

VVO

# Retail Investment Strategy (RIS)

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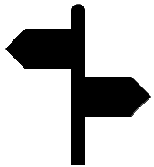
Hrvatski dani osiguranja /  
Croatian Insurance Days

Friday, 05.05.2023

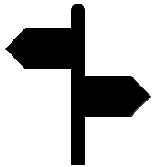
**Susanne Hofer**

(VVO – European Affairs)

# AGENDA



- **Insurance distribution regulation**
  - 5 years of IDD
  - Quo vadis? (Are we at the cross-roads?)
- **Retail Investment Strategy (RIS)**
  - What is the RIS all about?
  - Latest rumours ...
  - Why are IBIPs important for the CMU?
  - Distribution landscape & Ifa Ulm – Study on RIS
  - Sector key messages to RIS



- **Regional perspective**
- **„Financial literacy is a key part to the puzzle“**
- **5 ways to ensure that RIS works for consumers & RIS for all**
- **Way forward / ... yet to come!?!?**



# 5 years of IDD



IDD provides a robust distribution framework for insurance and is ...



**Working well**



**Appropriate for insurance**

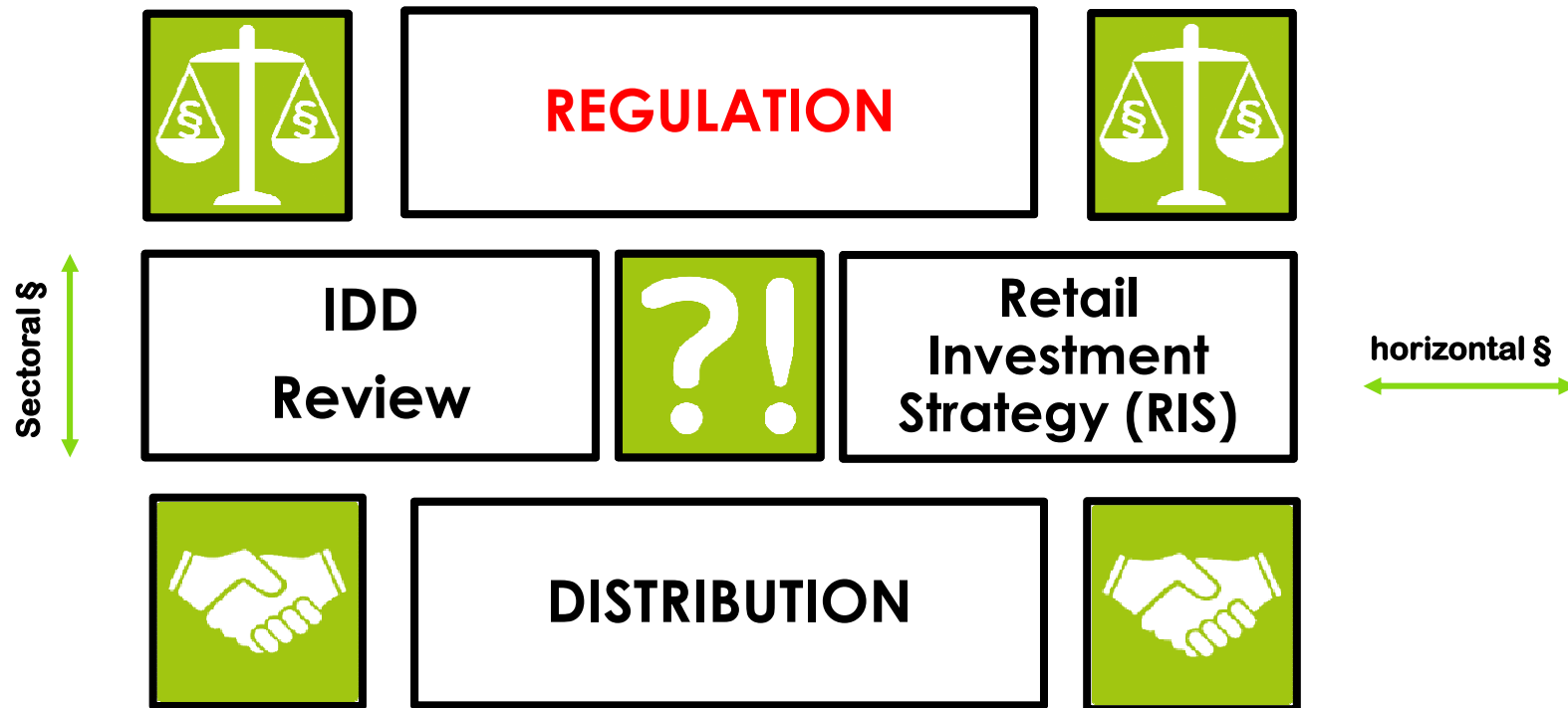


