

Call for evidence on the European Commission mandate regarding the PRIIPs Regulation

Fields marked with * are mandatory.

1. General Information

* Please indicate the desired disclosure level of the comments you are submitting:

- Confidential
 Public

* Stakeholder

German Association of Actuaries (DAV)

* Sector

- Investment management
 Insurance
 Banking (structured products/ derivative products)
 Other

If other, please specify:

Professional Association

* Contact person (name and surname)

* Contact person email

Contact person phone number

2. Introduction

In the September 2020 new Capital Markets Union Action Plan, the European Commission (Commission) announced its intention to publish a strategy for retail investments in Europe in the first half of 2022.

In May 2021, as part of its evidence gathering, the Commission launched a three-month public consultation on a wide array of aspects related to retail investor protection. [1] The Commission is also undertaking an extensive study that was launched in 2020, which involves analysis of the PRIIPs Key Information Document (KID), as well as other disclosure regimes for retail investments. This study will involve extensive consumer testing and mystery shopping, with the aim to ensure that any future changes to the rules will be conceived from the perspective of what is useful and necessary for consumers.

On 27 July 2021, the Commission sent to the JC of the ESAs a request for advice asking the ESAs to assist the Commission in the preparation of legislative proposals implementing aspects of the retail investment strategy, and more specifically regarding a review of Regulation (EU) 1286/2014 on packaged retail and insurance-based investment products (PRIIPs) [2]. The deadline for the ESAs to provide their advice is 30 April 2022.

The Commission invited the ESAs to provide advice on the following main areas:

- A general survey on the use of the KID
- A general survey on the operation of the comprehension alert in the KID
- A survey of the practical application of the rules laid down in the PRIIPs Regulation
- An assessment of the effectiveness of the administrative sanctions, measures, and other enforcement actions for infringements of the PRIIPs Regulation
- An assessment of the extent to which the PRIIPs Regulation is adapted to digital media
- An examination of several questions concerning the scope of the PRIIPs Regulation

For most of the areas set out above, additional more specific elements to be addressed were identified in the mandate; for instance for the general survey on the use of the KID there are four sub-elements, including to provide evidence on the extent to which marketing information aligns with the information in the KID.

Notwithstanding the mandate provided by the Commission, the information collected and analysis conducted by the ESAs since 2018 would indicate that changes to the PRIIPs Regulation are needed in other areas, besides those addressed in the mandate, in order to achieve the optimal outcomes for retail investors. Indeed, the ESAs have previously provided their views on the need for changes to the PRIIPs Regulation in a number of areas. [3] Consequently, this call for evidence requests feedback on a range of other issues, where the ESAs are considering the relevance to additionally provide advice to the Commission.

In parallel with sending the call for advice on the PRIIPs Regulation to the ESAs, the Commission also sent separate calls for advice individually to EIOPA [4] and ESMA [5] regarding other aspects of retail investor protection, as part of the work to develop a retail investment strategy. The ESAs are seeking to coordinate the work undertaken for these different mandates.

The ESAs acknowledge that the importance and complexity of the topics set out in the Commission's

request for advice call for a thorough involvement of stakeholders to ensure that they can adequately contribute to the formulation of the advice from the beginning of the process. At the same time, the short timeframe available to prepare this advice, places constraints on the type of consultation and time that can be given for responses. Taking into account these constraints, as well as the nature of the request from the Commission, which seeks various different types of evidence regarding current market practices, the ESAs have decided to launch a call for evidence. The responses provided will be used to shape the technical advice to the Commission. The ESAs also plan to hold a stakeholder event in Q1 2022 before finalising the advice. Further details about this event and how to register will be available via the relevant sections of the ESAs' websites in due course.

Where questions in this call for evidence ask for respondents' "experiences" regarding a certain issue or topic, **please provide information regarding the basis for the views provided.** This might include whether the views are based on actual experiences, such as selling, advising on, or buying PRIIPs, a survey of market participants, academic research undertaken etc. Manufacturers of products, which currently benefit from an exemption to produce a KID, such as fund managers, are not precluded from sharing evidence or experience under this call, but should clarify the context in which they would provide comments.

[1] EU strategy for retail investors (europa.eu)

[2] Call for advice

[3] See for example the Joint ESA Supervisory Statement – application of scope of the PRIIPs Regulation to bonds (JC 2019 64), or the Final Report following consultation on draft regulatory technical standards to amend the PRIIPs KID (JC 2020 66).

[4] Call for advice to EIOPA regarding certain aspects relating to retail investor protection | Eiopa (europa.eu)

[5] Call for advice to the European Securities and Markets Authority (ESMA) regarding certain aspects relating to retail investor protection (europa.eu)

1. Please provide any general observations or comments that you would like to make on this call for evidence, including any relevant information on you/your organisation and why the topics covered by this call for evidence are relevant for you/your organisation.

