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Position Paper

# Insurance Europe response to the ESAs consultation questions on draft PRIIPs RTS

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Question 1: Would you see merit in the ESAs clarifying further the criteria set out in Recital 18 mentioned above by way of guidelines?

The comprehension alert would lose its value and would not help retail investors if it was used for a wide range of products including some that should not fall under its scope. At this stage, the criteria set out in recital 18 do not provide for complete legal certainty as to which products' KIDs should bear such a comprehension alert. There may be, therefore, a risk that some PRIIPs manufacturers face a situation where they choose to disclose the comprehension alert although their products should not bear it. If applied too broadly, the warning may lose its differentiating impact.

Although the criteria set out in recital 18 are unclear, there is no empowerment for the ESAs in the PRIIPs Regulation to specify the details of these criteria.

It should also be borne in mind that under Insurance Distribution Directive (Article 30(7)) there is an obligation on EIOPA to develop guidelines for the assessment of insurance-based investment products that incorporate a structure, which makes it difficult for the customer to understand the risks involved. In line with Insurance Europe's call for a one-year extension of the application of the PRIIPs Regulation, it is therefore unnecessary for any further guidelines or criteria to be set regarding PRIIPs products that may be difficult for retail investors to understand, as the above-mentioned guidelines already address this very issue.

Question 2:

(i) Would you agree with the assumptions used for the proposed default amounts? Are you of the opinion that these prescribed amounts should be amended? If yes, how and why?

(ii) Would you favour an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead?

Insurance Europe supports an approach in which the prescribed standardised amount is the default option, unless the PRIIP has a known required investment amount and price which can be used instead. The default amounts as proposed by the ESAs in the draft RTS are considered to be workable by the insurance sector.

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Question 3:
For PRIIPs that fall into category II and for which the Cornish Fisher expansion is used as a methodology to compute the VaR equivalent Volatility do you think a bootstrapping approach should be used instead? Please explain the reasons for your opinion?

Not taking into account the accuracy of the methodology but only looking into the level of complexity, it seems pertinent to emphasise the high complexity of the proposed methodology behind the risk indicator in general and particularly of the methodology for MRM calculation of category III PRIIPs. Insurance Europe would highlight that the methodology under category III (involving bootstrapping and a minimum of 10.000 forward-looking simulations) is much more complicated than the one under category II (historical volatility over the last 5 years).

Insurance Europe would be of the contrary opinion than what is proposed in this question: instead of applying an excessively complex methodology to category II as well, the methodology behind category III products should be simplified. The ESAs seem to assume that different measures are required in order to ensure accurate measurement of risk for different types of PRIIPs, and therefore to ensure fair comparison. Insurance Europe believes that this assumption ought to be thoroughly assessed before introducing a complex — and very costly — system. The ESAs should consider whether simpler, more uniform measures for most types of PRIIPs would lead to different results and rankings in order to ensure that the draft RTS are cost-effective to implement.

Insurance Europe wishes to add that the methodology for category IV products, in paragraphs 49 to 52 of the draft RTS, remains very unclear and should be further clarified. Namely, it is not explained to which methodology the adjustments for factors not observed in the market should apply. Clarifications as to the expected adjustments for factors not observed in the market are necessary. Otherwise, the industry will not be able to follow the methodology.

Insurance Europe strongly believes that absolute clarity must be ensured whilst avoiding the elaboration of disproportionally complex measures.

Question 4:
Would you favour a different confidence interval to compute the VaR? If so, please explain which confidence interval you would use and state your reasons why.

Risk-free rate of return yields wrong results. Insurance Europe's understanding is that a "risk-neutral" pricing environment assuming a risk-neutral probability measure shall be assumed for deriving the "real-world" value-at-risk (VaR) or some equivalent annual volatility under the original probability measure.

Hence, potential risk premiums for different asset classes (ie the assumption of an expected return above the risk-free rate) are not considered. Instead, one applies a methodology that is originally only valid within a pricing exercise, eg for valuation of an option. However, the current approach derives a quantile of these discounted values which is in our opinion a flawed approach. It might produce meaningful results for "vanilla" investment vehicles, such as pure equity funds; it is however likely to produce "very wrong" results when more complex structures such as path-dependent CPPIs or similar are considered.

Therefore, Insurance Europe strongly recommends not to analyse quantiles of probability distributions assuming a risk-neutral pricing measure. One cannot use a probability measure designed for pricing — where the only economically relevant figures are expectations of discounted cash-flows — to compute and classify a risk-related number in terms of a probability distribution's quantile or conditional tail VaR.

Question 5:
Are you of the view that the existence of a compensation or guarantee scheme should be taken into account in the credit risk assessment of a PRIIP? And if you agree, how would you propose to do so?

