

## PRIIPs — the way forward

**Insurance Europe would support changes to the PRIIPs KID when there is solid evidence that they improve consumer understanding and are workable for all the IBIPs in the different markets.** Therefore, Insurance Europe calls on the European Commission to allocate the necessary time and resources to the development of meaningful solutions that have been properly consulted upon, and thoroughly tested on consumers and across markets.

The Packaged Retail and Insurance-based Investment Products (PRIIPs) key information document (KID) is meant to apply the same very prescriptive disclosure standard to a wide variety of very different products but, in practice, it applies mainly to insurance products. Due to the high level of prescriptiveness, the standard fails to capture the key features of insurance products and thus misrepresents certain information that is important to retail investors. Therefore, despite the very laudable intentions, the PRIIPs KID is difficult to understand and — at times — even misleading.

### Problem: Continual changes and ill-judged timelines

To address the complexity and initial shortcomings of the KID, the PRIIPs framework needed a series of adjustments and clarifications — a quick-fix, European Commission guidelines, five successive batches of Q&As from the European supervisory authorities (ESAs) and two supervisory statements — resulting in serious compliance fatigue. In addition to these continual changes, further successive, fragmented regulatory changes are already planned. Not only are the planned changes overwhelming, but their timing seems ill-judged:

- The Commission is committed to fixing by 2020 the most pressing issues of the PRIIPs KID through a non-scheduled PRIIPs review, which is not foreseen in the Level 1 text. To that end, the ESAs are working on potential changes, which they are meant to submit to the Commission by early 2020. A consumer testing exercise was arranged to support the ESAs' drafting of the changes and subsequent public consultation. However, the testing is running in parallel with the consultation (see Chart 1) and covering only one type of insurance-based investment product (IBIP) in five markets, so is not representative of the diversity of IBIPs across the EU.

- New changes to the PRIIPs framework are likely to be necessary to accommodate undertakings for collective investment in transferable securities (UCITS), which were originally meant to be covered by the Regulation but then received an exemption from the PRIIPs Regulation that will expire on 1 January 2022. The Commission will only start identifying what needs to change in the UCITS Directive and PRIIPs Regulation at the beginning of 2020.
- Lastly, the Commission is also due to conduct a review of the PRIIPs framework, in line with Article 33 of the Regulation. However, it will start that work in January 2020, before the changes resulting from the non-scheduled PRIIPs review are applied.

To address the numerous layers of complexity that will result from these fragmented changes, revised technical measures and new guidelines or Q&As are also expected.

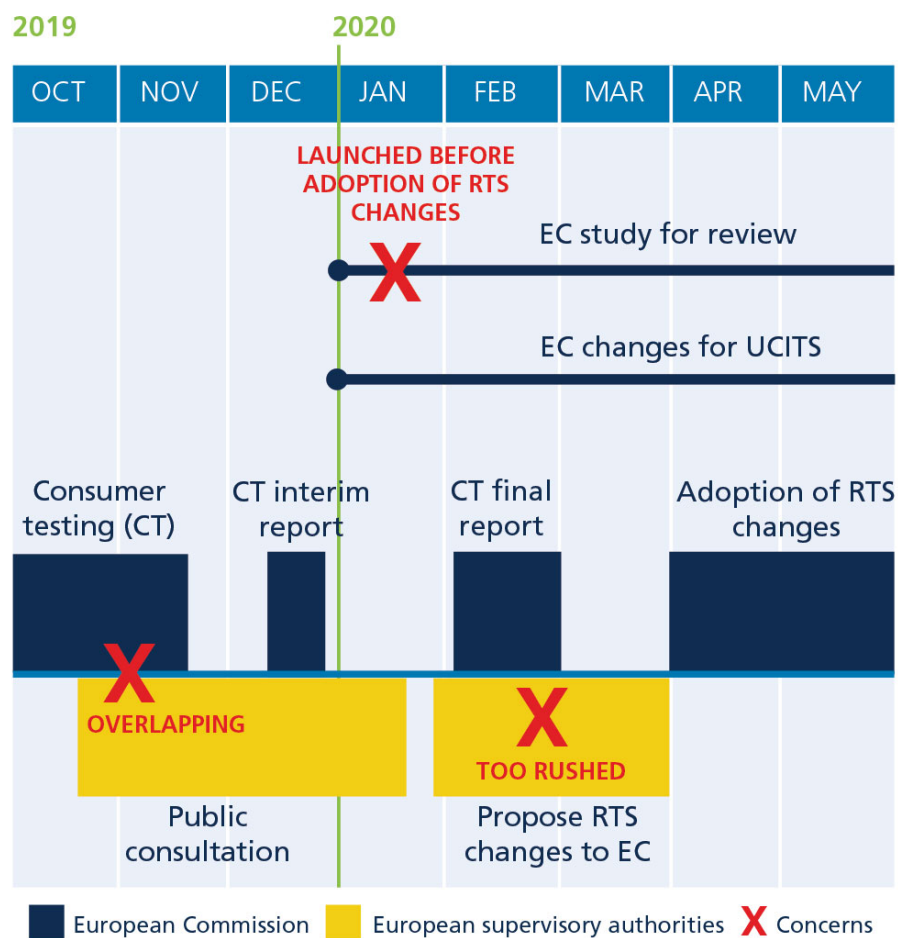
As a result of these continual changes, insurance companies are forced to constantly adapt the information policies for their consumers (see Chart 2).

