

CEA response to the European Commission's consultation on legislative steps for the Packaged Retail Investment Products (PRIPs) initiative

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1. Introduction

The CEA welcomes the opportunity to contribute to the European Commission's work on legislative steps for the Packaged Retail Investment Products (PRIPs) initiative. The CEA wishes to stress that the comments contained in this document should be considered in the context of the CEA's overall position and therefore read in conjunction with the comments made in its response to the Commission's concurrent consultation on the revision of the Insurance Mediation Directive (IMD).

2. Scope

Q1: Should the PRIPs initiative focus on packaged investments? Please justify or explain your answer.
Q2: Should a definition of PRIPs focus on fluctuations in investment values? Please justify or explain your answer.
Q3: Does a reference to indirectness of exposure capture the 'packaging' of investments? Please justify or explain your answer.
Q4: Do you think it is necessary to explicitly clarify that the definition applies to fluctuations in 'reference values' more generally, given some financial products provide payouts that do not appear to be linked to specific or tangible assets themselves, e.g. payouts linked to certain financial indices, the rate of inflation, or the overall value of a fund or business?
Q5: Do you have any other comments on the proposed definition? If you consider it ineffective in some regard, please provide alternatives and explain your rationale in relation to the criteria for a successful definition outlined above.

Questions 1 to 5:

The CEA would like to stress the complexity of discussing the scope of the PRIPs initiative. There is a wide diversity across the EU in terms of market conditions, products and consumer confidence, as well as competition, social and regulatory environments. There is also a wide variety as regards product design; for example, unlike mutual investment funds provided by UCITS, there are no harmonised life insurance products or unique methods of insurance contract law across the EU.

Life insurance policies differ with regard to their product design across the EU. There are differences, for instance, with regard to:

- biometrical risk coverage and its extent,
- the contract duration,
- the risk exposure borne by investors,
- the existence and types of surpluses.

As a result, there cannot be any one-size-fits-all answer to the question as to whether or not a particular traditional life insurance product is to be considered an insurance PRIIP. This also explains why some markets would favour a wide scope for the PRIIPs initiative (broader than unit-linked and index-linked life insurance, and including traditional life insurance offered on their markets), while others would support a narrow scope (only unit-linked and index-linked life insurance offered on their markets).

The complexity is increased by the fact that the PRIIPs initiative – as rightly stated in the consultation paper – is not a standalone project, but is taking place in parallel to the revision of both the IMD and the Markets in Financial Instruments Directive (MiFID), the outcome of which will heavily impact on the debate on the scope of PRIIPs.

Q6: Should simple (non-structured) deposits be excluded from the scope of the initiative? Please justify or explain your answer.

Q7: Do you consider option 1 or option 2 preferable for achieving this? Please explain your preference, and set out an alternative if necessary, with supporting evidence.

Q8: Should such an exclusion be extended to financial instruments which might raise similar issues as deposits (e.g. bonds), and if so, how might these be defined? Please justify or explain your answer.

The CEA would like to draw the Commission's attention to the fact that certain deposits can be competing products to insurance products in some markets, and therefore a consistent approach is necessary to avoid an unlevel playing field.

Q9: Should pensions be explicitly excluded from the PRIIPs initiative at this stage? Please justify or explain your answer.

The Commission consultation paper mentions future sector-specific initiatives in the field of pensions¹. Similar announcements can be found in the Commission Green Paper on Pensions² and in the 3L3 report on PRIIPs³. The EIOPA Work Programme 2011 already includes a corresponding workstream on pensions⁴.

As the consultation paper rightly states, the Commission, through its Green Paper on Pensions, is consulting on a broad range of issues relating to the European pensions market and pension provision, including appropriate distribution and transparency requirements. In this regard, it would be premature to include pensions within the PRIIPs' scope before any follow-up has been done by the Commission in a possible White Paper or before further conclusions have been drawn. The CEA therefore strongly supports the exclusion of workplace and 3rd pillar pensions from the PRIIPs initiative at this stage.

¹ See pp. 9-10.

² See p. 15 of the Green Paper.

³ See §71, p. 17 of the Report of the 3L3 Task Force on Packaged Retail Investment Products (PRIIPs).

⁴ See pp. 9 and 23, EIOPA Work Programme 2011.

