Emergency. Please see link [here](#).

² OECD, ‘Evaluating the Initial Impact of Covid Containment Measures on Activity’. Please see link [here](#).

³ Ibidem.

⁴ ILO, ‘COVID-19 and the world of work: Impact and policy responses’ Note. Please see link [here](#).

More generally, we think that the social partners have to be fully part of the economic and social reconstruction process which will be implemented in the European Union.

Challenges faced by paritarian institutions of social protection

The general policy measures for countering the Covid-19 pandemic have put substantial strain on the ability of paritarian institutions to sufficiently cover their obligations. In fact, in an effort to alleviate the pressure from businesses and employees, in many countries the payment of social security contributions has become more flexible, through their deferral to a later date, their decrease or even by their temporary waiver. Even though the funding of IORPs and provident institutions is significantly reduced, they continue paying their members' benefits on a regular basis.

In these circumstances, it is very likely that some paritarian funds may soon face liquidity management issues and material solvency risks. For certain Defined Benefit (DB) schemes in particular, the funding levels have already dramatically dropped. This development could soon require sponsor support or cuts on benefits.

To avoid a possible defaulting scenario, financial support and regulatory adjustment is much needed for IORPs and provident institutions of social protection.

A most important aspect is to assure the continuity of every-day activity of paritarian institutions and to maintain a good level of services to the members. Despite the current difficult situation, the members of AEIP have managed to cope with the dire circumstances by coming up with contingency action plans and guidelines to respond to regulatory demands and operational clarifications. At the same time, they have been swift in adapting their decision-making procedures, through dematerialized boards and meetings. Access to benefits and continuity must be ensured in these crucial moments, hence the function of paritarian institutions should be considered essential in the context of the covid-19 outbreak.

Recommendations

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.** In particular, we welcome EIOPA's recommendations on supervisory flexibility in allowing for delays in the reporting provisions of Solvency II. We also appreciate the timely statements of EIOPA, which provide broad guidelines on business continuity and capital position for insurers as well as on consumer-oriented mitigation actions. There it is mentioned the possibility of supervisory intervention in extreme situations when the Solvency Capital Requirement of an insurer is particularly low, which can take the form of extension of the recovery period. In this context, it is encouraging that several National Competent Authorities have taken a measures to give funds regulatory flexibility, so EIOPA could take into consideration these developments.

AEIP underlines that a key priority for the time being is the paritarian organizations' ability to serve their obligations. It is therefore important that regulatory supervisors both at the national and EU level assist them proactively and establish appropriate channels for close consultation with the affected stakeholders about possible supportive measures.

- **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.** Given the current need to understand and analyze the impact of the Covid-19 pandemic, such a methodology should be relatable and with the potential to expand to widely used macroeconomic indicators, thus showing the ST effects over time on consumption and the economy.
- **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.**
- Furthermore, AEIP supports a common supervisory culture in a sense of coordination and share of best practices. Nevertheless, due **to the specificities of each national regulatory framework and system of social protection, EU institutions should not have a "a one-size-fits-all" supervisory approach.** Paritarian institutions are deeply embedded in many European economies and societies, as long-established historical models of collective risk-sharing. In that respect, they play a key role in ensuring old age income adequacy and services for individuals and work as automatic stabilizers in times of financial crises and economic strain, promoting solidarity between employers and employees.