**Appropriate for diverse national markets**



**Stronger than MiFID II where necessary**

# Quo vadis?



# Retail Investment Strategy (RIS)

→ RIS = GAME CHANGER PROPOSAL

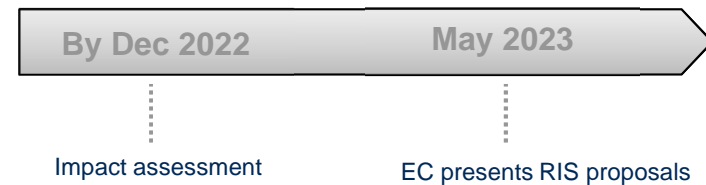
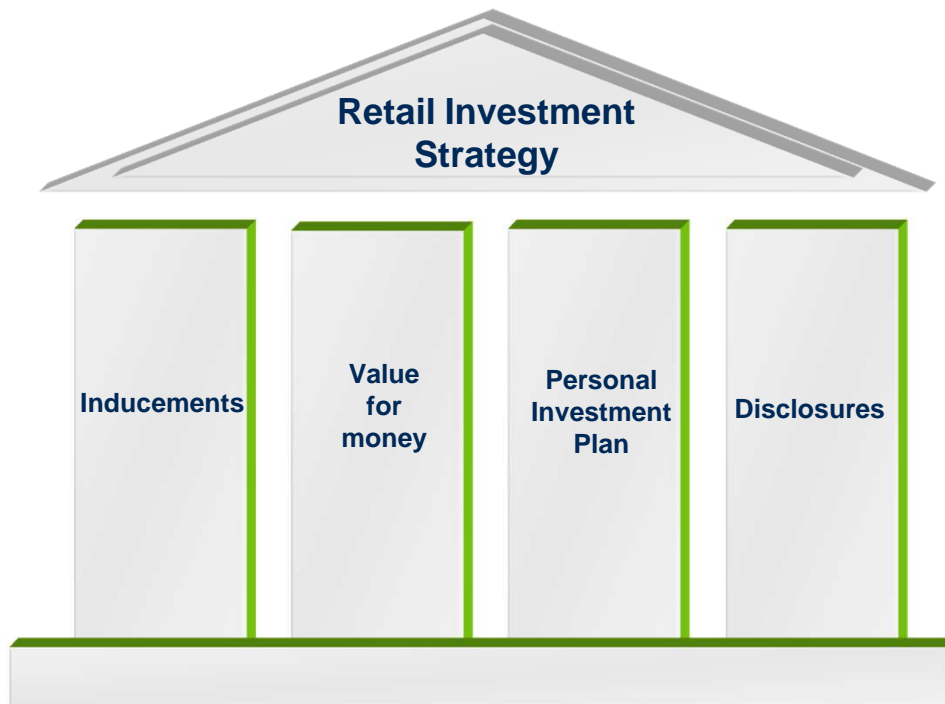
## General aspects to RIS (Retail Investment Strategy):

- **Single, horizontal frame for all IBIP products for retail investors**
- This framework shall regulate the distribution of all IBIP products, regardless if they come from Insurers, Banks, Fund managers etc.
  - To grant a common level of protection for retail investors
  - To boost their participation in EU capital markets
- Format → most likely an "**Omnibus**"-Proposal to change IDD & MiFID II simultaneously
- **4 thematic pillars** → Disclosures (incl. PRIIPs KID Review)/ Inducements (v.a. Commission) / Personal Investmentplan / Value for money

### OBJECTIVES:

- Increase overall participation in capital markets
- Adequate consumer protection
- Bias-free advice and fair treatment
- Competitive and cost-efficient financial services and products
- Transparent, comparable and understandable product information