Furthermore, the CEA acknowledges that there are huge differences between Member States regarding pension characteristics. Consequently, the CEA suggests that currently it may be appropriate that Member States themselves decide which products are pensions and should accordingly be excluded.

Q10: Should annuities be treated in the same fashion? Again, please justify or explain your answer.

The CEA suggests excluding annuities from the scope of the PRIPs initiative until further work is done by the Commission regarding pensions.

Q11: Do you have any comments on the proposed manner of achieving this exclusion?

As highlighted in our response to Q9, the CEA suggests that it may be appropriate that Member States themselves decide which products are regarded as pensions, as there is currently a wide variety in pension characteristics between the different Member States. Therefore, by defining a pension, there is no one-size-fits-all solution to excluding pensions from the PRIPs scope.

Q12: Do you agree that variable annuities might need to be treated as a special case? If so, how should these be defined, and how do you think they should be addressed?

The CEA does not agree that variable annuities need to be treated as a special case. Therefore, we suggest excluding variable annuities from the PRIPs scope until further work is done by the Commission regarding pensions.

Q13: Do you see benefits from such an indicative list being developed? If not, please provide alternative proposals and evidence for why these might be effective.

Q14: Do you have any suggestions on the possible contents for such a list, including on how to define items placed on the list?

The CEA sees no benefits from such an indicative list being developed at EU level, but rather many risks in doing so. Firstly, it would prove very difficult to develop such a list given the wide variety of products and product design across the EU. Secondly, it is unclear if this list would be a white list or a black list; there is a danger that such a list would in time become a definitive and prescriptive one, amounting to product regulation via the “backdoor”. Lastly, it is not clear who would be responsible for drawing up such a list and how it would be updated to allow for further product design and innovation.

3. Legislative approach

Q15: Should direct sales of UCITS be covered by means of including the relevant rules within the UCITS framework?

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Q16: Do you have any comments on the identified pros and cons of this approach, and any evidence on the scale and nature of impacts (costs as well as benefits)?

The CEA supports the Commission's approach to address the sales of potential insurance PRIPs in the IMD. For further details, the CEA would like to refer to its contribution to the Commission's consultation on the revision of the IMD.

4. Disclosures

The CEA responses to the questions on disclosures should be read taking into account that there is still uncertainty as to the scope of PRIPs and which types of insurance products would fall under its scope. Our comments are therefore without prejudice to the future development of the definition of the scope of the PRIPs initiative.

The CEA wishes to stress that the responses to the following questions in the section on disclosures refer mainly to disclosure at the product level, unless otherwise stated.

Q17: Should the design of the KIID be focused on delivering on the objective of aiding retail investment decision making? If you disagree, please justify or explain your answer.

We agree with the Commission that the KIID should be designed in a user-friendly format to facilitate the decision-making process for the consumer.

Regarding the current recommendations on the KIID format, we believe it is important that any proposal to have a short disclosure document should not come at the expense of the level of understanding of the product for the consumer. We believe that fixing a specific length to the KIID should not be an objective in itself. The KIID should rather provide for an outcome-based approach, focusing on enabling retail clients to make informed decisions. This way, firms are able to adapt the KIID requirements to their practice.

The CEA has developed a key information checklist (KIC) for unit-linked life insurance, which consists of a short list of simple, clear information headings on the key characteristics of the product. The objective of the KIC is to provide consumers with essential insurance-relevant information in order to assist them in understanding and comparing products. The KIC aims to allow for comparison between various unit-linked life insurance products, appropriately highlighting the differing features and objectives of unit-linked life insurance products compared to other PRIPs. Given the aspiration for a high level of harmonisation between the different standardised information sheets, the KIC also aims to help consumers compare products consistently across Europe, by outlining the minimum list to comply with for unit-linked life insurance, thus allowing national standards to include further information.

We have included further information about the CEA KIC in the [annex to this document](#).

Q18: Should the KIID be a separate or 'stand alone' document compared with other information that might be necessary, e.g. background information, other disclosures, or contractual information? Please justify or explain your answer.

