

Comment

of the German Insurance Association (GDV)

ID-number 6437280268-55

**on the Joint Consultation Paper concerning amendments
to the PRIIPs KID**

Draft amendments to Commission Delegated Regulation (EU) 2017/653 of
8 March 2017 on key information documents (KID) for packaged retail and
insurance-based investment products (PRIIPs), JC 2019 63

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General comments

The German insurers welcome the opportunity to respond to the ESAs' Joint Consultation Paper concerning amendments to the PRIIPs RTS. We support the overall objective of the PRIIPs Regulation to enhance consumer protection and improve retail investor confidence in PRIIPs. Moreover, we do agree that improving the transparency of the products offered to retail investors will contribute to this aim.

The proposed amendments do not improve the PRIIPs KID

However, after a thorough analysis of the concrete proposals included in the consultation paper we do not believe that they live up to the above mentioned objectives, since they predominantly

- Increase the complexity of the methods and presentation of information
- Lead to misleading figures that are difficult to understand or overload consumers with information
- Propose methods that make the information non-comparable for different, sometimes very similar products.

In our view, the concrete proposals would deteriorate the quality of the information contained in the PRIIPs KID not only for IBIPs but also for other products.

A single overall Level 1 and Level 2 review is necessary

We do understand that certain provisions in the PRIIPs KID require changes. However, we believe that rushed interim solutions should be avoided, in particular when they lead to additional implementation and compliance costs, and risk significantly undermining consumer trust in the PRIIPs KID. Therefore, we urge the ESAs and the European Commission to take more time to

- Collect more experience with the PRIIPs KID and conduct thorough consumer testing that cover all aspects of the PRIIPs KID for products that are relevant in respective markets
- Conduct a single thorough overall review including the modernisation of the PRIIPs KID on Level 1.

Concrete proposals on performance, costs and MOPs deteriorate the quality of PRIIPs KID

Notwithstanding the fact that the German insurers welcome a single thorough review, we would like to comment on concrete proposals in the ESAs' consultation paper:

- We believe that the new methodology for the calculation of performance scenarios is complex since products are decomposed in single asset classes. There is no evidence that the dividend yield method produces meaningful results. We propose that the so-called “what if” or illustrative scenarios were included in the PRIIPs KID for all product groups instead.
- Past performance is generally and fundamentally a misleading information for consumers since it encourages pro-cyclical investment behaviour. It does not provide consumers with any relevant information for his product decision. Moreover, parallel inclusion of past and future performance will be confusing for consumers since they will not be able to understand the totally different information contained in both. Finally, consumers will be confused if past performance was to be included for one group of products and not for others.
- The new cost representation in table 2 will lead to information overload for consumers showing them 24 different figures, which they cannot compare in a meaningful way. This is due to the fact that each cost is based on different calculation basis and different recommended holding period. We welcome that the ESAs see the RIY as the most pertinent cost indicator for all PRIIPs in scope. We believe that the current RTS achieve the most concise cost representation since consumers can simply sum up the costs in table 2 to obtain the costs in table 1.
- The new proposals on MOPs overload consumers with new information without clear benefits. The first proposal mixes 10a and 10b KIDs and thus, multiplies the amount of information that needs to be provided to consumers without clear evidence that the selected options provide useful information. The second proposal overloads consumers with information providing them with 84 new figures.
- Finally, although we welcome the intention by the ESAs to include simplifications in the PRIIPs KID, the current proposals do not work for IBIPs with collective investment.

It is important to note that insurers are more adversely affected by the new provisions than other stakeholders. First, insurers (and providers of structured products) already now fall within the scope of the PRIIPs Regulation. Second, any changes of the RTS will cause new implementation efforts in addition to the first introduction of the PRIIP KID in 2018. The GDV estimated the costs of a review: an implementation of a new review would cost German insurers 4.7 Million EUR. If a review is split into two separate reviews this would lead to additional costs of 2.2 Million EUR. These costs come on top of the very expensive implementation of the PRIIPs provisions in 2017 and do not justify the negative added value of the proposed changes.

Context and approach to the review

Scope of the current review

1. Are there provisions in the PRIIPs Regulation or Delegated Regulation that hinder the use of digital solutions for the KID?

Digital solutions are not compatible with paper default format of the PRIIPs KID. Thorough rethinking during the comprehensive Level 1 Review is necessary.

Digital solutions are important in middle to long-term. For example, the KID should be device-independent so it can be easily read on mobile phones and tablets. This is, however, only possible if the digital provision of the PRIIPs KID is the default option as it is for example in the PEPP KID.

We welcome that PEPP KID will be more digital friendly than the PRIIP KID and that standards of such a document provisions are being currently developed. However, digital-first PRIIPs KID will require entire rethinking of the presentation of the information in the KID. We believe that experience with PEPP KID should be gathered first and the digital PRIIPs KID should be introduced as part of the overall review of the PRIIPs Regulation.

2. Do you agree that it would be helpful if KIDs were published in a form that would allow for the information to be readily extracted using an IT tool?

IT extractability of the KIDs should be part of the comprehensive modernisation of the PRIIPs KID.

Provisions on the digital readability of the data contained in the KID cannot be based on the current level 1 text. The PRIIPs Regulation stipulates provisions on the content, the visual presentation of the KID as well as its transmission to the customer. It does, however, not contain specifications on the precise technical implementation, which is left to the individual providers. This limited scope of the Regulation is reflected in the authorisation for RTS contained in Article 8 (5) lit. a of the Regulation. Furthermore, Article 34 (4) makes it clear, that further rules whose aim it is to assist the digital comparison of PRIIP, should be subject to separate legislation on the basis of a market survey conducted by the EU Commission.

We would welcome if IT extractability would be part of a comprehensive modernisation of PRIIPs KID that makes the document in general more digital-friendly. It should be taken into account that it will lead to additional burden for manufacturers. Currently we do not see the benefit for consumers in information that can be readily extracted from the KID using the IT tool.

Intended timeline and next steps

3. Do you think that the amendments proposed in the consultation paper should be implemented for existing PRIIPs as soon as possible before the end of 2021, or only at the beginning of 2022?

We do understand that certain provisions in the PRIIPs KID require changes. However, we believe that rushed interim solutions should be avoided, in particular when they lead to additional implementation and compliance costs, and risk significantly undermining consumer trust in the PRIIPs KID. Therefore, we urge the ESAs and the European Commission to take more time to

- Collect more experience with the PRIIPs KID and conduct thorough consumer testing that cover all aspects of the PRIIPs KID for products that are relevant in respective markets
- Conduct a single thorough overall review including the modernisation of the PRIIPs KID on Level 1.

