Sofia, 30th May 2018

EFAMA intervention on PEPP

Why fund managers are interested in PEPP and at what conditions they could participate?

- First of all, thank you very much for your invitation to participate to this conference and represent the investors' voice.
- EFAMA and the European asset management industry have very much welcomed the Commission's proposal, which will bring much needed scale, choice and competition in the EU personal pensions market. It will contribute the increase of retirement savings across Europe and the improvement of the financial sustainability of pension systems, as well as help shifting savers' savings from bank account into a product that would be higher yielding, especially in this current interest rate environment.
- Having said that, there are indeed some key conditions as you pointed out which will allow asset managers enter this market:
  - first of all, life cycling strategies need to be part of the default option. Requiring that the default option should offer a financial guarantee would exclude asset managers from the PEPP market. Only insurers complying to Solvency II rules are able to offer guaranteed products. We are glad to see progress in this direction in both Parliament and Council.

  - Second, PEPP providers should be able to decide which Member States they are able to offer the portability services in. Imposing that each provider should offer the portability service in all Member States would be too costly, even for the biggest pension providers.

  - And third, the success of the PEPP will depend on whether it is flexible enough to accommodate investors with different needs, wealth, risk profiles and position benefits and in this respect, we very much support the text from the Commission and the Bulgarian presidency allowing flexibility for the payout.

- Finally, we also understand the importance for consumers to have guidance and proper disclosure to make to make the right decision when choosing a pension product. Still, we do not believe that providing advice should be mandatory, especially for the default option, considering the cost attached to advice, and the new types of tools that can be used in a world moving towards online guidance and robo advice.

What are your expectations for the best investment option/strategy that potential savers in PEPP could choose?

- As mentioned earlier, our starting point is that the Regulation should allow PEPP providers to offer a default option with either a capital guarantee or a life-cycle investment strategy.

- In order to reassure policy-makers about the capacity of life-cycle investment strategies to offer a robust capital protection, EFAMA has commissioned an independent study to Bocconi University to analyze the performance of life-cycle strategies, and to compare those strategies with life-insurance products offering with a minimum guarantee and an upside participation.
- The outcome of the study was that life-cycle strategies are powerful in delivering high returns and managing risks, not just investment risk but also inflation risk.
- The idea is that by generating superior returns and managing risks through asset diversification and de-risking, life-cycle strategies offer a very good compromise solution between a guarantee, which imposes significant costs in terms of forgone returns, and an equity-only strategy, which can lead to heavy losses if there is a stock market decline right before the end of the accumulation period.

How do you see the role of the asset managers in the decumulation phase?

- The decumulation – or payout phase, is going to be a key issue for both providers and consumers.
- We certainly understand that the PEPP is a pension product that should contribute to strengthen income adequacy in retirement.
- We strongly believe that annuities – especially in a low interest rate environment - are not the best way to secure a high level of income in retirement.
- This is why we think drawdown plans would be a better and more flexible alternative form of pay out option. In practice, drawdown plans can take the form of regular monthly or annual payments during a pre-determined period or establish that the retiree has the right to take a certain percentage of the accumulated assets on a yearly basis. These mechanisms ensure that retirees do not spend their savings too early in retirement.
- They also allow an extension of the period during which the capital accumulated remains invested in a diversified portfolio offering better returns, also including protection against inflation risk without being obliged to buy an annuity.

Do you think the asset management companies will enter in markets of long-term saving where traditionally are functioning pension funds or life insurers? If "yes" what is your expectation these companies to be local players or international groups?"

- There is certainly a strong willingness on the part of many asset managers to access the PEPP market. In a world where defined-contribution pension schemes are taking more and more importance, replacing defined-benefit schemes, asset managers can play a central role, as the return on the accumulated assets is decisive for the security and level of pensions.
- We hope that all kind of providers will be able to offer the PEPP, both local players and international groups. This is why a requirement to offer portability across all Member States would be problematic because the smaller players will not have the administrative capacity to offer national compartments in all Member States. This would be too costly.