### **Recommendation: Fixes to PRIIPs developed with sufficient time and introduced in one go**

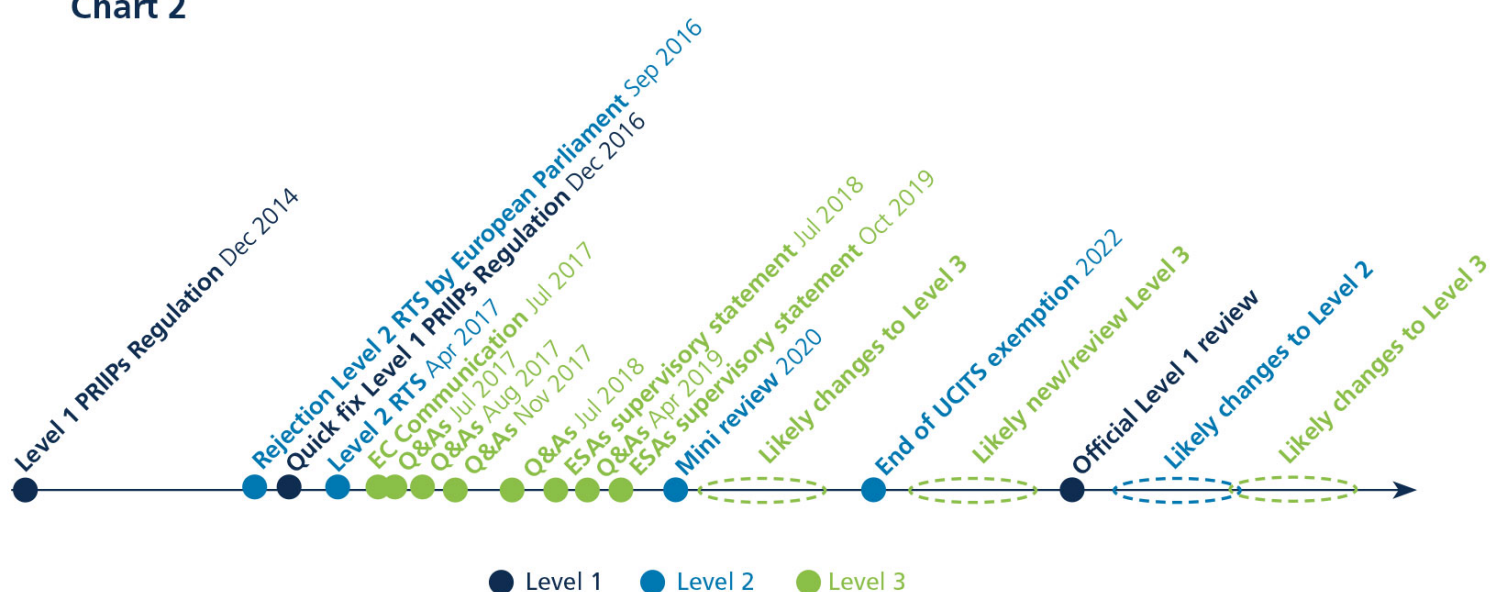
To avoid further consumer confusion, loss of trust and unnecessary compliance costs, the development of PRIIPs KID solutions should not be rushed or be introduced in different batches. Instead:

- Time and resources should be allocated to conducting a thorough analysis of the PRIIPs framework as part of the review foreseen in the Regulation, with a view to introducing all the necessary changes at once.
- The consumer testing should have been completed before the public consultation to allow the ESAs to draw on the outcomes when drafting the consultation proposals.
- Consumers should be tested on a wider variety of IBIPs (unit-linked, with-profits, hybrid products, annuities and funeral insurance) and in more than just five markets, in order to capture all products in the Regulation's scope and national differences.
- There needs to be solid evidence that the ESAs' proposed solutions work for the different products and markets and are truly meaningful for consumers.

## Chart 1



## Chart 2





## Problem: No workable solutions in sight

The changes currently being considered by the ESAs integrate more features from the UCITS key investor information document (KIID) into the PRIIPs KID, making the PRIIPs KID even less suitable for IBIPs and even more confusing for consumers. For example, the ESAs propose to add a table on past performance scenarios in addition to the table on future performance scenarios, as well as further narratives on costs. This will confuse consumers and exceed the three-page limit.

Conversely, the ESAs are considering changing elements of the KID that are working well, such as the reduction-in-yield cost indicator, in order to improve the compatibility with MiFID II disclosures.

### **Recommendation: Meaningful changes, appropriate for insurance products**

Changes should only be made to the PRIIPs KID if there is solid evidence that they improve consumer understanding and are workable for all IBIPs in the different markets:

- Avoid confusing consumers by displaying both past and future performance scenarios as well as further narratives on costs.
- For IBIPs, the reduction-in-yield is a more robust and accurate cost indicator than others. It should therefore not be changed.

## In a nutshell:

DOs	DONT's
Appropriate consumer testing and consultations	Insufficiently tested solutions
Time to develop meaningful solutions	Flawed process and rushed timeline
All changes at once	Continuous string of changes