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EIOPA's Consultation on the PEPP

Position Paper of EIOPA's Occupational Pensions Stakeholder Group (OPSG) and Insurance and Resinsurance Stakeholder Group (IRSG)

Preliminary Statements

In their Joint Position Paper of 15 November 2019, the IRSG and OPSG (the 'Groups' thereafter) have already made very detailed and balanced comments on most of the issues raised in this consultation, especially with regard to

- Digitalisaton (cf. Question 1)
- Cost disclosure (Reduction in Yield versus Reduction in Wealth; cf. questions 3 and 4)
- Summary Risk indicator (cf. question 5)
- Performance disclosure (cf. question 6)
- Impact of inflation and fees (cf. question 7)
- Structure of PEPP Benefit Statement (cf. question 8)
- 1% Fee Cap for the Basic PEPP / "all inclusive" approach for this cap (cf. question 9)
- Costs of guarantees (cf. question 10)
- Risk mitigations techniques (guarantees, life-cycling and buffers; cf. questions 11, 12 and 14)

The Groups ask EIOPA to take those comments into consideration again.

The Groups also agree that the PEPP should be attractive to consumers to have a chance to be successful. This means in particular that the PEPP should be simple, transparent, trustworthy, safe, well-governed, and last but not least, cost-effective and providing good value for money. At the same time, the Groups recognize the importance of ensuring that the regulatory framework provide sufficient incentives to potential providers to take the decision to offer the PEPP.

Q1. Do you have any comments on the presentation of the information documents? Do you find the preliminary, illustrative examples of the mock-up PEPP KID and PEPP Benefit Statements are translating well the outlined objectives?

The OPSG and IRSG welcome that EIOPA is consulting on the basis of mock-up KID and PBS examples. Members of the Groups believe that the mock-ups are a good starting point for discussions on the two documents. Some members of the Groups consider that the time horizon, investment method (e.g. single or regular contributions) and liquidity of PRIIPs and PEPP products can be quite different, and require these differences to be reflected in the methodology used. Other members of the Groups stress that not all PRIIPs are short-term products, such as in the few countries where the PRIIPs framework applies to some personal pension products. Other members raise the point that pension products are generally exempted from the PRIIPs regulation, with the exceptions of certain products in AT, DE, BE and NL.

The Groups believe that it is important to ensure that the documents are as easy for end users to understand and use as possible. To this end it is important to ensure that the documents can be used in paper and other durable mediums appropriately. Particular attention is needed here to ensure that digital means that use layering of information can be used, in line with the proposed articles xa and xb. A member pointed out that while the European Accessibility Act[1] only applies to banking services, the EU and member states have ratified and are bound by the UN Convention on the Rights of Persons with Disabilities[2] and that on the basis of art. 9 UNCRPD information and other services provided to the public should be made accessible for persons with disabilities. Thus, information documents need to be provided in an accessible format to persons with disabilities, and the member encouraged EIOPA to develop guidance on this.

Members of the Groups would also like to highlight the importance of consumer testing for the documents. This can help to ensure that prospective savers are able to access and understand the information provided by the documents and take informed choices.

Some members of the Groups have concerns of over the duplication of information and overlaps with other disclosure requirements. For example, costs would be disclosed on 3 occasions; firstly in section 1 on the current balance, then in the breakdown of costs and finally in the 'Reduction in Yield' indicator in section 3. These concerns also extend to a potentially high number of disclosures that would need to be made as a result of cumulative legislative requirements. Some estimates provided by these members indicate that an insurance broker selling a sustainable PEPP online would have to disclose between 158 and 202 pieces of pre-contractual information. These members explain that the 158-202 figures are all explicit legal requirements resulting from the fact that PEPP distributers will not only have to comply with the PEPP regulation but also with other pieces of sectorial legislation. By way of example, a PEPP sold by an insurance broker has to add information requirement stemming from solvency II and from IDD (level 1 and 2). A PEPP sold online has to comply with distance marketing and e-commerce directives. A sustainable PEPP would have to comply with related sustainable disclosure recently introduced. These figures do not consider additional disclosure requirements resulting from EIOPA's level II work and does not consider possible additional requirements required at national level. Other members of Groups do not see this tendency at all. They find that requirements of cost disclosures are clearly outlined for the KID in article 28 (3) (f) and for the PBS in article 36 (1) (f) PEPP Regulation.

Some members of the Groups find that the added value of the approach suggested by EIOPA to disclose past performance is not clear. Adding intermediate time horizons (5, 3 and 1 years) and the use of the long-term risk-free rate as a benchmark could rather risk causing confusion. Moreover, they find that disclosure of two performance tables in PEPP information documents (projections and past 10 years) could also risk overloading consumers with information. They find that use of different methodologies (past performance is anchored in

[1] Directive (EU) 2019/882 of 17 April 2019 on the accessibility requirements for products and services.
[2] Council Decision of 26 November 2009 concerning the conclusion, by the European Community, of the United Nations Convention on the Rights of Persons with Disabilities.

actual historical data, while future scenarios show the range of possible outcomes), would not actually facilitate consumer decision making. However, other members believe that disclosure of past performance, in particular for products with a long-term nature, is a key disclosure element for the PEPP. Moreover, EIOPA is correct to propose to disclose past performance in comparison with a benchmark, in order to shed better light on the returns of the product. Past performance is not a reliable indicator of future results, and this should be prominently stated in the PEPP KID and BS. However, past performance shows the saver whether the product manager achieved its stated investment objectives in the past and allows for comparison with the market.

In addition, neither the Basic PEPP, nor the other investment options or other PEPPs, should be disclosed as the benchmark for past performance. The Basic PEPP will be, in essence, different in nature and risks from the alternative investment options, and would not make a suitable comparator. Moreover, in the standalone KID for the Basic PEPP, the past performance of the Basic PEPP cannot be compared with itself.

Some members believe that the objective comparator for past performance should only be the corresponding market index benchmark of the product. If the product is not susceptible of having one, then no other performance should be presented. PEPPs should be required to disclose long-term past performance, i.e. minimum 10 years.

Moreover, some members of the Groups find that not only are future performance scenarios extremely misleading, but the PRIIPs future scenarios are based on only five years' performances (which, naturally, would be too short time horizon for a pension product). However, if future performance scenarios were to be kept for PEPP they should be kept to a maximum of three scenarios and projection calculations based on time horizon that is compatible with the nature of the pension product, ideally until retirement age.

These members of the Groups also find that future performance projections must be coupled with long term past performance disclosure with the performance of the benchmark selected by the provider (if he has one) disclosed alongside like in the UCITS KIID. Past performance, in particular for products with a long-term nature like the one of PEPP, is a key disclosure element. Past performance should be displayed in comparison with a benchmark, in order to shed better light on the returns of the product. Comparison of past performance with a capital market index chosen by a provider is key to understand the performance and risks. For majority of savers presenting the risk via numbers only is hardly understandable. The comparison with a benchmark will enable them to understand that the value of savings is a subject of volatility over time and to see by how much the value of savings can fluctuate; therefore ideally the presentation should take the form of a graph.

These members note that with insurance-based investment products and pensions products, it will always be possible to present past performances. If any guarantees are given, e.g. German life insurers publish each year a fixed amount of additional surplus. In case of unit-linked products, e.g. other life insurers should be obliged to disclose the average surplus paid out for each year based on the "smoothing" method. No matter if guarantees are given or not, life insurers are always able to calculate the total interest rate ("Gesamtverzinsung") they had paid out to their customers each year, and this can be shown by a linear graph.

Other members question the value to the consumer of this information, even if it can be easily provided. They are concerned, again that consumer would be overloaded with information.

Some members of the Groups find that there is a use of jargon that is not properly explained to the consumer in the documents and risks not being understood. For examples using terms such as portability, switching, sub-accounts, ESG and others in the proposed PEPP KID. They would also like to raise the point that there is no section in the document to describe the guarantee for these products. Other members of the Groups do not agree with this assertion on the "use of jargon". They consider that it is not different from the use of technical expressions in the PRIIPs KID. These terms are essential. For example, if a guarantee is given, there should be a hint where more specific information can be found. Some other members find that there are many PEPP concepts that are totally new (i.e. sub-accounts, risk mitigation techniques). Some of these concepts are used differently at national level (domestic portability can overlap with switching), which points to a need for more clarity. Giving information to savers is not enough to pretend that they are sufficiently equipped. This information must be accessible and understandable to average consumers.

Some members of the Groups would also like to comment on the section on sub-accounts, which includes information on age limits for starting the accumulation phase, maximum and minimum amounts of in-payments and continuity and the minimum duration of accumulation phase. Some members of the Groups believe that this information is not required under article 28 of the Regulation, but might be useful for PEPP saver at the pre-contractual phase in order to make an informed decision, especially as the PEPP saver will be provided with this information for the sub-account. Other members of the Groups rather believe that the consumer should rather only be given a reference point for where this information can be found.

Some members of the Groups would like to raise the following points on the **'What is this product? '**section of the proposed PEPP KID:

- The investment objectives of the respective PEPP type should be described under the subheading "Purpose", in accordance with Article 28, paragraph 3c (i) of the Level 1 Regulation.

- The PEPP saver should also be informed here about the conditions for modifying the investment options, in line with Article 28, paragraph 3c (xi) of the Regulation.

- Although it is only an example of suggested narrative, on portability the text stating "distributing PEPPs within the majority of member states" does not reflect the Level 1 Regulation that requires the PEPP to be distributed in at least 2 Members States.

- Some members of the Groups believe that there is a lack of clarity over rules applicable to early redemption and switching, where the following points are not clearly reflected:
    - The 5-year minimum holding period applies to switching.
    - Switching costs are limited to actual costs and capped to 0.5% of the current PEPP balance.
    - Early withdrawal is often limited at national level to specific situations.