Thank you for giving us the opportunity to respond to the call for evidence on the mandate of the European Commission regarding the PRIIPs Regulation. We would like to point out the following points which are very important for the German Association of Actuaries(DAV):

- The rules regarding the comprehension alert must be simplified.
- Products that provide a capital guarantee should explicitly not require a comprehension alert.
- Horizontal regulation must be maintained. Only in this way comparability, e.g. of funds and IBIPs is possible; the division of the scope into groups or buckets does not appear to make sense.
- The PRIIPs Regulation must continue to allow national product specificities through principle-based regulation.
- The scope of the PRIIPs Regulation should not be extended. On the other hand, certain "biometric" IBIPs should even be explicitly excluded from the scope of the regulation.
- Cross-product comparisons can only be carried out with standardised methods.
- Past performance should not be included in IBIPs, the results are not precise, not fair, not clear and misleading for the retail investor.
- Forward-looking methodologies appropriately address problems with performance scenarios.
- Article 10 b of the PRIIP RTS although not perfect is among the better solutions for MOP. However, it is necessary that the methods for calculating values and the presentation of values in the generic PRIIP KIDs and in the specific information are identical.

3. Call for evidence

3.1 General survey on the use of the KID

Extract from the call for advice

A general survey on the use of the PRIIPs KID across the Union, including, to the extent feasible, evidence on:

- *The number and type of products and their market share for which PRIIPs KIDs are produced and distributed.*
- *The recent developments and trends on the market for PRIIPs and other retail investment products.*
- *The extent to which PRIIPs KIDs are used by product distributors and financial advisors to choose the products they offer to their clients.*
- *To the extent feasible, the extent to which marketing information aligns with or differs from the information in the PRIIPs KIDs.*

In terms of this general survey, it can be relevant to clarify that regarding the third bullet point in the mandate above, the ESAs understand that evidence is sought on the extent to which the information in the KID is used by persons advising on, or selling, PRIIPs separate from the obligation to provide the KID to the retail investor. This might include, for example, identifying if a product is suitable for the retail investor. For this topic, the ESAs would like to ask for feedback to the following questions:

2. Do you have, or are you aware of the existence of, data on the number, type and market share of different types of PRIIPs? If you have such data, would you be in a position to share it with the ESAs?

3. In your position as product distributor or financial advisor, to what extent do you make use of KIDs to choose or compare between the products you offer to your clients? In case of trading online, does your platform offer an automatised tool that can help the retail investor in making comparisons among products, for instance using KIDs?

4. If this is the case, what is preventing distributors or financial advisors from using the KID when they choose a product for a client?

5. In your experience, e.g. as a retail investor or association representing retail investors, to what extent are KIDs used by distributors or financial advisors to support the investment process? Is marketing material used instead or given greater emphasis?

6. What are your experiences regarding the extent of the differences between marketing information and the information in the KID? What types of differences do you consider to be the most material or relevant in terms of completeness, plain language, accuracy and clarity? What do you think might be the reason(s) for these differences?

3.2 General survey on the operation of the comprehension alert

Extract from the call for advice:

A general survey on the operation of the comprehension alert, taking into account any guidance developed by competent authorities in this respect, the survey should gather data on the number and types of products that include a comprehension alert in the PRIIPs KIDs, and to the extent feasible, evidence on whether retail investors and financial advisors consider the comprehension alert in their investment decisions and/or advice.

For this topic, the ESAs would like to ask for feedback to the following questions:

7. What are your experiences regarding the types of products that include a comprehension alert?

The German Association of Actuaries (DAV) is happy to share our experience on those type of products which include a comprehension alert in the German market. However, please bear in mind that we can only share anecdotal evidence as actuaries which mainly stems from our day-to-day work e.g., within product development entities of different insurance companies.

No comprehension alert for products with guarantee

The comprehension alert itself is linked to the notion of “complex products” as set in the IDD (resp. MiFiD II) which additionally do “not incorporate a structure which makes it difficult for the customer to understand the risks involved” (a requirement which was then further concretized by guidelines issued by EIOPA). By doing so and especially referring to MiFiD II which identifies non-structured UCITS-funds as non-complex investment vehicles, UCITS-funds hence do not require the comprehension alert in the PRIIP-regime if they were offered either directly or as an underlying investment option. Similar (rather general) exceptions for with-profit products which invest all or some of their contributions into some insurance company’s general assets do not exist.

Hence, this led to a situation where – at least to our impression – in the German market, many purely unit-linked products are not deemed to be complex by the providers and hence lack the comprehension alert within the PRIIP-KID, whereas many (if not most) key information documents of IBIPs that allow for pooling of risks, collective capital management and hence profit sharing include a comprehension alert vice versa. It seems that product providers judged their products’ complexity differently solely based on the underlying investment vehicles and not due to other additional factors concerning the products’ further design (such as embedded guarantees, benefit structures, fees, etc.).

