Comment template for EIOPA's Consultation Paper on the proposed approaches and considerations for EIOPA's Technical Advice, Implementing and Regulatory Technical Standards under Regulation (EU) 2019/1238 on a Pan-European Personal Pension Product (PEPP)

EIOPA-19-628
29 November 2019

Please indicate very clearly if you do not consent to the publication of your response.

Key

The "No" column refers to the ordering of comments received by EIOPA

In the "Name" column, respondents should indicate their affiliation and Member State, where appropriate.

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No.	Name	Reference	Comment	Processing
1.	German Association of Insured - BdV	Q1. Do you have any comments on the presentation of the information documents? Do you find the preliminary, illustrative examples of the mock-up PEPP KID and PEPP Benefit Statements are translating well the outlined objectives?	Yes, we agree with the general design and structure of the mock-ups of PEPP KID and BS, but we would like to add some detailed proposals. We again stress the necessity that for the reasons of comparability and understandibility for the consumers the differences between the KIDs for PEPP and for PRIIPs must be minimized as strongly as possible. **Key Information Document:** generally we prefere illustrative example A (to B). This is mainly	

			due to the fact that – in the section "risk and return" - the presentation of the risk indicator and of the performance scenarios in illustrative example A are more "sober". A graph like in example B is not necessary. Paragraph "Guarantee/Risk Mitigation Technique": the alternative should be Guarantee / other RMT. If a guarantee is given, it should be outlined which one it is and under which conditions it applies (for ex. only at maturity). Guarantees are not limited to insurers, there are investment funds with guaranteed payout-options as well. If any other RMT is offered, it should be outlined by one short sentence which one it is. In the section "Risk and return" we fully support the inclusion of past performance figures based on average returns and benchmark returns. But as PEPP is a long-term product only three periods (1 year, 5 and 10 years) may be sufficient. In the section "What are the costs" we fully approve that absolute figures are outlined and that the reference parameter of all cost categories is the accumulated capital (sum of contributions by the customer and of assumed return). But it should be completed by a table showing the accumulated costs over time (half time and at maturity like in the PRIIPs KID). This should be disclosed by absolute and percentage figures. In contrast to the current PRIIPs regulation the percentage must not be	

			calculated following to the method of "Reduction in Yield", but following to the newly proposed "Reduction in Wealth". In our contributions to EIOPA's Stakeholder Groups as well as to EIOPA Expert Panel on PEPP we have clearly supported the replacement of the "Reduction in Yield" by the "Reduction in Wealth" as summary cost indicator (cf. pages 21 and 42 of CP). If a biometric risk is included (death, disability), this should clearly be outlined (already in the section "What is the product?") and the costs for this risk should be disclosed (as part of the ongoing premiums). In case of an annuity as payout-option (risk coverage of longevity) the assumed life expectancy should be disclosed. No matter if printed version or web-based online version, the KID must be exactly identical as mandatory pre-contractual information document for all customers. We fully agree with EIOPA's proposal on the conditions "on good time", when the KID has to be provided by the intermediary. Though no limitation of pages for the KID is required, we urge EIOA to fix a limit (max. 6 pages). A limit of only 3 pages like for the PRIIPs KID is actually not enough. But if KIDs are too long, they will not be read and cannot achieve their objective as a pre-contractual information. This was often the case in Germany with regard to "product information sheets" of life insurances from 2008 to 2018.	

			Pension Benefit Statement: In section "How much money do you already have in your PEPP", the narrative to describe the conversion rate of a unit should fully disclose, if a guarantee is given, under which conditions this will be done (at the conclusion of contract or only at the beginning of pay-out phase and if there are any additional costs). In the section "PEPP at a glance" we fully support the inclusion of past performance figures based on average returns and benchmark returns. But as PEPP is a long-term product only three periods (1 year, 5 and 10 years) may be sufficient. Section: What can you do to plan better for retirement? The main task of the PBS is to inform about the status quo of my savings. Secondly it shall inform about the most probable out-comings. Any deeper reasoning on the possible pension gap should be the prevailing part of independent advice. Instead of hints to EU institutions which are not appropriate for individual advice, it is strongly preferable to indicate institutions on the national level which may provide independent advice on retirement provision (state / public service for pensions, consumer organisations etc.).	
2.	German Association of Insured - BdV	Q2. Do you agree to approach the areas of risk/ rewards, performance and risk mitigation for the PEPP in a holistic manner?	We agree with a holistic approach to risk/reward, performance and risk mitigation for the PEPP. A holistic approach to risk, reward and performance could be achieved with the use of a forward-looking stochastic economic model (see also comment on Q 4). In this regard we welcome the	

