The PRIIPs KID

A missed opportunity to improve consumer understanding

What are PRIIPs and what is a KID?

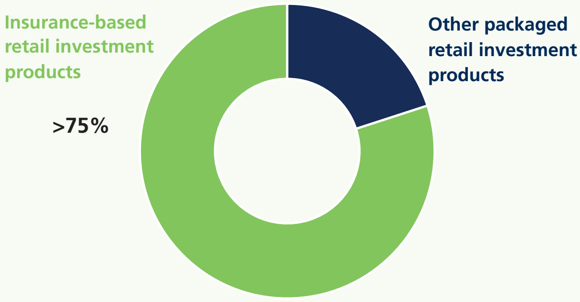
Packaged retail and insurance-based investment products (PRIIPs) are investment products and funds- and investment-linked insurance policies that allow consumers to invest their money, rather than put it in their savings accounts.

Insurance-based Investment Products (IBIPs) allow customers to combine investment with an insurance component covering different risks.

Making investment decisions can be complex. Consumers interested in PRIIPs are therefore provided with detailed information via a standardised Key Information Document (KID). This document aims to facilitate the comparison of investments and help consumers make an informed choice on what to invest in.

Did you know?
Currently, IBIPs represent **more than three quarters** of the PRIIPs market.

Figure 1: The PRIIPs market



What went wrong?

An accumulation of standards
To address the complexity and initial shortcomings of the KID, the PRIIPs regulatory framework needed a series of adjustments and clarifications — a Level 1 quick-fix in 2016, European Commission guidelines, five batches of Q&As from the European supervisory authorities (ESAs) and two supervisory statements — resulting in consumers who are even more confused and an industry tired of the repeated regulatory changes.

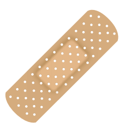
The current RTS review
Currently, a review of the PRIIPs regulatory technical standards (RTS) is being undertaken. But the proposals put forward by the European supervisory authorities (ESAs) would make things worse for both consumers and insurance companies, as they are:

Last minute and constantly changing — The ESAs have significantly changed their proposals several times in recent months. Moreover, the latest proposals have been developed in a rush and will not be subject to public consultation.

Misleading and confusing for consumers — The RTS will increase the complexity of the methodologies for the calculation and presentation of information, lead to misleading information being given to consumers and confuse them with too many disclosures.

Not sufficiently tested — The RTS have not been subject to specific consumer-testing; the limited simulations and impact assessment that the ESAs have performed do not provide a solid basis to justify the changes.

Unfit for insurance products — The PRIIPs KID does not explain the unique features of IBIPs correctly. The new proposals by the ESAs have been developed with investment funds in mind and will make this situation even worse.



Only interim quick-fixes — The current quick-fixes pre-empt the overall review of the Level 1 framework. The recently launched European Commission study on distribution and disclosures will provide a solid evidence base for a holistic review of the PRIIPs Regulation, allowing for more meaningful changes to the KID.

The way forward

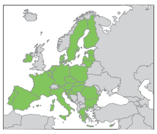
Instead of this rushed review, Insurance Europe recommends that the ESAs and the European Commission address the shortcomings with the KID as part of the **overall, Level 1 PRIIPs framework review**, based on a thorough impact assessment and consumer-testing, and ensure that new rules lead to meaningful disclosures. This approach would mean:

Protection of consumers — An overall review would include:

- A thorough assessment of the ability of consumers to understand and compare products using existing rules.
- Extensive and in-depth consumer-testing.

Meaningful disclosures for consumers — A PRIIPs framework review would provide for:

- Thorough testing to ensure the disclosures are workable for the wide range of IBIPs in the scope of the PRIIPs Regulation, and appropriately represent their specific features.



National specificities respected — This review would need to be based on:

- Representative samples of information documents provided in each EU member state to ensure full coverage of the whole European market.

Stakeholders' experience valued — A PRIIPs framework review would gather:

- Feedback from a range of stakeholders including the industry, consumer representatives and national supervisors on the most relevant information to be disclosed in an easily understandable way.

Improved participation by retail consumers in the Capital Markets Union (CMU) — It would also provide:

- The high-quality customer information essential to enable informed financial decisions, facilitate wider engagement in capital markets and build consumer trust.

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