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PUBLIC HEARING ON THE CAPITAL MARKETS UNION (CMU) MID-TERM REVIEW

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

The European Commission
Brussels, 11 April 2017

Ladies and Gentlemen,

First of all, I want to thank the European Commission for inviting me to intervene at this public hearing to take stock of where the European Union stands with the implementation of the Capital Markets Union.

The Capital Markets Union (CMU) should deliver better investment opportunities for retail and institutional investors.

In this area I believe there are two main success factors:

1. Do **citizens** perceive the Capital Markets Union as added-value for their particular situation?
2. Does the Capital Markets Union contribute to the provision **of stable long-term funding to the economy**?

One of the CMU initiatives that can contribute to these two objectives is the Pan-European Personal Pension Product, the PEPP.

In the area of **long-term retirement savings**, it is evident that the European Union internal market is far from delivering its full potential. There is a huge fragmentation of products available to consumers, from low-performing deposits to very often too complex and costly mutual funds and life insurance; many of them not truly retirement savings products. Also consumer protection rules are very different in the various member states. This fragmentation is a serious obstacle to cross-border business, increases the costs, reduces the average returns for savers and ultimately undermines consumer confidence in private pension provision.

EIOPA developed the idea and the regulatory outline to create an attractive Pan-European Personal Pension Product in the form of a 2nd regime. I am particularly happy that the European Commission has taken up this initiative in the context of the implementation of the Capital Markets Union.

Let me mention a number of important elements in the development of the PEPP:

- **The PEPP needs to be simple, cost-effective and transparent.** In particular, cost efficiency can be increased by taking advantage of the economies of scale allowed by the cross-border provision of services in the European Union internal market.

- **The PEPP should have standardized and flexible features**
  - Standardised information provision
  - Limited investment choices with one core “default option”
  - Regulated, flexible caps on costs and charges
  - Flexible biometric and financial guarantees

- **The PEPP should be a truly long-term retirement savings product**
  The PEPP should have a long-term perspective in its investment policy. In order to allow it the PEPP should envisage minimum holding periods to mitigate surrender risk. The investment in illiquid assets can only be done in a sustainable way if it matches liabilities with a correspondent illiquid profile.

- **The PEPP should have a flexible decumulation policy**
  Life-long annuities should play a role in the decumulation phase of the PEPP. Nevertheless, the decumulation phase should be more tailored to the personal circumstances and needs of the consumer, allowing him more flexibility and choice. There is a large room for improvement by insurers in this area.

- **THE PEPP should have an attractive tax regime**
  By designing the PEPP with appropriate characteristics it should be possible, at least, to give the PEPP the same tax treatment of the national pension products.

In terms of characteristics I would favour the definition of two main PEPP categories:

- One based on an individual defined contribution scheme, with a lifecycle investment strategy designed to adjust investment risk throughout the life of the contract, thus reducing risk for insurers.
- A second one, a collective profit sharing product, allowing the pooling of investments with the smoothing of returns across members of the pool, so that members benefit from average long-term returns of the fund and that they are protected from extreme negative outcomes in stressed market situations.

Consumers will benefit from the choice between these two types of Pan-European Personal Pension Products.

Regarding the regulatory treatment, if by design the collective profit sharing products **avoid the exposure of short-term market volatility**, the regulatory treatment in Solvency II could be aligned to the risks effectively incurred, resolving possibly in lower capital requirements. This would benefit the investment of the PEPP in a balanced portfolio including equities, property and infrastructure in a sustainable way.

Solvency II is already favouring long-term investments in the presence of long-term liabilities by penalizing mismatches and allowing internal model users to model risk charges to their risk exposures. Furthermore, investments in infrastructure have now a special treatment that is considered by the World Bank as a blueprint in the way prudential regulation deals with long-term investment.

Another fundamental aspect of increasing trust and confidence of consumers in the financial sector is **transparency**.

The provision of clear, accurate, comprehensive and comparable information is essential for consumers.

A number of regulatory initiatives have been taken in the latest years to enhance disclosure requirements (MIFID, IDD, PRIIPs). A lot of information will soon start to be available. Going forward, an important element would be to facilitate the access to this information in a way that consumers can use it and take advantage of it.

Therefore, I welcome the recent initiative by the European Commission to explore with the European Supervisory Authorities (ESAs) the best way to proceed to collect, analyse and report on cost and performance indicators of the main long-term investments personal and pension products.

Furthermore, I favour the development of a **centralised database containing all the mandatory disclosures**, at least for Pan-European products like the PEPP. Such an approach would have clear advantages for consumers in the single market.

In a digitalised world this should be a simple, cost-effective solution to provide the information to consumers.

Finally, I strongly believe that supervisory convergence needs to be a high-level priority of the CMU.

The implementation of the PEPP needs to be accompanied with an evolution of the powers and tools available to EIOPA.

To reduce the current fragmentation, to increase confidence of European citizens in cross-border provision of services, we need to ensure that there are proper arrangements in place to achieve high quality supervision across the European Union. A clear mandate to EIOPA to reinforce supervisory convergence is needed, also in the context of the CMU.

In order to be successful, the CMU needs to provide an added-value to citizens and to the economy. It is up to us to deliver it in a sustainable way as John F. Kennedy said: “Change is the law of life. And those who look only to the past or present are certain to miss the future”.

Let’s build our future together!