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Consultation Paper
on
the creation of a standardised Pan-European Personal Pension product (PEPP)

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Responding to this paper

EIOPA welcomes comments on the consultation paper on the creation of a standardised Pan-European Personal Pension product.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email CP-15-006@eiopa.europa.eu, by 5 October 2015, 23:59 hrs CET.

Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents[1].

Contributions will be made available at the end of the public consultation period.

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[1] Public Access to Documents

1. Introduction

1.1. In July 2012, the European Commission (COM) asked the European Insurance and Occupational Pensions Authority (EIOPA) to develop technical advice on an EU Internal Market for personal pension schemes or products (PPPs). Responding to that request EIOPA published a Discussion Paper[2] in May 2013 and a Preliminary Report[3] in February 2014. Following on from the conclusions of that report, the Commission sent a further Call for Advice (CfA) on personal pensions in July 2014.

1.2. The CfA builds on EIOPA's preliminary report and seeks to obtain further advice and evidence from EIOPA on a wide range of issues, including the possible prudential regulation and consumer protection measures for an EU-wide framework for the regulation and supervision of PPPs.

1.3. More specifically, taking into account EIOPA's response to the first CfA, COM asked EIOPA to investigate whether a legislative initiative for PPPs is necessary, and if so, which measures should be proposed. In particular, COM advised EIOPA of its intention to consider three different legal approaches:

(a) **legislation** aiming to regulate most (if not all) PPPs in place in the EU, and provide the financial institutions with a “passport” to operate across the EU;

(b) legislation focusing on product features and information disclosure requirements that would characterise a so-called "**2nd regime**"[4]; this 2nd regime would not replace existing PPPs, but would constitute an alternative to them, with a “passport” allowing its distribution in all EU countries;

(c) a combination of the two approaches.

1.4. In its CfA, COM lists several reasons for considering an EU-wide framework for PPPs which can be grouped as follows:

(a) PPPs can contribute to the goal of **multi-pillar diversification**, especially in those Member States where second pillar pensions are underdeveloped[5]. Private retirement savings can help address the pension gap in the future so long as they ensure adequate pensions to the scheme beneficiaries. In order to do so effectively, PPPs have to deliver value for money, and, therefore, their regulation should further efficiency gains through scale economies, achieving critical mass, risk diversification, better governance and increased competition and innovation;

(b) An EU-wide framework for a standardised PPP can address **consumer protection issues arising from the principal-agent problems and information asymmetry** between PPP providers and PPP holders. PPPs are either covered by different sectoral EU legislation, or are not harmonised at EU level (21 out of the 80 PPPs surveyed in the

[2] Discussion paper on a possible EU-single market for personal pension products.

[3] "Towards an EU-single market for personal pensions: An EIOPA preliminary report to COM".

[4] Can also be referred to as a 29th Regime, indicating a regime that operates in addition to the national regimes of the 28 EU Member States.

[5] The need to develop complementary retirement savings was set out in the 2012 Pensions White Paper.

EIOPA database are based on national legislation only). It has to be considered how the requirements for consumer protection purposes have to be adapted and/or supplemented at EU level.

(c) **Improved transparency and comparability of PPPs** in different Member States should enable cross-border activity and reduce impediments to cross-border labour mobility, thus furthering the Internal Market; in this respect, COM notes that a key issue is to ensure safe and clear opportunities to switch between PPP providers, notably across different types of financial institutions.

1.5. In February 2015, the Commission issued a Green Paper on the Capital Market Union (**CMU**). The goal of the CMU is to unlock investment in Europe's companies and infrastructure. The focus is especially on capital market based financing in Europe. Among the measures envisaged to foster the supply of long-term financing, the CMU Green Paper explicitly refers to the potential of introducing a standardised personal pension product, "for example through a pan-European or "29th" regime"[6].

1.6. Due to the specific attention given to the 2nd regime PPP in its CMU Green Paper, EIOPA decided - with the agreement of the Commission - to limit the scope of this consultation paper to the envisaged creation of a 2nd regime introducing a pan-European personal pension product. The scope of the consultation paper is therefore limited to providing an analysis on one of the three legal approaches COM will consider when determining if it will take legal initiatives for PPPs - the second regime approach (see section 1.3.b of this paper). Any subsequent advice on any of the approaches raised in the July 2014 CfA would include an impact assessment.

1.7. One of the characteristics of a 2nd regime PPP should be that it is highly recognisable to consumers. For that reason it is important to give the product a name that is easy to remember, for example 'the Pan-European Personal Pension' or '**PEPP**'. In the remainder of this paper this label will be used when referring to the envisaged 2nd regime for PPPs.

1.8. As per the Commission's CfA and EIOPA's preliminary report, EIOPA envisages the PEPP as a product established on the basis of individual participation sold on a retail basis.

[6] European Commission (2015), Building a Capital Markets Union, p.17. Please note that the concept of Pan-European, 29th regime, or 2nd regime PPPs are to be considered exactly equivalent in the context of the quoted COM documents and of this Report.

2. Current state of PPPs in the EEA

2.1. Data on existing personal pension products in the EEA

2.1.1. In its CfA COM requested EIOPA to provide data that provide insight into the personal pension market in the EEA on 31 December 2013[7] using its pension database as a starting point.

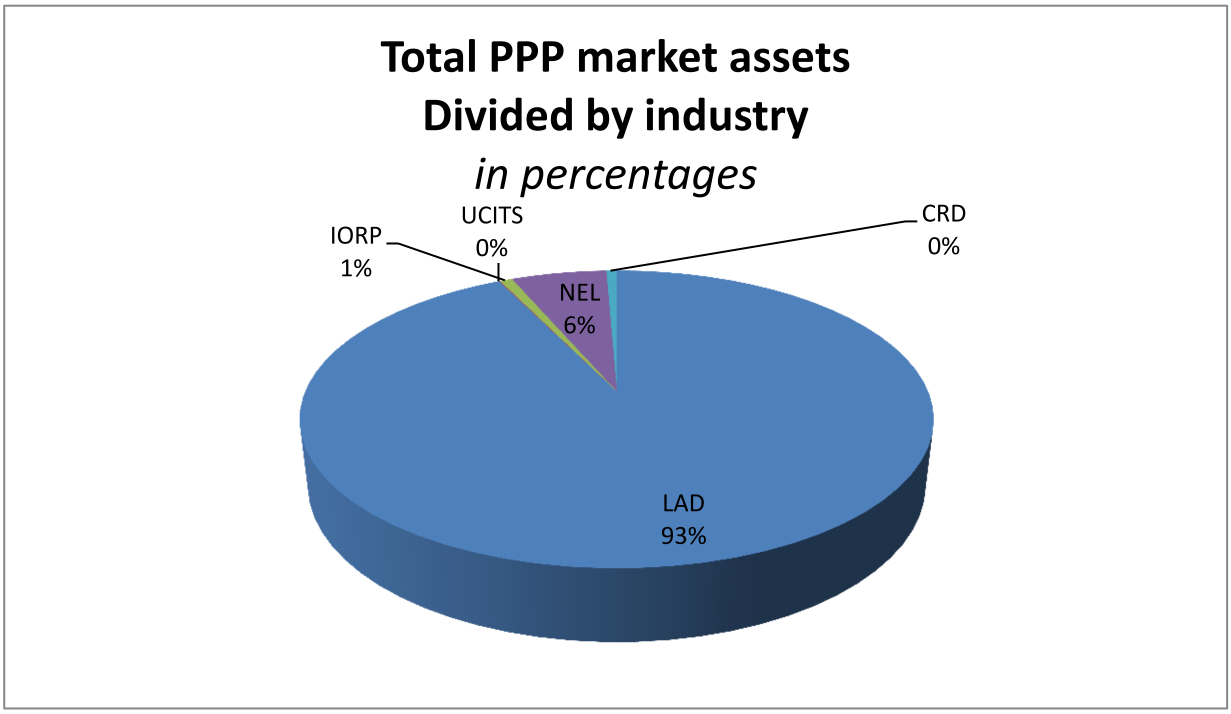
Asset data of all personal pension providers based on EIOPA's database

2.1.2. The total of assets, marked as personal pension assets in EIOPA's database, amounted to around 1,8 trillion euros. This figure includes asset data with regard to 1st pillar bis schemes and UK group personal pensions.

2.1.3. Excluding the 1st pillar bis and UK GPP assets, the total of personal pension assets amounted to 1,6 trillion euros. This figure includes asset data with regard to personal pension products offered by providers that are not directly regulated under an existing sectoral EU Directive, the so-called NEL[8] providers.

2.1.4. The data provided by its Members have helped EIOPA to gain insights into the characteristics of providers currently offering PPPs and their individual weight in the PPP market.

Graph 1[9]



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[7] Unless otherwise indicated, see Annex 1.

[8] NEL refers to no applicable EU law applicable.

[9] **LAD** refers to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking up and pursuit of the business of Insurance and Reinsurance; **CRD** refers to Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast); **IORP** refers to Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision; **UCITS** refers to Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

For Member State specific data please see the table in **Annex 1** of this paper.

2.2. 2nd regime PEPP - additional benefits compared to current legal frameworks

2.2.1. The personal pensions market appears to be characterised by some diversity of providers, however, the data clearly show that insurers are the predominant providers.

2.2.2. A key question is whether there would be additional benefits to a new legal framework separate from the existing ones for PPPs. The current market is characterised by a high degree of diversity of products. The introduction of a standardised 2nd regime would indeed constitute a new opportunity to develop the personal pensions market across Europe. Benefits could be expected both for providers of PEPPs (mainly through the possibility to target wide sections of the European working population with the same pension products) and for individuals (the standardisation of PEPPs would allow cost-effectiveness and the availability of value-for-money products).

2.2.3. Moreover, the particular characteristics of personal pensions - choices with long term implications made by individuals with no specialist knowledge - argues for the need of specific regulation to establish a 2nd regime, in particular of the product as well as of the provider. The introduction already sets out three benefits to an EU-wide framework for PEPPs:

(a) PEPPs can contribute to the objective of **multi-pillar diversification**, especially in those Member States where second pillar pensions are underdeveloped.

(b) An EU-wide PEPP framework can address **consumer protection issues arising from the principal-agent problems and information asymmetry** between PEPP providers and PEPP holders, while also enhancing trust and product quality.

(c) **Improved transparency and comparability of PEPPs** in different Member States should enable cross-border activity and reduce impediments to cross-border labour mobility, thus furthering the Internal Market.

2.2.4. The introduction to this paper, in 1.3, already mentions the options that could be considered for developing the personal pensions market. This consultation document deals with only one of the options identified in the call for advice from the European Commission. EIOPA in early 2016 will deliver its final advice and it is the intention to address the relative merits of different approaches at that stage.

3. Basic elements underpinning the creation of the PEPP

3.1. Objectives and tools underpinning the creation of a 2nd regime for PEPPs

3.1.1. The overriding policy objective of creating a 2nd regime for PEPPs is to encourage more EU citizens to save for an adequate retirement income by creating a truly internal European PEPP market.

3.1.2. The PEPP is a personal retirement savings product. EIOPA strongly believes that personal retirement savings products should be clearly distinguished from regular financial products and as such, in some key areas, require regulation that is specifically tailored for products with an explicit retirement purpose.

3.1.3. Financial products like the PEPP share unique characteristics that clearly distinguish them from regular financial products:

- The features of these products are - or should be - specifically tailored to provide citizens with an income, as defined at national level, during the retirement stage (the decumulation stage of the product) of their lives which is adequate in relation to the contributions paid into the product - see section 3.1.4 below);
- The capital accumulated in these products cannot, in principle, be encashed prematurely unless the retirement saver is willing to incur fiscal or other penalties;
- The products therefore have an inherent long-term nature;
- For many PEPP savers the retirement income generated by the PEPP is part of the basic retirement income implying a need for a certain predictability of the retirement income as the PEPP holder approaches retirement age. For such savers, although outside the proposed scope of the PEPP, they would also need a level of stability during the decumulation period (see section 3.1.4 below);
- Increased longevity may imply more retirement years and the potential impact of inflation under decumulation, while it is outside the proposed scope of the PEPP (for the reason mentioned in section 3.1.4), may have to be taken into account; and
- A corresponding long term investment strategy has to take into account both the cyclical nature of the economy as well as the ongoing changes in the financial markets.

3.1.4. With regard to the decumulation aspect described above EIOPA envisages that the decumulation options will not be standardised at EU level. The form of decumulation will be determined by what is permissible or required by national legislation.

3.1.5. The long-term nature of these products creates the opportunity for personal retirement savers to invest long-term thus potentially maximising their retirement savings as, under normal circumstances, the risk premiums associated with these investments are higher.

3.1.6. In principle, the above applies to all personal retirement savings products. EIOPA believes however the introduction of the PEPP would add considerable additional benefits for retirement savers as the envisaged product has a high level of *relevant* consumer protection characteristics as well as for PEPP providers as these would be given the opportunity to easily access new - foreign - markets which in turn could lead to PEPPs that are more cost-effective.

EIOPA envisages that the PEPP will be a long duration retirement product clearly distinguishable from regular investment products.

