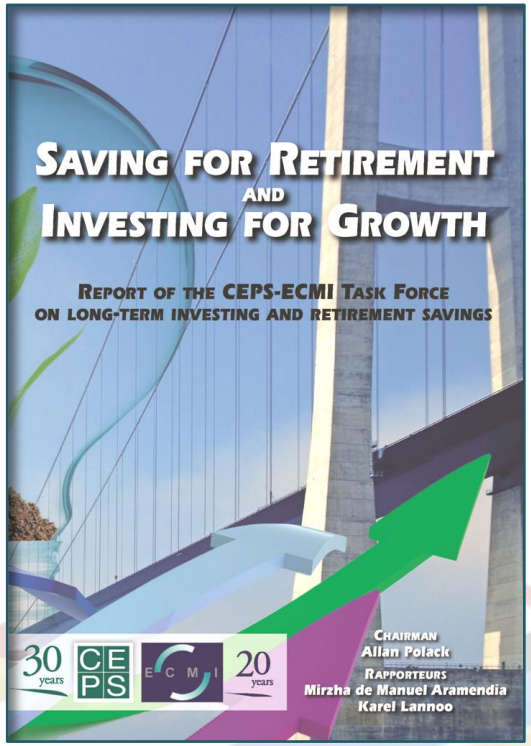
A CEPS-ECMI Task Force Report



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Chairman: Allan Polack (CEO of Nordea Asset Management)

Members: 61 individuals, 31 companies and organisations (wide spectrum)

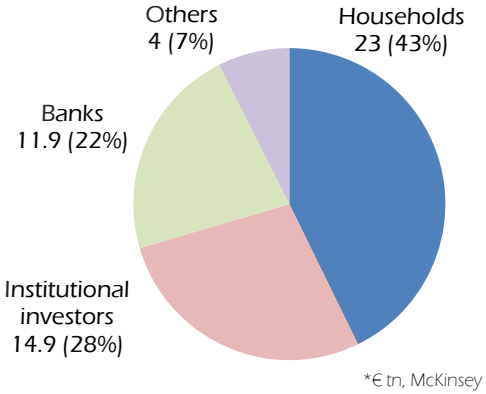
Observers: European Commission, EIOPA, EIB, OECD, French Ministry of Ecology and Energy, Danish FSA, Caisse des Dépôts, EuroFinUse

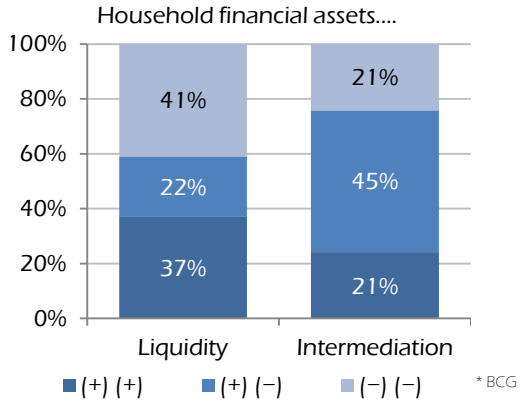
Researchers: Karel Lannoo and Mirzha de Manuel, CEPS-ECMI

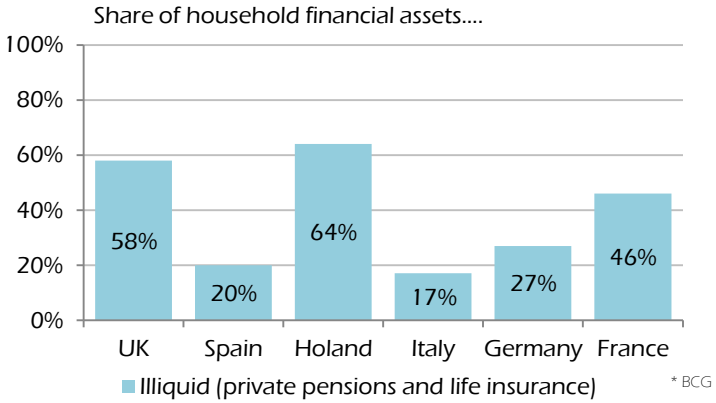
Seed sponsor: Carmignac Gestion

Focus: Retail long-term investment solutions

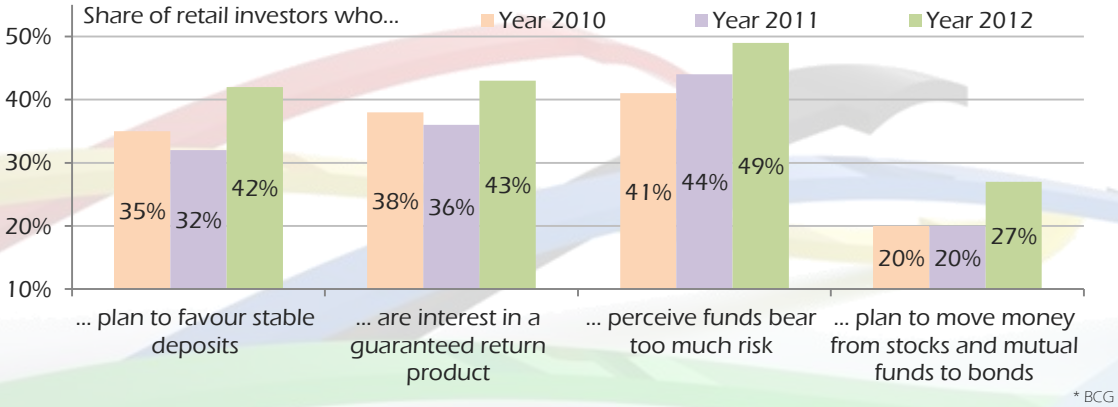
Households are the biggest holders of financial assets in Europe, mostly liquid (with virtuous exceptions)

