

Sofia, 22.06.2018

CONCLUSIONS AND RECOMMENDATIONS

INTERNATIONAL CONFERENCE

“PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP) – REGULATION, EFFECTS AND PROBLEMS”

Sofia, 30 May 2018

PEPP COULD HELP TO FILL THE PENSION GAP

The proposed PEPP (pan-European personal pension product) framework was discussed at an international conference on 30.05.2018 in Sofia organized by VUZF University under the Bulgarian Presidency of the Council of the EU

*“PEPP could lead to a large and competitive European market for personal pensions”, stated **Gabriel Bernardino**, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA) at the conference. “Let’s be frank – the pension gap in EU is increasing. This pension time bomb is on our agenda for more than 30 years. Only 27% from the Europeans aged between 25 and 59 are enrolled in personal pension products with long-term objective”, said Mr. Bernardino.*

The European citizens have to save more in personal pensions in order to reach adequate and sustainable retirement income – this position united the participants in the **international conference “Pan-European Personal Pension Product (PEPP) – Regulation, Effects and Problems”**. The forum was organized by VUZF University in partnership with Investor.bg and was part of the agenda of the Bulgarian Presidency of the Council of the EU.

Nathalie Berger, Head of Unit Insurance and Pensions, Directorate General for Financial Stability, Financial Services and Capital Markets Union, European Commission (EC) described the PEPP as a “*modern, simple, innovative, portable and transparent product*”. “*When analyzing the market of personal pensions we received unprecedented level of responses from individuals who state that they face limited supply of pension products. Only in five Member States (MS) more than 15% of working people are saving in personal pension product*”, she said. “*This product has to be attractive for the young people*”, Ms. Berger added.

The conference was organized with the institutional support of the Deputy Prime Minister for economic and demographic policy of the Republic of Bulgaria, Mr. Valeri Simeonov, the Ministry of the Bulgarian Presidency of the Council of the EU 2018, the Ministry of Labour and Social Policy, the Ministry of Finance, the Committee on Labor, Social and Demographic policy and the Committee on Budget and Finance at the 44 th National Assembly, the National Social Security Institute, the Association of Bulgarian Insurers and the Bulgarian Association of Supplementary Pensions Companies.

The conference was attended by more than 150 guests. Among the participants were representatives of EC, EIOPA, European parliament, pensions fund associations, insurers’ associations, European Fund and Asset Management Association (EFAMA), Association of Actuaries in Europe (AAE). The Bulgarian legislative and financial community was also present - National Assembly of the Republic of Bulgaria, Ministry of Finance, Ministry of Labor and Social Policy, Ministry of Bulgarian Chairmanship of EU Council 2018, National Social Security Institute, Financial Supervision Commission and industry representatives. Representatives of academic and scientific circles, experts in the area, and representatives of think tanks, took active part in the event.

„*It is an honour for VUZF University to organize such a huge event dedicated on a very important problem*“, pointed out **Prof. Dr. Grigorii Vazov**, Rector of VUZF University. He stated that PEPP is not only a pension product but it is also a financial product, which will have great influence over the financial markets in Europe. Master of ceremony was **assoc. professor Virginia Zhelyazkova, PhD**, vice rector of VUZF University. Moderators of the two panels were lecturers in VUZF University – **assoc. professor Stanislav Dimitrov, PhD, and senior assistant professor Radostin Vazov, PhD**.

“*The expectations are the European Parliament to vote on the Regulation in the beginning of July and the proposal to be adopted till the end of 2018 or in the beginning of 2019.*” said in a video statement **Sophia in’t Veld**, Member of the European Parliament (EP), PEPP rapporteur in Committee on Economic and Monetary Affairs, ECON. In her opinion the PEPP has to be a trusted, simple, easy to use, safe and profitable product. “*We will encourage creation of comparative websites*”, stated Ms. in’t Veld.

Valeri Simeonov, Deputy Prime Minister for Economic and Demographic Policy of the Republic of Bulgaria stated that *“there is need the attention to be focused on problems of how to guarantee greater income for the elderly people. People have to be better informed what opportunities are provided by the legislation and the markets for increasing the retirement income”*, he said.

