



Society of Actuaries in Ireland

PRIPs are coming: no KIDding

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21.10.14

Introduction

- New European PRIIPs legislation & associated issues for life insurers
- PRIIPs Working Party
 - Colin Murray (Chairman)
 - Emma Hutchinson
 - Karl Murray
 - Julie McDonald
 - Mark Maguire
 - Paul McMahon

Disclaimer:

The material, content and views in the following presentation are those of the presenter(s).



PRIIPs Working Party – Terms of Reference

The European Parliament and the Council of the EU have reached an agreement on the proposed Regulation on key information documents (KID) for packaged retail investment and insurance based investment products (PRIIPs). The Regulation will introduce a pan-European, pre-contractual disclosure document for packaged retail products and insurance based investment products (PRIIPs), which is one component of a wider package of reforms on the regulation of PRIIPs, complementing those in MiFID2 and IMD2.

The PRIIPS Working Party will:

- **Research and summarise recent developments on PRIIPs and present this to SAI members at a CPD event in the coming months.**
- **Provide feedback on behalf of the SAI to any AAE/CBI/ESMA consultations.**
- **Meet once every two months to monitor developments in PRIIPS over the next year.**
- **Present an update on PRIIPs developments to members at a CPD event in 2015.**



Agenda

- **What's a PRIIP?**
- **New legislation**
- **Current disclosure requirements**
- **KID**
- **Review**
- **Complaints procedure**
- **Regulatory landscape**
- **Issues**
- **Further information**
- **Next steps**
- **Questions & answers**



What's a PRIIP?

Packaged **R**etail and **I**nsurance-based **I**ntegrated **P**roduct

- Important core of the retail investment market in the EU
- Range of products with common features
 - Combine exposures to multiple underlying assets
 - Deliver capital accumulation over med- to long-term
 - Entail a degree of investment risk
 - May provide capital guarantees



New legislation - where are we?

EC was requested in 2007 to review coherence of law relating to retail investment products

EC first proposal published 3 July 2012

Compromise Level 1 text published April 2014

Agreement between trialogue parties and adopted by EP on 15 April 2014

Still need Council to adopt

EC stated it expects KIDs to be in place by end 2016 in practice

Awaiting Level 2 & 3 detail – draft RTS from ESMA, EBA and EIOPA for EC approval



New legislation – why was this done?

- PRIIPS are frequently complex and difficult to understand
 - Lack of consumer awareness of the scale/nature of risks
 - Investments which are not well-suited to needs
- Existing provisions/rules vary by industry and country
 - Impedes the development of a single market
 - Comparing different investment products is not easy



Current disclosure requirements – general

- European and national regulation on packaged products exists but needs improvement
- Inconsistencies & gaps exist between rules in different countries and industries
 - Increased administrative costs
 - Risk of regulatory arbitrage
- KID will sit alongside & strengthen existing requirements



Current disclosure requirements

- Europe

MIFID & IMD

- Product governance & distribution of investment products
- MIFID II & IMD II

Prospectus Directive

- Adopted in 2003
- Prospectus document for newly issued securities
- Sets out risk factors
- Will continue to apply

Solvency II Directive

- Information to be supplied to life insurance policyholder
- Includes general & specific information

UCITS Directive

- Adopted in 2009
- UCITS accompanied by a KIID



Current disclosure requirements - Ireland

2001 Provision of Information Regulations

Information provision to policyholders
prior to signing a proposal form and at
policy cooling off stage

SAI Guidance

(ASPs LA8 & LA9)

