

**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:	AXA	
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 <b>Public</b> in the column to the right and by inserting the word <b>Confidential</b>.</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><b>Please follow the instructions for filling in the template:</b></p> <ul style="list-style-type: none"> <li>⇒ <u>Do not change the numbering in column "Reference", or any other formatting in the file.</u></li> <li>⇒ 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.</li> <li>⇒ 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"> <li>○ 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.</li> </ul> </li> </ul> <p><b>Please send the completed template to <a href="mailto:CP_007@eiopa.europa.eu">CP_007@eiopa.europa.eu</a>, in MSWord Format, (our IT tool does not allow processing of any other formats).</b></p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	<p>1. As a general matter, VA products are a "naturally transparent product" as by design all the fees are split out and disclosed to the client, very much unlike some other products (structured products or even conventional annuities) where the cost structure is completely opaque, which creates more opportunity for hidden fees and for falsely publicizing the product as "free". So in reality, at least</p>	

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	<p>from a cost point of view, VA products are already a lot more transparent than most investment products on the market.</p> <p>2. The combination of the complexity of VAs and the actual risk to the customer appears to be driving these changes to disclosure and selling practices. However, whilst VAs may employ relatively complex structures this does not necessarily equate to risk for the customer. In particular, the risk associated with offering guarantees is borne by the insurer, not the policyholder and we have not seen any evidence of consumer detriment in the EU from VAs. The level of risk to the consumer, as opposed to the technical complexity of the product should be used to gauge and establish which products really require greater levels of consumer protection.</p> <p>3. The EU Commission is currently consulting on the PRIPS directive and it is not yet clear whether VAs are in scope. The changes proposed by EIOPA would mean different disclosure practices for VAs which gives rises to concerns about inconsistencies should VAs fall out of scope of PRIPS and a lack of clarity about the best approach for selling and disclosure if they fall within scope. We are urging EIOPA to work more closely with the Commission to come up with a common approach.</p>	
Q1.	<p>A Key Features Document (KFD) such as described in the CP (a standalone, FAQ-type document describing the key features, benefits, and risks of the product) is used for our UK Variable Annuity products. This document contains information related to the following features and characteristics of the product:</p> <ul style="list-style-type: none"><li>• What is the Plan?</li><li>• Its aims</li><li>• Your commitment</li><li>• Risk factors</li><li>• Questions and answers about the Plan</li></ul>	

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- Who is this Plan offered by?
- What is a unit-linked investment Plan?
- Who is this Plan available to?
- How does the particular tax wrapper under which the Plan is offered work?
- What must I pay into the Plan?
- How are my Contributions invested?
- What is the Automatic Monthly Investment Option?
- Can I change how my money is invested?
- How will I know how my Plan is performing?
- What payments can be made from the Plan?
- What does it mean to say that the Plan offers a “guarantee”?
- How does the guarantee work and how is it calculated?
- What is the impact of partial surrenders on the guarantee?
- Is there a Charge for the guarantee?
- Can I surrender all or part of my Plan?
- How much will be paid if I surrender all or part of my Plan?
- What is the Free Corridor Amount?
- What about tax?
- What Death Benefit will be paid?
- How will the Death Benefit be paid?
- What Charges or deductions will be payable under the Plan?
- Can I change my mind about the Plan?
- What to do to make a complaint?
- Applicable Law

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- Communication
- Compensation
- Contacting Us

Although not in the same type of format, the Nota Informativa which we produce for our Spanish products contains similar type of information to what is described above. This document is in a table format with headings prescribed by the Spanish regulation, and contains information on the functioning and on any limitative clauses related to features, benefits and guarantees, charges, underlying investments, contract duration, modalities of surrenders, and fiscal treatment of the contract. At 11 pages long versus the 16+ pages in the UK, it is much easier to wade through and find relevant information.

In France, the inside front cover of the General Conditions contains the key, at-a-glance items about the contract, such as: Type of Contract, Benefits and Guarantees, Profit Sharing, Modalities of Surrenders, Fees, Contract Duration, and Beneficiary Designation. While not as detailed, it has the benefit of being just one page long, and covers the main characteristics of the contract and points to the relevant section of the General Conditions where more information can be obtained.

