

IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Advice to the Joint Committee of the European
Supervisory Authorities regarding the PRIIPs
Regulation

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1. Please provide any general observations or comments that you would like to make on this call for evidence, including any relevant information on you/your organisation and why the topics covered by this call for evidence are relevant for you/your organisation.

The European Commission's Call for Advice requires the European Supervisory Authorities (ESAs) to provide technical advice on the PRIIPs review by 30 April 2022. This short timeframe does not allow for extensive stakeholder consultation, sufficient testing of any new proposals on the full range of products in scope, and the needed consumer testing in sufficient different number of countries. This represents a constraint on delivering workable proposals for all products in scope and truly improving consumers' understanding. At the same time, keeping pace with the continuous changes to the PRIIPs framework remains a challenging and costly effort for insurers. It is vital to ensure that consumers receive high-quality information, and this requires an adequate timeline to consider any regulatory change and a clear framework and sufficient time for product manufacturers to implement any new provision.

Insurers are key stakeholders in the PRIIPs discussions and need disclosures that fit insurance products, which combine investment with unique features like insurance cover, guarantees, capital protection mechanisms, flexible payments, estate benefits, etc. Such elements can be designed and structured in different ways to offer a wider choice to consumers and respond to different needs.

There is an opinion that the review's goal should be an overall simplification of the PRIIPs framework to meet consumers' needs better. For example, it is unfortunate that the European Commission's Call for Advice only considers an extension of the scope of the regulation. Instead, certain immediate annuities and funeral products should be excluded from the PRIIPs scope, as they cannot be seen to qualify as investment products and are not intended to be used as investments. The current exemption for pension products should be retained, as they have particular objectives and a special fiscal and regulatory treatment at the national level. Getting the scope right is necessary to provide meaningful disclosures to consumers.

Consumers need a clear indication of the existence or lack of guarantees, insurance cover and other benefits to be prominently displayed at the top and/or in the first layer of the PRIIPs KID. This information is essential for consumers' decision-making and understanding products' key features. In order to facilitate consumers' understanding, the number of figures in the PRIIPs KID should also be reduced, focusing on only the essential information.

We support the overarching PRIIPs objectives of promoting transparency, comparability and comprehensibility. While not perfect, the PRIIPs Regulation has introduced many concepts, which can be seen as a material step forward in pre-contractual disclosures. Before PRIIPs there was no common basis for comparisons at both EU wide and cross-sector levels. The cost, risk and performance disclosures are a valid attempt at comparability, even if not perfect, yet.

We welcome the review of the PRIIPs Regulation as an opportunity to assess whether the objectives of the KIDs are actually achieved in practical application and to modernise it in the function of that assessment. We emphasise the importance of consumer testing to make the review of the PRIIPs regulation meaningful and ultimately avoid the need for future piecemeal amendments of the framework.

However, there is also an opinion that the PRIIPs reform must start with the Level 1 Regulation, where key provisions on the content of the document must be amended. The PRIIPs KID must deliver key, simple, fair, clear, and not misleading information on the actual costs and performance of the product.

There is unanimity regarding a default paper approach. It is time to move away from a paper by default approach to adapt to modern consumers' needs and expectations. Pre-contractual documents should be available in an electronic format by default, with the option for consumers to print it or ask for a paper copy. A layered approach and hyperlinks to existing information could also help put consumers in control of the type and levels of details they want to receive. But opposite opinion is also expressed, as it is not yet the time to move away from a paper by default approach. Perhaps in a few years when all generations are educated, able to navigate digitally.

There should be website pages with full information on products, including costs, from the start of the journey. Provider websites should disclose costs in an easily accessible way. We notice that local product providers give this information on cost only in the KID, which is available as a download or a QR code and so not easily seen.

IRSG thinks, that the PRIIPs KID must deliver key, simple, fair, clear, and not misleading information on the actual costs and performance of the product. There are several additional opinions.

While the European Commission, together with the ESAs, attempted to find amendments to the implementing regulations for the PRIIPs KID, one member is of the view that the reform must start with the PRIIPs Level 1 Regulation, where key provisions on the content of the document must be amended.

Other members would like to highlight that many PRIIPs sold by insurers are multi-option products (MOPs), which allow consumers to choose a different combination of underlying investment options. The current approach for MOPs disclosures allows the necessary flexibility and efficient use

of the documents produced by UCITS manufacturers. This must be retained as a diversified choice helps meet clients' evolving demands and needs.