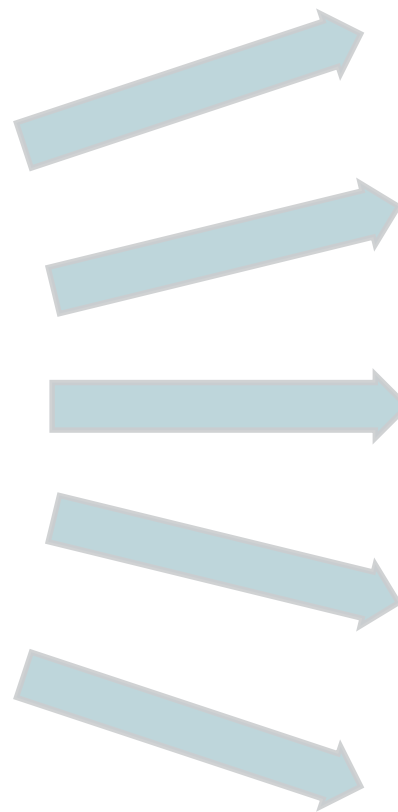
2012 Consumer Protection Code (CPC)

General requirements
for information
provision to consumers
of financial services



KID - aims

Enhanced
transparency,
disclosure &
consistency



More informed
investment decisions

Easy
comparisons

Increased consumer
confidence

Reduced losses

Supervisory & regulatory
convergence



KID - presentation

- Stand-alone document
- 3 page maximum
- Title and purpose
- Initial information
 - Name of PRIIP
 - Date of KID
 - Manufacturer information
 - Comprehension alert



KID - presentation

- Specified sections
 - What is this product?
 - What are the risks and what could I get in return?
 - What happens if Manufacturer X is unable to pay out?
 - What are the costs?
 - How long should I hold it and can I take money out early?
 - How can I complain?
 - Other relevant information
- Technical standards to ensure consistency



KID - language

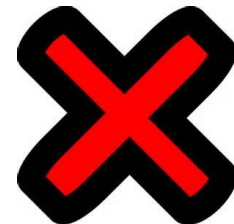


**Clear &
understandable
language**

**Financial
jargon**



**Complex
terminology**





KID – responsibilities

- **Ultimate responsibility**
- **Possible delegation**
- **Includes any entity that makes changes to PRIIP**
- **No contradictions in marketing material**

1. Manufacturer

- **Regular review**
- **Possible revisions**
- **Conditions detailed in technical specifications**

2. Seller/Advisor

3. Retail Investor

Provided to retail investor by person selling/advising on a PRIIP



KID - provision

- Before any contractual obligation
- Directly to retail investor
- Exceptions
 - Provide to a delegated third party
 - Provide after the transaction



KID - provision

- Provision on paper
 - Default option for face-to-face offer
- Provision using another durable medium
 - If appropriate in the context of the business conducted
 - Retail investor has chosen that other medium over paper
- Provision by means of a website
 - If appropriate in the context of the business conducted
 - Retail investor has chosen website provision over paper
 - Retail investor has been notified of website address and where to access KID
 - Previous versions provided on request
 - KID remains accessible
- Conditions for provision covered in technical standards



