

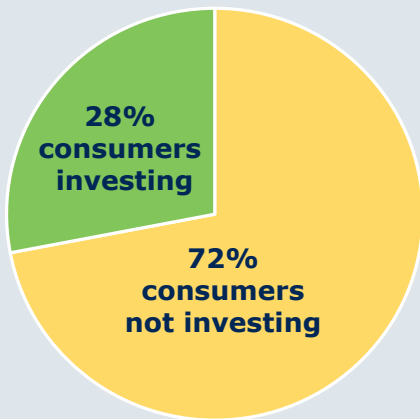
Insurance Europe key messages on the Retail Investment Strategy (RIS)

Insurance Europe strongly supports the goal of the European Commission's RIS to increase retail investors' participation in financial markets, while protecting them from unfair practices. Within a well-designed legislative framework, insurance-based investment products (IBIPs) are the best vehicle to enable consumers to invest with confidence, access insurance protection and prepare for old age. However, many proposals in the RIS would make it considerably more complicated for consumers to invest and access the products and protection they need, thereby departing from the very purpose of the RIS.

The situation today

Why people are not investing?

The EU has one of the highest savings rates in the world, but 72%¹ of EU consumers do not invest in financial products. Why?



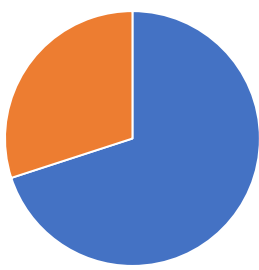
- 47% of consumers do not have sufficient money
- 21% are afraid of losing money
- 15% worry about the level of returns
- 14% find investing too difficult and intimidating
- and only 12% do not trust investment advice²

Why can IBIPs make a difference?

IBIPs are the only investment products that can provide a financial guarantee or coverage against risks, together with an investment element. They can provide consumers who are risk-averse or afraid to lose their savings with the safety they need to invest. These insurance products can be distributed through different channels, such as agents, brokers, insurers' employees, bancassurance, which all provide different types of customer services.

IBIPs in a nutshell

70%




of retail investment³

Wide range of products


- Profit-participation
- Unit-linked
- Hybrids
- Guaranteed
- Annuities
- Funeral
- Index-linked
- Other

€ 2bn



of insurance claims paid to clients per week⁴

Protection against many risks



¹ Kantar, 2022

² Eurobarometer, retail financial services and products, October 2022 (multiple responses allowed)

³ Based on EIOPA estimates in 2021

⁴ Estimate of biometric claims paid in 2020, based on 7 countries that represented 45% of all markets surveyed (EU27-LT+NO)

What problems will consumers face with the current RIS proposal?

1. The RIS will make the consumer's journey longer and more difficult

Sales of IBIPs are already highly regulated in the Insurance Distribution Directive (IDD). Completing an advised sales process for a green IBIP under IDD rules already requires one and a half to two hours of a consumer's time. The RIS proposal was supposed to make it easier for consumers to access investment and insurance protection. Instead, it is adding steps to the "suitability test" (checking the portfolio composition and need for portfolio diversification) and a new "best interest test" with four criteria. This will make the process even longer and more intimidating, increasing the compliance costs and discouraging many consumers.

I don't have time for all that. I can invest in crypto in two clicks!



I only have €100 a month to invest. I'm not able to pay a fee out of my own pocket!



2. The RIS will complicate access to investment and protection

The proposals lead, in practice, to a very broad ban on inducements. They include three new bans for: execution-only sales, non-advised sales and independent advice. They also include further excessive requirements under a new "best interest" test for advised sales. This is against the stated goal of making investing more inclusive, as it will be difficult, or even impossible, for consumers to take investment decisions without having to pay an upfront fee out of their own pocket. As consumers will not be able/willing to pay to access IBIPs, the RIS will lead to an investment gap, as well as protection and pension gaps.

I don't understand all these figures! Does this product even come with a guarantee?



3. The RIS focuses excessively on costs and overlooks insurance aspects

Consumers already receive up to 30 figures on costs in the PRIIPs Key Information Document (KID). Under the RIS proposals, consumers will receive even more figures on costs with the new disclosure requirements, the "best interest" test, and value for money benchmarks referring exclusively to costs and performance. This will be confusing for consumers and push them to compare and decide on the basis of the lowest costs, with no regard for the quality of the product, such as whether it includes a financial guarantee, risk coverage, etc. As a result, consumers will be incentivised to buy the cheapest option, which is far from always being the best for them as, in terms of insurance, it may mean no guarantee, lower risk coverage, etc.