Furthermore, the German insurers do not support interim changes to the PRIIPs KID. A KID that is continuously changing will undermine consumers' trust and lead to increased burden for providers. Therefore, we support one single set of changes and a consistent pragmatic overall timeline that comprises both Level 1 and Level 2.

Finally, in any case it needs to be ensured that manufacturers have sufficient time for the implementation of the new provisions. Therefore, the deadline for the implementation by the industry should be dynamic. This means that the deadline for the implementation by the industry should be at least 18 months from the publication of the targeted changes in the Official Journal, or/and at the earliest January 2022.

4. Do you think that a graduated approach should be considered, whereby some of the requirements would be applied in a first step, followed by a second step at the beginning of 2022?

The GDV does not welcome a graduated approach.

First, it will confuse consumers if the KID is changing constantly. Second, even if desired, it can never be ensured that the two sets of changes will be disjoint. Therefore, two sets of changes would always lead to increased burden for providers. In particular, the layout will have to be changed each time and also technical implementation would need to be performed anew.

Furthermore, it will lead to confusion not only among consumers but also among distributors. Consumers that look at the KID just before it is changed will be confused when they see different information in the changed KID at the time of conclusion of the contract. Distributors will have difficulties understanding and thus explaining which changes in the KID stem from changes in the products and which stem from changes in provisions.

Overview of the Consultation Paper and next steps

Overview of Consultation Paper

5. Are there material issues that are not addressed in this consultation paper that you think should be part of this review of the PRIIPs Delegated Regulation? If so, please explain the issue and how it should be addressed.

We believe that a new comprehensive approach on performance scenarios should be envisaged instead of artificially adjusting the current methodology.

ESAs acknowledge that “what if” scenarios are most useful for non-linear products. The German insurers agree. However, we do not understand why ESAs only consider a part of non-linear products: Many IBIPs have also non-linear nature due to guarantees and profit participation in the first place. We would welcome “what if” scenarios for these products.

Even more, we believe that all consumers would benefit from “what if” scenarios since these clearly show uncertainty of returns and indicate possible outcomes to consumers. In Germany, “what if” scenarios have to be used by law (Article 10 AltvPIBV) by all providers that offer Riester products, i.e. funds, banking and insurance products. There has been no critique that consumers do not understand the explanatory power of these scenarios. The Riester scenarios are developed for particular nature of Riester products. Therefore, they cannot and should not be copy pasted into PRIIPs. We rather see it as a proof of concept that “what if” scenarios can be prescribed cross-sectoral and that they are well-understood by consumers.

Since there are several perceptions of what exactly is meant by “what if” scenarios, we would like to briefly explain the proposed approach:

- If appropriate, the scenarios could use fixed growth rate, e.g. -2%, 0%, +2% in order to illustrate to consumer that his final return will depend on the market developments.
- The exact values can depend on the risk class of the product and could be fixed for all products falling within the respective risk category.
- The values could be either set by some independent authority or the rules for calculations should be clearly specified that manufacturers can perform their own calculations. In Germany, all concrete values for each scenario are prescribed by the legislator (Article 10 AltvPIBV).

Although we are clearly in favour of illustrative “what if” scenarios, we believe that stochastic scenarios could be improved if the underlying methodology for calculating the risk and performance was changed. Many industry representatives welcomed a forward-looking stochastic simulation model for risk and performance (if stochastic scenarios are still used). We are wondering why ESAs did not address them at all.

Furthermore, it should be taken into account that PRIIPs uses the same methodology for risk and performance. If the performance scenarios are considered to be flawed, it applies the same to the risk indicator. Therefore, the GDV proposes changing the methodology for the risk indicator as well. ESAs should consider the same stochastic forward-looking simulation models for risk indicator and performance scenarios for consistency reasons.

We welcome the fact that ESAs take into account the performance calculations for ongoing premiums. However, not all formulas are adjusted to ongoing premiums yet. In particular, the calculation of the VEV to determine market risk should also be adapted to regular premiums.

Consumer testing

Introduction and explanation of the different options to present performance information being considered

- 6. Do you have comments on the modifications to the presentation of future performance scenarios being considered? Should other factors or changes be considered?**

The German insurers welcome the deletion of intermediate performance scenarios and the replacement of stress scenario through the minimum scenario. We believe that it is highly misleading to attach probabilities to simulated scenarios in the PRIIPs KID.

The German insurers support changes to the PRIIPs KID only if there is solid evidence that they improve consumer understanding and are workable for different types of PRIIPs. We understand that the consumer testing on the presentation of performance scenarios conducted by the European Commission will cover only one type of IBIP. The product proposed by the ESAs in the “Annex: proposed performance scenario options to be tested in the consumer testing exercise” is in our view not precisely described. The description of the product leaves a lot to consumers’ imagination. Thus, if consumers have different understanding of the product, the results of consumer testing will not be comparable. Moreover, we understand that the product could describe a classical with profit product which is not common in the new business in the German market. Consumers should be tested on IBIPs that are sold in their market. In Germany these are unit-linked, with-profit, and hybrid products.

Furthermore, since consumer testing is not finished yet, we will not be able to comment on its outcomes, in particular if some of the results on the German market are flawed due to the irrelevance of the chosen products.

Beyond that, the performance is closely related to risk and costs. Therefore, the key goal should be that consumers understand the whole picture. It cannot be achieved by testing performance scenarios on a stand-alone basis.

We believe that intermediate scenarios should be removed. Otherwise consumers are misled into thinking that intermediate performance corresponds with the performance of the same product with a shorter RHP. This might be the case for open-end products such as funds, but it is not true for products with e.g. contractually agreed benefits at maturity. Furthermore, the extensive table overloads consumers with information. We believe it is better to describe what happens if consumer redeems the product early in the section “How long should I hold it and can I take money out early?”, which in our view is dedicated to exactly this question. Insurance contracts have a fixed term and are not freely tradeable. The rules on early redemption depend on the national legislation. Therefore, the RTS should contain principles what should be included in this section, so that consumers understand what will happen if they take out the money early. The same should apply to the intermediate costs values. Furthermore, deletion of intermediate scenarios would ensure more coherence within the overall PRIIPs KID, as the risk indicator is also based on the expected total duration of the investment. Finally, by deleting

intermediate values, there is space to include pension payouts such as annuities which are often a benefit of IBIPs. Right now there are no provisions in the RTS that specify whether annuities can be showed in the performance sections and if so, how.