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Insurance Europe strongly believes that the following risk mitigating factors specific to insurers need to be taken into account:

1. The **very strict prudential regime** that insurance companies are subject to (Solvency II) already incentivises the diversification of insurers' risks and ensures the financial capability of insurers to fulfil their contractual obligations, even under stressed conditions. Furthermore, Solvency II allows regulators to intervene promptly when they suspect that an insurer faces difficulties.
2. **Subordination of claims**: Article 275(1a) of the Solvency II Directive clearly states that "with regard to assets representing the technical provisions, insurance claims shall take absolute precedence over any other claim on the insurance undertaking". At point (b), the same article states that when it comes to the whole of the assets of the insurer, only claims by employees, public bodies, and social security can come before insurance claims. Therefore, Insurance Europe believes that the mitigating factor as explained by paragraph 65(a) of the draft RTS Annex II will always apply to insurance companies under the Solvency II regime. Consequently, Insurance Europe believes it is necessary to add the specific reference to Article 275 of Solvency II in the draft RTS.
3. **Insurance guarantee schemes:** Not considering guarantee schemes as a mitigating factor contradicts previous views of the ESAs, where it is stated that "credit risk could be mitigated in some situations, such as when there is a guarantee or a compensation scheme (such as the deposit compensation scheme) in place or when appropriate collateral is provided". The credit risk retail investors could be facing, when purchasing a PRIIP, is the risk linked to a PRIIP manufacturer's insolvency. If this risk is already mitigated at national level by a guarantee scheme, then the credit risk from the point of view of the retail investor is immaterial.

When an insurer is subject to Solvency II and an IGS exists in its jurisdiction, these mitigating factors taken together represent a **triple protection layer** against credit risk for investors in an insurance-based investment product manufactured by an insurer. Therefore, these need to be fully acknowledged by the draft RTS and they should be reflected when determining to which credit risk class insurers belong to. Insurance Europe would suggest that any insurance-based investment product manufactured by an insurer subject to the Solvency II regime is automatically classified in the credit risk class 1.

Question 6:
Would you favour PRIIP manufacturers having the option to voluntarily increase the disclosed SRI? In which circumstances? Would such an approach entail unintended consequences?

Insurance Europe does not favour PRIIP manufacturers having the option to voluntarily increase the disclosed Summary Risk Indicator (SRI). Such an option would lead to legal uncertainty and undermine comparability for retail investors.

Question 7:
Do you agree with an adjustment of the credit risk for the tenor, and how would you propose to make such an adjustment?

Insurance Europe does not agree with an adjustment of the credit risk for the tenor in the case of insurers. Given the strict prudential regime that insurance companies are subject to (Solvency II), this requirement would be disproportionate. Solvency II already incentivises the diversification of insurers' risks and ensures the financial capability of insurers to fulfil their contractual obligations, even under stressed conditions. Furthermore, Solvency II allows regulators to intervene promptly when they suspect that an insurer faces difficulties.

Question 8:
Do you agree with the scales of the classes MRM, CRM and SRI? If not, please specify your alternative proposal and include your reasoning.

Insurance Europe does not agree with the scales of the classes. This is because the CRM (Credit Risk Measure) does not take into account all the risk mitigating factors appropriately and many insurers will be automatically end up in CR3. According to the aggregation method proposed, this would mean that even if the insurer has a MR1, its final SRI would be 3. Insurance Europe believes that this is not a reasonable outcome, given that market risk is the most relevant factor for insurance-based investment products.

Insurance Europe is of the view that credit risk should not be integrated in the quantitative risk indicator as this only adds complexity to the model. However, should it be decided to aggregate the market and the credit risks, the market risk should be factored in in a much more prominent manner than what is proposed in the current draft RTS. The ESAs' alternative scale proposed page 9 is already a step in the right direction because the default credit assessment 3 would allocate an insurer to CR2. The aggregated risk indicator would, therefore, still allow that insurer to be allocated a summary risk indicator of 1 if they belong to MR1 class.

Question 9:
Are you of the opinion that for PRIIPs that offer a capital protection during their whole lifespan and can be redeemed against their initial investment at any time over the life of the PRIIP a qualitatively assessment and automatic allocation to MRM class 1 should be permitted?
Are you of the opinion that the criteria of the 5 year tenor is relevant, irrespective of the redemption characteristics?

Insurance Europe is of the view that the five years tenor criteria selected by the ESAs is arbitrary, irrelevant and based on no concretely evidenced need to differentiate between products that offer a capital protection at maturity of the product. A guaranteed product with a maturity of more than five years does not have a higher market risk than a similar product with a shorter tenor. Therefore, this arbitrary cap also becomes misleading for retail investors. Insurance Europe is of the opinion that for PRIIPs that offer a capital protection at maturity and that can be redeemed against their initial investment at any time over the life of the PRIIP upon a redemption fee, a qualitative assessment and automatic allocation to MRM class 1 should be permitted regardless of their tenor.

The criteria of the 5 year tenor was presumably introduced to address inflation concerns. In Insurance Europe's view, the impact of inflation on the value of the PRIIP should not affect the market risk mainly because inflation is not a risk inherent for PRIIPs but affects all investment products in the same way. In addition, this feature is not included in pre-contractual information disclosure for other products (products falling under the Markets in Financial Instruments Directive (MiFID) and UCITS for instance). This distinction is therefore not helpful for retail investors, nor does it increase comparability or transparency of products.

Question 10:
Are you aware of other circumstances in which the credit risk assessment should be assumed to be mitigated? If so, please explain why and to what degree it should be assumed to be mitigated?

Insurance Europe strongly believes that the following risk mitigating factors specific to insurers need to be taken into account:

1. The **very strict prudential regime** that insurance companies are subject to (Solvency II) already incentivises the diversification of insurers' risks and ensures the financial capability of insurers to fulfil their contractual obligations, even under stressed conditions. Furthermore, Solvency II allows regulators to intervene promptly when they suspect that an insurer faces difficulties.
2. **Subordination of claims**: Article 275(1a) of Solvency II clearly states that "with regard to assets representing the technical provisions, insurance claims shall take absolute precedence over any other claim on the insurance undertaking". At point (b), the same article states that when it comes to the whole of the assets of the insurer, only claims by employees, public bodies, and social security can come before insurance claims. Therefore, Insurance Europe believes that the mitigating factor as

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explained by paragraph 65(a) of the draft RTS Annex II will always apply to insurance companies under the Solvency II regime. Consequently, Insurance Europe believes it is necessary to add the specific reference to Article 275 of Solvency II in the draft RTS.

