EPPARG
European Pensions
&
Property Asset Release Group

EPPARG RESPONSE TO THE EUROPEAN COMMISSION'S CONSULTATIVE DOCUMENT

CONSUMER PROTECTION IN THIRD-PILLAR RETIREMENT PRODUCTS

JULY 2013

I. Presentation of EPPARG and its members

The European Pensions and Property Asset Release Group (EPPARG) was set up in 2012 to foster dialogue between representatives of the industry, the EU institutions and national governments on the appropriate European regulatory framework for the development of innovative pensions and property asset solutions.

Countries with EPPARG representatives or associates make up over 60% of all the countries in Europe with a Home Equity Release market. This makes EPPARG the principal organisation representing the interests of European Home Equity Release providers at the European level.

Home equity release, or property asset release, is defined as the ability to safely draw down an income – either as a lump sum, an income stream or both - from the equity value of a person's home without having to leave the home or to make regular interest payments, and a number of consumer protection safeguards are in place. In some countries the market is growing by 10-20% per year, actively providing an alternative source of supplementary retirement income

EPPARG would strongly urge the European Commission to encourage the development of home equity release markets as a providing an alternative source of supplementary retirement income - beyond the scope of third-pillar retirement products – in order to provide an alternative option for some European citizens who may be too late to build up a third-pillar pensions 'pot' which will be sufficient for their needs.

II. Responses to Questions

Questions:

1) Is the following definition, used in the 2012 questionnaire, effective for identifying third-pillar retirement products?

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"Third-pillar retirement products are defined as any type of private retirement product subscribed to by consumers on an individual basis [as opposed to occupational], either voluntary or mandatory"

2) If not, what would be the most appropriate common EU definition for third-pillar retirement products?

EPPARG would broadly agree with the current definition of third-pillar retirement products on the basis that this definition is already well-established, after the first pillar on state pensions and the second pillar on occupational pensions, but considers that some further refinement might be needed to clearly distinguish these products from other types of savings products, in line with the list of common features (based on the large majority of cases) set out in the recent EIOPA discussion paper on a possible single EU market for personal pension products[1].

However, as national governments struggle to meet their pensions liabilities, it is vital that the European Commission helps to develop and encourage innovative and forward-looking pension solutions such as home equity release, bearing in mind that even a combination of first, second and third pillar pensions may still not be enough to secure pensions adequacy on a sustainable basis in the future. Traditional pension mechanisms are unable to cope with the combined impact of the challenges which we are now experiencing in Europe, namely a rapidly ageing population, growing youth unemployment and sluggish economies. The scale of the pensions challenge can be clearly seen from estimates that the number of people aged 65 and over in Europe will exceed 120 million by 2030, and from an analysis of The 2012 Ageing Report[2], which demonstrates that the old age dependency ratio (population over 65 as % of population 20-64) will leap from 28% in 2010 to 58% by 2060.

EPPARG notes that a large percentage of households have invested in their homes and consider these as their pensions, and home equity release provides a way to unlock these funds to help people access their money and to provide a boost to their local economies. An ancillary benefit of home equity release for national economies is that households will release money directly into the retail market of their country of residence which will provide a more immediate stimulus than other types of long term saving and investment.

In terms of the future potential of the European market, a recent report by the consulting firm Towers Watson[3] has identified that there is potential for over €20 billion to be released

[1] EIOPA Discussion Paper 13/241 16 May 2013

[2] The 2012 Ageing Report http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf

[3] Towers Watson: *Equity Release: Accessing Housing Wealth in Retirement*, 7 June 2013 http://www.towerswatson.com/en/Insights/IC-Types/Ad-hoc-Point-of-View/2013/06/Equity-release-Accessing-housing-wealth-in-retirement

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each year, noting that over two thirds of older Europeans own their own homes, and that equity release could play a substantive role in closing the pensions gap. Although home equity release products are most common in the UK and Ireland, the report forecasts significant potential demand in the medium-term across Europe, particularly in countries such as Germany and France where the population aged over 65, the majority of whom own their own homes, will rise dramatically. Towers Watson also notes that the potential supply of this product from insurers is considerable[4], as long as the market is not stifled by inappropriate EU legislation on Solvency II.

To provide a further example, EPPARG's member in Spain expects rapid market growth, given that the current public pension system is unsustainable, consumers have no mentality of saving through private pension plans, and home ownership is over 83%.