- Other members of the Groups did not find a lack of clarity in the KID proposal over the rules applicable to early redemption and switching and proposed informing the consumer of where further information can be found in the terms and conditions of the contract.

- The part of the document where product name and product type are mentioned should be linked to part 1 'What is this product? 'and in particular to the section on the 'Guarantee/risk mitigation technique'. Members of the Groups had several views on this point, but agreed that there is a need to try and explain what both guarantees and risk mitigation techniques entail. Proposals to do this include:
    - Narrative explanations such as, for example, "some of the money you invest is guaranteed and will be paid back to you regardless of the investment performance of the product" for guarantees and "your money will be invested with more risk to earn as much as possible at the start of the product term, then in with less risk toward the end to reduce the possibility of losing any gains" for life-cycling.
    - Warnings could be used to explain the risks with each option, which should also include a narrative explanation for pooling and smoothing.
    - The checkbox could be disposed for the Basic PEPP and the inclusion of a guarantee or other technique explained in the product type section.

- Some members of the Groups believe that total costs should be disclosed in monetary terms and as a percentage of investment value, followed by a breakdown of the various cost elements (administration costs, cost of investment management, transaction costs, distribution costs, cost of advice, cost of guarantee, etc.). Since the KID will contain pre-contractual information and is not a personalised recommendation, they deem the proposal from EIOPA on monetary disclosures is important. They suggest that instead of using only figures in euros different national currencies could also be used where necessary. However, other members consider monetary disclosures are difficult to implement in a meaningful way and in particular when dealing with a standardized pre-contractual information document for a pan-European product. They believe that the assumptions used in the KID mock-ups of 10k accumulated capital and 100 euros monthly contributions are not appropriate in several EU countries due to income levels, savings capacity and currency.

- Other members of the Groups rather believe that as the KID will contain pre-contractual information and is not a personalised recommendation, the proposal from EIOPA on monetary disclosures is important. They suggest that instead of using only figures in euros different national currencies could also be used where necessary.

- Under the subheading 'Early withdrawal', the PEPP saver should be informed whether or not tax incentives should be returned in case of early withdrawal.

- Concerning the ‘Switching rights’ section the following sentence should be rephrased “The receiving PEPP provider is obliged to take care of closing your old account, moving your balance and switching your payments”. It should reflect Article 53, paragraph 4 of the Regulation, which states that “Upon receipt of a request from receiving PEPP provider, the transferring PEPP provider shall close the PEPP account on the date specified by PEPP saver”.

- Under the subheading “Cancellation” it should be mentioned that PEPP savers are entitled to a cancelation period of 30 days according to Directive 2002/65/EC. This is applicable to distance contracts concluded between a supplier and a customer.

The Groups would also like to raise several different points on the PBS:

- Some members of the Groups find that EIOPA’s suggested approaches are not always sufficiently substantiated and explained. For instance, they believe that there is not enough material in the draft technical advice and impact assessment to fully assess the ‘Reduction in Wealth’ (RiW) cost indicator suggested for the PBS.

- These members of the Groups find that Reduction-in-Yield (transforming the impact of costs into an estimation of an estimation) is not appropriate as it is not understandable even for professionals and should indeed be replaced by RiW. RiW is more meaningful for retail investors and would show the decrease in the PEPP saver’s income per year due to fees. The reason is that the only reference parameter which is immediately understandable for the customers is the total amount of contributions or premiums paid by the customer. A customer should know, what the expected outcome is at the end of the savings period, based on a given contribution/premium flow and an assumed return on assets. This *return on assets* should be the return *before* any costs are deducted and the *expected outcome* is clarified *after* all costs are deducted. Then the customer has two absolute figures which he is able to compare, and the difference between the two figures may additionally be elucidated by a percentage. This method of disclosure, which is called “Reduction in Wealth” may be used not only for the contribution phase but as well for the payout phase. More theoretical and empirical evidence for the “Reduction in Wealth” method as a summary cost indicator will be published by EIOPA’s Expert Panel on PEPP, established in July 2019.

- Other members believe that the RiW indicator is not appropriate for the following reasons:
    - It is a new indicator, not in use by anyone as far as they are aware, and its use has been rejected in Germany.
    - The suggested indicator has not undergone consumer testing. There is no indication the information provided will be more useful to savers.
    - PEPP costs disclosure should be annualised: only annualised costs can be compared effectively in light of the PEPP’s long-term nature and different recommended holding periods. Otherwise, there is a risk that younger savers would assume their PEPP is more expensive than PEPP acquired by more senior ones.

- These members believe that Reduction in Yield (RiY) is a robust, realistic and accurate cost indicator which could also be suitable to the PEPP because it takes into account the impact of i) cost structure, ii) cost timing, iii) product duration on the internal rate of return (yield). Furthermore, RIY works equally well for single and regular premium payments. These properties are particularly important to properly represent long term products and products with ongoing premiums, which we understand would correspond to the majority of PEPPs.

- There is limited room in the PBS mock-up to present information for a PEPP that has several sub-accounts with different contribution levels, different taxation regimes applicable and different costs resulting from providers in case of partnerships, for example.

- Other members of the Groups find that Reduction-in-Yield (transforming the impact of costs into an estimation of an estimation) is not appropriate as it is not understandable even for professionals and should be replaced by the Expense *Ratio* or the *Wealth-Reduction-Ratio*. They highlight the following points:

    - The Expense Ratio (ER) shows how much fees “ate into” or “will eat into” (represent/weight) the cumulative return of the PEPP at target/maturity date. It would be calculated as the weighting out the gross compound return of the difference between the real gross compound return and the real net (of fees) compound return.
    - Another member proposed using the TER approach as there is a convincing criticism from Better Finance on the RiY approach[3]. The reason is that the only reference parameter which is immediately understandable for the customers is the total amount of contributions or premiums paid by the customer. A customer should know, what the expected outcome is at the end of the savings period, based on a given contribution/premium flow and an assumed return on assets. This *return on assets* should be the return *before* any costs are deducted and the *expected outcome* is clarified *after* all costs are deducted. Then the customer has two absolute figures which he is able to compare, and the difference between the two figures may additionally be elucidated by a percentage. This method of disclosure, which is called “Reduction in Wealth” may be used not only for the contribution phase but as well for the payout phase. More theoretical and empirical evidence for the “Reduction in Wealth” method as a summary cost indicator will be published by EIOPA’s Expert Panel on PEPP, established in July 2019.

[3] https://betterfinance.eu/wp-content/uploads/PRIIPs-Position-Paper-BETTER-FINANCE.pdf (see page 8 et sequ)

Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?

The IRSG and OPSG agree with a holistic approach to risk/reward, performance and risk mitigation for the PEPP. The PRIIPs synthetic risk indicator based on market risk and credit risk should not be used as a basis for the PEPP. The Groups would also like to note that currently in the PEPP KID longevity risk is not covered and the focus is on market and credit risk.

A holistic approach to risk, reward and performance could be achieved with the use of a forward-looking stochastic economic model (see also question 4). In this regard the Groups welcome the recommendation that stochastic modelling should be based on a set of standardised inputs, taking into account the remaining duration, as well as return assumptions of assets classes, standards deviations and correlations.

The Groups support having information in the KID on the value of the lump sum/monthly payments that the saver can expect to obtain under a best, favourable and unfavourable scenario, as shown in illustrative examples A and B. The value of the lump sum/monthly payments that a saver can expect under the best estimate scenario should correspond to the mean value of assets generated by stochastic simulations. The value of the lump sum/monthly payments that a saver can expect under the favourable and unfavourable scenario should be calculated using one standard deviation of the mean of the probability distribution.

The Groups would like to indicate here their support for including a favorable scenario for performance disclosure. However, they also believe any limits to the safety of PEPP savings as well as any potential losses that the unfavourable scenario would not be able to capture should also be presented. The solution being investigated in the context of the ongoing PRIIPs review on the minimum guaranteed scenario should also be included together with the three scenarios.

Some members of the Groups find that the summary risk indicator could be presented in a table comprising the risk scale based on the number of years remaining until the maturity date of the product, the risk level based on the probability of loss in real terms and the risk level based on the magnitude of the potential loss in real terms.

Other members of the Groups do not believe that EIOPA's approach to benefit projections in real terms is appropriate, as it considers the impact of inflation and trends in future wages (see page 17). Here they raise the point that computing taxation on the long-term would not be desirable because it is speculative and would ultimately lead to comparing taxation systems instead of products. They believe that this goes beyond the requirements of the PEPP regulation, would be difficult to explain to prospective savers and a challenge to implement. They propose that instead, there should be clear information stating that inflation will impact the purchasing power of the projected pension returns in the future and provide a link to further (layered) information. Tools to calculate the impact of inflation could be provided in this more detailed educational layer.

Other members of the Groups have a divergent opinion on this issue of inflation disclosure. They agree that it is important to inform the consumer of the expected level of capital at retirement, after deduction of fees and inflation, compared to the total contributions paid to the PEPP, including to ensure that the purchasing power is explained to the consumer. In fact, the Groups also raised concrete ideas for presenting the expected level of capital at retirement. A layered approach could be used; first warning that inflation has an impact, then giving more detail in a second layer that is tailored to the type of PEPP (life-cycling, smoothing, guarantees). A graph showing the impact inflation and fees have on the present value of the capital invested could be given to consumers. This graph could show the decrease in time of the value a standard sum of money (€10,000) over 20 years, present the future performance scenarios gross-of-inflation (but net of fees), or in real net terms (inflation adjusted). A number of concerns exist, however, over how this might be achieved including how. This position has clearly been outlined in the Joint Position Paper of EIOPA's Stakeholder Groups of 15 November 2019 on PEPP (for further details, cf. comments on Question 7 of this Joint Position Paper).

