Joint Consultation Paper on the PRIIPs Key information document

First elements of an impact study on the French insurance market and proposal for a modular approach

The outcome of PRIIPs regulation 1286/2014 is to set up a single model of information disclosure to the attention of retail investors. This will entail heavy consequences with practical and structural implications both operational wise and in the insurer/clients relationship.

The FFSA has conducted a work stream on these implications and has commissioned an actuarial consultant. The ongoing study identifies two major concerns in the PRIIPs regulation implementation according the draft RTS.

First of all, the "multi options" dimension of insurance contract has been ignored for a while and the late consideration given to this issue seems unpractical as it stands.

According to the study, an assessment of the draft RTSs was performed in order to identify the conditions of implementation of article 12 b). This assessment points out:

- The draft RTS extends substantially the original requirements contained in the Regulation. This latter provides that the Key Information Document states where and how more detailed pre-contractual information documentation relating to the investment products backing the underlying investment options can be found[1]; the draft RTS does not require a reference but the provision of information[2] and these information are about underlying investment options[2] of the contract and not on the investment product (UCITS for instance) backing the underlying investment options[1]. This results in the obligation for the insurer to manufacture and provide a specific key information document for each of these options;
- The multi options life insurance contract is by nature flexible, it is quite often that dozens or hundreds of funds are proposed as unit-linked vehicles. This type of insurance contracts enables the investor to purchase a policy while offering an increasing number of choices in management options (automatic switching, profiled mandate) and diversified insurance covers. The combination of these different layers of choice leads even for one of the older contracts in the market with a particularly low number of unit-linked vehicles (one dozen) to over 200 cases to consider (resulting in more than 600 pages). These 200 documents, are to be combined with other pre-contractual information documents required by national law, whose content, redundant, is not strictly equivalent, in particular regarding the identification and quantification of risk and costs.

As a result of these two concerns, the insurer will have to manufacture and provide a document with hundreds of pages, which leaves no room for readability of information,

[1] Article 6.3 of PRIIPs Regulation.
[2] Articles 12 and 15 of draft RTS.

confuses the investor among the different options proposed, which becomes extremely difficult to situate in this mass of documentation. This situation undermines comparison between two insurance-based investment products, which was the initial objective though. This poor and very alarming result is all the more paradoxical and unfortunate as it ignores the obligation required by French national law to systematically impose personalised advice prior to selling an insurance contract.

The study seeks however to understand and measure the implementing initiatives in order to produce the documents requested, particularly when it comes to the calculation of risk and cost indicators, and the definition of the performance scenarios.

So far, major obstacles are identified in the development of instruments needed to the calculation, the regular up-to-date, the documentation and the history over a long period the whole set of indicators and scenarios requested.

Concerning calculation methods: while the approach is overly detailed and complex, the requested actions are unclear and have in many instances no chance of achieving an unambiguous outcome (classification between product categories needs clarification; the risk calculation procedures for category III appear very heavy, especially when it comes to evaluating each asset line and those for category IV are vague; no simple solution looks available to answer conveniently and with legal certainty the calculation of performance scenarios, etc.).

More precisely for products with no investment risk (well known as Fonds euros in France) and Fonds Croissance, whose marketing is specific to the French market, the report's findings read as follows:

- It would not make sense to request a computational approach to risk in the Fonds euros when liabilities are exclusively as part of a life insurance contract and benefiting a guarantee at any time. In any case, the proposed approaches - as we understand them - are clearly unsuitable for this product which is both highly specific and massively marketed in the French market and therefore known and recognized by savers. This product should legitimately benefit from a qualitative classification (category 1) and should be classified in MRM 1.
- A specific product adapted to the French market such as Fonds Croissance is not easy to handle in the proposed framework taking into consideration the investor's freedom to choose a variable maturity and security level of his/her investment.

