How to simplify the Retail Investment Strategy (RIS)

The ongoing trilogue negotiations are a crucial opportunity to make sure that the RIS works for people and EU capital markets, ensuring easy access to investment, protection and advice for all.

To achieve these objectives, the RIS proposals need to be aligned with the imperative of simplification and competitiveness.

The following paper explains how to simplify the RIS in three key areas:

1. **Value for Money**
2. **Consumer journey**
3. **Disclosures**

A recap is provided at the end, and Insurance Europe stands ready to provide any further explanation.

1/3 How to simplify Value for Money

Authorities should focus on enforcement and supervision. Companies should be free to design products and set prices in a competitive and dynamic market.

1. Keep benchmarks for supervisors only – *new Article 12a (in European Parliament (EP) text) and Article 25 of the Insurance Distribution Directive (IDD)*

Why?

- **This would help authorities monitor the market more effectively, allowing them to focus time and resources on products that need further scrutiny.** Supervisors would use national benchmarks, as best fit to monitor product distributed only in one market, or EU benchmarks for better oversight of cross-border business.
- This approach would respect the flexible nature of the Product Oversight and Governance (POG) and insurers' freedom to design products and set premiums. It would also help prevent price control, product standardisation and a "race to the bottom" in the market, where companies align prices at a common level, undermining quality and innovation.

2. Oppose peer grouping by market participants – *Article 25 of the IDD*

Why?

- **Imposing peer grouping to insurers and intermediaries would duplicate benchmarks and create unnecessary paperwork, without any proven benefits for consumers.** It will be sufficient for companies to perform a more formalised pricing process as part of the POG and document it properly in the POG records for potential investigations.

3. Avoid new reporting requirements – *Article 25(4) of the European Commission's (EC) proposal of the IDD; Article 25(6a) of the EP's text of the IDD; Article 25(8a) of Council's text of the IDD*

Why?

- **There are already sufficient data available in the Packaged Retail and Insurance-based Investment Products (PRIIPs) Key Information Document (KID) and Solvency II to allow authorities to perform a first market screening** and then perform further controls where needed. More here.
- The forthcoming European Single Access Point (ESAP) would make the PRIIPs KID data even more easily accessible, without the need to create any new data sharing platform.
- This solution would avoid additional reporting and costs, in line with the EU objectives of burden reduction.

4. Delete the Level 2 empowerments on Value for Money – *Article 25(9) of the IDD*

Why?

- **Delegated Acts shall only cover non-essential elements of the legislative act.** Value for Money is too important to be delegated to Level 2 and should be agreed in Level 1.
- An over-reliance on Level 2 also consumes time, administrative capacity and resources from the authorities, diverting their focus from effective supervision and market monitoring.
- Level 2 adds prescriptive rules which would not support flexibility and innovation in the market.

5. Do not publish benchmarks – *Article 25(8) of the IDD*

Why?

- The publication of benchmarks would create confusion in the market. They could be misused or misinterpreted by the wider public, or could spark a "race to the bottom", pushing companies to align their prices to a common level, at the detriment of quality and innovation.

6. Avoid duplicative POG assessments by intermediaries – *Article 25(5) of the IDD*

Why?

- Intermediairies should not be required to duplicate the assessment already performed by manufacturers – unless they add further distribution cost. In such case, they should perform a seperate assessment of that part of the cost.

2/3 How to simplify the consumer journey

Consumers should experience a simpler sales process and have easy access to advice, diverse distribution channels and insurance products tailored to their needs.

1. Do not add new questions to the suitability and appropriateness tests *– Articles 30(1) and 30(2) of the IDD*

Why?

- The new requirements under the **suitability test** would further lengthen an already very long advice process for insurance-based investment products (IBIPs), often taking over 2 hours and requiring more than 14 pages of questions.[1] **On top of this, the new questions are not suited to insurance distributors, who are typically qualified and licensed to advise on IBIPs, not all types of investments**.
- The new requirements under the **appropriateness test** - to check for consumers' capacity to bear losses and their risk tolerance – would discourage consumers from investing, especially those looking for a short and simple investment journey.

2. Remove the new inducements test *– Article 29a in the Council's text of the IDD*

Why?

- **It will make it more difficult to offer IBIPs, advice and other distribution services.** It would come on top of the robust IDD framework on conflicts of interest and the new best interest test, which provide sufficient safeguards. It would add extra burdens, more record-keeping, duplicative disclosures and overlapping POG requirements, ultimately restricting the payment of inducements. In addition, member states have the option to restrict or prohibit the payment of inducements in their respective markets – and such option should be maintained.
- **It would be challenging for insurers, with overly rigid and unfit requirements** that mix inappropriately modified IDD rules with Markets in Financial Instruments Directive (MiFID) II contents designed for pure investment products. In particular:
    - Principle (a) would impose **the same level of inducement for every type of product,** while products are different as is the level of service and assistance provided to consumers.
    - Criterion (d) would introduce a **ban on bonuses**, which is excessive considering the other safeguards that apply in IDD (eg the new best interest test).

3. Ensure the best interest test is suitable for all insurance channels and products *– Article 29b of the IDD*

Why?