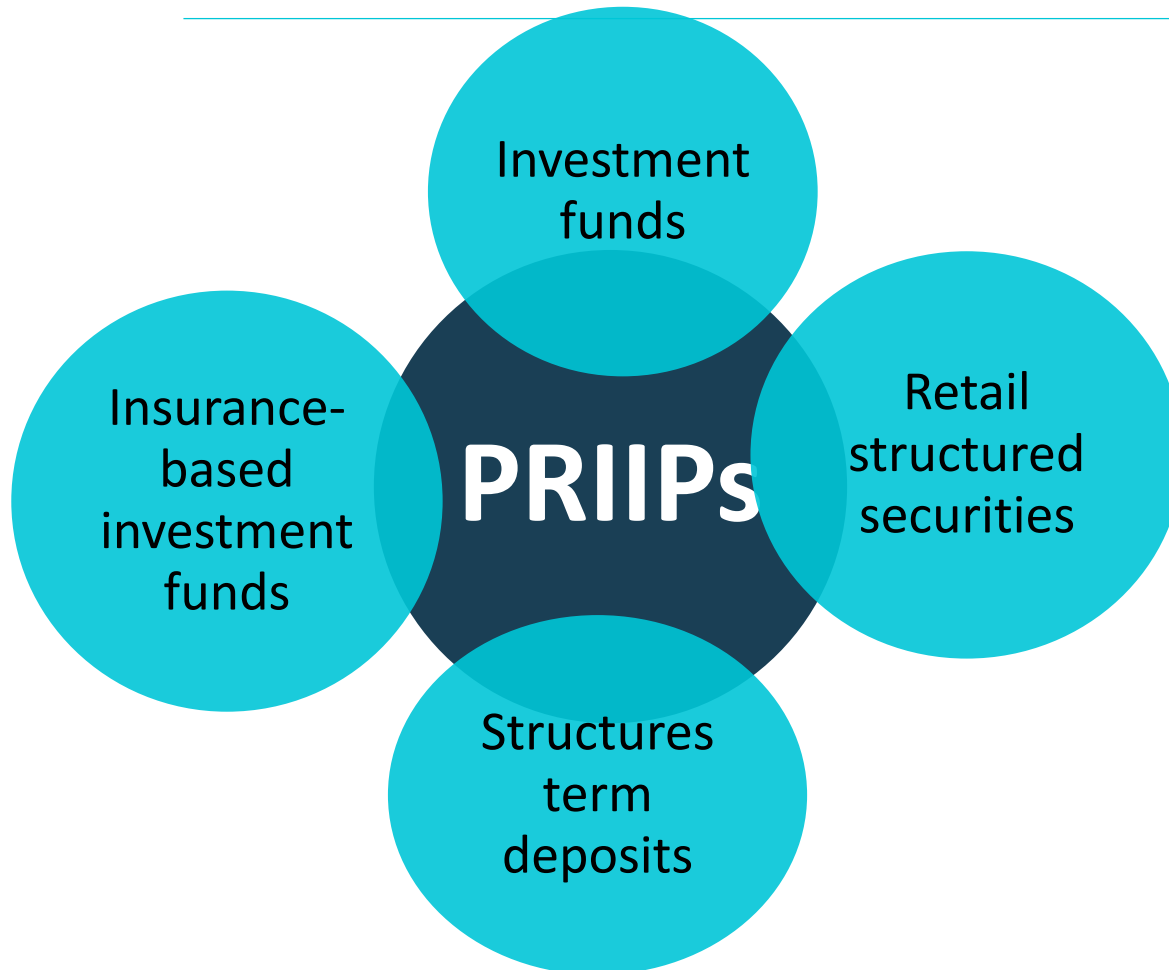
Provided upon request and free of charge



Regular access to the internet???



KID – products covered





KID – products excluded

Insurance products without investment opportunities



PRIIPs

Deposits exposed solely to interest rates



Assets held directly, not packaged or insurance-based



Investment funds for institutional investors



Recognised pensions products



UCITS





Review

- After four years
- Surveys:
 - Of the operation of the comprehension alert
 - Of retail investors understanding of PRIIPs & the comparability of PRIIPs
 - Of the practical application of the rules
 - Investment product calculators
- Introduction of explicit label for social and environmental investments?
- Treatment of UCITS?
- Extension of the scope/elimination of certain exemptions?
- Conditions for review set out in technical standards



Complaints procedures

- PRIIP manufacturers & those advising on or selling a PRIIP shall establish appropriate procedures and arrangements to ensure that:
 - Retail investors have an effective way of submitting a complaint
 - Retail investors will receive a timely response in a proper manner
 - Effective redress procedures are available to retail investors in the event of cross-border disputes



Regulatory landscape

NCA application of the rules

- Integration with existing rules
- ESAs have certain powers (ESMA, EBA, EIOPA)
- Ex-ante notification

Extension of MIFID II product intervention powers to cover PRIIPS

- Powers to restrict sales – extension of MIFID requirements to insurers
- Generally last resort

Potential impact of investment product calculators to be developed by regulatory authorities

- Difficulties in comparing charges
- Cost measure – Total Expense Ratio, Reduction in Yield?

