Pan-European personal pension product (PEPP)

2017/0143(COD) - 29/06/2017 - Legislative proposal

PURPOSE: to lay down the measures concerning the creation of a pan-European personal pension product (PEPP).

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: market fragmentation prevents personal pension providers from maximising risk diversification, innovation and economies of scale. This reduces choice and attractiveness and leads to increased costs for pension savers. Some existing personal pension products are limited. An EU initiative on personal pensions could therefore complement the current divergent rules at EU and national level by adding a pan-European framework for pension, for individuals who wish to use this additional saving option.

The European Parliament, in its Resolution of 19 January 2016, expressed concern about the lack of available and attractive risk-appropriate (long-term) investments and cost-efficient and suitable savings products for consumers. It called for the development of a pan-European Pension Product (PEPP), with a simple transparent design. In September 2016, the Commission in its Communication Capital Markets Union Accelerating Reform, in light of the strong support expressed by the European Parliament, stated that it would consider proposals for a simple, efficient and competitive EU personal pension product.

This framework is not intended to replace or harmonise existing national personal pension schemes. It will offer individuals a new voluntary framework for saving by ensuring sufficient consumer protection with regard to the essential features of the product.

In order to encourage Member States to grant tax relief on the PEPP, the Commission has adopted a Recommendation on the tax treatment of personal pension products, including the pan-European Personal Pension Product, alongside this proposal.

IMPACT ASSESSMENT: the choice of a PEPP framework was preferred as it offers an additional harmonised pan-European framework that complements the existing national regimes and can overcome the shortcomings identified by using targeted solutions that avoid excessive compliance costs.

CONTENT: the proposed Regulation lays down uniform rules on the authorisation, manufacturing, distribution and supervision of personal pension products that are distributed in the Union under the designation pan-European Personal Pension product (PEPP).

Its main objectives are threefold:

1. raise more capital and channel it towards European long-term investments in the real economy;
2. offer enhanced product features so that citizens benefit from a simple, safe and cost-effective personal pension product while being able to choose from different types of PEPP providers;
3. encourage PEPP cross-border provision and portability.

The proposal may be summarised as follows:

Authorisation: only financial undertakings already authorised at EU level by the competent authorities would be eligible to apply for authorisation to provide PEPPs (i.e. to create and distribute them). The authorisation to act as a PEPP provider, i.e. to use the PEPP label for personal pension products, will be granted by a single EU authority, the European Insurance and Occupational Pensions Authority (EIOPA).

Existing personal pension products may be converted into PEPPs following authorisation by EIOPA, which must consult the competent supervisory authority of the financial undertaking before deciding whether to reject or approve its application.

Greater choice: PEPP savers will have more choice from a wide range of PEPP providers and benefit from greater competition. Savers will have the right to switch providers both domestically and cross-border - at a capped cost every five years.

Product information: PEPP providers and distributors should provide clear and adequate information to potential PEPP savers and PEPP beneficiaries to support their decision-making about their retirement. In order to ensure optimal product transparency, PEPP manufacturers should draw up the PEPP key information document for the PEPPs that they manufacture before the product can be distributed to PEPP savers. All documents and information on PEPP will be provided to prospective PEPP savers and PEPP beneficiaries electronically. Upon request, PEPP providers and distributors must also provide those documents and information free of charge in a durable medium.

The proposal will create a quality label for EU personal pension products and increase trust among consumers.

Portability: this measure enables PEPP savers who change their domicile by moving to another Member State to continue paying into a PEPP that they have already taken out with a provider in the original Member State. In such a case, PEPP savers are entitled to keep all the advantages and incentives connected with continuous investment in the same PEPP.

EU passport: PEPP providers will benefit from an EU passport to facilitate cross-border distribution.

Monitoring: once the Regulation has entered into force, the Commission will monitor key mid-term performance indicators such as: (i) the uptake of personal pension products and the geographical and sectorial distribution of PEPP providers and investments in PEPPs; (ii) the number of providers using a passport for cross-border activity and the relative share of PEPPs.

BUDGETARY IMPLICATIONS: the proposal has implications for the EU budget. In particular, the additional tasks for the European supervisory authorities (ESAs) will require an increase in resources as well as certain operational investments. Costs of EUR 1 000 000 have been estimated for 2019, including a one-time investment for operational matters, and will total around EUR 1 200 000 per year by 2021.

Under the current co-financing arrangements of the ESAs, 40 % of this funding will be included in the EU budget and will, as such, not go beyond what is set out in the current multiannual financial framework that runs until 2020.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union.