In the PRIIP regulation 1286/2014 Art 8 (3) (f) under a section titled 'What are the costs?', it is stated that "the costs associated with an investment in the PRIIP, comprising both direct and indirect costs to be borne by the retail investor, including one-off and recurring costs, presented employing summary indicators of these costs and, to ensure comparability, total aggregate costs expressed in monetary and percentage terms, to show the compound effects of the total costs on the investment. The key information document shall include a clear indication that advisors, distributors or any other person advising on, or selling, the PRIIP will provide information detailing any cost of distribution that is not already included in the costs specified above to enable the retail investor to understand the cumulative effect that these aggregate costs have on the return of the investment;"

There is also an opinion, the "most vital information" to be disclosed to a customer before buying an IBIP, are type of insurance benefit, level of guarantee, type of underlying assets, summary of costs, information on risks and potential performance and also an investor would like to see how the costs will affect the performance on his investment and how risk may also affect the performance as well. That is why there should be consistency with the PEPP regulation as much as possible. The PEPP level 2 regulation (EU/2021/473) of 18 December 2020 stipulated the "Methodology for the calculation of costs, including the specification of summary indicators" (Annex III., Part III., No. 30): "In the PEPP Benefit Statement, the PEPP provider shall present the estimated impact of costs on the final PEPP benefits by using the 'Reduction in Wealth' approach. In a cost-free scenario, the 'Reduction in Wealth' shall be calculated as the difference between the projected accumulated savings at the end of the accumulation and the projected accumulated savings at the end of the accumulation period. The difference shall be disclosed in monetary and percentage terms relative to the projected accumulated savings." For reasons of understandability and comparability, providers of PRIIPS should use the same methodology concerning the calculation of costs.

2. Do you have, or are you aware of the existence of, data on the number, type and market share of different types of PRIIPs? If you have such data, would you be in a position to share it with the ESAs?

Insurance-based Investment Products (IBIPs) account for the overwhelming majority of the current PRIIPs market. IBIPs combine an investment component with unique insurance covers, guarantees, capital protection mechanisms, flexible payments, estate benefits, etc. Such elements can be designed and structured in different ways to offer a wider choice to consumers and respond to different needs. This variety is in the interest of consumers.

3. In your position as product distributor or financial advisor, to what extent do you make use of KIDs to choose or compare between the products you offer to your clients? In case of trading online, does your platform offer an automatised tool that can help the retail investor in making comparisons among products, for instance using KIDs?

Distributors consider all relevant information, including the KID, to advise their clients in accordance with the Insurance Distribution Directive (IDD) and PRIIPs regulatory framework. More generally, the IDD introduced strict and effective rules for the distribution of IBIPs, ensuring high levels of consumer protection through all the products' life cycles.

While the use of KIDs by distributors varies widely across the jurisdictions where they operate, we observe that some insurance distributors seem to prefer the use of national information documents, which are more insurance-specific and better tailored to the typical products. In countries as Italy, while not using the KID as a "comparison tool" for different products, distributors use its risk indicator to assess the suitability of our products to specific customers.

Distributors do not show charges directly when they are marketing IBIPs. This makes it very difficult for investors to compare products at such an initial stage. Under the Mortgage Credit Directive, consumers are to be given the APRC to make comparisons easier and so providing the reduction in wealth at an early stage of the sale is important for comparison purposes.

This does not currently play a significant role in the IBIPs market regarding trading online.

4. If this is the case, what is preventing distributors or financial advisors from using the KID when they choose a product for a client?

As stated above, distributors consider all relevant information, including the KID, to advise their clients following the Insurance Distribution Directive (IDD) and PRIIPs regulatory framework. More generally, the IDD introduced strong and effective rules for the distribution of IBIPs, ensuring high levels of consumer protection through all the products' life cycle.

Generally, we are not aware of fundamental issues preventing the KID's use. However, as noted in Q3, some intermediaries in the insurance business prefer the use of national information documents, which are more insurance-specific and better tailored to the typical products.

5. In your experience, e.g. as a retail investor or association representing retail investors, to what extent are KIDs used by distributors or financial advisors to support the investment process? Is marketing material used instead or given greater emphasis?

We are not aware of clear evidence of distributors of PRIIPs not delivering or disclosing the KID to clients or potential clients, which would represent a breach of EU law.

From the consumer protection perspective, particularly concerning is the mass-marketing of retail investments products that focus on advertising the high rates of return without emphasising the high risks of a consumer losing their investment.

The KIDs are quite technical documents, so they are often placed side by side with commercial and marketing materials, which adopt a simpler and more effective language. There is also an observation that some product providers give more importance to marketing material, which does not contain all the KID features. The KID is provided under another layer or a QR code.

6. What are your experiences regarding the extent of the differences between marketing information and the information in the KID? What types of differences do you consider to be the most material or relevant in terms of completeness, plain language, accuracy and clarity? What do you think might be the reason(s) for these differences?

Marketing materials include more targeted information, are made to attract consumers/ retail investors and could not accurately disclose information regarding past performances or the risks. Additionally, even though recently adopted ESMA guidelines on marketing communications emphasise on the consistency requirement across disclosure documents, rules on marketing and advertising of investment products remain predominantly a national competence leading to different degrees of consumer or retail investors protection due to the fragmented legislative framework among the Member States in this field.

The KID delivers better outcomes for individual investors because it's a unique document and shorter (compared to the various leaflets, brochures etc.) used in marketing information and because it's complete in terms of the information disclosed to the client, in theory allowing the latter to understand and make an informed decision without any further information or reading.

7. What are your experiences regarding the types of products that include a comprehension alert?

By interpreting and implementing the EU regulation (EU 2017/2359), many products are qualified as "complex" and therefore, they must include a comprehension alert. Using the comprehension alert does not seem to be a common practice. Many providers seem to include it beyond the legal requirements and therefore err on the side of caution. As a result, one may conclude that the comprehension alert can be observed where we would not deem it necessary.

