Industry survey on the attractiveness of a Pan-European Personal Pension Product

In July 2014, the European Commission sent EIOPA a Call for Advice on the Development of an EU Single Market for Personal Pension Products (PPP)[1]. In view thereof, EIOPA recently consulted the public on the creation of a Pan-European Personal Pensions Product (PEPP)[2] in the form of a '2nd regime', where the deadline for providing comments expired on 5 October 2015.

In continuation thereof and with a view to delivering its technical advice to the European Commission in 2016, further input is sought in particular from the insurance and pensions sectors together with the asset management industry on the attractiveness of the PEPP by means of a short survey to be used as a basis for the discussion and if possible, subsequently, filled in and submitted to EIOPA.

It is recalled that EIOPA's ambition is to create a simple, trustworthy, standardised and fully transparent PEPP in the format of a long-term retirement savings product. A truly single market for personal pensions can reduce costs and provide better returns to consumers by increasing economies of scale. In this manner a contribution to removing barriers to cross-border provision of services can be achieved, helping the provision of long-term stable funding to the EU economy and being a catalyst of the CMU.

Survey on what would make PEPP an attractive proposition for providers

1. Market attractiveness: what elements are considered decisive that will make it attractive for providers to offer PEPP and how much are providers prepared to invest if doing so (e.g. investment in distribution channels, internal resources, product innovation, research in market demands or the specific markets where the product could be sold)

Mefop is of the opinion that at this stage it is difficult to answer this question. However, Mefop believes that it might highly depend on the national Member State whether the PEPP will be an attractive product. The PEPP may improve supplementary retirement savings in the 3rd pillar, especially in Member States where there is no or not a well-developed personal pension system or there is limited workplace pension coverage. It can also prove to be useful when there is poor security for existing personal pension

[1] See: https://eiopa.europa.eu/Publications/Requests%20for%20advice/Call%20of%20A%20EIOPA%20signed%20letter%20%20pdf.pdf

[2] See: https://eiopa.europa.eu/Pages/Consultations/CP-15-006-Consultation-Paper-on-the-creation-of-a-standardised-Pan-European-Personal-Pension-product-(PEPP).aspx

products or when existing products are not attractive enough. Moreover, the success of the PEPP will highly depend on its tax treatment.
The introduction of a PEPP should not provoke the risk of a "downward harmonization" of rules in Member States which have a well-developed pension system (risk of regulatory arbitrage).

2. ***Would you offer the PEPP on a cross-border basis and, if so, why? Would you make a distinction between offering the PEPP either via the freedom of establishment (i.e. offering the PEPP in another Member State from your Member State of origin) or via the freedom of services (i.e. offering the PEPP in another Member State whilst remaining in your Member State of origin)?***

Mefop understands that one of the main characteristics of a PEPP is the product passport. Therefore, it appears unclear why a provider should prefer offering a PEPP abroad via the freedom of establishment. However, in order for passporting to work the host country has to make country specifications for the PEPP transparent and all Member States should have robust approaches to address potential consumer detriment issues.

3. ***How important is the presence or absence of the following factors, basing the answer on one of the three options 'very important', 'important' and 'not important':***

a. ***Free switching of the investment only at defined intervals? If so, how often?***

Important

b. ***Requirement that default fund be life-styled?***

Not important

(but way of thinking: important to have a default fund in place, which can meet the needs of individuals who are unable to choose between different options. However different kind of default funds could be considered. The optimal default option should be based on the respective Member State and their view on what the optimal default option is)

c. ***Requirement that the default fund to offer a guarantee?***

Very important

(but way of thinking: important to have a default fund in place, which can meet the needs of individuals who are unable to choose between different options. However different kind of default funds could be considered. The optimal default option should be based on the respective Member State and their view on what the optimal default option is)

d. *A cap on costs and charges?*

Important

(it is important to have a transparent approach towards costs and charges)

4. *What would be the added value of offering such a product for a provider?*

a. *Is there a demand? Or can a demand be triggered?*

There could be a demand for PEPPs where personal pensions are not well developed. Otherwise in countries where those schemes are already well defined it could be the risk to trigger regulatory arbitrage and consequently the consumer's protection being reduced.

b. *What is the market potential for PEPP? Which markets are considered to exhibit this potential, and who would the potential customers/target group be?*

PEPPs could well performed in markets where workplace pension funds are not diffused (SMEs, young employees, low income employees, etc.) and where already exiting national personal pension funds are not well developed. Furthermore, we should be aware that where existing national personal pensions already work well, regulatory arbitrage could cause more difficulties to those people that already have problems in joining pension funds.

c. *Is it expected that the customers will be mainly (i) entirely new to the provider; (ii) existing customers with a personal pension and/or (iii) existing customers that are currently not reached with the current pension products?*

We should avoid the risk that the customers could be mainly exiting customers with a personal/workplace pension product.

d. *Could the PEPP product be the start of a long-term relationship and could other products be sold subsequently to the same customer?*

One of the risks linked to PEPPS is that every financial intermediary could be a provider of these products. It would be necessary to distinguish very well between financial products sold to retail customers and pension products. The current design of PEPPs still doesn't guarantee this fundamental difference.

e. *How long would it take, from a company perspective, for projected gains to outweigh costs (i.e. become profitable)?*

This question is addressed to providers, and therefore difficult to answer from our point of view.

f. *Which distribution channels do you consider to be critical to the success of the PEPP and please indicate ways in which you believe the PEPP can lower distribution costs:*

We believe that the PEPP could be sold via different channels, including internet, but in any case it is essential that consumers are given clear information on the product, including information on how to obtain guidance and professional advice. There should always be a possibility to contact some kind of hotline to request information.

g. *Can the underlying assets be managed cross-border?*

We do not see a particular problem in this point.

h. What would be the cost savings of centralised sales via the internet, and would it allow limiting the number of the local sales force?

This is a question addressed to providers, and therefore difficult to answer from our point of view.

In addition, where possible, please provide any written comments you may be able to provide by no later than 30 November.