DAV
DEUTSCHE
AKTUARVEREINIGUNG e.V.

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Kommentierung der DAV zum EIOPA-Konsultationspapier zu PEPP

Die Europäische Aufsichtsbehörde für das Versicherungswesen und die betriebliche Altersversorgung (EIOPA) hat am 7. Juli 2015 ein Konsultationspapier (EIOPA-CP-15/006) mit 21 Fragen zur Schaffung einer einheitlichen europaweiten Altersversorgung (Pan-European Personal Pension – PEPP) veröffentlicht. Die in der Deutschen Aktuarvereinigung (DAV) organisierten Aktuare haben ihre Antworten auf die für sie relevanten Fragen am 5. Oktober 2015 an die EIOPA übermittelt.

General comment

The Deutsche Aktuarvereinigung (DAV) is the German association of actuaries and in this capacity appreciates the opportunity to comment on the "creation of a standardised Pan-European Personal Pension product (PEPP)".

DAV welcomes EIOPA's aspiration to develop PEPP products as long-term savings products to provide consumers with a possibility of old-age provision which at product level harmonises the minimum requirements providers have to fulfil in all EU Member States. It will certainly strengthen consumer protection if consumers can trust that the future range of PEPP products meets well-defined basic criteria to ensure that the chosen PEPP will serve their interest.

Actuaries have a rich experience in designing and calculating product solutions for old-age provision. Moreover, experience with a similar product solution, the German Riester Pension, give a sound background on which our subsequent comments are based.

In brief, our main recommendations are:

- instead of developing a stand-alone authorisation requirement PEPP providers should be subject of one of the existing authorisation regimes
- the main target of PEPP should be an adequate level of income in retirement.
- as a consequence, a focus on long-term investments appears reasonable
- a life-long annuity should be the default option for the decumulation phase

- a minimum guarantee will contribute to limit investment risk
- an additional biometric risk cover should be possible to take into account the increasing longevity of consumers in the EU

Question 1: Do stakeholders think there is a need for a stand-alone authorisation requirement or would existing Union law sufficiently cover all potential PEPP providers, including those who would issue PEPPs but who are not already authorised by another existing authorisation regime?

To achieve the objectives of a high level of consumer protection as well as a level playing field for all PEPP providers a stand-alone authorisation requirement would not add value. PEPP providers which are not already authorised by existing authorisation regimes should be subject to one of the approved frameworks already existing.

Question 2: Do stakeholders agree that a highly prescriptive 2nd regime will achieve the policy objectives of ensuring a high minimum standard of consumer protection and encouraging more EU citizens to save for an adequate retirement income?

It is important that PEPP creates new special incentives for consumers e.g. by incentivising long-term investments. Otherwise, we might see only shifts within the existing product landscape and no additional savings.

A 2nd regime creates new Europe-wide rules and might, therefore, encourage additional savings. A standardised pension product needs a high level of reliability and comparability for consumers. A 2nd regime could support those aspects and additionally create a level playing field among the various providers.

Question 3: Do stakeholders agree that EIOPA has identified the correct challenges associated with introducing a 2nd regime? If so, how might these challenges be overcome? If not, what do stakeholders believe might be other challenges associated with introduction a 2nd regime?

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Question 4: Do stakeholders believe that an investment option containing a guarantee, e.g. a 0% minimum return guarantee, does not in addition require a life-cycling strategy with de-risking?

A minimum guarantee already contributes to limit investment risks. Additional risk limiting features for this investment option do not seem to be necessary. It should be the providers' choice how to create the various types and features of guarantees (especially type and guarantee level).

Question 5: Do stakeholders agree to limit the number of investment options, e.g. to five?

For a standardised product a limitation of investments options is reasonable.

Question 6: Do stakeholders agree that the default investment option should either be based on a life-cycle strategy with de-risking or be assisted by a guarantee, e.g. a 0% minimum return guarantee?

Both approaches are reasonable. It should be the providers' choice how to create the various types and features of guarantees (especially type and guarantee level).