We strongly disagree with the idea that consumers should be shown probabilities attached to performance scenarios. First, we strongly believe that performance scenarios are indicative only. Therefore, we support illustrative “what if” scenarios. Second, the current scenarios are based on an artificially constructed mathematical model. By attaching the probabilities to the scenarios we would suggest that the calculations are precise. Not knowing the underlying models (consumers are not informed about Cornish Fisher and bootstrap), consumers will not be able to correctly interpret the information. The quantiles of the (artificial) distribution might be useful to generate different performance scenarios to illustrate the uncertainty and possible range of returns. However, they are unsuitable for the purpose of consumer information and would only lead to a misleading semblance of precision. Third, there is only one realisation of the possible outcomes for the consumers. Therefore, the information that in x of 100 chances he or she will do worse would mislead them since he or she will not understand what these chances relate to.

Furthermore, the attached probabilities would directly contradict the disclaimers contained in the PRIIPs KID that say that the scenarios “are not an exact indicator” (element C in Annex V). The stress scenario is artificially generated. Since it sets the average return to zero it can even lead to a stress scenario being better than the optimistic scenario (e.g. if the product performed badly in the past). Therefore, we welcome that the ESAs propose replacing the stress scenario with the minimum investment return.

Finally, we believe that it will confuse the consumers if past performance was included for linear IBIPs and excluded for non-linear IBIPs. The current KID upholds the comparability of information: Recitals 3 and 4 of the PRIIPs Regulation state that different rules lead to unlevel playing field and that uniform rules on transparency are needed to prevent divergence. PRIIPs role was to harmonise the format of information. Therefore, consumers are expecting the same information on different products in scope. Otherwise they will draw false conclusions when comparing an IBIP with past performance with an IBIP without a past performance. We believe the same approach is necessary for all IBIPs.

Future performance scenarios

Impact of changes in the presentation of probabilistic performance scenarios on the methodology

- 7. If intermediate scenarios are to be included, how should they be calculated for Category 3 PRIIPs (e.g. structured products)? If intermediate scenarios are not shown in the performance section, which performance assumption should be used for the ‘What are the costs?’ section?**

We agree with the ESAs proposal not to include intermediate scenario in the performance section. In order to achieve a consistent representation, intermediate costs values should not be included either,

In general, we propose addressing intermediate values on costs and performance in the chapter “How long should I hold it and can I take money out early?”. Providers could for example qualitatively describe what will happen in case of the surrender. It should be duly noted that surrender values might be regulated by the respective national laws. Therefore, it might be difficult to find a unique solution at European level.

- 8. If a stress scenario is included in the presentation of future performance scenarios, should the methodology be modified? If so, how?**

There is no need to establish a stress scenario if the investor is shown the maximum loss he might suffer investing into to the PRIIP. Stress scenario uses artificial methodology which could lead to pathological results. E.g. if a product performed below zero percent in the last five years, setting the drift to zero would not decrease its performance (as it was desired) but on the contrary improve it.

Instead of a stress scenario, the German insurers propose including a “minimum guaranteed return” scenario, as proposed by the ESAs. Care should be taken when defining the concrete provisions on the minimum return: there are many possibilities to define a guarantee: a minimum yield on gross/net investment, a minimum % of gross/net investment, etc.

Explanation of proposed dividend yield methodology for probabilistic performance scenarios

- 9. Do you agree with how the reference rate is specified? If not, how should it be specified?**

We would like to comment on questions 9 to 14 en bloc making some general remarks on the properties a performance scenario model should fulfil in general:

- If (stochastic) models are applied to determine the risk and to illustrate the performance of a PRIIP, they should be equal. Differences between the underlying risk and performance models – as it is now proposed for PRIIPs of Categories 2 and 3 – will lead to an inconsistent and misleading disclosure of the PRIIP.
- The model for the performance scenarios should follow the substance over form principle. This means, that independent of the underlying model, the gross yields of the assets should be the same for assets with the same risk. We do not see how the proposed method achieves this, since the dividends are not directly related to risk/reward.
- The model should be easy to apply. For example it will be not possible with reasonable effort to estimate parameters for each single asset within the basket of most of the PRIIPs like it is now proposed for products of Categories 2 or 3.
- In general, we believe that the calibration of the model used should be stable and robust in such a way, that short term changes in market conditions will not automatically lead to changes in the expected performance. This is neither the case for the current methodology nor the new methodology.
- The core principle of financial markets – the higher risk, the higher is the possible return of a financial asset – should be reflected by the applied model. However, consumers should not receive the information on probabilities of the scenarios. Even the most sophisticated model remains a model, and any statement derived from this model holds only true under the assumptions (i.e. the calibration) on this model. The informative value of the scenarios is not to show probabilities but to inform consumers about uncertainties and the range of possible returns.
- We welcome ESAs' efforts to stabilise the drift of the assets making them dependent on the long-term behaviour of the assets. We believe that by doing so, the ESAs are not far from illustrative scenarios. Therefore, we would support the ESAs making the final step in moving to illustrative scenarios. Illustrative scenarios would solve the above issues:
 - The model would be consistent for all PRIIPs if the scenarios are based on the risk.
 - Implementation would become much easier for manufacturers. Safeguards would not be needed.

- The model would be stable
- It will be clear to consumers that the scenarios are only possible returns that are uncertain

As already mentioned in question 5, the German Riester products use illustrative scenarios which are specified by law. They are applied equally for different products in scope and are well-understood by consumers. We believe that Riester what if scenarios are a proof of a concept of illustrative scenarios.

Additionally, we would like to comment on the provision in point 8 on page 59 of chapter 12. We do not understand why ESAs are considering 50,000 paths for products with ongoing premiums. We do not see that it will add much precision to the simulation but will result in higher burden for the providers.

Regarding question 9 we do not agree with the proposed reference rate. Due to annex IV number 13 of the draft amendments to the PRIIPs delegated regulation “the reference rate shall be read from the market-standard interest rate curve for the currency and the country derived from the prices of sovereign bonds of the country.” This simple approach obviously ignores the fact, that interest curves based on country differ substantially within the EURO-Area. It would be wrong to assume that all these curves reflect the same level of risk. If this would be the case, interest rates would have already equalised.

10. The revised methodology specifies that the risk premium is determined by future expected yields. The methodology further specifies that future expected yields should be determined by the composition of the PRIIP decomposed by asset class, country and sector or rating. Do you agree with this approach? If not, what approach would you favour?

It is not possible to estimate the return or risk premium for each asset within the basket of the PRIIP due to practical reasons. The decomposition by country will give a misleading picture if the countries in scope belong to the same currency union (as for example the EURO-area). There should be a clear link between the risk of the PRIIP and its return. Generally we do prefer an approach as outlined in our general remark to question 9.

11. The ESAs are aware that historical dividend rates can be averaged over different time spans or that expected dividend rates can be read from market data providers or obtained from analyst reports. How should the expected dividend rates be determined?

Generally we do prefer an approach as outlined in our general remark to question 9.