With regard to insurance PRIPs, there is a wide variety of eg unit-linked life insurance products available to customers. Some may be linked to a single underlying fund, while others may be linked to hundreds of them, thus offering a considerable number of different combinations of the same product to the choice and discretion of the customer. In the second case, as it is impossible to predict which of the available underlying funds the customer will select, it is necessary to separate pre-contractual disclosures at the level of the product from those at the level of the underlying funds linked to the product.

Therefore, the CEA believes that any standardised disclosures format for insurance PRIPs should take into consideration these different possibilities, as the CEA KIC does. At the level of the underlying fund, detailed information may be disclosed to the investor by means of a KIID-like format, if it exists, or other existing pre-contractual information. However, in order not to overload the consumer with information, it seems appropriate to limit fund information to those underlying funds in which the consumer shows interest. This will enable the customer to make an informed decision about the insurance PRIP thanks to key information.

References to underlying funds in the form of eg hyperlinks can be included in the insurance PRIPs' disclosures format in (i) a specific information category, (ii) a separate annex (eg table summarising the fund names, investment objectives, risk classifications, investor risk profiles, recommended time horizon, managing costs), (iii) an existing information category ("Investment and policy objectives" or "Practical information"). The decision as to where to place such references should be taken at national level with the consumer's expectations in mind.

Q19: What measures do you think will be necessary to ensure KIID remain streamlined and focused solely on key information?

The CEA believes, as a general measure, that the KIID should be structured on key information and features of the products – namely, that information considered essential for an informed choice – and should include references to accessing the pre-contractual information of underlying funds. Moreover, the CEA believes that any user-friendly disclosures format such as the CEA KIC must be sufficiently flexible to enable innovation and the adaptation of information contents to local consumer needs, expectations, preferences and level of financial understanding, or to local law and changes in product features.

We believe that consumer testing may provide an important means of ensuring that the focus on key information is observed.

Q20: While the same broad principles should be applied to all PRIPs, should detailed implementations of some of these principles be tailored for different types of PRIP? Please justify or explain your answer, and provide examples, where relevant, of the kinds of tailoring you might envisage.

The CEA agrees with the Commission's general approach to establish high level principles for all PRIPs (subject to our comments in response to Q25) to assure horizontal consumer protection, completed by more specific disclosure requirements for specific products falling within the scope of PRIPs. The latter is necessary to explain product-specific features, as this is the case for insurance products.

For instance, insurance products covering biometric risks entail special features that need to be explained to the customer as he/she buys protection against those risks. The challenge will be to explain and express the added value that the biometric risk coverage represents to the client in a concise way. We also agree that clear information about the benefits and risks of a retail investment product is necessary for retail clients to make adequately informed decisions.

Common principles should ensure that disclosures are fair, clear and comprehensible, and not misleading to retail clients. They should be presented in a format appropriate for retail clients, ie be short and simple, and tested with retail customers to demonstrate their effectiveness. However, while we agree with having a short and simple document, we do not believe that prescribing a set number of pages for the KIID is appropriate, as the aim of such a document is to allow for comparison and understanding of the information.

Q21: Do you foresee any difficulties in requiring the KIID to always follow the same broad structure (sequence of items, labelling of items)? Please justify or explain your answer.

The CEA would foresee difficulties in requiring any user-friendly disclosures format to always follow the same broad structure, as this would deny the possibility of adapting it to local consumer needs and product specificities. In addition, too prescriptive an approach would hinder innovation and would require making changes to EU legislation every time products with new key features are developed.

We have witnessed different developments at national level with respect to such disclosure formats and what is viewed as essential information for consumers in one market may not be the case in another. We believe therefore that a checklist solution such as that offered by the CEA KIC provides for sufficient flexibility to enable innovation and the adaptation of information contents to local consumer needs, expectations, preferences and level of financial understanding, and to local law and product features, as well as to any changes in these fields.

Q22: Do you foresee any difficulties in requiring certain parts of the key information and its presentation (e.g. on costs, performance, risks, and guarantees) to be standardised and consistent as possible, irrespective of tailoring otherwise allowed? Please justify or explain your answer.

Since different PRIPs have different product features, any attempt to standardise information needs to leave sufficient flexibility for considering product specificities. Rigid and inflexible standardisation would otherwise bear the risk of potentially misleading customers. The important issue is to agree on the overall objectives of disclosure across all product segments in a principle-based way and to leave room for Level 2 specific measures where this is required in the interests of retail customers.

