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Position of the Association of German Public Insurers[1]

on cost disclosure and cost cap of the

Pan-European Personal Pension Product (PEPP)

The Association of German Public Insurers (VöV hereafter, Verband öffentlicher Versicherer, www.voev.de) welcomes the EIOPA-consultation 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). As Germany's second largest primary insurance provider with a strong regional presence, the group is committed to constructive dialogue in the interests of all market participants and of a stable European and global insurance sector.

Executive Summary

As voluntary regime, demand and supply of PEPPs on the market will determine the success of this project. Attractiveness of the product to savers and equally to providers are therefore essential.

Cost transparency is one important feature of PEPPs. As the indirect costs of capital guarantees as specific type of risk mitigation technique are already captured in the other categories as administration, distribution and investment costs, there should be no separate category "cost of the guarantee" in the cost disclosure.

To account for the different structures of fees and charges in Member States, the cost cap of the Basic PEPP should be based on the Reduction in Yield approach. Furthermore, either all distribution costs need to be excluded, or fees for advice must fully be incorporated in the cost cap to compensate the differences between markets that are commission-based and others that work with fees for advice.

In the calculation of the cost cap, the indirect cost of capital guarantees of one third of total costs must be excluded to ensure a level playing field.

[1] The Association of German Public Insurers (VöV) is the umbrella organisation of the German public insurance companies and a corporation established under public law. Founded in 1911, it represents 10 primary insurers across Germany that are deeply embedded in their regions. The group is the second-largest primary insurance provider in the German market, with more than EUR 140 billion of investments under management, thereby making a significant contribution to the European economy. The group is committed by law to support the public good. It has 50 million insurance contracts and pays out EUR 18 billion each year to its clients.
The public insurers employ 30,000 people. Through 17,500 own branches and offices of their partners, they offer advice and protection across most insurance sectors (health, life, pension, motor, indemnity, fire, etc.) for retail clients of all income groups and for professional clients, with a specific focus on small and medium-sized companies.
The Association of German Public Insurers represents the interests of its members at the national and the European level through its head offices in Berlin and Düsseldorf and its liaison office in Brussels.

General Remarks

The VöV welcomes the PEPP regulation as a voluntary regime to supplement existing products. The evaluation of the regulation will therefore be market-driven as a result of demand and supply of PEPPs.

For the success in terms of consumer demand, it is essential that PEPPs are attractive products for old-age provision, which is a major concern of EU citizens. Capital guarantees and the coverage of biometric risks are thus crucial elements to satisfy the demand for sustainable old-age provision. The regulatory technical standards (RTS) should therefore highlight these features and must not create indirect obstacles for guarantees or coverage of biometric risks. A level playing field between different providers is needed to ensure a competitive environment in the interest of consumers.

In terms of supply of PEPPs by the industry, lean and pragmatic level II legislation is key. Disclosure requirements must strike the right balance between consumer protection and unnecessary bureaucracy in reporting. Furthermore, the RTS on the cost cap of one percent should incorporate the appropriate factors and avoid a prohibitively restrictive approach.

Specific Remarks on cost disclosure and cost cap

Ensure a fair and transparent cost disclosure

Art. 45 (3) of the PEPP regulation calls to "ensure a level playing field between different PEPP providers and different types of PEPPs". In this sense, the RTS must treat guarantees equally as other risk mitigation techniques (RMTs) and must not discriminate them. The rules for RMTs need to be based on general principles and to apply for all PEPPs in the same way to ensure the level playing field mentioned above. As guarantees of insurance products are specific types of RMTs, the RTS must treat them equally.

On page 19, EIOPA enumerates "costs of the guarantees, if any" as separate cost category in addition to administration, distribution and investment costs. On the next page, the paper defines costs of the guarantee as "premium charged for guarantees, which reflect the market price of the cover against the risk of financial loss, or limiting the financial loss or the cover of biometric and any other risks". The VöV does not share this view, as guarantees do not constitute new direct cost and their indirect costs are already captured in the other cost categories. A separate enumeration of explicit and implicit costs of the guarantees would be a misleading double counting and needs to be avoided. The inclusion of a guarantee merely changes the risk-return-profile of a product to fit the customer's risk preferences.