# Retail Investment Strategy (RIS)



Impact assessment

EC presents RIS proposals

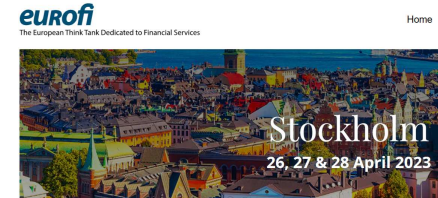
### Timeline:

- **Legislative proposal** for RIS by EC currently expected for **24.05.2023** as part of CMU

→ *very little time remaining for an entire legislative process until end of current EC mandate (06/2023 – 04/2024)*

## Latest rumours I ...

- Finance-Commissioner McGuinness's latest speech at EUROFI
- A **full ban on inducement will not be part of the legislative proposal for RIS**
  - Could be "too disruptive at this stage"
- **Some business models and practices will need to change to ensure that consumers get a fairer deal**
- Hence EC is considering **stricter rules**, including:
  - **Tighter conditions to allow inducements**
    - ... this could mean an alignment with MiFID or conditions going beyond the current MiFID rules
  - **Targeted ban on inducements for execution-only transactions**
  - **Measures to ensure better value for money (vfm)**, which could apply to the **product design** only, or be extended to also cover the **distribution phase**
  - **Access to reasonably priced advice**
  - **Increased transparency obligations, including a better breakdown of costs**
    - to make it easier for consumers to compare different options
  - **Increased scrutiny, including from supervisors**
  - **A review clause allowing a full ban on inducement at a later stage if necessary**



[Eurofi speech](#)  
[\(europa.eu\)](#)

**EC-Roundtables on RIS issues** with industry & stakeholders to follow in coming months

## Latest rumours II ...



- **RIS is expected to include measures on**
  - digital marketing through social platforms,
  - quality of advice and distributors' training,
  - financial education and
  - inclusion of ESG information in the PRIIPs Key Information Document (KID)
- **Mixed media coverage on McG´ s latest public speech across EU**
- **European consumer organisations pushing very strongly for bold interventions by EU policymakers**
- **Financial services and insurance industries are united in opposing an EU-wide ban**
  - ... but might have different views on some parts of the final RIS proposals



- **Lack of awareness / expertise on insurance business** → Policy makers tend to overlook benefits provided by insurance and its covers
- **Political challenges** (e.g. access to policymakers, political polarization)
- **Time constraints** → Council & EP only have limited working time to develop their position & negotiating mandate and then conduct trilogues until May 2024
  - RIS may suffer a lack of commitment OR deal closing dynamics prior to EP elections in May 2024



# Why are insurance-based investment products (IBIPs) important for the CMU?

IBIPs are...  
**€4.1trn**  
of assets under management<sup>1</sup>

**Include wide range of products**

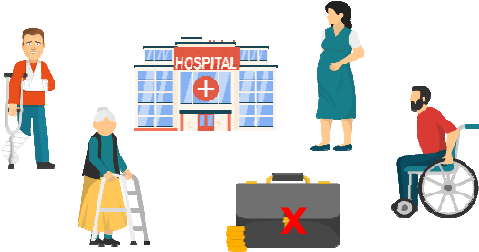
Unit-linked	Guaranteed
Index-linked	Annuities
Hybrids	Funeral
Profit-participation	Others