One of the overriding policy objectives of creating a 2nd regime for PEPPs is to **encourage more EU citizens to save for an adequate retirement income** by **creating a truly internal European PEPP market.**

EIOPA believes that a simple, transparent, cost-effective and trustworthy product will be central to the objective of encouraging citizens to save for their retirement.

A truly integrated and competitive European internal market should be achieved by creating a **harmonised legal framework** for PEPPs which:

(a) ensures a level playing field between all providers; and

(b) facilitates cross-border offering of PEPPs to consumers by removing existing barriers to cross-border business; as well as

(c) facilitating a multi-pillar approach to pension saving.

3.2. Essential building blocks for the PEPP

3.2.1. EIOPA has identified several attributes to define the product and to make it attractive to potential retirement savers. It will be necessary to show that providers are safe, and soundly managed, to reassure consumers that they will be in existence at the end of the retirement saving timeline and that they can meet their obligations when the time comes. This dimension is important also in the cross-border context.

3.2.2. Providers will need to adhere to a high level of consumer protection requirements. For the PEPP, and in the context of a 2nd regime, these requirements can be shared across the product and by placing obligations on providers and intermediaries. EIOPA is seeking to balance these requirements in a cost-effective way.

3.2.3. In order to achieve the above objectives of ensuring a high level of consumer protection and reassuring consumers that products are safe and soundly managed, EIOPA envisages the PEPP as a highly standardised product with respect to consumer protection rules and product characteristics, in order to set a high minimum standard for product quality and governance, and to encourage take-up of the PEPP.

3.2.4. The attributes required for a successful PEPP are outlined below as a set of building blocks, and each of these is elaborated further later in the document.

EIOPA believes it is desirable to provide for basic rules for the authorisation, supervision, structure and activities of PEPP providers established in the Member States.

On this basis, the essential building blocks for creating a 2nd regime are set out below, representing a mix of requirements for the provider and the product itself:

Regarding requirements on the provider:

(i) A stand-alone **authorisation regime** for providers of the PEPP for example with rules on fitness and propriety. However, that does not mean that a double authorisation regime is envisaged. Where PEPP providers are already licensed under Solvency II, CRD IV, IORP and/or MiFID, any identical requirements under these Union acts should be recognised under a PEPP authorisation regime as already complied with, as relevant. Further analysis is needed in order to determine what the requirements for PEPP issuers are and whether these will overlap (in total or in part) with existing national authorisation requirements based on Union law;

(ii) **Structural Principles** - regarding the need for providers of PEPPs to have sufficient financial resources to conduct their business effectively and meeting their obligations, including where guarantees are offered;

(iii) **Designation of competent authorities responsible for authorisation and supervision** and their respective responsibilities, especially in cross-border situations;

(iv) **Effective conduct of business regulation** governing the operating conditions of PEPP providers to ensure that information provided about the PEPP is fair, clear and not misleading and the product is sold in a manner, which meets the best interests of the customer both from the outset and on-going . Naturally, such conduct of business requirements are directly relevant for the product itself meeting the best interest of the customer.

Regarding requirements on the product:

(v) A "**Product Passport**" based on a one-stop shop in the Home Member State incorporating a system of registration/notification and co-operation between competent authorities to allow for easy marketing in Host Member States;

(vi) **Investment rules** for the product which comply with principles such as security, quality, liquidity (as necessary given the specific long-term investment profile to be expected) return and diversification (including pooling of risk);

(vii) **Distribution channels** PEPPs should be suitable to be marketed using modern technologies, and in the absence of advice. In particular, its product characteristics should be such that it can be sold via the internet;

(viii) **The product characteristics and disclosure requirements** should be such that a limited level of advice or no advice is required, thus contributing to reducing cost loading on the product whilst providing a high level of consumer protection;

(ix) High level **Product Oversight and Governance principles** in the process of designing, bringing to the market and, subsequently monitoring and review, of PEPPs. Arguably this is likewise a building block for the requirements on the provider.

The ways in which the different building blocks would operate vis-à-vis the provider and the product itself are elaborated further in the remainder of the consultation paper.

3.3. Beneficial characteristics of a PEPP for consumers

3.3.1. To encourage more people to engage in retirement savings, the PEPP should be a product that offers effective, uniform and robust high level of protection for consumers. A PEPP can deliver favourable outcomes for consumers where it has clearly-recognisable characteristics that support the consumer.

3.3.2. EIOPA envisages the PEPP to be a product where consumer protection elements are integral to the product, thus limiting the necessity for consumers to seek advice when buying the product. This in turn should allow for a significant reduction of distribution costs and conflicts of interest in the sales process.

3.3.3. EIOPA believes that the core characteristics of the PEPP set out below would deliver considerable benefits for consumers.

- **Simple:** does not require the holder to make complex choices;
- **Transparent:** clarity about the investment options and how they will work over time, with the default containing an investment strategy based on a life-cycling with de-risking approach, **unless** the default option contains a guarantee;
- **Cost effective:** aims to balance the objective of maximising returns at a defined level of risk, and the need to keep costs as low as possible;
- **Trustworthy:** information about the product is clearly disclosed, it is sold in the best interests of the customer, and the product and its providers and distributors are well regulated and supervised; and
- **Well governed:** the product is subject to appropriate product oversight and governance.

3.4. Potential benefits of a PEPP for providers

3.4.1. As the 2nd Regime PEPP Regulation will provide for a set of rules standardised at pan-European level, legal certainty for providers will be enhanced in respect of the areas described in section 3.2 above on essential building blocks. Along with the potential for significantly increased take-up in retirement provision by individuals, this will offer opportunities for economies of scale and lower barriers for cross-border business.

The PEPP will help to **enhance legal certainty** for financial service providers that will have previously experienced differences between national laws governing PPPs. The 2nd regime will also open up the possibility of significantly increased levels of pension involvement by individuals and help to create economies of scale across existing untapped potential markets.

3.5. Establishment of an authorisation regime for PEPP providers

EIOPA believes the benefits from the PEPP are more likely to occur if there is a diversity of providers. EIOPA envisages that not only providers that are authorised under the Solvency II, MiFID, UCITS, CRD IV and IORP Directives should be able to offer PEPPs, but also suitable providers that are not authorised under an EU Directive, including those that have received a national authorisation only.

3.5.1. In order to be able to propose the right applicable measures, EIOPA believes it is useful to categorise the envisaged group of PEPP providers as follows:

(a) Providers authorised to operate under the Solvency II, MiFID, UCITS, CRD IV and IORP (II) Directives and that, in their national jurisdictions, **offer PPPs already**;

(b) Providers authorised to operate under the Solvency II, MiFID, UCITS, CRD IV and IORP (II) Directives and that, in their national jurisdictions, do **not yet offer PPPs**;

(c) Providers **not authorised** to operate under the Solvency II, MiFID, UCITS, CRD IV and IORP (II) Directives.

Consequently EIOPA recommends a stand-alone regime for the authorisation of PEPP providers. Only providers that have been authorised by the competent authorities of the Member State in which they are situated should carry out the activity of providing PEPPs.

The intention of establishing a stand-alone authorisation regime for PEPP providers is not to create additional regulatory burden for providers if they are already authorised under sectoral legislation (e.g. MiFID, Solvency II, CRD IV etc.). The issue is that the authorisation regime in these other pieces of sectoral legislation has been designed for different purposes (from both a prudential and conduct perspective) with different products in mind. This stand-alone regime would ensure that for:

(i) any PEPP providers which are not authorised under other EU financial services legislation, have the opportunity to provide PEPPs; but also do not fall through an authorisation gap (creating a regulatory loophole), thus ensuring a level playing field and enhancing consumer protection; and

(ii) for those already authorised under existing sectoral legislation, some sort of "equivalence assessment" would be needed to ascertain whether compliance with that existing sectoral legislation to a similar standard is deemed sufficient to comply with the rules for PEPP providers and activate the product passport. In order to facilitate this equivalence assessment, the provider would need to apply to the competent authority of the home Member State for a variation of its existing regulatory authorisation/licence to be able to sell the PEPP alongside other financial products.

3.5.2. EIOPA believes providers should be authorised to sell PEPPs only if the **competent authorities are satisfied that they meet all necessary requirements**, including e.g. the investment principles, conduct rules, that the senior management of the provider are of sufficiently good repute and do not lack the experience required for the performance of their duties, and good administration and record keeping rules.

Questions to stakeholders:

Q1: Do stakeholders think there is a need for a stand-alone authorisation requirement or would existing Union law sufficiently cover all potential PEPP providers, including those who would issue PEPPs but who are not already authorised by another existing authorisation regime?

3.6. Relationship of PEPP with national rules

3.6.1. The purpose of introducing a 2nd regime for PEPPs is to create a pan-European legal framework. It would exist in parallel with national PPP laws within each country. Private parties contracting a PPP would be able to choose between the existing national regime for PPPs or the 2nd regime for PEPPs.

3.6.2. In addition, the 2nd regime instrument offers the possibility to introduce a highly standardised PEPP. COM's CfA expresses the aim of creating an internal market for PEPPs. In order to do so, consumers should be able to buy a PEPP from providers located in other countries and it should be made easier for PEPP providers to sell their PEPP cross-border.

3.6.3. This in turn implies that, from a consumer point of view, 'foreign' PEPPs should have the PEPP characteristics required in the consumer's country of residence. From a PEPP provider point of view it would be beneficial if PEPP characteristics do not differ significantly from country to country.

3.6.4. Currently, national rules for existing PPPs differ widely. EIOPA believes this is due to the fact that - in order to safeguard the interests of personal retirement savers - individual countries have introduced national rules of general good, often according to the national social and labour law requirements. These rules are not aligned at EU level. Existing PPPs, at national level, must therefore possess characteristics that are aligned with these national rules of general good. Coincidentally, in the majority of countries beneficial tax treatment is only granted with regard to PPPs that adhere to the national rules of general good.

3.6.5. 2nd regime products are not bound by the restrictions emanating from diverging national general good rules, **provided that the 2nd regime product has a high level of consumer protection**.

3.6.6. In order to be able to introduce a PEPP that is reasonably standardised, a balance needs to be struck between national rules of general good that will be respected and rules that will be standardised at EU level.

3.6.7. In order to be able to strike this balance it is necessary to cluster national rules of general good. EIOPA has identified the following - non-exhaustive - clusters of rules of general good that apply in Member States:

	Cluster	Example
1	National investment restrictions	E.g., no more than 60% of contributions can be invested in equities in country X.
2	National restrictions with regard to encashing retirement savings of a PPP before retirement	Retirement savings cannot be paid out within first ten years
3	National rules with regard to capping costs and charges	*Self explanatory*
4	National requirement to provide minimum return guarantees	A PPP investment option must contain a x% minimum return guarantee in country X
5	National requirements with regard to retirement age	Minimum PPP retirement age is 67 in one country and 65 in the other
6	National requirements with regard to decumulation practices	In one country one might be legally required to buy a lifelong annuity at retirement, while in other countries PPP providers must offer more than one decumulation option
7	National requirements with regard to mandatory advice	Country X introduced a legal requirement that PPP holders must have access to advice

3.6.8. If COM decides to introduce a 2nd regime, EIOPA believes that European citizens would benefit if it was standardised to the extent needed to create an internal market and ensure high minimum standards with respect to product characteristics and consumer protection, as outlined in section 3.2. EIOPA proposes to standardise investment rules (see cluster 1 above) for the PEPP at EU level. This issue is discussed in sections 4.2.2 - 4.2.7 and onwards of this paper.

3.6.9. EIOPA believes that, at this moment in time, it is neither needed nor appropriate to standardise the elements listed under clusters 4 - 7 above in the 2nd regime for PEPPs, either because;

(i) the national rules of general good are very country specific (clusters 4 and 7) and standardising these at EU level would mean that capping costs and requiring minimum return guarantees would need to be mandatory elements of the PEPP. Stakeholders are asked whether the PEPP should contain a cap on costs and charges (cluster 3);

(ii) the PEPP sets rules for the pre-contractual and accumulation phases only so that specific rules on the decumulation phase are not needed (cluster 6);

(iii) standardising the retirement date for the PEPP at EU level (cluster 5) would be too much of an intrusion on individual countries' freedom to set up their retirement systems; and, finally

Most of the envisaged PEPPs would have elements of flexibility that allow to accommodate in the same product different retirement ages and modalities of access to retirement benefits (lump-sums, immediate and deferred annuities, programmed withdrawals, etc.).

3.6.10. No conclusion has been reached yet with regard to standardising at EU level the national requirement referred to in cluster 2. In the majority of countries, so EIOPA believes, encashing personal pension savings before retirement is already strongly discouraged as this would lead to fiscal penalties. Adding a legal requirement to forbid cashing out during a pre-defined period is possibly superfluous.

3.6.11. In order to ensure equal treatment, EIOPA believes that PEPPs should receive beneficial tax treatment where these benefits are also granted to existing 'national' PPPs, especially considering the same long-term pensions savings perspective of PEPPs.

3.6.12. In conclusion, EIOPA believes that introducing a 2nd regime for PEPPs is an attractive option. EIOPA believes that this would not only bring the creation of an internal market for retirement savings products a considerable step closer, but would also introduce a PEPP the main characteristics of which would be standardised EU wide. At the same time national regulations with regard to existing PPPs would not be affected.

