

EIOPA - European Insurance and Occupational Pensions Authority

Joint Discussion Paper on Key Information Documents (KIDs) (JC/DP/2014/02)

BdV-Comments (sent to EIOPA, February 2015)

- Q6, p. 32: Do you think that performance scenarios should include or be based on probabilistic modelling, or instead show possible outcomes relevant for the payouts feasible under the PRIIP but without any implications as to their likelihood?

Performance scenarios should always be based on probabilistic modeling.

- Q 7, p. 32: How would you ensure a consistent approach across both firms and products were a modelling approach to be adopted?

In order to ensure a consistent approach, "historical" data should be added. A good example is the data of long-term development of guaranteed interest rates and of surplus participations related to "classical" German life insurances. Additionally back-tests should regularly be published by the insurers.

- Q 8, p. 32: What time frames do you think would be appropriate for the performance scenarios?

Related to insurance products the appropriate time frame depends on the duration of the contract (normally 10, 12, 20 or 30 years for life insurances and annuities).

- Q 9, p. 35: Do you think that performance scenarios should include absolute figures, monetary amounts or percentages or a combination of these?

KIDs for insurance products should always include absolute figures (especially guaranteed amounts and performance scenarios of surplus / benefits.) Related to life insurances and annuities, the guaranteed amounts are more important than the performance scenarios of more or less probable benefits.

- Q 10, p. 35: Are you aware of any practical issues that might arise with performance scenarios presented net of costs?

Yes, practical concerns are related to distribution channels. Distributors with their face-to-face contacts to the customers must never omit the costs of the products they sell. Costs reduce the amount actually invested (investment part of premium) from the very beginning of the contract, consequently even with an excellent “intrinsic performance” of the chosen PRIIP the maturity value will considerably be reduced at the end of the product life-cycle (by effect of compound interest). In new categories of PRIIPs the maturity value may additionally be reduced by performance fees.

- Q 11, p. 35: : Do you have any preferences in terms of the number or range of scenarios presented? Please explain.

Instead of a predetermined number or range of scenarios, we propose the mandatory use of the Monte Carlo simulation for PRIIPs.

- Q 12, p. 40: Do you have any views, positive or negative, on the different examples for presentation of a summary risk indicator? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

No exceptions should be made for life insurances and annuities with regard to the presentation of a summary risk indicator. This presentation has to be equal for all other PRIIPs. The options proposed on pages 37 to 39 in the Discussion Paper are strongly welcomed by us.

- Q 13, p. 44: Do you have any views, positive or negative, on the different examples for presentation of performance scenarios? Please outline advantages and disadvantages, and provide any other examples that you are aware of that you think would be useful.

Again we propose the mandatory use of the Monte Carlo simulation for PRIIPs (cf. comment 11). Probabilistic modeling should always be included.

- Q15, p. 52: Do you agree with the description of the consumer’s perspective on costs expressed in the Key Questions?

We propose adding these factors to the key questions: one-off/single acquisition costs and ongoing administrative costs (related to key question 5: how do costs impact on my returns?). The “classical” capital life insurance contracts in Germany (more than 80 million contracts) are calculated by the zillmerisation method, therefore the entry fees are particularly high. Following to German law

these costs have always to be presented by absolute monetary amounts. Additionally the ongoing development of surrender values should be presented.

- Q16, p. 59: What are the main challenges you see in achieving a level-playing field in cost disclosures, and how would you address them?

Additionally to ongoing costs of administration and of capital investment (as for pure saving products), insurance products include biometric costs. This special feature does not only represent costs, but may be a source for additional benefits for the insurers, too (depending on the more or less “prudential” calculation of life expectancy). That is reason, why these costs have to be disclosed aiming at a level-playing field amongst all categories of PRIIPs.

- Q 17, p. 59: Do you agree with the outline of the main features of the cost structures for insurance-based investment products, structured products, CfDs and derivatives? Please describe any other costs or charges that should be included.

Yes, we agree. Associated with life insurances and annuities not only entry, administrative and investment fees are important, but exit fees and biometric costs are particularly relevant for consumers. Mainly biometric costs do not have to be disclosed until now. Therefore the mandatory disclosure of all categories of costs is all the more important.

- Q 19, p.59: Do you agree with the costs and charges to be disclosed to investors as listed in table 12? If not please state your reasons, including describing any other cost or charges that should be included and the method of calculation.

In Germany there are more than 80 million contracts of capital life insurances and annuities, which almost all are calculated according to the zillmerisation method. That is the reason, why entry or acquisition fees (as costs category) have to be included as well as biometric costs of life annuities. The early redemption costs are already included. They are particularly important, because more than 50% of life insurance contracts are cancelled before reaching maturity.