Perhaps, a complexity scale could be provided with specific rules to define the different levels.

There is an opinion that an alert is valuable only if it allows a consumer to identify the most complex structures and the higher risks. The comprehension alert would be more useful as a warning if it were used only as an exception concerning the most complex products, e.g. those with non-linear or geared payouts as a minimum, or products with a hybrid structure that makes them more complex than a simple investment option. For other investment products, the intermediary should guide the customer appropriately.

There is no agreement regarding complex products among members. One group says the rules for the comprehension alert seem to be more tailored for pure investment products than IBIPs. The other group says IBIPs are per se "complex products", because they combine risk coverage and long-term savings/investments. Usually, it is not clearly disclosed what the amount of the investment part of the total premium to be invested is. Additionally, it is usually not disclosed that entry/distribution costs are relatively high during the first five years of the contract duration, in consequence, the investment part of the total premium is relatively low just at the beginning of the accumulation phase

There is also an opinion that PRIIPs are complex products and should carry alerts by their nature.

8. Do you have or are you aware of the existence of data on the number and type of products that include a comprehension alert? If you have such data, would you be in a position to share it with the ESAs?

We are not able to provide the data at stake. In some jurisdictions, such information may be derived from NCAs specific publications.

9. What are your experiences regarding the extent to which retail investors take into account the inclusion of the comprehension alert?

When an investment product is difficult to understand, consumers may not accurately distinguish between more and less risky options when choosing between investment products; therefore, a comprehension alert is necessary, at least on risk warnings.

There is also an opinion that there is no systematic data on this topic, and it does not seem to be an important criterion for most consumers.

10. As a retail investor or association representing retail investors, are you aware of the existence of a comprehension alert for some PRIIPs?

There is little if any evidence, a consumer association representative is not aware of this comprehensive alert. Another representative provides examples already reported by Better Finance.

11. What are your experiences regarding the extent to which financial advisors consider the comprehension alert?

As the comprehension alert indicates a need for advice, it should not deter advisors from selling a product but alert them to the need to explain the product features, which an average consumer might find difficult to understand.

12. For PRIIP manufactures or sellers:

12. a) Please describe the different types of costs incurred to comply with the PRIIPs Regulation.

While noting material compliance costs arising from regular amendments to the PRIIPs Regulation, we propose to offer below a general overview focused on key operational costs arising from systems and processes to prepare and generate the PRIIPs KID.

Such operational costs include the procurement of all necessary data and text elements (own data and from external asset managers, e.g. European PRIIPs Templates - EPTs); the calculation of market risk and performance figures as well as RIY and cost figures, and monitoring of significant changes (triggering KIDs updates, that are due on top of the regular updates).

Operational costs are also incurred with the generation per se of the KIDs for insurance PRIIPs (non-MOPs and MOPs, both Art. 10a and Art. 10b approach depending on the requirements of the manufacturer) as well as specific information documents (SIDs) for underlying investment options. In this respect, we also note the collection of external asset managers' UCITS KIIDs via Morningstar for insurance manufacturers who use them instead of SIDs, as per the current UCITS exemption. The generation of KIDs should encompass all relevant language versions via automated, audit-proof processes, considering local specifics and requirements.

Costs incurred by PRIIPs manufacturers may furthermore include:

- ▶ product assessment, provision of information, preparation of narratives, calculation of data
- ▶ check and approval of documents
- ▶ introduction of documents in the sales process

- ▶ overall process monitoring and updating

Four macro activities related to the PRIIPs KID Regulation have been identified:

- ▶ Manufacturing: refers to the creation of the KIDs linked to the marketing of a new product;
- ▶ Reviewing: this refers to the annual activity of updating the KIDs;
- ▶ Publishing: this refers to the publication/communication of the new KIDs;
- ▶ Monitoring: this refers to the periodic monitoring of the quantitative data present on the KIDs. In case of significant changes, the monitoring could lead to a revision of the published documents.

The implementation costs are high, as multi-disciplinary work is required (eg legal assessment, actuarial and financial calculations, IT implementation, design of the template, drafting and checks of all contents, update of the websites, etc.), based on extensive data collection. Translation into different languages may also be required. Besides, there are costs related to the distribution of the PRIIPs KID to distributors and customers and the necessary support to distributors.

On top of one-off costs, insurers have ongoing expenses in terms of monitoring and review. Such costs are exacerbated in the case of continuous regulatory reviews and late guidance.

12. b) Can you provide an estimate of the average costs per PRIIP of complying with the requirements of the PRIIPs Regulation? Where possible, please provide a breakdown between the main types of costs, e.g. manufacturing, reviewing, publishing, etc.

Since it depends on the size and characteristics of insurance companies, distributors, and products, the complexity of the one-off and ongoing effort is also linked to the scope, frequency and timing of regulatory reviews and Level 3 guidance. At any rate, compliance represents a high cost.

12. c) Can you provide an estimate of what proportion of the total costs for the product are represented by the costs of complying with the PRIIPs Regulation?

As stated above, this depends on the size and characteristics of insurance companies, distributors, and products. The complexity of the one-off and ongoing effort is also linked to the scope, frequency and timing of regulatory reviews and Level 3 guidance. At any rate, compliance represents a high cost.