Therefore, while not in the same KFD-type format, a facility to convey the key information about the products exists throughout most European countries, and is a convenient way to convey the basic product information that a KFD would be capturing without creating additional documents.

Q2. The premise behind a KFD-type of document is the right one, in a sense that the KFD is supposed to contain the information about the product which is most relevant to the customer, and present it in a simplified, client friendly, and legal jargon-free manner. In reality, however, the document still ends up long and unwieldy, and with many disclaimers and legal details that are there in order to avoid any possibility of the information in the KFD being interpreted as not balanced or misleading. Therefore, while in theory such a document can be beneficial, in practice it becomes yet another

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	<p>mandatory regulatory document which the client is required to obtain. In addition, in markets where a standalone KFD does not exist, this will make Variable Annuity-type products less attractive to clients and distributors as it will create the impression that the products are so complex that they require a whole other document to contain all of its disclosures.</p> <p>Therefore, as long as country-specific disclosures and practices exist, a better approach would be to fold in the necessary information in a format that exists in each market. This will ensure that VAs do not appear as an aberration in terms of the disclosures required and will not make them less attractive compared with products of a similar complexity which will not be subject to such a KFD.</p>	
Q3.	<p>We have performed market research with consumers from the target segments for our Variable Annuity proposition in the UK. This research involved the customers reading and commenting on our Key Features Document and our Client Marketing Brochure. While clients appreciated the Q&amp;A format of the KFDs, the feedback unequivocally stated that:</p> <ul style="list-style-type: none"><li>• the clients perceive the KFDs as the “legal, mandatory, cover-your back” type of document and approach it as such</li><li>• the document is much more difficult to read and absorb than the Client Marketing Brochure which contains charts and other visuals explaining the product and its features</li><li>• the document is difficult to digest due to its containing only large blocks of text</li><li>• very few clients said that they would actually read it in reality</li></ul> <p>Given this feedback from a market where the KFD is a necessary document for any product, it is very doubtful that in markets where it would represent an additional regulatory requirement, and an additional document on top of the documents required by local legislation, requiring this type of document would actually lead to increased understanding of the product, regardless of whether it is in FAQ format or not.</p>	
Q4.	Most countries require that the insurer provide at least an annual statement to the client regarding	

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	the performance of their contract. We send an annual statement to the client, and, in addition, the client can request a policy valuation via his adviser anytime.	
Q5.	<p>The scenarios shown to clients in the product literature should be such that the functioning of the product can be clear to the customer. While showing at least a favourable and an unfavourable scenario makes sense, it is worth to keep in mind that these scenarios are shown either in a table or in a graph format, and our research has shown that customers have difficulties interpreting graphs and tables on their own. This is where the product being sold on an advised basis is key, as there are very few clients that can comprehend the functioning of the product and how the product might meet their needs just by reading the literature provided by the insurer. In addition, including multiple charts and/or graphs in the literature leads to a longer document, which increases the chance of the document considered inaccessible and intimidating to clients.</p> <p>A single scenario containing fluctuations in the underlying funds such that the client can see in one table or one picture how the product performs in an up vs. a down market should be sufficient to give a sense of the behaviour of the product under various market conditions. This is also a more realistic representation of what true market movements are likely to be (the market moves in cycles and never always upwards or always downwards and the products are designed to capture that variability and both protect the client from it but also take advantage of it.) Some qualitative descriptions about product performance in extreme market scenarios could complete the picture, or, alternatively, if the insurer has the means to provide an illustration of an unfavourable scenario, they should not have to include it in the core product literature.</p>	
Q6.	See answer to question 5. An unfavourable scenario should not systematically be required; however, if one has to be provided, a 0% flat return on the underlying funds (after the fund management fee has been applied) is a good one to use as it demonstrates the functioning of the guarantees but does not show consistently negative returns which could scare the client off and put the product at a disadvantage.	
Q7.	<p>The attempt to quantify the maximum risk taken by the customer and make that part of the illustration is ultimately dangerous and inefficient because:</p> <ul style="list-style-type: none"><li>• This is not required for any other product</li></ul>	

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- It will reduce the whole product to one number or one metric focusing on risk only and without a comparable metric regarding benefits.
- Most measures of risk such as standard deviation or percentiles, or distribution of returns are highly technical metrics which are not easily understood by clients.
- The risks the client takes in buying the product are much better explained in a balanced, qualitative way.
- Finally, the aim of illustrations should not be to illustrate the maximum risk the customer assumes but rather to give the customer sufficient explanations about the performance of the contract under a variety of growth return scenarios

Q8.