EIOPA's view is furthermore inconsistent with the corresponding PRIIPs RTS, stating that the cover for biometric risks is not a new cost. The reason for exclusion of net premium from the biometric cost in PRIIPs is that consumers receive a benefit for the net premium – protection against biometric risks. In the same way, PEPP savers receive protection against ad-verse market developments for the net price of the guarantee. The calculation of the indirect costs of a guarantee is therefore not needed in the cost disclosure. As costs of RMTs are not part of the cost disclosure, the implicit and explicit costs of guarantees – that are a specific form of RTMs – must not be enumerated either to ensure a level playing field.

Furthermore, the VöV draws attention to the significant methodological problems calculating guarantee costs. There is no generally accepted approach and all attempts underlie numerous assumptions on risk preferences, interest rates, etc. These unsolved methodological issues support the argumentation not to include costs of guarantees and RMTs at all.

Use a comprehensive method for the calculation of cost cap

Within Member States, types and structures of fees and charges vary substantially and the RTS on the cost cap of the Basic PEPP serves to specify how a yearly cost cap can be applied to different cost structures in a meaningful way. This also includes a level playing field for PEPPs with one-off costs, as many insurance products, and PEPPs with linear costs. A cost cap that is based on the average yearly cost load (Reduction in Yield, RIY) is the only approach to properly deal with these differences. Over the term of the contract, the 1 % costs measured in terms of RIY would not exceed 1 % of the accumulated capital per year and thereby comply with Art. 45 (2). This approach would also effectively take into account "the long-term retirement nature of the PEPP" (Art. 45 (3)). The VöV therefore suggest that RIY serves as instrument for calculation of the cost cap.

Similar to types and structures of fees, the distribution regimes between Member States differ significantly as well (e.g.). Several markets prohibit commissions and fees for advice typically replace them as cost factor. These costs are not known in advance to the manufacturer of the Basic PEPP and would probably not be part in calculation of the cost cap. The customer would pay the fee in addition. To create a level playing field between regimes that are commission-based and others that work with fees for advice, the VöV suggest either excluding all distribution costs from the cost cap, or assuring that all fees for advice are properly taken into account in the cost cap. This argument furthermore underlines the need of the RYI-approach, as distribution costs typically arise at the start of the contract, both in commission-based as well as in advice-fee-based regimes.

In addition, German law requires insurers to cover their costs on basis of each contract, whereas providers of funds may cover their costs on basis of the collective. A too rigid cost cap that does not allow covering costs on this basis would prevent PEPPs with guarantees from being provided, which is clearly not intended in the PEPP regulation.

Properly exclude indirect costs of guarantees from the cost cap

Recital 55 of the PEPP regulation rightly states that "within that framework, in order to ensure that PEPP providers offering a capital guarantee benefit of a level playing field with other providers, EIOPA should duly take into account the structure of costs and fees." The indirect costs of guarantees must therefore be excluded in the calculation of the cost cap of the Basic PEPP. As elaborated above, the indirect costs of a guarantee are part of the other categories. Guarantees increase the complexity of products and thus their administration, distribution and investment costs. On page 46 of the consultation paper, EIOPA illustrates that average costs of products without capital guarantees are typically 33 percent lower than those with guarantees. The indirect costs of a capital guarantee are thus one third of total costs. To ensure a level playing field, one third of the total costs of products with capital guarantees need to be excluded in the calculation of the cost cap.

We are looking forward to continuing the fruitful exchange on the implementation of the PEPP regulation and the development of regulatory technical standards.

Contact details

Dr Wolfgang Eichert
Head of EU Representative Office
e-mail: wolfgang.eichert@voevers.de
Phone: +32 476 83 09 71

Brussels office
Avenue des Nerviens 9-31
1040 Brüssel, Belgien
Phone: +32 2 736 97 34

Dr Christian Schwirten
Head of Department Political Affairs
e-mail: christian.schwirten@voevers.de
Phone: +49 30 22 605 49-22

Berlin office
Friedrichstraße 83
10117 Berlin
Phone: +49 30 22 605 49-15