

PEPP pre-contractual information requirements must be tailored to the very specific nature of personal pensions



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Clear and transparent pre-contractual information for PEPP

Insurance Europe supports the European Commission's objective of having clear and transparent pre-contractual information for its proposed pan-European personal pension product to enable consumers to make informed pension decisions.

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PRIIPs KID not a good starting point for PEPP pre-contractual information disclosure requirements

The detailed requirements and calculation methodologies in the Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs) are not a good starting point for PEPP pre-contractual information disclosure requirements:

- **The information requirements in the proposed PEPP KID are not tailored to a personal pension product.** The PRIIPs Regulation and related regulatory technical standards (RTS) were designed for retail investment products, some of which are speculative products with a short-term horizon. These products are significantly different in nature to pension products which were, as a result, explicitly left out of the scope of the PRIIPs Regulation. The methods used to calculate the main PRIIPs indicators (the risk indicators and cost indicator) are inappropriate for pension products and do not reflect how different the investment objectives of pension savers are to those of PRIIPs investors.
- **The proposed PEPP KID does not reflect the numerous areas of national discretion proposed by the Commission.** If the proposed compartment approach is adopted, it is not clear how the disclosure of country-specific information (such as different tax treatment, retirement age and applicable contract law) would fit in an EU-standardised key information document. Insurance Europe is concerned that the proposed regulation seems to envisage one PEPP KID per member state/compartment; an approach that would be burdensome to PEPP providers and would overwhelm potential PEPP savers.
- **The proposed PEPP KID does not take into account the diversity of eligible providers.** Given the diversity of eligible providers, it is crucial that PEPP savers are fully aware of the risks they bear and the conditions attached to their pension promises. PEPP savers should not be misled by a PEPP "EU quality label" giving the false impression that they have equivalent levels of protection, irrespective of the nature of the provider. As the PEPP KID currently stands, the insurance industry believes that there is insufficient space to disclose information highlighting the distinct features of a particular product — such as investment guarantees and/or coverage against biometric risks (including protection against longevity risk, protection of surviving dependents and protection in the case of incapacity to work) — and that these distinct features are not given enough prominence to ensure that PEPP savers have a complete and accurate picture of the service provided.

