Industry survey on the attractiveness of a Pan-European Personal Pension Product

In July 2014, the European Commission sent EIOPA a Call for Advice on the Development of an EU Single Market for Personal Pension Products (PPP)[1]. In view thereof, EIOPA recently consulted the public on the creation of a Pan-European Personal Pensions Product (PEPP)[2] in the form of a '2nd regime', where the deadline for providing comments expired on 5 October 2015.

In continuation thereof and with a view to delivering its technical advice to the European Commission in 2016, further input is sought in particular from the insurance and pensions sectors together with the asset management industry on the attractiveness of the PEPP by means of a short survey to be used as a basis for the discussion and if possible, subsequently, filled in and submitted to EIOPA.

It is recalled that EIOPA's ambition is to create a simple, trustworthy, standardised and fully transparent PEPP in the format of a long-term retirement savings product. A truly single market for personal pensions can reduce costs and provide better returns to consumers by increasing economies of scale. In this manner a contribution to removing barriers to cross-border provision of services can be achieved, helping the provision of long-term stable funding to the EU economy and being a catalyst of the CMU.

Survey on what would make PEPP an attractive proposition for providers

1. Market attractiveness: what elements are considered decisive that will make it attractive for providers to offer PEPP and how much are providers prepared to invest if doing so (e.g. investment in distribution channels, internal resources, product innovation, research in market demands or the specific markets where the product could be sold)

Product innovation and research in market demands or the specific markets where the product could be sold are crucial for the success of the PEPPs. Nonetheless we note that some existing Italian products already respect the main features and characteristics of the PEPPs: these products would only need minor adjustments and, consequently, low investments to be sold as PEPPs.

[1] See: https://eiopa.europa.eu/Publications/Requests%20for%20advice/Call%20of%20A%20EIOPA%20signed%20letter%20%20pdf.pdf

[2] See: https://eiopa.europa.eu/Pages/Consultations/CP-15-006-Consultation-Paper-on-the-creation-of-a-standardised-Pan-European-Personal-Pension-product-(PEPP).aspx

2. ***Would you offer the PEPP on a cross-border basis and, if so, why? Would you make a distinction between offering the PEPP either via the freedom of establishment (i.e. offering the PEPP in another Member State from your Member State of origin) or via the freedom of services (i.e. offering the PEPP in another Member State whilst remaining in your Member State of origin)?***

Yes, there is a strong interest in the cross-border selling of PEPPs. The latter should be allowed both via the freedom of services and the freedom of establishment principles, following the UCITS IV rules.

3. ***How important is the presence or absence of the following factors, basing the answer on one of the three options 'very important', 'important' and 'not important':***

a. Free switching of the investment only at defined intervals? If so, how often?

It is very important to allow the free switching of the investment only at defined intervals. This interval could be set to 1 year.

b. Requirement that default fund be life-styled?

It is very important to define a default option, following a life-cycle strategy.

c. Requirement that the default fund to offer a guarantee?

Not important. Please refer to answer 3.b

d. A cap on costs and charges?

Not important. PEPPs will likely be provided by different financial intermediaries: the lowering of costs will be a natural consequence of the enhanced free market competition. Moreover, given the wide variety of possible providers, it would be difficult to set a fair cap level.

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4. *What would be the added value of offering such a product for a provider?*

a. *Is there a demand? Or can a demand be triggered?*

We believe there is a potential demand for this kind of product. This is particularly true in the Italian socioeconomic context: the great majority of the Italian enterprises are SMEs that aren't able to grant give access to second pillar pension products to their employees. Therefore the creation of PEPPs could give an effective answers to these consumers' need for a supplementary pension coverage.
At the moment this potential demand is held back by the lack of an adequate beneficial tax treatment: the success of the PEPP product is tightly tied to the associated tax treatment: it is crucial that PEPPs have the same national tax treatment as existing pension products.

From a European perspective the demand for PEPP will be higher in Member States where there is limited II pillar pension coverage as well as where there is poor security for existing personal pension products or the latter are not attractive enough.

b. *What is the market potential for PEPP? Which markets are considered to exhibit this potential, and who would the potential customers/target group be?*

The potential market is represented by the entire retail consumers' market.

c. *Is it expected that the customers will be mainly (i) entirely new to the provider; (ii) existing customers with a personal pension and/or (iii) existing customers that are currently not reached with the current pension products?*

PEPPs' customer could be both new to the provider and existing customers that need a pension product or an additional pension coverage.

d. *Could the PEPP product be the start of a long-term relationship and could other products be sold subsequently to the same customer?*

Yes.

e. How long would it take, from a company perspective, for projected gains to outweigh costs (i.e. become profitable)?

From the provider point of view, we expect the PEPP to be immediately profitable. As already stated in answer n.1, in Italy there are some financial products that will only need some minor adjustments to be sold as PEPPs.

f. Which distribution channels do you consider to be critical to the success of the PEPP and please indicate ways in which you believe the PEPP can lower distribution costs:

The use of the existing distribution channels (mainly banking channel) will be crucial. PEPPs could lower distribution costs limiting the need for a financial advice to the initial choice of the product, therefore excluding any advice both during the accumulation period and at a later stage, during the pay-out phase.

g. Can the underlying assets be managed cross-border?

Yes, following the UCITS rules.

h. What would be the cost savings of centralised sales via the internet, and would it allow limiting the number of the local sales force?

Although we do not stand in the way of internet sale of PEPP, we consider it of prime importance to define clearly distribution rules and responsibilities.

In addition, where possible, please provide any written comments you may be able to provide by no later than 30 November.