

A 'big bang' in pensions

The new PACTE law has placed the emphasis on asset managers

Key points

- The PACTE law is designed to strengthen occupational and voluntary pension schemes
- It should aid the growth of the asset management industry
- The PACTE law should broaden the distribution horizon for diversification assets
- France is moving towards a mainstream model for pension funding and delivery

Alongside an emblematic provision amending corporate purpose by inviting companies to consider the ESG aspects of their business, France's PACTE law (action plan for business growth and transformation) also provides companies with the resources they need to "innovate, evolve, grow and create jobs".

To this effect it aims to strengthen occupational and voluntary pension schemes, which have been on the losing end of household savings in France owing to the dominance of life insurance as the one-size-fits-all investment vehicle.

The new law targets an increase in pension reserves from today's €200bn to €300bn by 2022. This will be achieved through a three-pronged approach:

- Creating a single product enabling savers to build up capital or an annuity: the PER (retirement savings plan);
- Increasing the diversification of existing products;
- Stimulating competition between products offered by insurance companies and asset managers.

By introducing several innovations in voluntary pension savings schemes

the PACTE law increases their attractiveness for both employers and members.

As a result, the reform is expected to contribute to the growth of the asset management industry by:

- Increasing the equipment rate (effort primarily targeted at micro-companies and SMEs) and thus the employee coverage rate;
- Potentially increasing employer contributions, which will benefit from lower social contributions in the new regime;
- Increasing the average holding period of invested amounts (limited number of early release options).

In addition, asset managers are to benefit from these trends as their products are likely to be favoured by corporate sponsors, pension product providers and employees alike:

- Savers will be able to withdraw part of their pension savings in a lump sum upon retirement rather than purchase insurance-type annuities. This is reminiscent of the UK's 2015 Pension Freedom reform. This legal provision will form a new market for asset management decumulation products;
- The favourable tax treatment of pension products should encourage the switch from traditional life insurance contracts, supporting the transfer from guaranteed insurance products to unit-linked formats.

While the generic target of €100bn by 2022 seems ambitious, the PACTE law offers an attractive growth relay to asset managers, and in particular to those in the third-party fund distribution market.

1. The PACTE law offers an attractive growth relay

AUM growth (€bn) and % share of open architecture, 2015-2022 estimate



Source: INDEFI analysis

The changes provide asset managers with opportunities for differentiation. The mainstreaming of multi-asset funds and managed solutions, which have become the default investment option, should benefit asset managers with asset allocation expertise. Product offerings are likely to be reshaped, including target-date funds and model portfolios.



Furthermore, the PACTE law broadens the distribution horizon for diversification assets, which hitherto enjoyed limited shelf space in employee saving schemes and unit-linked wrappers. The constraints imposed on private investments are lightened, including those which apply to investments in French-domiciled alternative investment funds (FPCI and FPS¹), the preferred vehicles for investments in infrastructure and private equity.

This trend is reminiscent of the diversification of insurance companies' general account investments.

The first to benefit will be companies with private asset capabilities, equipped to meet expectations in terms of reporting, support in the distribution process and other services.



Clémence Droin

The PACTE law pursues the ambition of regulators to encourage

responsible investment in investment products. By 2020, all insurance contracts will be required to include at least one SRI-labelled unit-linked product, and by 2022, two green and social impact funds. However, this approach remains limited to labelled assets, omitting funds integrating ESG considerations that lack specific labels, thus regulating and raising the barrier to enter this market.

Lastly, the option of withdrawing pensions in lump sums offers an opportunity for offers tailored to the drawdown phase (decumulation products) that will allow asset managers with the engineering capabilities to capture assets by developing suitable products.

Against this backdrop, the status of asset managers as privileged partners for insurance companies is reaffirmed. Increased cooperation can be expected between these players. This spans not only product innovation, but the entire value chain.

“The PACTE law broadens the distribution horizon for diversification assets”

At the same time, asset managers and insurance companies will be in direct competition for the distribution and the management of pension solutions. This is a new paradigm which could lead to a convergence – not unlike the one we have witnessed in the UK and other pension markets.

Although the large domestic bank and insurance company-affiliated asset managers appear ideally placed to leverage the developments in the pension market to their benefit, other asset managers should identify attractive opportunities for growth.

Asset management boutiques will have to capitalise on their differentiated capabilities and strong image with distributors and end-investors to claim their place in open architecture offerings.

● International asset managers can leverage their expertise and experience, provided they strengthen their local asset management set-up and their access to distribution. Direct (online) distribution is often dreamed

of as the 'silver bullet';

- It, however, offers a challenge in the short term as France remains a heavily intermediated market;

- Lastly, private asset specialists will have the opportunity to diversify their funding sources by entering the retail market, a long-term gamble that is all the more sensible as savers' investment horizons are now aligned with their product offering.

With the PACTE law, France is moving one step closer to the mainstream model for the funding and delivery of pension benefits.

¹ **Fonds professionnels de capital investissement; fonds professionnels spécialisés**

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