Comments

by the German Insurance Association[1] (ID 6437280268-55)

on the Consultation Paper on "CESR´s technical advice at level 2 on the format and content of Key Information Document disclosures for UCITS" (Ref.: CESR/09-552) and "Addendum" on this Consultation Paper (Ref.: CESR/09-716)"

A) Background

- As has already been mentioned in our comments on the "CESR Consultation on technical issues relating to Key Information Document (KID) disclosures for UCITS", we comment on the current consultation paper because the KID is to be used within the scope of the PRIPs initiative of the Commission as a benchmark for brief customer information. We consider this initiative to be reasonable and would like to provide useful input. Unfortunately, so far, the development of the KID apparently took place without taking account of this benchmark function[2]. Therefore, the insurance industry was in no way involved in the development of the KID. Although it is true that the consultation refers to level 2 measures, by responding, we take the opportunity to make ourselves heard before the benchmark "KID" will be finalized.
- GDV supports the Commission's objective of high-quality and efficient customer information. It seems impossible, however, to transfer the KID for UCITS one-to-one to insurance products. Given the benchmark function assigned to the KID we consider it necessary to comment on the proposals of the consultation paper. In this respect, we bring forward some fundamental remarks on selected issues included in the consultation paper rather than addressing the concrete questions. Moreover, we encourage decision makers to consider some alternative approaches which may, in our opinion, be superior with regard to the criteria "effectivity of customer information" and "intersectoral comparability".

Gesamtverband der Deutschen Versicherungswirtschaft e. V.

German Insurance Association

Wilhelmstraße 43 / 43 G, D - 10117 Berlin
PO Box 08 02 64, D - 10002 Berlin
Phone: +49 30 2020-5000
Fax: +49 30 2020-6000

60, avenue de Cortenbergh
B - 1000 Bruxelles
Phone: +32 2 28247-30
Fax: +32 2 28247-39

Contact:
Theo Tremmel
Actuarial Unit
E-mail: t.tremmel@gdv.de

Dr. Wilhelm Ruprecht
European Office
E-mail: w.ruprecht@gdv.de
www.gdv.de

[1] GDV is the umbrella organization of private insurers in Germany. Its 452 member companies with 226.000 employees and trainees offer comprehensive risk protection and provision for both private households as well as for trade, industry and public institutions by means of 431 million insurance contracts. GDV pleads for a regulatory framework which allows insurers to fulfil their tasks in the best possible way.

[2] This is how we understand the section on "applicability to other products" in the consultation paper.

B) General remarks

- The focus in all areas is placed too heavily on past observations, which should play only a minor role for the investment decision of the customer. From the historical data of a fund, only insufficient statements on future developments and their costs can be derived, which can lead to serious misunderstandings. The consideration of historical data and the derivation of certain information from such data is clearly overrepresented and should be given considerably less weight. Historical data should be used, if at all, for validation. This is especially true since within the scope of the PRIPs initiative the focus is expressly on medium- to long-term savings products. The longer the saving horizon of a customer, the less significant is information on past performance. Considerations on future performance, which have considerably more informational value for the customer, are only addressed incidentally in the KID. Therefore**, for all issues addressed (risk and reward disclosure, performance presentation, charges) the focus should be placed on considerations on future data.**
- In our point of view a separate description of the performance and the charges of a PRIP offers only a limited use. For the customer the main interest is the future performance after costs ("cost-performance ratio"). Most customers will not be able to deduce from a list of charges how they influence the performance. Consequently, **a combined view of charges and performance should be considered**.

Specifically, we propose the following approach, which avoids the shortcomings mentioned above:

By means of stochastic simulations, it is possible to point out the risks and reward in consideration of the calculated charges comprised in the product. as the cost burden to be expected in the future, which is far superior to any description based on past performance.