From a structural point of view:

- The draft RTS requires insurers to manufacture, notably for Unit-Linked expressed in UCITS, information that UCITS asset managers are exempted to produce for the next 5 years. This situation is very concerning for several reasons:
  - The corresponding effort requested to market players appear gigantic;
  - Already disproportionate, this effort is multiplied as each insurer will be asked to manufacture information document for UCITS included in its Unit-Linked portfolio; this results in a situation where for each UCITS that is proposed in

different life insurance contracts, as many calculations will have to be performed and the results will inevitably differ, likely to provoke legal uncertainty and misunderstanding ;

- Insurance undertakings are neither entitled nor in capacity of producing KIDs and performance scenarios of funds proposed as Unit-linked options. In so far as (i) the asset manager is the only one capable of producing such documents according to the French Monetary and Financial Code and (ii) the general regulation of the French securities supervisory authority (AMF) forbids asset managers to produce detailed information related to lines and investments held by UCTIS funds. It ensures fair treatment and fair information of investors (thus limiting market abuse practices). This also safeguards asset managers' independence while managing the funds concerned. Accordingly, any information or performance scenarios which would be manufactured and provided by the insurance undertaking would be *in concreto* false and source of dispute.
- Even in the simplest case, where insurance undertaking could rely on the calculations that would have been made by the asset managers, who are the only operators capable of doing so, and despite the 5 years exemption tailored for them, some situations would continue to pose a challenge. For instance in case of profiled mandate combining different unit-linked vehicles, indicators and scenarios do not result from a simple linear combination of underlying UCITS indicators and scenarios. Again, this would impose on the insurer to carry out calculations on its own whilst the insurance undertaking is not capable to perform.

- The requirement to provide total cost including contract costs and internal costs of the option is at the midst of this complexity and information overload since these costs can be disclosed with the accuracy required by the RTS only by using global models which discriminate each type of cost. Taking into consideration substantial uncertainty both on the relevance of risk indicators and on the results of scenarios, the technical appropriateness of such approach is questionable.

- The requirement to keep the key information documents up to date, the documentation of the calculation process, archive and log of all calculations and versions of documents that are to be frequently updated is also a challenge. Undertakings will be required to keep the information as a whole up-to-date for hundreds or thousands of models which will be used at least on a monthly basis, according to indications in the annexes.

Within this study, an evaluation is ongoing in order to value the cost of all these measures for the French market.

Proposal for a proportionate and effective approach, implementing the PRIIPs KID for multi-options insurance products.

In order to prevent such an unfortunate outcome, we promote a modular approach, which orderly discloses the information respective to each level in separate documents: the generic one, for the insurance contract, referring to the specific ones, for the investment funds, produced by and under the responsibility of the operators initiating these funds. This modular approach seems in our view and according to our long lasting practice the most reasonable one to promote easily understandable information to the retail's investor, who, should it be reminded, benefit from a demanding distribution regulatory framework and, in France, a mandatory duty of advice.

As regards the specific item of the costs disclosure, straightforward combination of both level of information (insurance contract and investment fund) does not present any major difficulty and gives an effective assessment of the costs. This modular approach has proven to be satisfactory since years on the French market.

See next pages two templates of KID models adapted to life insurance products offering multiple investment options, as marketed in the French market, according to the proposed modular approach.

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

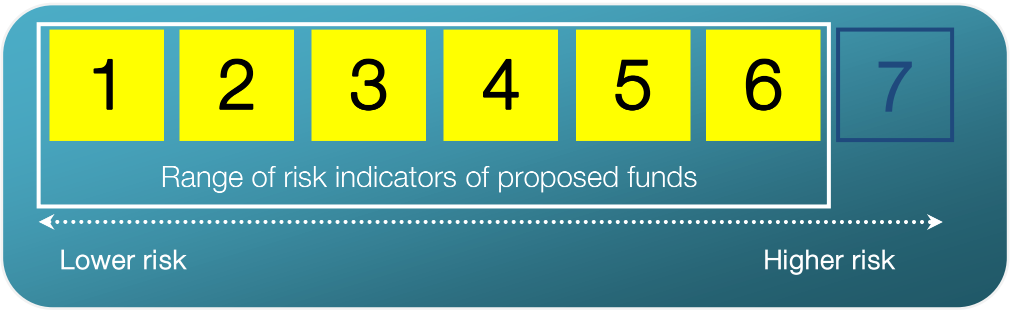
Futureplan Investment EFG Insurance http://www.ourhomepage.com
Call « phone number » for more information Regulated by : ACPR Published 01/01/2016

What is this product ?