As a general remark the Groups support the use of realistic and updated estimates for investment returns in the projections.

The Groups would like to raise the following points over the presentation of the summary risk indicator:

- It is important to present the summary risk indicator and the performance scenarios/pension benefit projections next to one another, as in the table shown on page 14 of the Consultation Paper.

- Some members find that would be better to describe the investment option as having low, medium or high risk, rather than relying on a risk class from 1 to 7 to ensure that the PEPP summary risk indicator is not confused with the PRIIPs summary risk indicator. Other members do not think that this approach is enough to differentiate between the multitude of PEPP risks associated with the different product types of Basic/non-Basic, guaranteed/non-guaranteed. They believe that more categories might be needed.

- Some members of the Groups believe that a generic KID should not provide information about the likelihood of a given investment strategy to reach the retirement objective of the saver. This objective depends on the retirement-related demands and needs of the prospective saver. They do not believe that risks should be assessed at individual level, or consider personal circumstances and subjective objectives.

- The example in the indicator in the illustrative KID A shows that the level of money that savers can expect to get at retirement increases if savers start contributing to the PEPP early on. Whilst this message is correct and useful, it is not connected to the level of risk of the product compared to other products.

Q3. Do you agree to measure the risk inherent in PEPP as the dispersion of pension outcomes and to link it to objective of reaching at least the long-term risk-free interest rate?

The Groups would like to recall that the PEPP Regulation requires that all investment options to ensure "sufficient protection for the PEPP saver" (article 42(3)) that the Basic PEPP should allow savers "to recoup the capital invested" (article 45(1)) meaning "aggregate capital contributions after deduction of all fees, charges and expenses that are directly or indirectly border by the savers" (article 2(24)). It also indicated that PEPP risk mitigation techniques should ensure that the investment strategy is designed so as to "build up a stable and adequate individual future retirement income" (article 46(1)).

Some members of the Groups believe that the 3 investment objectives proposed by EIOPA are either not feasible or suitable in a PEPP context and go beyond the requirements of the Level 1 Regulation.
The Groups have the following comments on each of the objectives:

Inflation-protected accumulated savings

- Some members of the Groups believe that covering inflation on top of the capital invested would pose issues given that inflation can fluctuate and the fact that it is not known at the time when the guarantee is issued. This commitment would result in an unquantifiable promise, would likely not be authorised by national supervisory authorities and would be too burdensome from a prudential point of view.

- These members believe that the other option that could be envisaged would be to exclusively invest in inflation-indexed bonds, which are not widely available in Europe and would restrict investment diversification. This measure would not consider the fact that in most EU countries inflation is higher than the maximum guaranteed interest rates set at national level.

Reaching at least the long-term risk-free rate

- Some members believe it is important to inform the consumer of the expected level of capital at retirement, after deduction of fees and inflation, compared to the total contributions paid to the PEPP, including to ensure that the purchasing power is explained to the consumer. They believe that the use of the long-term risk-free rate here could indeed be appropriate.

- Other members of the Groups believe that it is not clear how this measure could correspond to a pension savings objective. Pension savings pursue different objectives, which can vary significantly depending on personal and other circumstances. It is, therefore, difficult to set a single PEPP objective. These members also point out that including inflation was not part of the level 1 political agreement on the PEPP regulation.

- They believe that the long-term risk-free rate is not a concept that is easily understood by savers and so would not be appropriate information to present.

- These members also raise a concern over the use of the Solvency II long-term risk-free rate. They believe that the methodology for the Solvency II risk free curves should be based on the need for appropriate valuation of liabilities for prudential purposes. They believe that using it as a starting point to project PEPP performance should not result in PEPP providers pressuring to either lower or increase the risk-free rate (to either boost/manage performance projections) as this will influence capital requirements applicable to insurers.

Some members of the Groups would like to raise the particular point that PEPPs with a lump sum retirement benefit option should not be presented as being less risky. Where a lump sum is provided there should be accompanying warning that the conditions for annuity payments are not known at this time.

Other members of the Groups have a divergent opinion on this issue. Receiving a lump sum at the end of the contribution phase implies the advantage that this total sum may be invested under completely new personal considerations by the saver with regard to risk and return and the future drawdown plan. Besides this the choice of a lifelong annuity bears the risk that the customers will only get unchangeable monthly pay-outs which can always be reduced by the ongoing "low for long" interest rate phase and additionally by non-transparent longevity assumptions.

Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension projections, summary risk indicator and to assess the effectiveness of the applied risk-mitigation techniques - do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?

The Groups agree that EIOPA should set out the key assumptions and inputs used for necessary stochastic modelling. Competition between PEPPs requires the highest degree of comparability and objectivity for consumers to clearly assess the differences between products on offer.

A stochastic economic model assessing the risk mitigating effect of different investment techniques by measuring the probability of meeting the objective set by the PEPP regulation, of showing the risk of losing or gaining certain amounts, could be suited to consistently measuring PEPP risks.

The establishment of a stochastic economic model for the PEPP could not only ensure consistency but also:

- Measure the probability that the PEPP will meet its objectives;

- Allow the establishment of minimum thresholds to assess if a risk mitigation strategy is safe enough to be sold to the public with the Basic PEPP quality label;

- Derive risk indicators and performance indicators to fulfil information disclosures requirements;

- Avoid the need for detailed rules on each risk mitigation technique and to allow innovation on financial markets while ensuring that the Basic PEPP is safe.

There are examples to support the use of a stochastic economic model approach in Germany, Austria, Denmark and the Netherlands. For instance, in Denmark, the key assumptions used for the recently introduced pension projections and risk labelling are established by an independent third party called the "Pension Council". This Council is appointed by Insurance & Pension Denmark and Finance Denmark (national trade associations). The expert Council is composed of 3 researchers and experts which are appointed for a 3.5-year mandate. To prevent conflicts of interests, experts sitting in the Danish Pension Council cannot be involved in the daily management of pension companies (although board membership is allowed). This example, could justify the need for EIOPA to be assisted by an independent third party to establish, run, monitor and update the model on a regular basis.

The OECD is currently investing the potential of stochastic economic model applicable to life-cycling strategies as part of the ongoing update of its 'Roadmap for the Good Design of Defined Contribution Pension Plans' (https://www.oecd.org/finance/private-pensions/50582753.pdf).

Q5. Do you agree that PEPP's product supervision requires one set of relevant information to carry out the duties of home and host supervisors as well as of EIOPA?

The Groups agree that PEPP's product supervision requires one set of relevant information to carry out the duties of home and host supervisors as well as of EIOPA.

Q6. Do you agree with the 'all inclusive' approach to the Basic PEPP's cost cap? Do you agree that the capital guarantee is a distinct feature, which costs should not be included?

The IRSG and OPSG have already given very detailed and balanced comments on the 1% Fee Cap for the Basic PEPP and the "all inclusive" approach for this cap, in their Joint Position Paper of 15 November 2019 on PEPP (cf. question 9). The response provided hereafter include the elements of the November advice, as well as additional comments inspired by the information provided by EIOPA in its Consultation Paper.

As a general remark concerning costs, some members of the Groups find that it would be helpful if EIOPA could set out a taxonomy of costs and standardized definitions in order to allow for consistency as well as cost comparability across different providers. This should be as simple and workable as possible. The starting point for this "taxonomy" can be found in the PRIIPs regulation EU 2017 / 653 of 8 March 2017, Annex VI: Methodology for the calculation of costs - List of costs for investment funds, PRIPs other than investment funds and insurance-based investment products (cf. Recital 38 of PEPP regulation (EU) 2019/1238). These lists are comprehensive, very detailed and pertinent, because especially with regard to insurance-based investment products there already are long-term personal pension products (PPPs like annuities, combined payout options with draw down plans or lump sums) which are very close to future PEPP products (cf. Article 2 (1) of PEPP regulation). It should be noted that some members disagree with this proposal because in their view PRIIPs and PEPP are really different in nature and construction. They wonder in this context how the specific features of the PEPP, e.g. advice, sub-accounts, would fit into the PRIIPs taxonomy. They believe that having a harmonized taxonomy for PEPP costs would be challenging given the expected diversity of PEPP, and applicable frameworks. These members also believe that the PRIIPs is not the right starting point because these are very different in nature and in construction. But other members point out that PRIIPs already include personal pension products such as life cycle funds. In addition, they also point out that not having a taxonomy of costs and standardised definitions would kill the primary goal of having PEPP KIDs comparable.

Some members of the Groups shared the following general remarks on the fee cap and the inclusion of advice:

- Originally, the fee cap for the Basic PEPP was designed to protect consumers from overly expensive products, offering a safe, Basic option as a default. Alternative PEPPs are not bound by a fee cap.

- *"In order to guarantee PEPP savers cost-efficiency and a sufficient performance, <u>the costs and fees for the Basic PEPP</u> should be limited to a fixed percentage of the accumulated capital*." (recital 55).

- The mandatory advice is designed to see whether the PEPP, Basic or alternative, is a suitable product for the consumer. Including <u>advice</u> in the 1% fee-cap would mean that – all – PEPPs technically fall under the specific 1% fee-cap, which is contradictory to the legislative text.

- The structure of the PEPP Regulation does not imply advice falling under the fee cap at all:
    - Advice is regulated separately and both for alternative and Basic PEPP
    - It is before the chapter on the Basic PEPP itself
    - Therefore, it falls outside that chapter
    - Therefore, it falls outside the scope of the cost-cap
        - *Just as switching costs fall outside it, by logic of EIOPA:*

Other members of the Groups stress that this conclusion is not plausible. Article 45 (2) of PEPP Regulation is a very general one, and paragraph 3 clearly stipulates that EIOPA has to make proposals which types of costs and fees might be excluded. In consequence there is not any prejudice which types of costs and fees might be excluded. In the end there must be found a reasonable viable compromise between necessary cost-efficiency for consumers and practical feasibility for product providers.