GDV strongly recommends the **following principles as appropriate for the description of prospective returns/ benefits** :

- The capital market assumptions needed for the calculation of prospective benefits should be identical for all providers.
- The assumptions made by individual companies for different products have to be made in a non-arbitrary way in order to be plausible. They have to be disclosed.
- Possible returns should be indicated "after costs". This means that starting from the performance of the underlying investments all costs (explicitly or implicitly) charged are deducted ("**gross**

method"). This also comprises the costs of the guarantees included, irrespective of the way how these are "produced". However, in the case of life insurances, the description should be restricted to the capital accumulation element, i.e. the premium elements for risk coverage have to be deducted.

- The risk-return profile of the product has to be made comprehensible in an appropriate way. In this respect, it should be dealt with the uncertainty as to the maturity benefit to be achieved (keywords: planning uncertainty, pension shortfall) on the one hand and with fluctuations during the contract period (keywords: investor stress, saving discipline) on the other.

Apart from simulations, a qualitative consideration of the product is of importance as well. It is imperative, from our perspective, to reserve the term "capital guarantee" for guarantees which are backed by strong solvency requirements.

C) Comments on selected subjects

1. Risk-return profile (Section 5: Risk and reward disclosure and Addendum)

- The respective statements in the consultation paper have a basic shortcoming: they primarily concern risk and neglect return. For instance, the classification derived from historical volatility is no risk-return indicator, but only a risk measure[3]. The new VaR-based methodology for the computation of volatility relevant for structured and other comparable funds is maybe more appropriate for these special funds. Nevertheless it is also a pure risk measure. Approaches for description of the risk-return profile which are, from our point of view, more appropriate are to be found in Section 7 ("Past performance presentation") and Section 14 ("Structured funds, capital protected funds and other comparable UCITS").
- From the investor's point of view, two "stochastic" processes are particularly relevant: on the one hand, fluctuations during the term of the contract ("investor stress") and, on the other hand, the "uncertain" maturity benefit ("pension shortfall. The volatility of investments plays here an important, though not the only role. Therefore, more sophisticated measures are required to obtain significant descriptions.
- As far as the subject of "investor stress" is concerned, it is worth considering whether annual fluctuations in performance during the term of

[3] See page 74 of the consultation paper: "The choice of Risk Measure: Historical Volatility."

the contract should be presented on the basis of simulations, like in the chart on page 40 in Section 7 (though not on the basis of considerations of past performance).

- In particular, a risk-return presentation should not be made on the basis of historical data because this has only little benefit for the customer and may lead to misjudgement. As mentioned above, stochastic simulations should be taken as a basis. Under Option B in Section 14 the consultation paper provides for a more appropriate approach with regard to the distribution of possible maturity benefits with the description of a condensed probability distribution of possible returns at maturity.
- We are aware of the fact that this type of presentation is clearly more complex than the envisaged one-dimensional risk-return ratio. However, the possibility of representing the two aspects of “return” and “risk” adequately in a one-dimensional ratio should be ruled out from the outset. This too simple presentation will inevitably provoke misunderstandings with the customer:
  - The lowest risk class is identified with risk-free investment.
  - The positive aspect of “return” is not perceived by the customer.

  The study on UCITS Disclosure Testing has shown that such risks of misinterpretation are not only potentially existent, but actually exist: “It is clear that among some investors there is very patchy knowledge of how investment funds operate and this can lead them to interpret aspects of the KII as offering some form of capital guarantee. …For less experienced investors, any mention of risk regarding investments has a tendency to be taken to mean extreme or high risk. Many do not have a framework for assessing how much risk is present or indeed how much they may need to accept for a higher potential reward. As a result respondents tend to focus very much on the “risk” aspect of the “risk and reward” section.” (cf. p. 150 of the mentioned study)
- The supposedly simple risk-return ratio entails a number of subsequent technical problems:
  - In defining the “buckets” one has to choose between two unsatisfactory options – either the classification is not sufficiently stable or it is inadequately selective.
  - This problem then causes further “contortions”, such as the definition of a “migration rule”.
  - For certain UCITS a complicated derogation has to be defined (Section 14 or Addendum). Particularly, with a view to the PRIPs initiative this is unsatisfactory. One objective of the initiative is in-

tersectoral comparability between financial products. A benchmark which is not even able to ensure a uniform procedure within a single sector - here: UCITS – is certainly unsuitable.