Type	This product is an insurance-based investment product.
Strategy	For the investment part we offer a large number of investment funds and assets to choose from. These funds range from guaranteed insurance funds to non-guaranteed units linked to funds invested in bonds or equities, in the Eurozone or worldwide and which are more risky or adventurous. We also offer units directly linked to assets such as bonds or equities. Among the investment funds offered, only the Euro funds include at any time a capital guarantee at least equal to the sums paid, net of fees, in the absence of any optional insurance guarantee. This investment gives right to a profit participation determined each year. The Fonds Croissance includes also a guarantee, which may be only partial, and only at the end of a contractual period. The subscribers are offered several possibilities to allocate their savings: they can allocate it freely among the proposed funds and units, or, regarding the unit-linked investment, give a mandate to choose the units and rebalance between them.
Intended Market	This product is designed for mid- to long-term investors willing to build a capital, pass a capital in the case of death or prepare their retirement while benefiting from a permanent availability of their savings. The product target market varies depending on the choice of underlying investment options. Before choosing any underlying option, the investor's needs, patrimonial situation, tax situation, his ability to suffer losses must be taken into account. The choice of an underlying investment option can be changed, in particular by switching between options on the initiative of the retail investor or the initiative of a third party.
Insurance benefit	This product includes an optional life insurance benefit optional insurance guarantees in the event of death. So In the case of subscription of the option, if the insured person were to die during the life of the contract, a beneficiary would receive a supplementary payout according to the insurance terms.
Term	This product has lifetime duration but can be terminated at the request of the investor, who can withdraw partially or totally his savings at any time with two month notice.

What are the risks and what could I get in return?

Risk indicator



This risk indicator helps you assess the risks with this product and compare them with other products assuming you keep the product for the recommended holding period.
It takes into account the likelihood of possible losses (not only the worst case) due to different risk factors such as changes in the market and solvency problems of the issuer. They range from 1 to 6 on the risk indicator above. The risk to you would depend on the option you choose. Most of the underlying

options of the product do not include any capital protection, so in the worst case you could lose your investment with any of these options.
We invite you to consult our website http://www.ourhomepage.com for more detailed information about the specific risks for the different investment units we offer in this product (excluding units linked to non-packaged assets such as bonds or equities) in order to compare their respective risks and returns.

Performance scenarios

The amount you get back from this product is not fixed. What you get back will vary depending on the investment choice you make, how the market performs and how long you keep the investment. Different investment choices will offer different possibilities in terms of the potential losses or gains. Also your tax situation could have an impact on what you get back.
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What happens if EFG is unable to pay out?

If we are not able to pay out what we owe you, you are covered by a national compensation scheme, the Fonds de Garantie des Assurances de Personnes (FGAP).
Insurance companies are regulated institutions submitted to strict prudential rules and supervised by the Autorité de Contrôle prudentiel et de Resolution. Should, despite this regulated frame, an insurance company find itself in difficulties, (ACPR) could involve the FGAP at last resort to protect insured persons in such circumstances. The compensation provided by this fund is limited, for all contracts of insurance or capitalization of the same insured as a whole :

- Up to 70 000 euros for every payout ;
- Up to 90 000 euros for annuities from life insurance or disability or invalidity insurance.

The guarantee fund's compensation comes in addition to the amounts derived from the realization of the assets by the liquidator of the company.

What are the costs?

Composition of costs

The RIY (reduction in yield) shows the impact costs have on what you get back if you held the product for the indicated period (8 years). The costs that are shown here are the range of one-off, and ongoing costs for the insurance contract, which vary according the options you choose. The contract offers optional insurance guarantees in case of death or disability, whose costs are not included in these figures. **The figures do not include the costs of the investment funds corresponding to the underlying options (see example below to see how to combine both levels of costs).** There may be also other costs charged to you by the person who is either selling this product to you or advising you on this product. They will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.
The table shows what the costs related to the contract, including potential exit penalties, could mean for different holding periods. The figures assume you invest €15 000.

Investment 15 000 €	If you cash in at the end of recommended holding period (8 years)
One-off costs	720€
+ Recurring costs	840€-2040€
+ Incidental costs	0€-0€
= Total costs	1560€-2760€
RIY	1,1%-2,1%

Combination with the costs of underlying investments funds

The table shows the impact the different types of costs have on what you get back at the recommended holding period and what the different cost categories mean. The figures shown constitute an estimate assuming that the amount of the saving remains constant over the period and that no optional insurance guarantee is subscribed. The "insurance level" figures show the range of costs for the insurance contract exclude the costs of the investment funds related to the investment options you may choose. The costs are displayed by way of illustration only, under "fund level" figures in the table below. The aggregated impact of both levels is shown under "Aggregated costs".