For insurance PRIPs, any approach at EU level should allow customers to assess the specific characteristics of these products. Insurance PRIPs are distinct from other PRIPs, for example, through biometric risk coverage, duration of contracts or cancellation rights. For instance, investment funds, retail structured securities and structured term deposits do not provide any risk coverage, while, in contrast, life insurance policies usually do. Similarly, if the intention is to take the KIID disclosures for UCITS as a benchmark, it should be noted that there can be differences in time horizons of products: insurance contracts can have a very long duration, often much longer than the minimum, or even recommended, investment period of a UCITS, while the duration of the product is not mentioned in the KIID. We therefore strongly recommend tailoring information to capture the essential and distinct features of a given product to enable consumers also to understand and compare the existing differences between investment products, thus empowering them to take an informed decision.

As reflected in the CEA KIC for unit-linked life insurance, the following categories of information should be – for instance – included in the sectoral implementing measures for insurance products defined as PRIPs: insurance benefits (or cover), premium, duration of the contract, and consequences of early termination of the contract. Sectoral measures should help to adapt the contents of certain categories of information to the specificities of the different products. For instance, for those life insurance products falling within the definition of PRIPs, the category of “objectives and investment policy” should also include a general reference to the risk coverage; the category of “risk and reward profile” should include a narrative explanation referring to the existence of solvency requirements.

Q23: Can you provide examples and evidence of the costs and benefits from your experience that might be expected from greater standardisation of the presentation and content in the KIID?

The CEA does not have any quantitative evidence of the benefits that might be expected from standardisation of the presentation and content in the KIID. However, the CEA believes that this process would be the right occasion to improve presentation, comprehension and transparency of products, and to reduce administrative burdens to set lengthy information documents containing information that is not strictly necessary.

Q24: Should the content of the KIID be controlled so that there is no possibility for firms to add additional information unless expressly allowed for?

The CEA believes that any disclosures format should provide for sufficient flexibility to enable innovation and the adaptation of information contents to local consumer needs, expectations, preferences and level of financial understanding, or to local law and product features, while at the same time allowing comparability between PRIPs. The CEA KIC provides for such a balanced approach.

Although a standardised format for the KIID (ie order, wording, methodology, etc.) would enable the consumer to make comparisons, such an approach is too prescriptive and would hinder innovation. To match consumer information needs, it would require changing EU regulation each time new products with new features are developed.

The CEA KIC contains the minimum list to comply with for unit-linked life insurance, thus allowing national standards to include further information. While standardisation aids comparison, too high a level of prescriptiveness would impose unnecessary, additional requirements and costs on operators. In contrast, a certain level of flexibility allows adaptation to local consumer needs and expectations, and avoids interference with the existing national self- or co-regulatory models, which have proven to work effectively. For this reason, flexibility is allowed for the content of each of the categories of the KIC, while maintaining a user-friendly format and a limited size. In that respect, it is important to stress that the KIC should not merely be another document added to the existing number of client documents. It should form part of the pre-contractual information (and not come in addition to it), in order to ensure that there is no duplication of similar disclosure requirements between different instruments. It is crucial therefore that with the introduction of the KIC, the existing information requirements are scrutinised and updated at the same time.

In light of the above, we do not believe that the KIID should require any prior approval of the relevant authorities. This is also in line with CEIOPS’ position, as it would give rise to unnecessary administrative burden.

Q25: Do you foresee any difficulties in applying these broad principles to the KIID for all PRIPs, as the building blocks on content and format for a 'level 1' instrument? Please justify or explain your answer.

The CEA notes that one of the broad principles states that the KIID must be short, ie 2 pages in length. We believe that it would be difficult to adhere to such a fixed requirement at all times and for all PRIPs. This has been confirmed by experience in several national markets.

The CEA believes that the KIID should not necessarily be provided in a durable medium, but may also be given to the customer by the distributor upon request and be made available by any means, including via a website. Essential contractual information should of course be provided in a durable medium. However, for pre-contractual non-personalised information such as the KIID, it should be possible to present this information via a website, as an alternative to presenting the customer with a paper copy. This would also allow for layered information to be provided to the customer, whereby further layers of more detailed information beyond the key information can be easily accessed by an interested customer, for example via the use of hyperlinks, without resulting in information overload for the average consumer.