13. What are your experiences regarding the extent to which the PRIIPs Regulation is applied in a consistent manner across the EU for the most commonly sold types of PRIIPs? What are the main areas of inconsistencies?

Some members believe that there is no need for more consistent supervision, as national authorities are best placed to assess the frequency and methodology of the supervisory initiatives and, if necessary, take remedial actions.

14. Do you have or are you aware of the existence of data on the use of different media? If you have such data, would you be in a position to share it with the ESAs?

The use of digital media varies across markets. In markets as Italy, the main channel for PRIIPs is the physical one through advisors/banks. In such markets, we are currently experiencing a hybrid approach in the bancassurance channel consisting in the first in-person meeting in the bank branch between clients and financial advisors and then online selling and subscription (incl. advisory), subject to customer acceptance of paperless communications.

There is no unanimity regarding default means of information (digital vs. paper). On the one hand modern consumers prefer and expect to receive information by digital means and to be able to conclude paperless transactions. This facilitates the distribution process and can be easily supported by new technologies, including links and layering. The real obstacle is represented by the IDD and PRIIPs outdated provisions, designed for face-to-face and paper-based interactions and allowing insurers to provide disclosures digitally only if still certain conditions are met, and extra steps are taken. On the other hand, the paper format should be the default option because the older generation and the not-so-well educated are not well versed with technology, nor are those who are physically disadvantaged. For some time, this has to stand until we see all generations able to handle digital means. The use of links and layering is easier to explain the information in layers of relevance for those who wish to view information digitally.

15. What are your experiences as a product manufacturer or product distributor or financial advisor regarding the preferred media for retail investors to access or read the KID? Are there challenges for retail investors to receive the KID in their preferred media, such as due to a certain medium not being offered by the distributor?

Generally, we have noticed a trend towards digital media. The email channel is currently used for direct channel sales to send the KID (and other documents) to the customer. Video chat is an opportunity to see the document together with the client. Surely apps and home insurance can be two opportunities for dialogue with customers to further explore and strengthen.

The COVID-19 crisis clearly demonstrated the importance of digital communication for business continuity. The real obstacle is presented by outdated provisions in the IDD and PRIIPs designed for face-to-face and paper-based interactions and allowing insurers to provide disclosures digitally only

if still certain conditions are met, and extra steps are taken. Templates based on an A4 document with long columns and tables are also difficult to navigate, especially for modern consumers who read the information on a screen or smartphone.

That is why we would recommend taking a digital-first approach in the future. In particular, the design of the KID should be technologically neutral, as to not exclude consumers, and future proof, as to accommodate the ongoing digital transformation of the markets, as we cannot forget that there is the older generation who are not digitally savvy and others who are physically disadvantaged. Also, insufficient consumer testing of new legislative provisions has negative consequences on consumers' ability to understand and digest the information they receive.

16. How do you as a retail investor, or association representing retail investors, prefer to receive or view the KID?

Three possible options are presented among IRSG members:

- ▶ Pre-contractual documents should be digital by default, allowing consumers to ask for a paper copy. The contract between the retail investor and the distributor took place via digital means, the alternative option could be printable upon request.
- ▶ Investors should always receive information using paper at any stage of the process unless they decide not to.
- ▶ Both digital and paper-based dissemination should be allowed. However, digital tools can benefit those who can access them, such as layering of information, nudging, explanations etc.

17. What are your experiences regarding the preferred media for product distributors and financial advisors when using the KID?

Although the use of the digital environment and the distribution through digital channels has seen a sharp development due to the Covid-19 pandemic, it is useful to note that for consumers who are less financially educated and for those who do not have digital skills, they should be assisted by a professional to prevent exclusion or inequity between consumers for these reasons. In our experience, it is preferable to offer the KID in the same media type as the rest of the product information. To illustrate that concern, in a digital sales process, we observe that the need for a paper copy is seen as a break in the process.

Digital disclosures facilitate the distribution process and better meet consumers' expectations. Digital communication was also key for business continuity during the COVID-19 crisis.

Requirements should focus on communicating well with consumers making the best use of modern technologies.

At the same time, some members argued that retail investors should always receive information using paper at any stage of the process unless they decide not to.

18. Should changes be made to the PRIIPs Regulation so that the KID is better adapted to use on different types of media?

There are two opposing opinions in this regard. The first is, that the KID should become even simpler. The tables for performance and costs are often seen as overwhelming by customers. Fewer figures would be an improvement. Furthermore, less complex tables would improve readability on mobile devices. The latter opinion is that PRIIPs regulation seems adequate and does not have to be amended.

Nevertheless, the ESAs should consult on different digital formats that would allow better accessibility and engagement with the KID, but the flow of information and actual content must remain the same regardless of the support.

19. Do you think it would be appropriate to apply the approach taken in the PEPP Regulation 2019

We have some reservations with following the approach taken in the 2019 PEPP Regulation. Although the digital by default approach allows layering, which can improve comprehensibility, especially among consumers with different levels of financial education, it is too early to draw further conclusions since there is no practical experience with the PEPP KID. Further consumer testing regarding whether consumers can make an informed decision based on the PEPP KID is still necessary. As the PEPP KID was designed to accommodate both digital and paper-based distribution, we believe that the result considers many findings and the experience with the other key information documents (UCITS, PRIIPs).

