

# OPSG debate on Pan-European Personal Pension Products (PEPPs)

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Personal Pensions Work-Stream, Michaela Koller

# Agenda – in line with OPSG CMU Q13

- \* Vision
- \* PEPPs' providers
- \* Investment options
  - \* Life cycling with de-risking
  - \* Guarantees: prudential treatment
- \* Flexibility/switching
- \* Information disclosure
- \* Conduct of business rules
- \* Way forward

# PEPP: vision

- \* “The PEPP is a personal retirement savings product”
- \* “should be clearly distinguished from regular financial products”
- \* “requires regulation that is specifically tailored for products with an explicit retirement purpose.

Is this enough? How to define a true pension product?

What differentiates a pension product from an investment product?

What should the PEPP deliver and whom should it target?

# Who should be entitled to offer the PEPP?

Should non-EU-regulated entities be allowed to offer PEPPs across the EU?

If so, at what conditions? Would a national authorisation suffice?

What would be the interest for IORPs to offer PEPPs with employers' contribution?

# Investment options: life-cycling case study 1

Is life-cycling providing for actual safety? Let's assume

- Example 1: a customer starts saving in 1980 with a 30 years horizon, thus retiring in 2010
  - Let's imagine his portfolio shifts mostly to (Eurozone) bonds after 2005
  - In 2008 the financial crisis hits
  - In 2010 (European sovereign bonds crisis), when divesting, bonds' value plunges
- Worst-case scenario
- What is he left with? Would the outcome of this strategy outweigh inflation in this case?
- How to make sure accumulated rights are (at least) preserved if there is not a money-back guarantee?

# Investment options: life-cycling case study 2

- Example 2: a close-to-retirement customer's portfolio shifts from equities to bonds just before a sudden raise of interest rates occurs (eg when QE ends)
  - Interest rates increase leads to a decrease in the value of bonds
  - As a result, the value of the portfolio could be lower than before the shift to bonds
- No minimum return guarantee
- Strategy is similar to a pure DC product

# Investment options: life-cycling with de-risking

Are life-cycling's security and adequacy proven? What are the risks if it is not properly designed?

How could life-cycling outweigh inflation? Should this goal be mandatory?

What are the historical performances of such investment options?

What would have happened if a customer retired during the EU sovereign debt crisis, ie when sovereign bonds were at record low?

What would happen if a close-to-retirement customer's portfolio shifts from equities to bonds when a sudden raise of interest rates occurs (eg when QE ends)?

# Guarantees: prudential treatment

- \* “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?”

Should solvency rules for PEPP providers offering guarantees be identical or equivalent?

If identical, what would be the standard solvency rules? Should PEPP come with its own solvency rules?

If equivalent, how to assess this? Who should be entitled to grant equivalency permission?

Can guarantees be offered without any capital charges?



# What is the right degree of flexibility

- \* “EIOPA envisages that, periodically, switching without incurring additional charges should be made possible”
- \* “switch from a PEPP to a ‘national’ PEPP – or vice versa – should also be possible
- \* “changing circumstances [...] could justify the introduction of the possibility to immediately switch providers free of additional charges”

What is the right length for a “lock-in” period?

Should immediate switching be allowed? If so, when? What guarantees for PEPP providers offering guarantees?

Would the PEPP and national PPPs be compatible? What are the challenges here?

How to guarantee compatibility between different PEPPs (eg from life-cycle to guarantees) in case of immediate switching?

# PEPP's features: Information disclosure

Is it appropriate to use PRIIPs' as the basis for PEPP's pre-contractual information?

How do investment and pension products' information requirements differ?

What would be the impact of new information requirements for IORPs offering PEPPs? How would this interact with IORP II information requirements?

# Conduct of business rules

How to guarantee an overriding duty of care for a provider offering the PEPP on the internet without personalised advice?

# Way forward

- \* Consultation's deadline: first week of October (tbc)
- \* Personal Pensions WS' mandate to draft OPSPG response
- \* Joint response with IRSG

Thank you