We do not agree with the fact, that only dividends (possibly adjusted by buyback rates) are a reasonable estimator for the risk premium. For example: Amazon has never paid any dividends but its stocks increased twenty-fold within the last 10 years. In this context we question whether the paper by John Cochrane quoted by ESAs gives enough evidence to use dividend rates as the only estimator for the asset-specific risk premium. We would appreciate it if ESAs could explain this approach in detail.

12. How should share buyback rates be estimated?

Generally we do prefer an approach as outlined in our general remark to question 9

Buyback rates define to our understanding the ratio of shares to be bought back and the total number of outstanding assets.

13. Do you agree with the approach for money-market funds? Are there other assets which may require a similar specific provisions?

Generally we do prefer an approach as outlined in our general remark to question 9. We believe that benefits are negligible when compared to the added complexity.

14. The methodology proposes that the future variance be estimated from the 5-year history of daily returns. Should the volatility implied by option prices be used instead? If so, what estimate should be used if option prices are not available for a particular asset (equities namely)?

No, the 5-year history of daily returns provides a reasonable basis for estimating the volatility. Generally we do prefer an approach as outlined in our general remark to question 9.

Compensatory mechanism to address potential methodological faults

15. Do you think compensatory mechanisms for unforeseen methodological faults are needed? If yes, please explain why.

The reference to possible compensatory mechanisms and additional caps shows that the new methodology as it is does not provide sufficient safeguards. We believe that ESAs should look for a different methodology

instead of fixing the flaws of the current approach. The model is already inconsistent since it replaces the drift by an artificial quantity. If additional caps were introduced, it further weakens the model by introducing unnatural dependencies.

**16. Do you favour any of the options above? If so, which ones?
How would you ensure that the information in the KID remains comparable for all products?**

No, we believe that a consistent approach is vital.

Although the Cornish Fisher and bootstrap models are not suitable for the PRIIPs performance scenarios due to their strong dependency on the past, they are at least self-consistent, meaning that they follow a single concise known mathematical model. An artificial replacement of the drift breaks these self-consistent models making them even less meaningful. If further safeguards were implemented, they would additionally distort the self-consistency of these models. Moreover, artificially introduced boundaries lead to the model becoming more and more illustrative. We would welcome the ESAs taking this last step and move to proper illustrative scenarios. It would also mean for manufacturers that the implementation would become much easier than implementation of many safeguards.

17. Are there any other compensatory mechanisms that could address unforeseen methodological faults? If yes, please explain the mechanism; explain how it ensures that scenario information in the KID allows investors to compare PRIIPs, and explain how the information for similar products from different manufacturers remains sufficiently consistent.

We refer to our general remark to question 9. A risk-based approach with illustrative “what if” scenarios minimises the risk of implausible performance value

Other probabilistic methodological approaches

18. What are your views on the use of a simplified approach such as the one detailed above, instead of the use of probabilistic methodologies with more granular asset specific requirements?

In general, the simplified approach has similarities with illustrative scenarios, since it introduces fixed rates that serve as an upper boundary. However, they make the proposed methodologies even more complex and

introduce new artificial interdependencies. Therefore, we believe that the ESAs should make the final step and move to illustrative scenarios in general, see our remarks to question 9.

19. Do you consider the use of a single table of growth rates appropriate? If no, how should the methodology be amended?

See our remarks to questions 18 and 9.

There should be at least a link between the risk of a product and its possible growth rates.

20. More generally, do your views about the use of a probabilistic methodology vary depending on the type of product (e.g. structured products vs non-structured products, short-term vs long-term products)? For which type of products do you see more challenges to define a probabilistic methodology and to present the results to investors?

We believe it will be inconsistent to differentiate between product groups. It might lead to a severe confusion of consumers if different methods were to apply, since consumers assume comparability of the information they receive. Furthermore, it is not always possible to draw a line between different classes of products. By adding small features a linear product can become non-linear or provider can choose between short-term and long-term representation for the products “in between”. This can create an unlevelled playing field.

Moreover, we believe that illustrative “what if” scenarios are simple effective and do not lead to issues described by the ESAs, see our assessment in question 9. Notwithstanding us supporting illustrative scenarios, we believe that stochastic scenarios could in theory produce meaningful results if it is based on a true stochastic forward-looking simulation model.

21. Do you think these alternative approaches should be further assessed? If yes, what evidence can you provide to support these approaches or aspects of them?

See question 9 and the “what if” approach we proposed there.

22. Are there any other approaches that should be considered? What evidence are you able to provide to support these other approaches?

Many stakeholders proposed forward-looking stochastic simulation model. We believe ESAs should consider such an approach as it could work equally well for all products in scope. As Graf & Korn¹ state, “simulation approaches use the essential information of the past data to calibrate the model parameters, but allow for much more possible future scenarios as just repeating what has been observed in the past. Thus, even economic scenarios that have been unexpected given past performance can enter the result of the simulations.”

In Germany, a forward-looking stochastic simulation model is used for Riester model. Riester is a pension product that is offered by various providers such as funds, banks, and insurers. Thus, the same model is able to capture different properties of different product types. We believe that the Riester model is the proof of concept that a uniform forward-looking stochastic simulation model can be developed for different PRIIPs as well.

Riester also uses illustrative “what if” scenarios (see questions 5 and 9), where the values are based on the risk class. These scenarios work equally well for different products in scope.

Alternative approach to performance scenarios – use of illustrative scenarios

Structured products – option of only showing illustrative scenarios

23. Do you think illustrative scenarios should be included in the KID as well as probabilistic scenarios for structured products?

We agree with the ESAs that illustrative scenarios are meaningful and can be easily applied especially to non-linear products. We believe it should be extended also to other non-linear products such as non-linear IBIPs. In Germany, illustrative scenarios are already applied on a cross-sectoral basis for Riester products and are understood well by the consumers, see question 5.

More importantly, general consistency, i.e. also between linear and non-linear products should be ensured, since the border between the two is not clear: It is possible to add a small non-linear element to a product of

¹ Graf, S., Korn, R. (2019): A guide to Monte Carlo simulation concepts for assessment of risk-return profiles for regulatory purposes. ([Working Paper](#))

category 2 and shift it to category 3. That would mean that different performance scenarios that follow different idea behind them would exist for the same product.

Furthermore, we do not understand the merit of showing both, probabilistic and illustrative scenarios. These scenarios are based on completely different ideas and consumers will not understand how they relate to each other (or rather not relate). Consumers will not only be overloaded with too many scenarios but also confused about their respective informative value.

24. If not, do you think illustrative scenarios should replace probabilistic scenarios for structured products?

Yes, they should replace them for all PRIIPs, see question 9 and question 23.