- In the Annex[4] examples of usage are enclosed for the approach for presentation of the condensed probability distribution of possible returns at maturity, from which the advantages of our proposal become apparent:
  - Very good capability of differentiation between different product classes: the differences between a product with a fixed partition of investment in classical life insurance and unit linked life insurance (In German ”Statisches Hybrid”) and a product with a flexible partition of investment (”CPPI-Hybrid”) are clearly apparent.
  - At the same time, common features become apparent in the risk-return profile also with products which appear very different “at first sight”: both products involving CPPI management and variable annuities (VA) have a significant cash-lock risk, which means that only capital maintenance (=guaranteed benefit) is achieved at maturity.
  - It is apparent that a mere description of benefits does not suffice, but has to be complemented by an indication of the risk-return profile. For instance, if for products involving CPPI management, for the sake of simplicity, constant growth rates of share prices are presumed, this involves that within the scope of the prospective calculation a proportion of shares equals always 100 %. The above-mentioned cash-lock risk is thus completely ignored. Without any qualification by a risk-return description referring to the whole holding period over-optimistic results were given.
  - No “problem of migration”; shifts within the bar charts have a less serious effect than a switch between two risk classes.
- The processing of the results in the Annex differs from Option B in Section 14 on the following points:
  1. Greater differentiation
  2. Absolute return figures instead of relative benchmark of “risk-free interest”
  3. Graphic instead of tabular presentation

  These, however, are differences in the details, which may be resolved in a pragmatic way.

[4] Extracts from a talk given at the 2009 Spring Conference of the German Actuarial Society (Deutsche Aktuarvereinigung).

- To achieve intersectoral comparability, numerous stipulations are required for this procedure. In this respect, the method described in Annex 4 raises concerns. Any detailed treatment of these concerns/comments, which are more of a technical nature, would go beyond the scope of our present comments. Therefore, we will confine ourselves to the following remarks here: In particular, the approach of risk-free measure should be questioned because it assumes that all investors are risk-neutral, which is definitely not the case. Furthermore, the focus is on the future benefit here, while for pricing and hedging it is on the current fair valuation of an investment. A statement on the future development of the investment cannot be made appropriately by means of a distribution generated from the risk-neutral measure of probability.

2. Past performance presentation (Section 7: Past performance presentation)

- The method described above in section 1 allows very good differentiation between “product classes“. For any differentiation within a certain class it is too coarse. For instance, it does not provide customers with an orientation regarding the question: Should I opt for unit-linked life insurance of company A or B? Therefore, from our point of view, it is necessary to complement the indication of the risk-return profile by a performance description.
- As mentioned above, the proposals in the consultation paper rely too heavily on the past. The very detailed limitations with regard to past performance calculations are futile if at the same time there are practically no restrictions concerning the interest rates to be used for future performance calculations. In the case of two-digit growth rates, immense assets are generated over long periods of investment, which may essentially influence the customer‘s decision to conclude a contract. Therefore, the focus must be placed to a greater extent on future performance calculations. Historical data should be used, if at all, for validation.
- Occasionally, attention has been called to risks in terms of liability law to which future performance calculations are said to lead. Indeed, when presenting future non-guaranteed benefits, it has to be ensured that no misunderstandings arise on the part of the customer. However, this problem can be solved fairly easily by means of explanatory texts to this effect. The reformed German Insurance Contract Act (*Versicherungsvertragsgesetz* - VVG), which prescribes future performance calculations using “notional” interest rates (so-called “model calculations”), provides for the following:

