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KIDS for PRIIPS – a guide for Chief Actuaries

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Agenda

- Background Information
- What does the KID need to include?
- How are the figures calculated?
- Monitoring compliance
- Biggest implementation challenges
- Q&A



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Regulatory background

New EU-wide disclosure requirements from 1 January 2018

Key Information Documents (KIDs) required for Packaged Retail and Insurance-Based Investment Products (PRIIPs)

Standardised, non-personalised point of sale document

Aim is to help retail investors better understand product and risks before investing

NOT A MARKETING DOCUMENT



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What products are captured?

- 
Collective investment schemes
- 
Investment trusts
- 
Unit-linked and with-profits savings products
- 
Holloway products
- 
Pensions contracts



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What does the KID need to cover?

- 3 page point of sale document
- Prescribed structure
- Some prescribed wording



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- Demo of a KID document



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What needs calculating?

Risk Indicators

Performance Scenarios

Impact of costs on return achieved

Summary Risk Indicator

	MR1	MR2	MR3	MR4	MR5	MR6	MR7
CR1	1	2	3	4	5	6	7
CR2	1	2	3	4	5	6	7
CR3	1	2	3	4	5	6	7
CR4	1	2	3	4	5	6	7
CR5	1	2	3	4	5	6	7
CR6	1	2	3	4	5	6	7

CR7...



Categorisation

- How to calculate Market Risk Measure and Performance Scenarios depends on category of PRIIP
- Most insurance products will fall into Categories 2-4

Category	Key features*	Examples
2	“offers non-leveraged exposure to the prices of underlying investments”	Unit-linked
3	“values reflect prices of the underlying investments but not as a constant multiple”	UL with guarantee or Investment Trust
4	“values depend in part on factors not observed in the market”	With-Profits

Calculation Methodologies

- Methodology for Market Risk Measure and Performance Scenarios
 - Closed-form Formula for Category 2
 - “Boot-strapping” projections for Category 3

- Assumptions
 - Historic returns adjusted to risk-free expected return for MRM
 - Historic returns allowing for costs for Scenarios



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Calculation Outputs

Calculation	Confidence Level	Assumptions
Market Risk Measure	97.5%	Historic Returns adjusted to risk-free
Favourable Scenario	10%	Historic Returns allowing for costs
Moderate Scenario	50%	Historic Returns allowing for costs
Unfavourable Scenario	90%	Historic Returns allowing for costs
Stress Scenario	95% (for holding periods >1y)	Adjusted Historic Returns allowing for costs

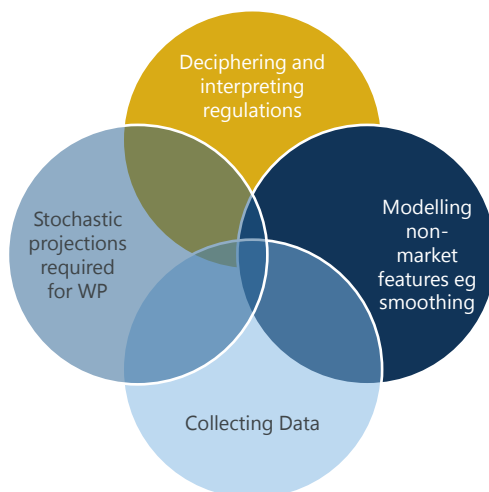


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Why are calculations non-trivial?



Modelling non-market features

- For Category 4 PRIIPS, separate out “market” and “non-market” features
- Model “market” features as Category 2 or 3 as appropriate
- Non-market features shall follow “robust and well-recognised industry standards for determining expectations and levels of uncertainty of the contribution”
 - Use an asset share approach for smoothing etc

Impact of costs

- Methodology akin to that used for existing Key Features Illustrations
 - Reduction in yield calculation
 - Greater granularity needed
- Transaction Costs
 - May need to obtain from investment manager



Examples of challenges

- Modelling payouts if not targeting Asset Share
- Smoothing
- Share price vs NAV for Investment Trusts
- Monthly vs Daily Data
- Changed Investment Strategy
- Changed Investment Manager
- Multiple option products / systemisation

If we get it wrong, FCA has wide range of powers!



When does a KID need updating?

12 months have passed since previous KID

SRI changes (monitored over a 4 month period)

Mean return in performance scenario changes by more than **5%**

BW view: Requires monthly monitoring



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Conclusions

- Calculations are not particularly difficult but probably beyond the “marketing team”
- Some areas are likely to need a bit of up-front work SOON
 - Historic Investment Return data
 - Asset Share Methodology for With-Profits
 - Expense and Costs Information
 - Systemisation and version control / records

For more details or to have a 1-1 discussion of your needs please contact:

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Q&A



Regulatory Information

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