Press release

BVI: Government should set the right course

- **Acknowledge fund savings plans for pension provision**
- **Prevent an advice gap for small investors**
- **More standardisation to counter greenwashing**
- **Fund industry as a key driver of transformation**

Frankfurt – 9 February 2023. In Germany, important decisions are pending regarding private pension provision, transformation, and the renewal of infrastructure. In Brussels, the debate on commission-based investment advice has flared up again. At the same time, the EU is further developing sustainability regulation.

No state fund in private pension provision

A few weeks ago, the government started to work on the reform of private pension provision as set out in the coalition agreement. The German Investment Funds Association BVI supports the plan to strengthen capital-funded private pension provision, to promote its spread and to set framework conditions for products with high returns. However, the BVI considers efforts to allow the state to act as a provider of private pension provision to be the wrong way to go. Thomas Richter, BVI's CEO, says: 'In the social market economy, the state sets the rules and is the referee. As soon as the referee himself joins the game, competition is neither fair nor market based. That is why we reject a state fund in private pension provision.' The BVI points out that in all countries with state-organised solutions in the pension provision system, these are not established in the private pillar. Moreover, the coalition agreement already provides for a state-organised funded component - the 'Generationenkapital' - in the statutory pension insurance. Richter: 'The first pillar, for which the state is responsible, should practically complement solutions organised by the private sector in the second and third pillars.'

Fund savings plans to be acknowledged by law as a pension product

The government´s plan to acknowledge private investment products with higher returns than Riester in the third pillar by law, is a step in the right direction. To this, the BVI at the end of November last year already published the concept of the Fondsspardepot (fund savings deposit) and brought it into the discussions of the Fokusgruppe (focus group) set up by the government. Richter: 'The strong demand for fund savings plans is proof of their acceptance and use as a pension provision instrument in broad groups of the population.'

The core element of the concept is a deposit for fund savings plans that are concluded exclusively for the purpose of pension provision and have a minimum term until the end of the age of 60. The subsidy is provided in the form of a separate tax-free allowance on the profits earned up to the time of payout. This allowance increases continuously with the period of the savings. 'In this way, government can provide a strong incentive for high return and long-term saving for pension provision,' says Richter.

Reform of Riester supports low-income earners
In addition to new solutions, the BVI also sees an urgent need for reform of the Riester-Rente. Despite outdated framework conditions, it has achieved a high level of distribution with almost 16 million contracts and is one of the most successful state-subsidised models in Europe. 'Lower income groups are reached by the subsidy support. Simplifications in promotion could boost the spread in this population group,' says Richter. A major obstacle, however, is the 100 per cent guarantee obligation on the paid-in contributions, which is prescribed by law. Savers should be able to choose an attractive product without or with a desired guarantee level. This could be implemented quickly and with minimal effort.

Preserve free choice between commission-based and fee-based advice
EU Financial Markets Commissioner Mairead McGuinness has once again put commission-based investment advice under the spotlight. At the beginning of May 2023, she wants to present her proposals within the framework of the announced retail investment strategy and does not rule out a ban on commissions related to the distribution of securities. Richter: 'A commission ban only for securities is unacceptable. It distorts competition between securities and insurance and harms consumers.' The BVI is committed to maintaining the freedom to choose between commission-based and fee-based advice. Especially for small investors, commission-based advice has clear advantages: Those who invest a lot pay a lot, and those who invest little pay little. In addition, the advice remains free of charge if the saver does not invest.

In Germany, consumers already have the free choice between commission-based and fee-based advice. Nevertheless, according to a survey by the market research company Kantar, only 16 percent of Germans can consider paying a separate fee for advice. A commission ban would therefore lead to an advisory gap. This is also shown by a look at the UK, where a commission ban has been in place for ten years. A study by the FCA from December 2020 shows that savers with smaller investment amounts are effectively excluded from advice and that the costs of advice can be disproportionately high for more complex issues such as pension provision. The advice

BVI
Bundesverband Investment
und Asset Management e.V.

Contact
Phone +49 69 15 40 90 0
www.bvi.de

BVI Berlin
Unter den Linden 42
10117 Berlin

BVI Brussels
Rue du Trône 14–16
1000 Bruxelles

BVI Frankfurt
Bockenheimer Anlage 15
60322 Frankfurt am Main

Executive Board
Thomas Richter CEO
Rudolf Siebel MD

market is oriented towards investments of at least five-digit GBP sums. The situation is similar in the Netherlands. Commissions are also prohibited there, but the need for private pension provision and thus investment advice is low due to the strong occupational pension provision.

Furthermore, a commission ban would have consequences for the implementation of the "Green Deal". The fund industry plays a key role on the path to greater sustainability, and investment advice is a crucial factor in taking ESG-relevant developments into account and thus driving sustainable transformation.

Standardisation to mitigate the risk of greenwashing

The BVI supports the EU authorities' goal of acting against greenwashing. However, in view of the many open questions on the interpretation of the EU regulation, the current focus of the authorities on a broad-based market investigation into suspected cases is too early. 'Before talking of suspicious cases, the criteria for sustainable investments in the sense of the SFDR have to be clarified first', says Richter. In addition, the EU legislators should oblige the providers of ESG ratings to disclose their methods and data procurement processes. Fund companies would then be in a better position to assess the quality of ESG ratings.

Turning the fund industry into a driver of transformation

The transformation and renewal of the infrastructure in Germany will not succeed without the investment of German institutional investors such as retirement benefit schemes and insurers. Richter: 'As an essential intermediary linking supply and demand of capital, the fund industry is ready to act as a driver of transformation. However, we will only be able to fulfil this role if the government removes regulatory hurdles, for example in the forthcoming 'Zukunftsfinanzierungsgesetz' (Future Financing Act).'

Hurdles currently include investment guidelines for institutional investors and German funds as well as tax provisions. They set narrow limits for infrastructure investments. In addition, the smaller scope for financing options compared to other countries as well as open questions of interpretation the regulations hinder the launch of infrastructure funds. This is also illustrated by the example of the German KENFO (Nuclear Waste Management Fund), which invests in infrastructure funds exclusively via Luxembourg vehicles. The legislator should therefore adapt the regulatory and tax framework to the needs of infrastructure investments and demand an investment-friendly interpretation by the authorities.

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