- Q 20, p. 61: Do you agree that a RIY or similar calculation method might be used for preparing ‘total aggregate cost’ figures?

In contrast to “fair value” (for structured products) and to “total expense ratio” (for open-ended funds), “reduction in yield” (RIY) might be used for preparing

“total aggregate cost” figures. But why should RiY be used for investment funds, if there is already a common calculation method of costs? RiY itself has to be seen in a very critical way: costs are calculated in relation to yields or returns, which are only probable, but the costs are always fixed. Therefore we propose as alternative and transparent reference parameter for costs the global sum of all payments or premiums by the customer (retail investor or policy holder). Besides RiY is only valid, if the contract is not cancelled before reaching maturity.

- Q 21, p. 61: Are you aware of any other calculation methodologies for costs that should be considered by the ESAs?

The reference parameter for costs should be the global sum of all payments or premiums by the customer (as retail investor or policy holder). Ongoing payments or premiums are like constant costs for the individual customer, which regularly reduce his income and therefore have to be taken into consideration by him very exactly.

- Q 22, p. 22: Do you agree that implicit or explicit growth rates should be assumed for the purpose of estimating ‘total aggregate costs’? How might these be set, and should these assumptions be adjusted so as to be consistent with information included on the performance scenarios?

Yes, we fully agree that implicit or explicit growth rates should be assumed for the purpose of estimating total aggregate costs. Only this assumption can prevent from any kind of mis-leading information for consumers. Additionally we stress that the same parameters and methods (related to total aggregate costs) shall be used for all categories of PRIIPs.

- Q 25, p.72: What do you think are the key challenges in standardising the format of cost information across different PRIIPs, e.g. funds, derivatives, life insurance contracts?

Standardisation of format must not hinder the disclosure of particularly important costs categories like entry, exit or biometric costs. There should be a mandatory provision that related to specific categories of PRIIPs certain costs categories have always to be disclosed (in the case of insurance products these are entry, exit and biometric costs at least).

- Q 26, p. 72: Do you have a marked preference or any objection for any of the presentational examples? If so, why? Please provide any alternative examples which you believe could be useful.

We propose a possibility of choice amongst several tables and graphics. The mandatory use of texts and graphical presentations should be clarified by implementing technical standards prepared by ESAs.

- Q 27, p. 72: In terms of a possible breakdown of costs, are you aware of cost structures for which a split between entry or exit costs, ongoing costs, and costs only paid in specific situations or under specific conditions, would not work?

Until now a breakdown of costs was not possible only for very few insurance products. Transparency of costs is essential for consumers aiming at an “informed” investment decision or conclusion of contract (cf. our comments to questions 16, 17 and 19). If the breakdown of costs structures is not possible in some exceptional cases, the manufacturer should be obliged to publish a transparent explanation of the reasons.

- Q 30, p. 74: Do you have any views on the identity information that should be included?

Yes, we fully agree.

- Q 31, p. 76: Do you consider that the criteria set out in recital 18 are sufficiently clear, or would you see some merit in ESAs clarifying them further?

Yes, we fully agree.

- Q 32, p. 78: Do you agree that principles on how a PRIIP might be assigned a ‘type’ will be needed, and do you have views on how these might be set?

Yes, we fully agree.

- Q 36, p. 80: Do you have views on the information PRIIPs manufacturers should provide on consumer types?

Life insurances and annuities are contracts mostly with an agreed duration of several decades. But statistics show that in Germany more than half of the contracts are cancelled before reaching maturity. The reasons, why consumers do not have available anymore the necessary financial means fulfilling the ongoing premiums and therefore have to cancel, differ very much:

unemployment, divorce, disability, indebtedness etc. Therefore the information on “investment horizon” should obligatorily be complemented by the hint that regular income and sufficient savings for emergency cases will have to be available for the consumer in the long term.

Related to experience and knowledge expected of the consumer, additional information should be given on the complexity of the product. An obligatory link should be established between the degree of complexity of the product and the necessary knowledge and experience of consumer enabling a transparent and informed investment decision.

- Q 37, p. 81: What is the key information that needs to be given to the retail investor on insurance benefits, and how should this be presented?

The key information to be given on insurance benefits are sum insured at death and benefit on survivance (lump sum or annuity). Additionally it has to be clarified which kind of capital guarantee is promised (traditional ongoing surplus, simple reimbursement of premiums, constant interest rate if reaching maturity etc.).

- Q 38, p. 81: Are you aware of PRIIPs where the term may not be readily described, or where there are other issues?

Related to life insurances and annuities the calculated due date has always to be clearly fixed in the contract (last payment of premium by the policy holder, begin of payouts by the insurer as well as period of deferment or of maturity).

