

Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)

**Deadline
6 December 2018
23:55 CET**

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| Name of Company: | Assuralia, the representative body for mutual, co-operative and joint-stock insurance companies in Belgium since 1920 and represents more than 98% of the Belgian life insurance market (de Meeûssquare 29, 1000 Brussels, European Transparency Register nr. 0026376672-48) | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| <p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question or a cell, leave the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-18-005@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> | | |
| Reference | Comment | |
| General Comments | Assuralia would like to express its great concerns with this consultation. Changing the RTS on a short notice will bring along <i>huge compliance costs for the industry with little or no added value for the consumer</i> . The PRIIPs-legislation entered into force only this year and not enough time has been taken to thoroughly map the issues under discussion in this consultation and their possible corrections. Moreover, a complete review of the legislation is already foreseen for the future. It would be much more effective and efficient to await this complete review to proceed with a thorough analysis of the issues, to gather the necessary data and to work out viable solutions that | |

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| | <p>will stand the test of time.</p> <p>Assuralia would like to highlight that technical changes can have an impact on the IT-implementation of the PRIIPs KID. Changing the required data can have an impact on the negotiated agreements with our data suppliers or asset managers. But even changes to a short mandatory text can have a huge unintended consequence due to their impact on the layout of the document. Not to mention that several countries, amongst which Belgium, have more than one official language in which to publish the PRIIPs KID, which means that any narrative modification has an impact that has to be multiplied by the number of official languages used in a country. We would also like to bring to your attention that not all customers receive their documents in an electronic format. Any modification to the PRIIPs KID will force us to recall the paper versions that are used by our distribution channels and to replace them with new paper versions of the PRIIPs KID. This will certainly be costly, but can also create a liability issue: a distributor could mix up the different versions and inadvertently give the wrong paper version of the PRIIPs KID to a customer.</p> | |
| Q1 | <p>Assuralia advocates to only change the PRIIPs-legislation after a thorough and complete review of the legislation. Moreover, it is highly questionable whether modifications can be made to the prescribed content of the section on risk and return in the Regulatory Technical Standards (RTS), without changing the ground rules in art. 3 of the PRIIPs-Regulation.</p> <p>In the long term Assuralia suggests to <i>replace the forward looking return scenarios with historical returns</i>. Historical returns are purely factual information that cannot be contested. Though they do not have a predictive power regarding future returns, at least they give the customer an indication of the volatility of the product’s return and the quality of the management of the product. Combined with an appropriate warning regarding their lack of predictive power, the risk of misleading the customer is greatly diminished. Assuralia would like to highlight that this information is included in the UCITs KII and the legislator never saw the need to change this.</p> <p>In our experience forward looking return scenarios are very complicated to explain to a customer. This will not change with a modification of the methodology used to create these scenarios. Moreover, any forward looking return scenario can be criticised for being either too robust or too</p> | |

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| | <p>volatile, and for misleading customers (whether you give a probability or just a hypothesis, customers understand any return you present to be the actual return they will receive). It should also be noted that full comparability of future performance scenarios will never be attained due to different recommended holding periods of products.</p> <p>If changes are to be made and a forward looking return scenario is to be maintained in the KID, Assuralia prefers to <i>keep the current scenarios and supplement them with historical returns</i>. The current scenarios have their downsides just as any other future performance scenarios, but at least they are already implemented and manufacturers and distributors have already begun to get familiarised with them. However, we ask to bear in mind the 3 pages limit that needs to be respected. Therefore, we suggest to opt for one single graph representing both past and future performances.</p> | |
| Q2 | <p>Yes, there are <i>challenges to include past performance information for structured products</i>. However, it is impossible to provide an ideal solution for these products within the current short timeframe. It seems logical to treat them somewhat differently, since they are not completely comparable to other, open-ended PRIIPs.</p> | |
| Q3 | <p>Assuralia agrees that it is <i>appropriate for information on past performance to be based on the approach currently used in the UCITS KII</i>. Assuralia would like to highlight that the UCITS KII has been in place for a number of years now and the legislator never saw the need to change its approach on past performance.</p> | |
| Q4 | <p>Yes, it seems <i>appropriate to apply the same rules on simulated returns as foreseen for the UCITS KII</i> as this legislation has been in place for a number of years and the legislator never saw the need to change its approach.</p> | |
| Q5 | <p>It seems <i>appropriate to apply the same rules on simulated returns as foreseen for the UCITS KII</i> as this legislation has been in place for a number of years and the legislator never saw the need to change its approach.</p> | |
| Q6 | <p>Shortening the narratives is a positive evolution. However, the fact that there are problems with the comprehensibility of the narratives accompanying the future performance scenarios shows there's a more fundamental problem with the comprehensibility of future performance scenarios in themselves. Assuralia advocates to <i>replace future performance scenarios with historic returns</i></p> | |