- **Criterion (a) should not require an "appropriate range" of products.** Many insurance distributors (eg tied agents, employees, small insurance companies) are not able to meet this requirement, as they offer a limited number of IBIPs tailored to specific consumers' needs. Forcing them to broaden their product range would raise compliance costs or push them out of the market – reducing competition and limiting consumer choice.
- **Criterion (b) must duly consider the qualitative features of insurance products** (eg financial guarantees, biometric risk coverage), as these are key elements to satisfy consumers' needs.
- **Criterion (c) must be deleted.** Recommending the cheaper product ignores that, in insurance, cheaper does not necessarily mean better, as it could entail less coverage, less protection and fewer benefits. In this idea, **the proposed requirement in the suitability test "to not consider a product suitable where it contains additional features that are not necessary for the consumer's objectives" should also be deleted.**

[1] Estimation based on the Belgian market

4. Delete Level 2 for inducements and for the best interest test – *Articles 29a(5) and 29b(2) of the IDD*

Why?

- **Delegated Acts shall only cover non-essential elements of the legislative act.** Inducements and the new best interest test are key proposals that need to be defined in Level 1 and not removed from the political debate.
- The empowerment to further develop inducements compliance and the best interest test criteria at Level 2 could become a **means to further restrict the payment of inducements at EU level** and hinder access to advice and investment.

3/3 How to simplify and improve disclosures

Consumers are already overwhelmed with up to 339 pieces of pre-contractual information based on EU rules for green IBIPs. The RIS is a unique opportunity to tackle information overload.

1. Reduce the number of disclosures and figures provided to consumers to help them focus on essential information.

How?

- **Avoid new warnings for risky and complex products** – *(Article 29(5) of the Insurance Distribution Directive (the IDD))* **and the comprehension alert** *(Article 8(3)(b) of the PRIIPs Regulation)*. Risk warnings would duplicate the summary risk indicator (SRI) under the Key Information Document (KID). These would only add to the existing information overload and discourage consumers from investing.
- **Maintain the current PRIIPs KID approach for Multi-Option Products (MOPs)** – *Article 6(3) of the PRIIPs Regulation*. The RIS proposals on MOPs would increase the amount of cost disclosures consumers receive today and would make it more difficult to offer MOPs.
- **Delete the requirement to inform consumers on "how the recommended IBIPs takes into account the diversification of the customer's portfolio"** – *Article 29(1)(a)(v) of the IDD.* This requirement is not suitable for insurance and should be deleted in line with the deletion of a similar question in the suitability test.
- **Oppose the "ESG dashboard" in the PRIIPs KID** – *Article 8(3)(ga) of the PRIIPs Regulation.* This is redundant with the Sustainable Finance Disclosure Regulation (SFDR) information.
- **Ensure that the PRIIPs KID is published on the manufacturer's website only** – *Article 14(6) of the PRIIPs Regulation.* This will avoid duplication and unnecessary costs for distributors to set up and run a website.
- **Focus disclosures on the total cost at the end of the recommended holding period (RHP)** in the "What are the costs?" section of the PRIIPs KID – *Article 8(3)(f) of the PRIIPs Regulation*
- **Avoid intermediate time periods** in the "What are the risks and what could I get in return?" section of the PRIIPs KID – *Article 8(3)(d) of the PRIIPs Regulation*

2. Improve disclosures, making them more engaging and fit for purpose.

How?

- **Ensure the "Product at a glance" dashboard clearly displays both financial guarantees and insurance benefits** – *Article 8(3)(aa) of the PRIIPs Regulation.* These are key elements in driving consumers' choice and need to be prominently displayed at the top of the KID.
- **Avoid Level 2 on a standardised format for pre-contractual disclosures and the annual statement** – *Article*

29(4) of the IDD. A standardised format would not work for the variety of IBIPs offered in the market. The Level 1 should set the contents for pre-contractual and periodic disclosures and leave the implementation to Member States.

- **Apply the annual statement only to new contracts** – *Articles 29(2) and (3) of the IDD.* Applying this to ongoing contracts would confuse existing clients and increase compliance costs for insurers. The burden would be particularly heavy for SMEs. In Germany, for example, the implementation of the new annual statement is expected to cost approximately 3 million EUR per company independent of the size. The regulation of the periodic information for existing clients should be left to Member States. Besides, the Council's proposal to provide the annual statement no later than 4 months at the end of the reporting period should be opposed as this deadline would be unfeasible for insurers to meet.
- **Oppose the PRIIPs online comparison tool** – *Article 6(3)(b) of the European Parliament's (EP) text of the PRIIPs Regulation.* This tool would add another layer of information and nudge consumers to focus on the cheapest option, paying less attention to the quality. It also would not work for IBIPs, given their multiple qualitative features, and could be misused or misinterpreted by the wider public as a ranking of "good" and "bad" products.
- **Clarify the exclusion of all immediate annuities from the scope of PRIIPs** – *Article 2(2)(h) of the PRIIPs Regulation.* The KID is not fit for immediate annuities without an accumulation phase and should not apply to these products.
- **Ensure that the RIS terminology is suitable for insurance.** In particular, the terms "customer" (covering all categories of policyholders) and "consumer" (referring only to retail policyholders) are used interchangeably, while only "consumer" is appropriate given the RIS scope.

Recap