<table>
<tr><td colspan="2">Comments Template on Consultation Paper on the creation of a standardised Pan-European Personal Pension product</td><td>Deadline
05 October 2015
23:59 CET</td></tr>
<tr><td>Name of Company:</td><td colspan="2">Insurance and Reinsurance Stakeholder Group (IRSG)</td></tr>
<tr><td>Disclosure of comments:</td><td>Please indicate if your comments should be treated as confidential:</td><td>Confidential/Public</td></tr>
<tr><td></td><td colspan="2">Please follow the following instructions for filling in the template:
⇨ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool
⇨ Leave the last column empty.
⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty.
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The numbering refers to the Consultation Paper on the the creation of a standardised Pan-European Personal Pension product (see Annex 3 of consultation paper)</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>General comment</td><td>The IRSG welcomes that the PEPP is a long-term savings product with the aim to provide income in retirement. It is also welcome that the proposed design allows for the recognition of existing national practices.
The IRSG believes that the following key design features should be incorporated into the PEPP:
• Minimum investment periods are fundamental to PEPP product design, as they will enable good returns to be generated over the long-term, in addition to allowing funding for long-term illiquid investments as intented by the creation of a Capital Markets Union.
• We believe the PEPP product should have a 10 to 12 year minimum investment</td><td></td></tr>
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	period with a possibility to surrender/switch at that point or to continue with a minimum investment period of 5 to 10 years. Furthermore early switching or surrender maybe possible, although this will lead to cancellation costs being passed onto consumers, due to the disinvestment in the illiquid assets or the need to recoup costs. The cancellation periods can therefore depend on the investment strategy of the provider. Additionally, minimum investment periods would allow for amortisation of distribution and advice costs over several years.
	• PEPP providers should be free to offer PEPPs with default options based on the following investment strategies:
	  ○ Guarantees
	  ○ Long-term collective investments with a smoothing of returns
	  ○ Life cycling with de-risking
	• The decision about permitted default options should take into account that products with guarantees offer a higher level of protection than life-cycling strategies or balanced funds. In the latter, consumers are exposed to the risk of losing their capital and therefore having a lower retirement income than expected.
	• The IRSG is highly sceptical about equivalence assessments of prudential regimes applicable to different types of financial institutions. The Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage. However, we note that Solvency II will need to be amended to better reflect insurers' ability to manage market volatility in the long-term, so that these products become viable.
	• The PEPP should come with the option for the consumer to ask for additional biometric risk coverage during the accumulation phase, regardless of the type of PEPP provider. It should be noted that in some markets this is a mandatory feature for personal pension products and insurance products.
	• Public pensions are always paid as annuities. Given that pension products aim to provide an income during retirement, the protection against longevity risk	

	should be promoted among these options. • Costs and charges should not be capped at European level. Competition should be allowed between providers. Consumers can be provided with clear and concise information in pre-contractual and on-going information, regarding the number and length of a particular PEPP's minimum investment periods, as well as the associated costs for switching early.	
Question 1	**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?** It is not necessary to have a stand-alone authorisation requirement for financial institutions already authorised under EU regulation, such as Solvency II. For institutions that are not covered by any existing EU law, it is paramount that they are subject to an EU harmonised authorisation procedure. In order to ensure a level playing field between all types of PEPP providers, the same prudential standards should apply to all providers. This is vital in order to avoid regulatory arbitrage, and even more so because PEPPs are granted an EU product passport (further elaborated upon in question 21). The Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage. However, we note that Solvency II will need to be amended to better reflect insurers' ability to manage market volatility in the long-term, so that these products become viable.	
Question 2	**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?** While a prescriptive 2nd regime may theoretically lead to a high standard of consumer protection and ensure confidence in the product, it is important not to define excessively prescriptive rules at EU level, given the close links to areas of national competence (ie the principle of subsidiarity) and the different features of PPPs already	