There are also members, who do not generally see the PEPP KID as an improvement over the PRIIPs KID. As the scope of the PEPP KID is much smaller, the methodology is not necessarily suitable for PRIIPs. The PEPP KID does not seem to facilitate comparability between different product types but only within the limited scope of PEPPs.

20. Do you think that the scope of the PRIIPs Regulation should be extended to any of the products referred to in Article 2(2), points (d), (e) and (g)? Please explain your reasoning.

Some members of IRSG believe that the scope of the PRIIPs Regulation should not be extended to the indicated pension products. Pension products that have been recognised under national law often fulfil very specific objectives and play a particular role in the national pension system, often complementing the first pillar. They usually benefit from tax incentives and fall in the scope of already existing national information requirements, which are solid and tailor-made to that specific role. They are generally neither suitable nor intended objectives as investment products. As a result, they do not need to be compared to other products, which do not have this specific purpose.

Individual pension products for which a financial contribution from the employer is required by national law and where the employer or the employee has no choice well as unique to the pension product or provider, are tailor-made for their specific purpose. They do not need to be compared to other products, which do not have this specific purpose. The KID, whose purpose is to enable an informed decision, is unnecessary for these products because a decision does not require special national fiscal and regulatory treatment.

However, there is also an opinion based on experience from Malta that personal pensions or money purchase schemes are really PRIIPs. They can be with-profits or unit-linked. They include funeral expenses, but this would be a very low sum assured, and the cost for this could be easily segregated. The differences from PRIIPs could be defined, but at least design and major categories like summary risk indicator, performance scenarios, costs over time and composition of costs should be aligned as much as possible.

There is also an opinion that pension products should not be approached as "extraordinary" to mandate a different regulatory framework, more particularly since many products in the scope of the PRIIPs Regulation are used for retirement purposes. For example, in Germany, the same pension product of a life insurer may be offered as a regular personal pension product (IBIP), as a Riester product, as a Rürup product, as an occupational pension or as a forthcoming PEPP (following to EU/2019/1238). Currently, for each of these pension offers a different KID (based on European as well as on national regulations) has to be prepared for the potential customers. Any comparison of performance scenarios or calculated costs is not possible for the average customer, and this accrued variety of KIDs hinders understandability due to the complexity of texts and figures.

Of course, product design differences and their legal background must not be omitted, but at least design and major categories like summary risk indicator, performance scenarios, costs over time and composition of costs should be aligned as much as possible.

21. Do you think that the scope of the PRIIPs Regulation should be changed with respect to other specific types of products and if so, how?

Some members express an opinion that certain immediate annuities, which cannot be qualified as investment products but are wrongly captured by the PRIIPs definition, should be cleared out of scope. Immediate annuities provide a guaranteed monthly income for a which certain comparison period of time (often the lifetime of the policyholder). Some offer additional features, such as a mortality guarantee. It is impossible required to enable impossible to present consumers with clear and informed decisions by the retail investor—Furthermore, the extension of accurate information on such products through the PRIIPs KID.

The same would apply to funeral products, which are bought to cover funeral expenses. Where these fall within the scope of the PRIIPs also makes it harder to reach the goal of comparability, as of the methodology has to become more generic if PRIIPs Regulation, funeral products are not bought as an investment. Forcing these products into the scope variety of different product types is the increased scope of PRIIPs, providing consumers with misleading information.

There should be more clarity in this regard, for example, that funeral products are already excluded in the PRIIPS regulation "(b) life insurance contracts where the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;"

22. Do you think changes should be made to specify more precisely which types of financial instruments fall within the scope of the PRIIPs Regulation? Please specify the amendments that you think are necessary to the regulation.

Some members expect additional specifications. Products that are not intended to be used as investments should be outside the scope of the PRIIPs Regulation (for instance, certain funeral cover products and certain immediate annuities, which are wrongly captured by the Level 1 definition).

There is also an opinion that annuities should fall within the scope of the PRIIPs regulation, even the so-called "immediate annuities" (offering only the payout phase based on a lump sum one-off contribution). Even if the contribution phase is not included in these "immediate annuities" (like in Germany "Sofortrente"), the decumulation or payout phase is calculated precisely in the same way as for PPP-IBIPs (ongoing administration costs, use of mortality tables, profit sharing mechanisms, etc.). Additionally, high entry or distribution fees are deducted (from the original lump sum) in the same way as for PPP-IBIPs (at the start of the contribution phase). These additional entry fees considerably reduce the lump sum which will be used for the calculation of the life-long payouts.

23. Do you have specific suggestions regarding how to ensure that the scope of the PRIIPs regulation captures packaged or wrapped products that provide an indirect exposure to assets or reference values, rather than assets which are held directly?

The question is not relevant for IBIPs.

24. Do you agree with the ESA Supervisory Statement relating to bonds and what are your experiences regarding the application of the Statement?

ESA's Statement appears to be acceptable.

