EIOPA-OPSG-17-10

12 May 2017

OPSG Feedback statement to EIOPA Questionnaire on the Consumer Trends Report

A. Background

EIOPA is required under its Regulation to collect, analyse and report on consumer trends. To date, EIOPA has produced Five Consumer Trends Reports. The term "consumer trend" is not defined in the EIOPA Regulation. EIOPA therefore devised the following working definition:

"Evolutions in consumer behaviour in the insurance and pensions markets related to the relationship between consumers and undertakings (including intermediaries) that are significant in their impact or novelty".

The term "Trends" is understood in a broad sense: it covers, for example, evolutions in volumes of business or in the relationship between customers and undertakings/intermediaries, as well as the emergence of new products or services, or other linked financial innovations. The trend may already be consolidated for a number of years, but it may also be only emergent, with the possibility of becoming significant in the future.

The report aims to inform EIOPA in the identification, prioritisation and development of targeted policy proposals; EIOPA seeks to identify possible consumer protection issues arising from identified trends. Nevertheless, positive developments are also identified and highlighted.

Similar to previous exercises, EIOPA has requested the **OPSG** to provide informal input to the work on the **Consumer Trends Report**.

The informal input provided by the OPSG will be taken on board in the data collation and analysis together with data collected from National Competent Authorities and other relevant stakeholders.

Members' input was required on the following:

- how the demand and/or offer for occupational and personal pension plans and products has evolved during 2016
- any possible financial innovations or market developments, as well as any possible consumer protection issues arising from such developments.

In addition, **input was also requested** on the following:

- Digital solutions for automated advice / robo-advisors
- Pension mobile phone applications
- Life-cycle funds

B. Developments in demand / offer / financial innovations / market environment / consumer protection for different product categories

I. Occupational pensions

Better Finance

Better Finance, the European Federation of Investors and Financial Services Users has, for the last five years, published a Pension Savings report. In the last edition, of 2016, we covered fifteen countries, which represented around 86% of the EU population.
The difference between our report and other studies made on pensions is that our report focuses on the net returns (after inflation, charges and fees) that the clients will receive. For further information on our report please follow this link: http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pension_report_2016_For_Web_-_Final.pdf

One of the main problems that we had when writing the report was the fact that is it very complicated to find the data, when it is available. However, the European Supervisory Authorities (ESAs) have a legal duty to collect, analyse and report data on "consumer trends" in their respective fields (article 9(1) of the European Regulations establishing the three ESAs).
To our knowledge, nor EBA nor EIOPA have ever reported on the performance in their respective fields of competence. ESMA use to do it, but it stopped in 2016. In this respect, our findings, specified in our Pension Savings report 2016, have clearly confirmed that capital market performances have little to do with the

performances of the actual savings products distributed to EU citizens. And this is particularly true for long-term and pension savings. The main reason is the fact that most of EU citizens do not invest the majority of their savings directly into capital market products (such as equities or bonds), but into "packaged products" (such as investment funds, life insurance contracts and pension products).
Therefore, an adequate improvement would be for the ESAs to collect, analyse and report on "consumer trends" in order to improve consumer protection.

Croatia

The number of members in occupational pension funds is continuing to increase modestly but still at a slower rate compared to personal pensions in open-end funds, amounting to just 10% of total voluntary savings. Although there were increases in average salary, employers are still reluctant to offer pension schemes to employees. One could expect that at least companies which have such traditions in their home States, would include pensions scheme as a part of bonus scheme, unfortunately this is not the case. Occupational pension plans posted modest increase in funds members, amounting to just 1,6%, although asset under management went up by 14,07%, highly influenced by a good rate of return.

UK

Prior to April 2015, all occupational pension plans could only offer a pension plus a lump sum (up to 25% of value of pension rights). From April 2015, DC plans no longer need to provide a pension/annuity as a recurring payment but must offer the opportunity to allow full encashment of the pension rights (some of the cash being taxed at marginal rates), 25% of pension rights taken as a tax free lump sum with the balance (taxed) on an ad hoc drawdown basis at individual selection. Since 2015, the vast majority of individuals have ceased to take a pension/annuity.

