insurance europe

Position Paper

Response to EC consultation on personal pensions

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General remarks

Insurance Europe acknowledges that Europe faces a major challenge in ensuring adequate retirement income for its citizens. We believe that mutually reinforcing pension pillars will become increasingly important in responding to this challenge. Personal pensions, ie the "third pillar", play a key role in today's pension landscape. In the future, this role is likely to become even more important. With a long track record of tackling demographic challenges, life insurers are major providers of personal pension products that consumers can trust.

Personal pensions are also very important as a driver for long-term growth. With this in mind, Insurance Europe welcomes the EC's interest to link the future of pensions to its goal of strengthening and diversifying the financing of the EU economy through a Capital Markets Union. Insurance Europe wishes to stress that achieving the objectives of the Capital Markets Union requires that private pensions have features, such as being long-term, that make it possible to allocate the funds to long-term investments. Long-term investments can only be made on the basis of long-term liabilities.

While sharing the Commission's general objectives, Insurance Europe has strong reservations about its analysis and policy options to develop personal pensions in the EU. In particular, the EC's proposals do not give proper consideration to key product features that have proven instrumental in providing European citizens with tailored retirement solutions. Moreover, the EC does not address the complex relations between the EU policy options and areas falling under national competence. The European insurance industry fears that a poorly designed regulatory initiative could bring benefits to neither consumers nor the EU economy.

Personal pensions are part of national pension systems

The respective roles of and interaction between statutory, occupational and personal pensions are unique to each member state. These aspects have been shaping national pension markets for decades and have resulted in national rules and specific products. It is therefore natural that personal pension products differ substantially across the EU. Likewise, it is not realistic to separate national personal pensions and the national circumstances on which they depend.

Consumers must be duly protected

Solvency II was specifically designed to ensure a high level of protection for customers of insurers, who are the main providers of personal pensions. This protection is ensured through a range of measures, including stringent capital requirements. Other financial institutions are not subject to the same rules. Therefore, Insurance Europe does not see how extending the provision of personal pensions to other types of providers would ensure a similar

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level of consumer protection, and even less so a “higher” level of protection, as envisaged by the Commission. From a regulatory point of view, there is a very high risk of an uneven playing field, to the detriment of consumers.

Proposed policy options require further work

The EC does not provide much detail about any of the proposed policy options. For instance, it does not explain how they would work in practice. In addition, the EC does not examine the complex interactions between these options and areas of national competence (eg tax law, contract law, general good rules and social and labour law). We welcome the fact that the EC is carrying out an in-depth study on the legal and fiscal framework applicable to personal pension products in the EU and hope this will clarify outstanding issues.

The way forward: a pan-European personal pension product

Considering the EC’s proposed policy options, we believe that the concept of an EU personal pension product may be an appropriate solution to reach the EC’s objectives, provided it is based on EIOPA’s proposal for a pan-European personal pension product (PEPP). We maintain that this initiative — with all necessary improvements to it — may increase the volume of personal pension products sold throughout Europe and increase the allocation of funds to long-term illiquid investments. However, demand for this product in each market is likely to depend on its maturity and how issues related to taxation can be solved.

Insurers stand ready to further engage

Insurance Europe hopes to be able to engage with the EC in further work on this project. To this end, the annex provides more information on Insurance Europe’s analysis of personal pensions.

*** See annex for Insurance Europe comments on the EC consultation paper ***

Annex – Insurance Europe comments on the EC consultation paper

1. State of play

EC analysis
The EC argues that the personal pension market is inefficient, fragmented along national borders and dominated by a limited number of national players. Furthermore, it suggests that national tax requirements would hamper the purchase of products by foreign clients. As a result, cross-border provision of personal pension products is found to be limited.

Insurance Europe position
Insurance Europe strongly disagrees with the bulk of this analysis. It would welcome the EC making available all the supporting evidence for its analysis.

Member states have arranged their pension systems differently, according to their socio-economic model and local practices. The respective roles of and interaction between statutory, occupational and personal pensions are unique to each member state. These aspects have been shaping national pension markets for decades and resulted in different pension products features.

Insurance Europe questions why these national features should automatically be deemed as "barriers". On the contrary, they should be seen as justified given the environment in which they have developed.

It is therefore natural that personal pension products differ substantially across the EU. It is also no surprise that personal pension products currently sold in the EU are strongly linked to areas of national competence and local practices.

Against this background, it is fundamental that any provider wishing to offer PPPs currently available on the market across borders adapts to the demands and characteristics of other markets, particularly in terms of product features (eg long-term guarantees, profit-sharing mechanisms, risk coverage, pay-out options, surrender options).

2. Simplicity is no proxy for pension safety and adequacy

EC analysis
The EC also argues that encouraging the provision of personal pension products by a wider range of financial institutions would increase product choice for consumers and eventually result in a greater uptake of "simpler, more innovative and more efficient personal pensions".

Insurance Europe position
Insurance Europe has strong reservations about this analysis. Solvency II was specifically designed to ensure a high level of protection for customers of insurers, who are the main providers of personal pensions. This protection is ensured through a range of measures, including stringent capital requirements. Other financial institutions are not subject to the same rules. Therefore, Insurance Europe does not see how extending the provision of personal pensions to other types of providers would ensure a similar level of consumer protection, and even less so a "higher" level of protection, as envisaged by the Commission. From a regulatory point of view, there is a very high risk of an uneven playing field, to the detriment of consumers. However, the EU can increase existing providers' interest in personal pensions by addressing concerns that prudential rules do not sufficiently take account of insurers' business model and long-term horizon.

Insurance Europe would also like to comment on the EC's preference for a "simpler" personal pension product. Consumers find it difficult to assess and make decisions about their future retirement income needs. However, simple pension product design would not necessarily deliver more adequate pensions. On the contrary, Insurance Europe believes that a certain level of sophistication in the design of a product is rightfully needed in order to reduce certain risks and uncertainties, while taking account of savers' specific needs and preferences.