A number of members are supportive of the all-inclusive cap, for the following reasons:

- Recital (55) and Art. 45, paras (2) and (3) provide the basis for EIOPA's proposal for an all-inclusive approach towards the fee cap for the Basic PEPP. This follows from the fact that the co-legislators delegated power to the EU Commission (and, subsequently, EIOPA) to ascertain only what categories of fees and costs *inherent and specific to the product* should be excluded for the purpose of ensuring a level-playing field. As the cost of advice (or distribution more generally) is not a specific cost for certain types of PEPPs, but is a service common to all – and mandatory – there is no legal basis to exclude this category from the 1% fee cap.

- While it may be useful to reconsider and eventually change position on the inclusion of the cost of advice if the PEPP product has a low take-up, the 1% cost cap with an all-inclusive methodology should at least be tried. Financial innovations such as ETFs make it possible to reduce fees, and the ambition of PEPP is to reduce fees through economies of scale. This chance should be seized via the 1% all-inclusive cap.

- The product providers and EIOPA/NCAs already have concrete and practical experience with cost calculation and cost disclosure based on the PRIIPs Regulation. These cost structures may efficiently be used for PEPP as well, with the exception of additional costs for any national "compartments". Any new cost structures, calculations and disclosure rules will be more costly than the consistent application of the already existing one, because, again, PEPP is not a completely new pension product category, but it is fundamentally based on already existing long-term PRIIPs and IBIPs.

- In order to be a low-cost product, the most important issue for the Basic PEPP is to be a SIMPLIFIED product: straightforward investment/accumulation structure, online distribution, and reliable understandable pay-out options. There must not be any "hidden" distribution, administration or management fees! From consumer's perspective it has become obvious that the disclosure of calculations of costs and of returns is only a first step. If products are too complicated, even customers with high level financial education will not be able to understand them, and therefore effective consumer protection is impossible. A number of members note that Article 45, paragraph 2, of the PEPP regulation clearly and explicitly specifies that "The costs and fees for the Basic PEPP shall not exceed 1 % of the accumulated capital per year." Therefore, excluding ANY categories of costs from the 1% limit would breach Article 45(2) of the PEPP regulation. If there are too many exemptions, it will be difficult to build trust around the PEPP. Only 'independent advice' given by any fee-based advisors or brokers could be possibly exempted.

- Such caps have been tested in the past: several Member States have a fee cap in place, including the UK for occupational pensions. However, these may not be comparable situations because those products with caps are typically workplace distribution, automatic enrolment mechanisms and compulsory advice is not part of the cap.

- According to independent studies the average overall fee for the US domiciled PPPS is below 1% and the study on life cycle pensions from Bocconi university is based on a 1% overall annual fee.

- Consumer confidence for the PEPP is very important. They must be assured that 1% means 1%.

- If it is not possible to deliver the PEPP with 1% one could ask whether it is good to buy a PEPP. Within the Basic PEPP there should be no further differentiation between mandatory and nonmandatory features which could lead to the result that the fee cap does not apply. It should not be allowed to sell a PEPP with higher costs than 1% for whatever reason. If you have specific features with more costs you must choose the non-Basic PEPP.

- There must be some kind of cost pressure on the industry as long as profits are high.

- From the consumer point of view, the PEPP presents serious hope to achieve a vision of sustainable, low-cost financial product offering for consumers. The all-inclusive approach suggested by EIOPA, requiring all of the relevant costs and fees to be included within the cap, is welcome.

- The cap, as negotiated, should not be diluted by ANY type of exceptions. If financial sector players are able to deliver a viable product at 1 percent or below – consumer expectations are fulfilled. If not, in two years' time, a revision is imminent and further changes to the regulatory regime can be discussed.

- It is critical that the cost of advice should be included within the fee cap for the Basic PEPP. Digital distribution of the PEPP product could help future PEPP providers to provide cost-efficient advice to consumers.

- On the contrary, the early exclusion of any types of specific cost classes will destroy the promise associated with the PEPP product. If certain types of costs are excluded from the cap, the race to add another cost element eligible for exclusion will begin. In the end, the very essence of a cap will be destroyed, hopes for a low cost product will be ruined, and, more importantly, public trust of policy makers will be severely damaged.

- The commitment to a low-cost product is a noble one. The lessons from the introduction of the Personal Retirement Savings Account in Ireland do not offer grounds for hope. See for example Maloney, M., & McCarthy, A. (2017). Pension provision by small employers in Ireland: an analysis of Personal Retirement Savings Account (PRSA) using bounded rationality theory, The Irish Journal of Management, 36(3), 172-188. doi: https://doi.org/10.1515/ijm-2017-0018

- A possibility that might be acceptable to stakeholders is to have a permitted variation on a five yearly basis whereby if returns exceed the aggregate of a rate of inflation and a rate of return on a long dated treasury instrument by a set amount, then a higher rate of fee might be acceptable. What would the higher rate be for? If investment markets in aggregate perform well, then the higher fee could well be a windfall gain largely independent of supplier performance.

- It does not bode well if the element of the value proposition that is discarded is the advice element. Suppliers have much cost in their value chain: rents, marketing, administration, fund management, strategy, legal costs etc. It would be good to see some squeeze on these elements using Target Costing and Lean Management principles before discarding the advice component.

- Stakeholder pensions were originally introduced with a 1% fee cap. This did not include the cost of advice. Following industry pressure, the cap was increased in 2005 to 1.5% for the first 10 years of saving, 1% thereafter. It will be difficult for providers to meet the 1% cap if the cost of advice is included. The only way this can work is if advice is online and automated. However, excluding the cost of advice from the cap may mean that people who buy a PEPP early on are disadvantaged if the cap later includes advice.

Another group of members consider that that the 1% cap is not viable, for the following reasons:

- If EIOPA adopt a "all inclusive" approach it will be difficult for potential providers to establish viable business models to distribute PEPPs, and it might have unintended consequences to clients, since a cheap product does not necessarily mean a good investment or the best choice.

- Article 45(3) of the Regulation requests that EIOPA develop draft regulatory technical standards specifying the types of costs and fees that should be covered by the fee cap in order to ensure a level playing field between different PEPP providers and different types of PEPPs. If an "all inclusive" approach is taken, there is a huge risk that there will be no level playing field because there will be no PEPP market. Under this scenario, the PEPP will share the same fate as the European Long-Term Investment Fund (ELTIF).

- No provider will be able to expect to benefit from scale economies in a market that will remain fragmented, as long as the tax incentives provided at national level will remain different across the European Union and linked to different product features.

- The obligation to offer national sub-accounts for at least two Member States will result in an additional cost. The uncertainty and the cost relating to the portability services should be taken into account a thorough impact assessment.

- The competition with existing personal pension products will remain fierce for the foreseeable future, for two main reasons. Firstly, these products benefit in general from tax incentives and have a track record. Secondly, the providers and distributors of these products are subject to country-specific rules, which are integrated in their business processes. Providing and distributing the PEPP would imply switching to another regulatory regime, which will be in general be more stringent and therefore less financially rewarding. It is unclear how PEPP providers will be able to be successful in this market environment, especially if they integrate in their business plan some meaningful marketing campaigns.

- In this context, it is useful to highlight that the coverage of Croatian personal pension savings has been unsatisfactory in nineteen years, mainly because of too low fees for sales agents compared to other products on the market. Distribution cost are one-off costs and having in mind the long-term nature of the product they will not impose material burden on PEPP savers, on the other hand, they can be crucial for a successful launch of the PEPP.

- Therefore, offering the PEPP will require a strong marketing effort based mostly on face to face meetings, which are likely to take at least 1.5 – 3 hours for Basic cases and longer more for complex cases.

- There are different distribution strategies across Member States (direct selling, through banks, digital platforms …), and the PEPP Regulation requires PEPP providers or PEPP distributors to provide advice before the conclusion of any PEPP contract, establishing the possibility of doing it “in whole or in part through an automated or semi-automated system”, which, may be charged directly to the PEPP saver or consist in a portion of the management fee that is paid by the PEPP. It is unclear how such arrangements could be put in place without creating competitive distortions in the market. Crucially, a further factor will depend on the remuneration of the advisers offering a non-PEPP alternative personal pension product (PPP). If the PPP allows advisers to receive a higher remuneration, there will be a bias against the distribution of the PEPP.

- The PEPP is a personal pension product, not a workplace pension - default investment strategies in workplace pensions in the UK are subject to a 0.75% fee cap which according to some policy makers has provided a justification for the 1% fee cap. However, an occupational plan based on auto-enrolment has a very different cost structure from a third pillar pension product such as the PEPP, which is subject to different distribution costs and mandatory advice. Hence, the ability of UK providers to supply workplace pension products within the 75bps cap is not be a good guide to a third pillar product in the more fragmented European market, where the cost of customer acquisition is likely to be quite high. Overall, the UK experience on the 75bp charge cap shows that while costs have gone down, the impact on investment has led to lower levels of diversification and a desire to minimize investment costs, regardless of the possible impacts on members’ outcomes.

- Small amounts will be saved in the PEPP, at least initially – this is because the tax incentives are likely to be modest. It will therefore be extremely difficult, if not impossible, for providers to develop a viable business model.