Belgium

Since 6 December 2016 the 2nd pillar pension database DB2P can be accessed by all current and former participants. The database contains information on vested reserves and vested benefits of all 2nd pillar pension plans. The database provides for all employees who work or have worked in Belgium an overview of all their 2nd pillar pension entitlements.
Due to legislative changes end 2015, pension plan participants must wait longer before being able to withdraw benefits from their pension plan. As a general rule, 2nd pillar pension plan benefits can only be withdrawn at retirement. Early withdrawal of benefits will no longer be possible.

Italy

In Italy, personal pensions can be set up either as life-insurance product or as open-ended pension funds. The latter are "hybrid" product that can be sold both as 2nd pillar collective products and as 3rd pillar individual products.

COVIP, the Italian Supervisory Authority on pension funds, defines the distribution rules, which are applicable to both 2nd pillar products and 3rd pillar open-ended pension funds. Distribution rules for 3rd pillar life insurance products are set up by IVASS (Italian insurance regulator).

It is worth highlighting that the new regulation defined by COVIP, which will enter into force on 1 June, introduced a self-assessment questionnaire that members will have to fill out when joining the pension plan. The self-assessment questionnaire is meant to promote the choice of an investment option as consistent as possible with the prospective member's characteristics and needs. Based on the results of the self-assessment, the distributor should suggest which investment option best suits the prospective member's needs; nonetheless, the recommendation given by the distributor should only serve as guidance and it doesn't force members to choose a specific investment options nor does it preclude them from choosing any of the investment options. Meanwhile, we apply the IMD distribution rules when personal pension products are set up by insurance companies.

Slovakia

Small uptake in the 3rd pillar participation. No real improvement on the side of performance or cost-effectiveness (still high level of fees).

Sweden

Traditional occupational pension insurance includes collective liabilities and features as for example: equalization between members related to longevity, heritance, forecast rates etc. Generated surplus may be/is normally used to achieve equalization during the pay-out phase. Surplus may also be used to hedge future pensions. Traditional pensions usually include a guarantee for members.
A significant trend is that such guarantees are much less advantageous for members and beneficiaries. The evolution was from a guaranteed return of 6% in the early 2000, to money-back (0%) in 2010, to guarantees of 85% of paid premiums or less in 2017. The offers of traditional pension solutions are adapting in a quick pace to present market realities, also taking into account long term investment perspectives.

The Netherlands

Serious political and societal debate on reform of collective pension plans, which are mandatory for most employees in The Netherlands. Discussion focuses on:

(1) change from (collective) defined benefit into defined contribution with risk sharing (as designed in prototype by the Social and Economic Council of the Netherlands) and (2) change from uniform contribution and accrual system to uniform contribution with decreasing accrual. Theoretically (and supported by model calculations) the combination of both changes works out best in terms of financing the transition, although additional funding will still be required. All this takes long term consensus by employer organisations, trade unions, politicians, and the government. At the moment, it is one of the issues in the cabinet formation process, after the March 2017 elections.

II. Personal pensions

Better Finance

As we have pointed out in numerous occasions, investment and private pensions are persistently the worst performing retail services markets, according to the European Commission's consumer scoreboards: http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/12_edition/docs/consumer_markets_scoreboard_2016_en.pdf

Better Finance has shown in its Pension Savings report 2016 that capital market returns have been positive since the beginning of this century (slightly for equities and very much so for bonds). In this respect, STOXX All Europe Total Market over-performed inflation in the last 16 years (contrary to STOXX Europe 50) for the equity markets. Moreover, the bond markets enjoyed an exceptional phase and have performed extremely well thanks to the continuous decline of interest rates in the last 15 years (+120% on a nominal basis, and +61% in real terms, inflation deducted).
On another note, it is important to mention that Better Finance advocates for a default option in the future Pan-European Personal Pension (PEPP), which should be simple (easy to understand) and cost-effective. Also, this option should have other features, such as a guarantee of the real value of pension saving at the time of retirement and through retirement. Moreover, it is necessary to have a rule that requires advisers to explain to a customer in writing why the personal pension option they are recommending is at least as suitable as the safe default option mentioned above, like the RU64 rule in the UK.