3. Portability and switching

EC analysis
The EC consultation paper identifies consumers' inability to switch between providers and transfer their pension rights/accrued capital between countries as an example of market inefficiency.

Insurance Europe position
Insurance Europe interprets the notion of "portability" as a possibility for the consumer to remain with and continue to pay contributions to the existing provider, regardless of where the consumer chooses to live in the EU. In Insurance Europe's view, this question is therefore only relevant for cross-border situations, as there is no reason to have "portability" within a member state. Indeed, since personal pensions are contracts between customers and providers, no restrictions apply to the place of residence. For instance, a customer moving to another member state can continue to accrue capital and receive the benefits covered by the contract. However, the customer may be subject to national rules (eg taxation) over which providers have no control.

Conversely, Insurance Europe considers that the ability of consumers to move their accrued capital between providers constitutes "switching", irrespective of whether this transfer is performed domestically or cross-border.

Insurance Europe disagrees with the EC's assessment and opposes any EU action introducing portability or switching rules for personal pension products that are currently available. Given the national context in which such products have been developed, this is clearly a matter for national regulators rather than a possibly detrimental one-size-fits-all EU framework. Insurance Europe also wishes to point out that any measure to enable the transfer and merger of pension rights across borders would face tax and legal constraints.

The EC fails to explain how its understanding of switching would apply and under which conditions. Most importantly, the EC does not explain how portability can be balanced with the objective of long-term investment, or how remaining consumers will be protected (eg products that involve risk-sharing). As the consultation document points out, personal pensions are long-term oriented. Only a long-term horizon can allow providers to generate adequate returns on investment. Frequent, unconditional and unlimited switching of personal pensions is not compatible with long-term investments.

Some observers suggest creating a new type of individual investment account that would according to them be portable. However, this type of account only allows retail investors to liquidate their investments (possibly at a cost) and to invest them in a new account with another provider, which means that it provides switching opportunities and fails to generate long-term investment and corresponding long-term returns. It could therefore be questioned whether it should even be described as a pension product.

Portability at EU level is currently not granted for any pension pillar. For pillar I, a coordination of statutory pension systems is ensured through Regulation 883/04. For pillar II, Directive EC/2014/50 requires preservation and fair treatment of occupational pension rights for workers moving across border. Both pieces of legislation entail no actual transfer of pension contributions.

4. Default investment option

In its consultation (Q4), the EC asks stakeholders whether personal pension products should come with "a default investment option which provides simplicity and safety, catering for the needs of a majority of personal pension savers"*.* Insurance Europe did not answer this question, as the consultation format made it impossible to qualify the response, and is therefore clarifying its position here.

Insurance Europe opposes product restrictions at EU level, as this could limit providers' freedom to design products and hamper innovation, thus limiting consumers' choice and ability to access products tailored to their needs. It opposes any EU action favouring the introduction of default options for personal pension products that are currently available.

With regard to PEPP specifically, Insurance Europe acknowledges that a default investment option constitutes a key feature of EIOPA's proposal. As stated in its responses to EIOPA's consultations, Insurance Europe strongly believes that PEPP providers should be allowed to offer PEPPs with a default investment option based on either:

- Guarantees
- Long-term collective investment, where premiums are paid into a life fund and where the concept of smoothing is applied
- Life-cycling with derisking

For investment options containing guarantees, PEPP providers should be free to offer different kinds and levels of guarantees.

Furthermore, in member states where mandatory duty of advice applies, a "default option" approach may not be viable as consumers will always have to make an active choice.

Finally, Insurance Europe would suggest not prescribing the limit to the actual number of investment options that a PEPP provider could offer.

5. Policy option #1: Fostering cooperation among stakeholders

A dialogue between interested parties may have positive effects on personal pension provision. However, should recommendations be addressed to providers only, it is unclear how they could bring added value. Other issues that fall outside providers' remit (eg market take-up, cross-border provision) would risk not being properly addressed.

That is why any action to foster cooperation among stakeholders should comprise recommendations not only to providers, but also to member states and representatives of future pensioners.

6. Policy option #2: European Personal Pension Account

The Individual Retirement Account was developed for the US market. The EC does not clarify how it would be implemented in the EU. Therefore, Insurance Europe can neither provide a detailed assessment nor judge the potential safety and protection for future EU retirees resulting from such an initiative.

The distinguishing features of a European Personal Pensions Account should be further detailed, eg how such a product would fit in a EU context, particularly in light of member states' different tax regimes.

7. Policy option #3: European Personal Pension Product

Insurance Europe has closely followed EIOPA's proposal to establish a pan-European personal pension product (PEPP). Unlike the other proposed policy options, a PEPP may potentially increase the volume of personal pension products sold, especially in certain EU member states, and also increase the allocation of funds to long-term illiquid investments. Nevertheless, it faces significant challenges, particularly in light of the close links to areas of national competence (taxation, social and labour law structures and general good rules). We note that EIOPA has not fully addressed these particular challenges in the advice. Also, the PEPP has to have features making it a true pension product.

With this in mind, Insurance Europe favours, as a first step, an in-depth legal analysis of the relation between PEPP and national rules. Until this fundamental aspect of the project is clarified and an appropriate cost-benefit analysis is carried out, a final opinion on a PEPP's feasibility cannot be given. Insurance Europe therefore welcomes the fact that the EC is carrying out an in-depth study on the legal and fiscal framework applicable to personal pension products in the EU and hope this will clarify relevant outstanding issues.

