Insurance & Pension Denmark

PEPP

IPD POSITION PAPER:

PEPP – Pan-European Personal Pension

The PEPP proposal

In June 2017 the European Commission presented a proposal for a Pan-European Personal Pensions (PEPP) product in the context of the Capital Market Union (CMU).

The objectives of the PEPP proposal are:

- To increase personal savings for retirement in the EU.
- To increase growth-stimulating, long-term (infrastructure) investment in the real economy, thus contributing to the CMU.
- To further develop the single market in personal pensions by increasing market efficiency with simple, affordable and transparent products.
- To increase labour market mobility with portable personal pensions in the EU.

The PEPP proposal is a so-called optional 29th regulatory regime that will exist in parallel to the sector-specific financial framework directives for insurance companies (Solvency II), occupational pension funds (IORP II) and banks (CRD4) etc.

The position of Insurance & Pension Denmark (IPD)

GENERAL REMARKS:

A pension is characterised by ensuring income in old age. The design of the PEPP must further this objective, which can only be achieve through the pay-out phase. It would undermine the consumers´ trust and understanding of "real" pension products, if a pension product approved by the EU as a "safe and affordable pension" turns out to be nothing more than a simple, short-term savings or investment product.

Different regulatory regimes for different countries, for different types of providers and for different types of personal pension products may lead to an uneven level of consumer protection. The ambitions of the PEPP initiative will not be fulfilled if a high level of consumer protection – including an adequate level of solvency and governance requirements – is not guaranteed. It is a well-known fact that pension providers under Solvency II and IORP II respectively are subject to very different capital requirements. There are also important differences between regulation of insurance companies and banks and asset managers. The IPD finds it imperative that an unlevel playing field and regulatory arbitrage are avoided.

SPECIFIC REMARKS:

Decumulation: A true pension procuct

A PEPP should embody the key characteristics of a pension product.

The design of the pay-out phase plays a key role in ensuring that the PEPP is a "true" pension product that provides an adequate standard of living in retirement (article 51-52).

Therefore, the IPD believes that three key characteristics should be regulated for a PEPP to be authorised:

- at the earliest pay-outs can commence is at the standard retirement age for the country in which the pension has been accumulated
- there must be clear restrictions on early withdrawal
- a PEPP has to be paid out as term or lifelong annuity as a general rule. Only small PEPPs should be allowed to be paid in the form of a lump-sum.

Switching providers: The obligation to open compartment in EU27 will restrict competition

Opening compartments for every country is a very burdensome obligation (article 13) and will most likely mean that only very few, large providers will be able to bear the cost of offering PEPP services.

The IPD suggests, that PEPP providers can decide for themselves where to open compartments. However, the provider must be obligated to offer the customers the option of transferring to a different PEPP provider (subject to the same tax and solvency treatment) on fair terms, if the provider does not itself offer a compartment in the relevant country. Actual and reasonable costs of transfer must be able to be invoiced to the individual customer.

Switching providers: A switching period

In the EC's proposal PEPP savers can switch PEPP providers every 5 years (article 45).

Acknowledging the different traditions and practices across the EU, the IPD suggest, that a minimum switching period is introduced with the opportunity for the PEPP providers to offer shorter switching periods to the PEPP savers given that the customers gives a 1/2-year notice.

Guarantees or not: Simple, affordable and transparent PEPPs come in many forms

A PEPP regime should not favour or limit the product choice to just one type of pension product. A PEPP may have a guarantee attached for a certain minimum pension benefit, but it should not be required. A PEPP can be a with-profit product or not. Different customers have different needs and everyone should be able to find a PEPP that suits their needs.

If a guarantee is offered, the providers must be subject to the same capital requirements no matter the providers´ legal form. Otherwise, seemingly similar guaranteed PEPP products will come with various degrees of consumer protection depending on the type of provider, thus making it very hard for the consumers to make an informed decision.

Investments rules: Different prudential rules will create differentiated consumer protection

If all PEPP savers are to benefit from the same level of protection, irrespectively of the provider, all potential providers should be subject to the same prudential rules. This is currently not the case, since the different providers are also subject to their sectorial legislation (article 33).

The IPD suggests that the "prudent person" principle, independently of the type of provider, shall follow the Solvency II requirements. Solvency II was specifically designed to ensure a high level of protection for consumers acquiring long-term, savings and pension products.

Authorisation: PEPP will be authorised by EIOPA

The IPD is positive towards granting EIOPA the right to authorise PEPP while the National Competent Authorities will supervise compliance with the regulation on an ongoing basis.

The IPD appreciates the rationale behind this approach in order to ensure a streamlined, efficient authorisation process and that cross-border PEPP products live up to the same requirements. This will allow for a high degree of harmonisation and reduce the risk of a supervisory and regulatory arbitrage.