In summary, presumably product providers are of the opinion that no “structures which make it difficult for the customer to understand the risks involved” actually exist in the products except the underlying investment vehicles. It seems that many (most?) product providers chose to include the comprehension alert within their with-profit business probably for being cautious from a legal point of view. Especially those products that issue an investment guarantee (e.g. a money-back guarantee) and for doing so apply the insurer’s general account (by means of so-called) hybrid products are currently equipped with the comprehension alert although an investment guarantee may be rather simple for the customer to be understood.

Therefore, although in our understanding the comprehension alert was originally designed to especially highlight those products that are very hard to understand by the retail investor, we currently observe an insurance market where the comprehension alert is not at all present selectively, but rather basically pops up in general. Thus, we think that the comprehension alert’s original target to identify those products that are very hard to understand is currently not fulfilled. In our view, since profit sharing mechanisms are in many member states quite thoroughly regulated and pooling of risks, especially considering the investment result, can be beneficial for the retail investor as well, we propose some clarification on the notion of complexity for with-profit products (esp. those including investment guarantees) in general which may allow the provider’s not to mandatorily show the comprehension alert when profit sharing is in place or serves as a basic building block within risk-mitigation techniques such as so-called hybrid products.

8. Do you have or are you aware of the existence of data on the number and type of products that include a comprehension alert? If you have such data, would you be in a position to share it with the ESAs?

9. What are your experiences regarding the extent to which retail investors take into account the inclusion of the comprehension alert?

10. As a retail investor or association representing retail investors, are you aware of the existence of a comprehension alert for some PRIIPs?

11. What are your experiences regarding the extent to which financial advisors consider the comprehension alert?

Similar with question 7, the German Association of Actuaries (DAV) can only share our view based on our day-to-day-work as actuaries within e.g. product development entities within life insurance companies.

Financial advisors and consumers may struggle with an appropriate assessment of the comprehension alert

Due to the already mentioned issue (cf. question 7) that the comprehension alert is linked to the notion of complexity and many (e.g. guaranteed) products which include some profit participation mechanism are deemed complex whereas other investment vehicles, in particular UCITS-funds, are to be considered non-complex, we believe that many financial advisors potentially struggle with the current extent to which the comprehension alert is present in the KIDs of different products.

The sheer wording of the comprehension alert “You are about to purchase a product that is not simple and may be difficult to understand” combined with the extent to which it shows up for different types of products may confuse the financial advisors: Typically, those products likely to be assessed by the financial advisors as very conservative and easy to be understood (i.e. traditional with-profit products or hybrid products with embedded investment guarantees) obtain a comprehension alert, whereas those products that may seem complicated and difficult to be understood from a financial advisors point of view (e.g. investments in leveraged UCITS-funds) lack the comprehension alert. This potential mismatch in the advisors’ assessment of the products and the information actually stated within the KIDs may undermine an appropriate (if any) consideration of the comprehension alert by the financial advisor at all.

3.3 Survey on the practical application of the rules

Extract from the call for advice:

A survey of the practical application of the rules laid down in the PRIIPs Regulation, taking due account of developments in the market for retail investment products, which should include practical evidence on:

- *To the extent feasible, the amount and nature of costs per PRIIP to various market participants of complying with the requirements of the PRIIPs Regulation, including the costs of manufacturing, reviewing, revising, and publishing PRIIPs KIDs, including as a proportion of total PRIIP costs.*
- *To the extent feasible, the extent to which the PRIIPs Regulation is applied in a consistent manner across the EU for the most commonly sold types of PRIIPs.*

- *The supervision of the PRIIPs KID, including the percentage of cases where inaccurate PRIIPs KIDs were identified by NCAs.*
- *The number of relevant mis-selling events before and after the introduction of the PRIIPs KID, including through data on the number of complaints received, number of sanctions imposed, and other relevant data.*

Concerning this topic, the ESAs would like to ask for feedback to the following questions:

12. For PRIIP manufactures or sellers:

12. a) Please describe the different types of costs incurred to comply with the PRIIPs Regulation.

12. b) Can you provide an estimate of the average costs per PRIIP of complying with the requirements of the PRIIPs Regulation? Where possible, please provide a breakdown between the main types of costs, e.g. manufacturing, reviewing, publishing, etc.

12. c) Can you provide an estimate of what proportion of the total costs for the product are represented by the costs of complying with the PRIIPs Regulation?

13. What are your experiences regarding the extent to which the PRIIPs Regulation is applied in a consistent manner across the EU for the most commonly sold types of PRIIPs? What are the main areas of inconsistencies?

Horizontal regulation that includes national specificities is necessary

In the opinion of the German Association of Actuaries (DAV), the products are different across EU countries. Main product features are not identical. Thus, it is reasonable that PRIIPs Regulation is applied in a market consistent manner; i.e., Regulation shall take into account the local/national features. Neglecting those characteristics would be in fact contrary to the purpose of Regulation.

