	Comments Template on Consultation Paper on the creation of a standardised Pan-European Personal Pension product	**Deadline 05 October 2015 23:59 CET**
Name of Company:	Actuarial Association of Europe	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	~~Confidential/~~Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-15-006@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.** The numbering refers to the Consultation Paper on the the creation of a standardised Pan-European Personal Pension product (see Annex 3 of consultation paper)	
Reference	**Comment**	
General comment	Currently there is a wide range of PEPP products offered by a wide range of providers. For consumers it is difficult to see whether the product is serving them to the full extent. It would be an advantage for the consumer to know that any PEPP they are considering meets basic requirements that are all meant to assure that the product is in their interest. This would contribute to building or where necessary restoring their trust in products and providers. We do have some basic considerations and questions that we think need to be addressed. The consultation refers to a pension product. Nevertheless it primarily seems to focus on the saving/accumulation phase and very little on the actual pension/decumulation phase (even admitting this on page 39). The consultation text seem to imply that pension/decumulation is	

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	mathematically a function of saving/accumulation, i.e. the end is a function of savings. However, when we talk of pensions the target should always be adequate income in retirement. Our approach would be to start with the retirement income and try to create a saving/accumulation pattern leading to anticipated income in retirement. Then, we would have a totally different approach where accumulation is a function of decumulation. In cases where there exist basically two products, one for the accumulation phase and one for the decumulation phase (which may be offered by different providers), the accumulation product should ideally be shaped in such a way that it serves the policyholder best by anticipating the desired way of decumulation. The consultation paper refers to consumer protection as an important objective. We agree. Having the same requirements on product level and for the providers of those products in all Members States adds value from the consumer perspective. We would expect that the possibility for providers to bring their product to the market in more Member States contributes to establishing a level-playing-field for providers and will thus enhance competition which we expect to be advantageous for consumers. This would add to consumer protection and to the trust that consumers should rightly have in any PEPP offering. Consumer protection in our view is not necessarily the same as certainty on a financial outcome. Consumer protection for us is much more about providing good insights and background to the products and clarity about what, and in which circumstances, the consumer can expect from a product. A PEPP based on unit-linked model for example would not provide a guaranteed capital. The consumer should however know what the risks are. There should additionally be clarity about the costs and governance of the product. The same is true for the decumulation phase. The consultation paper states that “a certain predictability of retirement income” and “a level of stability during the decumulation period” is required (e.g. see par 3.1.3). We agree with this wording, but we would like to stress that certainty in the accrual phase and a guaranteed income in the decumulation phase are not necessarily serving the consumer best. Consumer protection for us is linked to full transparency of the product characteristics and to the advice that should start with the individual situation and preferences of the consumer. For some predictability and stability are a must whereas for others this could be less the case. We state this because	

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	sometimes we feel that consumer protection is is understood to mean guarantees and certainty in all situations. We should bear in mind that guarantees and certainty come with a cost, making that clear is also part of consumer protection. On several places in the consultation a reference is made to a money back guarantee. Although this may sound attractive to policyholders, it should be made very clear that a zero return would almost certainly result in a significant loss of purchasing power. In the field of pensions one would normally aim to keep up with the development of prices of goods that form the base for a normal living. In such cases it is essential to use the real interest rate as the benchmark. We wouldn't be eager to see many money back guarantee offerings as it gives a feeling of certainty for the policyholder while it isn't. Additionally, it creates a risk for the provider which result into solvency requirements that are similar to any other long-term guarantee that is given in the financial industry. 4.2.9.4: clarity about "consumer detriment" is needed. A low or negative investment return is to the consumer detriment but would generally not require remedial action. In relation to what we have been arguing before (the accumulation should be a function of the decumulation) we would say that the a lifestyle strategy depends on the decumulation option chosen (or permitted in a Member State) and cannot be standardized in isolation. We think that good governance also contributes to consumer protection. P48 talks of demonstrating trustworthiness through communication and seems to ignore the importance of having strong governance in place in the providers of the products, overseen by appropriate conduct regulation. Having professionally qualified experts, like actuaries, in providers can be an important contribution to consumer protection. Although we very much support the possibility of on-line distribution in principle, we were somewhat surprised to see no mention of "vulnerable customers". We would suggest to add one or two paragraphs to this topic.	

