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EIOPA - Occupational Pensions Stakeholder Group

Consumer protection
Information on performances and fees

Scope

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OBJECTIVE

For OPSG to advise EIOPA on its implementation of the 2015 EC's Capital Markets Union Action to improve the transparency on performances and fees of long term and pension savings products.

European Commission's CMU Action Plan, page 18 (September 2015):

« To further promote transparency in retail products, the Commission will ask the European Supervisory Authorities (ESAs) to work on ***the transparency of long term retail and pension products*** *and* ***an analysis of the actual net performance and fees****, as set out in Article 9 of the ESA Regulations. »*

Where we are now

Article 9 of the ESAs Regulations stipulates that the ESAs must **collect, analyse and report on consumer trends**.

Article 9

Tasks related to consumer protection and financial activities

1. The Authority shall take a leading role in promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market, including by:

(a) collecting, analysing and reporting on consumer trends;

(b) reviewing and coordinating financial literacy and education initiatives by the competent authorities;

(c) developing training standards for the industry; and

(d) contributing to the development of common disclosure rules.

Current ESAs work

As of April 2017:

- No quantitative information on performances and fees in the “Consumer trends” reports published by EBA and EIOPA

- “Trends Risks and Vulnerabilities” reports (no “Consumer trends” reports) published by ESMA do include 5 year quantitative data labelled “retail investor” portfolio returns”, but those are in reality only capital markets’ returns, not retail investment products’ returns.

Product Scope

All funded pension products where pension savers eventually bear all or most of the investments' risks:

- Collective Defined Contribution (DC) pensions
- Collective insurance-based DC pensions
- Individual / personal (whether they are insurance-based or not) pensions with or without surrender value, including the future PEPP

Product scope issues

- Life cycle investment funds?

- DC pension products with no surrender value ?

- Exclusions:
    - Pure Defined Benefit pensions, in particular those where there is a guaranteed retirement replacement income for participants.

- As the CMU Action includes not only "pension" savings products *stricto sensu* but also all "long term" savings products, IRSG and SMSG should be involved at a later stage, as many EU citizens use multi-purpose long term products for retirement purposes.

What to collect

- by Member State

- the main long term and pension savings products categories by Member State as they vary from one to the other (for example in the Netherlands, the biggest product category is collective pension products, in France it is life insurance)

- over the longest term possible (currently: OECD: 5 and 10 years; Better Finance: currently 16 years wherever possible)

- following the methodologies of OECD (for collective non insurance-based pension plans only but applicable to other long term savings products) and of Better Finance (for a much larger scope)

OECD and Better Finance methodologies

- nominal gross return
- minus impact of all fees and commissions including average entry and exit fees, indirect fees (for example the fees charges to the "units" of unit-linked insurance contracts in addition to the contract fees) if applicable
- minus the impact of taxation whenever possible (very challenging in the EU, but this is mandatory in the summary prospectus for mutual funds in the USA)
- minus the impact of inflation (very important to eliminate the "monetary illusion" for long term savings)

This methodology implies to also assess and evaluate **the overall average level of fees & commissions for these product categories**

Data collection / granularity

Our experience is that one has to combine sources from:

- NCAs (in particular some of their studies)
- National trade associations
- Sometimes financial medias/websites
- For investment funds <u>only</u>: the existing mandatory and standardised KIIDs (Key Investor Information documents) which provide the NCA-controlled and standardised 10 year minimum net past performances (of the products and of their benchmarks)
- However, the elimination of these funds' KIIDs and of all past performance and benchmark disclosures by the current PRIIPs delegated regulation will certainly not help.

OECD and Better Finance collect, analyse and report at the aggregate national level. However EIOPA could also decide to start collecting individual data (more granular), for example, using its Pan-European product database (insurance and pensions), as it is already done by some NCAs.

Thank you for your attention!