3.4 Use of digital media

Extract from the call for advice

An assessment of the extent to which the PRIIPs Regulation is adapted to digital media. This survey shall include an evidence-based assessment of:

- *To the extent feasible, the actual use of various types of physical and digital media for delivering or displaying the PRIIPs KID to retail investors.*

- *To the extent feasible, the preferred digital or physical media for retail investors to access and read PRIIPs KIDs, and the appropriateness of the PRIIPs Regulation for allowing access to and readability of PRIIPs KID on such platforms.*
- *The appropriateness of the approach taken in the PEPP Regulation 2019/1238 for displaying the PEPP KID on digital media for the PRIIPs KID.*

Article 14 of the PRIIPs Regulation lays down rules regarding the types of media that can be used to provide the KID to the retail investor. It is specified that the use of paper format should be the default option where a PRIIP is offered on a face-to-face basis, but that it is also possible to provide the KID using a durable medium other than paper or by means of a website, if certain conditions are met. These conditions include, for example, that the retail investor has been given the choice between paper and the use of another durable medium or website.

The PEPP Regulation^[1] provides rules regarding the distribution of the PEPP KID either electronically or via another durable medium in Article 24. For the PEPP KID, electronic distribution can be seen as the “default” approach, but customers need to be informed about their right to request a copy on another durable medium, including paper, free of charge.

For PEPP KIDs provided in electronic format, the PEPP Regulation also allows for the layering of information (Article 28(4)). This means that detailed parts of the information can be presented through pop-ups or through links to accompanying layers. In general terms, layering allows the structure of the information to be presented in different layers of relevance: for example from the information “at a glance” that is essential for all audiences, to more detailed information being readily available in a subsequent layer for those interested, and so forth.

Concerning this topic, the ESAs would like to ask for feedback to the following questions:

[1] REGULATION (EU) 2019/1238 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 20 June 2019 on a pan-European Personal Pension Product (PEPP) (OJ L 198, 25.7.2019, p. 1)

14. Do you have or are you aware of the existence of data on the use of different media? If you have such data, would you be in a position to share it with the ESAs?

15. What are your experiences as a product manufacturer or product distributor or financial advisor regarding the preferred media for retail investors to access or read the KID? Are there challenges for retail investors to receive the KID in their preferred media, such as due to a certain medium not being offered by the distributor?

16. How do you as a retail investor, or association representing retail investors, prefer to receive or view the KID?

17. What are your experiences regarding the preferred media for product distributors and financial advisors when using the KID?

18. Should changes be made to the PRIIPs Regulation so that the KID is better adapted to use on different types of media?

19. Do you think it would be appropriate to apply the approach taken in the PEPP Regulation 2019 /1238 (highlighted above) to the PRIIPs KID?

3.5 Scope of the PRIIPs Regulation

Extract from the call for advice:

An examination of the following questions concerning the scope of the PRIIPs Regulation:

- *whether the exemption of the products referred to in Article 2(2) points (d), (e), and (g) of the PRIIPs Regulation from the scope of PRIIPs should be maintained, in view of sound standards for consumer protection, including comparisons between financial products.*
- *whether the scope of the PRIIPs Regulation should be extended to additional financial products.*

The points referred to Article (2) of the PRIIPs Regulation concern:

(d) securities as referred to in points (b) to (g), (i) and (j) of Article 1(2) of Directive 2003/71/EC;
(e) pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits;
(g) individual pension products for which a financial contribution from the employer is required by national law and where the employer or the employee has no choice as to the pension product or provider.

In 2019 the ESAs published a Supervisory Statement on the application of the scope of the PRIIPs Regulation to bonds (JC 2019 64). In this statement it was stated that:

Ultimately, in order to fully address the risk of divergent applications by NCAs, the ESAs recommend that during the upcoming review of the PRIIPs Regulation, the co-legislators introduce amendments to the Regulation in order to specify more precisely which financial instruments fall within the scope of the Regulation. We would also recommend to reflect more expressly the stated intention of the PRIIPs Regulation[1] to address packaged or wrapped products rather than assets which are held directly, to avoid any legal uncertainty on this point.

Taking this Statement into account, the ESAs are interested in feedback on a number of additional issues besides those specified in the mandate from the Commission. Thus, concerning the topic of scope, the ESAs would like to ask the following questions:

[1] This is stated in recitals 6 and 7.

20. Do you think that the scope of the PRIIPs Regulation should be extended to any of the products referred to in Article 2(2), points (d), (e) and (g)? Please explain your reasoning.

No extension of the scope

In the view of the German Association of Actuaries (DAV) the scope should not be extended to those products currently exempt by the PRIIP Regulation as stated in article 2(2) points (d), (e) and (g).

Especially regarding occupational pensions or (state subsidized) private pensions different member states often set different incentives on how the products shall actually be designed (cf. the current discussions on PEPPs always obtaining the most beneficial tax treatment for different compartments e.g. depending on the design of the decumulation phase).

Therefore, since the requirements on the products may differ tremendously across member states, so will their corresponding disclosure requirements and hence a unifying approach (as then targeted by the PRIIP regulation) may be deemed to fail.

We think that member states currently already have mechanisms in place to disclose the relevant information on these products thoroughly and meaningfully by the currently existing disclosure rules adapted to the specific characteristics.