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	As a final remark: We need to bear in mind the requirement that the PEPP will be a standardised (and hence simple) product, and may be sold via internet with limited financial advice. Hence the proposal to have few funds, and nothing too complex.	
Question 1	For some Member States a stand-alone authorisation requirement for a PEPP is not really needed (examples are UK, Germany, The Netherlands). For other Members States it would be welcomed, especially in some Central European countries where there is lack of trust in the local providers/government. It appears to be considered that a stand-alone PEPP regime is a better way of addressing these gaps in the market than trying to develop new providers under an existing regime. We think that for product providers the existing authorisation rules are sufficient. For a new (PEPP) product a stand-alone regime for product features might make sense. Although we are for now persuaded by EIOPA's arguments, there will no doubt be issues determining equivalence of other regimes. The differences in regulation of different types of provider (e.g. insurance companies are subject to Solvency 2 whereas investment firms, banks and IORPs are not) need to be borne in mind.	
Question 2	Yes, we agree in principle. We do state again, however, that this should not result in requirements for guarantees and certainty in the financial outcome as this is not necessarily best for the consumer as this should be based on the individual's personal situation and preferences. We would seek guarantees and certainties in the clarity of product specifications and in the information and, where applicable, the advice to the consumer. At the same time we think it is a tricky one; we can see the benefits in standardization but if the national characteristics are ignored then there isn't a level playing field. Further, whilst we agree that is important to have a standardized pan-European product, it should not stop the development of innovative local products. We are not sure that the problem is analysed thoroughly enough yet. The table on page 14 in 3.6.7 lists national requirements and restrictions. Could this be a somewhat incorrect way of presenting issues? In most countries you can have very different products as such. But then countries have their own national tax codes that define what are the tax efficient products. We	

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	feel that tax reasons will be one of the main problems of any PEPP product as of now. In 3.6.3 it is said "From a PEPP provider point of view it would be beneficial if PEPP characteristics do not differ significantly from country to country – how would you do this, it would mean changing tax codes, changing contract legislation, changing social and labour law, etc. – all issues outside of the mandate of the EU?	
Question 3	Yes, we agree that EIOPA has identified the correct challenges associated with introducing a second regime. These challenges can be overcome to allow different product characteristics in order to comply with national (pension) requirements and at the same time requiring full clarity about cost components and honest and open information/advice. See 2.	
Question 4	We think there should always be a default lifestyle strategy and as we have already argued any life style strategy in a pensions context is a function of the decumulation phase so a default life style strategy would also require a default decumulation phase in our view. Perhaps the standard should be based on annuitisation in retirement as standard for the decumulation phase. However, it may be that there could be a place for other strategies that would allow accumulation to blend into decumulation. 4.2.3.3 seems also to indicate that whatever guarantees or life-cycling strategies there are they need to remain cast in stone – but we should be aware that the world changes continuously	

Question 5	If the risks are with the policyholder then the policyholders should have the ability to invest in the way he likes. Offering 5 investment options could be fine if one of the 5 is a free investment choice option. In addition to 3 life cycle offerings we would like to see the possibility of an individual target arrangement. What we mean with the latter is a 3rd generation DC arrangement, sometimes referred to as Managed DC, where the policyholder indicates his desired pension outcome, the minimum pension outcome he needs, the retirement age and the contribution level. Based on these numbers it is possible to develop a dynamic investment strategy that fulfills these requirements. Changes to the investment strategy could be made on a regular (e.g. monthly) basis.	