Moreover, in order for the PEPP to be potentially beneficial to the retirement prospects of consumers and to the EU economy, European insurers strongly believe that:

- In the spirit of creating a Capital Markets Union, and so to generate funding for long-term investments, the PEPP would need to allow providers to generate long-term liabilities. This means that consumers should be incentivised to keep saving for a long period, ideally until retirement. Minimum investment periods should therefore be included in the PEPP framework.
- PEPP providers should be subject to an appropriate prudential treatment that takes into account the PEPP's long-term horizon and specific features. Insurance Europe maintains that the "same risks, same rules" principle should apply to ensure a level-playing field between all providers. For PEPPs with minimum return guarantees and/or biometric risk coverage, the applicable framework should be Solvency II. However, it should be ensured that insurers' ability to manage market volatility in the long-term is duly taken into account.
- The PEPP would need to come with the option for the consumer to ask for additional biometric risk coverage, either during the accumulation phase or decumulation phase (taking into account national practices).
- Since pension products are generally defined by their objective to provide an income in retirement, the protection of longevity risk should be considered among the options offered to consumers, in line with national rules.
- From a consumer protection perspective, the PEPP should entail an appropriate level of security for policyholders.

8. Policy option #4: Harmonising national personal pension regimes

Insurance Europe does not support an approach based on the harmonisation of national personal pension regimes. Harmonisation of all PPPs across the EU poses the risks of creating inconsistencies in the respective pension system and of undermining trust of savers. This would duplicate existing requirements and/or add a new, unnecessary layer of requirements for products and providers — almost exclusively insurers — which are already well regulated at EU and/or national level.

In recent years, many initiatives have been or still are being implemented for the insurance sector. Solvency II entered into force in 2016 and contains a wide set of modern and sophisticated governance and information requirements. The Insurance Distribution Directive (IDD, Directive 2016/97) introduces new product oversight and governance (POG) provisions for all insurance products. The IDD also introduces new provisions on distribution that will enhance the conduct of business rules for the entire sales process for insurance. These rules ensure a high level of protection for consumers who purchase personal pension products from insurers.

These rules are still being implemented in member states and the consequences thereof need to be thoroughly examined. Therefore, we do not see any need or justification for new regulation in the field of personal pensions for insurers.

RESPONSE TO SECTION B3: QUESTIONS FOR OTHER STAKEHOLDERS IN A PROFESSIONAL CAPACITY – FOR PROVIDERS, POTENTIAL PROVIDERS, STAKEHOLDER REPRESENTATIVES, PUBLIC AUTHORITIES REGULATING PERSONAL PENSIONS, ACADEMICS ETC.

PLEASE JUSTIFY YOUR CHOICE(S) – WHERE POSSIBLE PLEASE PROVIDE REFERENCE TO ANY EVIDENCE, DATA, REPORTS OR STUDIES.

A. On the challenges to personal pension development in the EU

At present, the EU personal pensions market does not seem to be reaching its full potential, both in terms of the products supplied and the level of demand from potential investors. There is evidence that personal pensions markets remain fragmented along national borders, are dominated by a limited number of national providers, and national tax requirements limit the possibility to purchase personal pension products from another Member State. As a consequence, cross-border provision of these services is limited. Competition is imperfect, restricting investors from enjoying the benefits of more innovative and efficient personal pension products.

Encouraging the provision of third pillar personal pensions by a wider range of financial institutions would foster more competition and could offer more choice with more attractive prices to consumers. Provided the above-mentioned challenges are overcome, the uptake of personal pensions would increase with more coverage among policyholders. Consumers could benefit from simpler, more innovative and more efficient personal pensions to complement their retirement income.

1. Do you offer personal pension products to consumers?

- X No, we do not offer personal pension products
- o Yes, in one Member State
- o Yes, in more than one Member State

If yes, please specify in which Member States.

2. What are the issues which, in your view, limit the development of personal pensions in your Member State? (Please specify your answer below in maximum 500 characters. You may reply to one or several categories)

a) National legal requirements (e.g. prudential rules governing providers, administrative rules, tax regime for personal retirement saving, non-tax legal requirements, etc.)

(500 characters max.)

Personal pensions differ substantially across the EU, as they are designed depending on the role played by other pension pillars. We are not aware of national legal requirements that limit the development of personal pensions in member states.
However, at EU level, excessive capital charges for insurance long-term savings products may affect the development and affordability of pension product with traditional guarantees.

b) Barriers to entry for providers (e.g. costs are too high to enter to market, competition is not strong enough on the market, the current low interest rates disincentivise providers to offer long-term products, etc.)

(500 characters max.)

Providers wishing to offer PPPs have to comply with high regulatory standards, social and labour law, contract law and general good rules. This requires investments that not all providers are willing to bear, if the business case for PPP is hard to calculate. However, at EU level, excessive capital charges for insurance long-term savings products may affect the development of pension products with traditional guarantees.

c) Insufficient demand from individuals for personal pensions (e.g. lack of information about pension savings, low level of individuals' financial literacy, lack of interest in pension savings, insufficient disposable income for pensions savings purposes)

(500 characters max.)

Citizens generally lack knowledge about and interest in essential aspects of financial planning, such as savings and investment and insurance. As a result, they are often not aware of their future public pension income and of the need to accumulate extra pension savings. We are not aware of evidence that insufficient demand from individuals affects the development of PPPs at national level. We urge further action from the EU and member states to raise citizens' financial and pension awareness.

d) Insufficient public policy incentives to stimulate saving in personal pension products

(500 characters max.)

Insufficient public policy – especially with regard to raising awareness on pensions may hinder the development of personal pensions at national level. There is also a lack awareness among policymakers themselves. For instance, in some EU member states the tax deduction regime for contributions to third pillar pensions was abolished without any analysis of the need for complementary pension savings or a discussion on other possible measures to enhance such savings.

e) Any other limitation

(500 characters max.)

Personal pensions are long-term products with long-term liabilities. An appropriate framework is needed to take account of their long-term horizon and purpose. Currently, Solvency II does not meet this objective as far as long-term guarantees are concerned.