21. Do you think that the scope of the PRIIPs Regulation should be changed with respect to other specific types of products and if so, how?

Exclusion of certain biometric products makes sense

In the view of the German Association of Actuaries (DAV), the scope of PRIIPs, especially IBIPs, due to its very generic definition in the PRIIP Regulation (cf. “[...] a product which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations”) is already rather broad. In contrast to further widening the scope of the products subject to PRIIP, a clarification (i.e., potential reduction) of the scope may in our view be appropriate instead.

If an insurance product’s main feature is to provide some (biometric) coverage, e.g. benefits in case of disability, whole life products, etc., it should in our view be exempt from the PRIIP regulation although due to the very nature of the product and the underlying investment process necessary to provide the respective benefits, the product may technically qualify for the above definition of an IBIP.

22. Do you think changes should be made to specify more precisely which types of financial instruments fall within the scope of the PRIIPs Regulation? Please specify the amendments that you think are necessary to the Regulation.

23. Do you have specific suggestions regarding how to ensure that the scope of the PRIIPs Regulation captures packaged or wrapped products that provide an indirect exposure to assets or reference values, rather than assets which are held directly?

24. Do you agree with the ESA Supervisory Statement relating to bonds and what are your experiences regarding the application of the Statement?

25. Do you think that the definitions in the PRIIPs Regulation relating to the scope should take into account other elements or criteria, e.g. relating to the maturity of the product, or relating to a product only having a decumulation[1] objective, or where there is not active enrolment[2]?

[1] For example an annuity.

[2] This might include, for example, employment based incentive schemes

Exclusion of certain biometric products makes sense

Referring to the opinion of the German Association of Actuaries (DAV) stated in question 21, it might be worthwhile exempting those products from the PRIIP regulation that although technically qualifying for the definition of an IBIP (due to their “maturity or surrender value [who] is wholly or partially exposed, directly or indirectly, to market fluctuations”), their main characteristic actually lies in the provision of biometric coverage (e.g. annuity products, whole life products, etc.).

These products still carry some investment risks (which is natural due to their long term), but their main focus is on providing some biometric coverage (e.g., protection against longevity risk).

If products with considerable biometric benefits were not to be exempted, these benefits in our view should be considered in the performance scenarios described in Article 8 (3) (d) (iii) and the costs attributed to the provision of these benefits should be considered in the section “What are the costs?” described in Article 8 (3) (f).

26. Do you think that the concept of products being “made available to retail investors” (Article 5(1) of the PRIIPs Regulation) should be clarified, and if so, how?

27. Do you think it would be beneficial to develop a taxonomy of PRIIPs, that is, a standardised classification of types of PRIIPs to facilitate understanding of the scope and that could also be used as a basis for the information on the “type of the PRIIP” in the ‘What is this product?’ section of the KID (Article 8(3)(c)(i) of the PRIIPs Regulation)? If yes, do you have suggestions for how this could be done?

3.6 Differentiation between different types of PRIIPs

Following a targeted consultation on PRIIPs towards the end of 2018, the ESAs' Final Report published in February 2019 (JC 2019 6.2), which proceeded further work on a review of the PRIIPs Delegated Regulation, stated (page 14):

- *Differentiation between different types of PRIIPs: taking into account information regarding challenges to apply the KID to specific product types, for example very short-term products or specific types of insurance or pension products, it is intended to analyse if it is appropriate to introduce some additional differentiation in how the rules apply to different types of products, while still adhering to the overarching aim of comparability between substitutable products.*

This aspect was considered during the review of the PRIIPs Delegated Regulation initiated in 2019, but this work was conducted within the constraints of the existing PRIIPs Regulation. In the context of reviewing the PRIIPs Regulation, consideration could be given to the following types of approaches:

- The development of broad product groupings or buckets of similar products. A more tailored approach could be taken for each of these groupings, with the aim to ensure the meaningfulness of the information and prioritising comparability within these groupings. This might also ease the comparability between the PRIIPs Regulation and sectoral legislation (such as MiFID, IDD) on certain disclosure requirements;
- A reduced degree of standardisation in the KID template;
- Provisions that would allow for supervisory authorities to grant exemptions or waivers from the requirements in duly justified cases.

28. Do you think that the current degree of standardisation of the KID is detrimental to the proper understanding and comparison of certain types of PRIIPs? If so, which products are concerned?

Cross-product comparisons can only be achieved with standardised methods

The German Association of Actuaries (DAV) is of the opinion that comparability is one of the cornerstones of the PRIIP regulation. Standardisation is necessary to achieve comparability. Key indicators for risk, performance and costs can only be compared if they have the same methodology. Comparing indicators calculated with different standards in a meaningful way is at least very difficult and often impossible. Understanding and evaluating differences between methodologies is challenging for experts and often impossible for average consumers. It can be even quite misleading since average consumers often compare incomparable indicators, drawing the wrong conclusions.

29. Do you think that greater differentiation based on the approaches highlighted above, is needed within the PRIIPs Regulation? If so what type of approach would you favour or do you have alternative suggestions?