EIOPA believes an **EU Regulation introducing a 2nd regime for PEPPs should be highly prescriptive** with regard to the product characteristics but also contain a firm set of rules with regard to its providers, in order to ensure a high minimum standard of consumer protection and product quality, and to encourage take-up of the PEPP. These product rules should be applied in a uniform way by all PEPP providers.

Questions to stakeholders:

Q2: Do stakeholders agree that a highly prescriptive 2nd regime will achieve the policy objectives of ensuring a high minimum standard of consumer protection and encouraging more EU citizens to save for an adequate retirement income?

3.7. Potential challenges of introducing a 2nd regime

3.7.1. EIOPA recognises that there are potential challenges of introducing a 2nd regime alongside existing national regimes for personal pension products and that it is important for these challenges to be considered in the design of the PEPP regulation so that risks can be mitigated and good outcomes for individuals are ensured.

3.7.2. The proposed PEPP contains measures to promote a high level of consumer protection, it being recognised at the same time, however, that a high level of consumer protection is already in place in many PPP markets. In order to ensure that consumer protection levels will not be materially affected and avoid the risk of regulatory arbitrage - whether consumers are saving in a PEPP or a personal pension product established under national rules - EIOPA has sought to:

- Determine the correct level at which national rules could be standardised (see sections 3.6.6 - 3.6.12).

- Recognise the risk of regulatory arbitrage between the two regimes (in this case the EU Regulation and national rules for personal pension products), whereby differences between regimes can be exploited by market participants in order to achieve a more favourable outcome under one regime compared to another.
- Fully develop 2nd regime provisions capable of interacting with national regimes where appropriate, e.g. in the event of product transfers (see section 4.2.8), so as to improve the PEPP holder experience and ensure competitiveness on costs between national PPP and PEPP providers.

Question to stakeholders:

Q3: Do stakeholders agree that EIOPA has identified the correct challenges associated with introducing a 2nd regime? If so, how might these challenges be overcome? If not, what do stakeholders believe might be other challenges associated with introduction a 2nd regime?

4. Proposed features of the PEPP

4.1. Introduction

4.1.1. EIOPA envisages the PEPP to be a retirement savings product that **covers both domestic business** (by far the largest group of potential PEPP holders) **and cross-border business**, thereby establishing an alternative set of rules to the regimes in Member State A or B. This set of rules would be free from many of the obstacles arising from the disparity and the limited territorial application of existing national laws.

4.1.2. The goal of delivering a simple, accessible product, that offers value for money whilst maximising the take-up by consumers and industry alike, does not conflict with ensuring strong consumer protection. Rather the latter is the necessary foundation for building a pan-European market for such products. EIOPA proposes the following features to be mandatory elements of the PEPP.

4.2. Proposed mandatory features

4.2.1. Requirements for PEPP investments

4.2.1.1. EIOPA believes the high level investment principles a PEPP provider must adhere to and the investment options offered in a PEPP are key elements of the 2nd regime for PEPPs. EIOPA therefore believes that the following elements with regard to investments should be in the 2nd regime Regulation:

- High level principles with regard to investment policy that all PEPP providers have to adhere to (see 4.2.2);
- Limited number of investment options within each PEPP. For PEPPs with more than one investment option a default option must be included (see 4.2.3);
- Application of a de-risking strategy for at least the default investment option, unless all investment options contain a guarantee - PEPP providers should be allowed to develop their own de-risking strategies (see 4.2.6);
- PEPP providers offering a PEPP with an investment option(s) containing a de-risking strategy should aim to maximise returns at defined risk levels for that investment option (see 4.2.4).

4.2.2. High level investment policy principles

4.2.2.1. EIOPA believes it is important that PEPP providers adhere to the same high level investment policy principles in order to ensure the product is transparent. EIOPA therefore recommends that PEPP providers should adhere to the following high level investment policy principles:

- All assets invested to cover the PEPP shall be appropriate to the defined level of security, quality and profitability of the portfolio as a whole.
- Assets should be selected with a view to the most efficient liquidity profile over the longer term, including the potential participation in longer term investments as appropriate to the investment horizon and pay out profile of the PEPP, including, as appropriate, infrastructure and other similarly illiquid investments.
- All assets shall be invested in the best interest of the PEPP holders.

- The use of derivative instruments shall be possible insofar as they contribute to a reduction of risks or facilitate efficient portfolio management.
- Assets shall be properly diversified in such a way to avoid excessive reliance on any particular asset, issuer or group of entities, or geographical area and excessive accumulation of risk in the portfolio as a whole.
- Investments in assets issued by the same issuer, or by issuers belonging to the same group, shall not expose the portfolio as a whole to excessive risk concentration.

EIOPA recommends that PEPP providers EU-wide should adhere to the same high level investment policy principles.

4.2.3. PEPP investment options

4.2.3.1. For the majority of consumers, as behavioural economics has shown, making investment decisions is difficult. This also creates a barrier for personal retirement savers. They either find it hard to make the right investment decisions or will refrain completely from starting to save for retirement.

4.2.3.2. Although EIOPA believes that providing financial education to citizens is important and efforts to increase citizens' knowledge on financial matters should be increased through this means, past experience indicates that the large majority of **individuals still finds it hard to develop effective investment portfolios** without the help of investment experts.

4.2.3.3. EIOPA recommends that the following principles should be adhered to by providers when developing the investment options of a PEPP:

- The **number of investment options** offered in a PEPP should be **limited, for instance** to five;
- PEPP holders **should not make individual selections** of equities, bonds or other assets;
- The PEPP should contain **at least one investment option where the PEPP holder is not required to make any further investment decisions once he has entered the plan** - this effectively means that this investment option should include a life-cycling strategy and should therefore contain an element of de-risking, e.g. when PEPP holders approach retirement age, or earlier during the accumulation stage, to allow providers to lock in realised investment results, where appropriate;
- The provider should have a duty of care concerning the suitability of the **remaining investment options**. Balanced funds where the weighting of asset classes remains the same would be allowed. However, in the absence of a suitable life-cycling strategy (or a guarantee) to protect the PEPP saver, it is clear that the focus of consumer protection needs to be adjusted. **Warnings and protections will need to be incorporated into the sales process and at later stages of accumulation** to address this;
- If a PEPP contains **more than one investment option, one of these options should be a default**, clearly recognisable as such.

- The default, which would be **required to contain a life-cycling strategy unless it is a guaranteed product**, would in fact be the investment option the PEPP provider deems best suited for its PEPP holders. Offering a default investment option is particularly important as, even if more investment options are available, retirement savers tend to choose for investing in the default.[10]
- If an **investment option contains a guarantee**, the **PEPP provider is not required to apply a life-cycling strategy to that investment option**. However, a duty of care would still apply in order to ensure that the PEPP does offer value for money and sets an investment strategy that offers an appropriate exposure to risk premium for long-term investment.

Annex 2 of this paper contains the background information EIOPA has used in order to identify those aspects of behavioural economics, important to set the investment requirements for the PEPP.

Questions to stakeholders:

Q4: Do stakeholders believe that an investment option containing a guarantee, e.g. a 0% minimum return guarantee, does not require in addition a life-cycle strategy with de-risking when approaching retirement?

Q5: Do stakeholders agree to limit the number of investment options, e.g. to five?

Q6: Do stakeholders agree that the default investment option should either be based on a life-cycle strategy with de-risking or be assisted by a guarantee, e.g. a 0% minimum return guarantee?

Q7: Do stakeholders agree that providers should have a duty of care concerning the suitability of investment options? What should be its extent? For example, should providers prevent switching to high risk investment options close to retirement?

Q8: Alternatively, would it be better for all investment options to contain either a life-cycling strategy with de-risking or a guarantee?

4.2.4. Permitted investment options

4.2.4.1. For existing PPP providers it is common to offer one or more investment options to their customers. These investment options can vary from high risk to low risk investment combinations and offer the retirement saver the possibility to construct one's own savings portfolio or not. These options can either cater for life-cycling with de-risking or not. In addition some providers offer guaranteed saving outcomes.

[10] For example, 99% of the members of UK workplace pension scheme NEST are in the default fund. In Australia, research (ICPM, 2009) evaluating the impact of the "choice of fund" policy four years after the introduction of legislation , indicated that 3% to 6% (per year) of people who made an active fund choice mostly did it as a result of a job change or fund closure. Active choice on an employee’s part was actually as low as 2% to 4% per year.

4.2.4.2. Although the PEPP should offer flexibility of investment options, EIOPA believes a PEPP should contain at least one investment option that would be perceived by the majority of EU retirement savers as a relative 'standard choice'.

4.2.4.3. EIOPA envisages the following investment options to be permitted for PEPPs:

- Life-cycle investment option that contains de-risking; allowing flexibility for PEPP providers to determine optimal moments of de-risking, e.g. when approaching retirement or earlier during the accumulation stage to allow providers to lock in realised investment results where appropriate;
- Investment option that contains a minimum return guarantee - the minimum return guarantee being a voluntary element;
- Investment option in the form of a balanced fund where, in principle, the weighting of asset classes within the option remains the same during the entire life-cycle of the PEPP, and the exposure to assets with a higher volatility is moderate (e.g. 20-25% equity exposure);
- Investment option in the form of a long-term collective investment where premiums paid are pooled into a life fund and where the concept of smoothing is applied[11] - in this case EIOPA recommends that strict rules and disclosure provide for absolute clarity with regard to how and when returns are allocated to individual policy holders (see sections 4.2.10.13 and 4.2.10.14);

4.2.4.4. EIOPA believes the following additional requirements should apply if a PEPP contains more than one investment option:

- One of the investment options must be offered in the form of a default option, clearly recognisable as such, based on a life-cycling strategy and containing de-risking. The default would in fact be the investment option the PEPP provider deems best suited for the average PEPP holder.
- Unless all investment options provide for a money back/minimum return guarantee, **at least** the default investment options offered must contain a mandatory element of life-cycling with de-risking. In that case the PEPP provider is responsible for developing its de-risking strategies.

4.2.4.5. EIOPA recommends that PEPP providers should have sufficient freedom when developing the different investment options of the PEPP, provided that the provider adheres to the high level investment principles mentioned in section 4.2.2 for all the investment options and the investment strategies for each investment option are aimed at maximising returns at a defined risk level.

[11] Smoothing: The system whereby part of the returns realised during good investment years are held back in order to compensate for periods during which poor returns are realised.

4.2.5. Money back/Minimum return guarantees - level playing field between PEPP providers

4.2.5.1. The guarantee could ensure that, at a minimum, all contributions are returned at retirement (often called 0% guarantees) or it could guarantee a return on top of contributions made. Even outside markets where guarantees are common or required, there may be an appetite among consumers for PEPPs with guarantees. In such cases, guarantees could be offered.

4.2.5.2. Where they are offered, EIOPA believes those guarantees should be backed by robust solvency requirements.

4.2.5.3. As it is envisaged that different providers can offer the PEPP and different solvency regimes apply to these providers, the question arises if **identical** solvency rules should apply to different categories of providers **or** if it is sufficient that the solvency rules applicable to the providers are **equivalent**.

Questions to stakeholders:

Q9: Could you elaborate on whether PEPP providers, offering a PEPP with minimum return guarantees, should be subject to one identical solvency regime to support these guarantees or whether it would be sufficient that different, but equivalent, solvency rules apply?

4.2.6. Life-cycling strategy with de-risking

4.2.6.1. A life-cycling strategy with de-risking (LCS) is an approach that ensures that PEPP holders do not have to make investment decisions during the lifetime of their PEPP. At least one of the PEPP investment options, i.e. the default investment option where it is not a guarantee product, should contain this strategy, unless all investment options offered contain a minimum return guarantee.

4.2.6.2. LCSs should seek to **build and then safeguard realised returns** in an effective way, taking into account each PEPP holder's potential retirement date, whilst permitting appropriate risk exposure over the life of the PEPP.

4.2.6.3. A traditional life-cycling strategy, where investment portfolios are de-risked at specific dates before retirement[12] is just one example of a LCS. EIOPA envisages that PEPP providers will develop additional LCSs that are also suitable for building and safeguarding returns.

4.2.6.4. In order to allow for innovative LCSs to continue being developed in the future, PEPP providers should be allowed to construct their own LCSs. EIOPA believes provider competition in this specific field will lead to an intensified search for the optimum LCS that is best suited for building and safeguarding realised returns. This would be in the best interest of PEPP holders. Therefore, EIOPA recommends that individual PEPP providers should be permitted to develop their own life-cycling strategies.

[12] E.g. 10% less risky assets 10 years before retirement, 10% less risky assets 9 years before retirement, etc.

4.2.7. De-risking: goal during development phase

4.2.7.1. EIOPA envisages that life-cycling strategies should contain a de-risking element. The aim is mainly to safeguard realised returns.

4.2.7.2. EIOPA recommends that when developing this investment option, special attention should be given to the investment strategy behind this investment option. One goal of this investment option should be to provide for investment returns that outweigh inflation as a minimum.

Questions to stakeholders:

Q10: Considering the fact that the PEPP aims to maximise returns outweighing inflation, should retirement savers be allowed to buy a PEPP if the remaining duration of the product is, e.g., only 5 years?

