

Input from the OPSG on Consumer Trends

(Informal consultation of EIOPA-CCPFI-13/023

Questionnaire to gather input for the

EIOPA Consumer Trends Report)

Definition of consumer trends

EIOPA uses the following definition:

“Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including, where relevant, insurance intermediaries) that are significant regarding their impact or their novelty”.

The main challenge with this definition is that it is uncertain what is observed. Why has consumer behaviour changed? Is it because the insurance or pension providers have decided to change the palette of products or is it because the tax rules have been changed? Or is it because consumers have started to look more determined at what happens with their savings?

An additional problem is that “consumer trends” often is confused with “consumer protection”. Consumer protection is not the only consumer question.

Terminology

Occupational pensions in the member states are very different. Some are based on Social and Labor Law, others on special pension law and in other member states are the occupational pensions based on agreement between the social partners and supervision and protection of the members and the beneficiaries is based on the financial sector legislation.

Some of the occupational pension schemes are covered by the IORP Directive.

The current IORP I Directive language uses exclusively the term “members and beneficiaries”; i.e. “in order to protect members and beneficiaries”

“member” means a person whose occupational activities entitle or will entitle him/her to retirement benefits in accordance with the provisions of a pension scheme;

“beneficiary” means a person receiving retirement benefits;

In contrast to the IORP I Directive the Solvency II Directive uses the term “policyholder and beneficiaries”.

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Article 8 (Tasks and powers of the Authority) of the EIOPA Regulation says: “to foster the protection of policyholders, **pension scheme members and beneficiaries**”.

EIOPA seems to use the term “consumer” as some kind of umbrella term. EIOPA Consumer Strategy Day 2011 Session 1: “**Consumer Protection – Fostering protection of policyholders and pension fund beneficiaries**”.

In some member States occupational pensions are regulated first and foremost under national Social and Labor Law (SLL) because of its essential workplace relation and second under the relevant EU and national IORP supervisory law.

SLL is currently exclusively under national Member States jurisdiction; supervisory law is mainly under EU responsibility.

Consumer protection legislation aims at protecting individual persons against industry interests - in this case the financial industry - because in such situations no other protection law is in effect to protect individuals.

In Member States with occupational pension law as part of national Social and Labor Law gives this a stronger and more powerful protection of individuals than ordinary consumer protection legislation would. Tailor made IORP supervisory law taking the relevant SLL into account will complete the members and beneficiaries protection.

Supervisory law should not add individual consumer protection if members and beneficiaries are already sufficiently protected by SLL.

It is often expected that “consumer” only is the right term if the person has a choice to make. Many members of the occupational pension schemes are left with no choice. E.g. if the pension is defined benefit (DB) and the scheme is part of the employment contract. In some Member States is occupational pension fully defined in the legislation giving no choice for the members of the scheme.

In this note - like in the definition - is the term “consumer” used for a member of an occupational pension scheme or a customer having a private pension contract with an insurance company or another financial institution.

It is of the utmost importance that the different ways of organising occupational pensions, the different traditions and the use of different terms do not lead to misunderstandings. Or, could create the perception that occupational pensions systems are failing to provide decent pensions to members and beneficiaries/consumers. Creating such a perception could be seen as an attempt to destabilise occupational pensions systems.

A new approach

The OPSG finds it important to introduce a split from one objective to more objectives:

1. What is happening in the market? (Very much a statistical (quantitative) version of the present definition)
 - a. Number and volume of different types of contracts
 - b. Changes in the types of contracts / products in the market (old types disappear, new types coming up)
 - c. Changes in the pattern (consumers change from one type of contract or one provider to another, changes in the importance of different types of contracts)
 - d. Changes in legislation including tax legislation

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2. What occupies the consumers in relation to pensions?
3. What occupies the institutions in relation to pensions?
4. Consumer-protection questions:
 - a. Existing consumer-protection.
 - b. Changes in consumer-protection.
 - c. Consumer-protection issues under debate

What occupies the consumers?

The main problem for consumers in all member states is:

- Will my pension savings give me the means necessary to finance living and housing and perhaps give possibility for some pleasures (travel, wine and dine) as I expect when I retire?

With this question begins the journey for Max and others.

Second level of problems is:

- How much will I get and what will it be worth?
- How much after tax?

This is where all the problems start: Which pensions do I have? Pillar 1, pillar 2 and pillar 3. But Max doesn't know that pension is divided in pillars. Nor does he know much about DB and DC.

Max has to search to find the information on paper or on the net. He has to find out with whom he has pension contracts and find out how to collect information about pension from different pillars and different providers. And he has to learn about inflation and taxation.

Max has to find out if he can trust the providers; will they be there when he retires? Will the benefits be as stated now?

