On the Pan-European Personal Pension Product (PEPP) and EIOPA’s proposed Level 2 measures

Q #1 Why is the launch of the PEPP of such strategic importance for the funds industry and overall success of the Capital Markets Union (CMU)?

Above all, the PEPP is a recognition of the importance of individual pension savings at a time in which European governments have become increasingly fiscally constrained. This has consequences both for state pension provision and for wider investment in the European economy.

The recent final report of the High-Level Forum on the CMU highlights that “pension inadequacy risks are becoming a political and budgetary challenge for Member States”, also noting that funded pension systems represent a significant opportunity for the emergence of a true CMU in Europe.

The funds industry is undoubtedly viewed as a critical part of the CMU solution, in particular as the co-legislators have agreed to amend the Commission’s proposal to allow the Basic PEPP to be based on life-cycling investment strategies. These strategies are consistent with the overall objectives of the CMU project as they offer exposure to long-term assets throughout the accumulation phase, while reducing the impact of market risk as the saver approaches retirement.

Q #2 Why is making the PEPP a success across Europe so important for European citizens?

By laying the foundation for a European market for simple, efficient and competitive personal pensions, the PEPP could offer European citizens a transparent, good value product underpinned by high standards of governance and investment expertise. The cross-border portability of the PEPP will increase its attractiveness to young people and mobile workers.
With CMU aiming to ensure a far greater role for market-based finance in supporting European companies and infrastructure provision, the PEPP should be a ‘win-win’ for savers who see economic growth reflected in higher standards of living and attractive long-term returns.

Simultaneously, there are a number of essential pre-conditions for success, both in terms of the PEPP’s legislative measures and its interaction with national tax and regulatory regimes. The European Parliament is entirely right to highlight that the “tax treatment will be a key consideration for the take-up of future PEPPs”, which requires in particular that Member States ensure that PEPPs are subject to the same tax treatment as national pension products to become an option for savers.

**Q #3 What are your views on the Level 2 measures published by EIOPA in August?**

EIOPA should be congratulated for having delivered a very extensive and ambitious set of legislative proposals in a timely fashion. We welcome the more pragmatic approach being taken towards the design of investment strategies, which allows PEPP providers to develop their own models to determine the risk and pension benefit projections of their PEPPs. The proposed approach to disclose information to customers is also innovative, and open to the opportunities of digitalisation and online distribution.

Unfortunately, very significant concerns remain within the investment management industry that EIOPA’s proposal to keep the initial cost of advice within the 1% fee cap for the Basic PEPP will make the PEPP unworkable for many investment management firms looking to enter the market.

The fact that the Regulation requires that prospective PEPP savers receive personalised financial advice - and its insistence this advice is provided within an overall fee cap of 1% that covers all other costs (with the important exception of guarantees) - will impose very high barriers to entry, particularly for investment managers.

It does not seem possible to break this deadlock by reducing or streamlining the requirements for the provision of advice since EIOPA considers this would be “a regulatory circumvention”. EIOPA additionally recognises that “there are limitations to the processes that can be automated or semi-automated, in particular the provision of a personalized recommendation.”

The most pragmatic solution would be to exclude the initial cost of advice until the first review of the fee cap. This would give all interested PEPP providers an opportunity to enter the market, and ensure a level playing field between fund managers and insurers as EIOPA’s proposal to exclude guarantees from the scope of the fee cap will give a clear competitive advantage to insurers.

**“Very significant concerns remain with EIOPA’s proposal to keep the initial cost of advice under the 1% fee cap for the Basic PEPP.”**

October 2020
Key reference texts


- EIOPA’s proposed Level 2 measures (14 August 2020) - [https://www.eiopa.europa.eu/content/eiopa-finalises-regulation-pan-european-personal-pension-product_en](https://www.eiopa.europa.eu/content/eiopa-finalises-regulation-pan-european-personal-pension-product_en)