3. What are the issues which, in your view, limit the development of personal pensions across borders? (Please specify your answer below in maximum 500 characters. You may reply to one or several categories)

a) Varying national legal requirements (e.g. complexity of national legal frameworks, differing national tax requirements, difference in conduct of business rules, etc.)

(500 characters max.)

Personal pensions differ substantially across the EU, as they are designed depending on the role played by other pension pillars and other national requirements. Providers should respect local social and labour law, contract law and general good rules. Differences in these areas reflect specificities related to national developments, including the link between the three pension pillars and the overall national social security system.

b) Challenges for providers to operate cross-border (e.g. high set up costs, high operating costs in another Member State, language issues, unfamiliar customer base, branding issues, local dominant distribution channels, presence of conflicts of interest in the distribution channels, etc.)

(500 characters max.)

Personal pension markets differ substantially across Europe. Any provider wishing to offer PPPs across borders needs to adapt to the demands and specificities of other markets. In particular, this includes product features (eg long-term guarantees, profit-sharing mechanisms, risk coverage, pay-out options, surrender options), as well as consumer preferences and expectations depending on the role played by other pensions pillars.

c) Insufficient demand from individuals for cross-border pensions (e.g. uncertainty about cross-border providers, perception that a cross-border pension would only be relevant in case of mobility, etc.)

(500 characters max.)

Citizens generally lack awareness of and often interest in their personal situation with respect to their pensions in general, as well as the essential aspects of financial planning, such as savings and investment, debt management and insurance. We do not have evidence that uptake is linked to cross-border provision. It should rather be emphasised that when purchasing a long-term pension product, consumers often prefer engaging with local providers with deep knowledge of the local pension system.

d) Any other limitation

(500 characters max.)

B. What should be the key features of an EU personal pension framework?

As outlined in the 2014 EIOPA preliminary report, personal pension savings are expected to be a successful alternative source of retirement income and provide for replacement rates in the future but only in so far as those savings are safe in the sense of trustworthiness, cost effectiveness and transparency. They should also be sufficiently flexible to cater for a European labour market where workers' mobility is increasing.

Furthermore, the 2016 EIOPA technical advice outlined that objectives for personal pensions determine and affect to some extent the required product characteristics:

<u>Safe products</u> imply the need for addressing conflicts of interests and information asymmetries between providers and savers. Conflicts of interests need to be addressed and incentives need to be aligned to facilitate optimised results for consumers. The main tools for ensuring safety could include authorisation and governance requirements and also cover controls and limits on product design and characteristics. Those product limitations could entail investment limitations or the inclusion of guarantees on capital or returns.

<u>Transparent products</u>: As long-term savings are often perceived complex, relevant information on those products needs to be provided to consumers to make well-informed decisions about taking up and maintaining long-term savings. The nature, frequency of disclosure and presentation of information contributes to the overall transparency of these products. There are several recent examples in EU financial services legislation about information disclosure requirements, such as in the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs), in the Markets in Financial Instruments Directive (MiFID II) and in the Insurance Distribution Directive (IDD) which could serve as a basis for establishing the appropriate disclosure requirements for personal pension products.

<u>Cost-effective products</u>: Building a stronger market for personal pensions personal pensions could provide efficiency gains for providers through standardisation, enabling economies of scale and allowing for improved risk diversification. This can help reducing administrative costs arising from distribution, information and manufacturing and lower the asset management costs by increasing the size of the asset portfolio under management. According to EIOPA, such efficiency gains could be offered by a well- functioning Single Market for personal pension products, without obstacles to cross-border activities, facilitating healthy competition and financial innovation. Online distribution is often seen as a relevant alternative distribution channel that can help reduce those costs.

Building on the essential features of an EU personal pensions framework as outlined above through the EIOPA technical advice, an EU personal pension framework should be complemented by a number of areas which could be subject to enhanced standardisation. These areas include investment rules, guarantees provided, portability of pensions, information requirements, rules on switching providers or products and the options for pay-out. In addition, the key features should not be looked at in isolation, but in in the context of the tax regime of the personal pension, which is in many Member States a key driver for the take-up.

B1 – KEY FEATURES

INVESTMENT RULES

Many long-term retirement savings are reliant on investments (in capital markets or other areas) in order to grow. Personal pension products create the opportunity for savers to invest long-term, potentially maximising their retirement savings. The range of investment options is a key issue to address in this area.

According to the 2016 EIOPA advice, savers tend to have difficulties to determine their own investment portfolio, are often overwhelmed by the choice of investments and strongly influenced by the way that choice is presented to them. Savers seem to prefer choosing a "standard" default investment option over complex options. Savers are not aware that their needs may change over the lifetime of the product and may not monitor, review or rebalance the asset allocation of their investment portfolio over time.

In the work conducted by EIOPA on this key feature regarding investments, the options for a personal pensions framework range from including a default investment option to be provided to savers with a very limited number of alternative options in order to steer individuals towards a standard option, towards an approach where more investment options would be provided to cater for individuals with different risk appetites. In this context, the first approach, namely a default investment option, could provide the benefit of simplicity, provide safety and a limited risk for the majority of savers. The other approach, namely alternative investment options, could provide flexibility to cater for the needs of specific savers which specific investment profiles, with different risk return profiles.

EIOPA recommends in its technical advice a limited number of investment options to help limit information overload on consumers. Furthermore, EIOPA recommends a default or "core" investment option in case a product would incorporate more than one investment option in order to simplify decision-making for the majority via choice- and information architecture.

EIOPA also addresses the question whether there should be a guarantee to protect the individual saver, and/or a life-cycle strategy with de-risking when approaching retirement. A life-cycling strategy with de-risking (LCS) is an approach that ensures that savers do not have to make investment decisions during the lifetime of their personal pension product.