**Include financial guarantees**  
consumers prioritise security over return<sup>2</sup>

 VS 

**83%**      **17%**

**Cover against many risks**



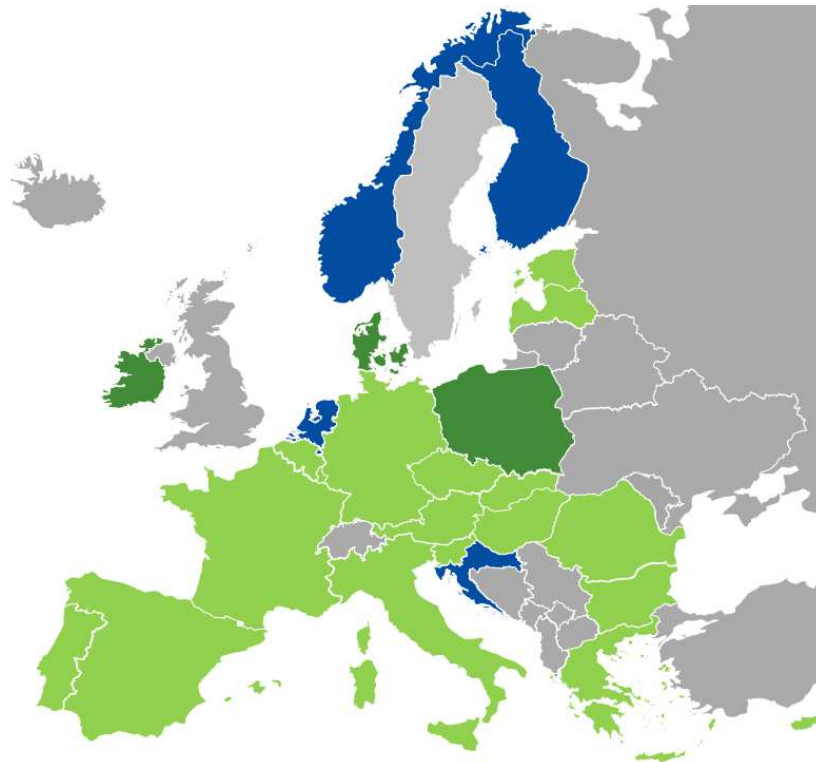
**€2bn**

of insurance claims paid to clients per week<sup>3</sup>



<sup>1</sup>In 2020, based on Insurance Europe estimates (EU27-LT+NO)  
<sup>2</sup>Source: 2021 Insurance Europe pension survey of 17 000 people in 16 EU countries  
<sup>3</sup>Estimate of biometric claims paid in 2020, based on 7 countries that represented 45% of all markets surveyed (EU27-LT+NO)

## Distribution landscape – Payment by commission



■ Payment by commission still prevalent

■ Combination

■ Payment mostly on basis of fees

Based on Insurance Europe internal survey data

## Ifa Ulm Study on RIS



- Ifa ULM Study on ban on commission & retail investment strategy (RIS) available at [studie-provisionsverbot.pdf \(ifa-ulm.de\)](https://www.ifa-ulm.de/studie-provisionsverbot.pdf)
- EC's Kantar study results & findings partly misleading, as arguments beyond a pure cost perspective that speak against a commission ban, are completely ignored
  - Consumers who typically make rather small contributions to old-age provision and who should actually be particularly protected by the RIS, benefit from the existence of the commission system



- **Commission system has desirable macroeconomic redistributive effects**
  - Larger contracts are charged more than small-volume contracts and thus subsidize some of the advice provided to less affluent consumers



- **Quantitative analyses using typical examples of different compensation models:**
  - For consumers who regularly save rather small sums of money (who should therefore receive special attention in the context of the RIS), commission-based models are usually more cost-effective than fee-based models
- Even if one argues solely on the basis of the costs of consulting and disregards all other arguments, a professionally correct view must lead to the conclusion that a **coexistence of commission and fee is desirable!**

## Sector key messages to RIS (extract)



- **Preservation of insurance specifics, IDD minimum harmonization and therefore NO blanket "MIFIDIZATION" of IBIPs**
- **Supervisory competences must remain clearly regulated in the future also under RIS** (insurance industry supervised by NCAs & EIOPA, not ESMA)

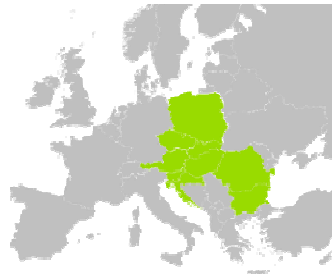


- **Commission-based advice is prevalent in most MS** and offers advantages to consumers
- **Affordability of advice is key** to increase retail investor participation in the EU capital market, meet the CMU-objectives, prevent pension gaps and to promote financial literacy
- **Avoidance of an (additional) new, EU-wide harmonized annual declaration for IBIPs**
- **Value for money principles should be flexible and take a holistic view on all quantitative & qualitative aspects of the product**



- **Insurance features are not add-ons but an integral part of IBIPs**
- **No trade-off between protection of insured & financial stability**
  - **A statutory balance between conduct of business regulation (CoB) and prudential regulation is absolutely necessary to maintain healthy insurance companies and healthy markets**
  - Both perspectives must be taken into account when designing the RIS