"The insurer shall clearly and comprehensibly indicate to the policyholder that the model calculation only represents a model based on fictitious assumptions and that the policyholder cannot derive any contractual claims against the insurer from the model calculation." (Sect. 154, para. 2, VVG)

3. Charges (Section 6: Charges disclosure)

By means of future-related stochastic simulations, all charges included can be taken into account through the above-mentioned "gross method". It would not be appropriate to consider the charges separately from the expected performance; therefore, the focus should be placed on the overall view by means of the gross method. Information on charges is absolutely justified as additional information in the general contract documents; however, in our opinion, it is not necessary to emphasize it as part of any brief information. This would also contribute to solve the great space problems which exist, in our view, in the current design of the KID:

The KID "skeleton" (only headlines, one explanatory sentence) in Section 1 already comprises 1 ½ pages – it seems practically impossible to observe the maximum length of 2 pages for the completed KID given these prerequisites.

Despite this fundamental criticism we would also like to comment on the actual proposals:

- It is to be welcomed that the term "total expense ratio", which is generally perceived as being misleading, is dismissed. It would, however, be even more appropriate to adjust the definition in such a way that the name does not have to be changed. In our opinion, the long enumeration of all cost categories is no appropriate substitute here.
- The indication of total costs in € (Section 6 and Annex 3) seems completely unsuitable to us. The comparison of costs between products is to be achieved here by means of the difference in € from a cost-free investment as a fictive benchmark. However, there is no cost-free investment – even if you put your money under your pillow, this still costs inflation. The comparison with a non-existent, idealized benchmark involves the risk that financial products as a whole are put in bad light. Also, an indication in € is much less suited for purposes of comparison than percentage figures. It is not without good reason that in supermarkets prices have also to be indicated per kilogram. Although it is attempted here to achieve standardization by means of a uniform

requirement as regards the contribution, this will lead to subsequent problems. What is more essential than the already mentioned problem of “minimum contribution”, is the cost quota depending on the level of contribution (for example a “quantity discount”). Furthermore, PRIPs strongly differ with regard to duration, benefits and premiums. Therefore, only pseudo-comparability would be achieved, if charges would have to be disclosed in a given structure which standardizes PRIPs as to contract duration, premiums and benefits.

- The procedure has not been described sufficiently precisely – there is lack of a requirement as regards maturity and interest rate assumptions. Also, it is unclear how costs incurred at different points of time are to be handled (capital or final value?).

Berlin, 04.09.2009

Comments

by the German Insurance Association[1] (ID 6437280268-55)

on the Consultation Paper on "CESR´s technical advice at level 2 on the format and content of Key Information Document disclosures for UCITS" (Ref.: CESR/09-552) and "Addendum" on this Consultation Paper (Ref.: CESR/09-716)"

A) Background

- As has already been mentioned in our comments on the "CESR Consultation on technical issues relating to Key Information Document (KID) disclosures for UCITS", we comment on the current consultation paper because the KID is to be used within the scope of the PRIPs initiative of the Commission as a benchmark for brief customer information. We consider this initiative to be reasonable and would like to provide useful input. Unfortunately, so far, the development of the KID apparently took place without taking account of this benchmark function[2]. Therefore, the insurance industry was in no way involved in the development of the KID. Although it is true that the consultation refers to level 2 measures, by responding, we take the opportunity to make ourselves heard before the benchmark "KID" will be finalized.
- GDV supports the Commission's objective of high-quality and efficient customer information. It seems impossible, however, to transfer the KID for UCITS one-to-one to insurance products. Given the benchmark function assigned to the KID we consider it necessary to comment on the proposals of the consultation paper. In this respect, we bring forward some fundamental remarks on selected issues included in the consultation paper rather than addressing the concrete questions. Moreover, we encourage decision makers to consider some alternative approaches which may, in our opinion, be superior with regard to the criteria "effectivity of customer information" and "intersectoral comparability".

Gesamtverband der Deutschen Versicherungswirtschaft e. V.