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	We agree though that there should be a relatively small number commensurate with providing sufficient choice for various risk appetites. Having said this we would stress again the need for the arrangements not to prevent local innovation in addition.	
Question 6	We would prefer to require that the default be a life-cycle approach (tailored to a default/standard decumulation approach). On the other hand we wouldn't want to rule out a minimum return guarantee in countries where a minimum guarantee has traditionally applied.	
Question 7	Yes, providers should have a duty of care concerning the suitability of investment options. We would see this as part of the governance : the provider informs the policy-holder that he not on track with respect to a default life-cycle strategy. It is for the provider to inform and show the potential impact and then for the policy-holder to confirm that he has understood the information and to confirm his choice. Such a governance should be in place during the entire life of the PEPP and should be repeated at least annually and further in each situation of change. Options offered should be fit for purpose and defaults should be appropriate but providers should not be required to second guess policyholders who decide to do something different, provided thay have given them all relevant information on the options. So we think providers should have a duty to offer a range of funds which are appropriate to the target customers for the PEPP, and then a duty to oversee the performance of them, as well as the continuous appropriateness of the investment strategies selected. With a mass market product like this, we think it is difficult to envisage bespoke investment strategies being offered within a charge-cap environment. Referring to comments we made earlier as 4.2.3.3 and other places talk only of investment choices in accumulation, we think there is need to talk of choices also in decumulation (or is decumulation always thought to be a simple annuity?)	
Question 8	No we wouldn't want to prescribe life-cycling with de-risking or a guarantee as we believe it is for the one who bears the risks to ultimately decide how to invest. Although we do see an important role for life-cycle strategies with de-risking we would also give room to the concept of managed DC as well offer the opportunity of a free investment choice. In all cases these choices should have a lighter or heavier governance cycle, where the provider makes clear what the impact is of the choices made and where the policy-holder explicitly need to agree in case the policy deviates from the default. So, in our view, an individual may consciously choose a high risk/return option (because e.g. he	

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	has other "guaranteed" pension entitlements) which he wishes to continue right up to retirement. The provider should be required to keep prompting him but no more.	
Question 9	There should be equivalence of benefit security for customers, irrespective of the type of entity that provides the product. Solvency II sets out a framework for insurers under which policyholder security is addressed by a sophisticated governance structure, in which actuaries and other risk professionals play an important role. EIOPA should be careful that they don't weaken customer protection by encouraging entities without ORSAs etc to provide long-term guaranteed products. Generally the same risks should have similar solvency requirements. If there is the possibility of different rules then all sectors will say their risk bearing is different from others and they do not need the solvency rules.	
Question 10	When the duration of the product is relatively short, it will have a great impact on the structure of the investments. As in a life cycle strategy with de-risking the investment strategy when the duration is short will be much more geared towards fixed interest investments that have a duration similar to the duration of the pension that could be bought from it on the retirement date. So, yes, we think that also in case of a short duration retirement savers could be allowed to buy a PEPP if they are aware that the investment options are naturally limited given the short duration. In any case the issues should be made clear to the consumers. So we think there shouldn't be a ban on PEPP investments with less than 5 years to go to retirement – also, we are not sure that there should be a ban on PEPPs being kept running into retirement, especially where customers have other sources of income too. As Question 10 is not clear about what the remaining duration is we would look at this as the combined duration of the time to retirement and the subsequent period of pension payments.	
Question 11	We agree that the possibility of switching products/providers is an attractive feature for policyholders. As long as such switches are small in size or at least the sum of ins and out sis relatively small this should be manageable with regard to illiquid investments. But we also want to stress that policyholders can't just have their cake and eat it. Liquidity with no charge on switching is probably more important than picking up any illiquidity premium. Perhaps this is where communication about investment risk and consequences is very important. Also, moving from illiquid investments can be facilitated by giving the provider the right to defer	