- Q 39, p. 82: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

Following to the German law there has to be an explicit hint to the mandatory compensation scheme for life insurers (Protector). If such a national compensation scheme exists, such a hint should obligatorily be given in the KID.

- Q 40, p. 83: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

In Germany there are more than 80 million contracts of capital life insurances and annuities, but more than half of these contracts are cancelled before reaching maturity. That is the reason why early redemption costs have to be considered as an unacceptable detriment of consumers. We propose a mandatory disclosure of this costs category (cf. comment 19).

- Q 41, p. 84: Are you aware of specific challenges arising for specific PRIIPs in completing this section?

Following to the German law insurers have to publish a mandatory hint to the ombudsman where consumers can address complaints. There are even two ombudsmen: one for insurances in general, the other specialized on health insurances. If such a national ombudsman exists, such a hint should obligatorily be given in the KID (as well as for the complaints handling by the national supervisory authority-NCA).

- Q 42, p. 84: Do you agree that this section should link to a webpage of the manufacturer?

Yes, we agree (under the prerequisite that the official and contractual documents are strictly separated from any kind of marketing material).

- Q 43, p. 86: Do you agree with the assessment of when PRIIPs might be concerned by article 6(3)?

Yes, we agree upon the intention not overloading the KID. But there should be a deep link where the supplementary pre-contractual information can be found. In this case customers should have a prolonged period of withdrawal from the contract (enabling a comprehensive informed investment decision).

- Q 44, p. 86: In your market, taking into account the list of criteria in the above section, what products would be concerned by article 6(2a)? What market share do these represent?

Particularly German life insurers are very innovative in offering ever more divergent promises of capital guarantees. Therefore consumers have to be informed in a comprehensive way on the various options of the guarantees (and under which circumstances these guarantees will be lost!).

- Q 45, p. 86: Please provide sufficient information about these products to illustrate why they would be concerned?

A good example for these various new capital guarantees is "Ergo Rente-Garantie", distributed since 2014, including three options of capital investment (investment fund for shares, investment fund for bonds and reinsurance).

- Q 46, p. 90: Do you have views on how you think the KID should be adapted for article 6(3) products, taking into account the options outlined by the ESAs?

Broad narrative descriptions should be overruled. We propose a possibility of choice amongst several examples and ranges. The mandatory use of texts and graphical presentations should be clarified by implementing technical standards prepared by ESAs.

- Q 49, p. 94. Do you agree with the measures outlined for periodic review, revision and republication of the KID where 'material' changes are found?

Yes, we agree that for clarifying the scope of "material" changes, the ESAs will have to submit additional draft regulatory technical standards for periodic review, revision and republication of KIDs.

- 50, p. 94: Where a PRIIP is being sold or traded on a secondary market, do you foresee particular challenges in keeping the KID up-to-date?

Equally strict provisions in keeping the KID up-to-date have to be valid related to any kind of secondary markets as for the original manufacturers and their distribution channels.

- Q 52, p. 94: Are there circumstances where an active communication model should be provided?

An active communication model should always be obligatory for life insurers, if the general terms and conditions of contract change. An example being essential for an informed investment decision of the consumer is the change of mortality table during the duration of the contract.

- Q 53, p. 96: Do you agree that Recital 83 of the MiFID II might be used as a model for technical standards on the timing of the delivery of the KID?

Yes, we agree to draft regulatory technical standards developed by the ESAs clarifying in detail, what does it mean providing KID "in good time" to the customers by the distributors.

- Q 54, p. 96: Are you aware of any other criteria or details that might be taken into account?

We propose that the future regulatory technical standard will have to overrule again and definitely the specific German insurance distribution practice, the so-called "Policen-Modell". This implies that the policy holder receives his complete contractual documents only after having signed the contract offer. After having received the contractual documents the contract enters automatically into force, and the period of withdrawal lasts only 14 days. Related to this issue in December 2013 the European Court of Justice published an important decision.

- Q 55, p. 98: Do you think that the ESAs should aim to develop one or more overall templates for the KID?

Yes, we propose that ESAs should develop templates for KIDs related to every category of PRIIP. The experience in Germany with obligatory "product information sheets" ("Produktinformationsblätter") shows since 2008 that insurers develop various types of presentation and content of these "KIDs". Despite of mandatory provisions consumers do not understand the given information.

- Q 56, p. 100: Do you think the KID should be adjusted to reflect the impact of regular payment options (on costs, performance, risk) where these are offered? If so, how?

Yes, particular hints to adjustments of costs related to single and ongoing payments are very important. Life insurance contracts always include the option for monthly instead of annual payments which increase costs significantly. Life annuities on a single premium basis should have a mandatory singular KID.