German Insurance Association

Wilhelmstraße 43 / 43 G, D - 10117 Berlin
PO Box 08 02 64, D - 10002 Berlin
Phone: +49 30 2020-5000
Fax: +49 30 2020-6000

60, avenue de Cortenbergh
B - 1000 Bruxelles
Phone: +32 2 28247-30
Fax: +32 2 28247-39

Contact:
Theo Tremmel
Actuarial Unit
E-mail: t.tremmel@gdv.de

Dr. Wilhelm Ruprecht
European Office
E-mail: w.ruprecht@gdv.de
www.gdv.de

[1] GDV is the umbrella organization of private insurers in Germany. Its 452 member companies with 226.000 employees and trainees offer comprehensive risk protection and provision for both private households as well as for trade, industry and public institutions by means of 431 million insurance contracts. GDV pleads for a regulatory framework which allows insurers to fulfil their tasks in the best possible way.

[2] This is how we understand the section on "applicability to other products" in the consultation paper.

B) General remarks

- The focus in all areas is placed too heavily on past observations, which should play only a minor role for the investment decision of the customer. From the historical data of a fund, only insufficient statements on future developments and their costs can be derived, which can lead to serious misunderstandings. The consideration of historical data and the derivation of certain information from such data is clearly overrepresented and should be given considerably less weight. Historical data should be used, if at all, for validation. This is especially true since within the scope of the PRIPs initiative the focus is expressly on medium- to long-term savings products. The longer the saving horizon of a customer, the less significant is information on past performance. Considerations on future performance, which have considerably more informational value for the customer, are only addressed incidentally in the KID. Therefore**, for all issues addressed (risk and reward disclosure, performance presentation, charges) the focus should be placed on considerations on future data.**
- In our point of view a separate description of the performance and the charges of a PRIP offers only a limited use. For the customer the main interest is the future performance after costs ("cost-performance ratio"). Most customers will not be able to deduce from a list of charges how they influence the performance. Consequently, **a combined view of charges and performance should be considered**.

Specifically, we propose the following approach, which avoids the shortcomings mentioned above:

By means of stochastic simulations, it is possible to point out the risks and reward in consideration of the calculated charges comprised in the product. as the cost burden to be expected in the future, which is far superior to any description based on past performance.

GDV strongly recommends the **following principles as appropriate for the description of prospective returns/ benefits** :

- The capital market assumptions needed for the calculation of prospective benefits should be identical for all providers.
- The assumptions made by individual companies for different products have to be made in a non-arbitrary way in order to be plausible. They have to be disclosed.
- Possible returns should be indicated "after costs". This means that starting from the performance of the underlying investments all costs (explicitly or implicitly) charged are deducted ("**gross**

method"). This also comprises the costs of the guarantees included, irrespective of the way how these are "produced". However, in the case of life insurances, the description should be restricted to the capital accumulation element, i.e. the premium elements for risk coverage have to be deducted.

- The risk-return profile of the product has to be made comprehensible in an appropriate way. In this respect, it should be dealt with the uncertainty as to the maturity benefit to be achieved (keywords: planning uncertainty, pension shortfall) on the one hand and with fluctuations during the contract period (keywords: investor stress, saving discipline) on the other.

Apart from simulations, a qualitative consideration of the product is of importance as well. It is imperative, from our perspective, to reserve the term "capital guarantee" for guarantees which are backed by strong solvency requirements.