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| | <i>as a more fundamental solution.</i> | |
| Q7 | <p>It does not seem necessary to show all four future performance scenarios. However, showing just the stress scenario and the positive scenario seems too radical. The stress scenario is based only on a very short data interval and as such is not a very representative (but rather an extreme) outcome for a product. It seems useful to <i>always show at least the neutral scenario as well.</i></p> <p>Would it be decided to show historic returns alongside future performance scenarios, <i>both sets of data should be made as coherent as possible to show a comprehensible continuum of returns.</i> If future performance scenarios are shown as cumulative returns, the same should be done for the historic returns. The same remark is valid for the costs to be taken onboard in each set of returns.</p> <p><i>An extension of the historical period</i> used to measure performance could be an option, though it should remain feasible and create a real added value. However, we agree with the conclusion set forward in the consultation paper that this modification does not necessarily resolve the issues related to potentially overly positive expectations as to future returns. Assuralia is in favour of replacing future performance scenarios with historic returns that give factual information to a consumer rather than uncertain possible future outcomes. In case this replacement is being made we don't see an objection to showing longer historical periods, if available and relevant.</p> | |
| Q8 | <p>If future performance scenarios are to be combined with historic returns Assuralia advocates a <i>uniform graphic representation of past and future performance to show a comprehensible continuum of returns.</i> Preferably, this should be done within one graph in which a clear distinction is made between the historic returns and the future performance scenarios, through for example a cut off line. However, the inclusion of a benchmark as shown in the example in the consultation document will not always provide an added value. The UCITs KII only requires the illustration of a benchmark where the investment policy refers to such a benchmark.</p> <p>If a graph is being chosen then the axes need to be defined to ensure comparability between products (at least within different product groups).</p> | |
| Q9 | <p><i>Market risk measure (MRM)</i> calculation is indeed an issue for recurrent premium payments. However, premium payments are not mandatory for a consumer. As such every insurance PRIIP</p> | |

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can be considered to be a single premium product. It seems logical to treat all products the same way and to always assume a single premium payment for the calculation of the MRM. You also have PRIIPs on the market that provide both options. How could it be explained to a customer that depending on his choice to pay a single or recurrent premium we calculate the risk differently?

Assuralia sees several advantages of using a fixed *growth assumption for the calculation of the reduction in yield (RIY)*:

- It will make cost information more comparable;
- It produces more 'neutral' cost information for products with high return volatility;
- It is compatible with the option to replace the future performance scenarios with historical returns (see a.o. our answer to Q1). If, however future performance scenarios are to be kept alongside this methodology, the information in the PRIIPS KID becomes even more confusing as a consumer will be confronted with five return scenarios (or six, if it's an insurance PRIIP) that are used in different parts of the PRIIPs KID.

Other minor amendments:

Assuralia would like to warn that amendments that seem minor to the ESA's could in fact have a material impact on the cost of compliance. Assuralia would like to reiterate its general comment: Technical changes, however minor as they seem, can have an impact on the IT-implementation of the PRIIPs KID. Changing the required data can have an impact on the negotiated agreements with our data suppliers or asset managers. But even changes to a short mandatory text can have a huge unintended consequence due to their impact on the layout of the document. Not to mention that several countries, amongst which Belgium, have more than one official language in which to publish the PRIIPs KID, which means that any narrative modification has an impact that has to be multiplied by the number of official languages used in a country. We would also like to bring to your attention that not all customers receive their documents in an electronic format. Any modification to the PRIIPs KID will force us to recall the paper versions that are used by our distribution channels and to replace them with new paper versions of the PRIIPs KID. This will certainly be costly, but can also create a liability issue: a distributor could mix up the different

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| | versions and inadvertently give the wrong paper version of the PRIIPs KID to a customer. | |
| Q10 | If everything from the UCITs Regulation is being added to the PRIIPs KID it will be very challenging to respect the 3 page limit. However, it is not sure yet that UCITs will already fall under the scope by the end of 2019. Assuralia therefor recommends to take the time for a thorough analysis of the different requirements in the UCITs Regulation before deciding what to take onboard. | |
| Q11 | <p>Assuralia does not agree with the conclusion under chapter 5.1.4 ‘Analysis of costs and benefits’ of the consultation document that states the following: “ The current PRIIPs Delegated Regulation already requires PRIIP manufacturers to review the content of the KID at least every 12 months. Therefore, in general terms, amendments to the PRIIPs Delegated Regulation to be applicable from 1 January 2020, which would require PRIIPs manufacturers to review and revise the content of their KIDS during 2019, would not necessarily result in a significant additional burden.”</p> <p>It is true that PRIIP manufacturers have to review the content of their KID every 12 months, but the conclusion of such a review can very well be that the content of their KID does not need to be changed.</p> <p>Assuralia would like to reiterate its general message Technical changes, however minor as they seem, can have an impact on the IT-implementation of the PRIIPs KID. Changing the required data can have an impact on the negotiated agreements with our data suppliers or asset managers. But even changes to a short mandatory text can have a huge unintended consequence due to their impact on the layout of the document. Not to mention that several countries, amongst which Belgium, have more than one official language in which to publish the PRIIPs KID, which means that any narrative modification has an impact that has to be multiplied by the number of official languages used in a country. We would also like to bring to your attention that not all customers receive their documents in an electronic format. Any modification to the PRIIPs KID will force us to recall the paper versions that are used by our distribution channels and to replace them with new paper versions of the PRIIPs KID. This will certainly be costly, but can also create a liability issue: a distributor could mix up the different versions and inadvertently give the wrong paper version of the PRIIPs KID to a customer.</p> | |

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| Q12 | It is not feasible for our industry to collect exact cost data regarding the inclusion of information on past performance on such short notice. Moreover, the costs will depend on the exact policy option that is being chosen: are we to add past performance alongside future performance, in one graph or both illustrated separately, for all products or only a category of PRIIPs, ... In any case Assuralia refers to its general comment on the compliance costs of making changes ahead of the complete review of the legislation. | |
| Q13 | At least the cost for translation has not been addressed in the consultation document: several countries, amongst which Belgium, have more than one official language in which to publish the PRIIPs KID, which means that any narrative modification has an impact that has to be multiplied by the number of official languages used in a country. | |