	being sold across Europe. The IRSG would invite EIOPA to clarify the relationship and interaction between the 2nd regime framework and the national rules of general good, especially with reference to the applicability of these rules in all cases. To equally achieve the policy objectives of ensuring a high level of consumer protection and encouraging EU citizens to sufficiently save for retirement, the IRSG believes the PEPP would need to be adapted to national practices and demand. Specifically, there is a need to adapt product features to national practices and rules of general good, such as the presence of long-term guarantees, profit-sharing mechanisms, risk coverage, pay-out options and surrender options. Furthermore, the IRSG believes that the PEPP initiative is dependent on the fiscal treatment of the product at national level (ie tax incentives). Finally, the IRSG would like to comment on the proposed clusters of national rules of general good. In particular, with regard to cluster 6 (National requirements with regard to decumulation practices): the PEPP should not only include but also promote life-long retirement income (annuities) as an option consumers can choose. Public pensions are always paid as annuities. Therefore, the PEPP initiative should include regulation with regard to decumulation. In countries that have no legal requirements for providers to offer a life-long pay out, providers and consumers may choose other options. It should be reminded that in page 13 (Section 3.4.1) of the European Commission´s Green Paper towards adequate, sustainable and safe European pension systems it was clearly reflected that "*it is not always clear what differentiates general saving from pensions. This raises the question whether the label 'pension' should not be restricted to a product that has certain features such as security and rules restricting access including a* <u>*payout design which incorporates a regular stream of payments in retirement*</u>*.*"	
Question 3	**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? The IRSG welcomes that EIOPA addresses the risk of a regulatory arbitrage among the challenges of introducing a standardised pension product. A level playing field between all types of providers is essential to a functioning internal market. However, a number of other challenges remain to be resolved: • The different national pension tax treatment and legislation would pose a significant challenge to the implementation of the PEPP initiative. • While The IRSG notes that switching between PEPPs and/or PEPP providers is a key feature of EIOPA's proposal, more information should be disclosed on a number of issues, eg a minimum investment period, automaticity of the procedure, responsibility for putting the old and new providers in contact, prevention of surrender when switching, provision of tax authorities with the relevant information, allocation of costs generated by switching, language applicable to the procedure. Decumulation is in many markets an intrinsic aspect of pension products. The IRSG thus believes that the PEPP should consider aspects related to decumulation with the aim to guarantee the best outcome for the consumer. National practices should be duly considered.	
Question 4	**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?** Yes the IRSG agrees. With regard to a 0% minimum return guarantee, the IRSG believes this should not be a mandatory requirement. Rather, providers should be able to offer different types of guarantees.	
Question 5	**Do stakeholders agree to limit the number of investment options, e.g. to five?** No, there should not be a regulatory limit to the number of investments options. The need for simplicity can be dealt with through the default option. Consumers should	

	have the opportunity to choose from more options. Furthermore, a regulatory limit would hamper innovation.	
Question 6	**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?** The IRSG agrees that PEPPs should contain a default investment option. However, PEPP providers should be allowed to determine how this default option is designed, based on one of the following investment strategies: • Guarantees • Long-term collective investments with a smoothing of returns • Life cycling with de-risking	
Question 7	**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?** The IRSG is supportive of the idea that PEPP providers should have a duty of care concerning the suitability of investment options for consumers in relation to the target market, depending on the consumers level of involvement. The IRSG also believes that consumer’s choice should not be restricted. Consumers who wish to take on more risk should be allowed to do so, provided that they have received fair, clear and not misleading information, which allows for a comparison between different investment strategies. In the instance of a life-cycling option, which automatically starts de-risking when a consumer turns 50 years old for instance, the IRSG believes that the consumer should be allowed to choose to take more risk, provided that the he has received information regarding these risks. Furthermore, equity exposure close to retirement date could be relevant when particular decumulation options apply.	
Question 8	**Alternatively, would it be better for all investment options to contain either a**	

life-cycling strategy with de risking or a guarantee?

No, it should be possible to sell a PEPP without risk mitigation. However, we agree that the default option should always include a risk mitigation mechanism. Collective investments with a smoothing of returns is a suitable and potentially superior risk reducing mechanism than life-cycling, and should therefore be considered as a default option. PEPP providers should thus be free to offer PEPPs with default options based on the following:

- Guarantees
- Long-term collective investments with a smoothing of returns
- Life cycling with de-risking

There are advantages and disadvantages to each of these three options:

- Guarantees provide full protection, but at a cost.
- Long-term collective investments provide a smoothing of returns and losses, reducing individual risk exposure and thus delivering average returns/losses. there can be no guarantee offered.
- Life cycling can provide for good returns, but consumers may incur higher losses than with long-term collective investments with smoothing and receive less than the capital they paid-in.

The decision about permitted default options should take into account that products with guarantees offer a higher level of protection than life-cycling strategies or balanced funds. In the latter, consumers are exposed to the risk of losing their capital and therefore having a lower retirement income than expected. Further analysis and back testing should be made by EIOPA in order to assess the behaviour of life-cycling strategies in the past, especially during the last crisis and comparing it to the smoothing of returns.