25. Do you think that the definitions in the PRIIPs Regulation relating to the scope should take into account other elements or criteria, e.g. relating to the maturity of the product, or relating to a product only having a decumulation[1] objective, or where there is not active enrolment[2]?

[1] For example an annuity.

[2] This might include, for example, employment based incentive schemes

Products, which only have a decumulation objective, should not be in scope. It can be challenging for consumers to understand the information tailored to the investment process given in the KID in the context of an immediate annuity or similar decumulation only product. The methodology is not suitable for products with a life-long holding period.

Products without active enrolment should not be in scope, as the information offered by the KID is generally not very relevant in an auto-enrolment situation. Information better tailored for that purpose would be preferable.

At the same time, there is no clear need for definitions in the PRIIPs - relating to the scope - to consider other elements or criteria.

26. Do you think that the concept of products being "made available to retail investors" (Article 5(1) of the PRIIPs Regulation) should be clarified, and if so, how?

Some members do not think there have been problems that would require a clarification seems necessary. However, other members have raised some issues. There is little guidance as to the meaning of "made available." The EC Guidelines 2017/C 218/02 on the application of the PRIIPs Regulation state that access by EEA retail investors to a website of a person advising on or selling a PRIIP should not mean that the PRIIP has been "made available" to those investors and therefore trigger an obligation to produce a locally translated KID. This question is also relevant in the context of access to products listed in a third country, potentially triggering the concept of "making the product available to EEA retail investors".

It may also be useful to clarify that an adequate level of active distribution in the respective local markets / in the EEA should be required to trigger the obligation to produce a PRIIPs KID. A meaningful stakeholder discussion would be welcome before issuing the envisaged clarification.

There is also an opinion, that the wording of the PRIIPs Regulation should be aligned with the wording of article 20 of IDD. From the perspective of the product providers and distributors, the objective is "sale". The sale can be executed with or without advice. In consequence, the wording should be: "products sold with or without advice to the investors/policyholders".

27. Do you think it would be beneficial to develop a taxonomy of PRIIPs, that is, a standardised classification of types of PRIIPs to facilitate understanding of the scope and that could also be used as a basis for the information on the "type of the PRIIP" in the 'What is this product?' section of the KID (Article 8(3)(c)(i) of the PRIIPs Regulation)? If yes, do you have suggestions for how this could be done?

There are very different answers to this question. Those in favour provide an example of the Italian market in particular. It could be positive to adopt a taxonomy of PRIIPs - as long as it is linked to the specificity of products placed in Italy, for example, for products related to segregated funds (Gestioni Separate). Those who are against, think that a standardised classification of types of PRIIPs would not be useful and could even be confusing or misleading for consumers because their design and structure can vary in different countries.

There is also an opinion that while it is undoubtedly worthwhile to clarify the definition of the scope, a taxonomy might not be the best approach. Abstract definitions are more open to product innovation. The wide range of products in scope and the heterogeneity of the EU markets would make a taxonomy approach very complex. Furthermore, constant updates would be needed.

28. Do you think that the current degree of standardisation of the KID is detrimental to the proper understanding and comparison of certain types of PRIIPs? If so, which products are concerned?

Some members express an opinion that the degree of standardisation of the KID could be detrimental to insurance investment products with "supplementary insurance coverages": in particular, because premiums for supplementary coverages - according to the regulation - are represented as if they were costs to the client, but in reality, they are insurance premiums against which the client obtains insurance cover. For this type of product, it could be envisaged that premiums for supplementary covers are not qualified as costs but valued as premiums. Secondly,

the standardisation of KIDs prevents the representation of optional supplementary insurance coverages.

There is also an opinion, following on from the previous answer, it would be useful to differentiate further. In particular, insurance products with "supplementary coverages" could also be considered as a type of PRIIP.

29. Do you think that greater differentiation based on the approaches highlighted above, is needed within the PRIIPs Regulation? If so what type of approach would you favour or do you have alternative suggestions?

Some members express that comparability should not be achieved at the expense of consumers' understanding of the information they receive. It is essential to set the PRIIPs scope correctly, exclude certain immediate annuities and funeral products, and retain pension products' exemption. Forcing these products into the PRIIPs scope will only result in misleading information.

Moreover, Insurance products' distinctive features should be more prominently displayed in the PRIIPs KID. In the PRIIPs KID there is no space to explain insurance cover and guarantees appropriately and - if there is no insurance cover or guarantees - the information is omitted. This does not help consumers understand products' key characteristics and properly assess costs and benefits.

30. Do you have suggestions for how a product grouping or product buckets could be defined?

A distinction could be made between products as follows:

- ▶ pure investment insurance products (without supplementary covers)
- ▶ investment insurance products with supplementary covers

31. Would you suggest specific changes to Article 8 of the PRIIPs Regulation in order to improve the comprehensibility or readability of the KID?

While not concerning a specific change to Article 8 of the PRIIPs Regulation, we emphasise improving comprehensibility and readability. One suggestion could be to integrate the current content of the KID.

The average impact of the costs over the RHP both in Euro and per cent would be enough for the average consumer. The costs breakdown tables are in parts too detailed, and the second table could be completely deleted.