C) Comments on selected subjects

1. Risk-return profile (Section 5: Risk and reward disclosure and Addendum)

- The respective statements in the consultation paper have a basic shortcoming: they primarily concern risk and neglect return. For instance, the classification derived from historical volatility is no risk-return indicator, but only a risk measure[3]. The new VaR-based methodology for the computation of volatility relevant for structured and other comparable funds is maybe more appropriate for these special funds. Nevertheless it is also a pure risk measure. Approaches for description of the risk-return profile which are, from our point of view, more appropriate are to be found in Section 7 ("Past performance presentation") and Section 14 ("Structured funds, capital protected funds and other comparable UCITS").
- From the investor's point of view, two "stochastic" processes are particularly relevant: on the one hand, fluctuations during the term of the contract ("investor stress") and, on the other hand, the "uncertain" maturity benefit ("pension shortfall. The volatility of investments plays here an important, though not the only role. Therefore, more sophisticated measures are required to obtain significant descriptions.
- As far as the subject of "investor stress" is concerned, it is worth considering whether annual fluctuations in performance during the term of

[3] See page 74 of the consultation paper: "The choice of Risk Measure: Historical Volatility."

the contract should be presented on the basis of simulations, like in the chart on page 40 in Section 7 (though not on the basis of considerations of past performance).

- In particular, a risk-return presentation should not be made on the basis of historical data because this has only little benefit for the customer and may lead to misjudgement. As mentioned above, stochastic simulations should be taken as a basis. Under Option B in Section 14 the consultation paper provides for a more appropriate approach with regard to the distribution of possible maturity benefits with the description of a condensed probability distribution of possible returns at maturity.
- We are aware of the fact that this type of presentation is clearly more complex than the envisaged one-dimensional risk-return ratio. However, the possibility of representing the two aspects of “return” and “risk” adequately in a one-dimensional ratio should be ruled out from the outset. This too simple presentation will inevitably provoke misunderstandings with the customer:
  - The lowest risk class is identified with risk-free investment.
  - The positive aspect of “return” is not perceived by the customer.

  The study on UCITS Disclosure Testing has shown that such risks of misinterpretation are not only potentially existent, but actually exist: “It is clear that among some investors there is very patchy knowledge of how investment funds operate and this can lead them to interpret aspects of the KII as offering some form of capital guarantee. …For less experienced investors, any mention of risk regarding investments has a tendency to be taken to mean extreme or high risk. Many do not have a framework for assessing how much risk is present or indeed how much they may need to accept for a higher potential reward. As a result respondents tend to focus very much on the “risk” aspect of the “risk and reward” section.” (cf. p. 150 of the mentioned study)
- The supposedly simple risk-return ratio entails a number of subsequent technical problems:
  - In defining the “buckets” one has to choose between two unsatisfactory options – either the classification is not sufficiently stable or it is inadequately selective.
  - This problem then causes further “contortions”, such as the definition of a “migration rule”.
  - For certain UCITS a complicated derogation has to be defined (Section 14 or Addendum). Particularly, with a view to the PRIPs initiative this is unsatisfactory. One objective of the initiative is in-

tersectoral comparability between financial products. A benchmark which is not even able to ensure a uniform procedure within a single sector - here: UCITS – is certainly unsuitable.

- In the Annex[4] examples of usage are enclosed for the approach for presentation of the condensed probability distribution of possible returns at maturity, from which the advantages of our proposal become apparent:
  - Very good capability of differentiation between different product classes: the differences between a product with a fixed partition of investment in classical life insurance and unit linked life insurance (In German ”Statisches Hybrid”) and a product with a flexible partition of investment (”CPPI-Hybrid”) are clearly apparent.
  - At the same time, common features become apparent in the risk-return profile also with products which appear very different “at first sight”: both products involving CPPI management and variable annuities (VA) have a significant cash-lock risk, which means that only capital maintenance (=guaranteed benefit) is achieved at maturity.
  - It is apparent that a mere description of benefits does not suffice, but has to be complemented by an indication of the risk-return profile. For instance, if for products involving CPPI management, for the sake of simplicity, constant growth rates of share prices are presumed, this involves that within the scope of the prospective calculation a proportion of shares equals always 100 %. The above-mentioned cash-lock risk is thus completely ignored. Without any qualification by a risk-return description referring to the whole holding period over-optimistic results were given.
  - No “problem of migration”; shifts within the bar charts have a less serious effect than a switch between two risk classes.
- The processing of the results in the Annex differs from Option B in Section 14 on the following points:
  1. Greater differentiation
  2. Absolute return figures instead of relative benchmark of “risk-free interest”
  3. Graphic instead of tabular presentation

  These, however, are differences in the details, which may be resolved in a pragmatic way.