Investment options based on life-cycling can in principle offer some benefits in terms of returns. However, it should be recognised that in this case, the PEPP would be a pure individual Defined Contribution (DC) product that do not provide any real

	guarantee or minimum return. In fact, in the absence of a guarantee, consumers might even incur losses and receive less than the paid-in capital. This risk should be made clear in the PEPP pre-contractual information. It should be reminded that in page 14 (Section 3.4.1) of the European Commission´s Green Paper towards adequate, sustainable and safe European pension systems it was stated that "*today, nearly 60 million Europeans are enrolled in DC schemes. Such schemes are much more prevalent today than they were a decade ago and will continue to grow in importance. […] But a key implication is that they shift the investment, inflation and longevity risks to scheme members, who are less well placed to bear these risks individually". […] Collective risk sharing through hybrid schemes, such as a DC scheme with a minimum return guarantee or a part-DB and part-DC scheme, could change the current trend to individualised DC schemes.*" In addition, consumers should be provided with a disclosure of the maximum returns and minimum of returns (potentially top 5% and bottom 5%), highlighting how the product would have performed in the past (ie back-testing).	
Question 9	**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?** To ensure a level playing field between all types of PEPP providers, the same prudential standards should apply to all types of providers. This is key to achieve true provider-neutrality and is particularly important as PEPPs are granted an EU product passport. The Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage. However, we note that Solvency II will need to be amended to better reflect insurers' ability to manage market volatility in the long-term, so that these products become viable.	
Question 10	**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?**	

	Retirement savers should in principle be allowed to buy a PEPP when the remaining duration of the product, is for example, 5 years; in the case where shorter maturity surrender rules will apply.	
Question 11	**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?** Minimum investment periods are fundamental to PEPP product design, as they will enable good returns to be generated over the long-term, in addition to allowing funding for long-term illiquid investments as intended by the creation of a Capital Markets Union. Therefore, PEPP providers should be allowed to design products with a minimum investment period of 10- 12 years with a possibility to surrender/switch at that point or to continue with a minimum investment period of 5 to 10 years. Switching between providers should only be allowed after a specific period of time, for instance, at the end of minimum investment period of 10-12 years, for the following reasons: • Early switching will lead to cancellation costs being passed onto consumers, due to the disinvestment in the illiquid assets backing the long-term liabilities. The cancellation periods can therefore depend on the investment strategy of the provider. Consumers can have two options for switching: o Flexible periodic switching and transfer the market value of the assets reduced by cancellation costs incurred, due to the disinvestment of illiquid assets. o Benefit from higher returns generated by long-term illiquid assets by having a longer cancellation period, after which consumers can switch free of charge, according to the surrender rules (still to be agreed). The information on the number and length of a particular PEPP's minimum investment periods should be included in pre-contractual and on-going information. It should be noted that switching between PEPPs and national PPPs is impractical and	

	includes significant barriers, such as switching between potentially different prudential frameworks, consumer protection rules, conduct of business rules, IT systems and tax incentives. Such options should therefore be dropped. Even though switching between PEPPs and/or PEPP providers is intended to be an important element, the following issues remain: • Automaticity of the procedure, eg it would be essential that the new provider is not forced to comply with the contractual rules of a PEPP offered by initial providers • Responsibility for putting the old and new providers in contact • Provision of the relevant information to tax authorities • Language applicable to the procedure In the absence of a suitable framework, the switching feature could lead to adverse impacts for the PEPP provider, where management costs are increased, leading to higher premiums for customers.	
Question 12	**Under what conditions do stakeholders think that the concepts of periodically switching providers and illiquid, long term investment are reconcilable?** The concepts of switching providers and illiquid, long-term investments are reconcilable, as long as switching is allowed at a specific point in time. For instance, at the end of minimum investment period of 10-12 years. Distribution and advice costs will require an amortisation within several years; this should be specified within the surrender rules.	
Question 13	**What do stakeholders believe is an appropriate interval for switching without incurring additional charges?** PEPP providers should be allowed to design products with different lengths of a minimum investment period. Switching between providers might be possible after a sufficiently long period of time, for instance, at the end of minimum investment period of 10-12 years with a possibility to surrender/switch at that point or to continue with a minimum investment	