Standardisation is necessary

The German Association of Actuaries (DAV) is of the opinion that standardisation is needed to make the key indicators for risk, performance and costs comparable. However, additional information might be useful in cases where products offer additional features or protection beyond pure investment.

30. Do you have suggestions for how a product grouping or product buckets could be defined?

Splitting the scope into groups or buckets does not appear beneficial

As the German Association of Actuaries (DAV) does not see a benefit in using separate methodologies for the same indicator, we do not support the idea of product buckets. The idea of the PRIIP's scope is to make different products comparable. Splitting the scope into groups or buckets does not appear beneficial. Instead of emphasizing the differences, the common core should be found.

3.7 Complexity and readability of the KID

Taking into account the views previously expressed by some stakeholders that the information in the KID is overly complex and contributes towards an information overload for the retail investor, the ESAs would like to ask for suggestions on how the KID could be improved in this respect.

There can also be a link between this issue and the use of techniques such as layering as referred to above in the context of the digital KID (see Section 3.4), as well as other design techniques, such as the inclusion of visual icons or dashboards at the top of documents[1].

[1] Dashboards can include the most essential information at the top of the document. This is the approach taken, for example, for the PEPP KID - "PEPP at a glance" in Annex I of PEPP Delegated Regulation 2021/473 point 4 and the template in part II.

31. Would you suggest specific changes to Article 8 of the PRIIPs Regulation in order to improve the comprehensibility or readability of the KID?

32. How could the structure, format or presentation of the KID be improved e.g. through the use of visual icons or dashboards?

3.8 Performance scenarios and past performance

In the ESAs' draft regulatory technical standards (RTS) to amend the PRIIPs Delegated Regulation submitted to the Commission in February 2021[1] (and adopted by the Commission on 7 September 2021 [2]), the ESAs included a proposed new requirement for certain types of investment funds and insurance-based investment products to publish information on the past performance of the product and refer to this within the KID. This approach was taken so that the availability of this information would be known, and the information would be published in a standardised and comparable format.

However, the ESAs also stated in the Final Report[3] accompanying the RTS that (on page 4):

the ESAs would still recommend, as a preferred approach, to include past performance information within the main contents of the KID on the basis that it is key information to inform retail investors about the risk-reward profile of certain types of PRIIPs. Since it has been argued that the intention of the co-legislators was for performance scenarios to be shown instead of past performance, it is understood that a targeted amendment to Article 8 of the PRIIPs Regulation would be needed to allow

for this. A consequential amendment is also considered necessary in this case to allow the 3 page limit (in Article 6(4)) to be exceeded to 4 pages where past performance information would be included in the KID;

Besides the issue of past performance, the ESAs' work under the empowerment in Article 8(5) regarding the methodology underpinning the performance scenarios has raised significant challenges. Since the ESAs first started to develop these methodologies from 2014 onwards, it has proved very difficult to design appropriate performance scenarios for the different types of products included within the scope of the PRIIPs Regulation that would allow for appropriate comparisons between products, avoid the risk of generating unrealistic expectations amongst retail investors and be understandable to the average retail investor. In particular, no academic consensus has been reached on how to develop common performance scenarios that would be equally appropriate for all types of PRIIPs, proving the inherent difficulty of such an approach.

In this context, the ESAs would like to ask for feedback on:

[1] EIOPA's Board of Supervisors agrees on changes to the PRIIPs key information document | Eiopa (europa.eu).

[2] Implementing and delegated acts | European Commission (europa.eu)

[3] JC 2020 66 (30 June 2020)

33. Do you agree with the ESAs' assessment in the Final Report (JC 2020 66) regarding the treatment of past performance?

Past performance can be misleading for the retail investor

The German Association of Actuaries (DAV) believes that the idea of providing past performance information as key figures to help retail investors make investment decisions must be viewed very critically.

While past performance data as information on the development of returns for funds may still be used as supplementary data within a certain framework, past performance data for insurance products provides no help, on the contrary it could even be misleading. However, before doing so, a consumer study concentrated on behavioral aspects of past performance should be conducted. Past performance is known to have extrapolation bias, meaning that consumers tend to overweight recent events, preferring to invest in the assets that performed well recently. Furthermore, past performance has survivorship bias, meaning, that past performance disproportionately weights the funds that were not closed down due to low performance, thus, past performance is biased upwards.

A sole statement that past performance is not indicative for future yields is not sufficient, because consumers will focus on the graphic showing those past results.

Methods for determining the past performance of certain IBIPs are not defined

It is not clearly defined how past performance data shall actually be derived for certain insurance products, such as traditional or hybrid conventional pension products with a guaranteed interest rate wholly or partially invested in the general account. Depending on the design of the product in question, so-called terminal bonuses may also be paid out at the end of the contract term. Here it is not clear how, for example, such values are considered in a past performance view.