Structured products – scope and methodology

25. Do you agree with this approach to define PRIIPs which would show illustrative performance scenarios using the existing definition of Category 3 PRIIPs? If not, why not? Where relevant, please explain why this approach would not be appropriate for certain types of Category 3 PRIIPs?

Illustrative scenarios should also apply to all PRIIPs, see questions 9 and 23.

Inclusion of information on past performance

26. Would you be in favour of including information on past performance in the KID?

As regards past performance, we do not understand why ESAs suggest inclusion of it only for certain PRIIPs (i.e. no past performance for category 1 and 3 PRIIPs). Comparability is a key feature of the PRIIPs KID information and consumers will be highly confused if they compare information that either includes past performance or does not include it. PRIIPs KID should only contain information that is meaningful for all PRIIPs. The inclusion of UCITS in the scope of PRIIPs that show past performance now is no reason to impose past performance on other PRIIPs in the scope of the Regulation. We would like to remind the ESAs that past performance was initially included in the Commission's proposal for the PRIIPs Regulation. However, both Council and the European Parliament preferred future performance. Thus, it was explicitly agreed in

the Trialogue not to include past performance in the PRIIPs KID, neither for UCITS nor for other types of PRIIPs. The clear intention of the co-legislators should not be bypassed by an excessively wide interpretation of Article 8 (3) (d) (iii) of the PRIIP-Regulation.

Moreover, the German insurers believe that past performance is not suitable information in the PRIIPs KID regardless of the type of the IBIP for the following reasons:

- It is widely acknowledged that “History may not be a good predictor of the future.” as the ESAs stated in the discussion paper JC/DP/2014/02. This is particularly true for long-term products such as insurance-based investment products. However, consumers would assume that past performance is relevant for the future gains. Otherwise, why else would this information be included in the key information document?
- Past performance would encourage pro-cyclical investment behaviour, consumers would chase recent returns. The ESAs state themselves in the cost-benefit analysis section of the current consultation paper that retail investors may unduly rely on past performance information and assume it will be replicated in the future (the so-called extrapolation bias).
- Past performance overestimates the true performance due to the so-called survivorship bias. Poorly performing funds close, and therefore, the existing funds are not a representative sample of the true past performance.
- In the previous consultation (JC 2018 60) ESAs argue that past performance is relevant to illustrate the actual behaviour of a product in given market circumstances and to help investors to appreciate the volatility of the returns of the product, as well as the ability of the investment manager. The German insurers disagree strongly: first of all even ten years of past performance will not show the financial crisis of 2008 in the next year. Thus, consumers will see relatively low volatility and too positive returns of the products, an effect which is similar to the current future performance flaw. Finally, past performance does not provide enough information to judge the ability of the investment manager. Observing only one path cannot differentiate between pure luck and skill. Any arbitrary deviation from the benchmark would outperform the benchmark in 50% of scenarios. Thus a large number of modelled scenarios has to be used to judge a strategy. Only if it outperforms the benchmark in significantly more than 50% of the scenarios can ability be assumed.

The ESAs acknowledge that actual past performance does not exist for some product classes such as structured UCITS or other structured PRIIPs. However, we urge the ESAs to acknowledge that past performance also does not exist for insurance-based investment products for various reasons:

- Biometric benefits are also included in performance scenarios, as the holistic approach is taken in the PRIIPs KID. If projected to the past, insurer would have to include information in the event that the consumer died or became incapacitated in the past. Furthermore, the display of capital guarantees makes no sense in retrospect since in retrospect there is no uncertainty anymore.
- Insurance contracts are individual agreements between insurers and consumers. The contracts offered to consumers change due to further evolution of the products as well as new developments in jurisprudence and legislation. Insurance-based investment products have, therefore, very short products cycles compared to other products. Thus, it is impossible to buy exactly the same product consumers bought several years ago.
- For insurance products, which are individual agreements, past performance and past costs can only be captured at a generalised level. This information might be useful for macroeconomic comparisons, but not as individual information for a single consumer. For a single consumer such generalised information would be misleading.

27. Would your answer to the previous question be different if it were possible to amend Article 6(4) of the PRIIPs Regulation?

No, we believe that past performance is in general misleading for consumers, even if the PRIIPs KID was allowed to be longer than three pages. See our reply to question 26.

28. Do you think that it can be more appropriate to show past performance in the form of an average (as shown in the ESA proposal for consumer testing) for certain types of PRIIPs? If so, for exactly which types of PRIIPs?

We welcome ESAs analysis on different performance scenarios and their effort to make past performance meaningful for consumers. The different approaches proposed show that it is not easy to inform consumers on the past in a meaningful way. We firmly believe that all approaches on past performance have severe comprehensibility issues for consumers and therefore, past performance should not be included in general, see question 26. All the arguments provided there against yearly past performance equally apply to average past performance.

Moreover, we believe that average past performance has even less informative values for the consumers. For example, it can happen that a product that fluctuated severely over the last 10 years shows relatively stable past performance. Therefore, consumers will receive a wrong impression about the volatility of the product. Furthermore, average past performance is not intuitive. If a consumer buys an IBIP with RHP of 30 years, the averages over 1, 3, 5 and 10 years are irrelevant for him. Furthermore they would show the past performance of products sold in the past which is irrelevant for the current consumers.

In general, past performance is not even well-defined for non-linear IBIPs. Therefore, we believe it is dangerous to discuss averages of the quantities that are not even defined in the first place.

29. Do you have any comments on the statement that would supplement the display of past performance (e.g. with regard to the presentation of costs which are not included in the net asset value (NAV))?

We agree with the ESAs that past performance is not a reliable indicator of the future returns. Therefore, we do not understand why the ESAs would include something they themselves warn against.

Furthermore, we do not agree that past performance can help the investor to see how the fund has been managed in the past. First, it does not take the survivorship bias into account, meaning that if some fund was managed really badly, consumer will never know it. Second, the past performance is not necessarily an indication of the quality of the fund manager, it can be pure luck.

30. Are you of the opinion that an additional narrative is required to explain the relationship between past performance and future performance scenarios?

We believe that consumers' attention will be too much drawn to the illustration of performance. An additional narrative will not help.

31. Do you see merit in further specifying the cases where the UCITS/AIF should be considered as being managed in reference to a benchmark, taking into account the provisions of the ESMA Questions and Answers on the application of the UCITS Directive²⁵?

32. Do you see the need to add additional provisions for linear unit-linked insurance-based investment products or linear internal funds?

We do not support including past performance for one type of IBIPs. The same approach should be followed for all IBIPs. Consumer who will compare a linear IBIP with a different IBIP will not understand why one type of product has past performance why other product does not have it. We believe that a separation in linear unit-linked and other IBIPs generates an unnatural breakpoint within IBIPs and it will hamper the comprehensibility of different information and comparability of different IBIPs.

