

Comment template for EIOPA's Consultation Paper on the proposed approaches and considerations for EIOPA's Technical Advice, Implementing and Regulatory Technical Standards under Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP)

**EIOPA-19-628
29 November 2019**

Please indicate very clearly if you do not consent to the publication of your response.

Key

The "No" column refers to the ordering of comments received by EIOPA

In the "Name" column, respondents should indicate their affiliation and Member State, where appropriate.

In the "Reference" column, the topic, section and page number should be inserted.

In the "Comment" column, respondents should insert their comments.

The "Processing" column i.e. the response to the feedback will be filled out by EIOPA.

No	Name	Reference	Comment	Processing
1.	Mefop (Italy)	Q1. Do you have any comments on the presentation of the information documents? Do you find the preliminary, illustrative examples of the mock-up PEPP KID and PEPP Benefit Statements are translating well the outlined objectives?	Mefop agrees on the fact that the presentation of the Pepp Kid and Pepp Benefit Statement should be tailor-made and not derived from previous work on the Priips and Idd Ipid. Pepp is a 3 rd pillar pension product and is different from any other retail product, this difference has to be reflected also in the information documents. We also share the approach followed by Eiopa to consult on different types of mock-ups and to perform a consumer testing phase to directly access whether	

			<p>the templates are really feasible to understand from consumers.</p> <p>Follow some specific comments on the sections of the Pepp kid mock-ups.</p> <p><u>“What is this product”</u>: some simple insights on the investment strategy lack and could be added. Eiopa could evaluate the opportunity to show this information with that on Esg to maintain a simplified approach.</p> <p>The record on guarantees/risk-mitigation techniques should only include two choices: “Guarantees” or “Risk-mitigation technique” as it is stated in the Regulation. The choice between “guarantee” and “no guarantee” is misleading because the customer is not informed that there is a risk mitigation strategy into the Basic Pepp. Whether it is a Basic Pepp option is already stated under “Product Type” in the opening part of the Kid.</p> <p><u>“What are the costs?”</u> Mefop agrees on the fact that the introduction of a harmonised taxonomy breaking down the costs of the Pepp is one of the main challenges, due to the different frameworks applicable to Pepp providers and the pan-European nature of the Pepp. The consultation document provides a broad description of the costs to be broken down in the Kid, however given the fact that no binding definitions are fixed in the Rts, their legal value appear to be uncertain. The risk that providers may divert from the taxonomy contained</p>	
--	--	--	--	--

		<p>in the consultation paper cannot be avoided. In order to ensure a common level playing field between Pepp providers, the definitions of the costs to be included in the Kid (and in the Pepp Benefit Statement as well) should be comprehensive and Rts should include definitions and common principles for disclosure. In definig this task we invite Eiopa to consider carefully member state's esperiences to prevent an uneven playing field between Pepp and personal pension product already sold/distributed in the member states.</p> <p>The presentation of the costs should be provided in the same way both in the Kid and in the Benefit Statement in order to prevent confusion between consumers. We noted that in the Kid the financial costs are reported as "Investment costs" while in the Benefit Statement they are reported as "Asset management costs"; we support the use of a single and common definition of the financial costs in both information documents. The mock-ups of the Kid do not provide the disclosure of the guarantee (when available – both templates refer to a Basic Pepp with a guarantee). We support the inclusion of this cost also in the Kid, otherwise the customer subscribing a Pepp with a guarantee risks to have a misleading picture of the costs he would occur. The failure to include the cost of the guarantee could trigger a side effect in the internal markets ending up in an unfair competition between Pepp and personal pension products already sold/distributed in the member states in the case in which the disclosure of the cost of the guarantee is mandatory in the pre-</p>	
--	--	--	--

			<p>contractual documents (and in the accumulation phase documentation as well). For all these reasons Mefop fully support the idea behind the Eiopa draft Rts on cost cap for the Basic Pepp as set in art. xa(4) of the draft Rts at page 29 of the consultation document (unfortunately Eopa itself is not consistent with that provision).</p> <p>We agree on the distinction between on-going and one off costs, however the way in which Eiopa gives their representation does not appear very explanatory from the point of view of the customers and it risks to mislead their understanding. Instead of parametrize costs on a pot of 10.000 Euros, Kid should report the exact amount of the costs that would be charged on the customers during the accumulation phase. We deem that this display may represent a better way to help the customers to secure a clear and exact disclosure of the cost profile of the Pepp.</p> <p><u>Other comments on Pepp Kid: Provision of the Pepp Kid in good time</u> (see article xa, paragraph 2, page 23 of the consultation document): Mefop highlights that the statement “the person advising on or selling a Pepp shall assess the time needed by each prospective or current Pepp saver to consider the Pepp Kid” might trigger litigations between providers and customers. Moreover, it is not clear how this would work in case of robo-advice.</p>	
--	--	--	--	--