3. **Insurance guarantee schemes:** Not considering guarantee schemes as a mitigating factor contradicts previous views of the ESAs, which stated in its June Technical Paper that "credit risk could be mitigated in some situations such as when there is a guarantee or a compensation scheme (such as the deposit compensation scheme) in place or when appropriate collateral is provided". The credit risk retail investors could be facing, when purchasing a PRIIP, is the risk linked to a PRIIP manufacturer's insolvency. If this risk is already mitigated at national level by a guarantee scheme, then the credit risk from the point of view of the retail investor, is immaterial.

When an insurer is subject to Solvency II and an IGS exists in its jurisdiction, these mitigating factors taken together represent a **triple protection layer** against credit risk for investors in an insurance-based investment product manufactured by an insurer. Therefore, these need to be fully acknowledged by the draft RTS and they should be reflected when determining to which credit risk class insurers belong to. Insurance Europe would suggest that any insurance-based investment product manufactured by an insurer subject to the Solvency II regime is automatically classified in the credit risk class 1.

This would also solve another important issue, which is that the draft RTS relies excessively on credit ratings given by agencies when determining credit risk classes; this is contradictory to all recent regulatory trends at EU level. Indeed, many insurers in Europe do not have a credit rating (eg only 13 life insurers in Germany have Assekurata rating and only approximately 6 life insurers in Spain and 3 in Belgium are rated). According to the draft RTS, the default credit assessment is the credit risk class 3. In Insurance Europe's view, this is an arbitrary and unfair classification. Insurance companies which do not have ratings will face a very high comparative disadvantage on the only basis that they do not have a rating. This will in particular affect small and medium insurers which cannot necessarily afford to pay a rating agency.

Question 11:
Do you think that the look through approach to the assessment of credit risk for a PRIIP packaged into another PRIIP is appropriate?

Insurance Europe believes that the RTS are not very clear on this topic. At the very least, it should be ensured that it is clear for retail investors which level is considered in the credit risk assessment.

Question 12:
Do you think the risk indicator should take into account currency risk when there is a difference between the currency of the PRIIP and the national currency of the investor targeted by the PRIIP manufacturer, even though this risk is not intrinsic to the PRIIP itself, but relates to the typical situation of the targeted investor?

It should be noted that, in the case where the retail investor invests an amount in the same currency of the product (meaning that this product is being paid out in the same currency), there is no currency risk inherent to the product as the consumer has already taken the currency risk when the currency was bought.

However, should there be a currency risk inherent to the product, the fact that there is a currency risk should be disclosed in a generic way. In order to avoid adding any additional complexity to the risk indicator, the currency risk should not be integrated in the quantitative indicator.

Question 13:
Are you of the opinion that the current Consultation Paper sufficiently addresses this issue? Do you it is made sufficiently clear that the value of a PRIIP could be significantly less compared to the guaranteed value during the life of the PRIIP? Several alternatives are analysed in the Impact Assessment under policy option 5: do you see any additional analysis for these assessment?

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The PRIIP Regulation establishes that there is a single risk indicator (Article 8(3)(d)). This is to be a summary indicator, which takes account of and combines the relevant factors. Therefore, the presentation of several risk indicators for different intermediate stages, as suggested in option 5.2 would be contrary to the level 1 text. Its limitations should be also explained. In our view, a warning, specifying the boundaries of the risk indicator would make sense.

Furthermore, the PRIIP Regulation foresees an entire section of the KID for the description of what hap-pens if consumers take out money early (Article 8(3)(g)(iv)). Therefore, consumers are informed in this section about what happens when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

The same applies to the option 5.1. Consumers will be confused if the term for the risk indicator was shorter than the term of the product displayed in Article 8(3)(d). Moreover, a risk indicator based on short and standardised holding period for all products is not meaningful since for long-term products, such as insurance-based investment products, consumers will receive a wrong impression about the real risk of the product.

Question 14:
Do you agree to use the performance fee, as prescribed in the cost section, as a basis for the calculations in the performance section (i.e. calculate the return of the benchmark for the moderate scenario in such a way that the return generates the performance fee as prescribed in the cost section)? Do you agree the same benchmark return should be used for calculating performance fees for the unfavourable and favourable scenarios, or would you propose another approach, for instance automatically setting the performance fees to zero for the unfavourable scenario? Please justify your proposal.

Coherence must be ensured throughout the KID. The methodologies, calculations and values used, as well as the structure of all the KID's sections must be consistent.

Question 15:
Given the number of tables displayed in the KID and the to a degree mixed consumer testing results on whether presentation of performance scenarios as a table or a graph would be most effective, do you think a presentation of the performance scenarios in the form of a graph should be preferred, or both a table and a graph?

Insurance Europe is of the view that, in order for consumers to understand the performance scenarios section of the KID, targeted and effective information must be provided. The presentation of performance scenarios, whether in a table or a graph, must take into account the following:

- The PRIIPs level 1 Regulation dedicates a specific section of the KID to the surrender. In order to avoid confusion and double-counting the early redemption fee, it is essential that early redemption fees are not treated as a cost and do not appear neither in the performance scenarios nor in the costs.
- Insurance-based investment products tend to be long-term products and are selected by retail investors also for this feature. Showing in the KID returns after 1 or 3 years is completely irrelevant for insurance-based investment products. Insurance-based investment products would be put in a competitive disadvantage compared to other PRIIPs. For illiquid PRIIPs, showing intermediate returns is irrelevant, also for longer time periods. For these PRIIPs, only returns for the recommended holding period is relevant.