Furthermore, the approach contradicts the core idea in PRIIPs of comparability of different products.

Costs

ESA proposals and areas where feedback is requested

33. Do you agree that a fixed intermediate time period / exit point should be used instead of the current half the recommended holding period to better facilitate comparability?

As for intermediate performance scenarios the intermediate costs should not be included. Consumers will wrongly assume that the intermediate costs correspond with the total costs of a product with a shorter RHP. We believe it is better to show intermediate values in the section “How long should I hold it and can I take money out early?”

Especially if intermediate periods were to be dropped for performance scenarios, the same should hold true for costs so that consumers are presented with consistent information. Furthermore, this would ensure consistency with the risk indicator that is based on the recommended holding period.

Notwithstanding the above, if the ESAs still decide to include an intermediate period for costs, we believe that half RHP is more meaningful than a fixed duration. First, half of the RHP is consistent within a certain product. It is unrealistic that a fixed intermediate duration can be found that is meaningful for all different products and RHPs in scope. Second, why would it be meaningful to compare equal intermediate values if the products have different RHPs?

34. In this case (of a fixed intermediate time period), do you agree to show costs if the investor would exit after 5 years for all PRIIPs with a recommended holding period of at least 8 years? Or do you prefer a different approach such as:

- **Applying this approach (i.e. showing also the costs of exit at 5 years) only for PRIIPs with a longer recommended holding period, for example at least 10 years**
- **For longer term products (e.g. above 15 years) showing exit costs at a different fixed time period (e.g. 10 years instead of 5 years)?**

We do not support the inclusion of intermediate values.

Notwithstanding the above, if the ESAs still decide to include an intermediate period for costs, we believe that half RHP is more meaningful than a fixed duration. First, half of the RHP is consistent within a certain product. It is unrealistic that a fixed intermediate duration can be found that is meaningful for all different products and RHPs in scope. Second, why would it be meaningful to compare equal intermediate values if the products have different RHPs?

35. Do you think it would be relevant to either (i) use an annual average cost figure at the recommended holding period, or (ii) to present both an annual average cost figure and a total (accumulated) costs figure?

We believe that the annual cost figures are the most appropriate for consumers. Since the insurance-based investment products have terms that sometimes last over decades, only annualised costs are comparable for different PRIIPs in a consistent, robust and stable way. This becomes particularly obvious if products that have a term of 3 months are compared with products that have duration of 30 years. Otherwise products with a longer RHP will automatically look more expensive.

We believe that showing both annualised and total cost will overload the consumers.

36. Do you think that it would be helpful, in particular for MiFID products, to also include the total costs as a percentage of the investment amount?

Unfortunately, we do not understand the question. We assume that only single premium products are meant here. Does this question relate to all costs or only to the ongoing costs? If all costs are meant, we do not understand the benefit of expressing the costs that are charged at different times (maybe in 40 years time) in terms of the initial investment. The relation is meaningless: If consumer invests 10000 EUR over 40 years with 1% costs p.a. and if the yield is 6%, then the total costs will be larger than the initial investment. Consumers will assume that they purchased a very bad product where in fact the costs of 1% are very low.

We believe that the costs representations of total costs and each cost type should be consistent. We believe that this objective is best achieved through a RIY. Then, consumers can sum up costs that will result in the total RIY.

Furthermore, a consistent approach will ensure that consumers can compare different products well, especially if cost structures differ.

If a different calculation basis was to be used for each cost group then consumers will have big problems assessing them and it would lead to wrong comparisons. It will only lead to overload of information consumers cannot do anything with. Instead of five figures as in the current RTS, the consumers will be presented with 25 percentage and monetary figures for only five cost types. We believe, the comprehensibility of different calculation basis should be thoroughly tested in the consumer testing.

Finally, we understand that RIY is also compatible with MiFID. Therefore, we believe that the PRIIP standard that should universally apply to many product groups and is newer should be also the standard in MiFID.

37. In this context, are there PRIIPs for which both performance fees and carried interests are applied?

38. Do you agree with this analysis from the ESAs? If yes, what are your views on the extent to which fees related to the management of the underlying real estate assets, i.e. the properties themselves, should be taken into account in the calculation of the cost indicators?

Preferred and alternative options to restructure the current cost tables

39. Do you agree with the ESAs' preferred option 3 to revise the cost tables?

We support the first table on costs in the option 3, see question 41. However, we believe that in addition annualised total costs in monetary terms should be added to the first table, see question 35. We believe that the first table is the most relevant for consumers since they can learn from it what the total cost burden of a product will be, which is the most interesting information for consumers.

We believe that a second cost table is “nice to have”, but only provided it gives meaningful information to consumers. We believe that the current approach is meaningful since consumers understand how the costs add up to the total if they are all represented in RIY-terms. Therefore, we do not understand the need to change the second costs table, in particular since ESAs state themselves that the RIY approach is consistent with MiFID.

Therefore, we strongly disagree with the approach proposed in the second table:

- First, it overloads consumers with information. They will receive 18 (!) values in monetary terms and six percentage values. Additionally the size of the table will lead to problems with three page limit.
- Each cost ESAs proposed for the second table has a different calculation basis. Consumers will find it hard to impossible to compare different products with different costs structures and different recommended holding periods if they all have different calculation bases. What is the added value of such an information? Therefore, the RIY approach has been established since only this approach guarantees comparability.
- Moreover, the ESAs propose concrete bases for the specification of costs, assuming that, for example, one-off costs are always based on the amount invested or on the first Y premiums. However, there could be more than these defined calculation bases necessary for insurance products. Insurance products have fixed calculated costs which are specified in consumer’s contract and do not change during the term of the contract. This is a big difference to funds that can adjust the costs each year depending on their situation. The insurer has to prove to the supervisor that the costs calculated in the product are adequate and sufficient for the entire term of the product (Article 138 VAG). In order to charge consumers fair costs and ensure actuarially sound calculation, the costs have to be based on the quantity relevant for the respective cost. Furthermore, insurers need to take all adverse scenarios into account which are related to the costs (the fairness towards consumers is ensured with profit participation on cost surpluses). This implies for example, that the premiums paid cannot be used as the only calculation basis if a consumer is given an opportunity to pause the premium payments for some time.
- Finally, if the ESAs were still to use the table it needs to be clarified that if a product uses a calculation basis for a certain cost other than those listed by the ESAs, then the manufacturer is allowed to use and specify in the PRIIPs KID the right calculation basis. It is common to have several calculation bases in one product. That means it

is important that all these can be shown in the table if this approach is being used. For instance ongoing charges are often split between those as a percentage of the premiums, a percentage of assets under management and a fixed fee.