Past performance does not reflect biometrics

Furthermore, a focus on past performance values would also completely lead away from the essential idea of an insurance product, which is to offer biometric protection in addition to a return on investment. Past performance is not able to reflect the biometric benefits, which are an essential core of the insurance product, or the biometric component is not reflected in the past performance data. In a general insurance product – on the investment part as well as the biometric part – depends what happened in the baseline. E. g. a guarantee is triggered only if the capital markets developed badly. Biometric protection is triggered if the insured event occurs. Displaying only one path that corresponds to a single event that occurred (or for biometric protection then not occurred) gives a posteriori a false view on insurance.

Past performance does not reflect changing customer needs

New insurance products generally consider the future market, be it the capital market or changing customer needs with regard to biometric coverage. Therefore, it is not possible to find past performance values for new product generations, because the design of the existing new insurance product would have to be adapted to the past in order to find meaningful values.

Past performance does not make sense for unit-linked insurance either

Therefore, we do not consider past performance data for insurance products to be useful, not even for unit linked insurance-based investment products.

34. Would you suggest changes to the requirement in Article 8(3)(d)(iii) of the PRIIPs Regulation concerning the information on potential future performance, and if so what would you specifically change in the Regulation?

Forward-looking methodologies appropriately address problems of performance scenarios

The German Association of Actuaries (DAV) believes that it is important for the customer to receive an indication of future developments of his contract including a presentation of biometric benefits over the selected investment period.

Above all, guarantees and their effect, if guarantees are included in the respective contract, should be made clear to the customer in a scenario.

We welcome a forward-looking model that is based on concepts that are accepted by experts and are fit for purpose. E.g., the capital market model described in the PEPP-RTS and the German standard developed for the category 4 PRIIPs developed by the DAV are good examples of a model that provides adequate results. We would welcome EIOPA clarifying the purpose of future performance scenarios: Of course no one can predict the actual future market returns. However, retail investors should be presented with a realistic range that shows the uncertainty of return.

3.9 PRIIPs offering a range of options for investment (Multi-Option Products (“MOPs”))

In the ESA Consultation Paper of October 2019 on proposed amendments to the PRIIPs KID (JC 2019 63), the ESAs stated that their analysis of the implementation of the rules for MOPs indicated some significant challenges regarding the clarity and usefulness of the information provided to retail investors. In particular, it was stated that (page 51):

Where a generic KID is used (in accordance with Article 10(b) of the PRIIPs Delegated Regulation), it is difficult for the investor to identify the total costs related to a particular investment option. This arises because the generic KID shows a range of costs, but does not always identify which costs are specific to an investment option and which costs relate to the insurance contract. At the same time, it is understood that the information on the underlying investment option (in accordance with Article 14 of the PRIIPs Delegated Regulation), does not usually include the total costs of investing in that option. Therefore, it is often not possible for the investor to identify from the generic KID the costs that may apply in addition to those shown in the option-specific information.

One of the proposals in the Consultation Paper was to introduce a differentiated treatment for the ‘most commonly selected investment options’ (page 52). In the final draft RTS following the consultation, the proposals relating to the most commonly selected investment options were not included taking into account various implementation challenges raised by respondents to the public consultation.

However, the ESAs introduced some specific changes to the approach for MOPs, for example to require the separate disclosure in certain cases of the costs of the insurance contract or wrapper. It was considered that these changes would result in material improvements to the current KID. At the same time, despite these proposed changes, there are still considered to be material issues that were not possible to address within the constraints of the review of the PRIIPs Delegated Regulation.

In the Final Report (JC 2020 66), the ESAs also stated at that stage that they consider the optimal way to address the challenges for MOPs is to use digital solutions, but that this would require changes to the PRIIPs Regulation.

As part of the May 2021 consultation from the Commission on the Retail Investment Strategy, feedback was also requested on the approach for MOPs to require a single, tailor-made KID, reflecting the preferred underlying investment options of each investor, to be provided.

In this context, the ESAs would like to ask for feedback on the following questions regarding potential alternative approaches for MOPs that might require a change of the PRIIPs Regulation:

35. Would you be in favour of requiring a KID to be prepared for each investment option (in accordance with 10(a) of the PRIIPs Delegated Regulation) in all cases, i.e. for all products and for all investment options[1]? What issues or challenges might result from this approach?

[1] This approach assumes complete investment in a single investment option and requires the KID to include all costs.

The German Association of Actuaries (DAV) is in favour of the continuation of Article 10 b.

The underlying investment options may be associated with different risks, returns and costs. The corresponding information is contained in the ranges of the generic basic information sheet and is specifically presented in the specific information. In principle, the standards of Chapter II of the currently applicable PRIIPs RTS are suitable for ensuring that the disclosures in both the generic key information

document and the specific information are precise, fair, clear and not misleading. The future PRIIPs Delegated Regulation makes this assessment much more difficult.

The ranges contained in the generic key information document show the customer information for a mixture of investment options that he would have to laboriously gather himself in the Article 10a presentation.

