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ABI final response to EIOPA online industry survey on the attractiveness of a Pan-European Personal Pension Product

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)?

The Association of British Insurers (ABI) recognises the rationale behind the PEPP is to have a cross-border retirement income product, PEPPs have the potential to introduce scalability in retirement income products.

However, the establishment, and ultimately the market attractiveness of the PEPP, would be dependent on the willingness of national systems to accommodate such a product and adequate consumer demand. The UK market, for example, is very mature and developed market, and as such caters to UK consumers' specific needs, demands and expectations, which in turn is shaped by the national system. Further, if the product can demonstrate it can meet the long-term retirement income needs of mobile EU citizens, then this would make it more attractive from a business point of view.

1. Taxation challenges

It also important to highlight that a major challenge to the attractiveness of the PEPP from a consumer perspective is tax relief and tax incentives. For a standardised pension product to be genuinely operational across borders, the following conditions need to be met: harmonisation of pension relief practices and pension taxation incentives.

The point at which tax relief is received is a significant barrier to a standardised PEPP. For example, if tax relief is to be applied at entry to a pension (i.e. taxation is deferred since it encourages citizens to save for their old age) in one member state but in others it is applied on exit significant inequalities could emerge at the decumulation stage and the effects of the PEPP would not be comparable across member states. It should also be noted that the UK Government is currently considering changing how pension should be taxed, which could create arbitrage and make the PEPP less of an attractive product from a provider perspective.

Further, tax incentives offered in each member state plays a role in generating consumer demand (and thus provider willingness to invest in certain products due to the commercial viability), without which individuals would save for retirement through other vehicles. Pensions would not exist without the tax benefits offered in each member state, where the legal structure in each pension system reflects the tax and finance laws which created those benefits.

2. Having a minimum investment period

From a provider perspective, it is preferable that any long-term savings product comes with some form of 'minimum investment period' to allow providers to invest and match the long-term liabilities. While we appreciate the aim of this would be to increase consumer engagement in the PEPP, pensions are complicated, long-term products. Improved yields in retirement are obtained through investment in (generally but not exclusively) illiquid assets, which would not be possible without a minimum investment period.

As such, it would be difficult to envisage a situation where consumers would be provided with a product which provides an adequate return when investment choices could not be done on a sufficiently long-term basis. The minimum investment period could potentially be set by the provider, as they could tailor this according to national practices and local consumer behaviour.

3. Taking into account national practices

The objective of the PEPP, or of any retirement income product, should be to create a product which could serve to provide an additional (or alternative) pension revenue stream and security for those who are not already adequately covered by either pillars one (state pension) or two (occupational pension). However, the PEPP needs to be flexible enough to take into account national market practices and so should not take a one-size-fits-all view (or standardised approach) with any pension proposition given the vast differences between the pension system structures across the EU member states.

If the PEPP is too prescriptive, it will lack consumer demand and consequently investors would be less likely to invest in the product. As highlighted in the Association of British Insurers' (ABI's) response to EIOPA's consultation on the creation of a standardised PEPP, the UK has recently undergone radical reform to its pension system, under the Freedom and Choice reforms. These reforms have effectively removed the need to annuitize upon retirement and other reforms have removed the notion of a fixed retirement age (although there is a 'minimum retirement age' of 55 years). These reforms have fundamentally changed the way in which consumers and providers view pensions, i.e. from a retirement income product to a more general, flexible savings product.

These radical pension reforms demonstrate how consumer expectation can vary between member states. If they are not able to benefit from the full pension features, which are available from local products, they are unlikely to deem that their needs have been met, or that they have been treated fairly.

Aside from these challenges, given that there has been no comprehensive impact analysis or study to support the need, demand and attractiveness of this product across the EU, it is not clear that there would be sufficient consumer and provider demand for this product, particularly in the UK market.

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)?

While the ABI recognises the potential role the PEPP could have in complementing retirement savings in member states with a less developed pension system, a number of practical considerations still need to be addressed for it to be effective across the EU. Given the lack of any clear consumer demand in the UK, we remain unconvinced that the PEPP would be an attractive product for UK insurers to sell on a cross-border basis.