- Providing in person, high quality advice is a complicated and costly task - what is required by the Regulation (on three occasions (PEPP regulation articles 20, 34 and 60) is not a guidance but a personal recommendation, which will involve undertaking a know-your-customer procedure, assessing the savers’ needs, risk appetite and eligibility for the tax benefits, providing a personalized recommendation, and explaining the contract details and arrangements. It should also be taken into account:
    - Most consumers are not mindful / willing to save early for retirement
    - They often have no idea on what they have in their existing pensions schemes
    - The PEPP is a NEW product and will compete with current local pension saving products

- As the current level 1 regulation doesn't define precisely the actions covered by the mandatory advice, it is likely that NCAs would refer to the MiFID2 standard when they would label the PEPP. Our compliance departments could also refer to this Delegated regulation (EU 2017/565)

Considerations on the potential role of robo-advice

Whilst robo/automated advice may appear as a cost-effective solution in the future, some members consider that the existing solutions would not allow to comply with all the rules set in Article 34 of the Regulation for the provision of advice. They also stress that the cost of robo-advice should not be under-estimated due to the costly investment needed to develop them and the need for tailoring the solutions to every market's tax, social security, systems. Furthermore, they consider that there is plenty of evidence confirming that the majority of individuals prefer receiving advice from a human financial adviser.

This view is not shared by some other members of the Groups, who strongly believe that robo-advisors will become one of the important distribution models for the PEPP, giving the pan-EU and distance nature, and the reduced costs.

The Groups also exchanged views on the quality of the advice provided by robo-advisors, and discussed in particular the following recommended made by BETTER FINANCE in its 2019 edition of the Robo-advisory business:[4]

> *'Considering the low quality and suitability of some algorithms assessed in this report and the increasing use of Artificial Intelligence in our the society, in particular in the financial sector, we believe that legislators should propose a legislative framework that ensure that Automated-Decision Making (ADM) systems as Robo-advisors are accountable, transparent and fair for EU citizens. The algorithms of Robo-advisors need to be developed on criteria that comply with the legislation (MiFID II) with regards to the investment advice process, in order to ensure a harmonised, minimum level of quality.'*

Some members of the Groups stress that this recommendation confirms that the reliability of the rob- advisory business to provide suitable investment advice is too weak. New algorithms will need to be developed to comply with the requirements set in the PEPP Regulation for the provision of advice. This will take time.

Other members of the Groups draw a different conclusion. In their view, the financial industry and policymakers should take the BETTER FINANCE's recommendation as an inspiration to significantly improve the quality of robo-advisors in order to be appropriate for a pure online model of contract conclusion. They also note that the Groups' November position on PEPP stressed that "*young people as a particularly important Groups s, where the demand for digital and online distribution may be higher and may therefore be an incentive for them to consider investing in a PEPP* […] *Digital distribution could help to reduce costs, which is considered important in the context of the 1% fee cap*".

[4] See https://betterfinance.eu/publication/robo-advice-a-look-under-the-hood-2-0/.

These members consider that while for some providers of such services it may not be clear whether the platforms fully comply with the suitability and personalisation requirements of MiFID II framework, the market is mature enough in order to take on this task. In particular, they refer to the already established platforms of large asset managers, which are an important addition to the smaller and newer "start-ups" providing robot-advice and execution.

Moreover, in relation to the abovementioned quote, while recognizing that some market participants may have to further work on their algorithms and transparency thereof, these members consider that there is is no reason to believe that (i) there is no market for automated investment advice and distribution and that (ii) human advisors are doing a better and cheaper job.

Finally, the Groups confirmed the following view expressed in the November advice:

> "***Online distribution of PEPP is possible****, and already a standard practice in several European markets depending on local rules and customs. However, online distribution of PEPP will indeed need to consider the mandatory duty of advice applicable to the Basic PEPP as required by the PEPP regulation. A blended approach is likely to be of greatest benefit to customers, with much of the preliminary framing of a customer's profile conducted electronically. Later in the pre contractual process some mix of electronic and individual interactions should be possible either in person or audio visually, with final documentation being issued electronically. Younger customers are likely to favour conducting business in this manner in the first instance. Cross border and migrant workers will favour conducting these financial transactions in their own language, using expressions that are culturally appropriate*."

Considerations on transaction costs

Some members are also of the view that transaction costs should be excluded from the fee cap as these costs relate to the payment of a broker on the purchases or sales of securities and the payment of taxes and levies to Governments and/or regulatory bodies or exchanges. The brokerage fees are paid to invest contributions received or meet withdrawals and to achieve positive performance. The higher return expected from the purchases and sales of securities is good news for savers. The inclusion of transaction costs in the fee cap would create an incentive to invest in passive investments away from investments in SMEs and infrastructure, as desired in the CMU initiative. This would translate into missed opportunities to make gains or limit losses and would therefore be detrimental to PEPP savers. Furthermore, it is extremely unclear how to cap a cost that would include implicit elements of the investment process such as the bid-ask spread. In the case of these transactions, there are indeed no fees paid by anyone and the calculation of implicit transaction costs would probably be inoperable.

Against this background, a number of members propose that EIOPA structure the fee cap in a way which focuses on the cost of manufacturing and administration and excludes advice and distribution costs. Once the dynamics of the new PEPP market are more clearly established, a review of the fee cap structure could be considered.

In the meantime, the transparency of costs, already foreseen, will be a useful tool to enable savers to make an informed choice but also to boost competition and ultimate drive costs down for providers to stay competitive in the savings landscape.

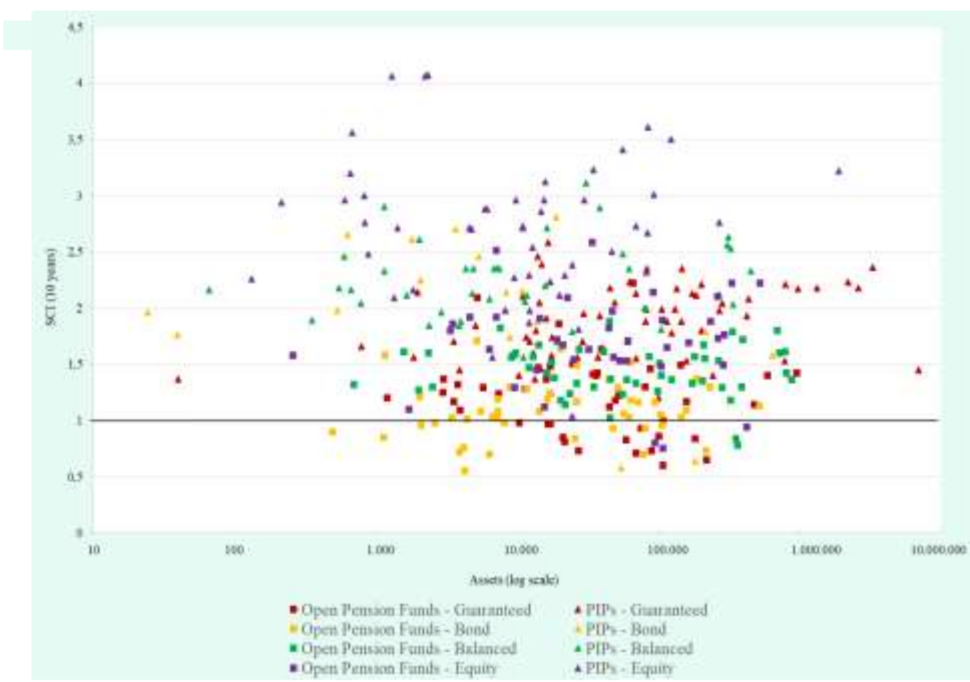
Country-based data on the cost of advice

Some members of the Groups stress that the evidence provided below on the cost of personal pension product provision, both in Europe and in some large markets outside of it, shows the challenge of including the cost of advice within a 1% charge cap.

- Data from **Italy**, **Australia** and the **UK** show that personal pensions have a higher cost than occupational pensions because they are subject to distribution and advice costs.

- Data from the market in **Italy** shows that only three pension products following an equity-based strategy have a cost below 1%. This number would be reduced to zero if transaction costs are taken into account (see chart below). This confirms that an "all inclusive" fee approach will reduce very much the offering of Basic PEPPs based on a life-cycle investment strategy because those strategies require managing a relatively high level of equity exposure.

Italy – Year 2108 - Open Pension Funds (OPFs) and PIPs – Synthetic Cost Indicator (SCI) of individual sub-funds
Symbols and colours indicate different kinds of sub-funds - see below; SCI refers to a membership horizon of 10 years



- Recent data from the Financial Advice Market Review launched in the UK by the FCA and HM Treasury in 2015 confirms that the on-going cost of advice is higher than 0.60%, which comes in addition to an initial charge close to 3% (see table below).[5]

The Financial Advice Market Review (FAMR) launched in the UK by the FCA and HM Treasury has identified a range of indicators which have been designed to give us a snapshot of the market for financial advice and establish a baseline. FAMR is intended to create the right conditions to make the market for financial advice work better for consumers. The study details the types and levels of adviser charges made by firms as well as their operational costs. The study shows that the most common method of adviser charging offered is a percentage fee based on the size of investment. Overall, percentage charges were on average just over 3% for initial advice and almost 0.7% for ongoing services. Restricted advisers recorded slightly higher initial charges but slightly lower ongoing charges than independent advisers over the period. From the data, the mean average initial charge was 3.12% and the median average initial charge was 3%. The mean average investment amount was £90,000 whilst the median investment amount was £24,000. For illustration purposes, this would equate to a mean average initial charge of £2,808 and a median average initial charge of £720. The costs of providing advice include the costs of marketing expenditure, staff costs, insurance costs and regulatory costs and fees.

Fee type	Restricted advice	Independent advice	All advisers
Initial	3.57%	2.81%	3.12%
Ongoing	0.63%	0.72%	0.69%

Source: Financial Advice Market Review – Baseline Report (June 2017)

- Data from **Australia** confirms that the costs of life-cycle strategies offered to savers by very large profit-for-member workplace superannuation funds are close to 1%, excluding the cost of advice. The data also confirms that the total cost of small pension accounts excluding the cost of advice is significantly above 1%.