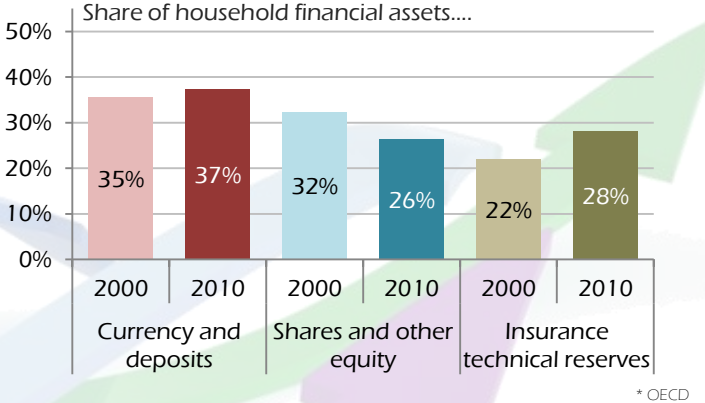




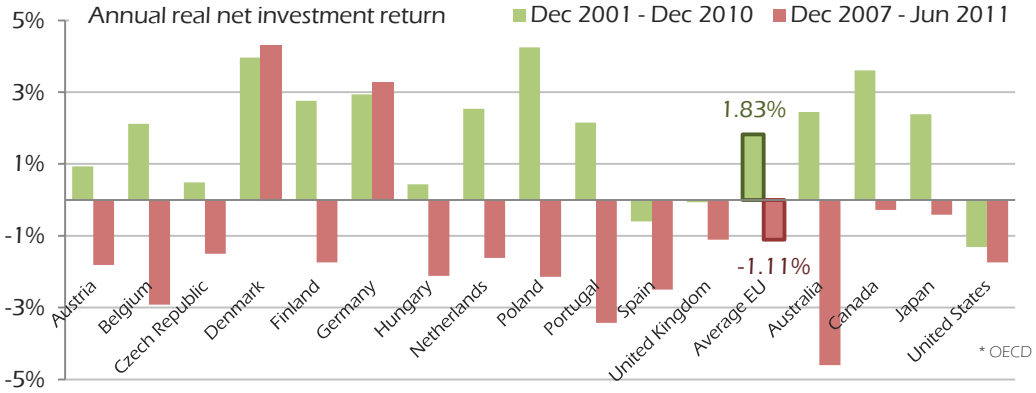


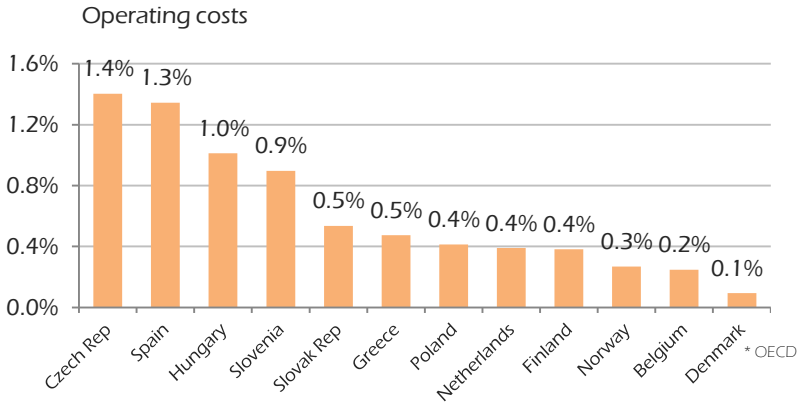
Risk aversion is on the rise – due only to macro fundamentals or also to inadequate intermediation?