EIOPA recommends a de-risking strategy for at least the default investment option unless all investment options contain a guarantee. The de-risking strategy should aim to maximise returns at defined risk levels for that investment option. These conditions would seek to mitigate potential issues of individuals' loss and regret aversion.

4. Should there be a default investment option in a personal pension product which would provide simplicity and safety catering for the needs of a majority of personal pension savers?

O Yes
O No
O No opinion

5. **Which type of protection should be attached to the default investment option ensuring simplicity and safety for investors in personal pensions?**
   O Guarantee on capital
   O Guarantee on returns
   O No need for a guarantee
   X Other (please specify)

If other, please specify

(500 characters max.) We oppose product restrictions at the EU level as this could limit providers´ freedom to design products and hamper innovation, thus limiting consumers´ choice and ability to access products tailored to their needs. With regard to Q4, we find that the question cannot be answered properly. We oppose the introduction by EU legislation of default options for PPPs currently available on the market. For PEPP-specific comments, we invite the EC to see the accompanying document attached to our response.

6. **Should the number of alternative investment options be limited? If yes, please specify the scope of the limitation and which type of protection they should feature (max. 500 characters)**

If yes, please specify

(500 characters max.) We oppose product restrictions at the EU level, as this could limit providers´ freedom to design products and hamper innovation, thus limiting consumers´ choice and ability to access products tailored to their needs. For PEPP-specific comments, we invite the EC to see the accompanying document attached to our response.

PORTABILITY OF PERSONAL PENSIONS

Personal pensions are typically long-term products as their focus is on retirement. Therefore, during their lifetime, investors' preferences and needs could change, and they may move between Member States for multiple reasons (employment, settling for retirement etc.).

Following changes in individuals' preferences and/or personal circumstances, the question of portability of pensions arises, within the same country or across borders. Portability would allow for the transfer of pension contributions across providers and across Member States.

A portability feature of personal pensions across the EU should make personal pensions a more attractive option for mobile workers in view of keeping their pension contributions together.

In addition, providers of personal pensions could scale up their activities in a more integrated EU market, and thus offer products across borders to savers in less mature personal pension markets.

7. **Should a personal pension product be portable:**

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Across Member States					

Within the same Member State					
Both within the same Member State and across Member States					

8. What are the main barriers for portability of existing personal pension products? Please describe in max. 5 000 characters.

(5 000 characters max.)

Insurance Europe interprets the notion of "portability" as a possibility for the consumer to remain with and continue to pay contributions to the existing provider, regardless of where the consumer chooses to live in the EU. In Insurance Europe's view, this question is therefore only relevant for cross-border situations, as there is no reason to have "portability" within a member state. Indeed, since personal pensions are contracts between customers and providers, no restrictions apply to the place of residence. For instance, a customer moving to another member state can continue to accrue capital and receive the benefits covered by the contract. However, the customer may be subject to national rules (eg taxation) over which providers have no control.

Conversely, we consider that the ability of consumers to move their accrued capital across providers constitutes "switching", irrespective of whether this a transfer is performed at domestic or cross-border level.

Against this background, we highlight that taxation is the main financial incentive for personal pension products. Conversely, it can also be a disincentive for consumers wishing to keep contributing or enjoying the pay-out of a pension product across borders. Because taxation is set at national level, as a Member State competence, consumers can only enjoy tax incentives under the rules of the country where they reside.

With regard to Q7, we find that the question cannot be answered properly because any decision on personal pension portability should consider and respect the design of local pension systems. Imposing portability to PPPs already available by means of EU legislation could severely disrupt the market and business models of providers where such feature is not available.

We invite the EC to see the accompanying document attached to our response for a qualified position.

INFORMATION TO POLICYHOLDERS

In order to determine which personal pension products best fit their needs, individuals should be appropriately informed of the key features of such products, in particular in view of the products' long-term nature and inherent complexity. There are several recent examples in EU financial services legislation about information disclosure requirements, such as in the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs), Markets in Financial Instruments Directive (MiFID II) and Insurance Distribution Directive (IDD). PRIIPs introduces a Key Information Document (KID – a simple document giving key facts to retail investors in a clear and understandable manner) covering not only collective investment schemes but also other 'packaged' investment products offered by banks or insurance companies.

In the work conducted so far on the key elements of information to be disclosed, the options for personal pensions range from using existing models such as the KID in PRIIPs as a basis with some adaptations, to designing a more specific set of information requirements tailored to the specific nature of personal pensions.

The EIOPA technical advice recommends using the existing rules based on the idea of the PRIIPs KID as a starting point for disclosure requirements for personal pensions. However, EIOPA recommends adjusting the PRIIPs KID to allow for the specificities of personal pensions to be accommodated. This could for example include information related to the choices to be made by savers or options provided by national law and options provided by the provider on reaching retirement.

According to EIOPA it is important to project and estimate how investments (typically including periodic contributions) and the related returns accumulate over a potentially very long time period, and what that could mean in terms of a retirement income. Therefore, projections could also be a feature of the disclosure requirements.

A distinction should also be made between information provided before subscribing to a product (pre-contractual information) and information provided to savers during the product lifetime.

9. **The PRIIPs Key Information Document (KID) provides an example of pre-contractual information disclosure. Should the KID be used for the purposes of personal pensions disclosures? Alternatively, which KID elements could be directly used for disclosures regarding a potential EU personal pension and what are the elements that should be adapted (e.g. to take into account the long-term nature of the investment)? Please specify, in max. 500 characters.**

(500 characters max.)

The PRIIPs KID is not suitable for PPPs. The PRIIPs Regulation was designed for retail investment products, some of them being speculative products with a short-term horizon, and as a result pension products were explicitly left outside its scope. Pension products are already subject to specifically tailored disclosure regimes. Furthermore, the EC should not endorse as a basis for pension information, an initiative whose level 2 content is not finally defined yet.