Sanctions

- Manufacturer could be liable under national law if a loss occurred due to information in a KID
- Onus on the manufacturer
- Considerable monetary fines



Issues

UCITS experience

PRIIPS implementation

Benefits?

Challenges

Costs

Outlook



UCITS experience

Introduced in 2008

Implementation 2011

Huge volume of KIIDs

More work than expected

Relatively successful

- Generally easier because funds sold as standalone
- Avoids complications with wrapper structure



UCITS KIID example

STATE STREET GLOBAL ADVISORS.

Key Investor Information

Similar PRIIPS requirement

This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.

SSgA EMU Index Equity Fund (the "Fund"), a sub-fund of

State Street Global Advisors Index Funds. This Fund is managed by State Street Global Advisors France S.A., part of the State Street Corporation.

Share Class: P Shares (ISIN FR0000018087)

OBJECTIVES AND INVESTMENT POLICY

Investment Objective

The objective of the Fund is to track the performance of the MSCI EMU Index (the "Index") as closely as possible. The Fund aims for the tracking error to be less than 1%.

MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

Investment Policy

The Fund is classified as a euro zone Equity fund.

The Fund seeks to track the performance of the Index. The Index is a benchmark of the performance of all the shares listed in the countries of the euro zone. The Fund generally invests at least 90% of its assets in the securities included in the Index. The Fund may invest up to 10% of its assets in negotiable debt securities, money market instruments or shares of other mutual funds. The Fund may also hold a portion of its assets in cash.

The Fund seeks to hold all the securities of the Index with the approximate weightings as in that Index. The Fund will use a physical

replication strategy to create a near mirror-image of the Index. In limited circumstances the Fund may purchase securities that are not included in the Index. Depending on regulatory or market constraints, the Fund will use an optimisation strategy to build a representative portfolio. Consequently, the Fund will typically hold only a subset of the securities included in the Index.

The Fund may lend up to 100% of the securities it owns.

The Fund may use financial derivatives (that is, financial contracts whose prices are dependent on one or more underlying assets) in order to manage the portfolio efficiently.

Shareholders may redeem shares on any dealing day both in France and in Germany. Any income earned by the Fund will be retained and reflected in an increase in the value of the shares.

The Fund may not be appropriate for investors who plan to withdraw their money within five years.

The Fund's shares are issued in Euro.

Please refer to the prospectus for more information.



UCITS KIID example

RISK AND REWARD PROFILE



Risk Disclaimer

The risk category above is not a measure of capital loss or gains but of how significant the rises and falls in the Fund's return have been historically.

For example a fund whose return has experienced significant rises and falls will be in a higher risk category, whereas a fund whose return has experienced less significant rises and falls will be in a lower risk category.

The lowest category (i.e., category 1) does not mean that a fund is a risk free investment.

As the Fund's risk category has been calculated using historical data, it may not be a reliable indication of the Fund's future risk profile.

The Fund's risk category shown is not guaranteed and may change in the future.

Why is this Fund in this category?

The Fund is in risk category 6 as its return has experienced very high rises and falls historically.

The following are material risks relevant to the Fund which are not adequately captured by the risk category.

Index Tracking Risk: The Fund's performance may not exactly track the Index. This can result from market fluctuations, changes in the composition of the Index, transaction costs, the costs of making changes to the Fund's portfolio and other Fund expenses.

Liquidity Risk: It may be difficult for the Fund to buy or sell certain investments in difficult market conditions. Consequently the price obtained when selling securities may be lower than under normal market conditions.

Counterparty Risk: Other financial institutions provide services to the Fund, acting as a counterparty to financial derivative transactions. There is a risk that these institutions may not be able to perform their obligations. This could reduce the value of the Fund's investments.

Please refer to the prospectus for full details about the risks associated with this Fund.



UCITS KIID example

Key Investor Information

STATE STREET GLOBAL ADVISORS.

