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PAN-EUROPEAN PENSIONS DESERVE A CHANCE



**Launch Event of the Cross Border Benefits Alliance – Europe
Cross-border and Pan-European Pensions: Why We Do Support Them**

Brussels, 6 December 2017

Thank you for the invitation to be in this important event and congratulations for the setup of your organisation.

I am definitely encouraged by your objectives – promoting the creation and development of Cross-Border/Pan-European Employee Benefit Plans in Europe. It is a much-welcomed addition to the list of stakeholders engaged in the pension's policy discussions in the European Union and I am sure you can bring innovative views and a different mind-set.

I am happy that, for once, pension issues are not discussed as a confrontation between national and European perspectives, which is the wrong approach, but from the view of how can we create together sound, simple and friendly frameworks to encourage more companies to offer occupational pensions to their workers throughout the European Union and thus achieve better adequate retirement outcomes.

Reality of the cross-border market for occupational pensions

The Directive 2003/41/EC (IORP Directive) was a first step towards the creation of an internal market for occupational pensions in Europe. The IORP Directive facilitates the centralisation of pension fund operations “under one roof” across the European Union, which would in particular benefit European companies with employees based in different EU locations and those companies encouraging geographical mobility.

Nevertheless, since 2005 the cross-border market continues to stagnate to just over 73 IORPs actively managing cross-border activities in the end of 2016 - out of the 100,000 IORPs operating in Europe.

Cross-border activities also remain confined geographically. The majority of cross-border activities occur between the United Kingdom and Ireland – many of which already existed prior to the IORP Directive. Over half of active cross-border IORPs solely manage DB schemes and only one in five is a multi-country pension fund that mainly operate DC or mixed schemes.

In theory, DC schemes relative to DB pensions should be more appealing when European companies consider cross-border activities. In practice, Social and Labour Laws (SLLs) applicable to DC pensions widely differ between Member

States e.g. scheme enrolment requirements such as default, minimum contribution, pay-out rules.

While Social and Labour Law (SLL) sets the legal framework for the protection of members and beneficiaries at national level and has to be complied with, from an economic perspective it also remains the main challenge to achieve a well-developed internal market on occupational pensions.

The complexity of managing different SLLs increases IORPs' operational risks and makes the reduction of operational costs for the effective management of pension plans more difficult.

Within this context, I have put forward the idea to explore the design of a simple and transparent European Union framework for defined contribution occupational schemes. This framework should be capable to take full advantage of the potential of the European Union internal market, by providing a cross-border platform that would reduce costs, support long-term funding of the European Union economy and ultimately deliver better pension outcomes.

What was the reaction to the idea of developing a Pan-European Occupational DC Framework?

In the past six months, EIOPA has been actively engaging with cross-border practitioners and stakeholders with an interest in the idea of a Pan-European Occupational DC Framework.

Although our exploratory work concluded that there is a demand for further simplification to help develop cross-border DC activities and cross-border DC IORPs, it also found that there remains low appetite from main interested parties (i.e. European companies, IORPs, social partners) for a Pan-European Occupational DC Framework.

Given the lack of stakeholder appetite at this stage, EIOPA has decided to put on hold the idea of a Pan-European Occupational DC Framework. We did not abandoned it, just pause it.

EIOPA will focus on facilitating the implementation of the IORP II Directive which will come into effect on 13 January 2019.

As part of IORP II implementation, EIOPA is already reviewing the Budapest Protocol that establishes the cooperation between national supervisory authorities, which will also improve procedural efficiency and transparency for cross-border activities and transfers.

In addition to enhancing the cross-border collaboration of pension's supervisors, EIOPA is also looking at how to facilitate the implementation of IORP II, in particular with regard to information to members, governance, risk management and Environmental Social Governance (ESG) factors.

Looking at the market reality, two developments have recently emerged:

- (1) More IORPs are expanding (or seeking to expand) their cross-border activities in additional host countries and
- (2) The number of cross-border IORPs established by service providers to attract multiple unconnected employers is rising.

The amended notification process set out in the IORP II Directive may further facilitate these multi-employer and multi-country cross-border IORPs.

Although cross-border practitioners welcome the clarifications on the notification procedure and the scope of prudential supervision for cross-border activities set in the IORP II Directive, the vast majority also do not believe that the IORP II Directive would have significant impact on the future development of cross-border activities, mainly because of applying different SLLs locally.

Many cross-border practitioners indicated their scepticism about the ability to bring in all potential host Member States into an already active IORP for several reasons:

- The sponsoring company may have little room for manoeuvre because occupational retirement provisions are part of industry-wide pension schemes agreed through collective agreements.
- In smaller Member States the lack of critical mass due to the small number of employees was regarded as one of the most important challenges to start a cross-border DC activity.
- The compartmentalised administration of occupational DC retirement provisions by Member State section necessary to apply differences in SLL requirements between host Member States represents one of the largest

costs to operating a cross-border IORP. This may not only prevent some European companies to start a cross-border IORP but also refrain existing cross-border IORPs (and their sponsoring companies) from extending their cross-border activities to other host Member States.

At the same time, recent IT innovation has contributed to easing the administration of cross-border activities. Specialised providers have started to create distinct solutions that enable the efficient functioning of cross-border activities, including multi-country administration, asset pooling, IT and insurance solutions. This is the future.

Conclusion

Recent studies estimate that Europe needs to save an extra €2 trillion a year (equivalent to 13% of Europe's GDP) to close the pension savings gap.

This is a serious sustainability issue to our society. Private pension provision, be it occupational or individual, needs to play a role in closing this gap.

I believe that the current fragmentation of the occupational pension's provision in the European Union does not deliver optimal outcomes to any stakeholder:

- It is not of the interest of employers – because it only increases the cost of providing pension solutions for their workers and with that discourages them to engage in pension discussions.
- It is not of the interest of the employees – because it limits the potential benefits of scale in the pension outcomes (through bigger pools of assets and the consequent reduction of costs and risks).

This an area where arguments of economic efficiency can indeed be hand in hand with arguments of social cohesion and social interest; an area where the interests of employers and employees can come together; an area where we can facilitate workers mobility throughout Europe and promote long-term investment and economic growth.

The impediments to make progress in this area are of a legal, tax and political nature. Nevertheless, as the discussion on the Pan-European Personal Pension product (PEPP) proved, this should not limit our ability to bring new concepts and make sure that we have a proper discussion, without taboos and preconceived ideas.

As John F. Kennedy said: "Change is the law of life and those who look only to the past or present are certain to miss the future".

I am sure that with this discussion, we are preparing the future, and the future will include a Pan-European Occupational DC Framework. Let's hope that it is not too late for European citizens.

Thank you for your attention.