Institute
and Faculty
of Actuaries

CP17/32: Quarterly Consultation Chapter 6: PRIIPS Key Information Document and Personal Projections

IFoA response to Financial Conduct Authority

2 October 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute
and Faculty
of Actuaries

2 October 2017

Susan Cooper
Banking, Lending and Distribution
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Dear Susan,

IFoA response to CP17/32: Quarterly Consultation
Chapter 6: PRIIPS Key Information Document and Personal Projections

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the FCA's consultation on the proposed changes to Packaged Retail and Insurance-based Investment Products (PRIIPs); in particular optional disclosure in addition to the PRIIPS Key Information Document (KID).

2. The IFoA's Life Standards and Consultations Sub-committee and Life Board have been involved in the drafting of this response. Members of this Committee and Board work for insurers active in the investment product market.

General Comments

3. The IFoA believes that there may be a shortcoming in the basis of the FCA's proposals on optional disclosure in relation to PRIIPS. From our reading, paragraphs 6.13 and 6.14 of the consultation paper suggest that most new policies will not require a personalised illustration, and that it would be a rare event for unusual circumstances. However, we do not believe that to be the case. Our view is that all intermediated sales involving advisers or other forms of investment introducers will require, as a minimum, a personalised illustration from the providers (or from their network's software) as part of the pack of information given to the client.

4. We also feel that it is inevitable that advisers who have been long used to Key Features Illustrations will attach more importance to this document than to the relatively unknown KID. This view is enhanced by the KID being seen by IFAs as being 'a European innovation that will go after Brexit'. Therefore, it is difficult to see the statement in paragraph 6.17 being enforced without heavy involvement from the FCA on an education and training programme for IFAs.

5. Our responses to the consultation have been framed with those thoughts in mind and are:

Q6.1 Do you agree that, where it is clear clients either want or need to have a personal projection, firms should be able to provide personalised projections alongside the PRIIPs KID?

6. We agree with this proposal. It would seem inappropriate to expect customers to take a standard KID for £1,000 per year and apply it to give a meaningful indication of likely

outcomes for a policy where they are paying £10,000 per year (a with-profits ISA for example), or alternatively, where they are paying £20 per month.

Q6.2: Do you agree that, if provided, firms should prepare personalised projections in accordance with our rules in COBS 13.5 on projections or the MiFID future performance rules (as relevant)?

7. We do not agree with this proposal. We believe that using the deterministic projections as detailed in COBS 13.5 alongside the projections within the KID will lead to confusion and will require lengthy notes to be issued by the distributor and/ or the insurer to explain the differences shown. Matters are not helped by KIDS showing four illustrations including one that could potentially show negative growth.

Q6.3: Or, alternatively, do you think that firms should be able to prepare personalised performance scenarios in line with the methodologies set out in the PRIIPs RTS?

8. We think firms should be able to prepare such personalised performance scenarios. It can be achieved by requiring firms to use the same rates of return before charges from the standardised KIDs in the personalised illustrations.

9. Our view is that the KIDs format can be used including all the data from the KIDs but on a personalised basis. The projections should include all four of the scenarios shown by the KIDs document. The projections should give the same time periods for the projections (1 year, half way through the Recommended Holding Period and the Recommended Holding Period) and should give the same information on costs and on risk derived from the standardised document. The risk rating should not change from the standardised document.

10. We believe that the simplification of using the growth rate before charges from the standard illustrations to drive the personalised illustrations is practicable and would avoid complex changes to systems (which would ultimately lead to additional cost for customers). The changes that would be required are all based on which projected values should be shown and the format of the document.

Should you want to discuss any of the points raised please contact Steven Graham, Technical Policy Manager at Steven.Graham@actuaries.org.uk or on 020 7632 2146 in the first instance.

Yours sincerely

Marjorie Ngwenya
President, Institute and Faculty of Actuaries