10. **What information, in your opinion, is most relevant to individual savers before signing up to a product?**

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimporta nt**	**Fairly important**	**Very important**	**No opinion**
Available investment options			X		
Different types of fees		X			
Level of fees disclosed annually	X				
The rate of return over the last two years					X
Level of protection provided				X	
Information provided in a standardised format (similarly to the PRIIPs KID)	X				
The tax regime for contributions, returns and pay-outs				X	

Is there any other information that would be of importance for savers before signing up to a product? Please specify (max 500 characters)

(500 characters max.)

Disclosing fees annually is irrelevant in the pre-contract phase. An indicator of the total cost impact of fees (RIY) might help. The previous rate of returns depends on product types. Consumers should be informed about:
-Decumulation (age and pay-out options)
-Minimum investment period(s)
-Degree of illiquidity and conditions for partial withdrawal (eg medical expenses), depending on national law
-Risk coverage where provided (eg death, life, disability, sickness)
-Consequences of early termination

11. What information, in your opinion, is most relevant to individual savers during the lifetime of the product?

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Current investment option			X		
Available investment options			X		
Level of fees				X	
The rate of return				X	
Level of protection provided				X	
Accumulated benefits				X	
Expected benefits at retirement				X	
The tax treatment of savings				X	

Any other information that would be of importance for savers during the product lifetime? Please specify in max. 500 characters)

(500 characters max.)

We assume information on fees include all direct and indirect costs. However, any costs related to insurance coverage should be kept separate from the fees and costs of the saving element of the product. Consumers should be informed about:
- Decumulation (ie age and pay-out options)
- Minimum investment period(s)
- Degree of illiquidity and conditions for partial withdrawal, depending on national law
- Risk coverage where provided (eg death, disability, etc)
- Consequences of early termination

DISTRIBUTION

As personal pension products are often considered complex and information asymmetries between providers and savers subsist, distributors play an important role. Distributors, and in particular the advice they could

provide, could have a very significant impact on the development of a sound personal pensions market, reduce the asymmetry of information and ultimately serve the interests of consumers. Distributors can assist consumers in assessing personal pension products before purchase and help identify which product best meets their needs. They can provide advice to those with more complex needs. Distributors can also play a role during the lifetime of a personal pension product, assisting consumers in assessing their retirement provisions over time and helping trigger changes in consumers' allocation of resources within a personal pension product, or switching investment option over time, especially in the run-up to retirement.
Offer.

Currently, personal pension products tend to be distributed face-to-face and through branches, which may or may not be accompanied by advice. However, technological developments may change the way personal pension products are distributed and how advice is provided. The choice and/or variety of distribution channels is a key factor in determining the success of a personal pension framework.

In the work conducted so far by EIOPA on this key feature (i.e. distribution aspects), the options range from encouraging physical sales in parallel to adapting key features so that personal pensions can easily be sold online. EIOPA recommends that at least for the default option, distribution without advice via the internet should be permitted in the case of non-complex personal pension products, easy for customers to access and understand.

The question of advice, and it being compulsory or not, remains a question in the case of more complex investment options and potentially higher risks for savers.

During the product's lifetime, EIOPA recommends that the distributor should monitor and review the product in the context of the saver's needs and future plans. For known trigger events, for example when the saver is nearing retirement, the distributor should inform the saver about the upcoming event, and provide all relevant information in order to enable the individual to choose the best option for his / her retirement.

12. As a provider, which types of distribution channels would you favour in order to maximise the benefits and efficiency gains of a Single Market for personal pensions (e.g. online/face- to-face, directly/via agents)? Please specify (500 characters max.)

(500 characters max.)

All distribution channels should be possible for convenience and freedom of choice. Legislation should not hinder or incentivise one channel over another, as well as not hinder innovation in this field. Online sales should be subject to the same transparency requirements as "traditional" distribution channels to avoid distorting competition.

13. Would you consider that advice should be mandatory for the provision of personal pensions? Please provide details (500 characters max.)

(500 characters max.)

There should be no obligation at EU level to always provide advice, as the need for advice depends on the product and the wishes of the consumer.

Advice can be important to help consumers make the best decision when purchasing financial products or services, and can be required at national level. Consumers should be aware of the risks they bear and have the possibility to access some form of advice.

SWITCHING BETWEEN PRODUCTS OR PROVIDERS

For personal pension products which are by nature very long-term products, it is necessary to offer consumers the flexibility to switch between products as well as providers. Switching allows investors a choice between products and providers, and could be a means to encourage competition and keep levels of fees under control. Being locked into in a product or with a provider for a long time, especially until reaching retirement age, regardless of whether the performance of the product is satisfactory or not, could be highly detrimental for the *individual.*

However, this needs to be weighed against the benefits provided by long-term investment, which requires that funds be made available over extended periods. In line with the idea of long-term saving and of creating a Capital Markets Union, personal pensions should help generate funding for long-term illiquid investments (for example infrastructure, real estate or unlisted SME equities). This objective could be undermined if consumers shifted providers constantly, leading to short term liabilities and forcing providers to invest in more liquid assets. Consequently, a balance should be struck between allowing the possibility for switching by savers and ensuring that providers can invest in long-term illiquid assets.

In the work conducted so far by EIOPA on this key feature, namely switching, the options range from allowing very limited switching possibilities over time to preserve the long-term investment, to fostering competition by allowing savers to switch more often their personal pension across providers.

EIOPA recommends that switching providers should be possible but that some limitations on switching, such as minimum holding periods, should be allowed. Switching costs should also be fair and transparent. EIPOA favours transparent, clearly allocated costs of switching over free charge switching whereby costs might be hidden elsewhere.

In this context switching refers to changing personal pension product across providers within a Member State; it is not intended to provide for switching outside the personal pensions environment.