## Regional Perspective



- IDD is a **minimum harmonization directive**, setting minimum common standards.
- **Only the existing sectorial approach is able to fully respect the particularities of the insurance sector which diverge between national markets**
- There is **not one single EU distribution system for insurance**, but diverse national markets instead
- **Each national system has its own specific features based on the needs and expectations of local consumers.** Any new initiatives applicable to insurance have to take this diversity into account and work equally well in all markets
- **Commission-based distribution models are the most common.** They allow customers to access as much pre-contractual advice as they need free of charge, as this is effectively pre-financed by existing insured customers. This increases the **affordability of advice**, which is particularly important in markets where low levels of financial literacy exist
- In many markets, insurance distribution still relies largely on **face-to-face advised sales**. Some EU markets have a legal requirement to provide advice prior to the sale of an IBIP
  - If consumers are not willing or able to pay for advice upfront they cannot access these products – this also blocks a major path to reducing **the investment, pension and protection gaps**

# 5 steps to ensure the RIS works for consumers



Five steps to ensure the EU Retail Investment Strategy works for consumers

STEP 1

Streamline consumer disclosures & make them engaging



## What is the problem?

Consumers need concise, simple and clear information to compare products and make informed decisions.

However, EU rules mean that consumers are currently overwhelmed with too much and too complex information, and making sense of it is nearly impossible. This undermines consumers' trust in the products and can discourage them from investing.

## Did you know?

When buying a green insurance-based investment product online, EU rules require you to receive 339 pieces of pre-contractual information.

EU laws also duplicate several disclosures, meaning that you receive the same information multiple times in different formats and wordings.



## What are the solutions?

- Use significantly fewer disclosures mandated by EU rules
- Use behavioural economics, allow visual aids and icons, and remove jargon from EU rules
- Test new disclosures on consumers to ensure they work



Five steps to ensure the EU Retail Investment Strategy works for consumers

STEP 2

Focus disclosures on what matters most to consumers



## What is the problem?

Consumers need the right type of information that helps them understand how products differ from each other so they can choose the one that best meets their needs. Insurance-based investment products are the only products that combine both investment and protection against certain risks.

Current disclosures include many figures on costs and charges, but leave no room to properly explain the protection and other benefits insurance products offer to consumers and their families. This means consumers often compare products in terms of their costs rather than their quality, and are encouraged to go for the cheapest offers without properly considering the added value of insurance protection.

## Did you know?

The usual Key Information Document (KID) for packaged retail and insurance-based investment products (PRIIPs) provides you with around 30 different figures on costs.

The "What is this product?" section of the KID alone includes seven different disclosures on costs, but only allows a two-sentence mention of the insurance cover, even though this is crucial to your decision-making.



## What are the solutions?

- Create disclosures that highlight products' distinctive features, in particular insurance protection elements
- To aid comparison, require providers to disclose when products do not offer insurance coverage
- Be transparent on costs, but do not design disclosures in a way that nudges consumers to compare products based purely on costs



Five steps to ensure the EU Retail Investment Strategy works for consumers

STEP 3

Embrace consumers' digital demands



## What is the problem?

Digitalisation and new technologies are changing consumer habits and demands drastically. Consumers expect online transactions to be straightforward, and this also applies to retail investment.

However, EU rules are not all fit for the digital age. Many are designed for face-to-face and paper-based interactions and do not allow easy access to information on devices such as laptops, tablets or phones.

## Did you know?

If you contact an insurer online, both the Insurance Distribution Directive and the PRIIPs Regulation require the insurer to provide you with the information about the product on paper by default. Only if certain conditions are met and extra steps are taken can the insurer provide you with disclosures digitally.

But this does not reflect consumers' preferences: according to a recent Insurance Europe survey, 72% of respondents prefer to receive information on products digitally rather than on paper.



## What are the solutions?

- Provide disclosures digitally by default, with paper or printable versions available on request
- Use digital tools like layering information, hyperlinks or videos to make disclosures more user-friendly
- Consider approaches such as the Essential Product Information (EPI), an example developed by Insurance Europe to illustrate how consumers could access information in a digital and engaging way



Five steps to ensure the EU Retail Investment Strategy works for consumers

STEP 4

Increase risk awareness & boost financial literacy



## What is the problem?

Risk awareness and financial literacy are key to consumer empowerment and participation in financial markets but remain worryingly low, particularly among those who need them most.

