IPE

France: Third-pillar pensions and sustainability take centre stage
By Carlo Svaluto Moreolo
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In reality, retirement savings in France have already been growing for the past few years and the local institutional investment industry is reaping the benefits. The PACTE law, or 'action plan for business growth and transformation', enacted by the first Macron government in 2019, gave the industry a welcome boost.

The law introduced the Plan d'épargne retraite (PER), which essentially consists of a DC retirement savings vehicle and has three variants - individual, open and corporate. The objective was to streamline the existing instruments - the PERP (plan d'épargne retraite populaire) and PERCO (plan d'épargne pour la retraite collectif) - and to make third-pillar saving products more attractive to a wider set of employees.

Since the introduction of the PER, the list of insurers and asset managers launching such products has grown dramatically. Indefi, the French-American asset management strategy advisory business, forecasts that assets held in PER products will grow by 28% per year between 2021 and 2026. At that rate, the overall volume of assets will grow from the current €59bn gto €190bn.

The fastest-growing among the three versions of the product will be the PER Individuel (PERIN), the personal product. Assets held in PERIN will grow from €37bn to €126bn, according to estimates from Indefi. A significant share of net flows will consist of transfers from previous products, but Indefi forecasts €56bn of net new flows over the period.

"We expect that a growing number of employees will be driven to use these vehicles to save for retirement. The offering has been developed mainly by insurance companies, which have been very dynamic in launching these products. The bulk of the money is invested in unit-linked products", says Clémence Droin, senior engagement manager at Indefi.

"When it comes to collective PERs, growth will be slower, because it takes time for companies to enrol employees into these plans", adds Droin.

The current volatility on markets and the extremely challenging economic landscape are a concern for institutions, says Droin. However, investors are keeping an unrelenting focus on sustainability issues. Article 29 of the 2019 law on energy and climate specifically requires investors to disclose their efforts in sustainability and this is both a cause for concern and an opportunity, according to Droin.

"Long-term investors are now required to comply or explain their ESG considerations. For some investors, the additional regulatory requirements are a constraint, but for others they represent an opportunity, and some today regard sustainability to be as important as financial returns. As a result, many investors are becoming more aware of and concerned with the impact of their investments", Droin says.

She adds: "The level playing field has been raised and we see many initiatives, both on the listed side and within private markets, with impact solutions especially growing in number in recent years."

The regulatory requirements are raising standards across the board, but Droin points out that many institutions, rather than being content with meeting minimum standards, are looking for ways to differentiate themselves in this space.

She says: “Some institutions have historically been at the forefront of sustainability while others have been lagging behind. Today we see some of the latter taking charge and trying to figure out how to interpret the concept in their own ways, which includes choosing their own bias, towards climate or social issues.”

Institutions are anticipating a not-too-distant future when savers themselves will express their preferences in this area more clearly, adds Droin.

This translates into a more competitive environment for asset managers, as investors become more alert to the risk of greenwashing.

Droin says: “Investors are demanding increasingly strong evidence that managers are willing and able to implement ESG or sustainability criteria. Today, choosing managers according to their commitment to sustainability has become less about ticking boxes and much more about differentiating between those that can add value in this area.”