CEPS ECMI PRESS RELEASE - 18 SEPT 2013 - BRUSSELS

HOUSEHOLDS SHOULD BE PLACED AT CENTRE OF DEBATE ON LONG-TERM INVESTING

CEPS unveils proposals to foster economic growth and pensions in Europe through more inclusive, efficient and resilient retail investment markets

Against the background of the recent European Commission's Green Paper on the Long-term Financing of the European Economy (link) and White Paper on Pensions (link), CEPS-ECMI releases on 18 Sept. 2013, in Brussels, the landmark report "Saving for Retirement and Investing for Growth".

Key messages:

- Retail investors and beneficiaries need accessible, high-quality and cost-efficient long-term saving and investment solutions.
- Delivering such solutions is a significant opportunity to increase the availability of long-term financing in the European economy, while raising income adequacy at retirement (households are owners or beneficiaries of 60% of financial assets in Europe and need long-term investing).
- There is widespread perception among consumers that private pensions fail to deliver value. Volatile market returns are partially to blame, but poor solution-design and poorly organised markets are also key drivers of net performance.
- Europe's citizens need a pan-European framework for personal pensions. It is unrealistic to wait for occupational pensions to develop in areas where no schemes exist today.
- Policy-makers need to act decisively to deliver more inclusive, efficient and resilient retail investment markets – better equipped and more committed to deliver value over the long-term.
- The report also offers expert analysis and recommendations on Solvency II and IORP II, long-term investment funds (ELTIFs) and investor protection.
- TURN OVER for details on all the points above.

Public presentations of the report: Brussels (CEPS) 18 Sept - 15:00 (link) • Luxembourg (IOSCO Conference) 19 Sept - 14:00 (link) • London (AFME Conference) 24 Sept - 08:30 (link) • London (EFFAS Conference) 14 Oct - 10:00 • Other venues to be announced.

For information, attendance or interviews, contact: marco.incerti@ceps.eu (+32 2 229 39 70) or mirzha.demanuel@ceps.eu (+32 487 258 793).

About the report: The report "Saving for Retirement and Investing for Growth" is the result of the independent research carried out by CEPS-ECMI in the framework of the CEPS-ECMI Task Force on "Long-term Investing and Retirement Savings" (link).

Chairman: Allan Polack, CEO, Nordea Asset Management
Rapporteurs: Karel Lannoo, CEPS-ECMI Senior Research Fellow and CEO
Mirzha de Manuel Aramendía, CEPS-ECMI Research Fellow (author of the report)

Request the full list of Task Force Members (45) to marco.incerti@ceps.eu. Note that the Members only endorse the "executive summary and policy recommendations" at the beginning of the report, as per the disclaimer in the first page of the report.

To request an embargoed copy of the report, contact marco.incerti@ceps.eu.

SUMMARY OF THE REPORT

On Solvency II and IORP II:

- The Solvency II process has driven greater sophistication in investment practices and risk management. It is also an important tool to safeguard financial stability and competition dynamics.
  - → It is crucial, however, that Solvency II reflects the risks effectively born, including the mitigation effects derived from asset liability management (ALM). The matching adjustment (MA) is central in this respect but ALM should also be recognised in capital charges.
- Extending the eligibility for the matching adjustment (MA) to securities with an expected cash-flow profile similar to bonds could facilitate long-term investing, including in infrastructure and others.
  - → Moreover, capital charges for sovereign debt should be reconciled with economic reality to avoid distorting asset allocation to the detriment of long-term investing.
- IORP II should distinguish between dealing with legacy issues versus prospectively devising a framework for the future workplace pensions in Europe.
  - → Approximation should not be undertaken in haste and member states should retain flexibility to deal with instances of underfunding.
- The diversity of occupational pensions in Europe demands caution on approximating prudential rules.
  - → Quantitative requirements should fully reflect the characteristics of pension contracts and the distribution of risks among participants, sponsor and any other stakeholder.
  - → Ultimately, however, given the magnitude of pension funds as operators in financial markets and the need to preserve financial stability, quantitative requirements should be approximated.