In your opinion:

14. Under what conditions should it be possible to switch personal pension providers?

O Switching should be without conditions
X Switching should be subject to a fee
O Switching should be only possible after a minimum lifetime of the product and allowed only a limited number of times
O Switching should not be possible

Please explain (optional)

(500 characters max.)

We find it difficult to comment without further details about what switching would entail and how this differs from portability. Please see the answer to Q8 for our opinion on the definition of “switching”. Without appropriate conditions, switching could have a detrimental prudential impact on providers, affecting their capacity to invest and resulting in higher premiums to be paid by policyholders. In addition, unrestricted switching would not meet the objective of long-term investment.

PAYOUT (DECUMULATION)

Decumulation, or pay-out, starts at the legal age of retirement or when the policyholder chooses to retire.

Different pay-out options should allow policyholders to choose the most appropriate decumulation option for them. In the work conducted by EIOPA on this key feature, the options range from allowing any type of pay-out, bearing in mind that a personal pension is typically supplementing the main source of pension revenue, to recommending one or several preferred pay-out options, notably in order to maximise consumer protection.

In its technical advice, EIOPA does not recommend standardising the decumulation phase of personal pension products. It considers that more work should be done to determine the advantages and disadvantages of the distinct pay-out options.

15. Which forms of pay-out should be favoured? Please provide an explanation of your choice (Max. 500 words)

O Lump sum
O Life time annuities
O Temporary annuities (limited in time)

O Individuals' choice
O Any other
X There should be flexibility on pay-out

Please explain (optional)

(500 characters max.) Since pension products are generally defined by their objective to provide an income in retirement, the protection of longevity risk should be considered among the options offered to consumers, in line with national rules. When envisaging a European Personal Pension Product, the EC should duly consider national practices and rules on decumulation protection mechanisms (eg annuities, survivor's/death benefits).

16. Overall, in your opinion, what factors would encourage competition to offer high quality, affordable personal pension products?

Please tick the appropriate field, only one choice is allowed per category of reply.	Not at all important	Rather unimportant	Fairly important	Very important	No opinion
Level of fees and returns					
Transparency on fees and costs					
Type of investment policy (active vs passive)					
Ease of distribution					
Consumer awareness of the availability of retirement products					
A benchmark to assess the product's performance, safety and simplicity					
Tax and other financial incentives to personal pension savings					

B2. EFFECT OF KEY FEATURES ON THE TAX REGIME OF PERSONAL PENSION

Personal pensions are vehicles which may benefit from national tax incentives under the form of tax relief at different stages of the life of the product. National tax rules may constitute an obstacle to the development of a single market for personal pensions given the complexity and variety of tax regimes applicable in Member States. Increased complexity could create additional administration costs for personal pension products and

might reduce incentives for suppliers to operate across borders.

At the same time, taxation is a key factor that determines the success of a framework for personal pensions because tax incentives play an important role in the decision to subscribe to personal pensions savings. Generally, a deferred taxation model is applied to personal pension products; contributions are deducted from an individual's taxable income and pensions are taxed within the framework of income tax or, in many instances at a favourable rate. In most Member States the investment results are tax exempt. However, the taxation rates and regimes vary widely between Member States.

While it is not envisaged to harmonise tax requirement for personal pensions, national tax incentives remain very important for the uptake of personal pensions in the framework of a potential EU initiative.

17. In your experience, to what extent are tax incentives important for the uptake of personal pension products by savers? Please explain in max. 5 000 characters.

(5 000 characters max.)

The tax regimes for personal pensions differ substantially across the EU, as they fit into the overall design of the national pension system. When properly framed, they can be a powerful tool to incentivise citizens to delay consumption and save for retirement.

18. If you are a provider offering personal pension products in other Member States, how do you accommodate differing national tax regimes?

O We operate through branches or subsidiaries
O We operate directly across the border without branches or subsidiaries
O Other (please describe)

If other, please describe.

(500 characters max.)

C. On the benefits of potential EU action on personal pensions

A true EU market for personal pensions could create a number of benefits and contribute to growth and investment within a Capital Markets Union. For investors, there could be more product innovation, better prices and a wider range of providers due to increased competition. Furthermore, products could be more transparent, easier to understand and also safer, if there were some minimum standards. It might also be more flexible to change provider or when move to another Member State. Providers could benefit from reduced complexity, facilitated cross-border activity, reduced administrative costs and efficiencies could be created by pooling assets from a larger investor base. Providers would be able to provide similar products within a wide range of Member States.

19. In your opinion, what are the most significant benefits of providing personal pensions on an EU scale?

Please tick the appropriate field, only one choice is allowed per category of reply.	**Not at all important**	**Rather unimportant**	**Fairly important**	**Very important**	**No opinion**
Larger pools of assets due to a wider reach					
Opens up the market to other providers					

Improved asset allocation					
Product innovation					
Improved returns					
Lower operating costs					
Attractive to mobile customers					
Attractive to regular (non-mobile) customers					
Encourages a level playing field between providers					

Others? Please specify

(500 characters max.)

Insurance Europe welcomes the EC's interest to link the future of pensions to its goal of strengthening and diversifying the financing of the EU economy through a Capital Markets Union. Insurance Europe wishes to stress that achieving the objectives of the Capital Markets Union requires that private pensions have features, such as being long-term, that makes it possible to allocate the funds to long-term investments.

D. On the type of potential EU action

The previous sections on the key features of a personal pension framework and on the benefits of potential EU action focused on assessing what the effects on the market of an EU initiative would be. The consultation now turns to views on how to best frame such an initiative, from self-regulatory approaches (cooperation among stakeholders) to more comprehensive EU intervention (harmonising at EU level the national personal pension regimes).

