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How to simplify the Retail Investment Strategy (RIS)?

The insurance sector welcomes the new European Commission's (EC) objectives to boost the EU's competitiveness, simplify the regulatory framework and make EU financial markets more attractive. While recognising the efforts made by co-legislators to make the RIS more workable, the cumulative effect of the new requirements would not make financial services more attractive nor simpler for EU citizens to invest.

Why? Because the RIS will make all processes longer, increase reporting and redtape, and add to the already heavy information overload.

The RIS must find the right balance between consumer protection and enhanced competitiveness for the EU financial markets. It is key to streamline the proposal and simplify the regulatory complexity as suggested below:

	Topic	Problem	Solution
1	**Value for Money (VfM) benchmarks and peer grouping**	If properly designed, the new VfM measures could help authorities identify outliers in the market. However, some of the new VfM proposals would go beyond this objective and would impose a huge burden on companies (eg comparison of products with relevant benchmark/peer grouping, more reporting, additional redtape, etc.). Ultimately, it would become too difficult to offer insurance products that do not align with the benchmarks or the peer grouping, resulting in less choice and quality for consumers.	What is important is that the product provides value in itself, not in comparison with other products on the market. To make the new VfM framework work, we suggest that: **Benchmarks** should: - Be used only by supervisors as a tool to identify outliers in the market (in line with the European Parliament's (EP) and Council's proposals), and not by insurers or distributors. - Consider that National Competent Authorities (NCAs) are already working on national approaches on VfM and should avoid unnecessary duplications of the benchmarking exercise. It is important to recognise that NCAs are better positioned to understand national specificities and local consumers' needs. Moreover, due to the heterogeneity of the different EU markets, national benchmarks are often more suited to identify outliers among IBIPs. Therefore, the EP proposal could be a workable solution, as it establishes a clear distinction: national benchmarks would apply to products sold within a single national market, while EU benchmarks would be used for cross-border products. - Focus on cases of "significant deviation" from the relevant benchmark to the detriment of the client to ensure that the focus is on the market outliers.

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			- Not require additional reporting or database, as the PRIIPs Key Information Document (KID) and Solvency II reporting are providing sufficient data to perform a first market screening. The European Single Access Point (ESAP) will soon make the KID information even more easily accessible. - Consider both the qualitative and quantitative features of IBIPs to reflect the full value they offer to consumers. - Not be published to avoid any misuse or misinterpretation. **Peer grouping** should not be required, as it duplicates the benchmarks without any added value. However, if it remains, it should: - Be flexible. - Not impose justifying deviations. - Be performed by manufacturers only, not by distributors. - Not involve new data collection or Level 2 empowerments, as these would make the system more rigid.
2	**New inducements test and overarching principles**	The Council's proposal would add an extra test coming on top of the already robust IDD framework and a new "best interest" test. This will create an extra burden for the payment of inducements due to additional record-keeping, overlapping rules with POG and excessive restrictions. Worryingly, the proposal is not workable for insurance, as it mixes inappropriately modified IDD requirements and MiFID rules.	The new inducements test and the overarching principles should not be required. If they remain in the RIS, they should be substantially amended as follows: **Overarching principles:** - Principle (a) should be fully aligned with Article 17(3) of IDD (eg by keeping the last part of the sentence of Article 17(3)), to ensure that the provision does not lead to a uniform approach to inducements and considers the diversity of product offerings, as well as different levels of service and assistance. - Principle (b) should not focus on the individual customer, as the commission-based model operates on a collective basis. Alternatively, the principle can be opposed, as it is redundant with new Articles 25(1)(f) and 25(5)(b) of IDD. - Principle (c) overlaps with principle (a), as it is a specific example of how inducements can interfere with the duty to act in the best interest of the customer. Therefore, the principle should be moved and added as an example in principle (a).

