INTERVIEW

Running with the baton

Natalie Tuck speaks to PensionsEurope secretary general/CEO Matti Leppälä on the association's current work and its view on how the European pensions sector is shaping up

WRITTEN BY NATALIE TUCK

When it comes to developments in the European pensions sector PensionsEurope is no spectator; it actively plays a part in the relay race of pension policy with its teammates, the European Commission, European Parliament and the European Insurance and Occupational Pensions Authority (EIOPA).

Given it sits outside the European Union, it will never be the anchor leg, the final runner in the race, but it will always have a part earlier on in the process. For example, earlier this summer it published two reports, one on securing good member outcomes and another on the framework for a modern pensions solution.

PensionsEurope secretary general/CEO Matti Leppälä says the reports were produced by two of the association's committees, one for defined benefit pensions and one for defined contribution pensions, which "aim to be thought leaders on these issues".

"I think the papers have been well received, particularly by EIOPA, as they present the views of pension funds and the views of service providers such as asset managers and consultants etc. They are sensible papers that present basis ideas for developments."

Of course, Leppälä does not yet know what the impact will be, but he feels that there is a need for a body like PensionsEurope to undertake this type of work, "to think ahead and present ideas that may be picked up by EIOPA".

Good working relationships

When it comes to the European Union's insurance and pensions regulator, EIOPA, Leppälä says the association has a "very good working relationship", although acknowledging that they "don't agree on everything". He believes the open dialogue is beneficial to both sides, as it helps EIOPA to "have the view and information from the industry".

One of the issues currently up for debate involves the work with EIOPA and the European Central Bank (ECB) on pensions information reporting. The ECB, in coordination with EIOPA, is consulting on draft regulations on statistical reporting requirements for pension funds. It aims for better quality, more granular and comparable statistical data on the sector, provides for a better understanding of its role in the transmission mechanism of monetary policy as well as of cash flows and risks associated with pension obligations.

Leppälä describes it as a "big issue", but PensionsEurope has worked closely with the ECB and notes that it has taken the association's concerns seriously. One of these concerns was how liabilities should only be reported once a year and not on a bi-annual or even quarterly basis as the ECB first suggested. It is also of paramount importance that liabilities will be reported based on member states' existing prudential rules and not on any harmonised European framework. Separately, EIOPA is consulting on the streamlining of pensions information so there will be a single flow of information.

"We will be asking our members for comments, but at this stage I think the concerns will be whether it will be too complicated or too costly. It's difficult to know what the benefits are." However, he adds that it will be beneficial for the supervisory authorities to have the correct information on pension funds. "It is essential that the information which they base their policy thinking on is correct."

The European Commission has also recently published its proposals for a Pan-European Personal Pension Product (PEPP), which the association hopes will be a success. However, Leppälä is not adverse to the difficulties in creating such a product, and stresses that the tax treatment of the product will be essential in determining its success.

"If there isn't tax support for the product, I think it will be very difficult for people to save in this for a pension. In all well-functioning personal pension products the tax treatment is essential." He also notes that the need for a PEPP will be greater in some member states than others.

Room for improvement

Despite all the progression made, there is still much room for improvement in the sector, along with the threat of the impact of the UK's decision to leave the European Union. The latter is something PensionsEurope says is a "big one for us". Not only is this to do with concerns over the details of the pension rights once the UK leaves the block, but the association feels it will be losing a "big voice" when it comes to progression.

"The UK is obviously the biggest occupational pension country in Europe, it has more assets than any other country and has supported the development of European pension policy, pension legislation and investment legislation. It has promoted and defended occupational pensions, so if and when that voice is no longer there then of course we are concerned what will be the impact," Leppälä says.

When it comes to other issues, Leppälä notes that workplace pension coverage is still inadequate across Europe. Despite improvements in some member states such as the UK with auto-enrolment and Germany with the introduction of defined contribution pensions in the workplace, Leppälä says it is still a big issue.

"It is very clear that we need more funded pensions; we have seen first and foremost that it would be a good solution to promote further good quality workplace pensions[…] Overall the lack of coverage and the low level of pension saving remains the main problem and much more needs to be done at European and member state level to increase this."

Furthermore, with the increasing popularity of defined contribution pensions, Leppälä acknowledges that there is a lot of work to be done in the decumulation phase of pensions. "We have many members who are dealing with this issue, and what kind of options there should be in the decumulation phase," he says.

"What I have heard from schemes across Europe and from members is that they would like to have different options, not just annuities in the decumulation phase. Perhaps taking investment risks in the pay-out phase, or maybe having partially, some deferred annuities, there are many different models." However, Leppälä notes that it is not an easy issue and there is a lot to be debated, such as who bears the risk.

Looking ahead

One piece of regulation that has made the finish line is the IORP II Directive, which was voted in by the European Parliament towards the end of 2016. At the time member states were given until January 2019 to transpose the directive into their national law.

Alongside the working group set up by the European Commission with member states, which the association has no involvement in, it has its own working group. Many of its members participate in the group, which allows them to share information as to how they plan to implement the directive.

Leppälä stresses that as it is a directive, it is not fully harmonised, and so will be transposed in many different ways in the member states. "We have asked our members for estimations, what we call a gap analysis, of what they think is missing from the present legislation in their countries. In many cases they themselves interpret that not much needs to be changed."

However, there are some issues such as ESG and climate change, risk management and the pension benefit statement, where it is clear that everybody needs to add something to the existing legislation, but that estimation is different from country to country. "I'm sure the member states' governments are doing this same exercise and they have their own ideas of what needs to be changed," Leppälä says.

In terms of progression, it is Belgium which is aiming to move really quickly. "At our last meeting, the information we received from our pension members in Belgium was that they were planning to submit legislative proposals during the summer. However, I'm not sure of the progression."

On the other hand, Italy has made it clear that it will not propose any legislative work before next year, but the Italian members believe that not much needs to be changed in terms of Italian law. There is also the question of whether the UK will transpose the directive into UK law, given that it is set to depart from the Union in March 2019.

For now, PensionsEurope will continue working with the members to help them implement the directive along with its dedication to improving pensions for everyone across Europe, which of course, is a marathon, not a sprint. ■