And Max will have to find out if the information from different sources can be combined. He has to find out if information providers who use identical words have the same ideas about the meaning of the words.

Third level of problems is:

- Can I do anything to improve this amount?
- Should I and can I afford to make a supplementary saving?
- Where and how should I make this supplementary saving?

Now Max really has to work. He has to find out about the possibilities in the pension schemes he is a member of and he has to search the market for alternatives and compare the glossy pre-sale information.

What occupies the institutions in relation to pensions?

The low interest rates combined with the financial crisis turbulence is in itself a challenge to pension providers. To boost the challenge is Solvency II, CRD IV or other regulations in the pipeline.

In addition to this is the level of unemployment high in many member states and the different generations of consumers have different views about solidarity and transfer between generations.

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Governments are changing the rules of the game. The governmental pension schemes are changing and the taxation is changing. Many governments want to reduce the economic burden related to the many pensioners living longer and longer.

The three main problems for consumers

The main problems can differ between Member States, but three main problems for consumers in relation to pension will be found in many Member States:

➤ Pension reform

Old well-known products have been closed and new opened. Tax rules have been changed and it is extremely difficult to get clear oversight over the consequences of the new rules of the game.

➤ Corporate governance

The quality of the governance of a number of pension providers is not as good as the consumers expect. The authorities should use their powers to improve the corporate governance of the financial sector.

➤ The information systems

The individual providers and the providers together with the government have set up a number of fine new information systems. If they worked as intended, if the information was based fully on the same definitions, if all providers gave the full information and if the information was fully comparable, then Max could begin to learn how to use the systems and get information.

To these problems come the difficulties related to the measurement. It is (relatively) easy to measure costs, but it is very difficult to measure benefits and especially future ones.

The questionnaire

The EIOPA questionnaire on consumer trends has been answered by some of the OPSG members. This note has been debated at the OPSG of 25 April 2013.

The answers to the questionnaire are only giving part of the information. One thing is, that the providers give full and clear information on the effects of inflation. Another thing is if Max is able to use this information.

The new approach displayed in the document on information to members of DC schemes has not been used when setting up the questionnaire for the consumer trends report. EIOPA is not focussing on Max in the call for input on consumer trends.

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	Question	Defined Benefit	Defined Contribution
(a)	Based on the information provided by pension providers, how easy is it for a policyholder to take stock of his pension performance against a retirement income goal, by checking the progress of, or review the health of their pension savings?	Easy	Ranging from easy to not good
	Are tax reliefs for pension products generally clearly explained or highlighted?	Yes	Yes, but
	Are the effects of inflation clearly explained between now and at retirement?	Yes	Ranging from could be better to no
	Are annual pension statements provided, with estimates of the monthly retirement income?	Yes	Statements yes, but not all with estimates of retirement (monthly) income

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(b)	Is it made clear to policyholders that they can choose the way pension savings are invested?	They can't	Yes, when applicable
	Is the range of choice of funds available made clear?	Not applicable	Yes, but
	Are how the funds being invested being weighted by the different types of asset classes with their different levels of risk and potential returns explained?	Not applicable	Ranging from yes to not well explained different levels of risks not always mentioned
	How can policyholders ensure that pension investment options are regularly reviewed?	Not applicable	Ranging from "through informations programmes" to "they can't"
	Over time, policyholders should change their investment strategy to reduce risk as they approach retirement. Is there a range of funds available, allowing choice from a number of broad investment strategies that are suitable for most people?	Not applicable	In some member states is change possible once a year in other countries is the possibility of change depending on the provider or the scheme
	Is there a default option so that policyholders do not have to make an active choice and the pension provider will invest the pension in a fund that is designed to be appropriate to as broad a range of people as possible?	Not applicable	Ranging from yes to no
	Are lifestyle funds offered, where the balance is automatically shifted towards less risky assets as the policyholder nears retirement?	Not applicable	Ranging from yes to with some providers

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(c)	Are the different types of charges deducted from a pension savings clearly explained, as they reduce the value of the pension fund and final pension income.	Yes	Ranging from yes to names mentioned but no explanation or mentioning of the level of the charges
	The different types of charges could include:		
	Administration charges of the scheme;	Yes	
	Charges for each investment fund within the scheme	Not applicable	
	Double-charging – where the policyholder is paying an investment manager to select funds run by other managers (rather than directly selecting investments)	Not applicable	Is found in some member states
	Do policyholders understand investment fees and how they can erode their investment earnings?	Not applicable	No, but some policyholders know, that there are different levels of fees with different providers
	Costs could include:		
	Entry and exit fees		With some providers in some situations
	Trading costs, stamp duty and custodian costs	Not applicable	
	Performance fees	Not applicable	
The above are some examples. Please include other observations and/or suggestions.			In some member states are policyholders asking for the possibility to change from one provider to another