40. If not, which option do you prefer, and why?

In general we believe that ESAs should pursue a simplification of costs representation in order to enhance comprehensibility. All the options proposed by the ESAs on the contrary complicate the cost representation.

The advantage of table 4 is that it shows a concise table on costs. However, it includes costs in monetary terms which highly depend on the RHP. Such a representation will make products with longer RHP look more expensive than those with a short RHP. We believe the representation should be either in annualised costs or in RIY as it is currently done.

RIY should be used in both tables for all products.

41. In particular, do you think that the proposed changes to the presentation of the impact of costs on the return in percentage terms (i.e. including reduction in return before and after costs) is an improvement on the current presentation?

Yes. We agree with ESAs' proposal. The presentation of RIY together with the yield before and after the costs will enhance consumers' understanding how costs are related to performance (cost-performance ratio). We believe that it is beneficial for the consumer to create an integrated presentation of performance and costs.

42. Do you have other comments on the proposed changes to the cost tables?

We believe that the focus should be on RIY (together with the yield before and after the costs) and annualised costs in monetary terms.

ESA proposals

43. What are your views on the appropriate levels of these thresholds? Please provide a justification for your response.

The German insurers welcome ESAs' efforts to develop proportionate solutions in the PRIIPs KID. Transaction costs of traditional IBIPs play usually a minor role due to insurers' "buy and hold" strategy. In addition, insurers have a widely diversified portfolio and also invest in alternative investments and other assets with no market data. Applying the complex

arrival method to such small transaction values would lead to wrong perception of precision and would mean very high implementation costs for insurers without clear added benefit for consumers.

Furthermore, it is not possible to separate the assets belonging to PRIIP from other assets (pensions, risk products) in the general account. Therefore, insurers have to calculate the total costs belonging to all products first and then estimate the proportion of the costs belonging to a concrete IBIP.

However, we believe that the simplifications introduced in number 22 are not feasible. The threshold of 25% over the last 3 years is artificial: it will force insurers to implement both the simplification and the full method since it is hard to assess whether and when the threshold will be exceeded. First, the future turnover is not known. Second, it depends also on future national regulation that can affect the composition of insurers' portfolio (e.g. the increased transactions due to the consequences of the Zinszusatzreserve law on the local gap in Germany). In general the 25% threshold over three years is a rather low threshold: Even for a buy and hold investor investing in bonds with 10-year maturities, just reinvesting the amortised nominal values of the bonds would lead to 10% turnover each year or 30% over three years. This does not even include reinvestment of coupons and dividends or premiums from new business.

Finally, we believe that the simplification introduced in 20 is still too burdensome for insurers since it still implies that every single transaction needs to be assessed.

A proportionate solution would be the following two-step procedure

- An extension of methods developed for new PRIIPs in Annex VI (21) RTS (or Annex VI (27) RTS in the new proposal) to other PRIIPs that do not have all the necessary historical market data.
- An application of the table with standardised percentages for different transaction.

An example for standardised percentages can be found Annex VI, part 1, 25 of the Joint Consultation Paper JC 2015 073. If the ESAs were to introduce standardised values, they should be sufficiently conservative to ensure that the simplification does not provide lower costs than the exact methodology. The standardised values should also be applicable optionally giving the manufacturers opportunity to choose between the exact methodology and the simplification.

A table with standardised values would also lead to consistent application of the method developed for new PRIIPs and lower the costs for manufacturers and increase legal certainty. Otherwise manufacturers would have to define their own indices for the same transactions. Furthermore, insurers need to purchase the necessary licenses for the benchmark data, which will lead to additional financial burden.

A table with standardised values would be helpful also in regard to alternative assets such as infrastructure or real estate, e. g. if these make up only a small proportion of a fund. There often not all data for the ancillary costs are available, so that the table on page 98f should be extended accordingly. It should also be clarified that for direct investments in non-financial assets, in particular real estate, only explicit costs are to be considered as transaction costs. In any case, costs should never be counted twice.

Furthermore, we believe that the Option 2 as presented by the ESAs is not proportionate either since each trade still has to be assessed separately. Furthermore, the provisions contained in Option 2 are too high level and would lead to legal uncertainty for manufacturers.

Amendments arising from the end of the exemption in Article 32 of the PRIIPs Regulation

Background

- 44. If UCITS would fall in the scope of the PRIIPs Regulation, do you agree that the coexistence of the UCITS KII (provided to professional investors under the UCITS Directive) and the PRIIPs KID (provided to retail investors under the PRIIPs Regulation) would be a negative outcome in terms of overall clarity and understandability of the EU disclosure requirements? Are you of the view that the co-legislators should therefore reconsider the need for professional investors to receive a UCITS KII, as the coexistence of a PRIIPs KID together with a UCITS KII (even if not targeted to the same types of investors) would indeed be confusing, given the differences in the way information on costs, risks and performance are presented in the documents? Alternatively, are you of the view that professional investors under the UCITS Directive should receive a PRIIPs KID (if UCITS would fall in the scope of the PRIIPs Regulation)?**

We believe that it is beneficial for consumers if there is only one format of information available. Since the PRIIPs KID will replace the UCITS KIID for retail investors, it should also apply to professional investors. Otherwise consumers will be confused if they can find different documents which contain different information for the same product online.

General principles (Chapter I – Articles 1 to 3 of the UCITS Regulation 583/2010)

45. What are your views on the issue mentioned above for regular savings plans and the potential ways to address this issue?

Any clarification with regard to this particular issue should be strictly limited to the specific types of PRIIP concerned (in this case savings plans).

Form and presentation of the KII (Chapter II – Articles 4 to 6 of the UCITS Regulation 583/2010)

46. Do you agree that these requirements from Article 4 should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIFs?

We do not understand why additional provisions from the UCITS KIID are integrated in the PRIIPs KID. The PRIIPs KID was developed for all products in the (future) scope, including UCITS. It has a different structure than the UCITS KIID since it applies to a larger group of products in scope. The information should have the same granularity for all types of products. Therefore, we urge the ESAs not to extend the current provisions.

47. Do you agree that this requirement should be extended to all types of PRIIPs, or would you consider that it should be restricted to Management Company of UCITS or AIF?

We do not understand why additional provisions from the UCITS KIID are integrated in the PRIIPs KID. The PRIIPs KID was developed for all products in the (future) scope, including UCITS. It has a different structure than the UCITS KIID since it applies to a larger group of products in scope. The information should have the same granularity for all types of products. Therefore, we urge the ESAs not to extend the current provisions, in particular to other PRIIPs in scope.

Contents of the sections of the KII (Chapter III – Articles 7 to 24 of the UCITS Regulation 583/2010)

48. Do you agree that these requirements should be extended to all types of PRIIPs, or would you consider that they should be restricted to the Management Company of the UCITS or AIF?

