Insurance Association
Malta

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Pensions Position Paper

Introduction

Globally, the insurance industry plays a crucial role in the development of pension systems and in the provision of pension incomes through one or more pillars. The pensions market is relatively still in its infancy in Malta, and the attendant opportunities from the transformation of liquid savings into longer-term productive assets and the creation of higher and more diversified pension incomes for the coming decades remain under-exploited. This is in spite of the fact that the local insurance sector - mainly through the Life company segment - has been at the forefront in the provision of retirement savings solutions and has contributed considerably to the gradual growth of this market. Today, local insurance companies are the provider of choice for most pension savings whether through Personal Pension Plans or through Voluntary Occupational Pension Schemes.

Objective

The challenges faced by Malta's current pensions system are known and acknowledged by all stakeholders. One of these challenges is manifested in the "replacement rate" which has been going down over the years. Unless action is taken, future pensioners will be poorer, at least in relative terms, than current pensioners.

The IAM and its members believe that saving for retirement, commenced as early as possible, is fundamental for pension adequacy in absolute and relative terms. This practice will contribute to the affordability and resilience of the overall pension system through the returns and risk-management mechanisms involved in properly regulated and managed pension investment portfolios.

The insurance sector wants to continue to play a leading role in offering pensions solutions that address this fundamental need in an efficient and effective manner in the context of our country's realities.

Legal and Regulatory Framework

The IAM is of the opinion that the current legal and regulatory frameworks are sufficient to ensure and safeguard the interest of savers in terms of conduct and financial stability. It is considered that the Solvency II and the Insurance Distribution Directives together with bespoke regulation such as the PRIIPs Regulation, also supplemented by rules and regulations issued by the local competent authority, achieve this objective. Therefore, while the IAM is not against any improvements which might be contemplated to these frameworks, it does not believe that major overhauls are necessary. Increased regulatory obligations which are not justified inevitably result in inefficiencies through unwarranted complexities leading to dead-weight and compliance and other costs.

Fiscal Incentives

Undoubtedly, the fiscal incentives introduced over the past few years have been instrumental to achieve some inroads in the pensions market. We believe these incentives need to be sustained, enhanced and complemented by further initiatives to entice more individuals to start saving for retirement at an earlier age.

Auto-enrolment with a Voluntary opt out (AEVO)

The IAM favourably considers the strengthening of the Voluntary Occupational Pension Scheme (VOPS) framework in Malta through a system of auto-enrolment with a voluntary opt-out, where such opt-out would furthermore lead to a loss of a positive incentive. Other jurisdictions have experienced significantly improved pension savings with the introduction of this type of measure. Insurance companies are already one of the main players in the Voluntary Occupation Pension Scheme (VOPS) space and want to continue to be in a position to contribute even once auto enrolment with a voluntary opt out is introduced via appropriate legislation.

A further nudge is required

Auto enrolment with a voluntary opt out is a step in the right direction. However, given the experience gained over the past years operating in this market specifically in the VOPS space, the IAM believes, that this measure, on its own, will not be enough to overcome the behavioural heuristics and biases normally associated with long term savings. The experience in the market is that unless employers also contribute to the VOPS scheme, employee take up remains low. Therefore, our recommendation is to consider a more ambitious and courageous approach when introducing the AEVO, whereby employers would be required to provide a contribution to complement that effected by the employee. As indicated above, this should be in a phased and selective manner, targeting initially specific segments of employees who have a better capacity to save but require that additional nudge in the form of employer's contributions.

It is recognised that a selective gradual approach is necessary for the introduction of this scheme. This would enable a focus on the key priority objectives of supporting replacement rates where most needed, ensure that the regulatory and service provision infrastructures are efficiently and effectively developed, and minimise attendant short-term costs, particularly on Government and on employers, through a planned and phased approach. It would also enable the labour market and industrial relations environment to effectively adjust to the introduction of the system.