PEPP KEY MESSAGES: SAFETY

The safety of individual savings should be the priority of any EU initiative in the field of pensions

1 The insurance industry supports the inclusion in the PEPP proposal of a single default investment option aimed at ensuring capital protection for PEPP savers

The insurance industry agrees that providing future pensioners with appropriate protection should be a key objective of the European Commission's proposal for a pan-European personal pension product.

2 Insurance Europe calls for further clarity on the default investment option

The proposal states that the capital invested under the default option should be protected through "risk mitigation techniques" (Article 39). However, the proposal does not define the concepts of "**capital protection**" and "**risk mitigation techniques**", which will be defined at a later stage in the delegated acts.

Insurance Europe calls for clarity on these concepts to be included in the Level 1 regulation. They are key elements to know from the outset to ensure that PEPPs come with a strong level of consumer protection. This is particularly important given that Article 5 introduces the possibility for the PEPP to be distributed by a broad range of providers that fall under very different supervisory and regulatory frameworks. As it stands, the proposal creates the very real risk that levels of consumer protection will vary depending on the PEPP provider. For instance, the Solvency II regulatory regime that applies to insurers was specifically designed to ensure a high level of protection for consumers purchasing long-term, savings and pension products. A claim that consumers receive an equivalent level of protection in their PEPP, irrespective of the provider, can only be made if all potential providers are subject to the same prudential rules. This is currently not the case.

The proposal also states that the default investment option should include an "**inflation indexation mechanism**" (Article 49(5)) without explaining what this would be.

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.

See overleaf for Insurance Europe's proposed solutions.

Insurance Europe recommendations (continued)

- **Article 37** The clarification of "**capital protection**" should acknowledge that providing a guarantee of capital at retirement offers a higher level of capital protection for consumers than other investment strategies (such as structured products and conservative investment strategies/life-cycling).

- **Article 39** The insurance industry calls for further guidance and clarity to be included in the Level 1 text on what is meant by "**risk mitigation techniques**" and how they might be able to back up "capital protection".
  - Clarifications on risk mitigation techniques should also take into account the diversity of eligible PEPP providers and the thereto related differences between collective/mutualized and individual investment approaches.
  - From an insurance perspective and based on the Solvency II framework those techniques often refer to instruments such as derivatives, securitization or reinsurance and apply to collective investments. While certainly useful, such techniques are not the only and often not the key tools that insurers use to provide policyholders with capital protection/investment guarantees.
  - In general, the insurance industry also calls for more guidance and content in the level 1 text to ensure consistency between levels and over time, as well as that there is sufficient time for both developing quality Level 2 measures and for industry implementation.

- **Article 49(5)** The insurance industry highlights that covering **inflation** on top of the capital invested would be extremely challenging — if not impossible — considering inflation's fluctuant nature and the fact that it is not known at the time when the guarantee is issued.

- **Article 23** It is fundamental to ensure that **PEPP pre-contractual disclosures** clearly highlight the distinctive default investment strategies and the possible risks linked to them. Only this will enable prospective PEPP savers to form a complete and accurate picture of the different options on offer and to select a product that best fits their needs.

- Last but not least, Insurance Europe stresses that the PEPP must come with **solid prudential treatment** reflecting the nature of long-term liabilities. Therefore, for PEPPs offering a guarantee on the capital invested, the prudential treatment should be **Solvency II**. Solvency II was specifically designed to ensure a high-level of protection for consumers acquiring long-term savings and pension products.

  However, it should be noted that Solvency II is overly conservative, as it exaggerates balance-sheet volatility and therefore results in high capital charges. Solvency II consequently unnecessarily affects pension returns and adjustments are therefore needed.

  Insurance Europe advocates a proper investigation, as part of the upcoming Solvency II reviews, of what it sees as a mismatch between the current regulatory approach and how insurers are really exposed to investment risks. Adjusting Solvency II requirements for long-term liabilities would help insurers play an active role in contributing to the PEPP project through the provision of real pension products as well as other long-term savings products.

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