<p>2.</p>	<p>Mefop (Italy)</p>	<p>Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?</p>	<p>We share the Eiopa’s holistic approach, however, we note that some of the elements of the methodology to quantify the risks, rewards and performance of the Pepp are not detailed in the consultation paper and would therefore require further assessment. Eiopa could consider the opportunity of a new public consultation when the methodology will be established.</p> <p>Moreover, we are concerned on some of the elements identified as building blocks of the methodology, expetially the use of the Ultimate Forward Rate (Ufr).</p>	
<p>3.</p>	<p>Mefop (Italy)</p>	<p>Q3. Do you agree to measure the risk inherent in PEPP as the dispersion of pension outcomes and to link it to objective of reaching at least the long-term risk-free interest rate?</p>	<p>Mefop agrees to measure the risk of the Pepp as the dispersion of pension outcomes but we are concerned about the wish of Eiopa to link it to the minimum target to reach at least the long-term risk-free rate as defined by the Ufr. In our view, in a retirement framework, the objective of the Pepp, as a long-term investment, should be at least to generate a return in excess of inflation. In our view the Ufr risks to be an unfeaseable target, and in the end it risks to undermine the interest of the subscribers of the Pepp who could end up with an unfit pot than their retirment needs.</p>	
<p>4.</p>	<p>Mefop (Italy)</p>	<p>Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension projections, summary risk indicator and to assess the</p>	<p>Mefop agree on the fact that Eiopa should set the key assumptions and inputs used for the stochastic modelling, given the pan-european scale of the Pepp. In doing so, however, Eiopa should be aware that in some member states personal pension products already obey to a high level of transparency on past performance, performance scenarios and pension projection (in some cases</p>	

		<p>effectiveness of the applied risk-mitigation techniques - do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?</p>	<p>these rules are derived from the directive 2016/2341). In developing this task, not only Eiopa should take into account consistency and comparability of the different types of Pepp (a Eu perspective), but it should also considers the spillover on the internal markets (fair competition between personal pension already sold/distributed in the member states and Pepp).</p> <p>In the consultation document there is not a clear definition of the inputs for the stochastic modelling Eiopa wants to put in place, only broad concepts and ideas are proposed for comments. We hope that before submitting Rts to the Eu Commission, Eiopa will consult stakeholders on a so important piece of the Pepp regulation.</p> <p>We already expressed our concerns on the Ufr as a long term risk free rate; here we want to add a further concern on the use of the trend of future wages as an assumption for performance scenarios/pension benefit projections. Pepp is a personal pension product with no link to labour relationships and the regulation 2019/1238 itself states a very clear distinction between Pepp and Iorps. Eiopa could evaluate the opportunity to delete the trend in future wages as an input for performance scenarios/pension benefit projections.</p>	
5.	Mefop (Italy)	<p>Q5. Do you agree that PEPP's product supervision requires one set of relevant information to carry out the</p>	<p>Mefop agree on the fact that Pepp product supervision requires a set of relevant information to carry out the supervisory duties.</p>	

		duties of home and host supervisors as well as of EIOPA?	In doing so Eiopa should temper a double need. First of all, to prevent a too burdensome supervisory reporting for providers, the templates should be aligned in the maximum extent possible to the supervisory reporting already in place in the different sectorial legislations, as they are transposed into the member states. Moreover, Eiopa should take into account the supervisory reporting in place for personal pension products already sold/distributed in the member states to ensure a fair competition in the internal markets.	
6.	Mefop (Italy)	Q6. Do you agree with the 'all inclusive' approach to the Basic PEPP's cost cap? Do you agree that the capital guarantee is a distinct feature, which costs should not be included?	We recognize that the task assigned to Eiopa by art. 45(3) of the Regulation 2019/1238 is really challenging. In defining the Rts Eiopa has to temper the regulation rule (1% cap of the accumulated capital per year) with the need to give room to the provider to sell/distribute Pepp at fair and affordable conditions, expetially in the early stage of the market. In our view the choice to state the 1% cap for the cost of the Basic Pepp in the text of the Regulation has been a mistake. If Eu institutions had wanted to develop an efficient market of Pepp, they would leave to the competition among provider the task to reach this achievement. The provision of a legal constraint on costs risks to undermine the uptake of the Pepp market, do not leaving to the providers (or at least some of them) sufficient room to work on. For this reason, in setting the Rts for Eu Commission, Eiopa could at least raise the issues related to the cap cost. Moreover, during the re-assessment of the value of the cap cost (art. 45(4)), the current	