Finally, essential characteristics of the PEPP according to Better Finance should include:
- Simple, cost-effective and open products.
- It needs to have an adequate Key Information Document (KID) which would provide easy to understand information for consumers
- Minimum guarantee of a life-long inflation-linked annuity as the default pay-

out option
- Open market decision for the consumer at the end of the payment/contribution phase
- Obligatory participation to risk management benefits (related to longevity/death risk)
- It should at least possess the same consumer protection rules as those established by MiFID II.
- It should include full and relative to benchmark past performance disclosure. Not just 2 but 10 years at the very least, like currently required for UCITS funds.
- Transparent provisions for accumulation and decumulation phases

For further information please use the following link:
http://betterfinance.eu/fileadmin/user_upload/documents/Position_Papers/Pensions/en/personal-pension-framework-2016-consumer-organisations_f36382ef-2908-4fc6-978d-e6d010fc7e8c.pdf

Croatia

At the same time, better economic conditions and higher employment rate have contributed to an increase in new members in personal pension funds. Number of new members increased by 8,5%, simultaneously, asset under management soared by 16,5%. As was mentioned in last year's report, savings in bank deposits are still predominant. In the same period, mandatory savings (i.e. 1st. pillar bis pensions posted an increase in asset under management by 13,75%, reaching 11,14 billion EUR and 4,4% in terms of new members. Accumulated pension savings (i.e. 1st. pillar bis pensions) amounted to 23,6% of Croatian GDP. Consequently, it led to a decrease in management fee by 7% and in custodian bank fee, as well.

UK

Same answer as for Point I.

Sweden

The market for personal pensions is decreasing, more or less non-existing due to tax-regulation (not deductible).

In what the Pan-European Personal Pension (PEPP) project is concerned, the following elements should be included / taken into consideration:
- The possibility to add personal advice on demand
- The more complex the product is, the more important it is to have the possibility to add advice. If the savings, for example, are locked in until the retirement date with a life-long inflation-linked annuity, advice could be necessary to understand the effects of the product (e.g. what will happen to the consumer if he/she turns bankrupt, needs the money or if something happens to the provider etc.)
- If there is a guarantee, there should be supervision and relevant capital

requirements for the provider
- Consumer protection should be provided on a level playing field basis, e.g. according to MiFID or IDD, since it depends on the product if MiFID or IDD will be applicable.

Slovakia

The following trends were observed:
- Low level of new enrolment in 1 bis pillar
- No financial innovation on the product side
- Some financial innovations on the services (trivial advisory web-pages and questionnaires)
- Increased debate on the sub-optimal portfolio structure of savers (highly conservative) threatening the stability (political) of 1bis pillar and increasing adequacy risk
- Increased options for pay-out products in 1bis pillar (legislation adopted in 2017).

The Netherlands

The fact that the (up until 1 million) self-employed face a huge pension deficit is gathering increased attention and debate. At the moment, the Social and Economic Council of the Netherlands is working on collecting data about the pension gaps of self-employed. This is very difficult, because (1) there are no formal statistics available, and (2) they are a very heterogeneous group, ranging from entrepreneurs to involuntary self-employed (e.g. construction and health care sector) and marginal self-employed (e.g. journalists and artists). At the moment, employers, trade unions, and the government do not agree on a problem statement, let alone a solution. At the same time, (1) they fear that future self-employed retirees will draw disproportionally on social security, while (2) they are unwilling to allow self-employed to start their own 'professional' second pillar pension plan. The self-employed representatives would prefer to have one (tax-deductible) personal pot for business continuity, permanent education, disability insurance, and pensions. They have difficulty understanding the risks of such pooled resource, in which pensions come last by definition.