QSuper fees breakdown

The cost of managing your account is split into administration fees, investment fees, and indirect costs. We calculate and take the fees out before we declare the unit price, every working day.

Investment option	Administration fee p.a.[1]	Investment base fee p.a.[1]	Investment performance-based fee p.a.[1]	Indirect cost ratio p.a.[1]	Total fee p.a.[1]
Lifetime Outlook (age under 40)	0.16%	0.33%	0.33%	0.11%	0.93%
Lifetime Aspire (age 40 to 49)	0.16%	0.27%	0.26%	0.10%	0.79%
Lifetime Focus (age 50 to 57)	0.16%	0.23%	0.22%	0.07%	0.68%
Lifetime Sustain (age 58 and over)	0.16%	0.17%	0.13%	0.04%	0.50%

Source: https://qsuper.qld.gov.au/our-products/our-fees/fee-details

[5] https://www.fca.org.uk/publication/research/famr-baseline-report.pdf.

Treatment of the cost of guarantees

The Groups have split views on this point.

Views in favour of excluding the cost of guarantees from the fee cap

One group of members, mostly representing the insurance industry, believes that guarantees are sectorial features which are different in nature in comparison with other risk mitigation techniques, for the following reasons:

- Both “life-cycling” and “pooling and smoothing” leave the risks with the customers (either with customers on an aggregate mutualized basis or with customers individually).

- A guarantee transfers risks away from the customer to the (insurance) company.

The premium charged for guarantees are also different and go beyond the costs implied by other risk mitigation techniques:

- Insurance companies providing guarantees will have all the same type of costs as those companies providing life-cycling or pooling and smoothing: fund management, asset liability management and transaction costs resulting from the need to buy and sell individual assets and to re-balance the portfolios over time.

- They will also have additional and specific costs due to the provision of the guarantees: the “option value” of the guarantee and the costs of meeting the solvency capital requirements (quantified by Solvency II in the “Risk Margin”).

It is the view of these members that these fundamental differences were acknowledged by EU policymakers during the PEPP negotiation and highlighted in the following provisions:

- Recital 55: “In drawing up the draft regulatory technical standards, EIOPA should, in particular, consider the long-term nature of the PEPP, the different types of PEPPs and the cost-relevant factors linked to their specific features, so as to ensure a fair and equal treatment of the different PEPP providers and their products while taking into account the character of the Basic PEPP” (…) “Within that framework, in order to ensure that PEPP providers offering a capital guarantee benefit of a level playing field with other providers, EIOPA should duly take into account the structure of costs and fees”.

- Article 45(3): “EIOPA shall also assess the peculiar nature of the capital protection with specific regard to the capital guarantee”.

These members also shared the following comments on the cost of guarantees:

- In the PEPP context, the only relevant and useful figure is the amount charged by the company to the customers for the guarantee. Under PRIIPs, the total amount charged to the customers including the costs of the guarantee are already fully transparent. Therefore, in the PEPP context there are no new charges, only a question to define how to split the total charges between those related to the guarantee and the rest.

- The suggested definition of the costs of guarantees on page 20 as corresponding to the full premium charged is not correct. The cost element of a guarantee is only one part of the premium. This cost element corresponds to what a product manufacturer is gaining from providing the coverage, whereas the total premium corresponds to what savers are paying for the service. Similar discussions already took place in the context of PRIIPs, where it was acknowledged that biometric premiums are not a cost. Therefore, EIOPA suggested definition correspond to the "price of guarantees".

- The reference to "opportunity" costs in relation to guarantees costs on page 32 of the draft advice is wrong. Opportunity costs have nothing to do with what is charged to savers but correspond to what could have been achieved when doing something differently e.g. investing at higher rate and therefore is not related to a certain product feature such as a guarantee.

- In some cases, it may be straightforward to identify charges that company makes specifically for the guarantee (third party guarantee). Most of the time, splitting the additional guarantee costs can be less straightforward. Guarantees are not a simple add-on but an inherent feature of the product.

- Any available methodology that we are aware of (Solvency II option value, PRIIPs fair value, profit-share approach) have their limitations and care should be taken to avoid artificial/indicative figures. Some methodologies could measure the theorical economic costs, which do not correspond to actual costs paid by savers.

- Therefore, each PEPP providers would have to submit their proposed methodology which shall be reviewed by the national supervisory authority as part of the PEPP registration process.

On a related topic, this group of members also consider that the costs for offering biometric risk cover (i.e. payment in case of death) or switching, should also be excluded from the fee cap, as they are not required features of PEPP or are separately regulated (for switching, in accordance with Article 54 of the PEPP Regulation). Therefore, in order to avoid an un-level playing field, such specificities should be captured and listed having in mind that such costs have to be clearly identified to provide transparency of the PEPP costs.

Views in favour of including the cost of guarantees from the fee cap

Other members of the Groups believe that the guarantee should be included under the costs considered for the 1% cap. These members believe that if the cost of the guarantee is borne by the consumer, it is important to include it under the fee cap. These members also believe that not including the cost of the guarantee would create a competitive disadvantage for asset/fund managers offering a life-cycling option and would incentivise providers offering a guarantee to shift other costs into the cost of the guarantee.

These members have a different interpretation of the Level 1 Regulation, on the following ground:

- If the exclusion of the cost of the guarantees would allow to insurers to offer the Basic PEPP whereas the all-inclusive approach would prevent all other potential providers to develop a viable business case for the PEPP, there would be no playing field between providers, as the PEPP could only be offered by insurers.

- There is no consensus in the industry and among Academics on a model a) apt to price them correctly, b) reasonable to implement. In the absence of a consensus among professionals and academics on a safe and sound model to price long-term guarantees, it will indeed be difficult for EIOPA to suggest a specific model. This means that NCAs would have to develop their criteria, which would create barriers between members which would hamper the smooth functioning of the PEPP market and create level playing issues between member states. As an alternative to the cost of the guarantee, these members suggest to exclude the cost of advice.

In the absence of a well-recognized way to calculate the cost of the guarantee, different suggestions were made to address this problem. For instance:

- One way could be to base this on the methodology specified by Solvency II calculations. This could be done by including the option value of the guarantee, as required under Solvency II for the valuation of technical provisions, as well as including the cost of providing Solvency II capital to back the guarantee based on the risk margin methodology.

- Another way would be to request that product providers calculate the returns of the products with and without all cost of guarantees they have included. The difference between the two monetary figures should be disclosed and presented as the costs of guarantees.

These members also believe that, in the case of a pure nominal "capital guarantee" net of accumulated fees at maturity, there must be a prominent warning that the guarantee does not cover accumulated fees and inflation and may therefore result in a severe loss of the purchasing power of the PEPP at maturity. It would also be useful if EIOPA could closely monitor guarantees, in particular in the context of the low interest rate environment. In this context, EIOPA could establish a European level dialogue to assess guarantees.

If insurers are allowed to exclude their specific guarantee costs, then – for reasons of level playing field amongst the product providers – other providers who would manage to offer a PEPP with a guarantee by cooperating with credit institutions and insurance companies, should also be allowed to exclude the costs of these techniques from the fee cap. More information about how IORPs can offer guarantees can be read on *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3354549*.

Q7. Which criteria should be added to foster the application and development of superior risk-mitigation techniques? Which research and learnings should EIOPA consider in its further work?

Life-cycling

Concerning life-cycling, the Groups believe that the asset allocation switching mechanism used in life-cycling strategies is an effective risk-mitigation tool. They recommend introducing a high-level principle-based approach for all types of risk mitigation techniques, combined with a holistic stochastic model and eligibility criteria to ensure consumers' interest are well protected. There is a need to ensure a level playing field with other types of risks mitigation techniques. As it stands, EIOPA's approach to smoothing and pooling as well as to guarantees appears to be much more penalizing than the one for life-cycling strategies.

The Groups welcome the suggested high-level/principle-based approach when dealing with life-cycling strategies as there is no need to impose a rigid approach to life-cycling with a prescribed set of asset level guidelines. Introducing excessively restrictive requirements to frame these techniques could challenge innovation on financial markets and defeat their added value (i.e. flexibility) and therefore decrease attractiveness of life-cycling to PEPP savers and providers alike.

This being said, the Groups agree with EIOPA that there may be a role for some general enforceable and quantifiable criteria to ensure that PEPP providers can that their investment process is consistent with the risk profile of the corresponding investment option. And in this context, they support the approach proposed by EIOPA whereby the PEPP provider who do not offer a capital guarantee, would ensure that the saver would recoup the capital at the start of the decumulation phase with a certain probability. The calculation of this probability should be based on the use of Monte Carlo simulations, together with threshold conditioning eligibility, to simulate a distribution of investment returns in nominal and possibly real terms. Reliable methods to implement them are accessible to the industry, and supervision is feasible. Monte Carlo simulations are backed by a model for asset returns, whose realizations are the simulations. Gaussian returns, the ones behind models like the Vasicek one in fixed-income returns, or the Black-Scholes model for stocks and options (guarantees), do not need simulations, and can be handled analytically. Asset returns in the long-run are hardly found to the Gaussian and identically, independently distributed. Since Poterba and Summers (1988) or Fama and French (1988), for instance, actual stock market returns have been shown to mean-revert. This property is inconsistent with the Black-Scholes model. That is why more sophisticated models, which do not admit analytical solutions, and must be handled by simulation, are needed.

