

The Consumer Voice in Europe

EU SINGLE MARKET FOR PERSONAL PENSIONS: RESPONSE TO EIOPA'S CONSULTATION

BEUC response



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Why it matters to consumers

European consumers are increasingly struggling to meet their retirement needs. In the context of a weakening economy and state budget restraints, consumers are being pushed to look more to personal pension products. However, this growing reliance is not matched by an adequate and safe supply of value-for-money products. Therefore we strongly support any drive to ensure better access for consumers to cost-effective, transparent and standardised personal pension products. The European supervisor on pension and investment products has launched a consultation to see whether a standardised, pan-European pension product could be a useful addition to the pension product market.

Summary

BEUC supports EIOPA's assessment that a standardised Pan-European Pension Product (PEPP) could deliver better outcomes for consumers than a fully harmonised regime in the area of personal pensions.

Consumers urgently need better products to plan for their retirement, as personal pension products across the EU, in all their diversity, tend to be **overly complex** making it difficult for consumers to understand the different risks and returns as well as the costs of these products.

A **default personal pension product** could substantially improve the way consumers plan for retirement, taking into account that currently most consumers struggle to make good choices in this area.

The key features of a consumer-friendly PEPP would be the following:

- *one default core investment option;*
- *no mandatory guarantees in the default investment option;*
- *possibility of non-advised sales, including access on-line;*
- *a cap on costs/charges.*

Consumers urgently need better pension products to plan for their retirement.

Q7 Do you agree with Eiopa's assessment of the policy options impact?

BEUC agrees with EIOPA's assessment of the impact of policy options. A standardised Pan-European Pension Product (PEPP) would deliver better outcomes than harmonised regimes for tackling the different problems consumers face in the area of personal pensions across the EU.

Consumers need better pension products to plan for their retirement

European consumers are increasingly struggling to meet their retirement needs. In the context of a weakening economy and state budget restraints, consumers need to rely more on personal pension products. However, this growing need is not matched by an adequate and safe supply of value-for-money products.

Personal pension products across the EU, in all their diversity, tend to be **overly complex** making it difficult for consumers to understand the different risks and returns as well as the costs of these products. Consequently, consumers are faced with:

- A multitude of fees and charges which have a huge impact on capital accumulation over the life of a pension product and on its profitability, as confirmed by recent research¹.
- A reliance on often biased, sales-driven financial advice steering them towards overly expensive products.

Unsurprisingly, our members identify the personal pensions market as a key concern in retail finance. As laid out in our earlier response to the Green Paper on a Capital Markets Union, we believe there is a strong need for consumers to have an easy access to a cost-effective, transparent and standardised pension product across Europe².



Personal pension products across the EU, in all their diversity, tend to be overly complex making it difficult for consumers to understand the different risks and returns as well as the costs of these products.

The potential of a default personal pension product

BEUC fully shares EIOPA's take on consumer behaviour in the personal pensions market as laid out in both this consultation paper and the previous one on the creation of a standardised PEPP.³ There is mounting evidence, drawing from behavioural economics studies, that cognitive biases fundamentally distort most consumers' ability to make active choices when being exposed to overly complex information and extensive choice⁴ in the pensions market.

¹http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/Pensions_Report_2014_FINAL_-_EN_FOR_WEB.pdf

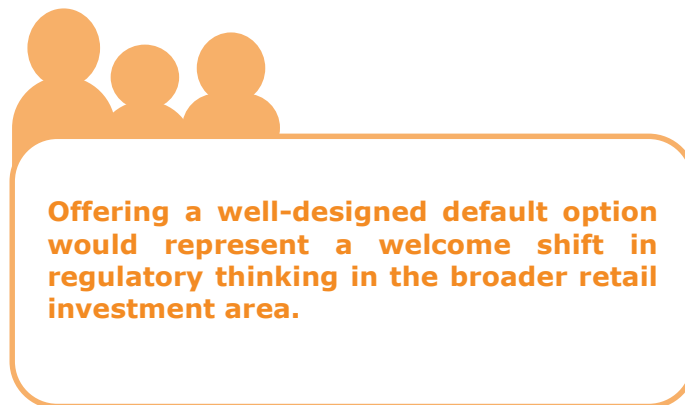
² http://www.beuc.eu/publications/beuc-x-2015-046_qve_green_paper_building_a_capital_markets_union.pdf; Q13

³ See <https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-15-006-Consultation-paper-Standardised-Pan-European-Personal-Pension-product.pdf>.

⁴ See annex 2 of <https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-15-006-Consultation-paper-Standardised-Pan-European-Personal-Pension-product.pdf>

Consequently, EIOPA's suggestion to propose a default option for consumers in a standardised PEPP is an important step in the right direction. Evidence from workplace pension schemes in the UK, which include a default option, shows its tremendous policy potential: 99% of pension holders end up using the default fund.