We would also wish to highlight the fact that information regarding past performance is not possible at the level of the insurance product, only at the level of the underlying fund (see our response to Q.40).

Q26: Are there any other broad principles that should be considered on content and format?

With regard to the content and format, we would refer the Commission to the layout of the CEA KIC, which consists of a short list of simple, clear information headings on the key characteristics of the product, addressing consumers' main demands and expectations, and allowing them to take informed financial decisions. So as to facilitate comparison, the KIC provides for similar headings presented in a preferential order. The information headings provided in the KIC are standardised, ie general and non-personalised according to the particular circumstances of an individual consumer. However, the information headings are relevant, ie they concern the features that clients are most likely to be interested in when making their decision.

Q27: Should product manufacturers be made generally responsible for preparing a KIID? Please justify or explain your answer.

We agree that there should be a clear division of responsibilities between product manufacturers and insurance intermediaries who act as product distributors. The product originator should be responsible for the provision of an updated and correct KIID to the distributor. The distributor should be responsible for disclosing the latest, updated KIID to the client in time. However, we would also suggest that Members States may allow the possibility to contractually agree that the intermediary will carry out the task of preparing a KIID. The product manufacturer should be responsible for making sure that the division of tasks are clear and the client should be aware of the division of responsibilities.

Q28: Are you aware of any problems that might arise in the distribution of particular products should responsibilities for producing the KIID be solely placed on the product manufacturer?

The CEA proposes to examine whether or not this approach would restrict market opportunities for intermediaries/distributors (see our response to Q27).

Q29: If intermediaries or distributors might be permitted to prepare the documents in some cases, how would these cases be defined?

The CEA believes that it should be up to the relevant parties concerned, ie manufacturer and intermediary/distributor, to define these cases contractually (see our response to Q27).

Q30: What detailed steps might be taken to improve the transparency of the social and environmental impacts of investments in the KIID for PRIPs?

Q31: How might greater comparability and consistency in product labelling be addressed?

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Q32: Should the summary prospectus be replaced by the KIID for PRIPs? Please outline the benefits and disadvantages you see with respect to such an approach.

No, the KIID should not replace the summary prospectus. However, it should be possible to refer to the summary prospectus in the KIID.

Q33: Should Solvency II disclosures provided prior to the investment decision be replaced by the KIID for PRIPs? Please outline the benefits and disadvantages you see with respect to such an approach.

The CEA wishes to stress the need to avoid duplication of disclosure requirements regarding pre-contractual information, which could give rise to the situation where distributors would be obliged to provide the consumer with two sets of pre-contractual information – the KIID and the Solvency II pre-contractual disclosure requirements (Article 185). This would entail the provision of pre-contractual information in two different formats in order to meet similar disclosure requirements. The KIID or CEA KIC should not merely be another document added to the existing number of client documents. It should form part of the pre-contractual information (and not come in addition to it).

However, it is important to stress the fact that in this context we are referring to Solvency II provisions on pre-contractual disclosures, and not Solvency II provisions on contractual and ongoing disclosures. It is also important that the Commission avoids the maintenance and introduction of further pre-contractual disclosure requirements on top of the KIID for PRIPs, as otherwise it runs the risk of information overload and may result in hindering efforts to improve the situation for consumers.

Q34: Do you agree with the suggested approach for UCITS KIIDs?

Q35: Are there any disclosures, e.g. required by the existing regimes, which you believe the PRIPs KIID should not include, but which should still be disclosed, e.g. separately to the KIID? Do you have any practical examples for such elements?

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Q36: What in your view will be the main challenges that will need to be addressed if a single risk rating approach is to work for all PRIIPs?

With regard to insurance PRIIPs, the inclusion of an SRRI (Synthetic Risk and Reward Indicator) is not possible at product level. However, the elements that cannot be taken into account in the SRRI methodology at fund level for technical reasons may be further explained in narrative explanations at product level (see Q37 below).

