Introducing a standardised Pan-European Personal Pension product (PEPP)

Public Event on PEPPs
Frankfurt, 7 September 2015
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Main Steps on PPs by COM and EIOPA

- July 2012: COM requests EIOPA’s technical advice to develop EU Single Market for Personal Pensions
- May 2013: EIOPA published first Discussion Paper
- Feb 2014: EIOPA published Preliminary Report
- July 2014: COM issued further Call for Advice to EIOPA
- Feb 2015: COM published Green Paper on Capital Market Union (CMU)
  - Explicit reference to introducing a standardised Personal Pension Product, “for example through a Pan-European 29th regime”
- July 2015: EIOPA published consultation paper on PEPPs
Current State of PP market(s) in Europe

- National markets are segmented
  - National rules (tax law, SLL) impose specific design of products
  - Very little cross-border activity (except for freedom of establishment)

- Low penetration in most countries
  - 1st pillar bis reforms in CEE reversed in many countries

- Consumer protection issues
  - High costs, information asymmetries, episodes of mis-selling
Main reasons for developing EU market for PPs / introducing a standardised PEPP

• An efficient, Pan-European PP market could contribute to soundness of pension systems in many EU countries
  • Helps multi-pillar diversification where systems are mainly PAYG and occupational pensions are not the ‘easy answer’
  • Encourages higher pension savings by individuals

• For PPs, Consumer Protection needs a specific approach
  • People’s inertia and no “homo economicus” are the facts to start from (autonomous, informed choice by individuals in the field of pensions may be too difficult to achieve)
  • Focus on product features, cost-effectiveness, value-for-money

• A standardised PEPP may be key to overcome national segmentation, achieve economies of scale, favour cross-border provision
  • Introduction of PEPP beneficial for cross-border mobility of workers /citizens
Key issues for the introduction of PEPPs

• Legislative vehicle: 2nd regime
  • Allows existing products to stay the same
  • Does not limit product innovation
    ➢ ...but: ambition to change the dynamics of market competition
  • PEPPs to be presented as a new, recognisable EU brand (such as UCITs, ELTIFs)

• Ensuring a level playing field for PEPP providers and favouring competition
  • All authorised providers of long-term savings products could establish PEPPs
  • Periodical switching between PEPPs to be allowed at no cost

• Striking a balance between standardisation and flexibility

• Target market to be very large (both domestic and cross-border markets)

• PEPP has to be ‘simple’ for the consumer: no personalised advice needed (favours business models based on the internet)
Proposed key features of PEPPs

• **Overarching qualities:** Simple, Transparent, Cost-effective, Trustworthy

• **Mandatory features:**
  • A default investment option
    (typically life-cycle, with de-risking approaching retirement)
  • A limited number of additional investment options
    (suitability assessment and personalised advice may be needed)
  • Switching to be allowed every $x$ years at no cost for the customer

• **Flexible features:** (mostly to adapt to national requirements of tax and SLL)
  • Default option may also contain minimum return guarantee
  • Retirement age
  • Pay-out phase and biometric risk cover
Other main aspects of PEPPs (1)

- Providers of PEPPs to be authorised
  - «Equivalence assessment» for providers already authorised and regulated for providing other long-term saving products under EU regulations (Solvency II, UCITs, CRD IV, IORP II)
  - Equivalence assessment also for providers of PPs under national rules

- EU passport issued by home supervisor
  - A streamlined notification system for cross-border sales (internet)
  - Centralised register of PEPPs to be sold cross-border
  - Consumers should be able to continue saving in the same PEPP when moving cross-border (transfer not necessary, but possible)

- Solvency requirements for providing guarantees to be discussed
Other main aspects of PEPPs (2)

- **Product Oversight & Governance principles**
  - In all phases: design of the PEPP, distribution, monitoring, review

- **Disclosure requirements**
  - Pre-contractual: not personalised, PRIIPs are the reference, some specific aspects to be considered (long-term investment risk indicators, not volatility)
  - On-going and Pre-retirement phases: personalised

- **Conduct of business requirements**
  - High level investment principles and overriding duty of care towards consumers during all phases
  - Suitability assessment and personalised advice not required unless requested (internet)
Thank you

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