

Why proposed changes to the PRIIPs RTS won't work

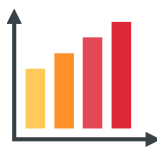
In July 2020, the Board of Supervisors of the European Insurance and Occupational Pensions Authority (EIOPA) rejected proposed changes to the regulatory technical standards (RTS) of the EU's Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation. This was the right decision, and these flawed proposals should not be resurrected.

Not only were the proposed changes not tested on consumers, but they were designed with customers buying investment funds in mind, not insurance consumers, even though 75% of PRIIPs are in fact insurance-based investment products (IBIPs).

Why wouldn't the proposed RTS work?

The proposed changes would make the Key Information Document (KID) worse than it is now. This would mean even more confusion for insurance consumers and would further undermine their understanding of the IBIPs they are purchasing.

- Confusing presentation of performance:** The proposed presentation of performance would cause significant consumer confusion.



- For some products, **3 very different methodologies** would have to be used in the same document: the new backwards looking indicators (to indicate the favourable, moderate and unfavourable scenarios of performance), the forward looking methodology (for the stress scenario), and past performance data. On top of that, these indicators would have to be presented in very **different formats** (percentages, monetary figures and bars).
- The draft proposals would introduce a new **backwards-looking presentation of performance**. This methodology wrongly suggests that the past performance of a product can indicate its future performance. It is not stable and would result in arbitrary and unreliable figures; with this methodology, tiny changes (for instance a one-year difference) would produce disproportionately large changes in results.

- Inconsistent presentation of costs:** The proposal to introduce a new cost indicator for certain products would make it impossible to compare the information between products, or between the two cost tables for a single product.



- Information on costs is currently presented in two tables as "costs over time" and "composition of costs". The proposal to introduce a **new indicator for the breakdown of costs** would make it impossible to understand the link between the two cost tables.
- This change would only be implemented for some products, making comparison of the costs between products impossible.

- Over-complicated information on multi-option products (MOPs):** The proposed changes for products that allow clients to choose between a selection of different funds would significantly increase the complexity of the KID to the detriment of consumers.



- The proposed changes would add further cost figures and narratives on top of the current presentation of costs for MOPs.
- This change would have deteriorated the quality and understandability of the information.

■ Unfit for insurance products



The PRIIPs KID has never accurately reflected the unique features of insurance products and provides insufficient information on any insurance cover. The proposals do not make it any easier for consumers to understand these products.

■ Increasing legal uncertainty



The proposed changes would also lead to increased liability risks; for instance by making the insurer responsible for assessing whether the standard methodology adequately reflects the product's performance and risks.

An unrealistic timeline for implementation



The changes would be applied from 31 December 2021, to align with the end of the PRIIPs Regulation's exemption for undertakings for the collective investment in transferable securities (UCITS). This would give insurers **less than three months to analyse and properly apply all the necessary changes** once they have been adopted by the European Institutions. Insurers' experience shows that a minimum of a full year is needed.

The rushed nature of the draft report that was rejected in July 2020 has led to incomplete proposals, leaving product manufacturers to **wait for clarification and further technical explanations** before implementation can be completed.

Where next?

The current attempt by the European Commission to push for the adoption of the draft proposals that were already rejected by EIOPA last year should be dropped. Persisting with rushed "quick fixes" that only seek to facilitate the application of the PRIIPs KID to UCITS, without giving due attention to the IBIPs that account for a significant section of the overall PRIIPs market (€5trn of assets under management) will be detrimental to consumers who buy insurance products.

Rather than continued attempts to correct the PRIIPs KID through quick-fixes to the RTS, the overall Level 1 framework must first be reviewed, based on a thorough impact assessment and consumer-testing. This is the only way to ensure consumers receive meaningful product disclosures.