Regarding underlying funds, the CEA has concerns with regard to the CESR SRRI methodology as it is not suitable for insurance products, which possess a number of diverse features that do not compare to UCITS and also do not make different insurance products comparable:

- 10 year sample period > 5 years that does not catch the whole business cycle.
- Product features – such as all elements mitigating risk, eg financial guarantees (guarantee bonus and guaranteed interest rates) at product level or guarantees in case of death – need to be reflected, which is not the case in the current CESR methodology. This is especially relevant for hybrid products.
- It does not fit more complex products, eg those with dynamic asset allocation.
- Inappropriate buckets limiting consumer information as to funds.

Q37: Do you consider there are any other techniques that might be used to help retail investors compare risks?

The SRRI methodology suggested for the KIID for UCITS is a pure risk indicator and it does not reflect elements that reduce the risk. Therefore, we would suggest complementing the risk indicator (at fund level) with a narrative explanation (at insurance PRIIPs level) in plain simple language of all elements reducing the risk, ie risk mitigation aspects such as maturity guarantees and the existence of Solvency II requirements, which are not taken into consideration in the CESR SRRI calculation methodology.

Q38: What in your view will be the main challenges that will need to be addressed in developing common cost metrics for PRIIPs?

Regarding the disclosure of charges in the UCITS KIID, “performance fees” exist at fund level, not at insurance product level. In contrast, “entry”, “exit” and “on-going charges”, where they exist, are relevant sections at product level for insurance PRIIPs.

Concerning insurance PRIIPs, and considering a standardised (non-personalised) format, total costs at product level generally cannot be disclosed in a single figure. This is because some costs are a fixed amount, while others are expressed as a percentage on a different basis (eg 3% of the premium paid, 0.5% of the sum insured, etc.). Disclosure of costs at product level should therefore be split into “entry fees”, “exit fees” and “on-going charges” (without making any further distinction, for example, as to the “entry costs” between the administrative and distribution costs). This should be disclosed as a percentage or monetary value when necessary, ie for fixed amounts.

Regarding fund costs, a number of possible alternatives exist. Firstly, as a minimum, the insurance KIID may indicate that other charges exist at underlying fund level. A second possibility would be to display the costs of the available underlying fund either in the insurance KIID itself or at the level of the KIID-like format of the underlying fund, if it exists, or at the level of existing pre-contractual fund information if there is no KIID-like format available. Thirdly, it

may be possible to have some form of a mix of the two options above. The decision as to which alternative to apply should be taken at national level, thereby allowing sufficient flexibility to take existing national models into account.

Q39: How can retail investors be aided in making 'value for money' comparisons between different PRIPs?

The CEA believes that insurance specific features should be sufficiently highlighted in any proposal the Commission comes forward with. The consumer needs certain specific product information in order to make a 'value for money' comparison. It is not only the cost of the product that should play a part in this comparison, as this might even be misleading to the consumer, since it suggests that all products offer exactly the same risks and benefits, which is not the case.

It is important to inform the consumer of the different elements that a product offers, such as the possibility to take out a death cover; the level and the kind of risk the product exposes the customer to; the investment options and the flexibility available; and whether or not certain fiscal rules or advantages apply.

Q40: Do you consider that performance information should always be included in a KIID?

The CEA shares the view that prognosis or sample calculations regarding future performance are relevant only when there is a concrete offer made (see CEIOPS' advice). As the CEA KIC is of a non-personalised format, sample calculations are not possible at product level (apart from fictitious examples, which could potentially be misleading for consumers as numerous scenarios would have to be described, thereby resulting in a much longer KIID format).

Moreover, sample calculations may create certain expectations and as a consequence lead to frustration of customers.

Furthermore, the CEA has the following concerns over the CESR methodology for calculating past performance of the underlying funds, as this methodology does not capture the specificities and diversity of different insurance products:

- The CESR methodology shows annual historical volatility. It therefore leads only to a graphical presentation of the SRRI and is thus redundant with respect to the latter and adds no value for the consumer.
- It is inconsistent with the SRRI methodology: SRRI: 5 years / past performance: 10 years.
- Consumers may draw too many conclusions from past performance, as it does not offer any indication of potential future performance, particularly for long-term contracts of eg 30 years duration. In any case, where information regarding past performance is included, it should be complemented by an appropriate warning such as "Past returns do not guarantee future performance".
- In case of material changes (change in investment objective/policy), past performance relates to a situation that is no longer applicable. Therefore, it should not be shown at all. Otherwise, it could be misleading for the consumer.