Nevertheless, it is difficult to answer this question without knowing the specific characteristics of the PEPP. Until the features of this standardised product is known, and any associated 'carve out' of the national taxation systems, insurers cannot determine whether it would be commercially viable to enter other markets and offer this product. There are many challenges that would need to be addressed, as highlighted in question 1. In addition to this, we would need further detailed information on:

- The conduct regulatory framework that will be established;
- Whether the option of switching between a PEPP and a national personal pension product is still envisage as this would impact the valuation of assets;
- How the taxation challenges, as highlighted in the ABI's response to EIOPA's previous consultation, would be overcome;
- A dispute resolution framework;
- How the PEPP would effectively compete with national products; and
- What investment options would be available, including any mandatory default options containing a guarantee.

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?

- *very important*
- ~~*important*~~
- ~~*not important*~~

How often?

Any minimum investment period ought to be determined by the provider of the PEPP who would be able to set it according to national market and local consumer behaviour.

b. Requirement that default fund be life-styled?

- ~~*very important*~~
- ~~*important*~~
- *not important*

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

- ~~*very important*~~
- ~~*important*~~
- *not important*

d. A cap on costs and charges?

- ~~*very important*~~
- ~~*important*~~
- *not important*

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?

Without knowing the specific features of the PEPP product envisaged by EIOPA, it is not possible for the ABI to precisely assess the target market and potential demand, and so meaningfully answer this. However, given the current maturity of the UK pensions market and local consumer expectations, it is unlikely that there will be (any) demand for this product in the UK. As the product currently stands, it is not clear how it could compete against the wide array of pillars 2 and 3 retirement income products already on offer.

Furthermore, with the introduction of 'Auto Enrolment' in the UK since 2012, where certain employees are automatically put into a workplace pension by their employer, although a pillar 2 product, it is unclear whether there would be consumer appetite for further 'pension' products.

There may be some demand from multinational corporations using GPPs (Group Personal Pensions) or from those EU citizens who are mobile, although this would only form a small portion of the overall EU population. However, this demand would be largely dependent on whether there is harmonisation of taxation regimes.

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?

It is impossible to answer this question without further detail of the features of the PEPP product. At present, there are too many variables to consider and unanswered questions by EIOPA, and so we are not in a position to determine this. However, as mentioned in part a, it is unlikely that there would be (any) demand for this product in the UK given how well developed the pensions system is. However, we do appreciate that there may be more consumer interest in this product in those member states where there is a less developed market. Nevertheless, this would not automatically translate into equally matched provider interest, as this again would depend on the commercial viability of the product.

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?

Without knowing the features of the PEPP, it is not possible to give a meaningful answer. However, based on EIOPA's desire for this product to be standardised, we imagine this would be a mass market product.

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

The PEPP could potentially be used to purchase a retirement income product, providing it is aligned to national taxation legislation. Certain insurance products could also be sold to the same customer, however this would be largely dependent on provider expertise the domestic settings within each EU member state. Therefore, we could not definitely say this would be the case as it would be completely speculative.

However, due to the intangible and low contact nature of pensions, few people are likely to buy something from a provider just because they already use their pension.

The ABI would also highlight work that is being conducted by national and EU regulators into cross-selling practices and 'add-ons' which would be particularly relevant to this question.

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

It is not possible to answer this question without knowing the features of the PEPP. Any projected gains to outweighing the costs would be largely influenced by the presence (or not) of a minimum investment period, the investment options (including any mandatory guarantee), details on regulatory framework, and ultimately consumer demand for such a product.

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?

We would not rule out any distribution channels for the PEPP.

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

Asset managers for UK pension providers routinely invest across the EU, and also within developing markets. The PEPP would neither facilitate nor hinder the cross-border management of assets.

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?

While we appreciate that it can (generally) be cheaper to sell financial products online, this does not automatically mean that it would amount to a saving in costs for product, particularly when considering pension products. As mentioned previously, we consider pensions to be complex, long-term products and as such we would always recommend that advice is available (on a voluntary basis), particularly given the low financial literacy rates across the EU.

From a consumer protection perspective, policies provided to consumers as part of the PEPP need to ensure that personal information is stored safely and put in a place that is accessible to them.

A local salesforce would add considerable costs and, if mandated, would likely act as a barrier providers to offering the product.