

Key Information Document for PRIIPS

November 2014



New EU requirements to provide a pre-sale Key Information Document (KID) for Packaged Retail Investment and Insurance-Related Investment Products (PRIIPS) are set to add to insurers' workload over the coming years on the heels of Solvency II and recasting of the MIFID and IMD directives.

INTRODUCTION

In April 2014 the trialogue of the European Commission ("EC"), the European Parliament ("EP") and the Council of Ministers agreed a new regulation¹ on pre-disclosure information to be provided to retail customers relating to packaged investment products. The new regulations are set to become effective in Q4 2016 with a large amount of preparatory work required in advance and on an ongoing basis to comply with the regulations.

The regulations relate to what are defined as Packaged Retail Investment and Insurance-Related Investment Products or PRIIPS.

On 17th November the joint European Supervisory Authorities ("ESAs") published a discussion paper requesting support from stakeholders in relation to drafting of the additional Level 2 technical rules and guidance which will support the Level 1 regulations.

In this Briefing Note we highlight the challenges facing firms in meeting the new requirements.

COVERAGE

The Key Information Document or KID must be provided for the following types of product:

- UCITS investment funds
- Non-UCITS investment funds
- Packaged insurance products including unit-linked and with-profits where there is a surrender or maturity value exposed to market fluctuations
- Structured investment products

UCITS funds already have their own requirement to produce a Key Investor Information Document or KIID since 2011 under the UCITS IV Directive and

as such are excluded from the scope of PRIIPS for 5 years.

Products where benefits are not dependent on investment performance and pensions are specifically excluded although a review will be carried out after 4 years to assess the need for extension of the scope of the regulations. Direct investment in shares and bonds is also excluded.

The product manufacturer is responsible for drawing up a KID and the distributor must provide the KID before concluding a sale.

CONTENT OF KID

The KID must contain the following sections:

- What is this product?
 - Type of PRIIP, its objectives and investment policy
 - Details of insurance benefits
- What are the risks and what could I get in return?
 - A summary risk indicator
 - A narrative description of the risks
 - Future performance scenarios
- What happens if the PRIIP manufacturer is unable to pay out?
- What are the costs?
- How long should I hold it and can I take money out early?
- How can I complain?
- Other relevant information

¹ [Text of PRIIPS regulation](#)

Certain mandatory statements will be required in the KID. The document may reference other material but should provide all the key information about the product. It's a standalone document that must be provided separate to any marketing or contractual material.

In line with the UCITS implementation much of the detail setting out the content requirements of the KID will be set down in the regulatory technical standards (RTS) to be drafted in 2015.

BENEFITS

The drafting of the regulations has been grounded in various consumer studies of how retail investors respond to information provided to them. The benefits of the KID that have been put forward include:

- Aid comparability of products and improve customers' selection of investments to meet their needs
- Boost confidence of retail investors which may have knock-on effects for the real economy by adding to the pool of investment capital
- Lower costs for crossborder business through standardisation of rules

The PRIIPS regulation also extends the product intervention rights of supervisors contained in MIFID to include EIOPA for insurers.

KEY CHALLENGES

Preparation and ongoing management of the KID documents poses a number of challenges to firms including:

- The KID must be written in plain language
- It's limited to 3 pages
- Existing disclosure requirements may stay in place
- There will be significant costs in drafting, updating systems, training and dissemination
- Need to automate production to achieve cost efficiency

- Division of responsibility between manufacturer and distributor may be unclear. Manufacturers could be liable for losses incurred by investors through inaccuracy or inconsistency in the KID
- Presentation of the summary risk indicator and performance scenarios that will be set out in further standards
- There will be significant administrative sanctions available to regulators for breaches of the regulations

EFFECTS OF NEW RULES

The new regulations are likely to have an effect on the product offerings in the market and influence customers' behaviour. Some effects that may be seen include:

- Rationalisation of product and fund offerings. It may not be efficient and cost effective to maintain similar products and funds if they require separate KIDs.
- Repricing or repositioning of products. The KID will provide a tool to investors and advisors to carry out price and performance comparisons which may highlight mispricing of existing products.
- Customer attitudes may be influenced potentially leading to favouring certain types of products. Some commentators have speculated that short term investments may be favoured over long term investments having a negative effect on the real economy. Customers may also choose riskier products through an illusion of simplicity by presenting complex products in simple terms.
- Certain stakeholders have called for an extension of product design rules along the lines of UCITS requirements to be introduced for all types of PRIIPS.

LESSONS FROM UCITS

Insurers should expect that implementation of the KID requirement will be costly and require a significant amount of resource and planning. Market participants have generally expressed a view that the UCITS implementation of the KIID has been successful although the amount of work involved was underestimated.

The UCITS implementation has seen a growth in outsourced service providers which assist in the process to varying degrees from drafting and sign-off to dissemination. Given the additional complexity of insurance products over funds in general it would seem likely that more bespoke solutions will be needed in the insurance space.

REGULATORY TECHNICAL STANDARDS

Regulatory Technical Standards (RTS) will aid implementation and ensure consistency. These will be drafted by the European Supervisory Agencies (EIOPA, ESMA and EBA) in 2015 for further consultation and ultimate approval by the EC.

The RTS will contain detailed rules on the contents and presentation of the KIDs, including calculation methodologies and presentation templates necessary for the summary risk indicator, performance scenarios and cost disclosures. The RTS will also address measures on the revision, review and republication of the KID, and on the timing of delivery of the KID to the retail investor.

On 17th November the ESAs published a first discussion paper² seeking feedback from stakeholders in relation to drafting the Level 2 technical standards.

In relation to returns, the discussion paper sets out two basic approaches to performance scenarios ('what-if' scenarios and the use of probabilistic scenarios). The paper explores a variety of presentational approaches for the risk and return section, such as the use of simpler or multi-dimensional summary risk indicators and tables or graphs for performance scenarios, and examines some options for how the risk and return section as a whole might work.

Importantly for insurers the paper also seeks suggestions on how to deal with cases where a choice of investment options is available such as unit-linked funds.

TIMELINE

The regulations will become effective 2 years after publication in the Official Journal of the European Union which is expected imminently in Q4 2014.

The deadline for submission of comments in relation to the first discussion paper on RTS is 17th February 2015.

The ESAs expect to follow this discussion paper with a separate technical discussion paper in the spring of 2015 on more methodologically complex

aspects of the RTS (such as on the methodology for calculation of the summary risk indicator).

A consultation on the draft RTS will then follow in the autumn of 2015. Prior to this, separate specific consultation papers are anticipated for the RTS under Articles 10 (review of KIDs) and 13 (timing of delivery), with an estimated publication prior to the summer of 2015. Consumer testing will strongly inform the RTS drafting.

The EC has suggested that firms will need to be largely compliant by end 2015 to ensure full compliance by the final deadline.

Therefore, a PRIIPS implementation project needs to be on the agenda now for life companies and detailed planning should begin setting out the how the various requirements can be met with ongoing milestones to achieve success.

HOW MILLIMAN CAN HELP

Our consultants have been involved in advising our clients on product disclosures both domestically in Ireland and across the EU market in many territories. We have undertaken a wide range of work for clients including:

- Reviews of benefit, risk and cost descriptions over a wide range of insurance products
- Preparation and review of tables of benefit and cost illustrations
- Assisting with development of governance structures including in the area of product development and distribution

As a result, we have a wide range of experience that can be brought to bear to benefit your business.

² [Discussion Paper November 2014](#)

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