

**Interview with  
Gabriel Bernardino, Chairman of the  
European Insurance and Occupational Pensions Authority  
for Funds People magazine**

**1. What are the main characteristics of the Pan-European Personal Pension Product (PEPP) and why does it make sense?**

PEPP will be a safe, transparent and cost-effective long-term retirement savings product that will offer pension savers new savings opportunities for future retirement income within a European personal pension framework. It is a powerful tool to **encourage personal pension savings for individuals** and to increase the likelihood of better returns through **long-term investments**. The design of this personal pension product framework, in particular through its standardised elements, can reap economies of scale and help to increase transparency and consumers' understanding. In addition, it will provide a level playing field for providers, encourage competition, increase trust among consumers and cater for the European labour market.

**2. In what way is the PEPP a missing piece in the savings products market? Can it be useful to improve the low savings rates in Portugal?**

PEPP is an opportunity to bridge the pension gap. It is foreseen to become a truly European, safe, transparent and cost-effective long-term retirement savings product that will offer pension savers an entirely new personal pensions framework to invest and by that saving for adequate future retirement income. PEPP will be portable in the European Member States enabling savers to continue contributing to the same PEPP when moving to another country in the European Union. Consumers are expected to particularly benefit from those PEPP characteristics, as it is important to prove to consumers that "it pays off" to save more for one's future retirement income, which is currently a challenge in many Member States of the European Union including in Portugal. For providers, the PEPP framework will offer a single market that will allow pooling of assets and create economies of scale. Its portability across the European Union's Member States will be facilitating cross-border distribution.

**3. What are the advantages in relation to the national products and pension funds?**

As mentioned earlier, the main advantages of the PEPP are the portability of the product, more choice between products, a bigger market for providers and more capital available for long-term investments in the real economy. However, PEPP will not replace existing

national personal pension schemes. It will be a complimentary regime alongside national regimes.

#### **4. How could this European product change business management? Can it impact significantly local management?**

PEPP will be an opportunity to provide high-quality, safe and transparent products tailored to the needs of customers. With this initiative, local providers will have a chance to enter into a bigger market and expand their national distribution with one single product authorisation to the European Union market as a whole.

Due to the European nature, and the conceptually inherent requirements on standardisation and portability, EIOPA, as a European supervisory authority can ensure consistently high standards throughout Europe. EIOPA believes a central authorisation hub and a key contact point for accessing information on PEPPs proposed by the European Commission is crucial for the success of PEPP.

#### **5. What would you say are the main challenges at the moment and in the future for the insurance and pension fund management businesses?**

According to our recent Financial Stability Report published in June, the main challenge is the European macroeconomic environment which remains fragile, with some signs of improvement. Uncertainties stemming from the political environment as well as emerging risks pose challenges for both insurance and pension sectors.

Following the Solvency II implementation, some European insurers increased their capital position. As of December 2016, the large majority of solo insurance companies reported a Solvency Capital Requirement Ratio above 100%, with a median of 210%, confirming that the insurance sector is adequately capitalised. Insurers' profitability levels reveal a relatively stable picture, with a Return on Equity of 9% for the median company. This shows that, within a very difficult macroeconomic scenario with historically low interest rates, the application of Solvency II, a more demanding risk-based solvency regime, was carried out smoothly as a result of timely preparation and appropriate transitional periods. This significant success of the insurance industry contributed positively to the stability of the European financial sector.

In the European occupational pension fund sector, total assets for the euro area increased. The investment allocation remained broadly unchanged, but the average rate of return increased. The average cover ratios for defined benefit schemes slightly increased compared to 2015 and remain a concern for a number of pension funds.

## **6. How is technology going to impact the businesses?**

The change is happening already now. We can see technological developments impacting all stages of the insurance value chain. Insurance products for example can be purchased online, including through smart phones that allow such purchases at any time and from any place. Consumers also may benefit from the design of more personalised products and services adapted to their evolving and specific needs. This is driven by the greater availability of data by insurance companies and capacity for processing it, which also enables the development of more granular risks assessments and efficient underwriting and claims management processes.

However, the availability of such "big data" also triggers data protection issues as well as "ethical" questions, both currently carefully examined by EIOPA with the aim to ensure the fair treatment of consumers. Regulatory and supervisory authorities have to play an important role, by encouraging financial innovations while, at the same time, ensuring a well-functioning consumer protection framework and financial stability. In doing so, EIOPA is guided by key supervisory principles such as proportionality, market integrity and technological neutrality. Initiatives such as regulatory sandboxes, innovation hubs or public-private partnerships show that it is possible to be innovative in the approach to foster financial innovation and at the same time complying with the supervisory principles for the benefit of consumers.