

## UNDERSTANDING THE DISTINCT NATURE OF LIFE INVESTMENT PRODUCTS

As the nature of life investment products, also known as Insurance-Based Investment Products (IBIPs), is inherently different from MiFID-governed products, the MiFID concept of “non-complexity” cannot adequately reflect the specificities of the insurance world. This is because IBIPs often include essential features, such as biometric cover, financial guarantees or risk-mitigation techniques, which require a more sophisticated design.

**What ultimately matters for consumers is that a product meets their demands and needs without exposing them to risks they do not fully understand.** In this respect, a product that appears simple in structure is not necessarily safer than one with a more sophisticated design. For instance, a share might be structurally simple, but investing in it requires a deep understanding of the market risks involved. By contrast, some IBIPs may seem more sophisticated, but this is because they are designed to manage and protect consumers against such risks.

Therefore, the sophisticated product design of IBIPs is necessary and benefits consumers, much like the technology used in modern cars. Consumers do not need to understand the technical underpinnings of IBIPs. After all, people routinely board airplanes or use smartphones without the need to know the details of the engineering behind them. Likewise, consumers do not need to grasp every insurance intricacy or investment strategy comprising an IBIP; **they need the key information and right guidance** to use these products effectively for their financial goals.

This paper addresses common questions around how IBIPs work and explains how their features are carefully designed to deliver real value to consumers.

### IBIPs: where investment meets protection

IBIPs provide a ready-made solution to consumers who are not willing or able to invest on their own, and can offer stability in volatile environments, thanks to financial guarantees, risk management techniques and insurance covers. This makes IBIPs holistic planning tools, not just wrappers. Insurers actively select and monitor the assets, often directly manage part of the investment, and adjust the investment strategy, leveraging on their expertise and knowledge.

#### How are IBIPs there for you when life circumstances become challenging?



Christina invested long-term to complement her pension entitlements. Thanks to the financial guarantee offered by her IBIP, she can be confident that her savings will be protected from sudden financial markets downturns, giving her peace of mind.

Mario, a self-employed worker, passes away unexpectedly. Thanks to the death insurance cover provided by his IBIP, his loved ones quickly receive a safe payout, helping them cover immediate expenses and maintain financial stability.



Ana, a factory employee, suffers a workplace accident and can no longer work. Thanks to the disability insurance embedded in her IBIP, her insurer helps her stay on track despite the interruption in income.

- Unlike other investment products (eg ETFs), IBIPs offer a long-term investment horizon that gives consumers the peace of mind they need, while channelling investments into the EU economy, supporting resilience, competitiveness and growth.
- In addition, IBIPs provide a range of options, such as insurance covers, exclusions, deductibles, level of guarantees, types of payment, etc., that allow the product to be adapted to consumers' needs and financial situation.
- Consumers can benefit from a single, coordinated product that simplifies the experience and promotes better outcomes (eg avoid underinsurance, market timing mistakes or premature withdrawals), instead of having to manage separate products, providers and documentation.

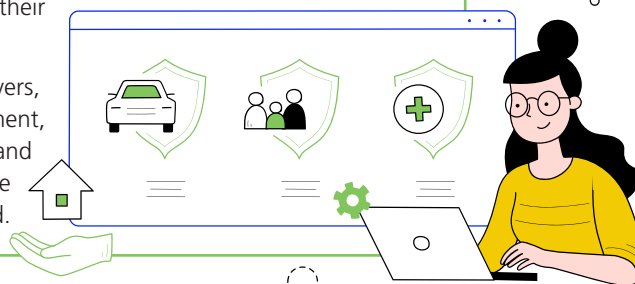


**A single, regulated product delivering both investment growth and protection against life risks (eg death, disability).**

## Empowering consumers through choice

Multi-Option Products (MOPs) allow consumers to choose and switch between various investments, enabling tailored financial planning that evolves over time. This flexibility reflects real-life needs across different life stages – from early employment to retirement planning or responding to unexpected events. EU rules (eg PRIIPs Key Information Document (KID)) ensure underlying funds are presented in a standardised format enabling consumers to understand their main features.

The same goes for other options, such as insurance covers, exclusions, deductibles, level of guarantees, types of payment, etc. They allow to adapt the product to consumers' needs and spending capacity. What is important is that consumers are informed and can ask questions to a distributor when needed.



**Options help tailor products around consumers' needs.**

## Beyond returns: the broader value of IBIPs

IBIPs offer multiple services under one contract. Each component (investment component, biometric risk cover, administration, distribution, advice) has a clear consumer benefit and a corresponding cost.

EU rules in IDD and PRIIPs KID Regulation mandate clear cost disclosures. What is important for consumers is to receive information on the total cost of the product, with a possibility for a further breakdown upon request. This approach ensures meaningful transparency and provides consumers with the essential and relevant cost information of the product.

Cheaper is not always better. An ETF might have minimal fees, but it is fully exposed to market fluctuations and offers no insurance cover nor guaranteed capital protection. In a market downturn, its value can fall sharply without any built-in safeguards, leaving consumers vulnerable to significant losses. IBIPs, by contrast, offer contractual guarantees and protection mechanisms that shield from precisely such scenarios. Therefore, pushing consumers towards the cheapest option could mean pushing them towards less protection and fewer benefits, which is not necessarily in their best interest.



**What is important is that costs are proportionate to the benefits and consumers are well informed. The EU framework ensures high level of consumer protection.**

## Matching risks and returns to consumer needs

- IBIPs are designed to match a wide range of consumer profiles, including those who are more risk-averse and value safety and stability. They offer different levels of protection, guarantees and investment strategies, helping consumers find a solution that balances risk and return according to their needs.
- Consumers receive a KID, which requires a Summary Risk Indicator, performance scenarios (showing what the consumer might receive under different market circumstances) and disclosures on the impact of costs on returns.
- IBIPs are often sold via advisors, who must ensure that consumers receive products consistent with their needs and understand how the products work, including risks and return expectations.



**Disclosures and advice help consumers find the right solution for their risk profile.**

At the end, if the product's architecture helps protecting consumers against risks, for example through biometric risk covers, financial guarantees or risk mitigation techniques, then this sophistication is in the interest of consumers. **What ultimately matters is that consumers are able to choose what works best for them.**