It should be noted that there is a risk that consumers will think that they need to subtract the reduction in yield (RIY) from the performance scenarios since the information on costs comes after the information on performance. The ESAs should suggest a presentation that ensures that consumers are not misled to do so.

Question 16:

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Do you agree with the scope of the assets mentioned in paragraph 25 of Annex VI on transaction costs for which this methodology is prescribed? If not, what alternative scope would you recommend?

Insurance Europe wishes to point out that the table on transaction costs in paragraph 25 of Annex VI cannot be extended, as such, for insurance-based investment products. The specificities of the insurance products should be duly taken into account particularly for the costs structure.

Transaction costs are included in the costs for managing capital investments and should not be double counted: For life insurance products, the total costs for managing capital investments are to be dis-closed according to articles 34 (II) (9) and 42 of the Directive on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC). In addition, life insurers provide long-term products and, therefore, the investments of life insurers are mainly long-term oriented, so the assets in their portfolios have often mid- to long-term maturities. Therefore, the frequency of reallocation is relatively rare compared to other PRIIPs. Therefore, the implicit transaction costs are marginal and negligible and with-out relevance for retail investors.

Question 17:
Do you agree with the values of the figures included in this table? If not, which values would you suggest? (please note that this table could as well be included in guidelines, to allow for more flexibility in the revision of the figures)

Insurance Europe wishes to point out that the table on transaction costs in paragraph 25 of Annex VI cannot be extended, as such, for insurance-based investment products. The specificities of the insurance products should be duly taken into account particularly for the costs structure.

Transaction costs are included in the costs for managing capital investments and should not be double counted: For life insurance products the total costs for managing capital investments are to be disclosed according to articles 34 (II) (9) and 42 of the Directive on the annual accounts and consolidated accounts of insurance undertakings (91/674/EEC). In addition, life insurers provide long-term products and, there-fore, the investments of life insurers are mainly long-term oriented, so the assets in their portfolios have often mid- to long-term maturities. Therefore, the frequency of reallocation is relatively rare compared to other PRIIPs. Therefore, the implicit transaction costs are marginal and negligible and without relevance for retail investors.

Question 18:
Do you agree that the monetary values indicated in the first table are a sum of costs over the respective holding periods? Or should the values reflect annualized amounts? If you prefer annualized amounts, which method for annualisation should be used (e.g. arithmetic average or methods that consider discounting effects)?

Since the insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. A presentation of the total costs for the whole investment period:

- would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 30 years investment period.
- would make a product with a longer term automatically look more expensive – even if it is cheaper – than a product with a shorter term.
- would be misleading for consumers that compare products with different terms and investment amounts since the total costs in monetary terms cannot be linearly scaled.

Keeping in mind Insurance Europe’s position that intermediate periods should not be presented in the KID, the total cost should be presented:

- in monetary terms per year (annualised average) and;

- percentage terms as a "reduction in Yield" (RIY) for the holding period of the contract, which shows the total impact of costs in percentage, as well as includes all costs: direct and indirect, one-off and recurring costs.

As regards the method of annualisation, it is important that the compound interest effect is taken into account. Therefore, methods that consider discounting effects should be applied.

Question 19:
Do you think that estimating the fair value of biometric risk premiums as stated in paragraph 55(b) of Annex VI would raise any technical or practical difficulties?

In order to achieve meaningful comparisons between products, the biometric risk premium and the investment costs cannot be aggregated in one figure and must be presented in separate sections of the KID.

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

Insurance Europe welcomes that the ESAs acknowledge that the aggregation of the investment costs and the biometric risk premium would be inappropriate. It is indeed, the insurance sector's views that, such an aggregation would (1) not seem to be in line with the level 1 PRIIPs Regulation; (2) not be in the interest of consumers who will not be in a position to compare what is comparable; and (3) create an unlevel playing field for insurance-based investment products.

Nevertheless, Insurance Europe considers that, only if the biometric risk premium for the inherent insurance cover is presented separately, would consumers actually be able to make a meaningful comparisons. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the full biometric risk premium from the investment costs could achieve such an objective.

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. Optional insurance cover could be mentioned narratively in the section "What is this product?".

The ESAs have already pointed out correctly in the previous consultation that a separate risk-rider could as well be offered as a separate contract that would not fall under the PRIIPs Regulation and where no investment element would be associated with a risk rider. Therefore, the information on these benefits should not be included in the KID or could be mentioned narratively in the section "what is this product?" if these options are proposed within the same contract.

Question 20:
Knowing that the cost element of the biometric risk premium is included in the total costs calculation, how do you think the investor might be most efficiently informed about the other part of the biometric risk premium

(i.e. the fair value), and/or the size of biometric risk premium overall? Do you consider it useful to include the fair value in a separate line in the first table, potentially below the RIY? Or should information on the fair value be disclosed in another part of the KID (for instance, the "What is this product?" section, where the draft RTS currently disclose biometric risk premiums in total, and/or in the performance section)? What accompanying narrative text do you think is needed, and where should this be placed, including specifically narrative text in the cost section?

