Towards a EU single market for personal pensions

*Keynote speech by Gabriel Bernardino**

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Pension systems are facing tremendous challenges to deliver on their promises. The longevity growth, the sluggish economic environment, budget deficits and debt burdens, financial instability and low employment are known factors that contribute to this behaviour.

Public pay-as-you-go pension schemes are affected by lower contributions due to higher unemployment and put another source of pressure on public finances. As recognised by the EU Commission in its White Paper: "Reforms of pension systems and retirement practices are essential for improving Europe's growth prospects, and they are urgently required in some countries as part of current actions to restore confidence in government finances".

On the other side, private funded schemes are affected by the depreciation of asset values and by reduced returns which lower the funding ratios in defined benefit schemes and diminish the ultimate value of pensions paid by defined contribution schemes.

These circumstances make it very problematic to any system to deliver adequate, safe and sustainable pensions to EU citizens and increase the difference between what pension provision people need for an adequate standard of living in retirement and the pension amount they can currently expect to receive, usually referred as the "pension gap".

In this context it is widely acknowledged the urgency to put in practice comprehensive strategies and policies to adapt pension systems, recognising that in order to maximise the possibility to deliver adequate, safe and sustainable pensions, there is a role for a combination of public and private regimes.

In order to reinforce the confidence of citizens, the development of private complementary pension savings, be it second pillar occupational pensions or third pillar personal pensions, should be accompanied by appropriate regulation and supervision. This is true for the entire financial sector but pensions are pretty special in my view. Of course other financial products also require individuals to trust their money to a better informed entity. But in few other cases does this relationship last for decades. In few other cases is the product relied upon for something as fundamental as income in old age. The social and political consequences – as well as economic and financial – of this are profound.

The reality is that pensions are still an almost exclusively national activity. On the second pillar,

in spite of the steps taken some years ago with the EU Directive on the Institutions of Occupational Retirement Provision (IORP), there are only 82 cross-border pension funds. In the third pillar, personal pensions, we have a fragmented market with great diversity in the regulatory framework and no EU common approach. The question we should pose to ourselves is if this is an optimal situation? An optimal situation for the European citizen, for the European economy, I would dare to answer no.

I believe pensions, both occupational and personal, can play an important role in a more integrated Europe. The development of a truly internal market for pensions can increase member protection, transparency and be the catalyst for better outcomes for citizens, through economies of scale, and for the EU economy, through more stable long-term funding.

EU citizens are increasingly mobile: 6.6 million EU citizens live and work in a member state other than their own. That is already 3.1% of workers in the EU. A further 1.2 million live in one EU country but work in another. How many of these millions have been able easily to transfer their pension rights? How many of their employers have been able easily to establish a pan-European pension scheme? Of course questions of cross-border pension rights are not the only issue which determines whether someone works in another member state. But they may play an increasing role in whether or not a citizen can stay for the long term in another member state. And even if it is not the primary consideration in deciding to work abroad, the individual should be able to avail of coherent and continuing pension arrangements while abroad. And those arrangements should be similar to the way that can be achieved by staying at home.

A European approach will help improve protection for members. There are risks to a cross-border approach if member protection is inconsistent between member states. For an individual to trust his or her contributions to a provider based in another member state he or she has to have confidence that there are consistent and high levels of protection, including a high level of transparency and relevance of the information provided.

In this context I welcome the recent IORP II proposal put forward by the EU Commission. It aims to ensure that pension scheme members are properly protected against risks by strengthening the governance and transparency framework of occupational pensions in the EU; further facilitates the cross border activity for IORP's by removing some obstacles to cross border provision of services; and encourages occupational pension funds to invest long-term.

On personal pensions we are just starting. The EU Commission asked EIOPA to provide technical advice on the prudential regulations and consumer protection measures needed to create a single market for personal pensions in the EU. We have started to work on it and received good contributions from a variety of key stakeholders. A key outcome of our consultation is that a single market for personal pensions can be advantageous for consumers, providers, and for the broader EU economy.

EU consumers will have the opportunity to participate in different schemes across the EU according to their preferences and needs, in particular with respect to investment strategies. Transparency and consumer protection may be improved and cost efficiency is expected to be enhanced.

Pension providers will have the opportunity to achieve economies of scale, especially in the case of standardised products, which allow for successful cross-border selling. Overall, the EU economy could benefit from personal pensions becoming a main driver for sustainable long-term investments.

Not surprisingly, our analysis revealed that taxation, social law, as well as difficulties in the area of harmonisation of contract law, appear to be the most significant hurdles to develop a truly single market for personal pensions. In particular these could result in obstacles to economies of scale and the achievement of critical mass.

To deal with these obstacles is an important element of success for this project, but there are many more elements to consider. For example, we need consumer awareness on their projected income after retirement. If we want citizens to have a responsible attitude towards pensions we need to ensure that they have sufficient information about their individual pension situation resulting from the different pension systems in which they are engaged, starting from the first pillar.

We believe a strong case is made for a future EU Directive that would establish a single market for personal pensions inter alia through the alignment across the EU of personal pension holder protection measures, capturing also any personal pension providers that are not currently regulated at EU level.

Regarding the establishment of a second regime for EU personal pensions, further work needs to be done to clearly identify the costs and benefits. If a second regime will be developed, it should focus on defined contribution products with an appropriate level of standardisation. As always there is a trade-off between product standardisation and product innovation. Nevertheless, a higher level of standardisation will help in achieving the required critical mass to decrease costs and facilitate the consolidation of multi-pillar systems in many countries.

Standardisation will also help in delivering simpler products, with transparent fee structures, avoid conflicts of interest in selling practices and provide ultimately "good value for money" for consumers.

Is this an impossible task? I don't think so. EIOPA is fully committed in pursuing this work, but we cannot do it alone; your creative involvement is essential. A public event like this is a landmark for such cooperation. I am glad that today we can bring together consumer representatives, academics, consultants, providers of financial services and products as well as regulators and supervisors, to discuss the way forward.

As Malcolm X put it: "The future belongs to those who prepare for it today". Let's work together for a better future in a stronger European Union.