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NFU Response to Commission Green Paper towards adequate, sustainable and safe European pension systems

About NFU

Nordic Financial Unions (NFU) is an organisation for co-operation between trade unions that organise employees in the banking, finance and insurance sectors in the five Nordic countries. At present, eight trade unions are affiliated to the NFU; two in Denmark, two in Finland, two in Sweden, and one in each Iceland and Norway. Through these trade unions, NFU represents 160 000 employees in the Nordic financial market.

5. In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

One of the changes that should be considered concerns the nature of the Directive. As the Commission points out in the consultation document, the IORP is not a framework directive, which makes it difficult to adapt the regulation to market changes.

Without referring to the issue of enhancing cross-border mobility as such, NFU is of the opinion that a Directive regulating the financial market should be relatively easy to adapt to market changes. The complexity of the products on the market is constantly increasing, as well as the markets themselves.

In the discussion on possible measures to strengthen the internal market for pensions, the Commission is also pointing out that issues to address in the future might include aspects concerning remuneration and incentive structures for service providers.

The issue of the European legislator regulating remuneration is of particular interest to the Nordic countries, since this regulation may impose restrictions on the right to free collective bargaining.

NFU is of the opinion that the matter of remuneration policies should be left to the social partners to decide upon, since pay is, according to art. 153.5 in the Treaty on the Functioning of the European Union (TFEU), not for the EU to deal with.

This has also been acknowledged in the European Parliament legislative resolution of 7 July 2010 on the proposal for a directive of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations:

Recital 14: The provisions on remuneration should be without prejudice to the full exercise of fundamental rights guaranteed by the Treaties, in particular to the provisions of Article 153(5) of the Treaty on the Functioning of the European Union (TFEU), general principles of national contract and labour law, applicable legislation regarding shareholders' rights and involvement and the general responsibilities of the administrative and supervisory bodies of the institution concerned, as well as the rights, where applicable, of social partners to conclude and enforce collective agreements, in accordance with national laws and traditions.

It must therefore be made clear that any provisions regarding remuneration policies in financial institutions, including insurance companies and pension funds, do not apply to remuneration policies and provisions agreed in collective agreements.

10. What should an equivalent solvency regime for pension funds look like?

NFU agrees with the Commission that the Solvency II approach could be a good starting point when discussing a solvency regime for pension funds.

NFU has maintained the importance of all similar financial market players being subject to the same duties and controls. NFU supports one regulatory model that will cover any type of actor. Separate rules for different market actors increases market opacity and make it harder for customers to survey and evaluate different investment choices, as well as for employees to convey proper advice and information. This makes especially sense with respect to the existing and ever-expanding interlinkage between different actors on the financial market, including insurance companies and pension funds.

We, therefore, want one regulatory model that will cover any type of action and any type of company; to have separate rules in separate pieces of legislation for different types of companies makes the task harder and less foreseeable for every part involved. NFU also urges the Commission to take note of the fact that any change in requirements for finance institutions also means changes in requirements for finance sector employees.

However, NFU would like to point out that the establishment of a solvency regime for pension funds cannot lead to a situation where increasing costs for companies are balanced with reduced personnel costs. This can already be expected due to the implementation of Solvency II, where heavier economic burdens on insurance companies might lead to reduced activities in the sector and thus also employment.

12. Is there a case for modernising the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?

13. Should the EU develop a common approach for default options about participation and investment choice?

NFU agrees with the Commission that the increasing usage of Defined Contribution (DC) schemes underlines the need for transparent and clear communication, regarding key information specifically for pension schemes and products (e.g. risk, nature of promise, cost/fees, payout method, etc.).

NFU also agrees that the ongoing shift in pension systems, leading to a situation where the responsibility for pension choices to a larger extent is being put on the individual, requires that people understand the information they receive in order to make informed choices, especially as pensions have become more complex.

NFU has on several occasions maintained that consumers need to be educated primarily in the situation where they actually set out to buy services and are looking for the best deal. This means that finance sector employees have an important role to play and will be major providers of consumer training regarding pensions.

Financial education for customers is important from the trade union perspective, since it renders more competent customers. Competent customers, in turn, leads to more advanced work for financial advisors, which is satisfying for the employees. Finance employees are also the best teachers in the sale moment when customers are willing to adopt the knowledge.

However, the employees must be given the time and opportunity to transfer this knowledge. Aggressive sales targets and merit rating systems are counterproductive to customer protection and qualified advice, and the finance industry employers need to take responsibility for this conflict between sales and advice.

Given the increasing complexity of pension products, it is of the outmost necessity that roles, risks and responsibilities are made crystal clear to all parties involved. The pension issue is something that affects virtually everybody, and product transparency is therefore absolutely vital. It is our opinion that the quality of services to the consumers will depend upon the level and content of training offered to employees, and that not only competent, but also sufficient personnel will be the key to success. This of course also means that employers in the sector must take responsibility for ensuring that their employees have the competence and the time to provide this information to investors.

The training of employees to better be able to meet the needs of consumers is also something that was highlighted in the Commission Staff Working Document on the Follow Up in Retail Financial Services to the Consumer Markets Scoreboard, where it is acknowledged that "… in-depth training on the advantages and disadvantages of the products on offer should form a key part of their profession."

NFU agrees with the Commission that it is important that individuals are properly equipped with economic literacy and planning skills to adequately assess their need for financial and social protection. In this respect it should also be pointed out that it is important that all stakeholders are involved not only at the EU-level, but also at the national level. An important aspect will be missing, if national financial literacy programs are decided by the financial industry and the consumer side only, while not taking on board the experience and expertise of the financial employees.

Regarding information disclosure requirements, NFU has also previously maintained that all investment products sold by financial institutions, including insurance companies, must contain a declaration. The declaration must stipulate a rating of the product's complexity and risk, as well as a description of the type of customer at which the product primarily is aimed. It is important that such a declaration is objective and unquestionable and do not have a marketing purpose. Given the increasing interlinkage between the players on the financial markets it is of course vital that investors on all levels receive and understand the information given from product issuers as well as intermediaries.

Yours faithfully,

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