Position Paper

Insurance Europe: key messages on the White Paper

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General comments

Against the background of the rapid ageing of our societies and the increasing pressure that pension provision is in turn placing on national budgets, Insurance Europe welcomes the comprehensive approach to pensions that the European Commission has taken in its White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" of February 2012.

Insurance Europe especially welcomes the Commission's call for the strengthening of the role of complementary retirement provision — an area in which the insurance sector is already playing an important role. Insurance companies have unique expertise in offering and efficiently administering sustainable pension systems and developing innovative insurance solutions. With proven actuarial expertise, built up over the last two centuries, life insurers can provide sustainable retirement benefits. Furthermore life insurance products can provide complementary benefits to public pensions through annuities, survivor benefits and long-term pension savings.

Life insurers are well positioned to ease the burden on public pension schemes by providing funded pensions. In the past, longevity has exceeded demographers' expectations and life insurers have a long track record of tackling this efficiently. Since they are subject to strict supervision and regulation, including comprehensive solvency requirements insurance companies offer high levels of pension protection to their customers. This role for the insurance sector needs to be facilitated by European regulation and Insurance Europe is therefore pleased to see the different initiatives in the White Paper to promote complementary retirement provision.

Need to work on a common language

However, Insurance Europe regrets that no initiatives were taken to define a common language across the EU on pensions. This is a prerequisite for enhancing the co-ordination of policy at EU level, since many of the terms used no longer reflect reality. Take the concept of the "three pillars", for example; very often a product that belongs to one pillar in one country is part of a different pillar in another with the result that pillars have different meanings.

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The starting point for a "common language" on pensions could be developed from a common understanding on pensions on the basis of their purpose as a product or arrangement whose primary purpose is to provide an income in retirement. This understanding of a pension would facilitate comparison with and differentiation from other general savings products. It would also serve to make the differences between pension products across Europe more understandable and transparent and would help to make the diversity in EU pensions more manageable.

The question is, however, whether an EU certification scheme as envisaged in the White Paper contributes to finding a "common language" or whether it merely adds an administrative burden to pension providers. Voluntary standard-raising initiatives could be a better alternative.

Insurance Europe welcomes the planned review of the IORP Directive

Furthermore, Insurance Europe welcomes the Commission's initiative to revise the EU's current Institutions for Occupational Retirement Provision (IORP) Directive with the aim to maintain a level playing field with Solvency II. The current prudential regulatory framework for occupational pensions is inconsistent across the EU and Insurance Europe believes that it should ensure transparency, consistency and safety, while still respecting national characteristics.

The Solvency II principles could be appropriate for pension funds, provided the economically significant differences between pension products and schemes are taken into consideration. Examples of specific occupational pension product characteristics that could be prudentially relevant include the use of sponsoring covenants, pension protection schemes, or options to reduce benefit promises or payments. These characteristics should be taken into account in a similar way for all providers, including insurers. This should ensure a comparable approach to all providers of complementary retirement savings, be they insurers or IORPs. Indeed, if insurance companies were to move to Solvency II while pension funds remained under Solvency I, regulatory arbitrage is possible if institutions exposed to the same risks were to be regulated under different regulatory frameworks.

However, the ongoing work on the Solvency II project has shown that calculations relating to long-term guarantees are not yet appropriately designed. Insurance Europe therefore supports the development of a package of measures under Solvency II that would appropriately address the concerns identified and would allow the Solvency II principles to be applied to both IORPs and insurance companies without causing significant adverse and unintended consequences.

Financial education and the development of tracking services

Additionally, the insurance industry is an initiator of a number of initiatives aimed at improving citizens' financial literacy. The Commission can add real value by organizing and coordinating best practice and an exchange of information between EU member states on effective financial literacy initiatives. National governments should be furthermore encouraged to provide an understandable and accurate statement to each citizen on the value of the state pension benefits they can expect. Life insurers can work with national governments to draw consumers' attention to the fact that they need to save (more) for retirement and that they are responsible for financing that retirement.

Therefore, Insurance Europe welcomes the Commission's initiative to promote the development of tracking services, which would enable individuals to keep track of their entitlements. According to Insurance Europe, by showing the pensions gap to individuals by the means of a pension-tracking system, individuals should be encouraged to save more for their retirement. However, such an initiative should be outcome-oriented rather than prescriptive and should build on existing best practices.

Removal of obstacles to the freedom of movement

Finally, Insurance Europe supports the elimination of all obstacles to the freedom of movement across and within member states. Insurance Europe recognises that the creation of a general framework removing obstacles for mobility might have a positive impact on worker movement and cross-border saving.

However, the attempt to accomplish this objective should not hamper the further development of occupational and supplementary pension provision, which would ultimately lead to less social protection.

In the view of Insurance Europe, previous proposals risked being counterproductive given that they could have led to significant cost increases in the provision of occupational pension plans. The provision of such products is increasingly vital given the changing demographic structure of our societies. In addition, various provisions were unclear and inapplicable in practice (eg the 2005 Portability Directive), and are thus a source of legal insecurity.

In order to achieve a more workable solution, Insurance Europe urges policymakers and all stakeholders to take into account these concerns.

Voluntary codes and codes of good practice

Insurance Europe sees potential merit in the development of voluntary codes and codes of good practice. However, such initiatives must be developed together with the insurance industry to avoid any duplication of regulatory requirements. Of course such code of good practice should apply to all providers, (insurers, pension funds, etc) to ensure the best protection for consumers.

Insurance Europe is available for any additional explanations or assistance required in order to achieve an outcome that broadens and deepens pension provision throughout the EU.

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