			recommendation that stochastic modelling should be based on a set of standardised inputs, taking into account the remaining duration, as well as return assumptions of assets classes, standards deviations and correlations. As a general remark we support the use of realistic and updated estimates for investment returns in the projections. That is why we support having information in the KID on the value of the lump sum/monthly payments that the saver can expect to obtain under a best, favourable and unfavourable scenario, as shown in illustrative examples A and B: • The value of the lump sum/monthly payments that a saver can expect under the best estimate scenario should correspond to the mean value of assets generated by stochastic simulations. • The value of the lump sum/monthly payments that a saver can expect under the favourable and unfavourable scenario should be calculated using one standard deviation of the mean of the probability distribution. • The solution being investigated on the minimum guaranteed scenario should also be included together with the three scenarios.	
3.	German Association of Insured - BdV	Q3. Do you agree to measure the risk inherent in PEPP as the dispersion of pension outcomes and to link it to objective of reaching at least	We stress that it is of utmost importance to inform the consumer of the expected level of capital at retirement, after deduction of fees and inflation, compared to the total contributions paid to the	

		the long-term risk-free interest rate?	PEPP, including to ensure that the purchasing power is explained to the consumer. Therefore we agree with EIOPA's assessment that the dispersion of future PEPP benefits would need to be assessed based on stochastic modelling, based on a set of standardised inputs, taking into account the remaining time until retirement, the risk aversion of the group of PEPP savers, as well as standardised return assumptions of asset classes, standard deviations and correlations – in order to achieve comparability between different PEPPs and different PEPP investment options. We support the use of the long-term risk-free rate (UFR) as appropriate (cf. page 17 of CP).	
4.	German Association of Insured - BdV	Q4. To ensure consistency in the application and comparability of the information on past performance, performance scenarios, pension projections, summary risk indicator and to assess the effectiveness of the applied risk-mitigation techniques - do you agree for EIOPA to set the key assumptions and inputs used for the necessary stochastic modelling?	We agree that EIOPA should set out the key assumptions and inputs used for necessary stochastic modelling. Competition between PEPPs requires the highest degree of comparability and objectivity for consumers to clearly assess the differences between products on offer. A stochastic economic model assessing the risk mitigating effect of different investment techniques by measuring the probability of meeting the objective set by the PEPP regulation, of showing the risk of losing or gaining certain amounts, would be suited to consistently measuring PEPP risks. For the applicable basic return assumptions we fully agree with EIOPA's proposal of the "annual rate of nominal investment returns", based on the long-term risk-free rate (UFR) plus the average long-term risk premia per different asset classes (cf. page 17 of CP).	

5.	German Association of Insured - BdV	Q5. Do you agree that PEPP's product supervision requires one set of relevant information to carry out the duties of home and host supervisors as well as of EIOPA?	We fully agree with EIOPA's proposals as elucidated in Chapter 3 of the CP (pages 24 - 27), especially with regard to the areas covered, the reporting standardization, the quantitative reporting and the supervisory convergence.	
6.	German Association of Insured - BdV	Q6. Do you agree with the 'all inclusive' approach to the Basic PEPP's cost cap? Do you agree that the capital guarantee is a distinct feature, which costs should not be included?	Yes, we fully agree. Consumer confidence for the PEPP is a decisive issue for the future success of PEPP. Article 45, paragraph 2, of the PEPP regulation clearly and explicitly specifies that "the costs and fees for the Basic PEPP shall not exceed 1 % of the accumulated capital per year." It must be assured that 1% means 1%! Therefore the "all inclusive" cost approach is realistic. This has been proved by the PRIIPs regulation EU 2017 / 653, Annex VI: Methodology for the calculation of costs - List of costs for investment funds, PRIPs other than investment funds and insurance-based investment products. The product providers and EIOPA / NCAs have already concrete and practical experience with cost calculation and cost disclosure based on the PRIIPs Regulation. These cost structures may efficiently be used for PEPP as well - with the exception of additional costs for any national "compartments". Any new cost structures, calculations and disclosure rules will be more costly than the consistent application of the already existing one, because – again - PEPP is not a completely new pension product category, but it is fundamentally based on already existing long-term PRIIPs and IBIPs.	

