	Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)	**Deadline 6 December 2018 23:55 CET**
Name of Company:	Allianz SE	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comments	• Allianz welcomes the willingness of the ESAs to analyze obvious shortcomings of the current PRIIPs KID concept and works on resolving those. • However, a fully fledged review is needed instead of selected quick fixes that may not work for all products and result in misleading information in order to achieve sound and material improvement. This should include careful evaluation of real life customer experience with KIDs. • Extension of the exemption for UCITS KIID by two years to allow for addressing	

	and fixing of raised concerns finds our support. • An expert working group should be established comprising representatives from all concerned product classes & associations, relevant regulatory bodies and SMEs from NCAs to discuss models & methodologies on e.g. TRX calculation, Performance Scenario (e.g. forward-looking stochastic models). • Consumer comprehensibility should be tested. The KID should not boost biased behavior. • Solutions/ methodologies should be preferred which work across the product scope. In best case, the chosen methodology works for the whole range of products. The methodology has to be versatile enough to yield meaningful results for long term as well as for short term products; for single payments as well as regular payments; market traded products as well as products where the retail investor is only indirectly exposed to the market. A fully consistent approach and presentation of risk indicator, performance scenarios and costs is essential to enhance comprehensibility & comparability for retail customers. The proposed changes in the consultation paper do not fulfil the above criteria. • Besides transparency and comprehensibility for consumers, comparability of all products is one of the cornerstones of the PRIIP regulation. However, past performance (which observes only one scenario) may not be available and suitable for many of the products in scope (see detailed section for examples). To evaluate potential product features it may be necessary to look at many different possible scenarios. This allows assessing how products could cope with and behave in diverse market scenarios. Provided comparability between all products remains one of the basic principles of the KID then past performance may not be a suitable	

	indicator. • In order to address all remaining issues a holistic review will be required.	
Q1	• Adding past performance does not solve the problem of potentially misleading future performance scenarios. While for some product types past performance is available and known to consumers as a concept (e.g. non-structured UCITS), past performance may not be available and meaningful for other products. • As mentioned in the general section, a holistic review will be required to assess the most valuable model and presentation. This may lead to different conclusions by product type. • Adding a further figure or a graphic presentation increases the complexity of the document. Adding further information can lead to a decrease in comprehensibility due to information overflow. Also other information might have to be presented with shorter narratives as there is a three page maximum. • Technical and organizational difficulties of including past performance in PRIIPs KIDs (e.g. for MOPs according to Article 10a) should be considered: Performance figures for the past 10 calendar years need to be included in the data delivery from asset managers to insurance companies. This would result in adding at least 10 fields in the European PRIIPs Template (EPT) file (in case of additional Benchmark returns further 10 fields are needed). Thus, the interfaces between asset managers and insurance companies would have to be adjusted accordingly.	

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Q2	As described in the consultation there is no clear definition of past performance for a lot of products in scope. For instance for options past performance might have no connection to current products. Also past performance might not be a general product feature but depend on contract details – e.g. in life insurance it might depend on in which year of the agreed upon duration the contract is.	
Q3	It is not clear how this approach would work for other products in scope. It is based on market values. Some products in scope are not market traded, e.g. most IBIPs. As already described in the consultation document a more holistic review is needed.	
Q4	• As mentioned before, we are in favor of a broad review and finding methodologies that work for all product types. Simulating past performance where no performance history is available may result in misleading figures and does not add valuable information to the customer. • Additionally: It might be difficult to understand the limitations of simulated past performance. The comprehensibility of the KID for consumers is an important cornerstone. • Past performance is not a good indicator for products which offer guarantees. Looking back guarantees often do not have a value as there is no uncertainty in the past.	
Q5	There is no approach to simulate past performance that is generally comprehensible and meaningful for consumers.	

