1. Introduction

First of all, the IRSG would like to reiterate that it is of utmost importance that the features of insurance-based investment products are taken into account appropriately in the Key Information Document (KID).

It is important that an appropriate solution for the different objectives the KID is aiming to achieve is found (feasibility, reliability, applicability, comparability, proportionality, etc.). The products under the scope of PRIIPs (structured products, derivatives, funds, life insurance products, etc.) are very different. The objective of achieving a level-playing field (comparability) should be balanced with another very relevant objectives (feasibility, applicability, proportionality) in order to reflect adequately the nature and characteristics of each type of PRIIP.

2. Risk and Reward

The IRSG believes that the methods of estimating distribution of returns cannot be the same for all products falling under the scope of PRIIPs. As recognized in the Technical Discussion Paper, certain approaches to estimating returns may be well-suited for one class of products but difficult or not applicable for a different class.

- The use of historical data (historical returns and volatility) to construct the distribution of returns might be the best option for certain products (e.g. funds, Unit-Linked life insurance products) but certainly not for other products (e.g. guaranteed products).

- For those products where modelling approach might be needed, there are some cases where only deterministic modelling should be required (e.g. guaranteed life insurance products) while there could be other cases that require stochastic modelling (e.g. structured products, derivatives).

  Notwithstanding the above, for most products practice and consumer testing have shown that probabilistic modelling is often not understood by consumers as opposed to deterministic modelling.

- With regard to the level against which performance is measured, only option 1 (the amount invested without any adjustment) should be considered. Should PRIIPs products have to apply option 2 (the amount invested grown at the risk-free growth rate) or 3 (the amount invested grown the rate of inflation) while products excluded from the scope of PRIIPs (real estate, simple bank deposits, equities, fixed income) only apply option 1 could jeopardize the level playing field that should exist between PRIIPs products and other products out of the scope of PRIIPs.

- As the Technical Discussion Paper recognizes, the inclusion of a risk premium within a model can bias estimate of a product´s risk and performance.

- Finally, it seems appropriate to build the risk indicator adapted to the contractual duration/term of the product or recommended holding period stated by the manufacturer in the KID.

3. Construction of a Risk Indicator

The IRSG believes that for risk indicator´s purposes, deterministic modelling also seems the most feasible option when it comes to implementation given the very short implementation timeline envisaged. It is also easy to supervise and to understand by the retail investor.

- Therefore, Option 1 (Qualitatively based indicator combining credit and market risk, complemented by a quantitative market risk measure) may be considered one of the most reasonable alternatives from the four options provided for the risk indicator. Nevertheless, some refinement of the approach is still needed.

- Option 2 (Indicator separating assessment of market risk – quantitative measure based on volatility – and credit risk – qualitative measure, external credit ratings) should be disregarded as its disadvantages clearly outweigh its advantages. It does not deliver meaningful results for long term products. As the Technical Discussion Paper recognizes, short term risk measure based on market values cannot be applicable to many products in scope (notably insurance products and those for which no reliable daily valuations are available).

- Option 3 (Indicator based on quantitative market and credit risk measure calculated using forward looking simulation models) might also be explored for some types of PRIIPs but implementation costs both for manufacturers and supervisors would be very high. Many supervisors could lack resources for setting the models, establishing adequate parameters and updating them.

- There could also be some advantages in Option 4 (Two-level indicator), in combination with Option 1, so that differences among products with different guarantee mechanisms in terms of risk and reward are reflected.

The IRSG finds that not all risks are relevant for each investor. It will depend on the product itself:

- For most of insurance-based investment products market risk is the most relevant factor.

- Regarding credit risk, prudential supervision should not only be a mitigating factor but rather should be one of the more relevant measures for many PRIIPs products. A clear distinction should be made between entities subject to prudential supervision (e.g. credit entities, insurance undertakings) and other entities. Insolvency guarantee schemes should also be taken into account when assessing the credit risk. Quantitative credit risk measures like credit spreads, CDS spreads or credit value at risk or qualitative credit risk measures like credit ratings cannot be used to assess the credit risk of most insurance-based investment products as many life insurance undertakings are neither quoted not listed or don´t have a credit rating issued by a credit rating agency.

- For most insurance-based investment products the liquidity risk shouldn´t be presented in the KID´s risk section as one of the elements considered to classify

the product in the risk scale of the summary indicator, as liquidity risk is not a relevant risk factor for them. Liquidity risk is relevant mostly for the trading client, not for the hold-to-maturity client. The liquidity risk of the product might be presented in the KID´s risk section as a narrative or as a warning about the limitations of the indicator (e.g. the risk level assigned is only accurate if the product is held to maturity or is kept to the recommended holding period)

4. Performance scenarios

The IRSG believes that deterministic modelling is more suitable for the performance scenarios. Probabilistic approach or the combination of approaches should be disregarded. Consumer testing have shown that probabilistic modelling is often not understood by consumers as opposed to deterministic modelling.

- The most reasonable approach is What-if scenarios, because they are far easier for customers to understand. The preferred option is What-if prescribed approach, although it could also be acceptable a What-if manufacturers choice approach in order to achieve the adequate level playing field with UCITS.

- The scenarios might depend on the risk class of the product. The higher the risk class (more risky) the broader the range of scenarios. There is a clear correlation between risk and reward.

5. Costs: identifying the costs

The IRSG believes that the biometric risk premium could be disclosed in the KID under another section but not integrated into the aggregated cost indicator that only refers to the "investment costs". It should be noted that Article 8(f) of the PRIIPs Regulation reads that the KID should include "*the costs associated with an investment in the PRIIP*".

- If the premium for insurance cover of insurance-based investment products is considered as a cost, the information in the KID would be distorted and a proper comparison of PRIIPs would not be possible.

- In addition to the investment element, insurance-based investments products must have an insurance element; pure investments products only have an investment element. If biometric risk premiums are included into the aggregated cost indicator, it would lead to the appearance of higher costs of insurance-based investment products when compared to other products and would create an unlevel playing field.

- It is also essential that riders which themselves are not PRIIPs are disregarded in the aggregated cost indicator. These optional components have their own calculation and their own benefits. Showing their premiums as costs is not appropriate and would confuse consumers.

The IRSG also finds that early redemption fees shouldn´t be included into the aggregated cost indicator. The PRIIPs regulation requires a product manufacturer to set out the consequences of early redemption in a separate section of the KID ("How long should I hold it and can I take money out early").

Finally, and as the Technical Discussion Paper recognizes, and with regard to costs of embedded options (early surrender, guaranteed interest rate for future premiums, etc.) in many cases the price of embedded options is not explicitly charged by the insurer. Therefore, they should not be considered as a cost. The same occurs in the case of costs of holding required capital.

6. Costs: aggregating the costs

The IRSG believes that Reduction in Yield (RIY) approach fits well the specifics of life insurance contracts. The Total Cost Ration (TCR) approach puts the sum of cost deductions in relation to the average value of the underlying assets and does not take into account the interest rate effects resulting from the exact timing of cost deductions. On the contrary, RIY approach takes the timing of the cost deductions into account.

Since most of insurance-based investment products are long-term products, only average annualised costs make sense. This becomes particularly obvious if products that have a term of 1 year are compared with products that have duration of 30 years. Therefore, the representation of annualised costs together with a reduction in yield (RIY) approach could be the most appropriate method for the cost representation, which is also very useful and understandable for the consumers.

Regarding the relevant figure for the initial invested amount to be taken into account for the calculation of cost figures, it would be difficult to set assumptions that would work for all products all over the European Union. The investor´s profiles are very different from one market to the other and the average amount invested could be dramatically different from one Member State to another Member State.