There's too much information. I can't read it all!



4. The RIS will add to the existing information overload

The industry welcomes a more digital-friendly approach to the provision of information, as well as the effort to streamline disclosures and the promotion of financial literacy, since more educated consumers can better understand the information received and ask the right questions. However, the RIS also introduces measures that go in the opposite direction and would discourage consumers, with additional disclosures and new warnings, new sections in the PRIIPs KID and still no proper display of whether a product includes a guarantee or not. This will further increase information overload beyond the 339 pieces of pre-contractual information already received by consumers for green IBIPs.

All the products look the same!



5. The RIS will reduce consumer choice and the quality of products and services

Insurance Europe welcomes the value for money principles but is very concerned about the introduction of benchmarks. The proposed benchmarks on costs and performance are likely to result in price-setting and decreasing competition, innovation and consumer choice. Any deviation from the benchmarks will be too burdensome, encouraging a race to the bottom in which all providers will decrease product quality and services.

What are the solutions?

1. Do not introduce a direct or indirect EU-wide ban on inducements so that access to IBIPs is guaranteed for all

The IDD already includes a general principle to act in the best interests of the client, as well as transparency requirements, clear rules regulating the payment of inducements and a member-state option to restrict or prohibit the payment of inducements. An EU-wide ban on inducements would be too disruptive for capital markets and it would severely restrict consumers' access to advice and investment. The insurance market is primarily a supply market, not a demand one, and evidence shows that very few consumers would be willing or able to pay an upfront fee out of their own pocket for an advised or a non-advised sale. Therefore, Insurance Europe recommends maintaining the IDD member-state option to limit or prohibit the payment of inducements at national level if there is a need.

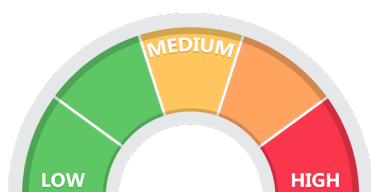
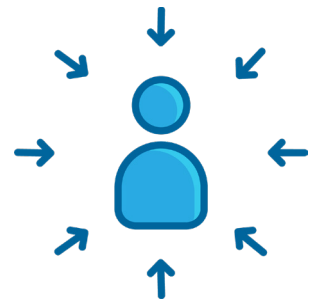


2. Remove additional requirements that will make the consumer journey harder

There is a need to ensure leaner and more cost-efficient sales processes to make it easier for consumers to access capital markets. The requirements under the new "suitability test" and "best interest" test should be revised as they do not fit insurance and would make the overall process longer, more costly and more complicated.

3. Move from a cost-centric approach to a consumer-centric one

The RIS should adopt a more consumer-centric approach. To do so, Insurance Europe recommends focusing on essential information that matters to consumers, highlighting guarantees in the PRIIPs KID dashboard and prioritising quality over quantity. This means requiring distributors to recommend the product that best meets consumers' demands and needs (instead of the most cost-efficient product or a cheaper product). This also implies that all elements that bring value to consumers must be considered as part of the value for money assessment, in particular the financial guarantees, insurance cover, sustainability features, advice, assistance, flexibility and other services.

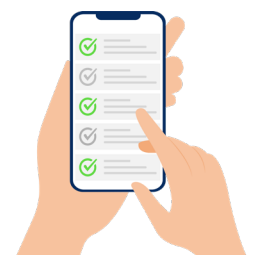


4. Favour a risk-based approach to value for money supervision

Insurance Europe recommends using a risk-based approach to value for money oversight, whereby those products that pose the greatest risk of consumer detriment are given supervisory priority. Moreover, value for money supervision must consider both the quantitative and qualitative aspects of a product and be flexible enough to adapt to the diversity of products and markets.

5. Make disclosures more user-friendly and address the information overload

Consumers need clear information that is understandable and usable. Transparency requirements should remain simple to avoid overloading consumers with too much information. For example, the commission an intermediary will receive in relation to retail investment products should be disclosed to the customer, on request, as a monetary figure or percentage. The option to use the layering of information now proposed for the PRIIPs KID should also be allowed in the IDD. Overall, any new disclosure requirements need to be appropriately assessed via consumer testing before they are introduced to ensure that the information provided is understandable and useful to consumers.



The RIS should not result in a missed opportunity.

More must be done to improve the current proposal and make it fit for purpose.

Insurance Europe stands ready to contribute to the debate and to share insurance-sector expertise.



Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. 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 pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.

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