In the Academic, peer-reviewed literature, a number of alternative models have been put forward to explain departures of actual returns in financial markets from the simplifying assumptions used in the Black-Scholes model. Alternatives include VAR models à la Campbell and Viceira (2004), which do feature mean-reversion, or models featuring disaster risk (Wachter (2013)). The latter quite intuitively links the properties of asset returns in the long run to the possibility of sudden, rare crashes (disasters), similar to the ones we experienced since the 20th century. There is no consensus on which model is the best among the ones which can be simulated. After considering the state of different modelling approaches, the Groups adhered to the opinion that further research should be conducted over the next few months within EIOPA, in cooperation among the different stakeholders (Regulators, Academia, Industry), and in the final interest of consumers, before adhering to any specific model.

The Groups consider that *Article xa* on page 33 of the Consultation Paper should be corrected in the following way:

> *'For the Basic PEPP, when the PEPP provider does not offer a capital guarantee, the PEPP provider shall employ an investment strategy that ensures, taking into consideration the results of stochastic modelling, recouping the capital at the start of the decumulation phase ~~and during the accumulation phase~~ with a probability of 99%, unless the remaining accumulation phase is less than ten years when taking up the PEPP and where a probability of 95% may be used.'*

Indeed, it would not make sense to request that the probability of recouping the capital should apply throughout the accumulation phase because this would eliminate the rationale of allowing the use of life-cycling as a risk-mitigation technique. Indeed, a life-cycle strategy typically gives an important role to equity and other growth assets in the early stage of the accumulation phase to achieve capital growth.

Concerning the probability levels that should be included in the Regulation, the Groups agree on the following comments:

- The probability should be higher for the Basic PEPP than for alternative investment strategies, because the alternative strategies are not subject to the obligation to be consistent with the objective to allow the PEPP saver to recoup the capital.

- The level of the probabilities should be determined taking into account the historical returns data that should be used in the stochastic simulations. If it is required to use a relative short reference period, e.g. last 20 years rather than last 40 years, it would be very difficult to offer life-cycling strategies consistent with a 99% probability of recouping the capital, even after a long accumulation phase.

  In this context, the Groups agree that the two types of Basic PEPP can be differentiated according to their risk-return profile. Risk-adverse savers will have the possibility to save in a PEPP providing a capital guarantee, whereas less risk-adverse savers will be able to opt for a Basic PEPP aiming at generating a higher return, with a high probability of capital preservation. To most members, targeting 95% for the Basic PEPP would be appropriate, in particular because the PEPP provider or PEPP distributor will have a role to play by explaining why a particular PEPP would best meet the PEPP saver's demands and needs. In providing this advice, they will need to consider if the fact that guarantees are a useful tool to nudge more risk adverse savers into saving for their pensions.

- Some members understand why EIOPA's proposed to lower the probability of recouping the capital if the remaining accumulation phase is less than ten years. The main reason is that the longer the investment period is, the less likely adverse market developments will result in a capital loss. This is a key finding of research undertaken by the OECD on this topic, which confirms that shortening the contribution period reduces the probability that individuals will recoup the capital at retirement. If the same – very high – probability were to be offered to savers of all ages, the providers of life-cycle strategies would have to invest mostly in low risk assets to ensure that people who start to save only a few years before retirement, recoup the capital with a very high probability. This would come at the expense of younger savers who can afford holding more risky assets <u>all along the glide path</u> because they save over a long period of time. To avoid confusing savers, the PEPP KID should provide clear indication about the two probabilities levels associated with the Basic PEPP using a risk-mitigation technique. In addition, the PEPP provider or PEPP distributor should provide the necessary explanation when giving advice to the prospective saver, in line with Article 34 of the Regulation. It would then be up to the saver who would start saving less than ten years before retirement to choose between a Basic PEPP with a slightly lower probability of recouping capital, a Basic PEPP with a capital guarantee, or non-basic PEPP. In taking this decision, the saver will most likely take into account the fact that all Basic PEPPs will in general have a lower cost.

- Other members believe that it would be extremely confusing that savers are entitled different levels of protection when purchasing the exact same basic PEPP depending on the remaining timing. If the duration would prevent a basic PEPP from meeting its objective, and the saver was able and eager to take more investment risks then could be advised to purchase a non-basic PEPP. Moreover, age restrictions (e.g. limits for starting the accumulation phase, minimum duration of the accumulation phase…) would also help addressing this issue. These are part of the conditions related to the accumulation phase which are left at Member States' discretion in article 47(2).

- Likewise, the possibility to extend the last phase of the life-cycle beyond the expected end of the accumulation period in case of adverse economic developments within three years before the expected end of the remaining duration of the PEPP saver's accumulation phase, should be clearly explained to savers, when available. In particular, the savers should understand that such 5 years buffer would not shift risk away from the savers. Hence, the importance that the savers give his/her explicit consent to the extension. In offering this possibility, the providers will need to assess whether this option would be authorized by the national tax, social and labour laws. Clearly, providers will need to obtain the saver's explicit consent and check that this may be legally permitted. It should be noted that some members of the Groups consider that this extension cannot be considered a risk mitigation technique.

Finally, the Groups consider that the life cycling framework needs to be considered not just in terms of the accumulation phase but also in the post retirement phase up to the date of death. The income needs and consumption patterns post retirement should be reflected in a model of decumulation that articulates appropriately with investment patterns and portfolio configuration up to and at the retirement date. In fact it may become more appropriate to speak of a retirement transition or phase, as PEPP holders move away from a single retirement date to a more gradual exit from the labour market that could involve an income mix of (i) a reduced wage/salary (ii) combined with a drawdown from a pension fund. This is likely to be an emergent reality for an increasingly healthy active labour force with increased life expectancy and an economy dominated by the service sector supported by technology.

Establishing reserves

The "pooling" of individual assets in a collective fund allows providers to benefit from a larger scale and to increase their exposure to a wider range of assets classes. The "smoothing" of returns aim to reduce the direct impact of market changes on the fund investment which means that investors are less directly exposed to rises and falls in the value of their investment over the shorter-term. As a result, pooling and smoothing techniques are an alternative and a less risky way for savers to access certain types of investments while benefiting from the certainty of long-term average returns.

For these techniques to bring their expected benefits (combining the best of both worlds ..ie. safety and performance), it is important to maintain a rather flexible framework with requirements and details limited to those areas necessary (such as transparency on allocation mechanism) and to not create unnecessary constraints on how P&S can be implemented by companies. For instance, the segregation of PEPP assets the "segregation of PEPP assets" does not lead to unnecessarily strict ring fencing. Eligible PEPP providers should be able to use their general account, at least for a certain period of time, to enable the launch of the PEPP product on the market and the accumulation of a certain mass establishing the "reserve". This may be more attractive and viable than other options discussed by EIOPA such as providers proving a 10 years loan to PEPP savers.

Guarantees

The Groups observe that there is still some uncertainty as regards the definition of guarantees in the PEPP level 1 Regulation. The reference to "guarantees against investment losses" as an example of eligible risk mitigation techniques (article 46(2)(c)) somehow enters in contradiction with general provisions on investment options for PEPP savers (article 42(3)) that distinguish between one and the other.

To avoid penalizing PEPPs offering a guarantee, EIOPA should make sure that the comments that will be made on the impact of inflation will not be targeted against the use of guarantees. The communication on inflation should be done via a general warning alerting the saver, using layering tools to enable savers to seek further detailed information.

Other members may agree with this proposal, but only under additional conditions: This proposal from the insurance industry shows again that the differences between PEPP and long-term IBIPs (PRIIPs) are not as fundamental as often alleged. In consequence, if ORSA for PEPP may be changed, this change may apply for long-term PRIIPs-IBIPs as well. But it must be assured that capital requirements for short-term PRIIPs remain sufficiently high – especially under the conditions of the "low for long" interest rate period. For consumers it is important to be able to make comparisons of risk/reward profiles and returns not only amongst PEPPs, but between PEPP and PRIIPs-IBIPs as well.

Last but not least, some members feat that the regulatory framework applicable to insurance-based guaranteed PEPP could prevent insurers from fulfilling their role, in particular in an environment of low interest rates. As it stands, Solvency II — the regime applicable to all insurers and to, in the context of the PEPP Regulation, to the Basic PEPPs that include a guarantee — does not correctly measure long-term risks and as a result is overly conservative. This unnecessarily and adversely affects the cost and availability of long-term products such as pensions, as well as the ability of providers to select an optimal asset mix. Should Solvency II remain unchanged, in a PEPP context, this would have an impact on the performance and diversity of PEPPs on offer.

The insurance industry therefore advocates for a proper investigation by the EC and EIOPA — as part of the 2020 Solvency II review and PEPP-related discussions — of the mismatch between the current regulatory approach and how insurers are effectively exposed to risks relating to long-term products, so that it is feasible for providers to offer such products which an appropriate level of safety for consumers but at the same time, meeting their long-term needs. Improved Solvency II requirements for long-term liabilities would help insurers to provide safe, long-term savings products, including PEPPs.

There may be merit in maintaining some collective investment dimension post retirement, particularly where retirees eschew annuities. This would give retirees access to a wider portfolio of invested assets and potentially reduce transaction costs, as fresh capital inflows from new retirees and other capital needs to be withdrawn to fund retirement income. Such matching might also apply with respect to currencies, as retirees from a number of jurisdictions and currency zones participate in such post retirement collective funds.

Where a smoothing mechanism is used, one would expect that the actuarial and other relevant industry professions working with EIOPA would introduce pan European professional standards. These should deliver sufficient ring fencing, intergenerational equity, reporting integrity and managerial principles. These statement should clearly delineate how the interests of the customers intended to benefit from this process would be distinguished from those of other customer Groups and from the supplying entities' equity or bondholders.

Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?