4.2.8. Switching between PEPP providers

4.2.8.1. EIOPA envisages that PEPP providers will compete for business by developing differing investment strategies that will consequently generate differing costs and different returns. EIOPA expects that PEPP holders will monitor the performance of their PEPP to ensure that the PEPP matches their needs and to ensure that the product is progressing in a way that will lead to a satisfactory outcome at retirement.

4.2.8.2. There may be PEPP holders, however, who wish to switch providers for a variety of reasons. For instance, they may not be content with the investment strategies, the cost structures, or may wish to change because a different provider offers a better solution when the personal circumstances of the PEPP holder have changed. In order to facilitate PEPP holders to switch providers in these circumstances EIOPA envisages that, periodically, switching without incurring additional charges should be made possible and that switching should not be limited to switching from one PEPP to another but that a switch from a PEPP to a 'national' PPP - or vice versa - should also be possible.

4.2.8.3. Additionally - changing circumstances, other than those mentioned above, could justify the introduction of the possibility to immediately switch providers free of additional charges. For example, when PEPP providers increase the cost loading of their PEPP or if a merger between PEPP providers takes place[13].

4.2.8.4. However, one of the potential benefits of saving for retirement is the ability to invest in assets that offer a premium because they are relatively illiquid. This opportunity arises as the PEPP holder is building a retirement fund over a long period of time and can therefore commit to longer term illiquid investments. If PEPP holders can easily switch out of investments then the benefits of this premium will be diminished or even lost as greater amounts of more liquid investments need to be held by providers to meet these switching requests.

[13] Analogous to art. 45 of UCITS Directive 2009/65.

Given that the PEPP is a retirement savings product with an investment element, EIOPA envisages that PEPP providers will compete for business by developing differing investment strategies that will consequently generate different returns and different costs. In order to stimulate this process, EIOPA believes that PEPP holders that are dissatisfied with their current PEPP provider or product should be able to switch providers periodically and transfer the accumulated capital to a new provider or PEPP without incurring additional charges. In case the situation described in section 4.2.8.3 occurs, EIOPA believes an immediate switch, without incurring additional charges, should also be made possible.

On the other hand, in order for PEPP holders to benefit from the illiquidity premiums inherent to their long duration product, switching providers should be limited to some extent.

EIOPA recommends that **a free of charges switch should be made possible**, e.g. by allowing PEPP holders to switch periodically or when a specific situation occurs. However, EIOPA believes that PEPP holders should be enabled to switch providers more often although the PEPP holder may then incur charges.

Questions to stakeholders:

Q11: What is stakeholders' view on the desire of PEPP holders on the one hand to have the comfort of knowing they can switch products or providers compared with the desire on the other hand to maintain the benefits of illiquid, long-term investments?

Q12: Under what conditions do stakeholders think that the concepts of periodically switching providers and illiquid, long-term investment are reconcilable?

Q13: What do stakeholders believe is an appropriate interval for switching without incurring additional charges?

4.2.9. Ensuring a consumer-centric focus throughout the duration of the PEPP

4.2.9.1. For the PEPP to succeed it will be necessary to instil a high level of confidence among consumers, and this will be achieved by ensuring that there is a high level of consumer protection. This can be realised through a combination of protections within the product itself and within the sales process.

4.2.9.2. In recent years a stronger consumer-centric focus has arisen in terms of enhanced awareness and orientation around consumer needs and wishes. One important way to promote a culture that sets out to deliver a product that has a consumer-centric focus and thus is in the interests of the PEPP holder is to seek to instil this approach from the very beginning of the product life, then continuing during the entire life-cycle of the product, including any reviews, making sure that the experience is to the mutual benefit of both parties to the contract. To this end, there is a strong case for including the rationale behind the product oversight and governance (POG) requirements for the development of a

PEPP by a product producer. The product development process should meet the published best practice requirements and the principles[14] should be an integral part of the structures for developing the product, including the default investment(s) and age/Lifecycle elements of the product. EIOPA believes that they should as far as possible remain under the control of the provider due to their expertise in this area. Staff involved in product development work should have the appropriate knowledge and ability to carry out the required tasks.

4.2.9.3. An adequate POG framework should cover development areas such as:

- identifying the target market for the product, which should be capable of meeting the needs of a significant cross-section of potential PEPP holders,
- testing routines to ensure that the product is suitable for the intended purpose as a retirement investment solution.
- having proper internal approval mechanisms prior to launch, and
- requirements for appropriate, well-informed distribution channels.

4.2.9.4. However, other aspects of product oversight and governance requirements, those that principally deal with the post product launch phase, need to be included too, such as:

- a requirement to regularly review the product to ensure it is still appropriate for the target market and also that it is in fact being sold to that target market, and
- requirements for remedial action where consumer detriment has occurred.

4.2.9.5. In the case of PEPPs, given their standardisation and their ambition to be sold across Europe, in most (or all) cases the target market is presumably going to be very wide. In general terms this could be defined on the basis of age, e.g. persons between 20 and 60-65 years of age. An important consideration here is that although such an age band might describe the length of the product lifespan for the individual it does not address when within this timespan a person should not be permitted to buy a PEPP e.g. should the PEPP be sold to a 64 year old if the product timespan is seen as 20 to 65? Also a time-based target market would still need to be considered in the context of national legislation e.g. the national requirements in relation to retirement age. Also, identifying for whom the product may not be suitable is helpful in order to get a clear picture of the boundaries of the target market, e.g. offering to join a PEPP to a person aged 75 years would be clearly inappropriate.

Identifying the target market is an important part of the consumer protection requirements for the development of a new product. When seeking to determine the target market the PEPP provider will need to assess different characteristics of potential retirement savers such as levels of risk of the product and the risk appetite of those that will invest in it, demographic factors, their level of knowledge and understanding of the complexity of the product and their financial capability.

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[14] Joint Position of the European Supervisory Authorities on Manufacturers' Product Oversight & Governance Processes

Despite the fact that the PEPP would be a standardised product, EIOPA believes that providers should design, bring to the market and subsequently, monitor and review, PEPPs, in line with the rationale behind product oversight and governance principles and best practices. In this manner providers will contribute significantly to building trust in their product from the outset.

4.2.10. Effective, meaningful disclosure

4.2.10.1. Disclosure of information is a vital part of the relationship between the financial services industry and consumers. It is an attempt to at least partially bridge the information asymmetry gap that exists between the parties. Arguably disclosure is more important with the greater level of complexity associated with investments. In the pensions environment additional complexity arises due to the longevity of the relationship between provider and PEPP holder.

4.2.10.2. PEPP holders should not become detached from the retirement savings process. Prospective and current PEPP holders should therefore receive effective information from PEPP providers.

4.2.10.3. The provision of appropriate information at regular intervals will be a strong factor in building trust in both the product and provider over time. In order to be able to assess if the PEPP provider has made good on the objective to maximise return at a defined risk level, the PEPP holder should periodically receive the information outlined in the following sections.

To address the principal-agent information gap and to ensure that the PEPP holder does not become detached from their retirement provision there should be effective and meaningful disclosures at the pre-contract, accumulation and pre-retirement stages. The information disclosures should be fair, clear and not misleading.

- **Pre-contractual stage**

4.2.10.4. Effective pre-contractual information is essential for consumers deciding on whether to commit to a particular PEPP and/or the selection of options offered by a PEPP. It aids both in understanding each PEPP and its features, and in comparing different PEPPs.

4.2.10.5. Despite the importance of effective pre-contractual disclosures, problems with ineffective information for financial products have been a common focus for supervisors and regulators.

4.2.10.6. In this respect, one key lesson is that, in tackling these issues, the presentation of information, and not only its substantive content, is crucial, including the targeted use of standardisation. Research shows the importance of keeping information ‘short and simple’, so disclosures should be short and focused on key messages, and presented in a way that makes it clear which messages are important. The messages should be designed so as to clearly show the consumer the choices they need to make, and where each product stands in relation to these choices. As far as possible, pre-contractual documents should all follow consistent and standardised formats.

4.2.10.7. PEPP pre-contractual disclosures will build, to a significant extent, on joint work underway by the three ESAs to develop key information documents (KIDs) for Packaged Retail and Insurance-based Investment Products (PRIIPs). While there are some differences that PEPP pre-contractual disclosures will need to take into account, many of the basic concepts that are central to the work on the KIDs would also apply for PEPP pre-contractual disclosures. This includes keeping documents short and focused on key messages, avoiding jargon as far as possible, following a standardised 'Q&A' format, and standardising some of the content used for comparisons (e.g. on risks, rewards and costs) between PEPPs.

4.2.10.8. At the same time it is clear that a PEPP pre-contractual disclosure cannot simply 'copy' the PRIIPs KID in all respects: for example, a PEPP document would likely need to include information related to the options provided on retirement, and specific projections related to these options. This information could be personalised if the PEPP provider makes use of tools (e.g. internet solutions) that would allow the prospective PEPP holder to make calculations based on his individual circumstances. This information should not be used as a selling tool - e.g. the language used in the pre-contractual information should be neutral and investment outcome scenarios should be calculated using prudent estimated future return rates.

4.2.10.9. A further aspect of the PRIIPs KID approach that is important to stress is the use of consumer testing. This has been an integral part of the detailed work being done on developing the PRIIPs KID. While the PRIIPs testing is likely to be very useful for developing PEPP pre-contractual disclosures, additional testing on specific aspects related to PEPPs will be necessary before the detailed content (similar to the regulatory technical standards for the PRIIPs KID) are established.

4.2.10.10. A similar approach to standardising the sequence and labelling of information in PEPP pre-contractual documents can be envisaged and would offer distinct advantages for comparability with other investment products.

4.2.10.11. The work on the PRIIPs KID offers some inspiration in this area: the PRIIPs Regulation sets a clear limit on the length of the KID (no more than 3 sides of A4), and a common structure (sequence of sections, and headings for these). The sections are labelled mostly with questions, so the document takes a 'Question and Answer' format, as some research suggests this can be easier for consumers to relate to and use.

4.2.10.12. A similar approach to standardising the sequence and labelling of information in PEPP pre-contractual documents can be envisaged and would offer distinct advantages for comparability with other investment products. The sections could include (building on the PRIIPs KID):

- Details of the regulator/supervisor
- The identity of the PEPP provider
- What is this PEPP? This could also include information on how the PEPP works – investment objectives and the strategy for achieving them, including on how the de-risking, if applicable, works and any limitations e.g. on assets that are invested in.
- Do I have to choose between different investments?

- Risk indicator for each investment option. What are the risks and what might I get back as income/lump sum or combination, + projections in retirement?
- What are the costs, including distribution costs?
- Does the PEPP offer a guarantee, yes or no? - If yes, how does the guarantee work? When will the guarantee apply (e.g. at retirement date, after 8 years)?
- Can I access my funds early and what would it cost / can I switch my investments to another PEPP provider and what would it cost?
- What happens if the PEPP provider goes out of business?
- What happens if I die?
- What happens if I stop paying? This could include information on whether you can get your money / transfer your money to another PEPP provider during the life of the contract.
- What choices will I need to make in the future?
- Other information / complaints

4.2.10.13. EIOPA believes special attention should be given to disclosure with regard to the collective investment options described in section 4.2.4.3 of this paper. The allocation of and moments when realised returns will be allocated to individual pension savers is not as straightforward as for PEPPs with individual investment options.

4.2.10.14. Therefore, if a PEPP contains this investment option EIOPA strongly believes pre-contractual information should provide absolute clarity with regard to how and when returns will be allocated to individual policy holders.

(a) Specific Key information sections

- **Risk information: "what are the risks?"**

4.2.10.15. Risk information is essential when comparing between PEPPs, as different consumers will have different expectations and needs in relation to the amount and kind of risk they are willing to take on.

4.2.10.16. The PRIIPs KID is a useful starting point, as it is required to include both a graphical summary risk indicator and narrative text, to provide consumers with a clear indication of the risk of the PRIIP compared to other PRIIPs.

4.2.10.17. For products with a life-cycling approach – whether PRIIPs or PEPPs – information on risk might need to be included, however, to underline that short-term risk could be higher because the risk rating measure focuses on the risk to maturity. The specific characteristics of the PEPP need to be taken into account. With regards to risk ranking, consideration should be given to the risk of not achieving the desired benefits at retirement, more than the risk of observing volatility of market value of investments in the course of the accumulation phase. On the other hand, for options that do not feature a life-cycling approach and do not contain a guarantee more emphasis will need to be placed on the risk for that part of a portfolio (e.g. equities) that is susceptible to market volatility.

- **Projections of rewards / Performance scenarios: "what might I get back?"**

4.2.10.18. The price of upside risk basically results in a reduction of certainty. For PEPPs it is important to project and estimate how investments (typically including periodic contributions) and the related returns accumulate over a potentially very long time period, and what that could mean in terms of a retirement income. The latter also raises the question of the impact of inflation, which can, of course, be significant over the longer term. Consumers are unlikely to effectively discount projected nominal values to take account of inflation.

4.2.10.19. When considering a PEPP, the consumer needs to take a view on the appropriate level of market risk one should be taking, in view of their time horizon, the risk of inflation, and in view of the different de-risking approaches offered by PEPP providers.

