Report on the PRIIPs survey

Scope of respondents and main features of the corresponding markets

15 AAE member associations responded to the survey, among which14 in countries that were subject to Priips regulations: Austria, Croatia, Cyprus, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Portugal, Spain.

Guidance from either local authorities or national professional bodies has only been issued for one in two countries. This proportion may seem small given the complexity of the standard and the many questions raised to translate it correctly by adapting it to very diverse markets (in particular for products with general fund backing). In several cases, exchanges took place between professional organizations and supervisors.

Members underline that there is a real difficulty with the wording, due to the fact that there may be some national specificities for the insurance products, but also because of the cross-sectoral approach. This is confusing for consumers and professional. As a result it is difficult to comply. In certain aspects, in particular performance scenarios, regulation raises concerns and could largely miss its goal (see below).

Category 2 Priips (investment funds) and category 4 Priips (profit-sharing products) are the most common in the vast majority of countries. Category 3 funds (whose values reflect the prices of underlying investments, but not as a constant multiple of the prices of those underlying investments) are widely used in only half of the countries.

Multi options products (MOPs) are sold in all countries except one.

Surprisingly enough, the introduction of the documents generated little or no consumer reaction in the various countries. The effect on the consumers seems to be very low. At least in some countries, where the existing legal documentation is better suited and more valuable for the consumers, the Priips regulation had no effect. Nevertheless, discontent consumers could use the document in order to sue their insurers, leading to a significant risk.

Market Risk Measure and Credit Risk Measure (MRM and CRM)

The MRM for UCIT-type funds was calculated using the RTS formulas (from the data history) or using the SRRI given by the managers. The lack of consistency between these two measures is highlighted. Other issues are raised concerning the search for proxies for funds with too short a history.

A majority of markets selected a CRM of 2 mainly based on the Solvency II application and most often a look-through analysis has been implemented. However, some have directly applied the ratio of 3 for regulated insurers.

Recommended holding period (RHP)

The choice of a recommended holding period also shows a real heterogeneity. In several countries, the existence of a fiscal reference allowed a unified approach. The reference to regulated regimes could also be used for typical periods of detention. But even for relatively identical vehicles (such as euro funds), the holding periods used may have been very different. Moreover, for one country where very short term products are sold, several actors have decided to present amounts at the real RHP (3 days, 3 months, 9 months, ...) while other ones have chosen to express everything at 1 year. In that case, returns are very difficult to understand for investors (we find example presenting returns of 10000%, ...). The ESA's recently addressed partly that point in the last issue of the Q&A.

Some markets (a little over a third) have defined one or more standard profiles, mainly when the product characteristics depended on age (biometric premium, retirement maturity). Others were unable to reach consensus.

Performance scenarios

Performance scenarios are one of the most contested aspects of regulation.

They are deemed misleading by many stakeholder. Therefore, some did introduce a supplementary warning, but this has been reported only in three countries. In the other countries, the problem may have been less sensitive or the insurers may have considered the wording prescribed by the RTS as fully and strictly compulsory.

The calculation of performance scenarios for the general account responses make little reference to the Solvency II model, but several countries apply it, as invited by the RTS. One country did not use Solvency II for the general account since it deemed it not well suited because the Solvency II model is only calibrated for 1 year. In some countries a market standard has been established, in others no instructions have been given. It appears that the scenarios probably give rise to heterogeneity of treatment.

Performance scenarios are one of the main sources of concern. They pose problems of consistency with the simulations that can be given to the consumer and even with similar approaches already in place in some countries and are considered misleading by several AAE associations because of their construction. At least two associations issued a warning that he projected investment returns may understate the risk attached to certain products for new investors. Not only is the 5 years period likely to be too short to contain a full investment cycle but it currently only references the rising markets from 2013 to 2017 for many asset classes, ignoring the fact that markets can experience periods of prolonged weakness. For this reason, the projection of what are labelled favourable, moderate and unfavourable future investment scenarios may be unduly optimistic for certain investment funds, and this may mislead consumers as to the risks they are exposed to and the investment returns they are likely to achieve.

Costs

The expense structure is deemed not clear for 8 countries. Among difficulties :

- Entry and exit costs at the level of the product that must be expressed as an annual impact in the table of the composition of costs. The way to present those costs on an annual basis and depending on the RHP of the product seems to be misleading for clients, particularly for MOPs.

- In the same country, several actors may have different methods for the calculation of costs (additive methodology vs multiplicative methodology) or allocation between on-going and one-off costs that lead to difficulties on comparability.

- Moreover, there is a wide range of approaches regarding the transaction costs linked to investment funds that also lead to results difficult to compare. Data quality of asset managers is a source of concern. In particular, transaction costs are often missing or implausible. Sometimes they are negative which is difficult to explain to consumers.

There was no guidance from the supervisor or industry (10 countries) on the issue of cost allocation. As regards the inclusion of the biometric premium, its inclusion in the 1000 € (regular premium) or 10000 € appears to be widely applied (the point was addressed, after the issue of the regulation, in the ESA's Q&A). The definition of the "invested amount" is less clear in some countries.

In practice, at least 2 methods for the calculation of costs are used: the additive methodology and the multiplicative methodology. However, the RTS are not clear on that point and don't speak about one or other method.

As regards costs, the fact that the measurement of costs, in amount or in reduction in yield depends on performance poses difficulties in several situations (general account, performance fees, lack of comparability when the performance varies...). The ESA's recently addressed partly that point in the last issue of the Q&A.

MOPs

Most MOPs are treated using a generic KID (option 10.b of the RTS), especially in countries where MOPs are very widespread. Specific disclosure is more diverse: some insurers have produced their own specific disclosure documents, even when these were external funds. On markets where MOPs with unit linked are very common, in most cases, if UCITS KIID were available, the insurance companies have used them. In other countries, they produced their own KIDs or, within a country, both approaches have been observed.

With regards to the disclosure of costs for MOPs, complying to the regulation, the total cost are included in the generic KID to establish the necessary transparency. In most countries, in the case of external funds (UCITs) the specific KID describes only the external asset management costs. But in the case euro funds or funds backed by the general account, the specific KID of the euro fund may only present costs linked to the euro fund or general account fund (and costs linked to the insurance contract are only considered in the Generic KID) or in other countries the specific KID may include the costs of the insurance contract too.

Of course, due to the coexistence of two level (the insurance contract and the underlying investment options), the RHP raises specific issues for the MOPs.

European Commission intends to conduct a market survey to determine whether online calculator tools which allow the retail investor to compute the aggregate costs and fees of PRIIPs are available. In none of the responding countries does such a calculator exist.