On long-term investment funds (ELTIFs):

- The proposal on European Commission on long-term investment funds (ELTIFs) is a valuable initiative, but a closed-end structure with 70% allocation to less-liquid assets would only be suitable for a small minority of retail investors.
  - → Long-term balanced-funds (incorporating restrictions to redemptions and a moderate allocation to less-liquid assets) would broaden retail access to less-liquid assets and long-term investing in liquid assets. The proposed long-term balanced-funds would complement ELTIFs.

On investor protection:

- The EU framework for investor protection is badly equipped to deal with long-term investment and personal pension solutions.
  - → When investing long-term, agency conflicts are magnified, as well as the cumulative impact of costs, given compounding. Suitability assessments should therefore consider costs.
  - The large share of individuals who can hardly afford investment advice should be given the option to access cost-effective and high-quality «default solutions» on an execution-only basis.

On the key messages:

- Retail investors and beneficiaries need easily accessible, high-quality and cost-efficient long-term saving and investment solutions. The EU lacks a consistent regulatory framework for this purpose (and so do most EU member states).
- Delivering the point above is a significant opportunity to increase the availability of long-term financing in the European economy, while raising income adequacy at retirement.
  - → Households are owners or beneficiaries of 60% of financial assets in Europe. And they face a growing need to save more for retirement (and other consumption needs), implying long-term horizons. They also need to save more efficiently, via higher-quality and lower-cost solutions.
- Policy-makers need to act decisively to deliver more inclusive, efficient and resilient retail investment markets – better equipped and more committed to deliver value over the long-term.

  - → The current and projected economic situation in Europe renders action urgent. Europe is facing a double challenge: a significant need for long-term investment (crucial for economic growth) and a growing pension gap, both of which call for resolute action.

- ► There is widespread perception among consumers that private pensions fail to deliver value. Volatile market returns are partially to blame, but poor solution-design and poorly organised markets are also key drivers of net performance.
  - → In addition to solution-design (product rules), policy-makers should consider measures addressing market structure: to deliver a level playing-field that promotes solution quality and scale (lower costs) rather than product proliferation.

- ► Europe's citizens need a pan-European framework for personal pensions.
  - → It is unrealistic to wait for occupational pensions to develop in areas where no schemes exist today. Efforts should concentrate instead on personal pensions, in which employers may choose to contribute.
  - → EU regulation is focusing on the prudential standards for life insurers and pension funds (when they offer guaranteed returns: Solvency II and IORP II). However, no EU framework exists for non-guaranteed / defined contribution (DC) investment and pension solutions. Yet, traditional defined benefit (DB) pensions belong to the past, the future lies in hybrid and DC plans.
  - → The limited evidence available suggests that DC solution-design is frequently substandard; action is needed for aligning incentives with long-term investing and retirement objectives, and requiring appropriate risk management.

- ► Financial exclusion in the markets for long-term savings / investments is widespread. Broadly accessible solutions are needed, including for the most vulnerable.
  - → Exclusion is only partially explained by disposable income, complexity in solution-design and market-settings are also to blame (in addition to the lack of investor education and awareness).

- ► The wider asset management industry should commit to deliver more simple and standardised solutions, geared towards delivering value to beneficiaries over the long-term.
  - → High standardisation for some «default» solutions would help retail access by raising visibility, mitigating complexity and the burden of choice, and focusing competition on quality and costs.

From 18 September 2013 at 18:00 CET, download the full report at www.eurocapitalmarkets.org/SFR or www.ceps.eu/book/SFR. To attend a public presentation, request interviews or embargoed copy, contact marco.incerti@ceps.eu (+32 2 229 39 70) or mirzha.demanuel@ceps.eu (+32 487 258 793).

* * *

*