Romania

Although it would not be classified as personal pensions, Romania’s Pillar II has recently been in the spotlight. Public discussions concerning the nationalization have caused a reaction in the country. The biggest fund manager has been fined by the regulator following the company's decision to notify its clients regarding the possibility of a Pillar II nationalization, recommending them to inform themselves on the market context and monitor the developments in this regard. Shortly after, the regulator, ASF stated in a press release that the nationalization of Romania’s Pillar II has never been an official topic on the agenda. Official statements made by authorities also supported this.

In what Pillar III is concerned, the following trends have been observed:

- There are no new significant consumer protection issues
- Weak demand in Pillar III (voluntary private pensions), same as in previous years
- The legislative initiative expected to give some impetus to the market: the Pensions' Payment Law and the occupational pensions law are still to be expected.

C. Questionnaire

1. Digital solutions for automated advice / robo-advisors: Please indicate whether you have observed the use of pension robo-advisors in your country, what their main characteristics are, if they are used mainly in the pre-contractual stage, during the accumulation phase or during the pay-out phase, and what are the benefits and risks arising from them. Where relevant please differentiate between personal and occupational pensions.

Better Finance

Better Finance believes that robo-advice carries real promises for savers and individual investors, and therefore for pension savers. The focus of Better Finance's research into robo-advice did not particularly focus on the pensions angle.
Research by Better Finance found that these automated investment advice services have the advantage of being considerably less expensive than their traditional counterparts and constitute an interesting alternative for those investors who do not require complex and custom-made solutions.
Whereas the various platforms that we researched do provide advice to some extent, the main services they provide are closer to asset management services, since they typically implement the personal recommendations provided to their clients by executing the investments and rebalancing them periodically. For this reason it could be argued that "robot investing" would designate this emerging business more appropriately.
Compared to traditional advisors, robot investors typically adopt a far simpler fee structure usually limited to an "advice" fee and the underlying fund fees. This simple and transparent fee structure also translates into far lower fees than those charged by "human" financial advisors or private bankers. With overall fees between 12 and 99 basis points in the US and 69 and 169 basis points in Europe, robot investors compare very favourably with traditional players who

typically charge fees far above 100 basis points. But the services provided are typically more basic and less personalised.
One of the major advantages of robot investing is the fact that nearly all providers researched almost exclusively use low cost index funds. In addition to the automated processing, it is actually the use of these investment products that drive this important reduction in overall costs and fees, generating significant savings. This is especially the case in Europe since the dominant commission-based distribution model keeps fees high and does not incite retail distributors to promote low cost index funds such as ETFs. Unfortunately Robot Investing fees are still much higher on average in Europe than in the US, reflecting findings from earlier Better Finance research indicating that investment–related fees are much higher in Europe. This is largely due to the fragmentation of the European markets and to the lack of product standardisation as well as insufficient competition.
Many of the robo-advisors, especially in the US and in the UK, studied by Better Finance offer some form of retirement planning and investment option, including ISAs (UK) and IRAs (USA), schemes offering tax advantages allowing individuals to hold cash and shares with limited or no tax on dividends, interest, and capital gains.

Croatia

Automated advice is a new selling tool introduced last year in some voluntary pension funds. Members can choose the fund according to their risk/reward preferences. There are some questions fund members are expected to answer. First, members are asked about their age, how much money they earn monthly and which amount they can invest. Furthermore, they can choose lump sum or payment in annuity and at what age they are going to withdraw their pensions, and are warned about minimum legal requirements. Before calculating their expected amount, they are supposed to decide about their risk profile, and are given 4 possibilities ranging from conservative to aggressive. At the end, they will get a breakdown of expected future income, shown in three different graphs. First graph comprises just savings as a result of the number of years multiplied by payments, on the other hand, the second and third ones show lower and higher fund performance and state incentives. At the end of advising process, a member can fulfil requirements and proceeds with payment. During the advisory process members are warned about expected returns with an appropriate disclaimer.

UK

Automated advice in the UK is still in its infancy but growing. Mainly for DC schemes (occupational and personal) in order to assist members of such schemes selecting their retirement options.

