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## ICI Global Response to the EIOPA Industry Survey

On

### The Attractiveness of a Pan-European Personal Pension Product (PEPP)

Final

(filed on-line on 29 November 2015)

#### EIOPA Survey

<https://eiopa.europa.eu/consumer-protection/online-industry-survey-on-the-attractiveness-of-a-pan-european-personal-pension-product>

The survey consists of 4 questions, which include subparts as listed below.

- 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)?**

**Answer:**

ICI Global is pleased to respond to the EIOPA PEPP survey. For our detailed position explaining our survey responses (especially for question 3), please *see* ICI Global submission for the EIOPA PEPP Consultation, submitted on 5 October 2015, available at [https://www.iciglobal.org/pdf/15\\_icig\\_eiopa\\_pepp\\_consultation\\_ltr.pdf](https://www.iciglobal.org/pdf/15_icig_eiopa_pepp_consultation_ltr.pdf) (“ICI Global PEPP Submission dated 5 October”).

We strongly support EIOPA’s efforts to move forward the PEPP initiative, and we agree with the EIOPA Chairman Bernardino’s statement in a recent speech that “both occupational and personal pensions can play an important role in diversifying the sources of retirement income. In this sense,

more should be done to create the appropriate incentives for the establishment of occupational and personal pensions, both at national and EU levels.” See Chairman of EIOPA Gabriel Bernardino’s speech, *EIOPA and Supervisory Convergence – The Beginning of a New Journey*, EIOPA 5<sup>th</sup> Annual Conference (18 November 2015), available at <https://eiopa.europa.eu/Publications/Speeches%20and%20presentations/2015-11-18%20EIOPA%20Annual%20Conference.pdf>.

We also are pleased that EIOPA is mindful that its regulations must create a favourable business environment for the providers so that they would consider investing into creating a new product. While there are some stakeholders who question whether providers will offer PEPPs and some that question whether consumers would purchase PEPPs, we encourage EIOPA to take a long-term view of the PEPP regulation. By definition, saving for retirement is a long term endeavor, and the regulation aiming to accommodate this endeavor should be forward-thinking, allowing for flexibility and innovation to adjust to new demands, including changes in economic and demographic conditions.

To attract providers to the PEPP market, the regulation will need to provide some flexibility so that providers can design a product that appeals to diverse consumer needs from different Member States with different personal circumstances. It is too early to tell if this product may have a customer appeal across the board or if a particular PEPP may appeal to a particular generation (*e.g.*, millennials) in particular Member States.

We agree that some standardisation may be helpful, such as standardising a default fund. In this regard, we reiterate our view that a lifecycle strategy is an appropriate and well-recognized default investment option for retirement savings (including by the Organisation for Economic Cooperation and Development).

We disagree that the default fund *must* offer a guarantee option. As we discuss in detail in our submission (citing to the work by the OECD), guarantees are expensive and may, in fact, be detrimental to retirement savers. This is because even the low-cost guarantee would result in a reduction in retirement income for the average investor. See *ICI Global PEPP Submission dated 5 October*. However, if a PEPP is allowed to have more than one investment option, a provider could experiment with several different option designs to see which options are in demand.

We continue to believe that fee caps are not advisable. Fee caps, in the same way as other kinds of price restrictions will distort the market, limiting the supply of investments from which investors may choose and, consequently, potentially driving product fees up rather than down. By contrast, competition (assisted by transparent disclosure) is likely to drive down the fees. For more detail, see *ICI Global PEPP Submission dated 5 October*.

To prompt providers into a PEPP development, providers must have certainty about the product’s regulatory future. While EIOPA may want to have assurances that providers will create PEPPs, these assurances may not be possible until providers have a firmer outline of features that will be allowed. In this classic “chicken and egg” dilemma, EIOPA and the Commission should take the first

step in creating an environment where the private industry is incentivised to offer pension solutions, especially for future generations that may not experience the generosity of the public pensions and benefit payments from defined benefit plans that current retirees receive. Lastly, providers follow different business models. Some may choose to be first in the field, following the concept “if we build it, they will come,” while others may follow the “wait and see” approach.