“Now is the moment for strategic and decisive steps, not small ones, for meeting the needs of the current retired people and the expectations of the future pensioners”, pointed out **Hasan Ademov**, Chairperson of the Committee of Labour, Social and Demographic Policy in the 44th National Assembly of the Republic of Bulgaria. *“The PEPP has to be regarded not only as a saving, investment and financial product, but very importantly, it has to have the characteristics of a social product”*, said Mr. Ademov.

In the statement of **Menda Stoyanova**, Chairperson of the Committee of Budget and Finance in the 44th National Assembly of the Republic of Bulgaria, it was stressed that *“transparency is a precondition for trust and trust is a step towards conscious decision for saving in long-term products”*.

Biser Petkov, Minister of Labour and Social Policy of the Republic of Bulgaria also supported the PEPP proposal. *„From more than 20 years we maintain the position that multipillar pension systems are the most effective way to guarantee adequate and sustainable pensions. Based on the development of the supplementary pensions in Bulgaria I believe that personal pension provision in the country has good ground and traditions”*, said Mr. Petkov.

“The new EU pension products will give the European consumers one main advantage – the opportunity for choice when they are deciding to save for pension”, said **Karina Karaivanova**, Chairperson of the Financial Supervision Commission, Bulgaria. *“The existing pension industry will face new challenges. The investment income from PEPP providers will be some kind of benchmark for the consumers. The new PEPP market is expected to have pressure towards decrease of fees on the existing supplementary pension insurance”*, she said. Ms. Karaivanova highlighted that the PEPP dossier was treated of great importance during the Bulgarian Presidency of the Council of the EU. 12 discussion papers were presented and compromise was reached on some problematic issues. For example - the content of the PEPP contract and the requirements for a key information document (KID).

“If the PEPP is not giving added value to the saver the client has many alternatives and easily will choose something else”, said associate professor **Stanislav Dimitrov** from VUZF University, who was the Head of the Organizational Committee of the conference. He described the results of a survey among potential savers in Bulgaria done by VUZF University during April and May 2018. It is interesting that 84% of the respondents say that they feel need to save for voluntary pension stating different motives for that. As a targeted

pension replacement ratio 79% state 80% or more. For this desired replacement 35% are willing to pay between 5% and 10% from their monthly income and another 50% are willing to pay more than 10%. *“When addressing the open issues for product design and implementation we need to follow five principles: simple, attractive, safe, with pension context and comparable product”*, stated Dr. Dimitrov.

Talking about the product and the competition, **Gabriel Bernardino** expects the PEPP to encourage competition. *“The cross border business opportunities and the standardized default option will allow achieving economies of scale. The PEPP was designed from the very beginning as a safe, transparent, cost effective and long-term pension product”*, Mr. Bernardino emphasized. EIOPA role is relevant in three main areas – assuring that PEPP label is used by the appropriate products, ensuring the transparency to all European citizens and guaranteeing high quality consistent supervision.

Falco Valkenburg, Member of the Board of Directors, Actuarial Association of Europe (AAE), too, expressed support for the PEPP initiative. He said that *“AAE recommends PRIIPS KID Regulation amplification for applying for PEPP”*. *“AAE suggests capital guarantee might be offered but not as default”*, added Mr. Valkenburg.

Justin Wray, Deputy Head of the Policy Department, EIOPA explained that all the PEPP providers and the products will be properly authorized. This will be a guarantee for the European citizens that the products and providers they are choosing are certified to feature the high-quality criteria. EIOPA is planning to prepare annual supervisory reports. Talking about the PEPP product itself Justin Wray pointed out *“PEPP is not an investment product. It is a pension product. There has to be a link between accumulation and decumulation phase”*. He stated that the default option of the PEPP is very important because behavioral economics show that most of the people face difficulties making right choices on their own.

Nathalie Berger stated two factors that are absolutely decisive for the success of PEPP – Member States to give tax incentives and the providers to be brave to enter the new united market. *“PEPP is a regulatory framework which enables those providers who wish to enter the market of personal pensions. Those providers will compete in high quality. They have to offer an attractive product. PEPP is not something that is imposed by EC.”*, she emphasized. *“The saver will have the right to change provider at regular intervals, this is something which will lead to the competitiveness of the product. We want to provide high flexibility of the choice from the savers of the investments and the decumulation options”*, Ms. Berger added.