CHARGES

The charges you pay are used to pay the cost of running the Fund, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

One-off charges taken before or after you invest

Entry charge	2.00%
Exit charge	none

This is the maximum that might be taken out of your money before it is invested (entry charge) or before the proceeds of your investment are paid out (exit charge).

Charges taken from the Fund over a year

Ongoing charge	0.68%
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Charges taken from the Fund under certain specific conditions

Performance fee	none
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The entry and exit charges shown are maximum figures. In some cases, you might pay less – you can find this out from your financial advisor or distributor.

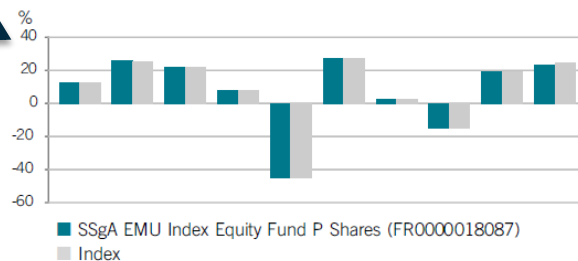
The ongoing charges figure is based on expenses for the year ending December 2013. This figure may vary from year to year. It excludes:

- Portfolio transaction costs, except in the case of an entry/exit charge paid by the Fund when buying or selling units in another fund.

Please be advised that you may be subject to additional charges when entering and exiting a Fund such as an anti-dilution levy.

For more information about charges and information about other share classes, please refer to section "Fees and Commissions" of the prospectus.

PAST PERFORMANCE



Past performance is not a guide to future results.

The past performance shown here takes account of all charges and costs. The entry/exit charges are excluded from the calculation of past performance.

The Fund was launched in November 1998.

The Class P Shares were launched in November 1998.

Past performance has been calculated in Euro and is expressed as a percentage change in the Fund's Net Asset Value at each year end.