In our experience, complex tables like the costs and performance disclosures in the PRIIP KID with several intermediate values can be quite challenging to read. Intermediate values are not generally meaningful and make the tables difficult to read for many consumers, who find the large number of values difficult to interpret.

We believe that digital layering can improve the comprehensibility and readability of the KID. A very concise starting page with only the key indicators will suit many consumers. More details can be given in the next layer(s). Even with the use of layers, some information requirements should be limited in a way that is only present in the integrative pre-contractual informative documents, such that it is still possible to print it in one concise document.

While the current experience does not enable a sound assessment of the information on sustainability-aspects of the product in PRIIPs, it should be avoided that the new requirements undermine the original aim to serve the customer a crisp and concise piece of information.

- ▶ Company solvency ratio, with an explanation of the indicator;
- ▶ Broader description of "protection" coverages;
- ▶ Tax regime;
- ▶ Costs not expressly indicated;
- ▶ Sustainability disclosure.

This review can really be the opportunity to better display in the PRIIPs KID vital information about the existence or lack of insurance cover, guarantees or other insurance benefits. This is essential information that should be prominently displayed at the top and/or in the first layer of the PRIIPs KID, with a consumer-friendly approach (such as tick on the box YES if the feature is offered, or a tick on the box NO if the feature is not offered).

The current "What is this product?" section of the PRIIPs KIDs should be improved since it requires insurers to provide a repetitive number of different figures, but it only allows them to include a very short description of the insurance cover.

Also, the "What are the risks and what could I get in return?" and "What are the costs?" sections can be simplified, reducing the number of figures and omitting intermediate periods which are not meant for long-term products.

There is also an opinion referring to the recent PEPP KID, which comprises several presentation layout elements and icons (visual representations) that significantly improve the readability of the KID. Consumers need to see how the costs work and not simple figures but what such costs have on the performance of their investments.

32. How could the structure, format or presentation of the KID be improved e.g. through the use of visual icons or dashboards?

We support the improvement of the presentation and format of the KID through information layering complemented by visual icons and/or dashboards. For many consumers, a layered digital approach can make the information easier to process as they can decide how deep they want to go into the information. The starting point should be straightforward and concise, with icons and pictograms helping for a straightforward first layer message. More detailed information, graphics and tables should only come on the second or third layer.

Essential information about the existence or lack of insurance cover, guarantees or other insurance benefits should be more prominently displayed at the top and/or in the first layer of the PRIIPs KID. As to icons, we would encourage their use to make disclosures more engaging and consumer-friendly. We would also encourage a direct and straightforward language where legally possible, and a certain flexibility in the wording of the narratives, for example, to better define specific characteristics, help the translation into different languages or ensure a consistent terminology in the information provided at a national level.

33. Do you agree with the ESAs' assessment in the Final Report (JC 2020 66) regarding the treatment of past performance?

There are two opposing opinions in this regard. The first is, that it could be helpful to include a link to a website or reference to a document where information on past performance is made available.

The second opinion is, that including two performance scenarios tables in the PRIIPs KID would not help consumers understanding. On the contrary, it would overload and confuse them with information and figures based on different methodologies.

34. Would you suggest changes to the requirement in Article 8(3)(d)(iii) of the PRIIPs Regulation concerning the information on potential future performance, and if so what would you specifically change in the regulation?

There is a wide range of opinions expressed by IRSG members:

- ▶ It might be useful to indicate more clearly that the model used to generate the scenarios is based on past performance and that, therefore, potential future results are in any case influenced by past performance.

- ▶ What could really help consumer understanding would be eliminating intermediate time periods in the performance scenarios and displaying more prominently the existence, or lack of, insurance cover, guarantees, and other capital protection mechanisms? The intermediate time periods are not appropriate for IBIPs given their long-term nature. A correct understanding of the recommended holding period (RHP) is key in terms of investment returns.
- ▶ On the contrary, including two performance scenarios tables in the PRIIPs KID would not help consumers understand. It would overload and confuse them with information and figures based on different methodologies.
- ▶ Consumers should be given the past performance of the product against market index benchmarks where this is possible.
- ▶ Long-standing requests and answers to public consultations, Art. 8(3)(d)(iii) of the PRIIPs Regulation should be amended to replace "performance scenarios", which cannot be interpreted otherwise than return estimations, with "disclosure of the product's past performance over the last 10 years, or the maximum available, in comparison with the market index benchmark".

35. Would you be in favour of requiring a KID to be prepared for each investment option (in accordance with 10(a) of the PRIIPs Delegated Regulation) in all cases, i.e. for all products and for all investment options[1]? What issues or challenges might result from this approach?

There is a wide range of opinions expressed by IRSG members:

- ▶ This approach assumes complete investment in a single investment option and requires the KID to include all costs.
- ▶ No. While the 10 (a) approach is often taken for products with just a few options, the 10 (b) approach often works better for products with many options. The generic KID can give a good first view of the influence of the underlying options' choice.
- ▶ It could be investigated whether a mixed approach might hold some promise, i.e. additionally giving a 10 (a) KID for the five most common options. That might be a best of both worlds approach. But it should be tested beforehand whether it provides additional benefit for consumers.
- ▶ No. Consumers' ability to choose among different underlying investments options and decide how much to invest in each option is key to diversifying the investment risk and fully meeting the client's demands and needs. An approach assuming a complete investment in a single investment option would not improve the accuracy of the information received by consumers.

