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

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Main Steps on PPs by COM and EIOPA

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

Current State of PP market(s) in Europe

- National markets are segmented
  - National rules (tax law, SLL) impose specific design of products
  - Very little cross-border activity (except for freedom of establishment)
- Low penetration in most countries
  - 1st pillar bis reforms in CEE reversed in many countries
- Consumer protection issues
  - High costs, information asymmetries, episodes of mis-selling

Main reasons for developing EU market for PPs / introducing a standardised PEPP

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

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

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

Key issues for the introduction of PEPPs

- Legislative vehicle: 2nd regime
  - Allows existing products to stay the same
  - Does not limit product innovation
    - …but: ambition to change the dynamics of market competition
  - PEPPs to be presented as a new, recognisable EU brand (such as UCITs, ELTIFs)
- Ensuring a level playing field for PEPP providers and favouring competition
  - All authorised providers of long-term savings products could establish PEPPs
  - Periodical switching between PEPPs to be allowed at no cost
- Striking a balance between standardisation and flexibility
- Target market to be very large (both domestic and cross-border markets)
- PEPP has to be 'simple' for the consumer: no personalised advice needed (favours business models based on the internet)

Proposed key features of PEPPs

- Overarching qualities: Simple, Transparent, Cost-effective, Trustworthy
- Mandatory features:
  - A default investment option

  (typically life-cycle, with de-risking approaching retirement)
  - A limited number of additional investment options

  (suitability assessment and personalised advice may be needed)
  - Switching to be allowed every x years at no cost for the customer
- Flexible features: (mostly to adapt to national requirements of tax and SLL)
  - Default option may also contain minimum return guarantee
  - Retirement age
  - Pay-out phase and biometric risk cover

Other main aspects of PEPPs (1)

- Providers of PEPPs to be authorised
  - «Equivalence assessment» for providers already authorised and regulated for providing other long-term saving products under EU regulations (Solvency II, UCITs, CRD IV, IORP II)
  - Equivalence assessment also for providers of PPs under national rules
- EU passport issued by home supervisor
  - A streamlined notification system for cross-border sales (internet)
  - Centralised register of PEPPs to be sold cross-border
  - Consumers should be able to continue saving in the same PEPP when moving cross-border (transfer not necessary, but possible)
- Solvency requirements for providing guarantees to be discussed

Other main aspects of PEPPs (2)

- Product Oversight & Governance principles
  - In all phases: design of the PEPP, distribution, monitoring, review
- Disclosure requirements
  - Pre-contractual: not personalised, PRIIPs are the reference, some specific aspects to be considered (long-term investment risk indicators, not volatility)
  - On-going and Pre-retirement phases: personalised
- Conduct of business requirements
  - High level investment principles and overriding duty of care towards consumers during all phases
  - Suitability assessment and personalised advice not required unless requested (internet)

Thank you

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