For example, the 2020 OECD International Survey of Adult Financial Literacy revealed that a mere 26% of all adults responded correctly to questions on basic concepts such as simple and compound interest.

## Did you know?

Insurance Europe's 2021 Pan-European Pension Survey showed that 38% of respondents were not saving for retirement. This includes more women than men, more younger people, more unemployed people and more people with lower educational qualifications.



## What are the solutions?

- Use the joint European Commission/OECD financial competence framework for adults and the framework that is currently being drafted for children and youth to develop financial and insurance education programmes for all layers of society
- Promote tools that help consumers to gain insight into their financial situation and understand the risks they face, such as pension tracking services
- Support the development of national financial and insurance education strategies and introduce a European Day of Financial Education



Five steps to ensure the EU Retail Investment Strategy works for consumers

STEP 5

Ensure easy access to advice and protection for all



## What is the problem?

Faceted advice is a crucial part of sound financial decision-making. Impoverished and risk-averse consumers need advice to give them the confidence to take their first steps in the investment world. Professional advice can also help EU citizens understand how to invest sustainably, navigating the new EU taxonomy for green products.

But the future Retail Investment Strategy (RIS) could cut consumers off from the resource by forbidding the payment for advice through commission across all the EU, even if this is implemented gradually and with a transitional period.

## Did you know?

Across Europe, the most common way of paying for advice is via commission paid to the adviser. This enables consumers to access as much advice as they need and makes it possible to help around without making a financial commitment.

If commission-based advice is banned across the EU, consumers will only be able to pay for advice themselves through fees. But evidence shows that this is prohibitively expensive for many consumers. Based on a 2021 KfW study, the average retail fee for advice in Germany would be €360 even though more than half of all investments by German retail clients are for amounts below €5 000, or less than €100 a month.

## Did you know?

In many markets, advice for buying an insurance-based investment product (IBIP) is mandatory. In others, although advice is essentially not compulsory, IBIPs are often considered complex products and cannot be sold on a simple "execution only" basis. So, if consumers are not willing or able to pay for advice upfront they cannot access these important products. And this creates a major credit building, the investment, pension and protection gaps.

## What are the solutions?

- Do not limit the ways advice is paid for and ensure consumers continue to have access to as much advice as they wish
- Instead of an EU-wide ban, increase transparency on the level of commission to a way that is understandable and useful to consumers
- Embed "value for money" principles in the design of products to ensure every cost is proportionate
- Bolster financial education to empower consumers to seek the right questions



# Financial literacy



- **Financial literacy in the EU is overall low**
- It is a core **life skill** that needs to be **developed and nurtured as early as possible** to encourage responsible financial behavior
- **Citizens need the financial literacy skills to remain economically resilient** and to engender the necessary confidence to take charge of one's own financial future
- **Increased investment in financial literacy** in EU would be helpful to achieve a situation where all citizens have a basic understanding of financial services & markets.
  - This could result in **more empowered customers** that are able to raise questions, know where and how to seek advice, challenge the advice given and better understand disclosures made.
- Full support for Commissioner McGuinness' es remarks\* that *“we should empower people so they know how to navigate their finances. The earlier in life that we build up financial awareness, the better... [Financial literacy] must go hand in hand with a well-regulated financial system, fair advice and good consumer protection — but it is a key part of the puzzle.”*

\* [Improving financial literacy must be a priority for Europe | Financial Times \(ft.com\)](#)

# Retail Investment Strategy for all

**The RIS should have a holistic approach**



Verband der Versicherungsunternehmen Österreichs VVO

Source



Improve disclosures

- Streamline
- Focus on insurance benefits
- Make them engaging
- Be digital-friendly



Go for transparency of commission upon request



Promote "value for money" principles at product design



Support financial literacy



Co-existence of commissions & fees



# WAY FORWARD / ...yet to come?!?

.....↓.....

→ RIS – Review clause on full ban on inducements  
*(proposed in may 2023, applicable tbd)*

→ RIS – Legislative process *(06/2023 – 04/2024 or beyond)*

→ RIS – Implementation phase *(tbd)*

→ IDD Review *(> late 2024)*  
*(expected spill overs from RIS ideas into Non-life?!?)*



***Thank you for your attention!***

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