Q6	Adding further explanatory text to increase transparency on the calculation of performance scenarios is a step in the right direction. It will help investors to understand that performance scenarios are influenced by past performance of the PRIIP and therefore cannot predict future performance.	
Q7	• Future scenarios anchored in the risk-free rate of return: This goes against two of the main principles underlying the PRIIP KID: comprehensibility and comparability. Using the risk-free rate of return creates scenarios which are very difficult for consumers to interpret, as they have no economic correspondence in the real world. There is no return for risk. Thus these scenarios might leave the impression that the product with the lowest risk is also always the best one. The moderate scenarios would be the same for all products except for the effects of costs. The scenarios do not properly differentiate between different products thus significantly restricting comparability. This approach misuses a technique from option pricing which is inappropriate for the consumer perspective on products which is very much a real world one. • Amended approach and presentation for future performance scenarios; only including favorable and stress scenarios: Might be misleading to average consumers for two reasons: If only two values are presented they are often misunderstood as upper and lower bounds of possible outcomes. Especially the representation as a funnel can reinforce this misconception. In addition, taking the stress scenario as lower bound doesn't seem to be reasonable as it is based on other assumptions / formulas than the "regular" performance scenarios. There are examples where it is even higher than the moderate scenario. A possible solution to reflect this fact properly, the favorable	

	and unfavorable scenario should be reflected as the upper and lower lines of the chart. The stress scenario could be added as a separate line in the chart. • Extending the historical period used to measure performance: As already stated in the consultation document market cycles can last 10 years or more. Therefore, the extension of the historical period used for the calculation of performance scenarios might help to flatten the results, however, it will not solve the overall problem of misleading performance scenarios.	
Q8	No other improvements. Any suggestions for improvements should be thoroughly tested across the scope for transparency, comprehensibility and comparability. This should include meaningful consumer testing of the current KID as well as drafts of KIDs with amended methodology.	
Q9	• Market risk measure calculation for regular investment or premium PRIIPs: We agree that current MRM formula cannot be used for regular payments, therefore we appreciate a clear statement on how this calculation should be performed. The industry found/agreed on two possible solutions and documented this in the (C)EPT. We recommend to support this approach as outlined in the (C)EPT as an intermediate solution until an in-depth review. The review should be aimed to find methodology that takes both single and regular premiums into account.	

One of the options in the following closed list to be used: LS - Lump sum, RP - Regular premium

The RTS only specify how VEV can be calculated for the single premium. The methodology for the regular premium is missing. Although it is left to manufacturers' discretion how to specify the VEV for regular premium, the following two methodologies can be used as approximations, provided there is no other clarification by the ESAs.

Method1:
Apply Cornish Fisher methodology for every regular premium as if it was a single premium with a respective remaining holding period (e.g. if the RHP=10, then the second premium of 1000 EUR will have holding period of 9 years). Calculate the sum at RHP which represents the Cornish Fisher distribution of the flow of regular premiums. Calculate the internal interest rate that stems from the pay-out at the RHP

Method 2:
For category 2: Between t and t+1: Choose a random number alpha in [0, 1]. Calculate a 1y yield distribution value that corresponds to the quantile alpha between t and t+1 applying the Cornish Fisher methodology. Add the next regular premium, repeat the procedure between t+1 and t+2.
Using this methodology 10000 paths and the corresponding percentiles are generated. The risk class is determined by calculating

$$V_T^{(2.5)} = \sum_{t=1}^{T} 1000 \cdot e^{r \cdot (T-t+1)}$$

where V^(2.5)_T is the PRIIP pay-out according to the 2.5% quantile of the distribution of the pay-out at the recommended holding period. The VEV is then calculated as:

$$VEV = \frac{\sqrt{3.842 - 2 \cdot T \cdot r} - 1.96}{\sqrt{T}}$$

The performance scenarios are determined according to Annex VI (12) and (13) RTS.

For category 3: Calculate V^(2.5)_T and VEV as above for determining the risk class.

- Narratives Summary Risk Indicator: We support the proposal to extend the length of the additional explanations to 300 characters in a first step. In general, it seems to be more appropriate to give the PRIIPs manufacturer more flexibility with regards to the length of text elements.

	• Narrative for performance fees: We strongly support the amendment to the narrative as outlined in the consultation as it allows to reflect all relevant performance fee models towards the customer. • Growth assumption for RIY calculation: RIY calculation should be consistent to the performance scenarios wherever possible. Depending on the cost structure the RIY can be quite dependent on the yield used to calculate it. Using the fallback value of 3% everywhere can create inconsistencies in the KID to the detriment of comprehensibility. This would be especially visible in the EURO-sums.	
Q10		
Q11		
Q12		
Q13		