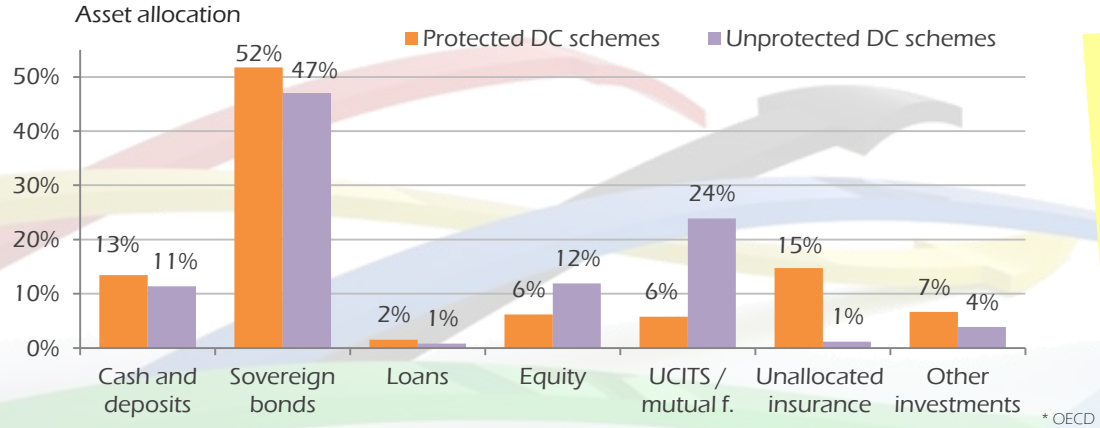


Pensions and other solutions do not always deliver – low market returns but also high costs





DC offers more leeway in asset allocation than DB but incentives need to be aligned with long-term investing



- ✓ Poor solution design, lack of clear retirement purpose, inadequate liquidity profile, asset allocation and risk management
- ✓ Poor communication with plan holders
- ✓ Complex market structures, lack of defaults and guidance

Some conclusions

- **At micro-economic level, LTI depends on retail solutions**
  - focus should be on beneficiaries and end investors
- **Europe is focusing on prudential rules (and rightly so)**
  - low interest rates and dismal growth represent a risk to financial stability
- **And there is space to further align those with LTI**
  - but supervisors will need more resources and powers
- **But the world is moving away from DB into DC**
  - need for a pan-European framework for personal pensions
- **And pension markets are becoming quasi-markets**
  - policy-makers need to ensure they deliver value primarily to investors (not to industry)
- **Where the single market potential remains unexploited**
  - in addition to efficiencies, need for macro-economic convergence

The full Report... broader picture

CHAPTER 1

SETTING THE SCENE

Long-term investing and retirement savings

- What is long-term investing?
  - Investors
  - Asset classes
  - Underlying
- What is the focus of the report?
  - Beneficiaries
  - Retail investment products
- Retail long-term investing today
  - Diversity in Europe
  - Intermediation
  - Liquidity
  - Awareness / risk aversion
  - Incomplete single market

Guarantees and prudential rules

- Institutional long-term investing today
  - Diversity in guarantees
  - Investment practices
  - Prudential safeguards
- Adapting to low interest rates
  - Risks to financial stability
- In transition to limited guarantees
  - Product mixes & business models
- Awaiting regulatory change
  - Solvency II principles
  - Point of contention
  - Potential solutions
  - Lessons for IORP reform

CHAPTER 2

SINGLE MARKET

Less liquid funds

- Commission ELTIF proposal
- Long-term balanced funds
- Accompanying market structure

Occupational pensions

- Challenges in IORP reform
- Potential benefits
- Recommendations

Investor protection

- Specifics for long-term investment products
- Disclosure & sale process

Direct investments

CHAPTER 3

PERSONAL PENSIONS

Private pensions today

- Diversity in Europe
- Insufficient coverage and low contributions
- High costs & low returns

Market structure

- Demand & supply dynamics
- Scale & infrastructure
- Single market potential

Solution design

- Shortcomings identified
- Key trade-offs in design

A blueprint for pan-European pensions

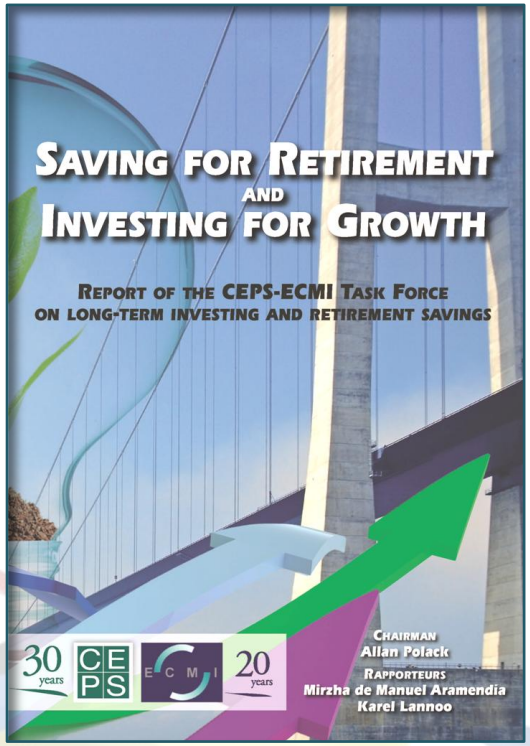
Key recommendations

1. **Place households at heart of long-term investing (LTI) debate**
2. **Foster access to LTI solutions, including for retirement**
3. **Strengthen solution quality and deliver accessible market setting**
4. **Strengthen investor protection and optimise it for LTI**
5. **Continue to modernise regulation for provision of guarantees**

And additional recommendations on…

- ELTIFS
- SOLVENCY II
- IORP II
- PERSONAL PENSIONS

Access the full report…



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