			With regard to costs of guarantees we stress that we consider them being part of the general capital investment or administration costs. That is why we advocate, if no guarantees are given, the cap of costs should even be lowered. If this is not possible, and - following to EIOPA - guarantees will be considered as a supplementary feature of a Basic PEPP besides the fundamental risk mitigation techniques, only under this condition they might be excluded from the cost cap. But in order to achieve a level-playing field among all product providers, not only guarantees given by insurers, but as well those by investment companies should be included in the definition of guarantee costs (i.e. with regard to so-called "guarantee funds" which promise capital guarantees not only at maturity, but often a certain time interval). Additionally it should be considered that if a product provider offers a Basic PEPP with guarantees he should be obliged to offer the same product without guarantees in order to reduce costs. Another very important issue of possible exemptions are costs of "advice". We urge EIOPA to clearly distinguish between distribution/sale and independent advice. We stress that the new PEPP Regulation should strongly be used as a crucial opportunity to strengthen the fee-based independent advice in contrast to the traditional commission-based product sale. Therefore any kind of costs linked with distribution and sale must not be excluded from the cost cap	

			(cf. EIOPA's proposal of article xa (1), page 29 of CP). This implies that one-off and ongoing distribution costs linked to tied agents and robo-advisors ought not to be excluded. Only actually 'independent advice' given by any fee-based advisors or brokers might in contrast be exempted (following to article 24 (7) of MIFID II Regulation / EU 2014/65). In the long run there should be established the obligation for the product providers to offer additionally a Basic PEPP with tariffs net of distribution costs (any advice only to be directly paid by the costumer to the advisor).	
7.	German Association of Insured - BdV	Q7. Which criteria should be added to foster the application and development of superior risk-mitigation techniques? Which research and learnings should EIOPA consider in its further work?	In order to achieve as well a level playing field amongst all types of risks mitigation techniques (RMT) as stable and adequate future retirement income for the PEPP savers, we welcome EIOPA's proposal to set out the additional minimum criteria for three risk mitigation techniques (chapter 5 of CP). Therefore we support the approach proposed by EIOPA, whereby the PEPP providers who do not offer a capital guarantee, should ensure that the saver would recoup the capital at the start of the decumulation phase with a certain probability. The calculation of this probability should be based on the use of Monte Carlo simulations, together with threshold conditioning eligibility, to simulate a distribution of investment returns in nominal and possibly real terms.	

			Additionally, as PEPP ought be a PENSION product and not only an investment product, we advocate the strong linking of accumulation to decumulation phase for all RMTs (cf. our comment on Q9). **Minimum return guarantees:** we fully agree with EIOPA's proposal of *article xd* (cf. page 34 of CP). Due the ongoing low interest rate phase, any capital return guarantees given for the contribution phase are very costly for insurers as well as for customers. That is why - with regard to the Basic PEPP - we propose that these new offers of "layered" guarantees which promise to accumulate at maturity 80% of the total sum of the contributions made by the customer might be accepted as a guarantee following to article 45 (1) of PEPP regulation. This kind of "softened" minimum return guarantee allows for higher returns especially under the conditions of "low for long" interest rate phase. This has been shown by a recent study of the University of Hohenheim (DE) on the impact of the possible new regulation of commission-based insurance distribution in Germany (interlinkage of amount of guarantee and of potential returns - Kapitel 5.2: Zusammenhang zwischen Garantie-höhe und Renditepotenzial; in: Regulierung von Provisionen. Ziele, Risiken und Nebenwirkungen provisionsbegrenzender Regulierung in der Lebensversicherung in Deutschland; Autoren: Jochen Ruß, Jörg Schiller und Andreas Seyboth; Universität Hohenheim, Juli 2018).	