Investment options have different ongoing costs, for example, so it is logical that this leads to wide ranges. Deleting a possibility of presentation only because the values presented lead to very wide ranges for methodological reasons is not expedient. In this context, we consider an adjustment of the methodology.

36. Would you be in favour of requiring an approach involving a general product information document (along the lines of a generic KID) and a separate specific information document for each investment option, but which avoids the use of cost ranges, such as either:

- **A specific information document is provided on each investment option, which would include inter alia all the costs of the product, and a generic KID focusing more on the functioning of the product and which does not include inter alia specific information on costs?; or**
- **The costs of the insurance contract or wrapper would be provided in a generic KID (as a single figure) and the costs of the underlying investment option (as a single figure) would be provided in the specific information document?**

What issues or challenges might result from these approaches?

Regulations are needed that show the interaction of investment option in the IBIP

For the German Association of Actuaries (DAV), the proposed solutions seem to be too simple. The specific information on the investment option should contain more information than just costs. In addition, the costs of the investment option depend on the surplus participation of the IBIP and are consequently not linearly dependent. Therefore, the costs cannot just simply be added. The information should be designed to describe the relationship to the IBIP. Such points are e.g.,

- that the investment option is suitable for inclusion in the insurance investment product in terms of the objectives of the investment, in terms of the retail investor and in terms of the duration,
- that the contractual partner is the manufacturer of the insurance-based investment product and not the manufacturer of the fund,
- That only certain and named costs of the investment option are included in the costs of the insurance-based investment product. These costs of the investment option should be disclosed in the same way as the costs of the insurance investment product. For this purpose, one indicator, the reduction in yield, is sufficient.

37. Do you see benefits in an approach where KIDs are prepared for certain investment profiles or standard allocations between different investment options, or for the most commonly selected options? In this case, what type of information could be provided regarding other investment options?

The German Association of Actuaries (DAV) is in favour of the continuation of Article 10 b.

The German Association of Actuaries (DAV) is also aware of the problem of wide spreads in the performance scenarios and costs. Nevertheless, the DAV sees only minor advantages for the retail investor in the solutions presented.

If, in addition to the premium and the maturities, a further differentiation were made according to the proposal, the consumer would face the effort of selecting "his" appropriate PRIIP-KID out of a variety of KIDs.

If, in addition to the existing generic PRIIP KIDs, PRIIP KIDs were created in accordance with Article 10a for, for example, four frequently chosen investment options, the retail investor would again have to laboriously search for "his" PRIIP Kid from 32 PRIIP KIDs. In doing so, he must then discover that "his" preferred investment option or mix of investment options is not among them.

Spreads provide information for all combinations of investment options. Any selection whatsoever means a loss of information.

See also answer to question 36.

38. Do you have any other comments on the preferred approach for MOPs and or suggestions for changes to the requirements for MOPs in the PRIIPs Regulation?

Consistent methodology of calculations and presentation for the generic PRIIP KID and the specific information is necessary

The adjustments in the calculations of performance and costs as well as in the presentation in particular of category 2 PRIIPs contained in the new PRIIP RTS make it difficult for the retail investor to understand the relationships between the investment options and the IBIP. The manufacturer of the IBIP should therefore be given the opportunity to calculate the risk indicator, the performance values and the costs of the investment option according to the methods of the IBIB and to present them consistently in the generic PRIIP KIDs and the specific information.

E.g. for products on the German market, the methods and presentations for category 4 IBIPs would then apply throughout the documents. The information in the generic PRIIP KID and in the specific information would "fit together" and meet the requirements of being accurate, fair, clear and not misleading. However, operational issues (e.g., different versions of some key information document of an underlying investment option, depending on whether it was offered in an insurance-based product or not) have to be taken into account.

3.10 Alignment between the information on costs in the PRIIPs KID and other disclosures

In the final draft RTS amending the PRIIPs Delegated Regulation submitted to the Commission in February 2021 (and adopted by the Commission on 7 September 2021), the ESAs sought to introduce changes to the way that cost information is presented in the KID, in particular for non-insurance packaged retail investment products (PRIIPs)[1]. One of the aims of these changes is to achieve a better alignment with disclosure requirements in MiFID and IDD.

At the same time, the ESAs have received representations from stakeholders that there might still be inconsistencies or misalignment between the PRIIPs KID and disclosure requirements in other legislative frameworks. This issue is also related to the issue of appropriate differentiation between different types of PRIIPs (see Section 3.7).

Since the issue of consistency between different disclosure requirements for retail investment products is also addressed in the calls for advice to ESMA and EIOPA, the ESAs will, in particular, coordinate the work on this aspect, and consider the appropriate mandate within which to address any issues that arise.

[1] As defined in point (1) of Article 4 of the PRIIPs Regulation

39. Taking into account the proposals in the ESAs' final draft RTS, do you consider that there are still other inconsistencies that need to be addressed regarding the information on costs in the KID and information disclosed according to other retail investor protection frameworks?

3.11 Other issues

40. Do you think that other changes should be made to the PRIIPs Regulation? Please justify your response.

See answer to question 1.

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