Belgium

The need for robo-advice in occupational pensions is very limited in Belgium. If an employee is eligible to join a 2nd pillar pension plan, affiliation is compulsory. 2nd pillar pension plans rarely provide investment choices: by law, a minimum investment return has to be guaranteed and paid for by the sponsor.

Sweden

Many players are rumoured to be working on proposals. The digital interaction is growing, where individuals can check data, access calculators, alter fund choices etc. As robo-advice develops quickly the supply of different types of advice is difficult to overview and assess.
It may however be assumed that this development leads to cheaper advice, giving individuals, who earlier did not afford or did not want to pay for advice, opportunities to access such services at low cost. It should also be noted that the fast development may mean weaker consumer protection. As for example, it can be assumed that the difference between advice and information risks to be blurred and to cause difficulties when implementing consumer-friendly legislation.
Some robo-advisors already on the market, are advanced and give detailed and individual advice based on information asked for and directly provided for by a user or indirectly collected from banks and insurance undertakings, (with prior consent of the individual).
Most robo-advisors are providing advice during the pre-contractual stage and the accumulation phase. According to our knowledge there are no robo-advisors providing services in relation to the pay-out phase. No differentiation between private and occupational pension seems relevant in this context as members in occupational plans may use such applications, in order to make choices in the same way as individuals covered by a private pension.
In the opinion of the Swedish rapporteur, automated advice is far from being the ideal “advice”. The Consumer Trends Report should therefore not be worded in a way that could be understood as if something is “good or bad”, but rather contribute with an objective perspective and neutral information.

Slovakia

No specific robo-advisors are available in Slovakia. However, there are several smaller attempts from the side of financial intermediaries to provide basic (often trivial) advice web-sites, but they often do not take into account parameters of an individual in greater detail.
However, several providers have developed easy-to-use attitude toward the risk tools to advice savers on a saving strategy (asset allocation). Also, there is an attempt to provide robo-advice tool (www.manazeruspor.sk), which combines pre-contractual advice as well as tracking services with instant responses to the negative development on individual pension savings account for members.

The Netherlands

(1) Most pension funds already offer 'My-pages' for their plan members, in which they can simulate the effect of work/life decisions on their pension benefits.
(2) Please see the research memorandum by Netspar.

2. Pension mobile phone applications allowing, among other things, members and policyholders to check their pension balances through their smartphone are reportedly increasingly popular in some Member States. Have you observed the developments of such pension mobile phone applications in your country? If yes, please explain their key characteristics, services offered (e.g. communication tool, sales channel, pension calculator etc.) and other benefits or risks arising from them. Where relevant please differentiate between personal and occupational pensions.

Croatia

The pension mobile phone applications, applicable for all types of smart phones have recently been used. They offer fast and accurate evidence of balance on a pension account, and records of all payments for voluntary and mandatory pension fund members. Daily access to private pension account gives members more confidence in companies which manage their pension.

UK

Typically increasingly available for personal pension providers to enable members to view balances and transact a limited number of activities e.g. request statements, amend contributions, change investment options.

Belgium

In the framework of the 2nd pillar pension database DB2P, a pension mobile phone application is being developed.

Italy

Mobile Apps have been developed by some Italian pension funds to give members the opportunity to check the status of their pension account at any time. As of now it's not possible to enrol in the pension schemes via Apps yet. However, the rapporteur confirms that local regulation provides for pension calculators which estimate potential pension amounts due to be received upon retirement.

Sweden

Most insurance companies already offer such mobile applications that allow one to get information and check the personal balances, but also other services, as for example; the possibility for an individual to implement investment decisions are available (as for example to change funds where this is possible or to buy shares or other securities). As many occupational pension plans offer investment

choices for individuals in Sweden, no differentiation between private and occupational pensions seems relevant in this context.
Intermediaries in Sweden also offer the possibility to check information with a mobile phone. It is also possible to make simulations and calculations, etc. The consumer will, in the near future, be able to log-on via the smartphone (bank-ID).

Slovakia

Several providers (DDS Tatra banka - 3rd pillar, VÚB Generali - 1bis pillar) are in the stage to introduce mobile applications aimed at providing basic information to the clients (savers).