	period of 5 to 10 years.	
Question 14	**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?** The IRSG supports the aim of PRIIPs regulation to ensure greater transparency. However, it is premature at this stage to analyse whether aspects of the PRIIPs Key Information Document (KID) are unsuitable for PEPPs. Particularly considering that the regulatory technical standards (RTS) regarding the presentation and content of the PRIIPs KID are still in the process of being developed by the European Supervisory Authorities (ESAs). Note that this RTS will be submitted to the Commission in March 2016. Moreover, it is debatable whether the PRIIPs KID for PEPPs is a good basis for the PEPPs pre-countractual information, given that it is specifically designed for investment products. The specific features of pension products should therefore be taken into account (eg decumulation options available, biometric risk coverage, minimum investment periods, PEPP's tax treatment, possible maximum loss pension savers can incur)	
Question 15	**What do stakeholders think of facilitating sales of PEPPs via the internet? What should be the consumer protection requirements for internet sales?** The IRSG supports the option of selling PEPPs via the internet. The IRSG believes that all distribution channels should remain a possibility, allowing for consumer convenience and freedom of choice. Legislation should not prevent or favour one channel over the another. The IRSG believes that consumers should be aware of the risks the products bear, and have the option to access advice. For example, it could be useful for advice to highlight consumers specific retirement income needs. When designing the key features of the PEPP it should be guaranteed that there will be a neutral framework that ensures a level playing field between all types of distributors. Special protection requirements should be established for cross-border internet sales	

	(eg accuracy of translation, cultural differences, possible tax consequences, language for claims, applicable insolvency guarantee scheme, court to appeal to, etc). Moreover, in accordance with national rules, the sale of all insurance products should remain possible without advice. The need to obtain advice will impact consumer choice and prevent their ability to access products if they were not in a position to afford advice. In the case where sales are conducted without advice, the IRSG believes that all relevant information should still be provided to consumers in a clear, concise and easy to understand manner.	
Question 16	**Where advice is not given what are stakeholders views on requiring the distributor to apply an appropriateness test to the sale of a PEPP?** In the case of non-advised sales, the IRSG does not believe that there should be a requirement for distributors to apply an appropriateness test on a mandatory basis. Such a requirement might be unnecessary, given that the PEPP would be a standardised product.	
Question 17	**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?** A high level of standardisation is preferred at least to facilitate the cost factor, however, the IRSG welcomes that the PEPP design accounts for national practices, by respecting national rules of general good (chapter 3.6 of the Consultation Paper). The IRSG would encourage EIOPA to further investigate this aspect of the PEPP framework, given that the national rules of general good is not exhaustive, as stated in paragraph 3.6.7 of the Consultation Paper. Furthermore, EIOPA should consider standardised prudential rules and solvency requirements. Regarding PEPP's conduct of business requirements in chapter 4.2.9 of the Consultation Paper. The IRSG agrees that a consumer-centric focus should be maintained throughout the duration of the PEPP. Product oversight and governance (POG) practices can be useful to ensure that the interests of consumers are respected. The IRSG agrees with EIOPA's belief that the product development process should remain under the control of the provider as far as possible, due to their expertise in	

	this area. It should be noted that rules already exist on POG, conflict of interest or are in the final stage of adoption by the European legislator (ie IDD). These rules will also apply to the development and sale of PEPP. Having a different system of governance for the PEPP would add further complexity and expense, detering potential providers from entering this market.	
Question 18	**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.** The PEPP should come with the option for the consumer to ask for additional biometric risk coverage during the accumulation phase, regardless of the type of PEPP provider. It should be noted that in some markets this is a mandatory feature for personal pension products and insurance products. Longevity risk should be considered for the retirement phase as well. Furthermore, as mentioned in response to question 9, in order to ensure a level playing field between all types of PEPP providers, the Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage. However, we note that Solvency II will need to be amended to better reflect insurers’ ability to manage market volatility in the long-term, so that these products become viable.	
Question 19	**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?** Costs and charges should not be capped at European level. Competition should be allowed between providers. Customers who wish to gain access to their funds before the minimum investment period would have to take on the market risk and other potential costs to be addressed under surrender rules.	
Question 20	**Do stakeholders believe that other flexible elements could be offered by PEPP providers?**	

	PEPP providers should be allowed to design their PEPPs by including other flexible elements, in line with their national practice and demand.	
Question 21	**Do stakeholders agree with the concept of a "product passport" comprising notification/registration of PEPPs? If not what alternative would they suggest?** The concept of an EU product passport, consisting of notification and registration of PEPPs is a step in the right direction towards a Single Market for PEPPs. However, EIOPA does not address the following key issues with this concept: • A duty to notify the host member state authority • Authorisation procedure, either based on the notification or on a subsequent authorisation from the host member state authority • The language applicable to the procedure The product passport is appropriate if there is a level playing field between different types of PEPP providers. This means that the Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage. However, we note that Solvency II will need to be amended to better reflect insurers' ability to manage market volatility in the long-term, so that these products become viable. Moreover, with regard to the EU product passport, EIOPA should refrain from introducing procedures which would require authorisation at product level.	