Question 7: Do stakeholders agree that providers should have a duty of care concerning the suitability of investment options? What should be its extent? Should for example providers prevent switching to high risk investment options close to retirement?

For a simple and standardised pension product no high risk investment options should be offered. Each investment option should be based on the principles of risk diversification and investment quality.

Question 8: Alternatively, would it be better for all investment options to contain either a life-cycling strategy with de-risking or a guarantee?

For all investment options a risk limiting approach could be reasonable.

Question 9: Could you elaborate on whether PEPP providers, offering a PEPP with minimum return guarantees, should be subject to one identical solvency regime to back these guarantees or whether it would be sufficient that different, but equivalent, solvency rules apply?

The existing solvency regimes for PEPP products should be sufficient provided that they are equivalent and that each product is assigned to one of these solvency regimes.

Question 10: Considering the fact that the PEPP aims to maximise returns outweighing inflation, should retirement savers be allowed to buy a PEPP if the remaining duration of the product is, e.g., only 5 years?

DAV welcomes EIOPA's aspiration to develop PEPP products as long-term savings products for old-age pensions, which are reasonable especially if the default option contains a guarantee. It should be taken into account, however, that frequent shifting makes it difficult to invest in illiquid, long-term assets. If the duration is rather short, then providers will not be able to invest in long-term assets. The consumer should be well aware of this limitation if he wishes to buy a PEPP product with a short remaining duration.

Question 11: What is stakeholders' view on the desire of PEPP holders on the one hand to have the comfort of knowing they can switch products or providers compared with the desire on the other hand to maintain the benefits of illiquid, long-term investments?

The shift options should be limited if investing in illiquid, long-term assets. Additional market value adjustment charges could be applied if shifts occur ahead of time.

Question 12: Under what conditions do stakeholders think that the concepts of periodically switching providers and illiquid, long-term investment are reconcilable?

See response to Question 11.

Question 13: What do stakeholders believe is an appropriate interval for switching without incurring additional charges?

See response to Question 11.

Question 14: What do stakeholders think of the proposition that the starting point for disclosure during the pre-contractual phase should be the PRIIPs disclosure elements? Please explain any aspects of these which you believe would be specifically unsuitable for PEPPs?

The PRIIPs directive could be a starting point for discussion disclosure elements. A 1:1 approach does not seem to be feasible. The special aspects of long-term savings products have to be taken into account.

Question 15: What do stakeholders think of facilitating sales of PEPPs via the internet? What should be the consumer protection requirements for internet sales?

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Question 16: Where advice is not given what are stakeholders views on requiring the distributor to apply an appropriateness test to the sale of a PEPP?

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Question 17: What are stakeholders' views on the level of standardisation of the PEPP proposed in section 4.1 and 4.2 of this paper? Is the level of standardisation sufficient bearing in mind the objective to achieve critical mass, cost-effectiveness and the delivery of value for money?

The proposed level of standardisation seems to be sufficient.

Question 18: With regard to offering biometric risk covers should providers offering a PEPP with biometric risk cover be subject to identical or equivalent solvency requirements? Please motivate your answer.

The existing solvency regimes for PEPP products should be sufficient provided that they are equivalent.

Question 19: What do stakeholders think of requiring a cap on the level of costs and charges of PEPPs, or a cap on individual components of costs and charges?

A cap on the level of costs and charges of PEPPs is not necessary. The level of costs and charges should be left to competition. Transparency and comparability of risks, performance and costs should be sufficient.

Question 20: Do stakeholders believe that other flexible elements could be offered by PEPP providers?

Considering the main objectives of PEPP a life-long annuity should be the default option for the decumulation phase. It should, however, be the providers' choice how to create the various features of this default option.

Complementary biometrical components or complementary components for the decumulation phase should be possible - as long as they comply with the overarching objective of a standardised pension product which is easy to understand for the consumer and also suitable for online-distribution.

Question 21: Do stakeholders agree with the concept of a "product passport" comprising notification/registration of PEPPs? If not what alternative would they suggest?

A "product passport" for PEPPs could be reasonable and encourage cross-border distribution. Costs and benefits should be taken into account.