8.	German Association of Insured - BdV	Q8. Do you have any comments on the draft Impact Assessment? Do you have any evidence which could further enrich the draft Impact Assessment?	**Policy Issue 1: Providing relevant information on PEPP to consumers.** We strongly advocate *policy option 1.2* (cf. our comment on Q 1 with regard to KID). The only reference parameter which is immediately understandable for the customers is the total amount of contributions or premiums paid by the customer. This has been shown by empirical researches by Professor Andreas Oehler (University of Bamberg) / DE) and Professor Ralf Korn (University of Kaiserslautern / DE), who both had outlined their conclusions and documents during EIOPA's Round Table on PRIIPs KID Review in December 2019 in Frankfurt. A customer should know, what the expected outcome is at the end of the savings period, based on a given contribution/premium flow and on an assumed return on assets. This return on assets should be the return before any costs are deducted, and the expected outcome is clarified after all costs are deducted. Then the customer has two absolute figures which he is able to compare, and the difference between the two figures may additionally be elucidated by a percentage. This is the basic concept of the proposed "Reduction in Wealth" which may be used not only for the contribution phase but as well for the payout phase. That is the fundamental reason why we propose to replace the currently used "Reduction in Yield" by the new summary cost indicator "Reduction in	

			Wealth" (cf. pages 21 and 42 of CP). More theoretical and empirical evidence for the "Reduction in Wealth" method as a summary cost indicator will be put forward by EIOPA's Expert Panel on PEPP, established in July 2019. **Policy Issue 2: Implementing the cost cap.** We strongly advocate *policy option 2.1* (cf. our comment on Q 6 above). If guarantees are considered by EIOPA as a supplementary feature of the Basic PEPP besides the mandantory risk mitigation techniques, they might be excluded from the cost cap. But in order to guarantee a level-playing field among all product providers, not only guarantees given by insurers, but as well by investment companies should be included in the definition of guarantee costs (i.e. with regard to so-called "guarantee funds" which promise capital guarantees not only at maturity, but often a certain time interval). Only additional costs for really "independent advice" given by any fee-based advisors or brokers might be exempted from the cost cap. Such a regulation would be aligned with the PRIIPs KID and IDD. The financial industry should take this unique opportunity of PEPP for strongly improving the quality of advice given by robo-advisors and therefore reduce distribution costs – anyway uttermostly necessary under the conditions of the "low for long" interest rate period. That is why for the definition of those cost categories which should be included in the cost cap, EIOPA should rely on the definition of entry,	

			ongoing and exit costs already fixed by the PRIIPs regulation of 2017 (in its annexes for the calculation methods). PEPP shall be a private pension product, and therefore it seems to be obvious that especially for insurers it will not be a completely new product category. Already now there are a lot of long-term insurance-based investment products and annuities which will easily be transformed into a PEPP. Therefore the cost level, the nature of the services offered, the methodology used to calculate the cost are already widely known by the product providers. **Policy Issue 3: Risk Mitigation Techniques.** We strongly advocate *policy option 3.3*, because – as EIOPA has already clearly outlined – "risk-mitigation techniques should limit the extent of the dispersion whilst providing for adequate pension outcomes. Therewith, they should also be in the focus of product supervision and of the provider's product governance system… This option is expected to bring together the benefits of transparency and enforceability with leaving sufficient room for innovation and smart risk-mitigation techniques." (cf. pages 54/55 of CP).	
9.	German Association of Insured - BdV	Q9. Do you have any other general comments to the proposed approaches?	As PEPP ought be a PENSION product and not only an investment product, we advocate the strong linking of accumulation to decumulation phase (cf. page 30 of CP). One of the major issues for PEPP to become a true success story is not only the real return at the end of the accumulation phase, but focus must be laid	