The benefits of illustrations are numerous:

- They are a bespoke document provided to the client and created and adapted to his/her circumstances, thus strengthening the sales process, and linking the contract back to the client's needs
- It allows the adviser and the client to have a conversation around the features, benefits, and charges of the product given certain growth rates

However, for the above to be true, and for illustrations to be indeed a useful document as opposed to just another regulatory requirement, it would be preferable that the following be in place:

- The illustrations should be clear, unbiased, and not misleading, and focus on explaining product functionality and providing an idea of the way the product would perform under given scenarios
- No metrics which are not required for other types of investment products should be required for variable annuities. Where particular metrics are required, their limitations should be explained. An example for this is the reduction in yield-type measure. While it is a decent indicator of the effect of all charges annualized and "smoothed over" a given duration, it has become the metric widely used to compare products. This greatly disadvantages VA products because it makes them look much less attractive due to the additional fee for the guarantee, but also because there is no metric in place to fully capture the benefits of the product – the

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	<p>RIY does not at all capture the fact that the product could provide longevity and death protection for example. In addition, different providers have different charges for different benefits which renders the RIY comparison invalid in those cases.</p> <ul style="list-style-type: none"> <li>• Appropriate growth rates should be used: While unreasonable growth rates or growth rates which are improbable given the underlying funds should not be used, the use of flat growth rates for every year of the illustration horizon is not appropriate for VA products. No underlying fund ever performs this way, so illustrations at a flat rate of x% are unrealistic both from a fund performance point of view, but also as it could misrepresent the product a bit (constant growth every year could mean, for example, that we will illustrate a ratchet occurring every year, which will not be the case in practice, or the client would never be shown how the minimum guarantee floor operates.) Using past returns or backtested returns using appropriate indices, appropriately disclosed and derived, should be allowed even in circumstances where in certain years the rates of return are above the minimum growth rate allowed by a jurisdiction.</li> </ul>	
Q9.	In all our markets, we sell the product through both proprietary channels (tied agents, salaried salesforce) as well as non-proprietary channels (banks, IFAs.)	
Q10.	We do not sell these type of products via direct sales. Due to their complicated nature, any direct distribution strategy will have to be carefully constructed in order to ensure that the client has as good a comprehension of what he/she is purchasing as if they had bought it as a result of an advised sale.	
Q11.	The sales, advice, and recommendation process is and should be the responsibility of the distributor. In any case, like with all investment products, a VA product should be considered in the context of the needs of the client and such a product should represent only a piece of a client's investment portfolio.	
Q12.	This only matters in so far as the product is being offered within a Pension Tax wrapper, because in such a case the adviser would need to be able to explain to a client how the guarantees work in the context of or within the mechanics of a Pension wrapper which can be much more technically	

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	complicated in some countries. But as far as the guarantee goes, whether the product is being proposed as an investment solution or as a specific retirement solution, there would be nothing different that would need to be disclosed or addressed during the sales process.	
Q13.	Obviously, with any guarantee being offered, the mechanics and functioning of the guarantee needs to be clearly explained to the client. Once this is in place, there is no need for any differences in selling practices based on the type of guarantee offered.	
Q14.	An insurance intermediary should present the product when the product is an acceptable solution to the client's needs.	
Q15.	We are against the introduction of responsibility on product providers to conduct due diligence in order to ensure advisers understand VA products. Duty of advice is and going forward should remain with the adviser and firm who employs him/her. Moreover, from a practical point of view, performing such due diligence on every intermediary a company sells through is practically unfeasible.	