The Netherlands

In The Netherlands, most people use websites rather than mobile phones to check their pensions. Checking pensions is not a 24/7 type of issue, like a bank account, so people prefer to do that at home. Moreover, The Netherlands has a very high broad band internet penetration.

3. Life-cycle funds, where assets of young policyholders are placed in riskier portfolios and moved automatically to less riskier ones when the policyholder approaches his retirement are reportedly gaining momentum in several Member States. Have you observed this trend in your country? Are they used in DC default options? Please explain your response, addressing the main characteristics of life cycle funds and any possible benefits and risks arising from them. Where relevant please differentiate between personal and occupational pensions.

Better Finance

Life cycle funds are an interesting and in many cases a valuable investment option for pension saving products. However, Better Finance believes they are not the most appropriate as a simple, safe and cost effective default option as most EU savers would not understand how it works (therefore requiring investment advice and advice fees), as it does not at least protect the real value of pension savings, and as it can sometimes be a costly one (for example when using funds of funds, which typically adds another layer of costs). Also, life cycle funds alone can be tricky to use in the decumulation phase.

Croatia

There are proxy life cycle funds in Croatia but only for mandatory pension funds (1st pillar bis pensions). Pension fund members are obliged to select a mandatory pension fund of a specific category in accordance with the age limit. The pension fund member can select fund A category if he/she expects to retire in 10 or more years. If less than 10 years but more than 5 years are left until retirement, a fund member can choose B category fund. All members approaching retirement in 5 years will be transferred to C category fund. The Central Registry will automatically transfer members from A to B and B to C category as they fulfil age conditions. For those members who have not chosen the fund by themselves, the Central registry would do it by assessing them to B category. Voluntary pension fund members do not have possibility to choose life cycle funds, they can invest in conservative or balanced funds. Offering a life cycle fund is highly dependent on quantity of asset under management and voluntary pension funds have still not reached this critical level.

UK

It is a legal requirement for UK occupational pension schemes to provide a default option which includes life styling - appropriate to most members/based on average characteristics of the membership as a whole. This typically takes the form of a growth phase - mainly equities or diversified growth funds up to say 5-10 years before anticipated retirement age, moving into an asset mix which best suits the options to be taken at retirement, this can be cash, bonds (if annuities are required) or continuation of real return seeking assets if drawdown expected. Increasingly there are multiple default funds based on member appetite to risk.

Belgium

In the context of 2nd pillar occupational pension plans some IORPs use life-cycle funds. It remains an exception though. By law sponsors have to guarantee a minimum investment return. As a result pension plans rarely allow investment choices.

Italy

Even though it is not widely used, Italian regulation allows for the establishment of life-cycle funds. This is not used as a default option, but instead as a tool for management of the pension fund.

Sweden

This method has been used in Sweden for quite some time for occupational pensions. But it is not default in DC for all insurance/occupational pension companies. The trend in Sweden is indicating a small increase of life-cycle funds and there are many different types of life-cycle funds: there are funds moving assets automatically several times during the allocation phase and some just moving assets to less riskier portfolios only once and just before the policy-holder enters retirement. The benefits of such funds are generally described as simplifying for the policy-holder, who does not have to monitor and react to changes of risks directly related to the time for retirement. The down-side is generally described as a greater risk not to adapt to other risks than the risk related to age in a long-term perspective. An individual may enter into riskscenarios by not monitoring and adapting to short-term risks occurring when markets are shifting sharply up or down within short periods of time.

Slovakia

The only provider under the 3rd pillar in Slovakia, who provides TDFs (target date funds) is the DDS Tatra banky. They have developed specific TDFs for their savers and actively promote them to their savers. However, there are no default options on saving strategy (asset allocation) nor the pension funds implementing life-cycle strategies for their clients.

The Netherlands

Life-cycling is common in The Netherlands for 2nd pillar individual DC plans, as well as 3rd pillar pension investment schemes. If the new pension plan will be adopted, then life-cycling will also be implemented in the formerly CDC schemes, as they are transformed into 'DC schemes with risk sharing'.

***