			on the actual amounts of the pay-outs during the decumulation phase as well. The example of the Riester Pension plans in Germany shows that despite a strong and severe regulation of the accumulation phase (with high state allocations and tax incentives), this type of private pension plans is in stagnation for years now. This is mainly due to low pay-outs during the decumulation phase. PEPP must not repeat this mistake! Therefore we stress that the Level 2 regulation of PEPP should include these two provisions with regard to the decumulation phase: • If an annuity is offered for the decumulation phase, it must be assured that the mortality tables used for the calculation of the longevity are realistic. • Any benefits resulting from a necessary "prudent" calculation of mortality should be shared with current beneficiaries as well (and not only with future beneficiaries). We repeat: for the Basic PEPP there must be an "all-inclusive" cap of costs of 1% for the decumulation phase in the way as for the accumulation phase. Otherwise despite of good returns at the end of the accumulation phase, the total capital actually used for pay-outs and annuities might in advance be diminished too strongly. Additionally we underline that the actual and estimated amounts of pay-outs (annuities, lump sums, drawn downs, etc.) should be prominent	

			part of the content of the *PEPP Supervisory Reports* (included in chapter on Performance; cf. Annex III of CP, page 58).	
10.	German Association of Insured - BdV	Q10. Do you have any views on the opportunities for PEPP in a digital environment, for example regarding digital information provision and online distribution?	We underline the potential of digital distribution for an improved presentation of information to the PEPP savers. This can be achieved through a layering approach and drawing attention to key warnings, as well as by using visual icons, pop-ups, drop-down menus and tick-the-box approaches. It is also important to consider that, for young people in particular, mobile devices may increasingly be used to access this information and it should therefore be suitable for use in this case. We also advocate that the use of online or digital comparison tools should be more explored. There is a need for comparison tools which focus on more than just the prices of product offers, not be subject to promoted content and ensuring that any data collected or shared is in line with the General Data Protection Regulation requirements. We strongly stress that digital distribution and robo-advisors are crucial tools for the effective reduction of costs, strongly important in the context of the 1% fee cap of the Basic PEPP. Better Finance has recently published its 2019 edition of the Robo-advisory business, which includes the following recommendation: "The algorithms of Robo-advisors need to be developed on criteria that comply with the legislation (MiFID II) with regards to the investment advice process, in order	

			to ensure a harmonised, minimum level of quality." Therefore we strongly advocate that the financial industry should should make use of Better Finance's recommendations as a crucial indicator to significantly improve the quality of robo-advisors in order to be appropriate for a pure online model of contract conclusion, including pre-contractual information and personalized recommendation. There are already many examples of product providers which clearly aim at selling new life insurance and pension products predominantly via online distribution channels (for ex. in Germany the Allianz FourMore pension product).	
11.	German Association of Insured - BdV	EIOPA's Product Intervention Powers, chapter 6, pages 35 to 39 of CP.	We fully agree with EIOPA's assessment that effective market monitoring will be a pre-requisite for enforcing EIOPA's product intervention powers. Reliable procedures of market monitoring as well as product monitoring are crucial obligations for the product providers following to the Product Oversight and Governance requirements (POG) stipulated in article 25 of PEPP Regulation. That is why we fully support EIOPA's proposal and enumeration of the factors and criteria for any possible intervention related to the product, to the saver, to the provider and distributor and to the size of potential detriment and wider impact on the market (chapter 6 of CP).	

			We particularly would like to encourage EIOPA and the NCAS to strongly take into consideration the linking of accumulation to decumulation phase (cf. our comment on Q 9). As PEPP ought be a PENSION product and not only an investment product, consumer detriment is not only possible during the accumulation, but as well in the decumulation phase (unrealistic calculation of longevity, non-transparent and insufficient participation at risk benefits). That is why the ongoing decumulation phase must be part of POG monitoring by the product providers and possible production interventions by the EU / National Competent Authorities.	
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