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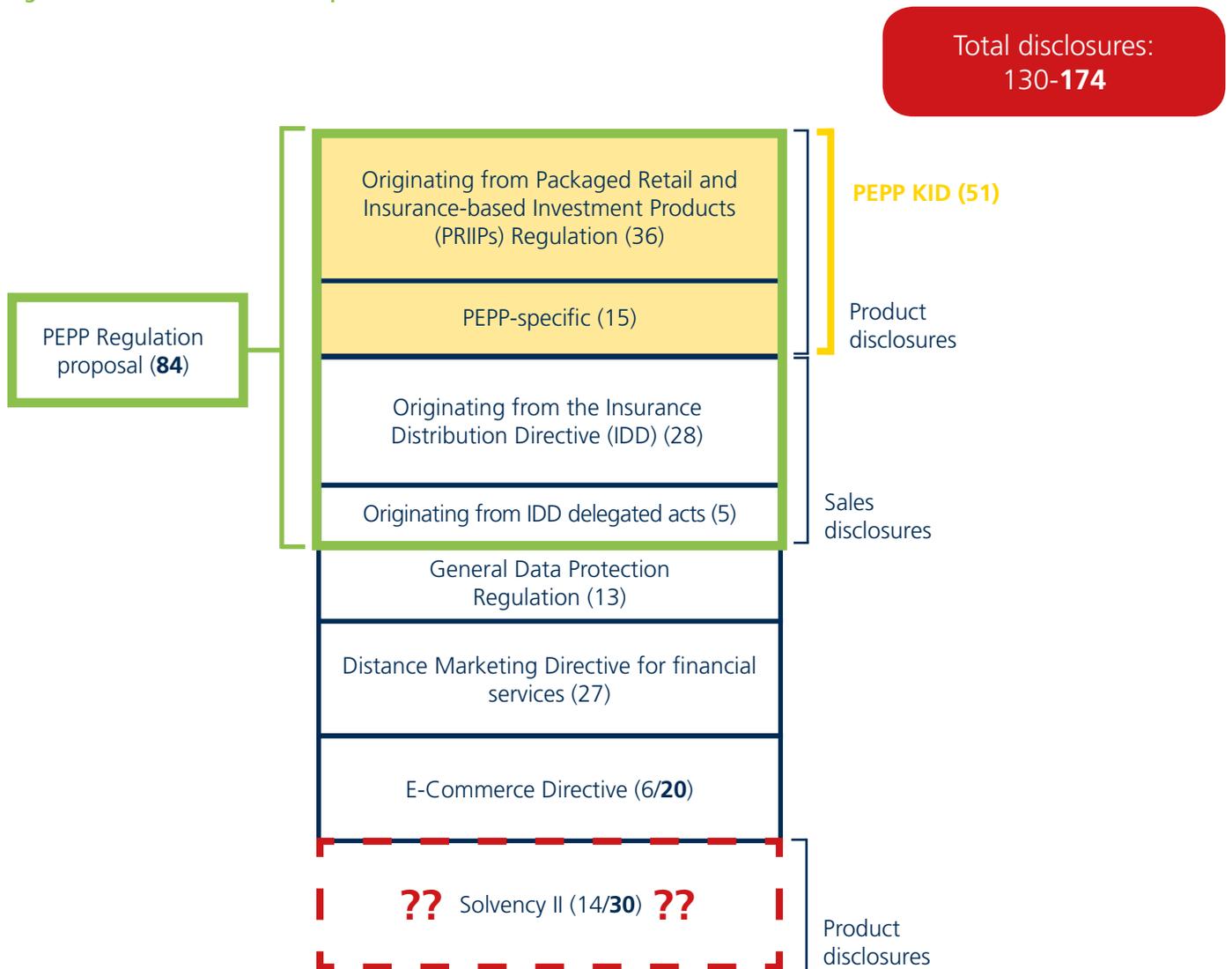
Pre-contractual information requirements should focus on quality rather than quantity

To have a clear and demonstrable benefit to consumers, pre-contractual information requirements should focus on quality rather than quantity.

The EC proposal to add further pension-specific information on top of the PRIIPs disclosures would not make the PRIIPs KID meaningful for PEPP savers. Instead, it risks overloading consumers with too much information, and would prevent them from making good assessments and appropriate choices. The inclusion of additional information (eg on past costs and performance of the PEPP alongside forward-looking performance scenarios), as proposed by the Commission, could potentially overwhelm savers and make the PEPP KID harder for them to understand.

Based on the proposed PEPP Regulation (ie requirements resulting directly from the PEPP regulation but also from cross-references to the PRIIPs Regulation, the Level 1 and 2 texts of the Insurance Distribution Directive (IDD) and the General Data Protection Regulation (GDPR)) and assuming that some of the disclosures stemming from the Distance Marketing Directive, E-Commerce Directive and Solvency II would also apply, Insurance Europe estimates that prospective PEPP savers purchasing a PEPP online via an insurance intermediary would be presented with at least 130 (and possibly as many as 174¹) separate pieces of information. This would be confusing for consumers and would be detrimental to their informed decision-making.

Figure 1: Excessive disclosure requirements



1 - Minimum scenario (130) assumes that Solvency II requirements would not apply and that replication of information requirements in the Distance Marketing and E-Commerce Directives is removed
 - Maximum scenario (174) assumes that Solvency II requirements apply and that replication of information requirements in the Distance Marketing Directive, E-Commerce Directive and Solvency II is not removed
 - Neither scenario takes into account national pre-contractual information requirements that could apply on top of EU obligations

Insurance Europe welcomes the EC's move towards a more digital-friendly approach to distribution and disclosures.

Insurance Europe welcomes the stated "digital ambition" displayed in Article 21 of the PEPP proposal. However, it is not clear how this will interact with the PRIIPs Article 14(2) and IDD Article 23(1) requirements that pre-contractual information be provided in paper format by default.