Q41: What in your view will be the main challenges that will need to be addressed in ensuring performance information can be compared between different PRIPs?

Past performance information cannot be disclosed at the level of the product, only at the level of the underlying funds. This can be done via the KIID-like formats if they exist and, in such a case, following the applicable rules and

methodology on past performance for the KIID-like format for UCITS and other investments so as to ensure comparability.

Q42: Do you agree that a consistent approach to the description of guarantees and capital protection in the KIID should be sought, e.g. through detailed implementing measures, for different PRIPs?

The CEA wishes to stress the fact that information about “guarantees” is important to help consumers understand the quality and value of the capital protection behind the product they purchase. In order to ensure efficient comparison between products, the notion of a “guarantee” should be used solely if the guarantee techniques are supported by a result obligation and by appropriate capital requirements. For insurance products, the inherent value of capital guarantees provided by life insurance companies is ensured by the contractual obligation to provide that guarantee in any case and by stringent solvency requirements to the benefit of consumers. This is seemingly not the case for capital “guarantees” offered by UCITS. Whereas Solvency II requirements were adopted for insurance and Basel II requirements for the banking sector, there are no corresponding prudential requirements for the asset management sector. We deem it important to inform consumers whether a product that is sold with a “guarantee” is managed and supervised in such a way that the company is ultimately obliged to deliver this guarantee. The current financial crisis has shown that prudential rules are as important for ensuring consumer protection as disclosure and distribution issues. It would therefore be appropriate for the Commission to fill this gap. As a minimum, and in addition to a clear disclosure of the existence or otherwise of a prudential regime covering the “guarantee”, the name of the guarantor could be indicated, should this prove useful for retail clients.

Q43: What information should be provided to retail investors on the cost of guarantees?

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Key Information Checklist (KIC) for unit-linked insurance

INFORMATION CATEGORIES	EXAMPLES OF POSSIBLE CONTENTS
Title	Key Information Document – unit-linked life insurance
Explanatory statement	<i>“This document provides you with non-personalised key information about this product. It is not marketing material. The information is required by law to help you understand the nature and the risks of this product. You are advised to read this document and any complementary information to which it refers so you can be in a better position to make an informed decision about whether to purchase this product.”</i>
Name of the product	-
Name of the insurance undertaking	This item may also include the company head office address and legal form
Type of product	Summary of the product
Insurance benefits [or cover]	<ul style="list-style-type: none"> • Risk coverage description (death, life, disability, sickness...) • Pay-out method (lump sum and annuities)
Objectives and investment policy	<ul style="list-style-type: none"> • General description of the investment objectives • Risk coverage (if any) without any further description • Hyperlinks/references to underlying funds KIDs/ pre-contractual information
Risk and reward profile	<ul style="list-style-type: none"> • Narrative explanation describing risks, risk mitigation elements, guarantees not reflected in the SRRI (eg maturity guarantee) and the existence of solvency II requirements <p>No SRRI at product level (SRRI methodology at underlying funds' level to be revised)</p>
Charges	<ul style="list-style-type: none"> • Entry fees • Exit fees • On-going charges <p>In % (because standardised format) or euro cents where necessary (fixed amount); indication that other charges exist at underlying funds' level or display all underlying funds' costs</p>
Premium	<ul style="list-style-type: none"> • Minimum entry or investment requirement • Premium payment modalities and flexibility (single or periodic payment)
Duration of the contract	<ul style="list-style-type: none"> • Minimum or specific period or “no specific period” • Existence of a cancellation right
Consequences of early termination	<ul style="list-style-type: none"> • Deductions • General warning (in case the consequences of early termination are too long to be detailed in the KIC). The general warning can consist of a reference to the general policy conditions for further detailed info
Practical information	<p>Examples:</p> <ul style="list-style-type: none"> • Mediation mechanisms • Information that insurer will communicate to policyholder regularly • Further info on underlying funds on request from insurer or at sale point • IGS coverage or not • Hyperlinks/references to underlying funds KIDs/ pre-contractual information
Authorisation details	[name of insurance undertaking] is authorised by [name of Member State] on [date] and is supervised by [identity of competent authority] to provide products
Date of publication	The information contained within the KID is accurate as at [day/month/year]



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