

OPSG Response to the EIOPA consultation on PEPP

Key messages

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Summary

- 2nd regime approach
- Stand-alone authorisation
- Flexibility Vs long-term commitments
- Investment options
- Prudential framework
- Pre-contractual information
- Distribution channels - internet
- Decumulation, optional features
- Next steps

2nd regime approach

- Premature to assess whether a standardized 2nd regime product would encourage more EU citizens to save for an adequate retirement income
- The initiative could have the potential to ensure a high minimum standard of consumer protection
- Simplicity should be a key principle
- Differences in national legislation (tax, social insurance regulations) to be further investigated

IRSG welcomes that the PEPP design allows for the recognition of existing national practices (eg in respect to decumulation, advice and minimum return guarantee)

Stand-alone authorisation

- Not necessary for financial institutions already authorised under EU legislation
- Institutions which do not fall under the scope of any specific EU law should instead be subject to a thorough authorisation procedure (focus on fit and proper requirements)

IRSG: 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

Flexibility Vs long-term commitments

- Long-term investments and switching (for free) are compatible as long as switching is allowed at specific points in time
- PEPP framework should be sufficiently flexible to allow providers to design the number and length of minimum investment periods for their products. Early switching to be penalised
- Providers should be also able to design PEPPs with the possibility of switching at any time

IRSG: Minimum investment periods

- Enable good returns to be generated over the long-term
- Provide funding for long-term illiquid investments as intended by the Capital Markets Union
- PEPP should have a 10 to 12 year minimum investment period with a possibility to surrender/switch at that point or to continue with other minimum investment periods
- Surrender or switching at other times possible but policyholder would have to take all market risk

Investment options

- The default option meets the needs of individuals who are not familiar with finance and are unable to choose between different options when saving for retirement
- Only one default per PEPP. Providers choose which type of investment strategy they offer as their one default option:
 - Life-cycling with derisking
 - Long-term collective investment with pooling and smoothing
 - Guarantees
- For all investment options (including default), the potential maximum loss should be disclosed in PEPP's KID

IRSG: PEPPs should contain a default investment option, which should always include a risk mitigation mechanism. Providers should be free to offer risk mitigation for the default option PEPPs based on:

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

Prudential framework

- The PEPP should be provider-neutral. This means that all providers offering a PEPP with the same characteristics should be subject to the same prudential rules
- The prudential treatment should reflect the long-term nature and the riskiness of the product
- Difficult to see how equivalence assessment of different solvency rules would work in practice, but this should be further investigated

IRSG: Solvency II framework should be applicable to all PEPP providers offering products with minimum return guarantees and/or biometric risk coverage

- Solvency II will need to be amended to better reflect insurers' ability to manage market volatility in the long-term, so that long-term products are viable

Pre-contractual information

- The PRIIPS KID can be a good starting point for pre contractual information
- However, The PEPP KID should include specific pension features like :
 - decumulation options available at the moment of retirement;
 - tax incentives applicable to PEPPs;
 - biometric risk coverage, if offered;
 - minimum investment periods and early switching costs (if any);
 - potential maximum loss that the pension savers can incur.
- Consumer testing is needed

IRSG: it is debatable whether the PRIIPs KID is a good basis for the PEPPs pre-contractual information, given that it is designed for investment products

Specific features of pension products should be taken into account in PEPP's KID (eg decumulation options available, biometric risk coverage, minimum investment periods, PEPP's tax treatment, possible maximum loss pension savers can incur)

Distribution channels - internet

- A level playing field approach should be ensured in the case of internet-distributed sales. The rules in this respect should be channel-neutral
- All the PEPP features should be designed taking into account that they should be distributable by as many as possible channels
- Even if the product would be “simple” or “standardised”, the specific situation of the consumer will always be complex

IRSG: supports the option of selling PEPPs via the internet. 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

Consumers should be aware of the risks the products bear, and have the option to access advice

Decumulation, optional features

- PEPPs should include these basic principles :
 - Any PEPP should offer a life-long annuity as one of the decumulation / pay out options
 - In principle, pay-outs should not decrease once started, unless specific forms of decumulation allow for this
- Consumers should be allowed to ask for additional biometric risk coverage

IRSG: All PEPPs should include option for biometric risk coverage in the accumulation phase

In the decumulation phase, the protection against longevity risk should be promoted

To discuss – next steps

- Sharing OPSG response with IRSG and organising a meeting at work-stream level to discuss areas of agreement/disagreement
- Considering joint IRSG-OPSG key messages document to be discussed/adopted at the joint meeting on 1 December

Thank you

