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Speaking notes
Capital Markets Union: Pan-European Personal Pension Product (PEPP)

Questions and Answers

Check Against Delivery
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Question 1

What is your assessment of the opportunities the PEPP initiative would offer? Under which conditions would these opportunities materialise? What are the main risks or barriers of the initiative?

First, we need to recall the objectives of the Capital Markets Union (CMU). One particular objective is to deliver better investment opportunities for retail and institutional investors.

The Pan-European Personal Pension Product (PEPP), a key initiative of the CMU, fulfils this objective in two ways:

1. It will provide citizens who want to enhance the **adequacy of their retirement savings** with a new voluntary personal pensions savings product that can be managed on a pan-European scale and is complementary to national schemes.
2. It will contribute to the provision **of stable long-term funding to the economy**.

In the area of **long-term retirement savings**, it is evident that the European Union internal market is far from delivering its full potential. There is a huge fragmentation of products available to consumers, from low-performing deposits to very complex and costly life insurance mutual funds. Often, many products do not truly contribute to the accumulation of long-term retirement savings. Consumer protection rules are also very different across the Member States. This fragmentation results in:

- a serious obstacle for cross-border business,
- increased costs,
- reduced returns for savers, and ultimately
- a lack of consumer confidence in private pension provision.

In recognition of the challenges facing consumers in saving adequately for retirement, EIOPA developed the idea of and the regulatory outline for an attractive pan-European

Personal Pension Product (PEPP) in the form of a 2nd regime. EIOPA welcomes the fact that the European Commission is fully committed to this initiative in the context of the implementation of the Capital Markets Union.

EIOPA has identified the following elements for a PEPP to be a success:

- ✓ **The PEPP needs to be (i) simple, (ii) cost-effective, and (iii) transparent personal pensions product**. In particular, cost efficiency can be increased by taking advantage of the economies of scale allowed by relevant default investment options and the cross-border provision of services in the European Union internal market.

- ✓ **The PEPP should have standardised and flexible features**
  EIOPA supports that there needs to be one default option, which can be complemented by limited, additional investment options. The investment strategy should take into account the long-term nature of the product and aim at delivering good outcomes when reaching the retirement phase, i.e. decumulation phase.

- ✓ **The PEPP should be a truly long-term retirement savings product**

  The PEPP should enable long-term investments, which is only sustainable if they match liabilities with a correspondent illiquid profile. Therefore, the PEPP should envisage minimum holding periods to facilitate the illiquid profile.

- ✓ **The PEPP should have a flexible decumulation policy**
  The decumulation phase should be tailored to the personal circumstances and needs of the consumer, allowing for flexibility and choice between decumulation options. Life-long annuities can play an important role in the decumulation phase of the PEPP.

- ✓ **The PEPP should have the same tax benefits as the national personal pension products**

The main obstacles for a fully efficient European market for personal pensions are taxes, national contract laws and often national social and labour law. Those areas are hard to harmonise, yet there should be possibilities to make PEPP a success. EIOPA therefore welcomes the European Commission's proposals to pool individual contracts, governed by the same tax regime, together in compartments. We believe that in this way asset managers can pool portfolios with similar characteristics to reach significant economies of scale. *(further elaborated under question 4)*

EIOPA clearly sees **two main types** of PEPP:

- ✓ The first type is determined by individual **defined contributions**, with an appropriate investment strategy designed to reflect the long-term perspective of receiving good outcomes for future retirement income.
- ✓ The second type is a **collective risk sharing product**, allowing the pooling of investments to mitigate the risk. With such an investment and fair allocation of returns, consumers benefit from average long-term returns of the fund and are protected from negative performance in stressed market situations.

Inconsistent application or implementation of the PEPP is one of the major risks, potentially compromising the success of the initiative. Therefore, in future EIOPA's role in the authorisation of PEPPs and the coordination of its supervision will be crucial. [*further elaborated under Question 2*]

Question 2

Eligible providers: Which types of providers should be allowed to offer PEPPs and under which regulatory framework?

Trust is paramount for the success of the PEPP. However, trust can only be established if the providers follow the same requirements namely to have **1) regulated providers, 2) prudential regulatory standards,** and **3) a centralised EU harmonised authorisation procedure**. This will be vital to ensure a level playing field and to avoid regulatory arbitrage between different types of PEPP providers.

1. Regarding **regulated providers**: In general, insurers, banks, asset managers and IORPs can be providers of PEPPs, as long as they are regulated by European Union's legislation, allowing undertakings to carry out business outside their home country via branches or through cross-border provision of services.
2. The **regulatory framework** of the providers follows their licence in line with corresponding sectoral legislation (e.g. for insurers the relevant legislation is Solvency II while banks apply Capital Requirements Directive IV).
3. Regarding the **authorisation process**, such tasks would include centrally collecting, storing and managing the approval of PEPPs throughout Europe.

EIOPA is the natural candidate to perform the above mentioned processes.

Question 3

Consumer protection: What rules should apply to ensure an appropriate level of consumer protection?

A fundamental aspect of increasing trust and confidence of consumers in the financial sector is **transparency**. A number of regulatory initiatives have been taken in the latest years to increase transparency (e.g. requirements according to the Markets in Financial Instruments Directive (MIFID), the Insurance Distribution Directive (IDD) and Packaged Retail and Insurance-based Investment Products (PRIIPs). These initiatives will soon provide for relevant and aligned information to be made available to consumers. Going forward, an important step is to facilitate consumer access to this information so that it can inform decision making.

Furthermore, EIOPA favours the development of a **centralised database containing all key information** about PEPPs offered in Europe to facilitate transparency of cross-border services.

Question 4

Tax aspects: What should be the approach as regards tax incentives?

The success of pension products is often linked to a beneficial tax regime.

As mentioned earlier, the PEPP should have the same tax benefits as national pension products. The draft proposal for a PEPP regulation will be accompanied by a Commission Recommendation on the tax treatment of personal pension products, including the pan-European Personal Pension Product.

Question 5

Portability: Do you expect the PEPP to foster the development of personal pensions across borders? Is this an important objective of the initiative?

The lack of portability of pension provisions hampers the mobility of workers within the European Union. The PEPP will bring the flexibility to cater for a European labour market that is characterised by increasingly unconventional careers and heightened mobility of workers. Generally in Europe, but particularly in the young pension market, there is a strong need to save more for proper future retirement income. The PEPP, a safe, transparent and cost-effective long-term retirement savings product, will encourage the much needed additional pension savings.

Going forward, EIOPA is keen to play a key role in achieving high quality and consistent supervision to ensure the trust and confidence of European citizens in PEPP.