[4] Extracts from a talk given at the 2009 Spring Conference of the German Actuarial Society (Deutsche Aktuarvereinigung).

- To achieve intersectoral comparability, numerous stipulations are required for this procedure. In this respect, the method described in Annex 4 raises concerns. Any detailed treatment of these concerns/comments, which are more of a technical nature, would go beyond the scope of our present comments. Therefore, we will confine ourselves to the following remarks here: In particular, the approach of risk-free measure should be questioned because it assumes that all investors are risk-neutral, which is definitely not the case. Furthermore, the focus is on the future benefit here, while for pricing and hedging it is on the current fair valuation of an investment. A statement on the future development of the investment cannot be made appropriately by means of a distribution generated from the risk-neutral measure of probability.

2. Past performance presentation (Section 7: Past performance presentation)

- The method described above in section 1 allows very good differentiation between “product classes“. For any differentiation within a certain class it is too coarse. For instance, it does not provide customers with an orientation regarding the question: Should I opt for unit-linked life insurance of company A or B? Therefore, from our point of view, it is necessary to complement the indication of the risk-return profile by a performance description.
- As mentioned above, the proposals in the consultation paper rely too heavily on the past. The very detailed limitations with regard to past performance calculations are futile if at the same time there are practically no restrictions concerning the interest rates to be used for future performance calculations. In the case of two-digit growth rates, immense assets are generated over long periods of investment, which may essentially influence the customer‘s decision to conclude a contract. Therefore, the focus must be placed to a greater extent on future performance calculations. Historical data should be used, if at all, for validation.
- Occasionally, attention has been called to risks in terms of liability law to which future performance calculations are said to lead. Indeed, when presenting future non-guaranteed benefits, it has to be ensured that no misunderstandings arise on the part of the customer. However, this problem can be solved fairly easily by means of explanatory texts to this effect. The reformed German Insurance Contract Act (*Versicherungsvertragsgesetz* - VVG), which prescribes future performance calculations using “notional” interest rates (so-called “model calculations”), provides for the following:

"The insurer shall clearly and comprehensibly indicate to the policyholder that the model calculation only represents a model based on fictitious assumptions and that the policyholder cannot derive any contractual claims against the insurer from the model calculation." (Sect. 154, para. 2, VVG)

3. Charges (Section 6: Charges disclosure)

By means of future-related stochastic simulations, all charges included can be taken into account through the above-mentioned "gross method". It would not be appropriate to consider the charges separately from the expected performance; therefore, the focus should be placed on the overall view by means of the gross method. Information on charges is absolutely justified as additional information in the general contract documents; however, in our opinion, it is not necessary to emphasize it as part of any brief information. This would also contribute to solve the great space problems which exist, in our view, in the current design of the KID:

The KID "skeleton" (only headlines, one explanatory sentence) in Section 1 already comprises 1 ½ pages – it seems practically impossible to observe the maximum length of 2 pages for the completed KID given these prerequisites.

Despite this fundamental criticism we would also like to comment on the actual proposals:

- It is to be welcomed that the term "total expense ratio", which is generally perceived as being misleading, is dismissed. It would, however, be even more appropriate to adjust the definition in such a way that the name does not have to be changed. In our opinion, the long enumeration of all cost categories is no appropriate substitute here.
- The indication of total costs in € (Section 6 and Annex 3) seems completely unsuitable to us. The comparison of costs between products is to be achieved here by means of the difference in € from a cost-free investment as a fictive benchmark. However, there is no cost-free investment – even if you put your money under your pillow, this still costs inflation. The comparison with a non-existent, idealized benchmark involves the risk that financial products as a whole are put in bad light. Also, an indication in € is much less suited for purposes of comparison than percentage figures. It is not without good reason that in supermarkets prices have also to be indicated per kilogram. Although it is attempted here to achieve standardization by means of a uniform