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			- Principle (d) should avoid the term "tangible", as it is too vague and could give rise to unjustified consumer claims. Instead, it should be clearly defined what "benefit" means by providing some general examples of insurance services. Moreover, similarly to principle (b), principle (d) should not focus on the individual customer.
			Inducements test: - Criterion (b) is redundant with new Article 25(1)(f) of IDD – so it can be deleted. - Criterion (c) would place a costly burden on insurers, as they would need to put aside a significant amount of capital for any case of lapses, early surrenders or harm to consumers. Therefore, the clawback mechanism should be implemented only in a way that reflects the existing legal structures in different member states (MS). Moreover, the reclaimed inducement should be proportional, based on the actual duration of the insurance contract. - Criterion (d) should not be introduced, as it would be excessive considering all the other safeguards that would apply. Alternatively, it should be clarified that the payment of bonuses should remain permissible when both quantitative and qualitative features (eg number of complaints, customer satisfaction) are considered. - Criterion (e) should be explicitly limited to the company's internal processes, to avoid additional information overload. - Criterion (f) should be deleted, as it would create an artificial distinction between "necessary" and "unnecessary" payments. Alternatively, it should be specified that the inducement can be identified separately from other "costs and charges". - It should be clarified that the inducements test is performed only when relevant changes arise to avoid unnecessary monitoring. - It should be specified that only one party needs to disclose the inducements to avoid duplications. In this idea, the party receiving the inducements is better placed to provide such information.

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3	**Sales process**	The RIS would introduce new requirements as part of the suitability and appropriateness assessments, extra steps for the distributor as part of the new "best interest" test, new disclosures and warnings. These measures come on top of existing robust IDD rules. As a result, the advice process to buy an IBIP could last more than 2 hours and contain more than 14 pages of questionnaires[1], potentially deterring many consumers from investing in EU financial markets. They may instead turn to less regulated platforms or products.	The RIS is a huge opportunity to ensure a leaner sales process by:
			- Removing the new requirements added to the **suitability test** to assess the "composition of any existing portfolios" and "the need for portfolio diversification", as this would lengthen the advice and be incompatible with insurance distributors' qualifications.
			- Deleting the new requirements of the **appropriateness test** to check for the consumer's "ability to bear losses" and "risk tolerance", as this would make it harder for consumers to invest, especially those looking for a short investment journey.
			- Revising the "**best interest" test** to ensure that it is fit for insurance products and distributors:
			    o Condition (a) should not require insurance distributors to have an "appropriate range" of products in their catalogue, as it cannot be met by all insurance distributors (eg tied agents or insurers' employees, small insurance companies etc.). Forcing them to broaden their product range would result in higher compliance costs or could even push them out of the market – leading to reduced competition and less choice for consumers.
			    o Condition (b) should focus on both quantitative and qualitative features of IBIPs (eg financial guarantees, biometric risk coverage).
			    o Condition (c) should not be introduced, since it would require insurance distributors to recommend a cheaper product without "additional features". However, the cheaper option is not necessarily better for consumers (eg less coverage, less protection and fewer benefits). In this regard, the Council's proposal in the suitability test – suggesting that a product should not be considered suitable if it contains additional features not necessary for the consumer's objectives – should also be deleted.

[1] Estimation based on the Belgian market.

