

Contribution ID: 05ba69ee-93f8-4100-95e3-f7474565a7eb

Date: 21/07/2021 08:18:21

Consultation paper on draft Opinion on the supervisory reporting of costs and charges of IORPs

Fields marked with * are mandatory.

Responding to the paper

EIOPA welcomes comments on the draft Opinion on the supervisory reporting of costs and charges of IORPs.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA using the EU Survey tool **by Thursday, 22 July 2021, 23:59 CET** by responding to the questions below.

Contributions not provided using the EU Survey tool or submitted after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the survey below. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents[1] and EIOPA's rules on public access to documents[2].

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied. EIOPA, as a European Authority, will process any personal data in line with Regulation (EU) 2018/1725[3] on the protection of the individuals with regards to the processing of personal data by the Union institutions and bodies and on the free movement of such data. More information on data protection can be found at <https://eiopa.europa.eu/> under the heading 'Legal notice (https://www.eiopa.europa.eu/legal-notice_en)'.

[1] Regulation (EC) No 1049/2001 of the European Parliament and of the Council of 30 May 2001 regarding public access to European Parliament, Council and Commission documents (OJ L 145, 31.5.2001, p. 43).

[2] Public Access to Documents

(<https://www.eiopa.europa.eu/sites/default/files/publications/administrative/public-access-eiopa-mb-11-051.pdf>)

[3] Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC (OJ L 295, 21.11.2018, p. 39).

About the respondent

*Please indicate the desired disclosure level of the responses you are submitting.

- Public
 Confidential

*Stakeholder name

German Association of Insured (BdV)

*Contact person (name and surname)

Christian Guelich

*Contact person email

cguelich@bunderversicherten.de

Contact person phone number

+49 40 357 3730-21

Questions to Stakeholders

Q1: Do you agree with the objective of implementing a transparent and comprehensive cost reporting for supervisory purposes?

- Yes
 No

Please explain.

Yes, we fully agree. At the European level the IORPs II Directive introduced structural cost disclosure requirements for IORPs, both towards prospective and actual scheme members. Nonetheless, the directive does not further specify which costs should be covered, according to which criteria and how detailed the breakdown should be or how the costs should be presented.

Therefore this data collection of costs and charges is strongly necessary, as - in EIOPA's Questionnaire of 2020 (cf. Annex 4 of CP) and in the 2015 report on costs and charges of IORPs - EIOPA found that there is a lack of detailed information and practical experience to obtain details on costs and charges in a number of Member States. In consequence, it proved not to be possible at that time to fulfil the original goal of the project to develop common definitions and breakdowns of costs and charges. But this original goal has to be achieved, because EIOPA has to include IORPs in its annual report on "Costs and Past Performances" requested by the Commission.

The objective of implementing a transparent and comprehensive cost reporting for supervisory purposes is based on the Decision of the Board of Supervisors on EIOPA's regular information requests toward NCAs regarding provision of occupational pensions information of 2 June 2020 (EIOPA BoS 20-362), which again is based on the former Decision of EIOPA's BoS 18-114. The template "Expenses" (PF.05.03.24) outlines the following items: administrative, investment, tax, other and total expenses.

Additionally the European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has identified costs and performance for retail investment products and market data quality as the Union Strategic Supervisory Priorities for national competent authorities (cf. ESMA PR of 13 November 2020).

Q2: Do you agree that Annex 1 provides a balanced view of the costs and benefits of the draft Opinion?

- Yes
 No

Please explain and provide any suggestions.

Yes, we agree. EIOPA correctly stresses that "as institutional clients, IORPs should be able to request to service providers the itemised cost disclosure under MiFID II to collect detailed data on investment and transaction costs and report it accordingly to the NCA." Therefore, option 3 as pointed out by EIOPA, seems to be adequate: "Development of reporting templates for IORPs to report data to the CAs, according to principles, as well as templates for IORPs to collect data from service providers." There is no contradiction between granularity and flexibility, if the principle of proportionality for SMEs will be applied appropriately.

Q3: Do you agree with the generic cost classification distinguishing investment, transaction and administration costs as well as costs borne by the sponsor?

- Yes
 No

Please explain and provide any alternative classification that should be considered.

Yes, we agree, but this generic classification should be complemented by giving distribution costs a separate disclosure (cf. our comment on Q4). There are many IORPs which offer their services on the free market of occupational and private retirement provision (and not only to a clearly fixed number of sponsors), and in consequence they have to calculate distribution costs. That is why for classification and definitions we refer to EIOPA's 2021 Report on Costs and Past Performances (administration / distribution costs: box 5, p. 36/37, and definitions of one-off and ongoing costs, p. 57/58) as well as to EIOPA's 2020 Report on Costs and Past Performances on "Cost Mapping" (Annex II, p. 37).