For each of the potential approaches, we invite respondents to detail how the chosen approach would address the problems identified in the first part of this consultation. These would address issues such as insufficient personal pension take up by individuals, insufficient cross-border provision, insufficient variety in personal pension providers, lack of efficiency of personal pensions on costs and returns, and insufficient innovation in personal pensions.

20. The EU could foster cooperation between stakeholders (Member States, providers, consumers) around a common approach to providing personal pension products. This would imply designing – together with the national authorities, pension industry and consumers – a series of recommendations which providers could follow when offering personal pensions.

Fostering cooperation among stakeholders would…

Please tick the appropriate field, only one choice is allowed per category of reply.	…not address this challenge at all	…partly address this challenge	…largely address this challenge	…decisively address this challenge	No opinion

Enhance the take-up of personal pensions by consumers in the EU	X				
Enhance cross-border offer of personal pension products by providers in the EU	X				
Widen the range of providers	X				
Enhance efficiency, asset allocation and returns when offering personal pension products	X				
Contribute to innovation within the personal pension product market	X				

Others? Please specify

(500 characters max.)

A dialogue between interested parties may have positive results on personal pension provision. However, should recommendations be addressed to providers only, it is unclear how they could bring value added. They should also be addressed to member states and consumer organisations and consider the overall pension system, otherwise key issues that fall outside providers' remit (eg pension awareness, market take-up, excessive capital requirements) would risk not being properly addressed.

21. A European personal pension account could be established, similarly to the Individual Retirement Account (IRA) offered in the United States. An IRA is a personal savings plan that gives individuals tax advantages when saving for retirement. It encompasses different types of plans, depending on the income or employment status of an individual, their tax circumstances and the investment options they choose. There can be many different types of providers: an IRA can be opened with banks, credit unions, insurance companies, mutual fund companies and brokerage firms. Most IRA providers offer a broad variety of investment options, including stocks and bonds, money market funds and mutual funds.
Would such an approach address the challenges below?

A personal pension account would…

Please tick the appropriate field, only one choice is allowed per category of reply.	**…not address this challenge at all**	**…partly address this challenge**	**…largely address this challenge**	**…decisive l y address this challenge**	**No opinion**
Enhance the take-up of personal pensions by consumers in the EU	X				
Enhance cross-border offer of personal pension products by providers within the EU	X				
Widen the range of providers	X				

Enhance the efficiency, asset allocation and returns when offering personal pension products	X				
Contribute to innovation within the personal pension product offer	X				

Others? Please specify

(500 characters max.) The IRA was developed in the context of the US market. It is not clear how it could fit and be implemented in a EU context. Furthermore, we cannot provide a qualified judgment on the potential safety and protection for future EU retirees resulting from such initiative.

22. A European personal pension product could be established on a voluntary basis, based on a set of common and flexible features, in order to provide pension income on reaching retirement. Such features could include transparency and disclosure requirements, investment options, accumulation and decumulation options, distribution specificities, guarantees on the product and fees and charges levied. The main difference between a personal pension account (described under question 21) and a personal pension product is that a personal pension account does not pre-define investment options. The role of tax advantages would be similar for the personal pension account and the personal pension product. This approach could take inspiration from the Undertakings for Collective Investment in Transferable Securities (UCITS), European Long Term Investment Funds (ELTIF), the EuVECA and EuSEF funds, the European company statute and the EIOPA advice on the development of a Pan-European Personal Pension Product.
Would such an approach address the challenges below?

A European personal pension product would...

Please tick the appropriate field, only one choice is allowed per category of reply.	**...not address this challenge at all**	**...partly address this challenge**	**...largely address this challenge**	**...decisive l y address this challenge**	**No opinion**
Enhance the take-up of personal pension products by consumers in the EU		X			
Enhance cross border offer of personal pension products by providers within the EU		X			
Widen the range of providers					X
Enhance the efficiency, asset allocation and returns when offering personal pension products					X
Contribute to innovation within the personal pension product offer		X			

Others? Please specify

(500 characters max.) Introducing such a product may increase the volume of personal pension products, especially in less developed pension markets. It may also have an impact on the allocation of funds towards long-term illiquid investments. However, this initiative faces major challenges, particularly in light of areas of national competence (eg taxation, social and labour law). Solutions to these challenges must be presented to properly assess the quality and suitability of this option.

23. The EU could consider harmonising national personal pension regimes, in particular on the aspects of prudential supervision, possible providers, maximum costs, disclosure requirements, distribution models etc. but excluding tax requirements.
Would such an approach address the challenges below?

Harmonising national personal pension regimes would…

Please tick the appropriate field, only one choice is allowed per category of reply.	**…not address this challenge at all**	**…partly address this challenge**	**…largely address this challenge**	**…decisive ly y address this challenge**	**No opinion**
Enhance the take-up of personal pension products by consumers within the EU	X				
Enhance cross-border offering of personal pension products by providers within the EU	X				
Contribute to a wide range of providers to offer personal pension products	X				
Contribute to enhancing the efficiency, asset allocation and returns when offering personal pension products	X				
Contribute to innovation within the personal pension product offer	X				

Others? Please specify

(500 characters max.) Harmonisation of all PPPs across the EU poses the risks of creating inconsistencies in the respective pension system and of undermining trust of savers. Harmonising national regimes would duplicate requirements and/or add a new, unnecessary layer of requirements for products and providers — almost exclusively insurers — which are already well regulated at EU and national level.

24. Would you favour an alternative EU approach? Please provide details. Max. 500 words.

(500 characters max.) Europe’s pension challenge requires various types of responses (eg capital requirements, consumer awareness) at various levels (national and EU). The EC’s priority should be to remove constraints on long-term guarantees (eg excessive capital requirements).

Facilitating the sharing of best practice between member states would also be beneficial, in particular for those markets which have a less developed pension system. This in the first instance would help to bring all MS to the same level.