First, it seems essential to recall that the level 1 PRIIPs Regulation Article 8(f) introduces in the KID a section on costs which should include "the costs associated with an investment in the PRIIP" – it does not say "costs associated with an investment and biometric protection". Therefore, separating the biometric risk premium and the investment cost, as well as being the most transparent and meaningful approach, is also in line with the level 1 text.

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. 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.

All these benefits are unique to insurance-based investment products and are secured by the payment of the insurance premium (i.e. 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.

Effective comparison should be ensured for consumers. Meaningful comparison remains the key objective of the PRIIPs Regulation and the insurance sector considers that only separating the biometric risk premium from the investment costs could achieve such an objective. Insurance Europe strongly believes that it is in the interest of the consumer that:

- The biometric risk premium for the inherent insurance cover is presented in a section separate from the KID cost section
- No part of the insurance biometric risk premium is presented in the cost section of the KID
- 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 complete 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.

Separating and displaying the biometric risk premium (1) in different formats; (2) several times; and (3) in different sections of the KID, will only lead to confusion for consumers. This will, in turn, create a competitive disadvantage for insurance-based investment products. 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. Optional insurance cover could be mentioned narratively in the section "What is this product?".

Question 21:
Given evidence as to the difficulties consumers may have using percentage figures, would you prefer an alternative presentation of the second table, solely using monetary values instead? As with the first table, please also explain what difficulties you think might arise from calculating monetary values, and whether this should be on an annualized basis, and if so, how?

The question relates to the second table on the presentation of costs. Insurance Europe does not support the ESAs' proposed format of presentation of the costs. Insurance Europe considers the proposed format to be misleading and confusing for consumers.

There is a contradiction in the visual representation of the risk class and costs of PRIIPs. Insurance Europe welcomes the fact that the presentation of the risk indicator suggested by the ESAs includes only one number corresponding to the total risk of the product and is easy to grasp for retail investors. Unfortunately, the opposite is true for the representation of costs: the ESAs suggest two tables which not only exceed the requirements of level 1 text but also include 15 numbers in the first table and five numbers in the second table. The comprehensibility of such information is highly questionable. According to the consumer testing: "There was support for more detailed information in the qualitative study among some participants. However, increased detail often meant poorer performance on the objective questions within the quantitative testing". In this context, the insurance sector fails to understand why such a complex detailed presentation of the costs was selected by the ESAs. In addition, Insurance Europe wishes to point out that the document must remain concise (limited to three pages according to Article 6(4) to ensure that the information remains helpful for retail investors. The most important information – i.e. the costs a consumer will bear if he holds the product up to maturity, which are displayed through RIY and annualised total costs in monetary terms at maturity – is almost impossible to find. The visual focus is wrongly on the first years of the contract and not on the term until which consumer intends to hold the product.

Keeping in mind Insurance Europe's position that intermediate periods should not be presented in the KID, the representation of:

- annualised costs in monetary terms, together with:
- a "reduction in yield (RIY)" for the holding period of the contract, which shows the total impact of costs in percent and includes all costs: direct and indirect, one-off and recurring costs;

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is the most appropriate method for the cost representation, which is consistent with the Regulation, ensures comparability of products with different terms and is also very useful and understandable for retail investors.

Only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would the presentation lead to confusing information and information overload for consumers, but it would also simply send the wrong message to retail investors:

- The proposed representation of the costs contradicts the provisions of the Regulation on the structure of the KID. For products with a fixed term, the Regulation envisages the KID to describe the characteristics of the PRIIP under the assumption that the regular term is adhered to. For this reason, the term of the product is prominently specified in the section titled 'What is this product?' It is with the knowledge of the regular holding period, that the retail investor will subsequently consider the information on risk and costs of the product. Explanations on the consequences of cashing in before the end of the term are supposed to be provided under the section which was specifically created for this purpose: 'How long should I hold it and can I take money out early?' Furthermore, it should be pointed out that Level I regulation does not mention intermediate holding periods.

- Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity. Displaying, at a pre-contractual stage, holding periods inferior to the recommended holding period or the product's maturity would send the wrong message to retail investors.

- In order to ensure full transparency, the Regulation text dedicates an entire section of the PRIIPs KID to the surrender value of the product. Therefore, consumers are informed in this section about what happens when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

- The information on the costs for early stages of the contract will wrongly present possibly cheaper products with non-linear cost structure as more expensive than products with a linear cost structure.

- In addition, Insurance Europe wishes to point out that the RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the total cost ratio. In this context, it seems irrelevant to display all these costs figures over time.

- Finally, it has been argued that intermediate holding periods would facilitate the benchmarking of a PRIIP against competing products. However, in this case consumers should compare values at maturity of an insurance-based investment product with a shorter term with the respective investment product and not the intermediate value of a product with a longer duration.

Should it be decided, in spite of all the above arguments, to include intermediate periods, it must be acknowledged that the draft RTS must consider the different products included in the PRIIPs Regulation, including long-term (such as insurance-based investment products) and very short-term investment products. Regarding insurance-based investment products specifically, it should be noted that adding costs for intermediate stages of one, three and five years as suggested in Annex VII makes no sense, given that insurance-based investments generally have very long recommending holding periods (of 30 years and more in many jurisdictions).

In addition, considering that the RIY method has the advantage of taking into account the timing of costs, the insurance sector questions the added value of presenting separately the entry, recurring and exit charges. It should be taken into account that retail investors are interested in what a product will cost them, not how these costs are constructed. It would be irrelevant for retail investors to receive such a break-down of costs. The RIY for the recommended holding period and the total annualised costs in monetary terms are the only costs that would add value to retail investors and will enable them to compare different products.