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4	**Disclosures**	The RIS proposals will increase information overload. For a sustainable IBIP alone, the information requirements could reach up to 350 disclosures, stemming from different EU applicable rules. This would discourage consumers from investing, and would place a significant compliance burden on insurers, who would need to prepare, manage and update 350 pieces of pre-contractual information.	Focus on the information that matters to consumers and **<u>delete</u>** the following requirements: - The new **PRIIPs comparator** proposed by the EP, as it would not work for IBIPs given the multiple features they offer. Such comparator could be misused or misinterpreted by the wider public as a ranking of "good" and "bad" products. The ESAP will soon make all the KID information even more accessible – there is therefore no need to create a new online tool or database. - The provision under **Article 29(1)(a)(v)** to inform consumers "how the recommended IBIPs take into account the diversification of the customer's portfolio", as this requirement is not fit for insurance. - The new **standardised format and content for IBIPs pre-contractual information and the annual statement**. Due to the diversity of products and markets, such standardisation would not work. - The new **warnings for risky and complex products**, as they would discourage consumers from investing. Moreover, the warnings would duplicate the summary risk indicator (SRI) under the PRIIPs KID. - The **comprehension alert** in the PRIIPs KID proposed by the EP, as it has not worked in practice and would make investment less appealing. - The new **cost disclosures for MOPs**, as they would increase information overload and would make it more complex to offer these products. - The **requirement to publish the PRIIPs KID on the website of the distributor**. It is sufficient to provide it only on the manufacturer's website as it is done today to avoid duplication and unnecessary costs for distributors to set up and run a website. - The new **ESG dashboard** in the PRIIPs KID, as it would be redundant with the Sustainable Finance Disclosure Regulation (SFDR) templates.

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			On top of that, there is a need to clarify that the new annual statement would apply only to contracts sold after the entry into application of the RIS. This would not only avoid consumer confusion but also reduce the compliance costs for insurance companies. The burden would be especially heavy for SMEs, which are expected to incur €3.25m for the implementation of the new annual statement[2]. Additionally, the **PRIIPs KID can be simplified** in the following ways: - The *"What are the costs?"* section should include only the information that is essential for consumers, namely the total cost at the end of the recommended holding period (RHP). - The *"What are the risks and what could I get in return?"* should not include intermediate time periods. - Certain information is repeated in the PRIIPs KID based on the mandatory narratives (eg the RHP and the invested amount), which should be avoided. Moreover, there is no need to repeat the *"Product at a glance"* figures in other sections of the KID.
5	**Reporting**	The RIS proposals would increase the reporting requirements, contrary to the EC commitment to reducing reporting obligations by 25%. In turn, this would create significant administrative burdens for insurers, by raising the compliance costs and diverting resources from consumers' services.	**New reporting requirements should not be introduced for:** - VfM purposes, since there is plenty of data available in the PRIIPs KID, Solvency II and national reporting (and the ESAP is upcoming). This would be sufficient for NCAs to perform a first market screening and identify cases that require further investigation. - Periodic reports to the management board as part of marketing communications. - Cross-border activities, as the necessary data are already collected under the Solvency II Directive.
6	**Record keeping**	The RIS would introduce new record keeping requirements. This would add redtape and operational challenges for insurers, as it would involve maintaining extensive and costly internal records.	**New record keeping requirements should be streamlined by:** - Not extending the record keeping requirements for marketing communications beyond 5 years.

[2] Estimates on the costs of implementing the new annual statement in Germany.

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			Deleting the requirement of the inducements test to keep an internal list of all inducements paid or accepted and retained. Deleting the requirement in criterion (b) of the "best interest" test (as per the EP proposal) to justify the recommendation of a product with higher costs and to keep records of that justification. Instead, the criterion should not focus on costs, but take a holistic approach. Clarifying that the requirements of the inducements test – i) to explain compliance with the overarching principles and ii) to keep records of the tests performed – are conducted as part of the broader conflicts of interest policy, rather than for every individual inducement paid or retained.
7	**Empowerments**	More than 20 new empowerments to develop Level 2 and Level 3 measures are proposed for IDD and PRIIPs. This increases legal uncertainty and complexity for companies making compliance with the new rules more difficult.	**Policymakers should ensure clarity in Level 1 and avoid introducing Level 2 empowerments on:** VfM Inducements The best interest test The standardised format and content of pre-contractual disclosures and the annual statement The PRIIPs comparator
8	**Scope**	The RIS uses interchangeably the terms "customer" (covering all categories of policyholders, from large corporate to retail clients) and "consumer" (referring only to retail policyholder). This is confusing for companies and can lead to inconsistencies when complying with the framework.	The RIS should use only the term "consumer" to facilitate implementation, ensure clarity and align with the RIS focus on retail investors.