Hans van Meerten, professor in international pension law, Utrecht University, the Netherlands, focused the attention on the IORPs vehicle as a potential provider. *“The institutions for occupational retirement provision, IORPs are one of the main obstacles in the PEPP discussions at the moment. The question is then which IORPs could offer the PEPP.”*

The current definition of PEPP stipulates that PEPP could be contracted not only by individual but also collectively by an employer, for example”, prof. van Meerten said.

Nikolai Slavchev from the Bulgarian Association of Supplementary Pension Security Companies stated that some pension institutions that are sole providers of administration of capital pensions, are obstructed from entering the PEPP market. Way must be found within the Regulation to ensure that those institutions are able to provide PEPP. The Bulgarian pension insurance companies are in this situation. *“IORPs are the only way Bulgarian pension company to offer PEPP”,* stated Mr. Slavchev.

Svetla Nestorova, Chairperson of the Management Board of the Association of Bulgarian Insurers spoke about what the successful PEPP product would look like. *“We want PEPP to be a safe product but safety means capital guarantee. The political risk, if PEPP comes on the market without capital guarantee, is tremendous. The second element to make PEPP a success is to make it a long-term product. Pension product should also come with a certain level of protection. Biometric risks should not be an option - they should be embedded in the product”,* said Ms. Nestorova.

Chiara Sandon, Senior Policy Advisor, European Fund and Asset Management Association (EFAMA) said that EFAMA and the European asset management industry have very much welcomed the Commission’s proposal. In her opinion the PEPP will bring much needed scale, choice and competition in the EU personal pensions market. At the same time, she addressed some issues. *“The requirement that default option should offer financial guarantee would exclude asset managers from the PEPP market. We are glad to see progress in this direction in both the Parliament and the Council”,* she said.

Dieter Pscheidl, Head of European Affairs, Vienna Insurance Group, spoke about how important it is the PEPP to be a mass product, and not a niche one. *“The economy of scale will be not reached if PEPP is for small group of people”.* He also spoke about the label “pension” in the product. *“Longevity risk has to be covered in the default option”,* is the opinion of Mr. Pscheidl.

The audience had many questions. Some of them were about the fiscal regime, the risk of capital movement from the periphery to the core of EU, the investment income, the protection level in the PEPP – death, disability, longevity, the transfer of funds in existing personal pension products to PEPP, and others.

We remain confident, that everyone will take into consideration something specific, something personal through his/her point of view from the conference.

MAIN CONFERENCE CONCLUSIONS AND RECOMMENDATIONS TO THE EUROPEAN AND NATIONAL LEGISLATIVE AND REGULATORY AUTHORITIES

- There is significant potential for the development of a united EU personal pension market. The proposed pan-European personal pension product framework is supported by most of the stakeholders.
- The future of PEPP is of both greatly interesting and problematic in terms of its features and related technologies which will be specified within the Regulation and its accompanying normative acts and any other relevant subsidiary sources of law.
- The PEPP needs to be safe, simple, trusted, cost-effective and competitive. Member States have to develop relevant legislative framework which encourages people to save in personal pension products.
- The pension context of the PEPP has to be clear and discernible in both the accumulation and the decumulation phase. The tax regime must not be an obstacle for the success of PEPP.
- The EU Member States and their legislative and regulatory authorities will play important role in the final design of PEPP in the respective country.
- The introduction of PEPP will contribute to the development of multi-pillar pension systems, because supplementary capital pensions can be vital element in reaching adequate and sustainable pensions for the consumers.
- Other concrete conclusions and recommendations, too, were made by the participants concerning details of the implementation of the Regulation. Some of them were contradictory, others mutually exclusive, but in their essence they were extremely interesting and with a specific practical value.

In conclusion, in our view, the international forum gathering in one place different parties, representatives of different organizations, local and international financial community, marks a significant success for bringing the PEPP issue to the broader public, to which it is intended. Nonetheless, the discussion benefited to a large extent by the friendly and open environment at the event, which triggered genuine exchange of opinions, questions and concerns, so important for the success of the PEPP.

VUZF University would like to express again gratitude for participation in the conference and contributing to its success.

Looking forward to welcoming you next time to continue the discussion on pensions and insurance.

For more information about the conference, please visit <http://pepp.vuzf.bg/>.

Learn more about VUZF at: <http://www.vuzf.bg/>.

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