Importantly, while the survey does not focus on the tax question, we reiterate our position that the Commission and EIOPA should find a tax approach that would allow PEPPs to be competitive across the European Union and facilitate the free movement of capital. While we appreciate the competencies of Member States with regard to taxation, we believe the Commission and EIOPA have an important role in working with Member States to develop and promote a tax approach that will allow PEPPs to be competitive across the EU. For example, we encourage EIOPA to explore whether a TEE (taxable-exempt-exempt) regime on a pan-European scale may serve as a workable tax approach for PEPPs. (Generally, TEE describes a regime where savers contribute to a retirement product on an after-tax basis; but the investment growth and the distributions from the TEE retirement account are tax-free.)

Technical comment on the survey questions: We note that the phrasing of certain questions is confusing. This is particularly so with respect to the multiple choice scenarios of question 3. This is because the umbrella question in Question 3 asks to rate “***the presence or absence***” of certain factors on the importance scale. The question’s inclusion of both words in the question – the “presence or absence” - may lead to inconsistent understanding of the sub-questions and, thus, to inconsistent answers. One respondent may be ranking the “presence” of a certain factor, such as requiring a default fund to offer a guarantee, as “very important” to have such a requirement, while the other respondent may answer the same question as “very important” but with respect to the “absence” of that factor. In that case, it is unclear what the two “very important” responses together mean with respect to the requirement of a guarantee.

- 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)?**

**Answer:**

We understand that some providers will be interested in providing PEPPs on a cross-border basis. Also, *see* the Answer to Question 1, above.

- 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?**

- very important
- important
- not important

How often?

**Answer:** “With reasonable frequency that fosters competition.”

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

- very important
- important
- not important

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

- very important
- important
- not important

**d. A cap on costs and charges?**

- very important
- important
- not important

**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?**

**Answer:**

Without knowing the design of the PEPP, it is difficult to precisely assess the target market and potential demand. However, evidence suggests that there should be demand for this type of product, especially if the regulatory framework is appropriately designed. First, the large amount of wealth held in instruments yielding low nominal returns in Europe is not optimal. That is why we agree with the Commission and EIOPA that the PEPP work should complement the Commission's initiative on the Capital Markets Union. As the EIOPA Chairman Bernardino stated in the 18 November speech at the EIOPA 5<sup>th</sup> Annual Conference, "[t]he creation of a truly single market for personal pensions in the EU will reduce costs and provide better returns to consumers by increasing economies of scale, while helping the provision of long-term stable funding to the EU economy."

Secondly, we know that certain Member States (particularly among more recently acceded countries) do not have developed private retirement systems, occupational and/or personal. As governments fiscally retrench, the responsibility for providing retirement income will increasingly shift from governments to individuals. While some countries have developed private occupational systems, many are defined benefit (DB) systems, and DB systems also are becoming increasingly unaffordable, forcing the shift towards defined contribution systems. Further, as Europe's population ages on average, Pillar 3 pensions (personal pensions) should offer an additional and needed vehicle to save for retirement.

- 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?**

**Answer:**

*See Answer to Questions 1 and 4a, above.*

- 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?**

**Answer:**

It will vary by the provider. *See Answer to Questions 1 and 4a, above.*

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

**Answer:**

We understand that firms will want to develop lasting relationships with customers where possible. As noted above, PEPPs could help shift the large amount of wealth held in instruments yielding low nominal returns into products more effectively designed for saving for the future. It can

be hoped that this shift would also help facilitate a wider culture of saving and investment. Therefore, PEPPs might be a first step in meeting the Capital Markets Union aim of increasing retail investment and channeling it into longer term investments.

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

**Answer:**

This question may be premature. For some firms, evidence of progress towards a cross-border and competitive market will outweigh short-term cost concerns. *See Answer to Question 1, above.*

- 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.**

**Answer:**

All channels should be available for PEPPs' distribution. While the internet can reduce the costs of distribution, and is an important means of reaching consumers, some customers may prefer other methods that involve more engagement with a sales person. *See Answer to Question 1, above.*

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

**Answer:**

Yes.

- 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?**

**Answer:**

This question may be premature. We believe that technology can significantly improve productivity and efficiency across the value chain; however, as noted above, some customers may be less comfortable with sales via the internet. *See Answer to Question 1, above.*