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Keeping in mind Insurance Europe's position that intermediate periods should not be presented in the KID, the total cost should be presented in monetary terms per year (annual average). An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment period.

Finally, since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

Question 22:
Given the number of tables shown in the KID, do you think a more graphic presentation of the breakout table should be preferred?

Whether the costs are presented via graphs or tables, Insurance Europe is of the view that retail investors should be provided with the right information to be in a position to compare effectively different PRIIPs. Insurance Europe does not support the ESAs proposed format of presentation of the costs. Insurance Europe considers the proposed format to be misleading and confusing for consumers.

There is a contradiction in the visual representation of the risk class and costs of PRIIPs. Insurance Europe welcomes the fact that the presentation of the risk indicator suggested by the ESAs includes only one number corresponding to the total risk of the product and is easy to grasp for retail investors. Unfortunately, the opposite is true for the representation of costs: the ESAs suggest two tables which not only exceed the requirements of level 1 text but also include 15 numbers in the first table and five numbers in the second table. The comprehensibility of such information is highly questionable. According to the consumer testing: "There was support for more detailed information in the qualitative study among some participants. However, increased detail often meant poorer performance on the objective questions within the quantitative testing". In this context, the insurance sector fails to understand why such a complex detailed presentation of the costs was selected by the ESAs. In addition, Insurance Europe wishes to point out that the document must remain concise (limited to three pages according to Article 6(4)) to ensure that the information remains helpful for retail investors. The most important information — ie the costs a consumer will bear if he holds the product up to maturity, which are displayed through RIY and annualised total costs in monetary terms at maturity — is almost impossible to find. The visual focus is wrongly on the first years of the contract and not on the term, until which consumer intends to hold the product.

Insurance Europe firmly believes that the RIY provides consumers a simple and understandable figure and enables them to compare different products in a uniform, robust and consistent way. Moreover, RIY is the most relevant figure for the consumers since it shows the total impact of costs and takes all costs into account. Therefore, it is important that RIY is visually highlighted in the costs section. In our view, prominent presentation of RIY and total annualised costs in monetary terms is more suitable than graphic presentation of the breakout table, keeping in mind Insurance Europe's position that intermediate periods should not be presented in the KID. Such a presentation would also agree with a simple visual presentation of risk.

Only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would it lead to confusing information and information overload for consumers, but such a presentation would simply send the wrong message to retail investors:

- The proposed representation of the costs contradicts the provisions of the Regulation on the structure of the KID. For products with a fixed term, the Regulation envisages the KID to describe the characteristics of the PRIIP under the assumption that the regular term is adhered to. For this reason, the term of the product is prominently specified in the section titled "What is this product?" It is with the knowledge of the regular holding period, that the retail investor will subsequently consider the information on risk and costs of the product. Explanations on the consequences of cashing in before the end of the term are supposed to be provided under the section which was specifically created for this

purpose: "How long should I hold it and can I take money out early?". Furthermore, it should be pointed out that Level I regulation does not mention intermediate holding periods.

- Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity. Displaying, at a pre-contractual stage, holding periods inferior to the recommended holding period or the product's maturity would send the wrong message to retail investors.

- In order to ensure full transparency, the Regulation text dedicates an entire section of the PRIIPs KID to the surrender value of the product. Therefore, consumers are informed in this section about what happens when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

- The information on the costs for early stages of the contract will wrongly present possibly cheaper products with non-linear cost structure as more expensive than products with a linear cost structure.

- In addition, Insurance Europe wishes to point out that the RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the total cost ratio. In this context, it seems irrelevant to display all these costs figures over time.

- Finally, it has been argued that intermediate holding periods would facilitate the benchmarking of a PRIIP against competing products. However, in this case consumers should compare values at maturity of an insurance-based investment product with a shorter term with the respective investment product and not the intermediate value of a product with a longer duration.

Should it be decided, in spite of all the above arguments, to include intermediate periods, it should be acknowledged that the draft RTS must consider the different products included in the PRIIPs Regulation, including long-term (such as insurance-based investment products) and very short-term investment products. Regarding insurance-based investment products specifically, it should be noted that adding scenarios for intermediate stages of one, three and five years as suggested in Annex VII makes no sense, given that insurance-based investments generally have very long recommending holding periods (of 30 years and more in many jurisdictions).

In addition, considering that the RIY method has the advantage of taking into account the timing of costs, the insurance sector questions the added value of presenting separately the entry, recurring and exit charges. It should be taken into account that retail investors are interested in what a product will cost them, not in how these costs are constructed. It would be irrelevant for retail investors to receive such a break-down of costs. The RIY for the recommended holding period and the total annualised costs in monetary terms are the only costs that would add value to retail investors and will enable them to compare different products.

The total cost should be presented in monetary terms per year (annual average). An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment period.

Finally, since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

Question 23:
The example presented above includes a possible way of showing the variability of performance fees, by showing the level for all three performance scenarios in the KID, highlighting the 'moderate' scenario, which would be used for the calculation of the total costs. Do you believe that this additional information should be included in the KID?

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Coherence must be ensured throughout the KID. The methodologies, calculations and values used as well as the structure of all the KID's sections must be consistent. All performance fees should be taken into account appropriately.

Question 24:
To reduce the volume of information, should the first and the second table of Annex VII be combined in one table? Should this be supplemented with a breakdown of costs as suggested in the graphic above?

