

INTERVIEW

Small but mighty

What has ALFI got planned for 2020?

We are in the process of developing our ambition plan for the five years to come but in the medium and short term we will continue to work on digital transformation and financial technology, which has been an important focus for ALFI in the recent past.

Secondly, we want to promote and facilitate access to long-term savings. We see an opportunity in the pan-European personal pension product (PEPP) as we think, and we're not the only one, that European households must increasingly assume more responsibility for their own financial wellbeing.

Our third priority is the growth of alternative investments, where I think Luxembourg has an opportunity to establish itself as one of the leading hubs for alternative investment classes.

Finally, sustainable finance, which is something that has been the focus of our attention for many years now. I would consider this as the third pillar of our industry next to alternatives and more traditional long only UCITS products. I would say these are the four major priorities that we will focus on for the 12 months to come.

Why do you think Luxembourg is leading the way when it comes to environmental, social and governance (ESG) funds?

For many years, Luxembourg has



Geographically speaking Luxembourg is a tiny country in Europe, but it has a successful funds industry. Duncan Ferris speaks to Association of Luxembourg Fund Industries (ALFI) director general, Camille Thommes, about its goals for 2020, and why it's so invested in the pan-European personal pension product

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been an early mover in actively promoting what we used to call responsible investing, both for investors and asset managers. We supported the European Commission's action plan on sustainable finance and we're very closely monitoring the first concrete regulatory proposals.

I could mention here the groundbreaking work undertaken by the Luxembourg stock exchange with the creation of the green exchange a couple of years ago, where they made a dedicated platform to list green bonds. There is also the work of LuxFLAG, a Luxembourg-based labelling agency in the field of responsible investing and sustainable finance, to promote granting labels to funds that follow environmental, microfinance, sustainable finance or ESG.

It's quite natural that we want to position ourselves in this field. In 2020 and the next few years I think it will become indefensible both for asset managers and investors to sidestep their responsibilities on ESG.

Why is taxonomy, or forming a unified classification system of sustainable activities in Europe, such an important issue?

I think one of the challenges the industry faces is that we have multiple terms that exist to describe approaches to investing into ESG compliant activities. There is definitely a need to come up with a unified definition as to what is meant by 'sustainable activities' and that is specifically the proposal from the European Commission's action plan. It's not only to help finance the transition to a more sustainable inclusive growth but also

to foster transparency.

We welcome the work that is being carried out to come up with that taxonomy, which is not necessarily classifying ESG approaches but tries to define sustainable investment through a focus on activities that are considered ESG compliant.

So it certainly will help the industry to be aligned, and secondly it will increase the transparency to investors and make things more helpful for them when they buy into a product that claims to be ESG compliant or invest into a firm that has a focus on sustainable activities.

What technical issues need to be overcome in the development of the PEPP?

Next to the positive element of being simple and flexible, the product will also have a passportability feature to allow citizens to move from one country to another and take their PEPP along. There are still some technical issues that need to be fixed. There is additional guidance that is expected from EIOPA in the months to come.

For us, one priority would be that the cost of advice. There is a discussion about putting a fee cap on the PEPP and we would certainly favour that if the cost of advice element is excluded in order to ensure the commercial viability of the PEPP.

We also consider that the cost of a guarantee, which would be provided by the provider or the manufacturer, should be included in the fee cap to make sure there is a level playing field in the market going forward between offerings from insurance companies and asset managers.

There are some other elements to look at, such as what type of pre-contractual documentation is needed. Tax treatment is another element that

is not part of the proposal because this is a serious part of the remit of each member state. Certainly, to ensure the PEPP's success in the case of mobility or transfer, the tax treatment that would then be applied by member states should not penalise the people who have subscribed to a PEPP.

Why do you think so few Europeans are enrolled in pension products?

It's difficult to come up with a one size fits all answer to this question. There are obviously member states within Europe where voluntary pension schemes are very popular but there are divergences. It's something that is very much used in some Scandinavian countries and the Netherlands. In other countries it's less developed because maybe the first pillar is considered by individual citizens as sufficient.

Another reason why it hasn't picked up in some countries is that the level and degree of financial education is not very developed across individuals. I think there is an obligation, both for public authorities and the private sector, to raise awareness about the need for individuals to save for the long term so they can ensure an equal quality of life after retirement to what they currently have.

I think there is a lot of work that needs to be done. There are many forward initiatives in many countries, including Luxembourg, by various industry bodies to promote financial education and at least give citizens the necessary basis of knowledge to think about their future.

There is also a perception that if you would like to save additional money for the long term you need to be rich, which isn't true. There are products out there in many member

states and in Luxembourg where, with a very moderate amount like €30 or €50 a month, you can start a savings plan and have the potential to generate a better return than what people get in their traditional savings accounts.

A lot has to be done on education. I think it should not only be up to public authorities as the private sector can also support this. They already do but I think we need a European deal to improve the level of financial education amongst European citizens. However, I am not saying individuals are to blame. I've witnessed it myself during my school career, be it in elementary school or in high school, I didn't get taught basic financial knowledge.

How will the PEPP benefit the Luxembourg funds industry?

Obviously, we've put big hopes on the product. I think Luxembourg is well positioned in that space for several reasons linked to the features of the PEPP and the cross-border and passportability elements. We have longstanding experience in other asset classes of helping asset managers set up vehicles in Luxembourg, but also in supporting them in servicing their clients, in administering the product and in providing the tax reporting on a multi-jurisdictional basis.

If people start with a PEPP in country A and move to country B you need to accompany them, you need to provide the necessary tax reporting. That's something we have knowledge of because we have built the expertise over the years. That is why we see an opportunity for Luxembourg based on the existing ecosystem and have the ambition to be a key provider of PEPPs for European citizens. ■