

Comments Template on EIOPA-CP 11/007

Deadline
03.01.2012
12:00 CET

Draft proposal for Report on
Good Practices for Disclosure and Selling of Variable Annuities

Company name:	Chris Barnard	
Disclosure of comments:	<p>EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.</p> <p><i>Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the right and by inserting the word Confidential.</i></p>	Public
<p>The paragraph numbers below correspond to the questions raised in the grey boxes of EIOPA Consultation Paper No. 11/007.</p> <p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering in column "Reference", or any other formatting in the file.</u> ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. Please do not delete rows in the table. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific question numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies. <p>Please send the completed template to CP_007@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).</p>		
Reference	Comment	
General Comment	<p>Please note that the comments expressed herein are solely my personal views.</p> <p>Thank you for giving us the opportunity to comment on your Report on Good Practices for Disclosure and Selling of Variable Annuities.</p>	

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Q1.	<p>Documents that communicate the key features of the product (Key Features Documents / Key Facts etc) are commonly used for Variable Annuities. Such documents usually contain:</p> <ul style="list-style-type: none">- the name / description of the company offering the product- a description of the product and its benefits- eligibility conditions- details on premium limits and premium payment methods- a description of the guarantees- withdrawal features- fund choices <p>Further information may be given about:</p> <ul style="list-style-type: none">- the risk factors associated with the product and funds- any tax advantages or tax reliefs associated with the product and its payments in the particular market- charges and deductions (types and how levied)- the liability of the company offering the product in relation to guarantees <p>There is quite some variation in the amount of information provided in these documents, which can range from a couple of pages to over 20 pages in length.</p>	
Q2.	<p>A key features document provides a single, concise document containing all of the key information about the product and benefits, and its investments. It is a softer document than the contractual terms and conditions for example, and should therefore be more understandable to customers. This</p>	

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	helps to manage the customer's expectations regarding the product and how the product will fulfil the customer's needs, and the product's risk and reward profile, and can be a useful tool to reduce potential misselling.	
Q3.	Yes. FAQ by definition aim to answer the most commonly asked questions in a single, controllable format (control is important here). This provides a basic level of understanding and information to a potential customer before going into more detail during later stages of the selling process.	
Q4.	This varies depending on the country and regulation. The insurance company will normally send the customer a statement once a year containing information about the current value of the VA contract. The customer should be able to contact the intermediary or the insurance company to obtain further information. Information on the funds' performance would be distributed in various media, for example a national newspaper or the internet. Some insurance companies offer a "calculator" on their website which provides some additional information / calculation on potential performance.	
Q5.	<p>This is an important topic, as illustrations of potential payout are often a key decision factor for customers, which can also create expectations. As a minimum, providers should present three potential scenarios, e.g. unfavourable, medium (or most likely or best estimate) and favourable. Within these a balance needs to be struck between risk and reward. It is paramount that the scenarios presented do not mismanage customers' expectations, or unfairly distort their perception of the various investment options available.</p> <p>I would recommend one of two options to allow for the different asset allocations:</p> <ul style="list-style-type: none">- 1) the three scenarios could be chosen from a stochastic set, which would allow explicitly for the expected risk and return profiles of the different assets in its parameter settings and calibration. E.g. 1000 such scenarios could be created, and the mean (middle) scenario could be disclosed along with the 25th and 975th best scenarios after ranking.	

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	<ul style="list-style-type: none">- 2) The three scenarios could be run deterministically. A risk premium could be included for equity-oriented investment options within the three deterministic scenarios, but also a wider spread of outcomes, which would thus explicitly illustrate the greater expected range of returns for equity-oriented investment options. This could then fairly illustrate the greater risk and reward profile for equity-oriented investment options. <p>Either of the above options would fairly and reasonably manage expectations concerning the relative risk/reward profiles for different investment options.</p> <p>Perhaps a “worst-case” scenario should also be presented, which would show the minimum possible payout to customers (not including default of the provider).</p> <p>Scenarios should always include the effect of all charges on the potential payouts. For more information on the benefits of regulation in this area, including on the effect of charges and the reduction in yield, please refer to: http://www.fsa.gov.uk/pubs/other/cra_report_benefits.pdf</p>	
Q6.	See my response to question 5.	
Q7.	See my response to question 5.	
Q8.	Illustrations help to manage customer expectations regarding potential payouts by showing a reasonable range of potential payouts, including unfavourable ones. (Illustrations may therefore provide a level of protection against mismanaging expectations during the selling process.) This should help to reduce misselling.	
Q9.		
Q10.		
Q11.		

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Q12.	The selling process should be similar, but the selling practice can depend on the purpose of the product. The purpose of the product will inform the risk and reward profile of the customer, the customer's needs and the potential range of suitable products available to meet those needs.	
Q13.	See my response to question 12. The type of guaranteed minimum benefit offered should meet the evaluated needs of the customer.	
Q14.		
Q15.		