Offering a well-designed default option would represent a welcome shift in regulatory thinking in the broader retail investment area. As we have stated earlier⁵, using only traditional tools of investor protection such as disclosure and conduct rules is not sufficient for addressing failure in inefficient markets. Therefore, a more interventionist approach including a default investment option is an important building block in restoring investor trust, which should be a prime policy objective in the Commission's plan for establishing a Capital Markets Union.



Features of a well-designed PEPP

BEUC broadly agrees with the main features of a PEPP as proposed by EIOPA. The key components of a consumer-friendly PEPP are:

- Key components:**
- One default core investment option
 - No mandatory guarantees in the default investment option
 - Possibility of non-advised sales
 - Switching
 - Cap on costs
 - Independent watchdog committee

⁵ See Q19 in our response to the CMU green paper http://www.beuc.eu/publications/beuc-x-2015-046_gve_green_paper_building_a_capital_markets_union.pdf

- *One default core investment option*: having a simple, transparent and cost-effective default investment option with a high level of consumer protection is the most important aspect of a standardised PEPP. The default option should include a life-cycle strategy with de-risking during the accumulation phase. More engaged consumers should in turn have access to a limited number of additional investment options to match their specific profile. However, it must be clear that these additional options should entail high consumer protection standards and should not be prone to regulatory arbitrage.
- *No mandatory guarantees in the default investment option*: no guarantees should be mandatory in the default investment option. Integrating guarantees in a personal pension product tends to raise product complexity and the associated costs with it for consumers. A 0% minimum return guarantee mostly does not benefit consumers, taking into account the long duration of personal pension products and the related inflationary pressure. This said, guarantees should remain an option for some specific categories (e.g. for consumers buying a PEPP when approaching retirement age).
- *Possibility of non-advised sales*: the default investment option should be easily accessible for consumers, without necessarily requiring investment advice. A highly-standardised PEPP, with an inherent high-level of built-in consumer protection caters well for non-advised distribution, herewith avoiding the costs and pitfalls inherent to many forms of investment advice. In order to accommodate non-advised sales, the default investment option should be regarded as non-complex under Mifid and IDD.
- *Switching*: consumers need to have the possibility to switch providers and/or products, at a low cost. Especially in light of the long-term duration of a PEPP, locking in consumers would be detrimental to healthy competition. Consumers need to be able to adapt to changing life circumstances or have access to better offerings on the market.
- *Cap on costs*: as laid out before, charges have a huge impact on the return of long-term personal pension products. **Therefore we advocate strongly for including a cap on costs in the standardised PEPP, at least in the default option, which is an essential part of this framework.**
In its initial consultation paper, EIOPA proposed to include such a cap in the PEPP framework and we are really concerned that EIOPA now proposes this cap to be a 'flexible element', on the basis of stakeholders' reaction to the initial consultation paper. In this perspective EIOPA did acknowledge that very few end-users took part in the consultation.
- *Independent watchdog committee*: we support EIOPA's suggestion of setting up independent watchdog committees acting in the sole interest of PEPP holders to monitor PEPP's investment approach and assess its value for money.

Why an optional regime is preferable in this particular market

In general, we believe that a 29th regime or optional regime should be handled with real caution in the realm of consumer protection. Providing intermediaries an optional framework to operate could potentially undermine existing (national) consumer protection provisions. Therefore we would like to point out that any step towards a standardised PEPP should not automatically lead to the creation of a 29th regime in other consumer policy fields (e.g. CESL, Insurance contract law).

However, in this particular market of personal pensions, we back a 29th regime in light of:

- The difficulty in taking a harmonising approach: as current national markets for personal pensions are so different, and the adjustment costs and time needed would be considerable.
- The lack of enthusiasm for a harmonising approach: current national personal pension markets reflect national specificities in terms of welfare provision.
- Poor market outcomes for consumers across the EU in the personal pensions area, which could be mitigated by a 29th regime, especially in those Member States where a standardised PEPP would offer an alternative that isn't already available on the market.

In this perspective we will need to make sure that a standardised PEPP entails very high consumer protection standards, which cannot undermine any national standards. To this end, the following steps should be undertaken and certain conditions met:

- An analysis should be undertaken about how the PEPP relates to EU legislation (and its national implementation) such as the Directive on Distance Selling of Financial Services, the Directive on Unfair Commercial Practices and the Directive on Unfair Contract Terms etc.;
- A regulatory impact assessment should take place which looks at how the PEPP relates to other national consumer protection standards for financial products, including private international law.

END



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