10 year performance history



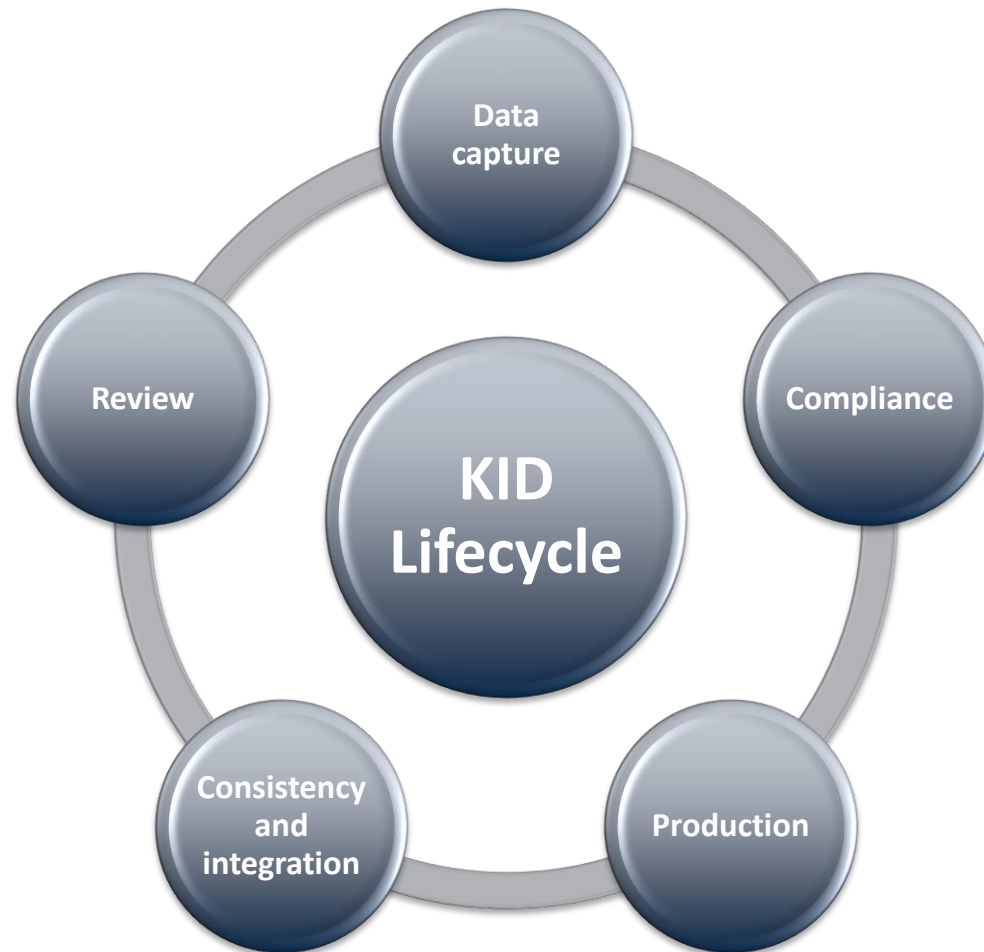


UCITS KIID content

- Can reference other material
- Typical comments
 - “This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.”
 - “The risk category above is not a measure of capital loss or gains but of how significant the rises and falls in the Fund's return have been historically.”
 - “The following are material risks relevant to the Fund which are not adequately captured by the risk category.”
 - “The charges you pay are used to pay the cost of running the Fund, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.”
 - “The past performance shown here takes account of all charges and costs. The entry/exit charges are excluded from the calculation of past performance.”



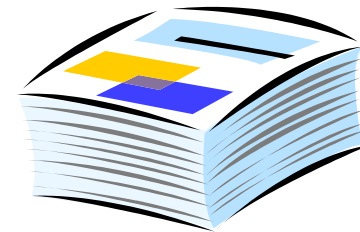
PRIIPS implementation





Project management – data capture

- Scoping
- Existing literature
 - Contractual, marketing, website, fund factsheets, application forms
 - Consistency across KIDs
 - Umbrella PRIIPS
- All fees
 - Entry/exit, ongoing, indirect
 - Look through
- Risk/reward structure
 - UCITS based on historic volatility
 - Structured UCITS based on 99% VaR at maturity
- Past performance
 - 10 years?
 - No past performance for structured funds but minimum of 3 scenarios





Project management – compliance

Product/funds coverage

- Separate fund KIDs?
- Identify non-pensions
- Unit-linked protection
- Dynamic investment strategies



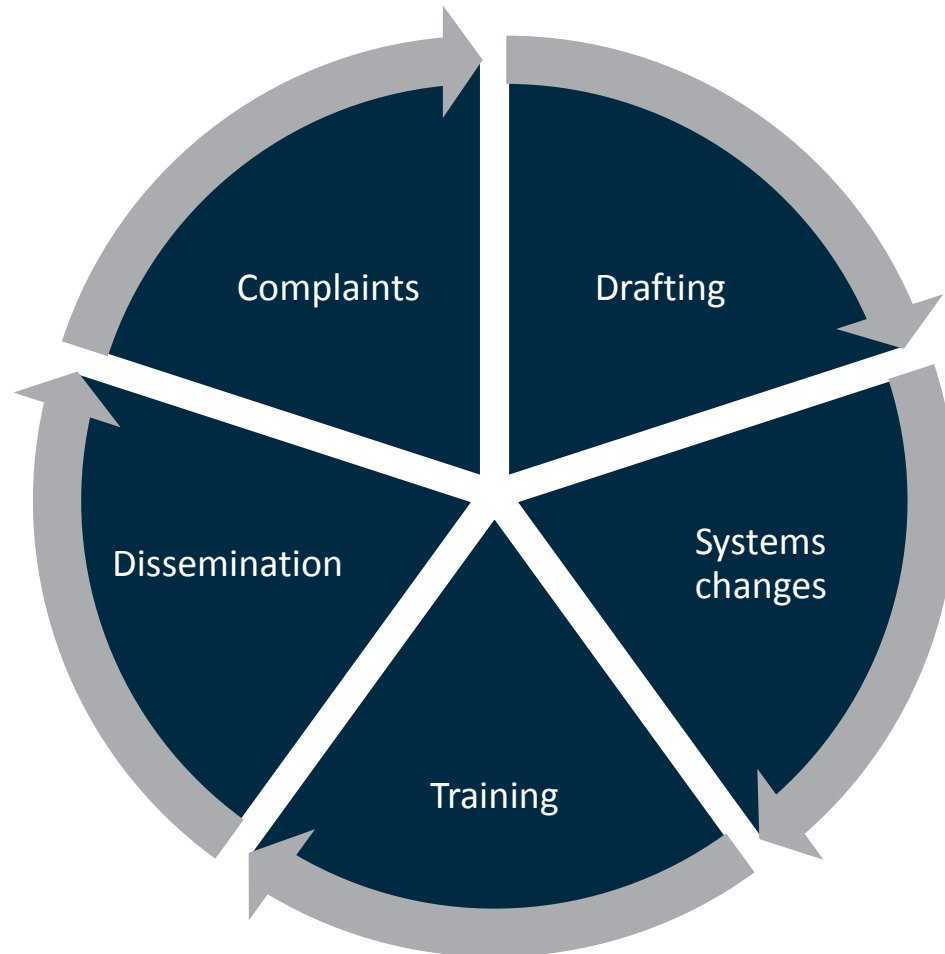
Compliance with layout and content requirements