Example : If the 15 000 € amount is fully invested on a unit linked to a fund with no entry cost and 1,5 % recurring cost and no exit cost, you can get an estimated impact of the total aggregated cost by combining both level of costs as follows :

Types of costs		Insurance level	Fund level (example)	Aggregated costs (insurance and fund levels)	
One-off costs	Entry costs	0,4%	0%	0,4%	Impact of entry costs taken before investment. This is the maximum, you could pay less
	Exit costs	0,1%	0%	0,1%	Impact of exit cost when you exit the investment upon maturity
Recurring costs	Investment managing costs	0,7%-1,7%	1,5 %	2,2%-3,2%	Impact of recurring costs taken from your investment each year. Their range correspond to the different investment services chosen by the investor, including life insurance guarantees.
	Other recurring costs	0,0%-0,0%	0,0 %	0,0%-0,0%	
Incidental costs	Performance fees	0,0%-0,0%	0,0 %	0,0%-0,0%	Impact of performance fees taken

We invite you to consult our website http://www.ourhomepage.com for more detailed information about the specific costs related to the different investment units we offer in this product.

How long should I hold it and can I take money out early?

Minimal recommended holding period : 8 years

You have a period of 30 calendar days from the receipt of the special conditions advising you of the conclusion of the contract to waive your subscription.
This product is designed for longer term investments; you should be prepared to stay invested for at least 8 years. You may cash in at any time, but the use of this faculty may be subject to tax consequences or supplementary costs.
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Other relevant information

We publish further information on this product; you can find it at www.ourhompage.eu/products. Each year you will receive a reporting on your insurance contract.
We also review and republish this Key Information Document each year; you can find new versions on http://www.ourhomepage.com/KIDs after 31 January.

Key Information Document

Template #2

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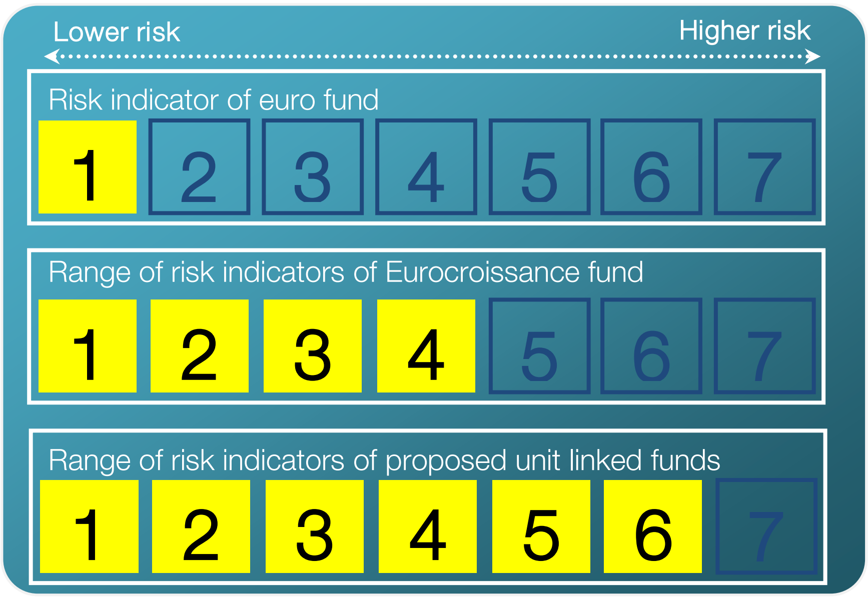

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If a disagreement persisted after the response given by the conciliator, without prejudice of any other legal ways, you may contact the Insurance Mediator at the following address : La Médiation de l'Assurance - 54321 TownName3 CEDEX z The terms of use of Mediation of insurance are available on the website : http://www.mediation-assurance.org or from the conciliator on request. These remedies are free.

Other relevant information

We publish further information on this product; you can find it at www.ourhompage.eu/products. Each year you will receive a reporting on your insurance contract.
We also review and republish this Key Information Document each year; you can find new versions on http://www.ourhomepage.com/KIDs after 31 January.