A single pensions market: six key messages about personal pensions products

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Insurance Europe welcomes the debate on the development of personal pension products, which, ultimately, should ideally lead to encouraging individuals to save more for their retirement.

Key message 1: the insurance sector has a key role in the provision of third pillar pensions.

The insurance sector, with over 90% of market share, is a major provider of third pillar pension products in Europe. This important market share can largely be explained by the fact that insurers offer more than the investment management of the premiums collected. Specifically, with their long-standing actuarial experience, life insurers are well placed to provide protection against the risks that individuals face when planning their retirement, such as:

- longevity risk, by providing annuities
- the risk of premature death, by providing death cover
- inflation risk, by providing index/inflation-linked savings products
- interest rate risk, by providing minimum interest rate guarantees
- health care needs, by providing long-term care products

Insurers are also subject to strict supervision and regulation. The Solvency II regime guarantees a high level of protection to Europe's future retirees.

Key message 2: There is a need for supplementary pension schemes, both occupational and personal, in all member states, as a complement to public pensions.

In many countries, the pension benefits provided by the state are more important than those provided by complementary sources, and this is likely to remain the case in the future. This should, however, not mean that efforts are not to be made to encourage saving through complementary pension products.

Europe's insurance sector upholds that a multi-pillar system is the best way to address the challenges resulting from evolving demographic patterns and the enhanced pressure on national budgets. No system can on its own respond to the differing challenges ahead.

Another advantage of a multi-pillar system is that it makes it possible to distinguish between poverty reduction (typically the objective of the first pillar) and income replacement goals (better achieved through the second and third pillars).

In this respect, personal pensions are especially important for two categories of people:

- For those that the first and second pillar pensions will be insufficient to ensure an adequate income in retirement.
- For those who do not have access to occupational pensions provided by an employer.

Key message 3: The ability of the insurance sector to continue acting as a long-term investor largely depends on the regulatory framework in place.

Due to the long term nature of their business, insurers are Europe's largest institutional investors, with over €8.4trn of assets held by European insurers in 2012. Most of these assets back up long-term life liabilities, including in particular pensions.

Through their pensions business, insurers can play a crucial role in boosting long-term investment, but only if the following two key conditions are met:

- Personal pension products are designed in such a way that citizens have an incentive to take a long-term perspective.
- The regulatory framework in place makes it possible for insurers to take a long-term approach in their investment policy.

It is therefore vital that policymakers seek to encourage policies that stimulate a savings habit for citizens taking a long-term perspective.

Key message 4: any envisaged solution on PPPs should truly be built around pension products and take into account national differences.

Turning to EIOPA's work in the area of personal pension plans (PPPs), it seems important, as a first step, to adequately define what constitutes pension products. For the insurance sector, it should be made clear that pension products have the primary purpose to provide an income in retirement. This means that during the accumulation phase the possibility for early withdrawal of the accumulated capital is generally limited and often sanctioned. Pension products can also include a cover against longevity risk. These features distinguish pension products from investment products.

That being said, many important and specific characteristics of personal pensions differ between member states. These products take into account local taxation, social and labour laws and their aim is to complement national public pensions.

The fact that pension products are generally country specific does not mean that they are not regulated, or that they are not influenced by European rules. Specifically, European laws such as Solvency II and the Insurance Mediation Directive (IMD) have an impact on the regulation of private pension products and complement generally detailed rules in place at national level for such products.

Against this background, it seems important to gather evidence on the potential advantages and disadvantages of this initiative before deciding on a one-size-fits-all approach for personal pensions. Any envisaged proposal should not harm well-functioning markets. Any overlap or duplication with existing legislation should also be avoided.

Key message 5: the creation of a single market for PPPs should not be a cherry picking exercise; the aim should be to foster secure and sustainable pensions.

The insurance sector sees a risk that the development of a single market for PPPs could lead to a situation where different providers, subject to different prudential regimes, would offer similar products. This in turn would lead to a competitive disadvantage for providers with stricter requirements, and could result in some consumers not benefiting from an adequate level of protection.

More specifically, insurance companies which offer a wide variety of PPP types will soon be regulated by the Solvency II Directive. This framework is tailored to the long term nature of pension products and will provide policyholders with adequate safety standards. Such a high level of protection should be guaranteed to all buyers of pension products, even when these products are offered by providers not falling under the scope of Solvency II.

Additionally Insurance Europe would like to stress that a higher standardisation of products, which was suggested as a way to reduce the need for advice by consumers, is not the right way forward. This conclusion is based on experiences at national level which showed that even for standardised products (eg UK (Stakeholder Pensions) and Germany (Riester-Pensions)) there is a need for advice when buying pension products. This stems from the fact that even with standardised pension products, the product outcome will always depend on investor-based factors such as the age of the consumer and time horizon of the product.

Key message 6: Increasing the supply of personal pension products is unlikely to boost demand.

One of EIOPA's objectives is to increase the demand for personal pension products through an increase in the pension products on offer. One of the solutions envisaged is the suggested "second regime". The European insurance sector supports the objective of boosting savings by consumers, but remains sceptical as regards the ability of a "second regime" to overcome the natural tendency of many people to under-save. This is notably so in a market that already offers a wide range of long-term investment options.

One can also question whether consumers have a genuine interest in investing in cross-border pension products. As an example, a Eurobarometer survey from 2012 indicated that only "2% of consumers would potentially buy a life insurance, including pensions in a foreign EU country." Based on this information, the European Commission expert group on contract law concluded that "there therefore seems to be little evidence of actual appetite for cross-border shopping for insurance products by consumers […]".

It is also important to keep in mind that any interest to sell or purchase pension products cross border can currently be facilitated via the passporting of pensions under the Freedom of Services and the Freedom of Establishment principles. Insurance Europe does not share the apparent assumption that there is a large customer base in need of cross-border products, which would require firms to introduce new products. Empirical evidence to support this assumption is at this stage missing.

Finally, referring in particular to the suggested "second regime", it is unclear whether it would be acceptable from a supervisory or political point of view to have two different regimes in parallel (ie the national regime and the "second" regime), one of which would be less strict in certain areas, such as for instance consumer protection.

Conclusion

Insurance Europe welcomes the debate initiated by the Commission and EIOPA on personal pension products, with the ultimate goal of encouraging individuals to invest more in secure personal pension products for their retirement. At this point in time, important questions remain as to how a single market for personal pensions would look like, notably under the envisaged "second regime". Insurance Europe looks forward to continuing the dialogue on these important questions.