- Covering all the content
- Definition of risk/reward measure
- Look through of all costs
- Plain language
- Social or environmental effects





Project management – production





Project management – lifecycle

- Product development & review cycle
 - PRIIPS implementation project & governance
 - Need to adapt existing processes
 - Sign-off
- Risk rating committees
 - Independent investment research companies already provide fund ratings (e.g. MoneyMate, Morningstar)
- Examples of what could prompt a review?
 - Change of fund manager or investment strategy
 - Performance out of line with risk indicator – for UCITs monitored against prior 4 months
 - Downgrade in counterparty
 - Change in liquidity position of investments





Project management – consistency and integration with other disclosures

- Disclosure regulations/CPC
 - Irish companies used to plain language docs
 - Review of actuarial guidance?
- Contractual material
 - Life company responsible if KID inconsistent or misleading
- Regulatory conflicts & contradictions
 - Will any existing requirements change?
 - Will Level 2/3 contain requirements on scenario projections?





Benefits?

Based on
consumer field
studies

Complements
measures on
sales process -
IMD

Build confidence;
10 trillion euro
market

Lower costs for
crossborder
(standardisation)

Reduction in
prices due to
increase in
comparability?



Challenges

- Automation
 - Lessons learned from UCITS production is that revisions are often necessary and must be planned for
- Provider vs manufacturer
 - When is a PRIIP fundamentally changed by a provider?
 - Delegation doesn't remove responsibility
- Overseeing distribution
 - May need to update distribution agreements





Challenges

- Using plain language
- Standardisation – lack of flexibility
 - more misleading than useful?
 - undue influence of risk indicator?
 - avoiding conflicts with other documents
- Lack of level playing field with other forms of investment
- Changing investment strategies





Costs



Drafting costs

- Cover off in normal product review cycle?
- EC impact study estimates 7.5% increase in product disclosure costs
- Plain language
- Review and accuracy
- Outsource

Systems changes

- Version management
- Data feeds and alerts
- Data storage – historical performance (10 years), risk measures
- Ongoing maintenance of KIDs – change management (ad-hoc and regular)
- Dissemination & confirmation of receipt

Training & distribution costs

- Salesforce & distributors
- Streamline distribution flow
- Removal of out of date KIDs

