

Insurance-based investment products' benefits

The PRIIPs Regulation is important to help enhance consumer protection and improve consumer confidence by aiming to improve the transparency and comparability of PRIIPs products. It is, therefore, extremely important that the features of insurance-based investment products are appropriately presented in the key information document (KID).

Insurance-based investment products comprise an insurance cover, consisting of protection against biometric risks faced by consumers, alongside an investment element. When freely choosing an insurance-based investment product, a consumer is looking for both beneficial investment opportunities and for insurance protection for his or her family against biometric risks, such as (depending on the type of policy selected):

- death
- diagnosis of a critical and/ or terminal illness
- work incapacity due to ill health
- permanent work or occupational incapacity
- requirement for long term care

The life insurance part of an insurance-based investment product may offer a number of benefits:

- **Protection of surviving dependants:** first and foremost, death benefits provide surviving family members with funds allowing them to maintain their living standards. For instance, it can provide funds for college education when the principal income earner is deceased and/or a financial safety net to offset the impact of estate taxes upon the policyholder's death.
- **Income protection:** benefits that ensure a stable living income in case the consumer is not able to exercise his profession or work in any capacity, either temporarily or permanently.
- **Succession planning:** allows a customer to save or invest money for his children or grandchildren while keeping control over the funds and the time of pay-out (eg not automatically after a certain period of time).
- **Long-term care:** the organisation and delivery of a broad range of services and assistance to people who become limited in their ability to function independently on daily basis over an extended period of time, due to mental and/or physical disability.
- **Consistent saving:** compared to saving accounts, regular payments of a premium offers the consumer a more disciplined way of saving.

All these benefits are unique to insurance-based investment products and are secured by the payment of the insurance premium (ie the price to pay in exchange for these insurance services). A sharp and clear distinction must, therefore, be made between investment costs associated to the insurance-based investment product and the insurance premiums paid. Premiums — which are payments that directly finance the insurance benefits of the products — should never be considered as costs. This is simply because the consumer knowingly receives insurance benefits for these payments and in fact specifically chooses an insurance-based investment product in order to receive these benefits along with investment returns.

If the consumer is not interested in receiving additional insurance benefits, **he or she would not opt for an insurance-based investment product in the first place**. However, if consumers are interested in receiving additional insurance benefits, the presentation of insurance premiums as investment costs would not give them the appropriate and necessary information on the product.

Looking at the whole EU regulatory framework for insurance distribution, the current Insurance Mediation Directive (IMD) ensures that insurance-based investment products sold by intermediaries meet the demands and needs of an individual consumer. The recently agreed Insurance Distribution Directive (IDD) applies this requirement to all distributors and, in addition, introduces an assessment of the suitability and appropriateness



of an insurance-based investment product. Moreover, the IDD establishes product oversight and governance rules that will require an identified target market to be specified for all products. These rules ensure that both the protection against biometric risk and investment are in the interest of the consumer.

Insurance Europe strongly believes that it is in the interest of the consumer that the amount of the insurance premium is not presented in the cost section of the KID, but in a **separate insurance section** of the KID. This separate section would detail the insurance cover, benefits and the biometric risk premium. In addition and to ensure complete transparency, a reference to this could be made in the cost section, such as: "The contributions for additional benefits that are not related to the savings process are presented separately." Similarly, a reference to this separate section could be made in the performance scenario section, such as: "The additional benefits that are not related to the savings process are presented separately."

If this separation is not made, the consumer will be disadvantaged in several ways, as they would **not be in a position to compare what is comparable**:

- The cost indicator of an insurance-based investment product will be deceptively higher than that of other PRIIPs, and consumers will not be in a position to compare the investment part of the different products on the market.
- The amount of the insurance premium will not be clearly visible to consumers and this will prevent them from comparing the insurance cover, including the potentially high benefits if the insurance cover payment is granted. It will also allow them to compare the premium with the ones offered through other insurance-based investment products and through pure life insurance products with no investment component.

Therefore, in order to achieve meaningful comparisons between products, these two features cannot be aggregated in one figure and must be presented in separate sections of the KID.

Presenting an insurance premium as a cost would mislead consumers and would **discourage them from covering their biometric risks**, given that an insurance-based investment product would appear to be more costly than it really is.

For more information:

Olivia Fabry, policy advisor, conduct of business, +32 2 894 30 57, fabry@insurancееurope.eu

Alexandru Ciungu, policy advisor, macroeconomics and taxation, +32 2 894 30 47, ciungu@insurancееurope.eu