4.2.10.20. The PRIIPs KID needs to include performance scenarios (indications of the range of possible future returns). The ESAs identified in their Discussion Paper a number of possible approaches to this information, that include the provision of deterministic information using standardised rates, the use of hypothetical 'what if' scenarios, or the use of simulations to arrive at possible outcome distributions that could be used to provide probabilistic forecasts. Approaches using tables (showing low, neutral, high scenarios) or line graphs are being tested with consumers. All information would focus on net (after cost) returns.

4.2.10.21. Such approaches could also be readily adapted as a starting point for PEPPs.

4.2.10.22. There are some specific features of PEPPs that would likely require specific handling, compared to PRIIPs. This is notably because for PEPPs the consumer needs to assess, when making a decision on a PEPP, the amount of periodic investment to which they will need to commit (including possible future increases in payments in line with increasing wages over a career and wage inflation) to stand a reasonable chance of reaching their retirement targets. The targets could be the accumulation of a specific lump sum, or a particular income in retirement (where the impact of inflation also needs to be considered).

- **Costs**

4.2.10.23. Costs are important for comparing between different PEPPs and PEPP providers. The level of costs will have an important impact on returns for these PEPPs, and it is important to assess whether costs incurred are justified in terms of the likely performance that can be expected, compared to other PEPPs. Consumers can face significant challenges understanding how costs apply to them, and aggregating different costs to see the true overall picture. Simplicity in cost presentation is therefore a key disclosure requirement.

4.2.10.24. The PRIIPs KID mandatorily include a summary indicator of the costs of the PRIIP, including implicit and explicit costs. These must be expressed in monetary and percentage terms, along with their impact in an aggregate manner on what the investor can expect to receive. The monetary disclosures and the presentation of aggregate costs through 'overall' figures in the KID are designed to address the challenges consumers face when trying to understand the impact of costs and to provide a simple overview of the costs once they have been combined.

4.2.10.25. The PRIIPs KID also covers the calculation of cost figures and includes certain costs that have hitherto been excluded, such as costs for portfolio transactions. Inclusion of such information will be as important for PEPP holders as for investors in PRIIPs.

4.2.10.26. The cost information as developed for the PRIIPs KID could be used as a basis in PEPP pre-contractual disclosures. PEPPs appear to have similar cost structures compared to many PRIIPs. A large part of the costs will likely be those costs relating to the management of the underlying investments, which may be PRIIPs.

4.2.10.27. For some PEPP providers there may be specific costs uncommon to other products, so some specific additional items might need to be added to the cost disclosures.

At the pre-contractual stage, the prospective PEPP holder needs to receive information about the features of the product, including material areas of risk associated with the product, costs and charges, and projections of benefits that can be reasonably expected. EIOPA believes that the work carried out in the context of PRIIPs can be used for this pre-contractual information and can be further tailored to the specificities of the PEPP. Apart from identifying key information this will allow the individual to compare between different PEPPs and other products on a uniform basis before making a decision.

With regard to pre-contractual disclosure, EIOPA and the other ESAs have already done extensive work on the form and content of information that investors in PRIIPs should receive. This research and the conclusions drawn from it are key to appropriately tailoring the disclosure requirements for the PEPP. Therefore, although the elements of disclosure for PEPPs might differ in some respects from those for PRIIPs, **EIOPA believes that PRIIPs disclosure elements, unless specifically unsuitable for the PEPP, should be used for PEPP disclosure as well**. However, how these elements are implemented should be based on PEPP specificities and standardization, where relevant.

With regard to projections, careful consideration should be given to providing information on the effects of inflation over long periods of time.

Questions to stakeholders:

Q14: What do stakeholders think of the proposition that the starting point for disclosure during the pre-contractual phase should be the PRIIPs disclosure elements? Please explain any aspects of these which you believe would be specifically unsuitable for PEPPs?

- **Accumulation stage**

4.2.10.28. The primary objectives of providing information during the accumulation phase are to inform the PEPP holder of the current status of one's PEPP investment effort/realised returns, projected income in retirement (expressed in terms of purchasing power at the time, i.e. inflation adjusted), costs and charges incurred during the reporting period, an update of projected performance in the future, and whether product features have changed.

4.2.10.29. The information provided in this phase, where possible, should be personalised and should enable the individual to assess whether the PEPP is progressing at an acceptable rate to meet retirement needs or whether it would be appropriate to take remedial action (e.g. by increasing one's contribution to retirement savings). Information disclosure should always be fair, clear and not misleading.

4.2.10.30. EIOPA believes that the following information should be provided during the accumulation stage:

- **Basic information elements**

4.2.10.31. The information elements mentioned in the pre-contractual stage section of this paper are mostly also necessary in the accumulation phase. Consequently, the information provided during the accumulation stage should be personalised to the maximum extent possible, providing additional information on costs and charges and returns is, however, considered necessary.

- **Information on costs and charges**

4.2.10.32. As costs and charges have a direct and potentially detrimental effect on the accumulated fund in the PEPP, information on costs and charges should be provided at regular intervals during the accumulation stage. In particular, PEPP holders should be informed about any changes in the fee structure. Where appropriate, information on costs and charges should also contain personalised elements (i.e. the total cost incurred since buying the product, or the annual cost actually incurred in monetary terms).

- **Information on average net returns (ANR)**

4.2.10.33. Providing information on costs and charges of PEPPs is important. However, as there is no direct correlation between fees charged and realised investment returns[15], it is not sufficient to provide costs and charges information as the means of assessing how the pension product is performing.

4.2.10.34. EIOPA believes additional information must be provided to PEPP holders in order to enable them to assess if a PEPP is generating the desired returns to meet their needs for income in retirement.

4.2.10.35. To this end a measure of **the average return** on the pension savings, after all costs and charges have been deducted, should be provided and should cover the performance of the investment since inception. In general terms this measurement reflects the performance of the

[15] The cheapest PPP does not necessarily generate the best investment returns.

individual pension pot compared to contributions made. A distinct benefit of such an approach is that it overcomes some of the difficulties with identifying, disclosing, and from the individual's perspective, understanding the costs associated with the PEPP. Different ways to calculate such a measurement exist.

- <u>Method of calculation</u>

4.2.10.36. The two main elements of the ANR formula are the value of the pension pot at moment X and the **gross contributions** paid by the PEPP holder up until moment X. Where the first formula element is a presentation of fact and therefore not difficult to calculate (and less prone to manipulation), determining which components should be included into the latter element of the formula will require more attention.

4.2.10.37. The lower the contribution element of the ANR formula, the higher the ANR that can be presented to PEPP holders will be. EIOPA therefore believes that, in principle, the contributions element of the formula should be composed of the gross contributions paid by the PEPP holder. The only component EIOPA believes could be excluded from the contribution part of ANR formula are costs of biometric risk covers (costs for mortality cover, disability cover[16]).

4.2.10.38. Distribution costs (e.g. costs for intermediary advice) that are deducted either from PEPP contributions or the accumulated capital in the PEPP should not be excluded, however, from the ANR calculation.

> During the accumulation stage the PEPP holder needs to receive key information on a **personalised** basis such as the contributions to date and average net return generated to date, the current value of one's pension pot, a projection of the value at the expected retirement age, and information on all costs and charges.
>
> This information should allow the PEPP holder to assess whether the pension pot is growing according to expectations or if additional financial planning action is required.
>
> With regard to projections, careful consideration should be given to providing information on the effects of inflation over long periods of time.

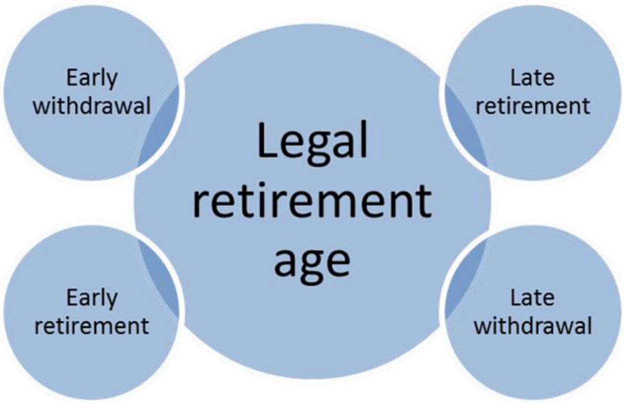
[16] Expenses for periodical purchase of deferred annuities during the accumulation phase would obviously also be excluded from the calculation of ANR. These expenses refer to the situation where, in the years before retirement, parts of the accumulated retirement savings are periodically used to buy a deferred annuity. The aim of this product feature is to mitigate the interest rate risk that would occur if all of the retirement savings had to be transposed into an annuity in a single transaction (close to retirement)

- **Pre-retirement stage**

4.2.10.39. Information disclosure requirements in the pre-retirement phase will differ substantially from the disclosures on the pre-contract and accumulation stages. At this stage the PEPP holder no longer needs to focus on the performance of the pot but on how to maximise future pension income making use of the accumulated assets. Projections of future capital growth have less relevance as the de-risking programme should be well advanced. At this stage the PEPP holder should focus on two separate key questions:

- when to start decumulation; and
- which decumulation options to choose.

- **When to start decumulation**



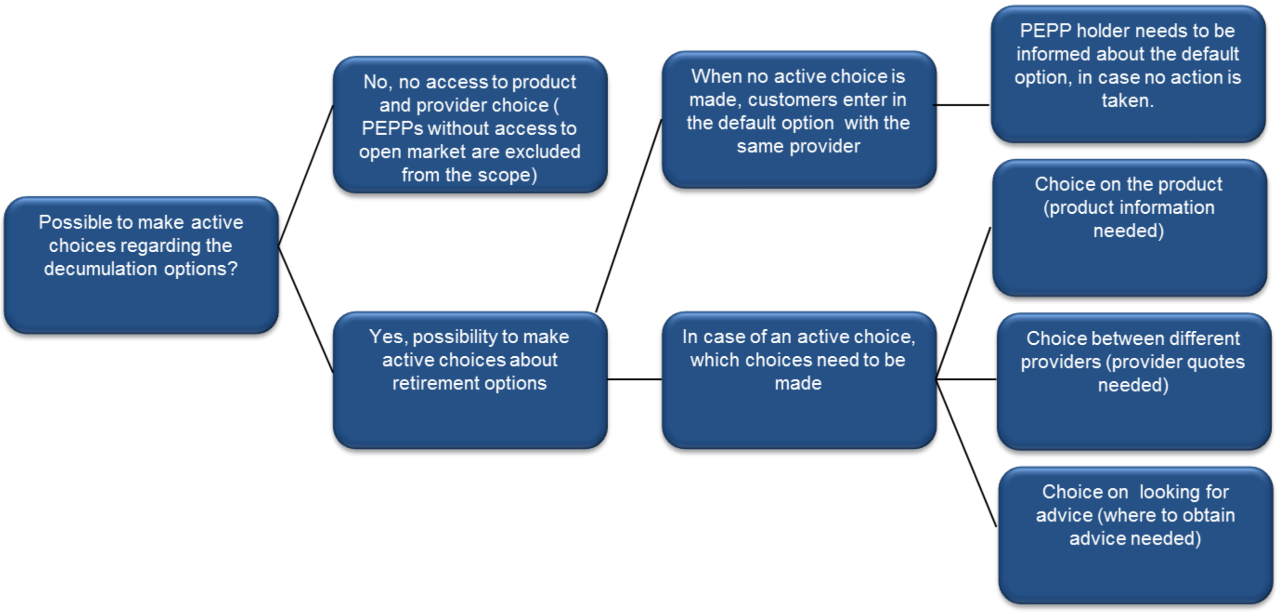
4.2.10.40. The default decumulation start date should be the legal retirement age[17] of the PEPP holder's country of tax residence unless the PEPP holder wants to start decumulation at another point in time. In such a case care should be taken that the PEPP holder is aware of the consequences of such an action e.g. adverse tax treatment. This could take the form of a general warning in standard documentation or perhaps a more specific warning where more sophisticated on-line personalised information disclosure is in place via an internet solution.

4.2.10.41. However, in line with the regulation in the country of tax residence, PEPP holders should have the possibility to withdraw the money before or after the actual retirement while PEPP holders also have the possibility of early or late retirement.

- **Which decumulation option to choose**

4.2.10.42. In order to design the information needs to decide on the decumulation options, it is essential to first clarify what PEPP holders need to know and which choices they need to make when approaching retirement. The diagram below shows the basic structure of the choices a PEPP holder needs to make when approaching retirement.

[17] The 'normal' start of decumulation as defined in national legislation for PPPs or, by lack thereof, the legal retirement age in the 1st pillar



4.2.10.43. Based on this diagram, the following information should be provided to PEPP holders. The information should help the PEPP holder to decide on key considerations as they approach retirement;

- The pay-out options available according to the legislation;
- Information on how an individual can obtain and compare quotations for relevant payout options from providers;
- Any actions the PEPP holder must take and the deadlines for such actions;
- Any default options that may be applied if no action is taken; and
- Links to further guidance and independent financial advice, if available, and indicative costs.