In particular, it would make it more confusing for consumers to have an overview of the total cost of the product.

- ▶ The current approach for MOPs disclosures allows the necessary flexibility and a more efficient use of the documents produced by UCITS manufacturers. This should be retained.

36. Would you be in favour of requiring an approach involving a general product information document (along the lines of a generic KID) and a separate specific information document for each investment option, but which avoids the use of cost ranges, such as either:

A specific information document is provided on each investment option, which would include inter alia all the costs of the product, and a generic KID focusing more on the functioning of the product and which does not include inter alia specific information on costs?; or

The costs of the insurance contract or wrapper would be provided in a generic KID (as a single figure) and the costs of the underlying investment option (as a single figure) would be provided in the specific information document?

What issues or challenges might result from these approaches?

There is a wide range of opinions expressed by IRSG members:

- ▶ The costs of the product and the costs of the options are not always separable. There are products where there is an interaction between the components e.g. due to a risk mitigation algorithm. In addition, profit sharing can transfer results from options to the main product or vice versa. Just adding the costs would give a false result and mislead consumers.
- ▶ It can be quite misleading to ignore the interaction between the main product and the underlying options of above.
- ▶ Since consumers choose different combinations of options and invest different amounts in each option, the approach in the first bullet point would not improve the accuracy of the information received. It could even be confusing and misleading in relation to the overall cost of the product.
- ▶ The approach in the second bullet point is too simplistic and does not work for MOPs. We think it is really important to stress that MOPs are not simply "wrappers" where the cost of each component can be stated separately.
- ▶ The current approach for MOPs disclosures allows the necessary flexibility and more efficient use of the documents produced by UCITS manufacturers. This should be retained.

- ▶ No, we believe that segregating the information would certainly not help non-professional investors and would deviate the KID from its purpose. The key pre-contractual information must be found in a single format and easily accessible for the client, rather than having to aggregate different documents. Indeed, the cost of the wrapper or insurance contract should be disclosed separately in the breakdown of costs table in the KID, the same for the underlying investment options, and then calculated as a total.

37. Do you see benefits in an approach where KIDs are prepared for certain investment profiles or standard allocations between different investment options, or for the most commonly selected options? In this case, what type of information could be provided regarding other investment options?

There is a wide range of opinions expressed by IRSG members:

- ▶ Yes, it might be fine for the KID to be prepared for the most selected/sold investment options. The type of information that could be provided on the other investment options could be qualitative.
- ▶ No. Consumers can choose different combinations of options and invest different amounts in each option and this approach would not improve the accuracy of the information received.
- ▶ The definition of "the most commonly selected options" is not straightforward. Besides, consumers would perceive those options as a recommendation, even if they are not the most suitable.
- ▶ The current approach for MOPs disclosures allows the necessary flexibility and a more efficient use of the documents produced by UCITS manufacturers. This should be retained.

38. Do you have any other comments on the preferred approach for MOPs and or suggestions for changes to the requirements for MOPs in the PRIIPs Regulation?

No.

39. Taking into account the proposals in the ESAs' final draft RTS, do you consider that there are still other inconsistencies that need to be addressed regarding the information on costs in the KID and information disclosed according to other retail investor protection frameworks?

There is a wide range of opinions expressed by IRSG members:

- ▶ The Reduction in Yield (RiY) is a robust and accurate indicator. The current RTS already provide a comparable representation of all PRIIPs costs, since the same RiY indicator is used in table with the total costs and in the table with the composition of costs.
- ▶ In addition to that, we believe that an excessive number of figures can be confusing for consumers, so the information provided in the PRIIPs KID should be simplified. For example, in the section called "What are the costs?" only essential information for consumers should be displayed. That would mean showing the total aggregate costs (expressed in RiY) and the annualised monetary costs. The average cost is a more suitable indicator for long-term products. To avoid misunderstandings, there should also be a clear distinction between premiums and costs: biometric risk premiums represent the price for an insurance service that protects consumers against certain risks and are not costs per se.
- ▶ As stated above, providing information on intermediate periods is not appropriate for IBIPs, given their long-term nature. Also the section "What is this product?" should be improved, since it requires insurers to provide a repetitive number of different figures but it only allows them to include a very short description of the insurance cover.
- ▶ The RTS proposals reduce the goal of comparability by allowing sector specific approaches on cost disclosure to prevail. Different methodologies imported from different disclosure regimes should be adequately integrated in a uniform concept as the result of the Retail Investment Strategy.
- ▶ Yes, there are still inconsistencies and overlaps between the MiFID II and IDD-warranted ex-ante and ex-post performance and cost disclosures – see the comments provided for Q40 in terms of the inconsistency of the ex-ante cost disclosure.
- ▶ While the current experience does not enable a sound assessment of the information on sustainability-aspects of the product in PRIIPs, we note that several initiatives look into such aspects from different angles e.g. SFDR, IDD and MiFID II, raising the potential for regulatory inconsistency in this field.

40. Do you think that other changes should be made to the PRIIPs Regulation? Please justify your response.

N/A

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