Q4: In your view, do the definitions in Annex 2 cover the most important items of investment, transaction and administrative costs?

- Yes
 No

Please explain and provide any suggestions for the inclusion of other cost elements not explicitly mentioned in the definition.

Yes, we agree, but following to our comment on Q3 the category of administration costs should be renamed as "administration and distribution costs".

Q5: Do you agree that all costs should be reported as nominal amounts in the reporting currency and as a percentage of average assets under management?

- Yes
 No

Please explain.

No, we only agree upon the nominal amounts, but NOT upon the percentage of average assets under management. No matter if a saver uses a private or an occupational pension product, from beneficiary's perspective the contributions having been paid are always the most important parameter of reference. All costs are deducted from these "gross premiums" or "gross contributions".

That is why there should be consistency with the PEPP regulation as much as possible. The PEPP level 2 regulation (EU/2021/473) of 18 December 2020 stipulated the "Methodology for the calculation of costs, including the specification of summary indicators" (Annex III., Part III., No. 30): "In the PEPP Benefit Statement, the PEPP provider shall present the estimated impact of costs on the final PEPP benefits by using the 'Reduction in Wealth' approach. The 'Reduction in Wealth' shall be calculated as the difference between the projected accumulated savings at the end of the accumulation and the projected accumulated savings at the end of the accumulation period in a cost free scenario. The difference shall be disclosed in monetary and percentage terms relative to the projected accumulated savings." For reasons of understandability and comparability providers of occupational and private pension products should use the same methodology with regard to the calculation of costs.

Q6: Do you agree that the cost reporting should also be at the level of the schemes/investment options where IORPs provide multiple schemes/investment options with different investment policies?

- Yes
 No

Please explain and provide any benefits of or obstacles to report costs at the level of pension schemes or investment options.

Yes, we fully agree (cf. CP, no. 3.8, p. 9).

Q7: Do you agree with the principles for the compilation of information on costs and charges:

	Yes	No
- look-through and no netting	<input checked="" type="radio"/>	<input type="radio"/>
- costs paid directly by the sponsor	<input checked="" type="radio"/>	<input type="radio"/>
- matching	<input checked="" type="radio"/>	<input type="radio"/>
- taxation	<input checked="" type="radio"/>	<input type="radio"/>
- reporting currency	<input checked="" type="radio"/>	<input type="radio"/>
- estimations	<input checked="" type="radio"/>	<input type="radio"/>
- proportionality	<input checked="" type="radio"/>	<input type="radio"/>

Please explain.

Yes, we agree (cf. CP, no. 3.9, p. 10-11). Nevertheless with regard to the application of the principle of proportionality EIOPA should clearly specify from which quantitative thresholds on (mainly asset allocation, number of members and beneficiaries) NCAs may allow smaller IORPs to "soften" these principles for compiling cost information.

Q8: Do you agree that the possibility under MiFID II to request investment and transaction cost data from portfolio managers and transaction counterparts will facilitate the supervisory cost reporting by IORPs?

- Yes
 No

Please explain and describe any limitations observed with MiFID II disclosure requirements in practice.

Yes, we agree (cf. CP, no. 3.11 and 3.13, pages 11-12).

Q9: Are you aware of other cost classifications used by IORPs to collect information on costs and charges from portfolio managers and transaction counterparts?

- Yes
 No

If yes, please describe and explain these other cost classifications.

We urge EIOPA to take into consideration its own definition of "Investment Management Costs" outlined in its 2021 Report on Costs and Past Performances (Box 5: "Drivers of costs in the IBIPs markets", p. 38): "Costs item that can be categorized as investment management are: transaction related costs, payment of investment service. For unit-linked and hybrid products there can also be: costs due to the unit valuation and fund accounting services, fund related governance, regulation and compliance costs, fund related property management and headcount costs, performance fees, carried interest."

Q10: Does in your view the investment cost template in Annex 3 facilitate the collection of costs by IORPs from portfolio managers?

- Yes
 No

Do you agree that the more detailed breakdown of costs enhances the understanding of IORPs in the underlying investment cost structure?

- Yes
 No

Please explain and provide any suggestions to enhance the practicality and insightfulness of the template.

Yes, we agree (cf. no. 3.13 of CP)

Q11: Do you agree that supervisors should have discretion to determine the level of cost reporting requirements for DB IORPs under paragraph 3.14 to ensure an approach that is proportionate to the objectives?