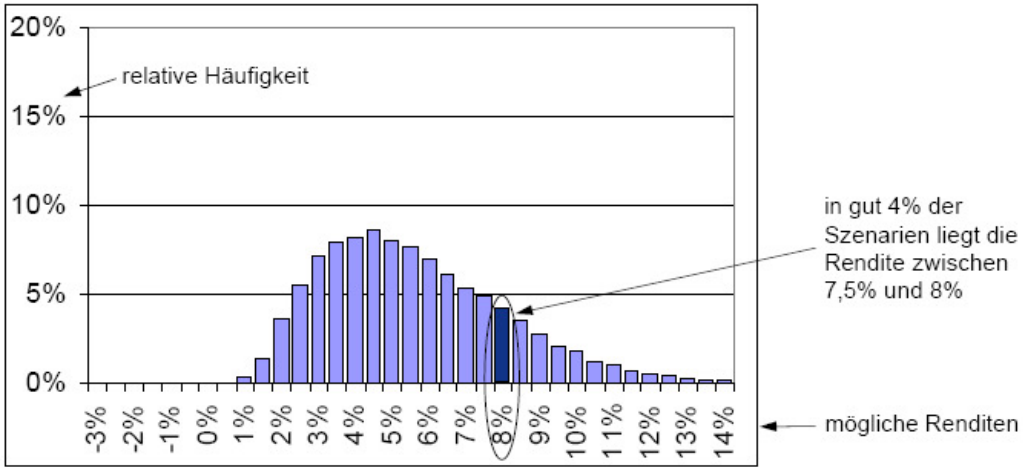
requirement as regards the contribution, this will lead to subsequent problems. What is more essential than the already mentioned problem of “minimum contribution”, is the cost quota depending on the level of contribution (for example a “quantity discount”). Furthermore, PRIPs strongly differ with regard to duration, benefits and premiums. Therefore, only pseudo-comparability would be achieved, if charges would have to be disclosed in a given structure which standardizes PRIPs as to contract duration, premiums and benefits.

- The procedure has not been described sufficiently precisely – there is lack of a requirement as regards maturity and interest rate assumptions. Also, it is unclear how costs incurred at different points of time are to be handled (capital or final value?).

Berlin, 04.09.2009

DAV
DEUTSCHE AKTUARVEREINIGUNG e.V.

Darstellung der Renditeverteilungen

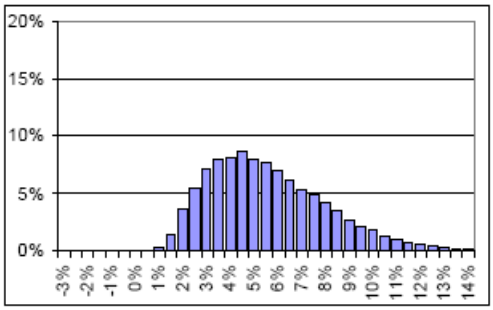


10

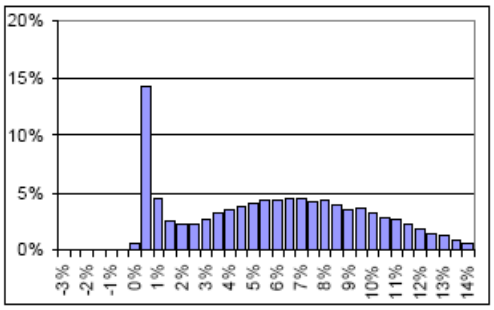
DAV
DEUTSCHE AKTUARVEREINIGUNG e.V.

Verteilung der nominalen Renditen

Statisches Hybrid



CPPI-Hybrid



Variable Annuity (GMAB)