Insurance Europe also believes that further consistency throughout the proposal is needed. In particular, the insurance industry questions how feasible it would be to present 130 to 174 disclosures in a format suited to digital distribution channels, such as via a smartphone.

Likewise, Insurance Europe wonders whether referring to the PRIIPs KID format, which relies on paper by default (ie "three sides of A4-sized paper when printed"), is consistent with the EC's strongly digitalised approach.

Insurance Europe recommendations

With a long track record of tackling demographic challenges, life insurers are major providers of personal pension products that consumers can trust.

Based on its long-standing experience, the insurance industry stands ready to work with EU policymakers to make the PEPP a workable and safe tool for EU consumers without any unintended consequences for Europe's pension landscape.

Insurance Europe proposes the following solutions:

Article 23(2)

The insurance industry strongly recommends that inappropriate PRIIPs disclosures are replaced with PEPP-specific information and indicators:

- Additional information specific to the PEPP (detailed in Article 23(3)) should not simply be added to existing fields in the 'What is the Product' section of the PRIIPs KID. It is vital that existing indicators (such as the objectives of the product, minimum holding period, insurance benefits and risk description) should be adapted to better reflect a pension product.
- Information on costs should be adapted to ensure insurance costs are more accurately reflected. The cost indicator should be calculated in a manner that reflects the long-term nature of the PEPP (possibly through reduction in yield) accompanied by information on annualised costs given savers' long-term outlook.
- Similarly, the PRIIPs risk indicators should be adapted to reflect the long-term and lower risk nature of a PEPP, showing the likelihood of loss at maturity rather than volatility throughout the life of the product and enabling consumers to differentiate between several relatively low-risk products.
- Information on the additional services offered by providers (such as capital protection and biometric risk coverage) should be given, showing differences in levels of protection to allow consumers to make informed choices about providers when purchasing a PEPP or switching providers. This could be achieved through the addition of specific sections detailing additional services.

Article 23(3) and (4)

The insurance industry strongly recommends avoiding overloading consumers with information, focusing the PEPP KID instead on information that is useful to prospective PEPP savers:

- Information on past performance should not be included alongside forward-looking performance scenarios as it is not a significant indicator of future performance. Information on past performance was explicitly excluded from the PRIIPs KID for this reason.
- It should also be made clear that the compartment approach proposed by the Commission will not necessitate providing potential investors with a separate KID for each compartment.
- Insurance Europe identified the elements needed in a key information checklist for a PEPP in its "[Blueprint for Pensions](#)".

Insurance Europe recommendations (continued)

Articles 3, 19 and 23

Insurance Europe stresses the importance of giving due consideration to the combined impact of all applicable legislation on PEPP savers:

- The PEPP regulation (Article 3 on rules applicable) should clarify whether the disclosures stemming from the Distance Marketing and E-Commerce Directives, as well as from the Solvency II Directive, would apply in related situations.
- Based on the above clarification, attention should be paid in Articles 19 and 23 to avoid replication of information. For instance, if the disclosures foreseen in Article 185 of the Solvency II Directive 2009/138 would have to be disclosed on top of the information required under the proposed PEPP Regulation, it would result in customers of insurers receiving two largely redundant information documents: a PEPP KID and a personalised Solvency II information document. This would not only be detrimental and confusing for PEPP savers, it would also raise the issue of a level playing field between providers, as this requirement would only apply to insurers.

Article 21

This provision should be amended to clarify that the requirement to provide PEPP documentation electronically supersedes PRIIPs and IDD requirements to provide paper documents by default.

Article 23(6)

The insurance industry is particularly concerned by the references made to, and the strong reliance on, implementing technical standards (ITS) for the PEPP KID content.

- Based on Insurance Europe's recent experience, more guidance and content should be included in the Level 1 text to ensure i) consistency between levels over time and ii) that there is sufficient time both for developing quality Level 2 measures and for industry implementation.
- Care must also be taken when opting for Level 2 measures and when opting for one specific type of Level 2 measures over another. Insurance Europe believes that regulatory technical standards (RTS) would be more appropriate and ensure that the PEPP KID would adequately embrace all the PEPP characteristics and features.

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