Insurance Europe does not support the ESAs proposed format of presentation of the costs. Insurance Europe considers the proposed format to be misleading and confusing for consumers for insurance-based investment products.

Performance fees play a secondary role for insurance-based investment products. A separate display of performance fees or even a breakdown thereof would mean showing non-useful information to consumers. According to the consumer testing: "There was support for more detailed information in the qualitative study among some participants. However, increased detail often meant poorer performance on the objective questions within the quantitative testing". In this context, the insurance sector fails to understand why such a complex detailed presentation of the costs was selected by the ESAs. In addition, Insurance Europe wishes to point out that the document must remain concise (limited to three pages according to Article 6(4) of the PRIIPs Regulation) to ensure that the information remains helpful for retail investors.

Keeping in mind Insurance Europe's position that intermediate periods should not be presented in the KID, the representation of:

- annualised costs in monetary terms, together with:
- a "RIY" for the holding period of the contract, which shows the total impact of costs in percent and includes all costs: direct and indirect, one-off and recurring costs;

is the most appropriate method for the cost representation, which is consistent with the Regulation, ensures comparability of products with different terms and is also very useful and understandable for retail investors.

Only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would the presentation lead to confusing information and information overload for consumers, but it would also simply send the wrong message to retail investors:

- The proposed representation of the costs contradicts the provisions of the Regulation on the structure of the KID. For products with a fixed term, the Regulation envisages the KID to describe the characteristics of the PRIIP under the assumption that the regular term is adhered to. For this reason, the term of the product is prominently specified in the section titled "What is this product?". It is with the knowledge of the regular holding period, that the retail investor will subsequently consider the information on risk and costs of the product. Explanations on the consequences of cashing in before the end of the term are supposed to be provided under the section which was specifically created for this purpose: "How long should I hold it and can I take money out early?". Furthermore, it should be pointed out that Level 1 regulation does not mention intermediate holding periods.

- Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity. Displaying, at a pre-contractual stage, holding periods inferior to the recommended holding period or the product's maturity would send the wrong message to retail investors.

- In order to ensure full transparency, the Regulation text dedicates an entire section of the PRIIPs KID to the surrender value of the product. Thus, consumers are informed in this section about what happens

when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

- The information on the costs for early stages of the contract will wrongly present possibly cheaper products with non-linear cost structure as more expensive than products with a linear cost structure.

- In addition, Insurance Europe wishes to point out that the RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the total cost ratio. In this context, it seems irrelevant to display all these costs figures over time.

- Finally, it has been argued that intermediate holding periods would facilitate the benchmarking of a PRIIP against competing products. However, in this case consumers should compare values at maturity of an insurance-based investment product with a shorter term with the respective investment product and not the intermediate value of a product with a longer duration.

Should it be decided, against all the above arguments, to include intermediate periods, it should be acknowledged that the draft RTS must consider the different products included in the PRIIPs Regulation, including long-term (such as insurance-based investment products) and very short-term investment products. Regarding insurance-based investment products specifically, it should be noted that adding scenarios for intermediate stages of 1, 3 and 5 years as suggested in Annex VII makes no sense, given that insurance-based investments generally have very long recommending holding periods (of 30 years and more in many jurisdictions).

In addition, considering that the RIY method has the advantage of taking into account the timing of costs, the insurance sector questions the added value of presenting separately the entry, recurring and exit charges. It should be taken into account that retail investors are interested in what a product will cost them, not how these costs are constructed. It would be irrelevant for retail investors to receive such a break-down of costs. The RIY for the recommended holding period and the total annualised costs in monetary terms are the only costs that would add value to retail investors and will enable them to compare different products.

The total cost should be presented in monetary terms per year (annual average). An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment period.

Finally, since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

Question 25:
In relation to paragraph 68 a) of Annex VI: Shall the RTS specify that for structured products calculations for the cost free scenario have always to be based on an adjustment of the payments by the investor?

It is necessary that provisions are uniform and comparable.

Question 26:
Regarding the first table of the cost section presented in Annex VII, would you favour a detailed presentation of the different types of costs, as suggested in the Annex, including a split between one-off, recurring and incidental costs? Alternatively, would you favour a shorter presentation of costs showing only the total costs and the RIY?

Insurance Europe does not support the ESAs proposed format of presentation of the costs. Insurance Europe considers the proposed format to be misleading and confusing for consumers.

According to the consumer testing: "There was support for more detailed information in the qualitative study among some participants. However, increased detail often meant poorer performance on the objective questions within the quantitative testing". In this context, the insurance sector fails to understand why such a complex detailed presentation of the costs was selected by the ESAs. In addition, Insurance Europe wishes to point out that the document must remain concise (limited to three pages according to Article 6(4) of the PRIIPs Regulation) to ensure that the information remains helpful for retail investors.

Insurance Europe firmly believes that the reduction in yield (RIY) provides consumers a simple and understandable figure and enables them to compare different products in a uniform, robust and consistent way. Moreover, RIY is the most relevant figure for the consumers since it shows the total impact of costs and takes all costs into account. Therefore, it is important that RIY is visually highlighted in the costs section. In our view, prominent presentation of RIY and total annualised costs in monetary terms is more suitable than graphic presentation of the breakout table, keeping in mind Insurance Europe's position that intermediate periods should not be presented in the KID. Such a presentation would also agree with a simple visual presentation of risk.

