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AILO
ASSOCIATION OF INTERNATIONAL LIFE OFFICES

AILO ADVISORY

Providing AILO Members with an update on topical issues

WHAT NOW FOR PRIIPS?

A 'first' for the EU Parliament ECON Committee took place last week, on September 1st. By a very substantial majority they managed to object to and then reject the Regulatory Technical Standards ("RTS") produced by the Joint ESAs and adopted by the EU Commission, and so have now thrown the timetable for PRIIPS into doubt. A vote by the European Parliament in Plenary session later this year will determine its fate.

Nearly ten years in the making, PRIIPS has not enjoyed a happy journey. From the modest ambition of making similar, or substitute, products easily comparable for EU investors by asking the various manufacturers of financial products to adopt similar terms, together with similar ways of comparing performance and risk, it has grown to be a monster with Hydra-like tendencies. AILO's experience with the Commission and latterly the ESAs has been indicative of over-ambitious politicians trying to make their mark; incompetent Commission executives arrogantly insisting their way was the only way, and complication on top of complication in what has finally emerged to bamboozle ordinary investors. The Key Information Document (KID) is for ordinary investors considering a 'packaged' investment product. Packaging means it has been assembled for them so all the components are there, they can select the type of investment they want to own, and have an idea of the potential outcome over a time period.

However, from the early days PRIIPS was in trouble. Suggestions to include bank deposit accounts and ordinary shares were raised. UCITS, insurance savings products (including unit linked and traditional products) were to be broken down into their component parts, then analysed, given a risk/return rating, a time frame and reassembled into something the investor in the street could compare, one with the other. The level of information, and of detail, just got bigger and bigger. The KID must be only three sides of A4, with a standard font size, yet the two documents telling the industry what could, and what could not, be published ran to a total 285 pages!

For our industry, cross-border life assurance, the writing was on the wall from the start. At AILO's first meeting with Gabriel Bernardino at EIOPA's offices in Frankfurt, he made it plain that we would always be at a disadvantage because of mortality deductions, plainly seeing these as a 'cost' to invest. He advised us to work hard to make the case to show clearly the added benefits provided by the policy to offset the clear cost disadvantage. The life industry has consistently maintained that biometric risk premiums should not be included, as they are not a cost of investment. However, the RTS does not reflect that.

This pause may well be temporary. The Commission will continue to push for early adoption of the RTS, warts and all, as the "best solution"! The timeframe may be extended, but it is not certain. What we can take some comfort from is that the Parliament's ECON Committee has savaged the RTS on a substantial number of issues. We hope that the full Parliament will be influenced by this and vote to reject fully the RTS and also to postpone the implementation date. This will give us, and many other organisations, the chance to make our case to stick with what is in the Level 1 Regulation – that would be sufficient, provided it could be sensibly implemented.

For more information please click the logo to the right which will take you to the European Parliament's press release

European Parliament