Printing costs

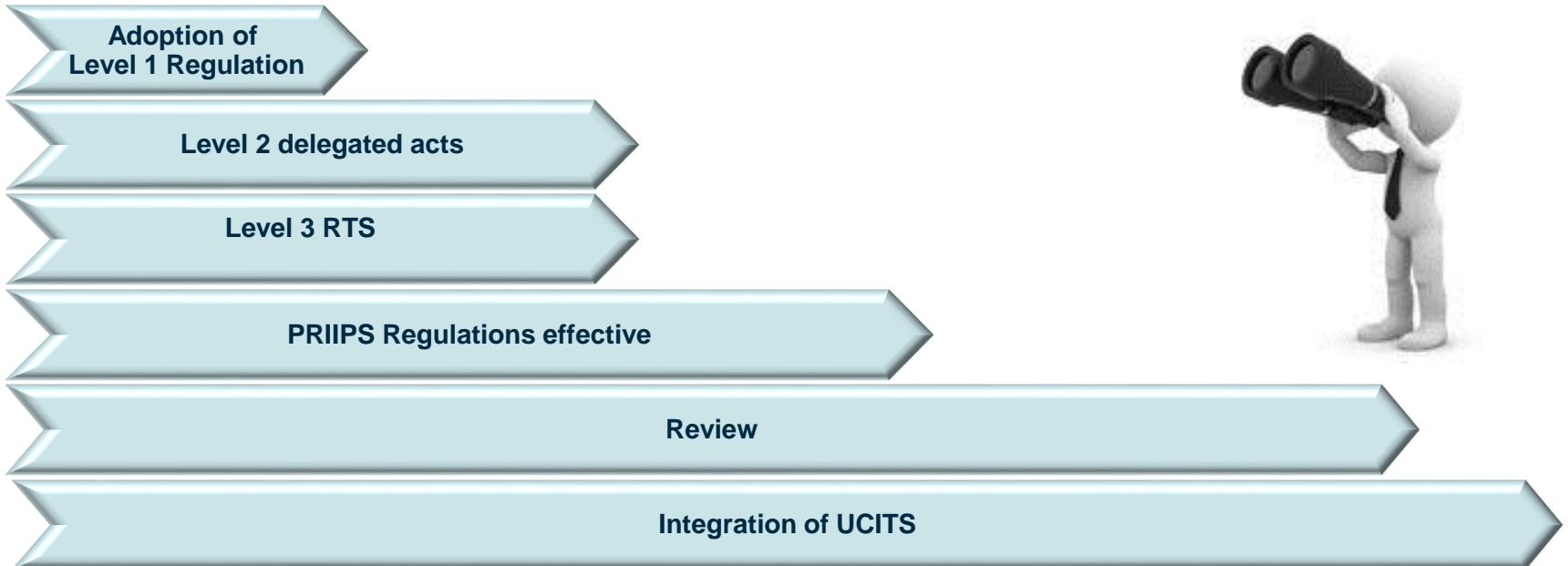
- Free of charge, in paper upon request
- Multiple languages

Sanctions

- Monetary – up to €5m for a company or €700,000 for individuals
- Reputation – name & shame



Timeline





Outlook

- Rationalisation of fund offerings
- Influence of risk/reward measure on customer attitudes
- Repricing or repositioning of products
- Development of non-PRIIPS?
- Favour PRIIPS over other investments e.g. direct holdings of shares, bonds, bank deposits
 - Over focus on short term versus long term investments?
 - Illusion of simplicity
- Introduce product design rules (akin to UCITS)?
 - Limit eligible assets
 - Rules on derivatives





Further information

- Where to get further information
 - [Commission website](#) (including the regulations)
 - [Impact assessment](#)
 - [EIOPA website](#)
 - [request for advice on delegated acts](#)
 - CBI
 - [Undertakings for Collective Investment in Transferable Securities \(UCITS\) – Publication of a Key Investor Information Document, July 2011](#)
 - [2010 EC report on Consumer Decision-Making](#)





Next steps

- PRIIPS working party will be responding to consultations over the coming months
- Another update to members in 2015



Questions & Feedback

- UCITS experience
- Real benefits?
- Actuarial Guidance
- Outsourced service providers