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	switches for up to, say 6 months rather than by allowing immediate switches along with a charge.	
Question 12	As long as the sum of the switches in and out is relatively small, switching providers and holding illiquid investments are reconcilable. But we also want to stress that policyholders can't just have their cake and eat it. Liquidity with no charge on switching is probably more important than picking up any illiquidity premium. Perhaps this is where communication about investment risk and consequences is very important. Also, moving from illiquid investments can be facilitated by giving the provider the right to defer switches for up to, say 6 months rather than by allowing immediate switches along with a charge.	
Question 13	We would think of the possibility of an annual switch as a minimum. We would recommend to look at the experience in a jurisdiction where switching without charges is already a possibility. Looking at Chile for example, where switching provider is allowed at any time without restrictions, the switches on an annual basis are only some 5%, so we would expect that the sum of the switches in and out is generally smaller than 5%. In theory switching should be possible as often as you like, assuming investment in liquid markets. In practice, people switch very rarely. Further we would suggest the possibility of deferring the switch rather than charging for it.	
Question 14	We support the proposition that the starting point for disclosure should be the PRIIPs disclosure. It is important the be clear about costs. Premia for biometric or other risks are often perceived as costs by consumers, but they aren't? It should be made clear to them that if they buy a product with some (biometric) risk cover that they pay a risk premium to cover this risk. In case of a guaranteed contract there will also be a premium that pays for the guarantee. This premium as such is not a cost it is the result of buying a guarantee. Again this should be made clear to consumers.	
Question 15	Facilitating sales of PEPPs via the internet makes perfect sense. We would expect much more use of the internet and the development of mobile apps to support the policyholder. The consumer protection requirements should be the same as for other sales. With regard to consumer protection we wouldn't see a principle difference between sales channels. It might well be that as sales via the internet is highly standardised, the quality and consumer protection is higher than otherwise would be the case.	

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	Existing consumer protection requirements for internet sales of financial products should be built on. Clearly personal advice is not going to be readily available but should be an option i.e. click here and we will get somebody to call you. We do want to point though at the importance of PEPP providers having appropriate « Vulnerable Customers » policies in place and evidenced. We feel that accumulation phase information (p. 31) could result in changing the provider to one that recently got better investment returns. Usually this is bad advice. We should think of what really relevant information is. In addition to investment returns, administration costs are a very relevant indicator. With investment returns you should rather compare to a benchmark index instead of any other provider. It is one question to choose the investment strategy and another to succeed among those who use the same allocation (and this is additionally related to whether there are biometric guarantees, more on that on costs). If a PEPP would really be standard, it should be possible to have the providers of PEPPs to publish the investment returns and the costs (real costs, not risk premiums). Again we think that Chile has set a good standard in this respect where we might want to learn from.	
Question 16	It is important to strike a balance here between the requirements imposed on providers in relation to consumer protection and the level of cost which arises. The more responsibilities that EIOPA puts on providers, the more expensive the product will be. For example, how can the provider test for appropriateness in a non-advised on-line sale, unless they ask for lots of additional information from the customer (which may then put the customer off purchasing the product from anyone)? Ho wever, we support the principle that the provider owes a duty of care to the customer and should, to the extent practical, discharge this duty.	
Question 17	We are happy with the approach taken. We think that the level of standaridisation as is proposed is sufficient and would still allow to build critical mass, cost-effectiveness and delivery of value for money.	
Question 18	Yes, providers offering a PEPP with biometric risk cover should be subject to identical solvency requirements as insurers. If contracts are the same, risks are the same than solvency requirements should be the same.	
Question 19	Whether or not a cap on the level of costs and charges should be required is a political question.	

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	We believe that in any case it is of utmost importance that all costs and charges are disclosed in full and in an understable manner. A cap on costs may result in providers charging the maximum even if they could deliver more cheaply. On the other hand providers need to have a product that is profitable to sell. A charge cap set at a reasonable level might in some cases give the best of both worlds.	
Question 20	Could be, but nothing comes immediately to mind.	
Question 21	We support EIOPA's recommendation of a product passport	

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