			<p>difficulties experienced by Pepp providers to face up to that clause will be considered carefully.</p> <p>However, the cap cost is on the table and Eiopa need to deal with. A clear and full disclosure of all the costs in which a potential subscriber of Pepp would incur is a key element to ensure the success of the product, so basically we agree on the “all inclusive approach” proposed by Eiopa for the definition of the cap cost.</p> <p>We note, however, that Eiopa is not coherent with the approach that itself has proposed. Based on the fact that the Basic Pepp can offers either a guarantee or another risk mitigation technique (life cycling or buffer/reserves), Eiopa proposes to exclude the cost of the guarantee from the cap to ensure a common level playing field and respect the principle of “treat relevantly similar cases similarly and relevantly dissimilar cases dissimilarly”. From our point of view the ratio of Eiopa is questionable; following its reasoning the logical consequence should be to include in the cap all the costs that characterize the different types of Pepp and so the cost of the guarantee should be included, as well as all the other costs linked to the risk mitigation techniques. The exclusion of the guarantee from the Basic Pepp cap would only end up with an uneven playing field for the different Pepp providers.</p> <p>If Eiopa decides to exclude the cost of the guarantee from the cap, than to ensure a common</p>	
--	--	--	---	--

			<p>level playing field, also the costs related to the other risk mitigation techniques should be excluded.</p> <p>The cost cap is not comparable with certain national synthetic indicators on costs, such as in Italy.</p> <p>As part of these complicated reflections on which costs to include or to keep out from the cap cost of the Basic Pepp option, Eiopa should also evaluate carefully the advisory costs. Advisory is a mandatory feature of the Pepp and is key for the Pepp to success. If counted in the cap cost providers could be not incentivated to advice on the Pepp given the need to curb the cost of their work (to provide a good advisory) within 1%. That pressure risks to end up either with a failure in the growth of the market or in a provision of an inadequate advisory for subscribers. Eiopa correctly recognizes that advisory will drives the costs when starting to save in the Pepp, however it is confident that the growth in automated advisory will relax this pressure. We are concerned on that stance as digital distribution still remain a niche and we do not expect substantial changes in the near future. While there are a number of providers relying on digital distribution and automated advice, the total AuM remains low and opportunities for growth are increasingly seen as lying within hybrid models, where traditional distribution channels use some of the techniques used by digital advice models. Many savers still</p>	
--	--	--	---	--

			prefer arranging face-to-face meetings to be advised on savings and individual pensions as well.	
7.		Q7. Which criteria should be added to foster the application and development of superior risk-mitigation techniques? Which research and learnings should EIOPA consider in its further work?		
8.		Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?		
9.		Q9. Do you have any other general comments to the proposed approaches?	In defining Rts for the Eu Commission, we suggest Eiopa to consider carefully the potential spillover on the internal market of the member states, esppecially where personal pension products are already well developed. To ensure that Pepp can really represent a viable solution for consumers when choosing between a pre-existing personal pension and a Pepp, the Rts should be set in a way that does not trigger uneven and unfair inernal market conditions. For this reasons, in defining Rts for Eu Commission, we kindly invite Eiopa not only to consider a pan-european approach (as it done) but also an internal market prespective to avoid disruption in the domestic markets.	

10.		Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?	<p>The “on-line development” of the Pepp market seems, in our view, a big challenge, at least in the early stage. Of course, Mefop fully support this wish for the benefits it would cause in terms of efficiency of the market and so better conditions for the customers.</p> <p>However, practical experiences in the financial market show that a big work has to be done yet to secure these potential benefits.</p> <p>For that reasons we recommend Eiopa to consider a “mixed approach” (a combination of traditional and innovative policies) for the uptake of the Pepp, expetially as regard the information tools and the inclusion of the advisory cost in the cap of the Basic Pepp.</p>	
11.				
12.				
13.				
14.				
15.				
16.				
17.				
18.				
19.				
20.				

the