Equity release solutions may not be right for everyone, but can provide an additional and viable choice for those elderly consumers who find themselves 'asset rich but cash poor', and could also drive the development of new products and services for elderly consumers

We note that equity release solutions are already developed in North America, Asia, Australia and New Zealand, amongst others.

Questions:

3) What are the main risks for consumers when purchasing a third-pillar retirement product?
4) How problematic do you consider the asymmetry between the consumer and the provider in terms of information about and knowledge of third-pillar retirement products?
5) Are there specific needs of consumers purchasing third-pillar retirement products that have to be better taken into account, for example via EU voluntary codes or certification schemes on consumer information (transparency) and protection standards?
- If so, how could consumer information (transparency) be improved? Please cover precontractual and contractual information
- If so, how could protection standards be improved? Please cover marketing, sales practices, inducements, advice and other aspects.

EPPARG considers that the main risk for consumers when purchasing a third-pillar retirement product is in failing to understand if the product is actually going to yield an

[4] Towers Watson estimate that there is a total of €6 trillion of assets held by European life insurers. If only 5% of these assets were invested in equity release products, €300 billion could be released to provide funding for the sale of equity release products, which would be more than sufficient to cover the expected demand of €20 billion per annum

adequate sum of money for them to live on when they need it, in terms of providing additional income over and above state and/or occupational pension schemes. This is very much influenced by the point in a consumer's life in which they purchase the product, as well as the performance of the pension fund.

The issue of asymmetry between the consumer and provider in terms of information and knowledge about third-pillar retirement products can to some extent be dealt with through the provision of clear information and advice. The difficulty for the provider in determining the suitability of a particular product arises in the sense that the consumer may not have realistic expectations of the real amount of income they will have in retirement compared to their needs. This a further reason why the European Commission should promote the creation of alternative sources of supplementary retirement income such as home equity release in order to bridge the gap.

In terms of specific needs of consumers, we consider that those taking out a third-pillar retirement product could be considered as more 'vulnerable' than those purchasing other types of financial products, as the consumer – particularly depending on their age at the time of purchase – may only have one real chance to make the right decision in selecting the right product that meets their needs.

We note that the European Parliament and Council are making considerable progress in their work on the key information document in relation to packaged retail investment products (PRIPs), which covers third-pillar retirement products, which will help ensure that consumers across Europe receive written information in a simple, comparable and digestible format.

In terms of the further development of the European market in third-pillar retirement products, we understand that a number of taxation and social policy issues will need to be carefully considered. This further reinforces the need for the encouragement of alternative solutions such as home equity release - bearing in mind that a customer could seek to take out equity release on a property purchased in another Member State - which can provide a solution which is less intrinsically linked to national social policies.

Questions:

6) Would a self-regulatory code be the best tool for improving the quality of third-pillar retirement products?
7) For which objectives would it be the best way of doing so? (e.g. improving consumer confidence, providing a guarantee of quality, or others?)

8) What outstanding pension-specific consumer protection issues could a self-regulatory approach help deal with?
9) How and by whom should the effective application of the code be monitored?

We consider that an effective way forward would be the establishment of regulatory principles supported by self-regulatory guidance, which would provide a 'safe harbour' to those who would achieve compliance – if a provider met the terms of the guidance then they would not 'fall foul' of any rules. The application of the self-regulatory guidelines should be monitored by the industry itself.

We believe that such an approach would promote high standards and would also be relevant for consideration in relation to other sources of supplementary pensions, such as home equity release, which could be explored further. Overall the aim should be to build consumer confidence in a range of pension solutions, with a view to bridging the pensions gap across Europe.

Questions:

10) Would an EU certification scheme be the best way of improving consumer protection for third-pillar retirement products?
11) For which objectives would it be the best way of doing so? (e.g. improving consumer confidence, providing a guarantee of quality, or others?)
12) What outstanding pension-specific consumer protection issues could an EU certification scheme help deal with?

We consider that the potential role and function of an EU certification scheme for third-pillar retirement products, and for other sources of supplementary pensions such as home equity release, requires further reflection.

While a recognisable quality kitemark or label could have the benefit of enhancing consumer confidence and therefore the take-up of different pension solutions, which would be highly desirable in terms of promoting growth, the issues of how quality could be monitored and guaranteed would require detailed investigation by the Commission services.