Policy issue 1: Providing relevant information on PEPP to consumers

The Groups agree that tailoring the approach for cost disclosure to the characteristics of the PEPP and therefore deviate from the approach taken under PRIIPs for cost disclosure is appropriate.

Some members of the groups also believe that the concept of RIY currently used to disclose product costs to retail investors is too complex for many PRIIPs. The fact that the costs include a time horizon and a yield assumption represents a new type of theoretical disclosure that clients have not generally been familiar with. Its complexity significantly increases the risk that, at best, it is ignored by investors and, at worst, it is misunderstood by investors. This is especially the case for one-off entry costs as they are divided over the product's RHP, thus leading the client wrongly to assume that the impact on the initial investment is much lower than it actually is.

Policy issue 2: Implementing the cost cap for the Basic PEPP

The Groups believe that the impact assessment for the fee cap for the Basic PEPP should be strengthened by collecting more hard data on the costs of providing advice. This would allow assessing the extent to which the all-inclusive approach proposed by EIOPA would discourage potential providers from providing the PEPP. Members are split on this question.

The representatives from consumer organisations strongly support EIOPA's proposal, and agree with EIOPA that the cost could be reduced by relying on automated or semi-automated advice.

The representatives from potential providers strongly believe that the inclusion of the cost of advice would not allow the market to develop, which means that savers would not have access to cheaper personal pension products in the future. They also believe that most savers prefer to have face-to-face advice than relying on online recommendations.

Policy issue 3: enabling appropriate risks and rewards

The Groups agree with the approach taken by EIOPA to assess which approach should be followed to regulate the risk-mitigation techniques.

Q9. Do you have any other general comments to the proposed approaches?

Portability is one of the main features of the PEPP. However, national requirements make a transfer of pension capital sometimes impossible.[6] This is contrary to the very objective of the PEPP.

The IORP II Directive enables Member States to take protectionist measures that hamper the transfer of pension capital. The PEPP should – by all means - avoid this. It should also in the Level 2 text - clearly be stated that the concept of free movement of persons and capital precludes any national measure that may impede the exercise of the guaranteed fundamental freedom or make them less attractive.

1) Generally: There is no consideration of longevity risk.

One of the major issues for the PEPP to become a true success story is not only related to the real return at the end of the accumulation phase, but also to the actual amounts of the pay-outs during the decumulation phase as well. Some members pointed the lack of growth of Riester Pension plans in Germany, which seems to be partially caused, at least in part, to the low level of pay-outs during the decumulation phase.

Based on this experience, these members consider that the Level 2 regulation of PEPP should include the following provision with regard to the decumulation phase:

- If an annuity is offered for the decumulation phase, it must be assured that the mortality tables used for the calculation of the longevity are realistic. Any benefits resulting from a necessary "prudent" calculation of mortality should be shared with current beneficiaries as well (and not only) with future beneficiaries).

- For the Basic PEPP there must be an "all-inclusive" cap of costs of 1% for the decumulation phase in the way as for the accumulation phase. Otherwise despite of good returns at the end of the accumulation phase, the total capital actually used for pay-outs and annuities might in advance be diminished too strongly.

2) Ad section 2.2. (p. 18 et sequ): For the PEPP benefit-projection the trend of future wages is not relevant because it is a third pillar product where the contributions are generally not linked to wages in a strict sense as in occupational pensions (e.g. a percentage of income).

3) Regarding the draft-article xa on layering of information (p. 10): The presentation should be in a way to actively engage the consumer to have a look in the different layers; just not distracting is not enough from my point of view.

[6] See: 1. K. Borg, A. Minto, H. van Meerten, 'The EU's regulatory commitment to a European harmonised pension product: The portability of pension rights vis-à-vis the free movement of capital', Journal of Financial Regulation, 2019 /5(2)

4) Ad Article xc (p. 11):

a) Ad section 1: The long-term retirement objectives should also include: restriction of early withdrawal, benefit-design, collectively risk-sharing. The is no need here to state that the information should be brief, clear etc, because this is true for all information requirements.

b) Ad section 2: There should be more details about how to assess the ability of PEPP-Savers to bear investment losses (although not necessarily in the context of information provisions).

c) Af section 3: The reference to “key features of the PEPP-contract” is too general, there should be a focus e.g. whether the PEPP offers survivor benefits or invalidity benefits etc.

d) Ad section 6: There should be hint that the conditions of the contract could change!

e) Ad section 7 lit. b) The regulation should not over-emphasize the negative implications of a contribution-stop because there are cases in which it is better for a saver to make a contribution-stop, rather than cancel a contract. This is for example the case, if a contract yields only bad returns with regard to ongoing premiums, but had good returns in the past which would be lost by early cancellation penalties.

f) Ad section 8) There should be a hint to the costs for the switching service!

g) Ad section 9) There should be hint to timing risk (modification at the false point of time).

h) Ad section 10) There is no added value in this formulation.

i) Ad section 12) The main point here are the contents already covered by section 7 lit a.

5) Ad 2.5., Article xa (p. 23): It would be more straightforward to prescribe a minimum period of time (e.g. two days) with the possibility of clients with a major risk bearing capacity to opt out.

6) Ad 4., Article ca (p. 29):

a) Ad section 1: There should be coherence with the information provisions. Hence the statement, that the costs are not limited to these costs should be worded in another way to make clear regarding the information provisions (esp. PEPP-KID) that those costs stated in the PEPP-KID are in any way the maximum costs that could be charged.

b) Ad section 2: Some members wonder whether a PEPP with more functions than the minimum requirements and therefore higher costs is a really a Basic-PEPP. This could also harm consumer trust because they must be assured that the Basic-PEPP has a cost cap of 1%! Otherwise you would in effect generate two kinds of Basic PEPPs, which is not foreseen in the PEPP Regulation.

7) Ad 5. (p. 30):

a) It should be clarified whether Non-Basic PEPPs have to apply the same risk-mitigation as the Basic PEPP. And if not, which rules do apply?

b) At the bottom of p. 30 it is not clear how to link the phases if you have a lump sum and therefore possible two different providers for the accumulation and the decumulation phase.

9) Article xa (p.23)

The Groups express concerns on EIOPA's suggested definition of "in good time" for the provision of the PEPP KID.

Requiring to individually assess the time needed for "each prospective or current PEPP saver" to consider the document based on its knowledge, experience, risk appetite based on the product characteristics would create too much burden for PEPP providers. Possible legal risks stemming from this requirement would expose PEPP providers to an unquantifiable source of litigation and undermine the PEPP business case.

It is also unclear how such provision - given the level of details e.g. national conditions for early redemption - would work without human interaction e.g. online sale with robo-advice.

The overall direction of travel is appropriate for the provision of supplementary retirement income that complements social insurance-based solutions in Member States.

Some members have suggested to align the legal interpretation of "in good time before" with Article 29(1) from IDD and with article 17 of Delegated PRIIPs KID Regulation of 8 March 2017 (EU 2017/653).

10) Rate of return

The actual rate of return being achieved by the PEPP should be included in the benefit statement on an annual basis and on a 'Years to Date' basis at 5 yearly intervals from inception. This is important information for assessing performance and for deciding whether to increase or decrease contributions, switch suppliers or other possibilities.

11) Reporting deadlines

According to the proposal a PEPP provider would be required to send the annual information no later than 16 weeks after the PEPP provider's financial year ends whereas sectoral legislation requires four months (four months can be longer than 16 weeks). Harmonising reporting to the NCA and to EIOPA with the existing requirements covered by sectoral legislation would be welcomed by PEPP providers, as deadlines for regular reporting EIOPA are going to be set up in the delegated acts.

Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?

The Groups have already given very detailed and balanced comments on this issue raised now again in this consultation in their Joint Position Paper of 15 November 2019 on PEPP, especially with regard to digitalisaton (cf. Question 1). They recommend that EIOPA take those comments into consideration again.

Digitalisation, in general, is a powerful tool to improve accessibility to pension savings and increase readability of pension information. Therefore, it can help fostering broader coverage of private pension savings, increasing outreach to different cohorts of the population including the youngest one.

Digital information may allow savers to streamline their decision-making process because they would be able to easily identify relevant information e.g. with the help of visual icons, dropdown menus and tick-the-box approaches. Layering of information in particular, may also help streamlining the quantity of information a saver might need to process.

Inspiration could be gleaned from the Dutch pension 1-2-3 template which was designed around the following considerations:

- First layer: key information requiring max. 5 minutes reading
- Second layer: more detailed information requiring max. 20 minutes reading
- Third layer: links to other source of information.

We also welcome EIOPA's suggested approach to highlight in the first layer the PEPP key features, as well as the benefits entailed by long-term investments and protective features (eg. guarantees and biometric coverage). We believe it is important to stress protection offered but also and most importantly the practical consequences that might arise when not benefiting from such features using warnings on possible exposure to financial, longevity, mortality, morbidity risks…

Finally, for digital information to bring its expected benefits, there is a need to ensure legal certainty establishing the extent of providers' liabilities when providing information in different layers. Clear indication as to whether PEPP providers are liable for certain/all layers is needed, to avoid legal uncertainty and litigation to arise on the ground that a saver has not effectively received certain information, which was made available in the second of third layer.

Online distribution of PEPP is possible, and already a standard practice in several European markets depending on local rules and customs. However, online distribution of PEPP will indeed need to consider the mandatory duty of advice applicable to the Basic PEPP as required by the PEPP regulation.

A blended approach is likely to be of greatest benefit to customers, with much of the preliminary framing of a customer's profile conducted electronically. Later in the pre contractual process some mix of electronic and individual interactions should be possible either in person or audio visually, with final documentation being issued electronically.

Younger customers are likely to favour conducting business in this manner in the first instance. Cross border and migrant workers will favour conducting these financial transactions in their own language, using expressions that are culturally appropriate.