4.2.10.44. Information on the pay-out options should be formulated in a concise way and enable PEPP holders to choose the most appropriate decumulation option. Therefore, it should focus on the benefits for the individual rather than on the features of the financial product (these could be included in a further layer). This information should also include monetary values (net of tax) of the most relevant pay-out options in the market of residence of the PEPP holder. These values should build on the information provided in the ongoing phase. In addition, it should be clearly indicated that monetary values of any other available pay-out options can be provided on request. Finally, the pre-retirement information sheet should avoid the use of financial jargon, avoiding the common pitfalls of being overly complex and lengthy, difficult to understand, and failing to engage the customer's attention.

Information provided during the pre-retirement stage should be personalised and aimed at preparing the PEPP holder for the choices one needs to make with regard to the use of the final pension pot at the age of retirement.

The PEPP holder should be informed about the different decumulation options available at retirement.

4.2.11. Conduct of Business requirements

4.2.11.1. For a PEPP to be easily recognisable and trusted by PEPP holders it will also be very important to have consistent conduct of business requirements across all providers to reinforce the trustworthiness of the products. The level of consumer protection will need to be calibrated to the risks that are associated with the different investment options within the PEPP. Where the level of consumer protection is strong within the product itself there can be a reduced requirement for the conduct of business aspects. Conversely, where the protection built into the product itself are not as strong, e.g. in the absence of de-risking in the investment architecture, there will be greater need to have enhanced conduct of business requirements. All in all, the aggregate protection afforded by the combination of product and conduct of business requirements needs to be at a high level to provide the necessary confidence among potential PEPP savers and to meet the expectations in that regard for a 2nd regime scenario.

- **An overriding duty of care**

4.2.11.2. A requirement to act in the best interests of the customer is common across several EU Directives, although it takes somewhat different forms. For instance, MiFID II has amended the IMD to require intermediaries and insurance undertakings to act honestly, fairly and professionally in the best interests of the customer when selling insurance-based investment products. Given the different emphases across different existing directives it would be important to have one specific requirement of this nature applying to providers of PEPPs. In addition, a general requirement to ensure that all information, including marketing communications, is fair, clear, and not misleading would be an important reinforcement of this concept.

An overriding "duty of care" to act honestly, fairly and professionally in the best interests of the consumer, in common with other directives and best practice in national legislation, **should be a key conduct of business requirement to be diligently undertaken by PEPP providers and distributors.**

In addition, a general requirement to ensure that all information, including marketing communications, is fair, clear, and not misleading would be an important reinforcement of this concept.

- **Ensuring the PEPP can be sold widely, including on the internet**

4.2.11.3. EIOPA expects that an increasing number of consumers will use automated or online resources when managing their finances, for example, to monitor and manage their money; to obtain financial information or education; to compare the costs, features and benefits of different products and/or different providers; to seek recommendations or advice; and/or to purchase products/services.

4.2.11.4. EIOPA believes that the internet could be a very significant if not the main channel for distribution of PEPPs and that online distribution could help to alleviate the information asymmetry between PEPP providers and PEPP holders. Consumers may derive benefits from online distribution, especially when disclosure requirements and product comparability are appropriately dealt with in all pension schemes throughout the EU, including PEPP's. That said, the digital PEPP market of the future may create specific consumer detriment or increase, due to the nature of the Internet, the scale of difficulties that exist already in offline distribution.

4.2.11.5. Existing EU legislation and transposed national legislation address high-level concerns relating to sales via the internet. Directive 2002/65/EC concerning the distance marketing of consumer financial services lays down fundamental rights for consumers. Where means of distance communications are used, the consumer should be able to make a well-informed choice. The Directive therefore lays down the requirements needed to ensure that an appropriate level of information is provided to the consumer both before and after conclusion of the contract.

4.2.11.6. It should be noted that online distribution can generate benefits with regard to information to be provided for the different pension stages. PEPP providers could use digital channels for pre-contractual information as well as for ongoing reporting obligations. Furthermore, PEPP holders could engage via various digital channels, if these channels are provided by PEPP providers.

4.2.11.7. For PEPP providers, there are many advantages of automation including that it can reduce costs. Automation can also improve consistency and accuracy in completing tasks because the element of human error is removed and thus reduce costs incurred from errors. Automating the process could therefore ultimately decrease the costs for the consumer. The decrease in costs could also increase the accessibility to the service. Finally, automated financial tools aimed at advising consumers could remove behavioural biases and limit poor judgement.

4.2.11.8. It is important for the potential and existing PEPP saver that the PEPP provider, or intermediary where relevant, that is selling the product has appropriate knowledge and ability to provide individuals with a PEPP to meet their needs.

The 2nd regime should be sufficiently robust at the level of the product and provider, so as to allow widespread distribution, including through low-cost channels (suited also to cross-border sales) such as the internet. **Such sales should not need to require personalised human interaction and advice, especially in the case of default options.**

However, for investment options that do not incorporate a life-cycle strategy with de-risking or a guarantee the scope for safe internet sales will need to be carefully considered. There will need to be additional warnings and at a minimum prospective PEPP savers should be made aware of the need to consider seeking independent financial advice.

In a 2nd regime, **EIOPA believes that where advice is requested and provided this advice should be well regulated, as currently under existing EU law. The advisor should, for instance, determine the demands and needs of the individual.** The highly standardised nature of the proposed product should not obviate such requirements in the context of advice, though such requirements should not be required where advice is not being provided. The distributor should be required to obtain adequate information from the customer to ensure that their need to provide for income in retirement is being adequately met. To achieve this, a financial profile of the customer and their attitude to risk and capacity for risk would be required. In the context of all advised sales, including those via the internet, it will be important to indicate the scope of the advice and the range of PEPPs that the person providing advice is assessing. The person providing advice could be the product provider,an intermediary or an independent financial advisor.

Questions to stakeholders:

Q.15: What do stakeholders think of facilitating sales of PEPPs via the internet? What should be the consumer protection requirements for internet sales?

Q16: Where advice is not given what are stakeholders views on requiring the distributor to apply an appropriateness test to the sale of a PEPP?

- **Ensuring professionalism in the sale of PEPPs**

4.2.11.9. In a 2nd regime where a standardised product is the anticipated solution, the professional requirements that will apply to PEPP providers and intermediaries should focus primarily on the design phase of the product. Nevertheless, some straightforward requirements should also apply at the sale stage to ensure that the purchaser is making a purchase in normal circumstances. For an internet sale, it should be possible to build in some checks to ensure that the potential purchaser is not making a basic mistake. For sales involving human intervention the seller, whether an employee of the provider or an intermediary, should receive appropriate training about the product, its characteristics and target market etc. to ensure that it is only sold to potential customers for whom the product is suitable.

4.2.11.10. For sales of PEPPs that do not have a life-cycling strategy with de-risking or a guarantee, a significantly heightened risk emerges whereby the consumer can face serious loss. For situations where de-risking is not included in the investment strategy it will be necessary to ensure that adequate protections are in place for the prospective PEPP holder. It will be important that persons involved in the sales process, whether the design of internet platforms or face to face sales, have an appropriate level of knowledge and ability such that the process is capable of leading to a good outcome for the consumer. Given the complexity of a PEPP without de-risking (or a guarantee) a suitable financial qualification along with relevant experience could be anticipated; training would not be considered adequate in these circumstances.

EIOPA believes that appropriate knowledge and ability requirements should apply at the point of sale to ensure that the customer is making a purchase that will be to his benefit in line with his retirement needs.

- **Effective management of conflicts of interest**

4.2.11.11. EIOPA is mindful of the range of providers and distributors that can be involved in a PEPP environment and believes that in recognition of this diverse situation the conflict of interest policy should be appropriate to the nature, scale and complexity of the product or service provided by the regulated entity.

4.2.11.12. There are different types of conflict of interests requirements across directives, often quite detailed and targeted for the specific markets addressed by individual directives. In general these requirements are divided between a requirement to have a policy and systems in place to identify and mitigate conflicts of interest on the one hand, and more targeted requirements in the area of remuneration of intermediaries and staff on the other hand. For the PEPP it will be important to have conflict of interest requirements particularly in relation to the policy and systems aspects.

4.2.11.13. A PEPP, which ought to be highly standardised, could be expected to be competitive on costs and charges This should drive down costs and charges and in turn feed through to lean remuneration schemes for direct sales staff and intermediaries. Nevertheless, remuneration schemes are an area for focus among regulators when considering potential cases of mis-selling. Accordingly, EIOPA believes that it would be prudent to include a requirement to ensure that providers do not create greater incentives for sales staff and intermediaries to sell one PEPP option over another in conflict with the requirement to act in the PEPP holder's best interest.

For PEPPs, it will be important to have requirements to ensure that providers and distributors have **adequate policies in place to identify and manage any conflicts of interest, which are harmful to the best interests of customers**. EIOPA is mindful of the range of providers and distributors that can be involved in a PEPP environment and believes that, in recognition of this diverse situation, the conflict of interest policy should be appropriate to the nature, scale and complexity of the product or service provided by the regulated entity. Mis-selling linked to remuneration policies of the sales force should be avoided, in particular for products such as PEPPs that aim to be sold across Europe to large portions of the public.

- **Establishing effective redress mechanisms**

4.2.11.14. A cornerstone of any consumer protection arsenal is to ensure that providers have adequate and appropriate complaints handling arrangements in place.

In a 2nd regime context, EIOPA believes that it would be sufficient to ensure that a requirement to have proper internal procedures to handle complaints, including appropriate remedial action where required, is contained in the legal instrument. Separately, there will be a need for firms to be pro-active in their efforts to minimise complaints and in this context the product oversight and governance requirements to review the product at intervals will be a valuable tool. PEPPs should be covered also by national ADR schemes such as an ombudsman service.

Questions to stakeholders

Q17: What are stakeholders' views on the level of standardisation of the PEPP proposed in section 4.1 and 4.2 of this paper? Is the level of standardisation sufficient bearing in mind the objective to achieve critical mass, cost-effectiveness and the delivery of value for money?

4.3. Flexible features of the PEPP

4.3.1. Making best use of a 2nd regime and of introducing the PEPP, policy makers could reasonably pinpoint those clusters of national rules of general good which, if synchronised, would allow for the PEPP to be a standardised product that could be sold across Europe.

4.3.2. In addition some PEPP providers and holders might find it attractive if specific product features could be added to the PEPP, e.g. adding biometric risk covers to the PEPP. These flexible features are complementary to the basic features of the PEPP described in sections 4.1 and 4.2 of this paper.

4.3.3. At this moment in time, EIOPA believes it is not necessary to synchronise all identified clusters of national rules of general good. Refraining from doing so would not be an insurmountable obstacle with regard to creating a standardised PEPP and, more importantly perhaps, would allow PEPP providers across Europe to customise their PEPP according to the needs or requirements in countries other than their own.

4.3.4. EIOPA believes that product features which are attractive to some PEPP providers and holders should not be 'forced upon' parties who do not find them attractive. Additionally, if biometric risk covers were to be a mandatory element of the PEPP this would effectively mean that some PEPP providers would be put at a competitive advantage compared to others, because biometric risk covers are currently only offered by insurance undertakings or IORPs.

EIOPA therefore recommends that the following features are included as flexible elements of the PEPP.

Flexible PEPP features

- ***Developing investment options where costs and charges are capped***

This would allow PEPP providers to create PEPPs suitable for sales in countries where costs and charges are legally capped.

- ***Adding a biometric risk cover to the PEPP***

Providers and consumers alike may want to add biometric risk covers to the PEPP. Biometric risk covers can only be offered by insurance undertakings and IORPs.

As with the minimum return guarantees, EIOPA believes these risk covers should be supported by robust solvency requirements.

- ***Retirement date***

This feature would enable PEPP holders to choose the retirement age, perhaps with the motivation to qualify for beneficial tax treatment in the country of tax residence.

- ***Forms of decumulation***

The PEPP focusses on the accumulation phase. If the PEPP provider offers this flexible feature, the PEPP holder would be able to choose the form of decumulation required to qualify for beneficial tax treatment in the country of tax residence. Furthermore, providers could facilitate flexible transition to decumulation over several instalments to mitigate the risk of buying an annuity in one transaction at an inopportune time.

Question to stakeholders:

Q18: With regard to offering biometric risk covers should providers offering a PEPP with biometric risk cover be subject to identical or equivalent solvency requirements? Please motivate your answer.

Q19: What do stakeholders think of requiring a cap on the level of costs and charges of PEPPs, or a cap on individual components of costs and charges?

Q20 : Do stakeholder's believe that other flexible elements could be offered by PEPP providers?

5. Creating the Internal Market for PEPPs

5.1. With regard to PEPP providers

5.1.1. Once a provider has been authorised by the Home State Authority to offer PEPPs and the latter has established that the PEPP meets the 2nd regime requirements, the provider will be free to offer the product in other countries provided the Host State Authority is notified in advance of this intention.

5.1.2. EIOPA believes that the administrative burden for PEPP providers could be reduced substantially if the authorisation process providing them with a passport to market PEPP products and services is consistently applied in the EEA.

5.1.3. EIOPA also sees opportunities to streamline the product notification process so that it does not take too long, is not too costly nor subject to too much supervisory intervention. This could be achieved, for example, by creating a centralised EU register where PEPPs have to be registered before the product can be marketed in another Member State.

5.1.4. EIOPA believes the internal market for PEPPs would be substantially enhanced if a product passport is granted having followed the simplified process described above.