- Yes
 No

If yes, in what way:

- reduced scope of costs reporting (e.g. only investment, transaction, administrative costs)
 lower frequency of reporting
 full exemption for certain DB IORPs
 other

Please explain.

No, we do not agree upon any full exemption for certain DB IORPs. Only in a very particular general market situation like in spring 2020 due to the pandemic there may be allowed a lower frequency of reporting. The crucial risk of beneficiaries' detriment by overly calculated costs is too high ("value for money" from consumer protection perspective, cf. CP no. 4.1c, p. 14). EIOPA itself has stated: "The impact of costs can be very significant. Pension pots can end up much smaller than expected because investments carried higher costs than expected." (CP, p. 17) This impact of costs on the return of pension plans is regularly shown by Better Finance's annual report on "Pension Savings: The Real Return":
<https://betterfinance.eu/publication/pension-savings-the-real-return-2020-edition/>

Q12: Do you agree that supervisors should conduct comparative analysis of IORPs' cost levels to assess efficiency, affordability and value for money offered to members and beneficiaries?

- Yes
 No

Please explain and provide any suggestions for such analysis.

Yes, we agree (cf. no. 4.2 and 4.3 of CP). On 26 February 2021 the German Actuarial Association (DAV) published a study justifying the forthcoming reduction of the guaranteed minimum interest rate for life-insurers and IORPs by the legislator. It argued that - under the ongoing conditions of low or zero interest rates - strongly reduced or even no guarantees could increase the return of long-term pension plans. Only by reducing or completely abolishing the capital guarantees the returns will be high enough to cover the costs. These conclusions were criticized by the German Association of Insured (BdV) by stressing that first the costs of distribution, of administration and of investment have substantially to be reduced by the product providers (public position paper of 31 March 2021 on website). Nevertheless the legislator followed the proposals of the actuaries: now the highest level of interest rates guaranteed for the entire contract duration by life-insurers and IORPs (under the Solvency II-regime) is at 0,25%. This controversy between actuaries (DAV) and consumerists (BdV) clearly emphasizes how important is the issue of "value for money" particularly with regard to long-term savings under the general extremely challenging economic conditions of ongoing low-interest rates, increasing inflation, volatile stock markets, pension plans with defined benefits / minimum guarantees and the additional impact of costs on the real returns for the beneficiaries.

Q13: Do you agree that supervisors should be encouraged to publish aggregated cost levels and the results of the comparative cost analyses?

- Yes
 No

Do you agree that supervisors should encourage IORPs to publicly disclose their cost levels?

- Yes
 No

Please explain.

Yes, we fully agree. In an EU member state like Germany IORPs represent only a rather small market share of occupational and private pension plans. Following to the 2019 figures of the Association of German Insurers (GDV) and the Federal Ministry of Labour and Social Affairs (BMAS) the two types of IORPs ("Pensionskassen / Pensionsfonds") represent only about a quarter of all five existing occupational pension vehicles (about 4,2 million contracts out of 16,25 million contracts). Besides these occupational pension plans there are about 18 million contracts of state subsidized private pension plans (about 16 million "Riester" contracts and 2 million "Rürup" contracts) and more than 20 million private annuities. These figures show that IORPs are in a very strong competition with all providers of pension products or long-term savings, and in consequence from consumers perspective comparability of costs constitutes a fundamental and crucial element for any "informed decision making" by retail customers.

Source:

<https://www.gdv.de/de/themen/news/betriebliche-altersversorgung-weiter-auf-wachstumskurs-60730>

*Q14: Do you have any other comments on the draft Opinion?

- Yes
 No

If yes, please provide these other comments.

We fully support EIOPA's approach of introducing the new concept of "Value for Money" for the supervision of cost reporting:
"EIOPA considers that products offer value for money where the costs and charges are proportionate to the benefits (i.e., investment performance, guarantees, coverage and services) to the identified target market and reasonable taking into account the expenses born by providers and in comparison to other comparable retail solutions on the market." (cf. EIOPA consultation paper on the framework to address value for money risk in the European unit-linked market, 13 April 2021, no. 1.7, p. 18).
Therefore concept of "Value for Money" is ready to be applied to all categories of life-insurances / insurance-based investment products and pension plans (occupational and private ones). The EU-wide harmonized and reliable cost reporting of IORPs constitutes the crucial basis of transparent comparability and understandability of pension data not only for supervisors but for the retail investors, policyholders and long-term pension savers as well.

Contact

Contact Form (</eusurvey/runner/contactform/CostReportingIORPs>)