Only the costs at the recommended holding period or at maturity are meaningful. Otherwise, not only would the presentation lead to confusing information and information overload for consumers, but it would also simply send the wrong message to retail investors:

- The proposed representation of the costs contradicts the provisions of the Regulation on the structure of the KID. For products with a fixed term, the Regulation envisages the KID to describe the characteristics of the PRIIP under the assumption that the regular term is adhered to. For this reason, the term of the product is prominently specified in the section titled "What is this product?" It is with the knowledge of the regular holding period, that the retail investor will subsequently consider the information on risk and costs of the product. Explanations on the consequences of cashing in before the end of the term are supposed to be provided under the section which was specifically created for this purpose: "How long should I hold it and can I take money out early?". Furthermore, it should be pointed out that Level I regulation does not mention intermediate holding periods.

- Insurance-based investment products are usually long-term products. These products are being considered by retail investors also for this very feature. When acquiring an insurance-based investment product, the retail investor should aim to keep it until the recommended holding period or at maturity. Displaying, at a pre-contractual stage, holding periods inferior to the recommended holding period or the product's maturity would send the wrong message to retail investors.

- In order to ensure full transparency, the Regulation text dedicates an entire section of the PRIIPs KID to the surrender value of the product. Thus, consumers are informed in this section about what happens when they surrender early. If the same information is included differently in different sections, this would only lead to confusion.

- The information on the costs for early stages of the contract will wrongly present possibly cheaper products with non-linear cost structure as more expensive than products with a linear cost structure.

- In addition, Insurance Europe wishes to point out that the RIY method, selected by the ESAs, has the advantage of taking into account the timing of costs, compared to the total cost ratio. In this context, it seems irrelevant to display all these costs figures over time.

- Finally, it has been argued that intermediate holding periods would facilitate the benchmarking of a PRIIP against competing products. However, in this case consumers should compare values at maturity of an insurance-based investment product with a shorter term with the respective investment product and not the intermediate value of a product with a longer duration.

Should it be decided, against all the above arguments, to include intermediate periods, it should be acknowledged that the draft RTS must consider the different products included in the PRIIPs Regulation,

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including long-term (such as insurance-based investment products) and very short-term investment products. Regarding insurance-based investment products specifically, it should be noted that adding scenarios for intermediate stages of 1, 3 and 5 years as suggested in Annex VII makes no sense, given that insurance-based investments generally have very long recommending holding periods (of 30 years and more in many jurisdictions).

In addition, considering that the RIY method has the advantage of taking into account the timing of costs, the insurance sector questions the added value of presenting separately the entry, recurring and exit charges. It should be taken into account that retail investors are interested in what a product will cost them, not how these costs are constructed. It would be irrelevant for retail investors to receive such a break-down of costs. The RIY for the recommended holding period and the total annualised costs in monetary terms are the only costs that would add value to retail investors and will enable them to compare different products.

The total cost should be presented in monetary terms per year (annual average). An option presenting the total costs for the whole investment period would not allow for an effective comparison between, for example, a product with a few months investment period and one characterised by a 35 years investment period.

Finally, since risk and reward as well as costs and performance are strongly correlated, a thorough consistent approach of these features is needed.

Question 27:
Regarding the second table of the cost section presented in Annex VII, would you favour a presentation of the different types of costs showing RIY figures, as suggested in the Annex, or would you favour a presentation of costs under which each type of costs line would be expressed differently, and not as a RIY figure -expressed as a percentage of the initial invested amount, NAV, etc.?

In our view, the second table is completely misleading for consumers since the values do not provide an added value. Furthermore, Insurance Europe fails to understand the motivation to introduce additional indicators since the suggested presentation is already too complex and not comprehensible for retail investors. Notwithstanding Insurance Europe position on the presentation of costs, it is important that costs are expressed using the same approach in the two tables.

Question 28:
Do you have any comments on the problem definition provided in the Impact Assessment?

Are the policy issues that have been highlighted, in your view, the correct ones? If not, what issues would you highlight?

Do you have any views on the identified benefits and costs associated with each policy option?

Is there data or evidence on the highlighted impacts that you believe needs to be taken into account?

Do you have any views on the possible impacts for providers of underlying investments for multi-option products, and in particular indirect impacts for manufacturers of underlying investments used by these products, including where these manufacturers benefit from the arrangements foreseen until the end of 2019 under Article 32 of the PRIIPs Regulation?

Are there significant impacts you are aware of that have not been addressed in the Impact Assessment? Please provide data on their scale and extent as far as possible.

It is of utmost importance, as regards to multi-option products, that a level playing field is ensured between different types of PRIIPs. Retail investors should get a fair view of the insurance product (regardless of the number of investment options it provides) notably to ensure comparability.

The RTSs should be drafted in line with the mandate in article 6.3 and take account of the market reality in the field of unit linked insurance products. In addition, the PRIIPs Regulation and the RTS should in no way restrict the product variety or the options in underlying investments. This is not in the remit of the aim of the PRIIPs Regulation itself.

Furthermore, Insurance Europe wishes to point out that for UCITS underlying options:

- The information flow of the necessary data for insurers to develop a PRIIPs KID for UCITS is likely to be burdensome and complicated considering that the data which will be needed is not the same as the one necessary to develop a UCITS KIID.
- It is not believed to be adequate to require insurers to develop a document for a product that they do not manufacture themselves.

In this context, Insurance Europe suggests that for any UCITS underlying option, the manufacturer is enabled to provide the UCITS KIID, in line with the PRIIPs Regulation exemption under Article 32.

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of almost €1 170bn, employ over one million people and invest nearly €9 900bn in the economy.