In order to remove existing barriers to free cross-border marketing of PEPPs, **EIOPA recommends the introduction of a "product passport".**

Question to stakeholders:

Q21: Do stakeholders agree with the concept of a "product passport" comprising notification/registration of PEPPs? If not what alternative would they suggest?

5.2. With regard to (prospective) PEPP holders

5.2.1. In order for consumers and PEPP holders to reap the full benefits of an internal market for PEPPs, EIOPA believes they should be able to buy PEPPs from providers located in another country and to be able to continue saving in their original PEPP if they move cross-border.

5.2.2. The flexible features referred to in section 4.3 that characterise PEPPs should in most cases allow for these goals to be achieved. Providers will need to make good use of these elements of flexibility and develop PEPPs that possess the characteristics needed to comply with the national rules of general good which differ from country to country.

In order for consumers to be able to benefit from the internal market for PEPPs, providers will need to make good use of the elements of flexibility built-in the PEPPs and develop PEPPs that possess the characteristics needed to comply with national rules of general good of more than one country.

6. Ensuring effective supervision of providers of the PEPP

6.1. A coherent, effective approach to supervision is clearly an important requirement in the context of a product conceived with a pan-European dimension at its core. This is particularly so due to the likelihood that potential providers and distributors will largely have an existing sectoral authorisation already in place but also due to the additional cross-border activity that can be anticipated with the PEPP.

6.2. Apart from the consideration of the authorisation process there is also a need for clarity in relation to ongoing supervision, for providers, distributors and consumers alike.

6.3. These requirements necessitate clear delineation of the supervisory competences between home and host supervisors in relation to the above processes. This approach will also provide a clear basis for streamlined co-operation between relevant competent authorities. Equally this requirement will be an important measure to ensure that gaps in supervision are avoided.

EIOPA believes there should be common basic rules for the authorisation and supervision of PEPP providers to ensure the integrity of the market and adequate protection of consumers. In order to facilitate this process, there is a need for Member States to designate the authorities that are competent to supervise the providers of PEPPs and to grant all the powers necessary to those authorities to carry out their tasks.

EIOPA is of the view that there would need to be close co-operation between the relevant national competent authorities to carry out their tasks and to facilitate this co-operation, they would need to communicate to each other all information required.

7. Annex 1

7.1. Quantitative data

	Total assets per industry (in mio. EUR) as per 31/12/2013 unless otherwise indicated					Total assets per EIOPA member (in mio. EUR)
EIOPA member	LAD	NEL	IORP	UCITS	CRD	Total PPP per country (EUR)
BE	140,900	14,334				155,234
BG		346				346
1st pillar bis	3,138					3,138
CZ	5,259	10,830				16,089
1st pillar bis	59					59
DE[18]	451,300				n/a	451,300
DK	164,108					164,108
EE	181	105				286
1st pillar bis	1,771					1,771
ES	12,413	58,384				70,797
FR	38,350					38,350
HR		289				289
1st pillar bis	7,617					7,617
HU	781	3	4			788
1st pillar bis	650					650
IE	3,990					3,990
IS		2,682				2,682
IT	13,014		9,529			22,543
LI[19]	25,234					25,234
LT				38		38
1st pillar bis	1,577					1,577
LU[20]	517					517
LV			240			240
1st pillar bis	1,686					1,686
MT		1,100				1,100
NL[21]	326,480	10,573				337,053
NO	1,970					1,970
PL				1,059		1,059

[18] DE provided data on technical provisions on a best effort basis, not assets
[19] Assets as per 31/12/2011
[20] Assets as per 31/12/2011
[21] NL provided data on technical provisions, not assets

1st pillar bis	35,047					35,047
PT	12,154	1,691				13,845
RO			182			182
1st pillar bis	3,110					3,110
SE	37,761				11,038	48,799
SI			1,732		56	1,788
SK			1,351			1,351
1st pillar bis	5,738					5,738
UK[22]	236,783					236,783
Group personal pensions[23]	129,000					129,000
Totals	**1,600,195**	**100,337**	**13,038**	**1,097**	**11,094**	**1,786,153**
Totals, 1st pillar bis + UK GPP excluded						**1,596,761**

[22] Assets as per 2010
[23] Assets as per 2012

8. Annex 2

8.1. Behavioural economics studies

Do people's cognitive and behavioural biases matter to the design of an PEPP?

EIOPA has been exploring what and how pension members' cognitive biases may matter in the context of occupational DC pensions[24]. Introducing Max, the average pension scheme member, EIOPA has progressively been building a more detailed pen portrait of how he lacks financial capability, time, motivation and self-control with regards to retirement planning decisions. To deal with complexity and uncertainty, Max will take the path of least resistance, exhibit inertia and avoid decision-making even if it is in his best interest e.g. start saving in a pension. In the presence of defaults, Max will procrastinate through a passive choice by staying in the default. If pressed to make a choice involving complex information or uncertainty, Max will use mental shortcuts and simple rules of thumb and therefore make systematic errors leading to sub-optimal, if not, detrimental retirement outcomes. Behavioural economists refer to the concept of "bounded rationality"[25] to describe these cognitive and behavioural biases. Given that personal pensions are DC products, albeit voluntary part of the third pillar, many of these biases are relevant to developing an Internal Market for PPPs.

Furthermore, low satisfaction[26] in financial products, strong consumer inertia[27], limited cross-border purchases[28] associated with low consumer appetite[29] and attitudinal barriers[30] clearly indicate that a better understanding of consumer attitudes and behaviours matters to improving the Internal Market for Financial Products and developing a truly internal market for personal pensions in future.

There are broadly 6 key questions which can help explain why people may not be able to make rational decisions in the context of pensions:

- How would people build their own investment portfolio?
- How do people make and react to investment choices presented to them?
- Would they feel different about building their own investment portfolio if a different "benchmark" portfolio was available to them?
- Do people prefer the status-quo position because it is good, or because it is where they are at? Does their preference for the status quo fade away over time?
- Do people treat gains and losses equally? How do they react to changes in their PPP assets position particularly in periods of market volatility?

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[24] EIOPA (2013) "Report on Good Practices related to the provision of information for Defined Contribution schemes"; EIOPA (2015) " Report on investment options for occupational DC scheme members".

[25] Kahneman (2002) "Maps of Bounded Rationality: A Perspective on Intuitive Judgement and Choice", Nobel Prize Lecture, 8 Dec 2002, available at: www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/kahnemann-lecture.pdf.

[26] The Single Market for 'investments, pensions, securities' has the lowest overall satisfaction score, standing in the last place for the third year in a row in the Market Performance Indicator dashboard for services markets (source: European Commission Consumer Markets Scoreboard, 8th edition, December 2012).

[27] 56% of EU citizens who have financial products stating they had not purchased any within the last five years (source: European Commission special Eurobarometer on Retail Financial Services, March 2012).

[28] 94% have never purchased any financial products in other Member States (source: European Commission special Eurobarometer on Retail Financial Services, March 2012).

[29] 8 in 10 people would not consider buying a financial product in another EU country in future (source: European Commission special Eurobarometer on Retail Financial Services, March 2012).

[30] "Having already access to everything they need in their own country" (32% of respondents) and "Preference to buy financial products from their own country" (23%) were the top two named reasons for not considering cross-border purchases in future (Source: European Commission special Eurobarometer on Retail Financial Services, March 2012).

- How do people process information to make choices/ take retirement planning decisions?

How would people build their own investment portfolio?

When dealing with complexity, risk and/or incomplete information, people will take the path of least resistance, display inertia and use simple rules of thumb or mental shortcuts, also called "heuristics"[31], to inform their decision-making. In the context of pension and investment decisions, they will often rely on readily available information and attempt to impose some order or structure, using reference points or "anchors" which tend to be arbitrary and strongly influenced by starting values, e.g. rely on past fund performance. They will also fail to take into account expected returns as well as risk. If prompted to build their own portfolio, individuals will exhibit "naïve" notions about diversification[32]. They will, for example, follow the "1/n strategy", thereby dividing their contributions evenly across the funds offered in the plan, with no actual assessment of the impact that the strategy has on the risk and return characteristics of their overall portfolio. These behavioural barriers and cognitive biases lead people to making mistakes and ultimately achieving sub-optimal retirement outcomes. To address these issues, Thaler & Sustein[33] suggests the need for a "choice architect", a person or collective, who accounts for people's cognitive and behavioural traits to frame the options in order to support their choices, without over-influencing them toward a specific option.

How do people make and react to investment choices presented to them?

Too often, consumers seeking to purchase a PPP are exposed to overly complex information and extensive choice which also focus on the technical specifications to design an investment strategy[34]. Overwhelmed by choice and information overload, consumers will unsurprisingly defer their purchase or altogether shun the personal pension product. Because people lack firm preferences and thus make "on-the-spot" investment decisions, Mitchell & Utkus[35] outlined the importance of menu design when presenting investment choices. They show that people's investment choices can be swayed by framing effects. For instance, a common framing effect is to "avoid extremes, choose the middle" heuristic, as individuals make no real effort of arranging the offered options in a well ordered risk-reward preference. Iyengar et al.[36] argue that reducing investment choice is more effective at assisting people's decisions. The study demonstrates that offering a long list of investment options (i.e. 50 or 100 fund choices) is confusing and de-motivating. It concludes that group choices should be no more than 5 to 9 categories. These findings resonate with two of nine principles discussed in a paper for the Rotman International Centre for Pension Management on the design of private pension systems which should provide people with sensible choices and foster simplicity[37]. Using insights from the behavioural literature[38], the

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31 Tversky & Kahneman (1974) "Judgment Under Uncertainty: Heuristics and Biases" Science, 185(4157), pp1124-1131.

32 Benartzi & Thaler (1999) "Naive diversification strategies in Defined Contribution Saving plans"; available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.198.3119&rep=rep1&type=pdf.

33 Thaler & Sunstein (2003) "Libertarian Paternalism", American Economic Review, 93(2), pp 175-179.

34 From a product development perspective, such approach is also counterintuitive relative to other consumer products - manufacturers do not require (and expect) consumers to design a car's engine.

35 Mitchell & Utkus (2003) "Lessons from Behavioral Finance for Retirement Plan Design", PRC Working Paper No. 2003-6.

36 Sethi-Iyengar, Gur Huberman & Wei Jiang (2003) "How Much Choice is Too Much? Contributions to 401(k) Retirement Plans", available at: www.columbia.edu/~ss957/articles/How_Much_Choice_Is_Too_Much.pdf.

37 Van Galen, Kocken,& Lundbergh (2014) "Demystifying Pension Design: Clearer Principles Foster Better Practices", Rotman International Journal of Pension Management, Vol.7, Issue 2, available at: www.rijpm.com/article/demystifying-pension-design-clearer-principles-foster-better-practices.

authors argue that people should be given a standard package, on top of which a limited set of well-considered alternatives are offered, to protect them from making mistakes while allowing them individual freedom.

Would people feel different about building their own investment portfolio if a different "benchmark" portfolio was available to them?

Because people have unstable preferences when it comes to pensions, they are strongly influenced by other people’s behaviour especially in ambiguous situations, in crises, and when others are experts. They will consciously watch and learn from the behaviour of others, so called "social proof" and seek to conform to the behaviour of their environment, known as "social norm" by following the actions (rational or irrational) of others, hence displaying "herd behaviour"[39]. Benartzi & Thaler[40] found evidence of "herd behaviour" in the context of investment decision-making. Even when given a choice between holding their own portfolio, the portfolio of a median member of their pension scheme, or the portfolio of the average scheme member, employees found that portfolios constructed at the statistical average of their co-workers’ behaviour more attractive than the portfolios they themselves constructed. About eight in ten participants showed preferences for the median to their own portfolio, with many finding the average portfolio to be satisfactory. Consequently, if given the choice between building their own investment portfolio and a different "benchmark" portfolio, people will choose the latter option given their tendencies for herding behaviour and search for a reference point such as the social norm.

Do people prefer the status quo position because it is good, or because it is where they are at? Does their preference for the status quo fade away over time?

Evidence on the use of default investments confirms people's inclination for the status quo rather than exercising an active choice. People's inertia harnessed through investment defaults also persists over time[41]. So why do default effects occur? The behavioural literature[42] provides three reasons for people's tendency to stay in the defaults. Staying in the default investment option requires no effort especially when the required actions seem laborious and/or complex (e.g. portfolio rebalancing). People can also perceive the default as "implied endorsement", thereby inferring that the default investment option has been preselected due to its merit. Finally, the default may result from people's reference dependence, by representing a reference point or "anchor" relative to the evaluation of other options[43]. Whilst it is not clear

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[38] Boon & Nijboer (2012) “Pension Contract Design and Free Choice: Theory into Practice”, NETSPAR Panel Paper 27, Tilburg; Thaler & Benartzi (2004) “Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving”, Journal of Political Economy 112 (S1): S164–87.

[39] Mitchell & Utkus (2003) "Lessons from Behavioral Finance for Retirement Plan Design", PRC Working Paper No. 2003-6.

[40] Benartzi & Thaler (2001) "Naive Diversification Strategies in Retirement Saving Plans", American Economic Review, March 91(1), pp79-98.

