

Hearing on the PEPP - ECON Committee, 21 November

Bernard Agulhon's initial talk

As we understand it, the PEPP has three main purposes:

- The enrichment of the present offer of existing public and occupational pensions with the specific added value of new providers – banks, asset managers – in order to improve the financial sustainability of pension systems,
- The second objective is to draw long term savings towards long term assets in order to better finance the European growth, this point being one of the major goal of the CMU,
- The third objective – perhaps was it the first in the initial thinking – is to provide a solution of pension for mobile citizens: this is what is meant by 'Pan-European'.

For what is of the first goal, the present situation of both interest rates and European longevity of citizens imposes to deviate from the traditional schemes of insurance and pension investments. These use to be – at least is it the case for France – dominated by investments in bonds. This point is of major relevance, because any solution which would impose a formal guarantee would end up with the obligation of investing in priority in bonds because of the need to reduce the prudential cost of such guarantee. The alternative of life-cycle strategies with progressive de-risking before retirement is a simple and adequate way through. In fact it combines the objective of downside risk protection with the de-risking mechanism, and upside performance with investment in equities. We have made several tests in Amundi which provide evidence of the very high probability of getting performances above the inflation rate with life-cycle strategies. An academic study about this topic will soon be provided to EFAMA, and we will make it available ; various studies have already been achieved in the US that tend to the same result.

The second objective which is long term assets for long term savings meets in a certain extent the first objective: long term assets which provide funding to the real economy are those assets which also provide the long term premium for investors: equities listed or not listed, but also infrastructures or real estates. If PEPP is a success, as we wish it will be, it could be a major source of funding for the real and productive economy.

The last goal is to provide a solution for mobile citizens with the portability of the PEPP from one country to the other. The use of compartments which we already have in Amundi for some European occupational pensions allow for this portability. It can be simple for investors, but let us mention that it is not so simple for providers to put it in place and that it requires quite a long work. Therefore we cannot agree with the obligation for all providers to open 27 compartment in any cases. Amundi is a global player; nevertheless we have only 7 or 8 compartment for each of our IORPs (pension plans). It would be impossible for small providers to create these 27 compartment and it would neither make sense. In addition, it would deprive small countries to get local providers of PEPP. We think there is the need to find the right balance in this question and to take into account natural connection between countries of the same regional area.