We do not understand why additional provisions from the UCITS KIID are integrated in the PRIIPs KID. The PRIIPs KID was developed for all products in the (future) scope, including UCITS. It has a different structure than the UCITS KIID since it applies to a larger group of products in scope. The information should have the same granularity for all types of products. Therefore, we urge the ESAs not to extend the current provisions, in particular to other PRIIPs in scope.

Particular UCITS structures (Chapter IV – Articles 25 to 37 of the UCITS Regulation 583/2010)

49. Do you have any comments on the proposed approaches in relation to the analysis and proposals in this Section, and in particular on the extent to which some of the abovementioned requirements should be extended to other types of PRIIPs?

We do not understand why additional provisions from the UCITS KIID are integrated in the PRIIPs KID. The PRIIPs KID was developed for all products in the (future) scope, including UCITS. It has a different structure than the UCITS KIID since it applies to a larger group of products in scope. The information should have the same granularity for all types of products. Therefore, we urge the ESAs not to extend the current provisions, in particular to other PRIIPs in scope.

PRIIPs offering a range of options for investment

New approach for the most commonly selected options

50. Do you think this proposal would be an improvement on the current approach?

First of all, the approach proposed by the ESAs mixes the elements of 10a and 10b approaches. The consumer will receive different types of information and will be overloaded with it.

Then, the manufacturer cannot always identify the most commonly used options since they can depend on the distribution wishes of distributing partners.

The proposed approach will give consumers an impression that selected options are the most recommended, even if they are not the most suitable for his specific needs and objectives. In this respect, it is not clear how this requirement would match with the suitability test in IDD.

Furthermore, it should be noted that an investment option can be part of the total investment of the PRIIP (e.g. for hybrid products). Therefore, it will be inconsistent to include the information on the overall product in the information document on a particular investment option.

51. Do you envisage significant practical challenges to apply this approach, for example for products which allow the investor to choose between a wide range or large number of options?

In the German market most IBIPs are pension products. In particular, the RHP varies between 12 and 40 years (or even longer) and there are significant differences between single and ongoing premium. Furthermore, different guarantee levels are shown for some products. In order to give consumer information that is meaningful, German insurers often show several KIDs: for different RHPs (12, 20, 30 and 40 years) and different payment possibilities, different guarantees (e.g. 0%, 25%, 50%, 75%, 100%), up to 40 KIDs for one single product. Introducing four KIDs with concrete investment option would mean 200 KIDs for one single product.

52. Do you see any risks or issues arising from this approach in relation to consumer understanding, for instance whether the consumer will understand that other combinations of investment options are also possible?

It is not meaningful and inconsistent to include the information on the overall product in the specific information on the investment option. For example in Germany underlying investment options are often an integral part of the IBIP (in particular for hybrid products) and there is no clear separation between the option and the overall product. Therefore, the separation between the product level and the underlying level is essential. Both layers cannot be mixed.

Furthermore, this approach contradicts the provisions of the PRIIPs Regulation where consumer needs to be presented with a single generic KID describing all investment options.

Use of ranges within the generic KID

53. Do you think this proposal would be an improvement on the current approach?

We believe that it will confuse consumers and overload them with information if they were presented with 84 different cost numbers only in the first cost table.

Furthermore, the costs do not necessarily or strongly depend on the risk class. Therefore, consumers will be presented with repetitive and overlapping numbers.

54. Are there other approaches or revisions to the requirements for MOPs that should be considered?

Preliminary assessment of costs and benefits

Analysis of costs and benefits

55. Do you have any comments on the preliminary assessment of costs and benefits?

The changes would mean much more than the mere “update of IT systems or tools used”. First, the new methods need to be thoroughly analysed and interpreted, in particular how they apply to specificities of different types of products in the scope. Then, they have to be implemented and integrated into calculation systems and IT systems. The product management needs to program redesign and test the layout and printing systems. The methods have to be integrated into the websites and front-end. The legal department will have to assess and test the overall document, narratives as well as numbers, and different options available to ensure legal certainty of the information contained in the KID. With respect to MOPs, new information needs to be communicated with asset managers, the data exchange interface needs to be implemented anew. The distributors need a new training that explains the layout and content changes as well as explains the differences between the old and the new KID.

More importantly, if constantly new quick fixes of the PRIIPs methodology are introduced instead of a thorough assessment of the provisions as a whole, consumers may lose trust in the information contained in the PRIIPs KID.

Therefore, we urge the ESAs not to introduce any interim solutions and encourage the ESAs to conduct an in-depth review at a later stage that is preceded by a comprehensive consumer testing that includes all the KID provisions and thorough consultations with expert groups and stakeholders.

56. Are you able to provide information on the implementation costs of the proposed changes, in particular regarding, (1) the proposed revised methodology for performance scenarios (using a reference rate and asset specific risk premia), and (2) the overall changes to the KID template?

It is important to note that insurers are more adversely affected by the new provisions than other stakeholders. First, insurers (and providers of structured products) already now fall within the scope of the PRIIPs Regulation. Second, any changes of the RTS will cause new implementation efforts in addition to the first introduction of the PRIIP KID in 2018. The GDV estimated the costs of a review: an implementation of a new review would cost German insurers 4.7 Million EUR. If a review is split into two separate reviews this would lead to additional costs of 2.2 Million EUR. These costs come on top of the very expensive implementation of the PRIIPs provisions in 2017 and do not justify the negative added value of the proposed changes.

57. Are there significant benefits or costs you are aware of that have not been addressed?

The changes would mean much more than the mere “update of IT systems or tools used”. First, the new methods need to be thoroughly analysed and interpreted, in particular how they apply to specificities of different types of products in the scope. Then, they have to be implemented and integrated into calculation systems and IT systems. The product management needs to program redesign and test the layout and printing systems. The methods have to be integrated into the websites and front-end. The legal department will have to assess and test the overall document, narratives as well as numbers, and different options available to ensure legal certainty of the information contained in the KID. With respect to MOPs, new information needs to be communicated with asset managers, the data exchange interface needs to be implemented anew. The distributors need a new training that explains the layout and content changes as well as explains the differences between the old and the new KID.

More importantly, if constantly new quick fixes of the PRIIPs methodology are introduced instead of a thorough assessment of the provisions as a whole, consumers may lose trust in the information contained in the PRIIPs KID.

Therefore, we urge the ESAs not to introduce any interim solutions and encourage the ESAs to conduct an in-depth review at a later stage that is preceded by a comprehensive consumer testing that includes all the KID provisions and thorough consultations with expert groups and stakeholders.

Berlin, 14 January 2020