[41] 99% of the members of UK workplace pension scheme NEST are in the default fund (source: "The future of retirement: a consultation on investing for NEST’s members in a new regulatory landscape", NEST, 2014). In Australia, research evaluating the impact of the "choice of fund" policy four years after the introduction of legislation, indicated that 3% to 6% (per year) of people who made an active fund choice mostly did it as a result of a job change or fund closure. Active choice on an employee’s part was actually as low as 2% to 4% per year. Source: Fear & Pace (2009) "Australia’s ‘Choice of Fund’ Legislation: Success or Failure?", Rotman International Journal of Pension Management, Vol.2, Issue 2.

[42] Johnson & Goldstein (2003) "Do defaults save lives?" Science, 302, 1338–1339; McKenzie, Liersch & Finkelstein (2006) " Recommendations Implicit in Policy Defaults", Psychological Science, Vol.27, 5; Madrian & Shea (2001) "The power of suggestion: Inertia in 401(k) participation and savings behavior", Quarterly Journal of Economics, 116, 1149–1187.

[43] The default option may also become the reference point used to value new or other alternatives as gains or losses in future.

which of these three factors (or a combination of the three) influence the most people's preference for the status quo, it is essential for the choice architect to design a suitable investment default to manage people's expectations[44]. Furthermore, a recent EIOPA report[45] highlighted concerns over member disengagement after their initial choice (passive or active) in the presence of defaults. People continue to procrastinate and are therefore unlikely to monitor the suitability of their default investment option over time potentially giving rise to risks of unsuitable investment defaults over time.

Do people treat gains and losses equally? How do they react to changes in their PPP assets position particularly in periods of market volatility?

Introducing for the first time the concept of loss aversion, Nobel Laureates Kahneman & Tversky[46] showed that people will go out of their way and take large risks to avoid losses relative to making gains. Applied to pensions this means that products should avoid delivering outcomes below people's expectations, thereby avoiding the risk of regret later on and increasing trust and confidence[47]. In addition, people have lower tolerance for risk and loss closer to retirement and continue to exhibit inertia by not monitoring and reviewing their asset structure over time, especially in the presence of default investment[48]. By providing an automatic switching facility from funds with higher volatility over the longer period to ones with less volatility as retirement approaches, life-styling practices would account for loss aversion and inertia biases. Furthermore, Browning & Finke[49] find that the quality of investment decisions in old age may be compromised by cognitive decline. Lower levels of cognitive ability in old age can reduce people's ability to control emotional responses to a loss. Greater sensitivity to loss may increase preferences for safety following a market decline, resulting in allocations away from stocks that are associated with long-term underperformance.

Theoretically, pursuing loss avoidance strategies would also imply that people place a high value on certainty and prefer guarantees, even if these may come at a high cost[50]. However, recent pension research[51] found that although scheme members want certainty when it comes to retirement outcomes, they are not necessarily prepared to pay more for it. Although many members were incredulous when learning DC pensions do not offer a minimum guarantee to return all their contributions back, many stated that instead of paying for a guarantee they would prefer reducing

44 Discussing the design of pension systems, Van Galen et al. recommend that pension systems should avoid delivering outcomes below people's expectations and instead seek to under-promise and over-deliver. Source: Van Galen, Kocken & Lundbergh (2014) "Demystifying Pension Design: Clearer Principles Foster Better Practices", Rotman International Journal of Pension Management, Vol.7, Issue 2.

45 EIOPA (2015) " Report on investment options for occupational DC scheme members".

46 Kahneman & Tversky (1992) "Advances in prospect theory: Cumulative representation of uncertainty", Journal of Risk and Uncertainty 5 (4): 297–323.

47 Van Galen, Kocken & Lundbergh (2014) "Demystifying Pension Design: Clearer Principles Foster Better Practices", Rotman International Journal of Pension Management, Vol.7, Issue 2.

48 This is because individuals tend to value the present more than the future and hence are more likely to put off tasks that have distant rewards, are unpleasant and challenging, or elicit negative emotions. Source: Sirois & Pychyl (2013) "Procrastination and the Priority of Short-Term Mood Regulation: Consequences for Future Self", Social and Personality Psychology Compass, 2, 115–127, available at: http://onlinelibrary.wiley.com/doi/10.1111/spc3.12011/full.

49 Browning & Finke (2015) "Cognitive ability and the stock reallocations of retirees during the great recession", Journal of Consumer Affairs March.

50 This also potentially raises some questions over the degree to which PPP providers would seek to generate returns for PPP holders if too much emphasis is put on guarantees. Guarantees may also be incompatible with free choice of investment and provider. Furthermore, the rationale for guarantees may be less conducive for a voluntary third pillar pension product if there are already strong benefit guarantees embedded in the first and second pillars (insert OECD reference).

51 NEST (2014) " Improving consumer confidence in saving for retirement".

downside risk and therefore accept giving up some potential upside. Describing how the downside of risk is being managed and providing reassurance to members was deemed more effective than trying to boost financial literacy[52],[53], especially since they showed no appetite to become semi-experts. Gaining a better idea of what their pension is likely to deliver at the end appears to be one of the most important questions members want to know, but also one of the hardest for providers to answer. As people tend to raise this question out of concern, the answer they are looking for is one of reassurance, not just explanation. They want reassurance that the people responsible for their pension are doing so responsibly and sympathetically to their concerns - trust[54] cannot be built through words alone and need to be earned through consistent action.

The research suggests that trustworthiness can be demonstrated through communicating:

- Benevolence, by demonstrating shared values
- Integrity, by demonstrating honesty and the intention of doing the right thing
- Ability, by demonstrating expertise and a consistent track record

These findings echo other research[55] which suggests that to enhance credibility and transparency providers should first present the downside of an investment strategy before explaining its benefits. To do so, providers should resort to "Ulysses contract" or "commitment memorandum" as a pre-commitment and disclosure tool which would explain what they would do in the event of market up- and down-sides. Signed and agreed in advance between two individual parties, the "Ulysses contract" would describe the selling and buying of stocks under certain scenarios.

How do people process information to make choices/ take retirement planning decisions?

People are short term oriented (also known as present bias) and lack self-control and willpower. Therefore, engaging people on long-term retirement planning is challenging as people tend to reverse their long-term preferences/rewards[56] for shorter payoffs[57],

[52] De Meza, Irlenbusch & Reyniers (2008) "Financial Capability: A behavioural economics perspective", Financial Services Authority.

[53] It is also worth noting that Choi, Laibson & Madrian showed that even people with an elite business background make elementary mistakes in investment fund selection. Conducted with Wharton MBA and Harvard college students, the study sought to analyse decision-making in mutual fund investing. Participants were presented with four mutual funds that were all substantially similar: tracking the S&P500 index of leading companies. Participants were asked to choose a fund in which to invest $10,000. The study found that the majority of participants failed to look to minimise fees, which was the only differentiator between the funds. More recently, Bodie & Prast also showed that information and education appear, at best, to influence intentions. Source: Choi, Laibson & Madrian (2006) "Why does the law of one price fail? An experiment on index mutual funds", NBER working paper no. 12261; Bodie & Prast (2011) "Rational pensions for irrational people", Netspar discussion paper, 76.

[54] In the field of pensions the objects of trust are numerous (e.g. financial institutions, financial advisers) and not well understood in terms of how individuals allocate their trust between these various objects and how shifts in trust between the various objects might occur. However, trust is necessary to absorb complexity and allow people to feel secure in their actions as knowledge is needed to understand and make pensions decisions, resulting in information asymmetry between consumers and sellers. As a result, individuals tend to depend on experts, thereby creating the need for trust. Source: Department for Work & Pensions (2012) "Trust and confidence in pensions: A literature review", DWP Working Paper no. 108.

[55] Benartzi (2013) " Reining in Lack of Investor Discipline: The Ulysses Strategy", Centre for Behavioural Finance, Behavioural finance in Action part 3, Allianz Global Investors, available at: www.allianzgi.com/en/Market-Insights/Documents/BeFi-Ulysses-Mar2013.pdf.

[56] i.e. Achieving an adequate and sustainable retirement income.

[57] Consuming now and 'living for today'.

hereby making inconsistent choices over time, also known as hyperbolic discounting[58]. More cognitive approaches should therefore be considered and adopted to attract people's attention as people are more likely to respond to stimuli that are novel, simple and accessible. In other words, people are more likely to take some action if their attention is drawn, for instance by focusing on easily recognisable features of a person, concept or product and resonating to their tendency for present bias (e.g. presenting projections in today's money). UK Behavioural Insight Team[59] emphasised on the need for personalisation and presenting the effects of one's behaviour more salient in terms of the associated costs and benefits. A good illustration is people's reaction to using their own names in communications as quick and effortless ways to draw their attention - sending tailored, personalised messages make it easier for recipients to imagine the costs or benefits of a particular action —" what this means for me". Furthermore, this echoes the previous point on building trust and confidence given people's loss aversion - targeting, tailoring and personalising communications conveying negative messages would need to explain "what are you going to do to recoup my losses?" Furthermore, it is worth considering information provisions in relation to people's reference points. Research from Druckman[60] found that people perceive past performance information as helpful in making investment decisions, particularly in informing their perceptions of the uncertainty of return and the downside risk of losing all the money invested. The study also suggests that individuals may therefore be resentful or suspicious if that information is either withheld or is only available at higher cost.

58 Laibson (1997) "Golden Eggs and Hyperbolic Discounting", Quarterly Journal of Economics 112 (2): 443–477; O'Donoghue & Rabin (2000) "The economics of immediate gratification", Journal of Behavioral Decision Making 13 (2): 233–250.

59 Behavioural Insights Team (2014) "EAST: Four Simple Ways to Apply Behavioural Insights"; available at: www.behaviouralinsights.co.uk/sites/default/files/BIT%20Publication%20EAST_FA_WEB.pdf.

60 Druckman (2001) "Using Credible Advice to Overcome Framing Effects", Journal of Law, Economics and Organization, 17, 1, 62-82.

9. Annex 3

9.1. Questions to stakeholders

Q1: Do stakeholders think there is a need for a stand-alone authorisation requirement or would existing Union law sufficiently cover all potential PEPP providers, including those who would issue PEPPs but who are not already authorised by another existing authorisation regime?

Q2: Do stakeholders agree that a highly prescriptive 2nd regime will achieve the policy objectives of ensuring a high minimum standard of consumer protection and encouraging more EU citizens to save for an adequate retirement income?

Q3: Do stakeholders agree that EIOPA has identified the correct challenges associated with introducing a 2nd regime? If so, how might these challenges be overcome? If not, what do stakeholders believe might be other challenges associated with introduction a 2nd regime?

Q4: Do stakeholders believe that an investment option containing a guarantee, e.g. a 0% minimum return guarantee, does not in addition require a life-cycling strategy with de-risking?

Q5: Do stakeholders agree to limit the number of investment options, e.g. to five?

Q6: Do stakeholders agree that the default investment option should either be based on a life-cycle strategy with de-risking or be assisted by a guarantee, e.g. a 0% minimum return guarantee?

Q7: Do stakeholders agree that providers should have a duty of care concerning the suitability of investment options? What should be its extent? Should for example providers prevent switching to high risk investment options close to retirement?

Q8: Alternatively, would it be better for all investment options to contain either a life-cycling strategy with de-risking or a guarantee?

Q9: Could you elaborate on whether PEPP providers, offering a PEPP with minimum return guarantees, should be subject to one identical solvency regime to back these guarantees or whether it would be sufficient that different, but equivalent, solvency rules apply?

Q10: Considering the fact that the PEPP aims to maximise returns outweighing inflation, should retirement savers be allowed to buy a PEPP if the remaining duration of the product is, e.g., only 5 years?

Q11: What is stakeholders' view on the desire of PEPP holders on the one hand to have the comfort of knowing they can switch products or providers compared with the desire on the other hand to maintain the benefits of illiquid, long-term investments?

Q12: Under what conditions do stakeholders think that the concepts of periodically switching providers and illiquid, long-term investment are reconcilable?

Q13: What do stakeholders believe is an appropriate interval for switching without incurring additional charges?

Q14: What do stakeholders think of the proposition that the starting point for disclosure during the pre-contractual phase should be the PRIIPs disclosure elements? Please explain any aspects of these which you believe would be specifically unsuitable for PEPPs?

Q15: What do stakeholders think of facilitating sales of PEPPs via the internet? What should be the consumer protection requirements for internet sales?

Q16: Where advice is not given what are stakeholders views on requiring the distributor to apply an appropriateness test to the sale of a PEPP?

Q17: What are stakeholders' views on the level of standardisation of the PEPP proposed in section 4.1 and 4.2 of this paper? Is the level of standardisation sufficient bearing in mind the objective to achieve critical mass, cost-effectiveness and the delivery of value for money?

Q18: With regard to offering biometric risk covers should providers offering a PEPP with biometric risk cover be subject to identical or equivalent solvency requirements? Please motivate your answer.

Q19: What do stakeholders think of requiring a cap on the level of costs and charges of PEPPs, or a cap on individual components of costs and charges?

Q20: Do stakeholder's believe that other flexible elements could be offered by PEPP providers?

Q21: Do stakeholders agree with the concept of a "product passport" comprising notification/registration of PEPPs? If not what alternative would they suggest?