



Regulatory pipeline - conduct & consumer risk

9 June 2016

Agenda for this presentation

CBI agenda – consumer and conduct risk

European agenda – product oversight
and governance

Focus on – PRIIPs

CBI Agenda

Consumer risk: Anything that would threaten the CBI objective that regulated firms treat consumers fairly and with dignity and respect.

Conduct risk: The risk a firm poses to its customers through its direct interaction with them.

Consumer-focused culture – CBI view

Tone from the top

Permeates the whole organisation

Consumer risk not just for the risk and compliance people

Operating environment – cost-cutting v service

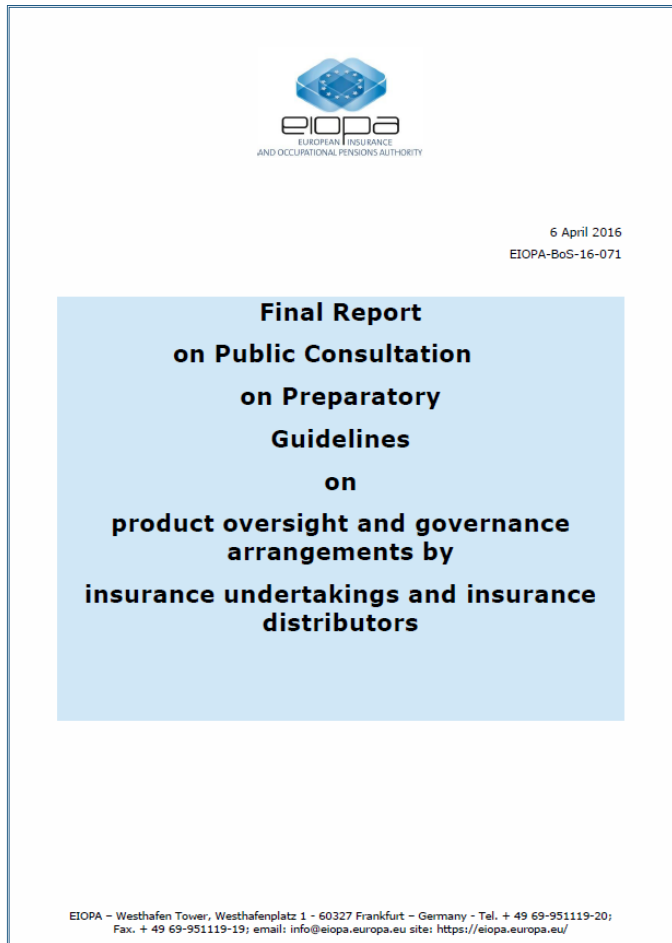
Claims handling

Impact of technology on service delivery

Cyber-risk and IT security

Importance of Product Oversight and Governance

EIOPA - Product oversight and governance



- EIOPA consultation through 2015
- Aim is to provide guidance to regulators on consistent implementation of POG
- Context – proposed amendments to Insurance Distribution Directive (IDD)
- Final Report issued in April
- Result is two sets of Guidelines
 - For manufacturers
 - For distributors

Key issues for manufacturers

Formalise product governance

Identify target market

Select suitable distributors

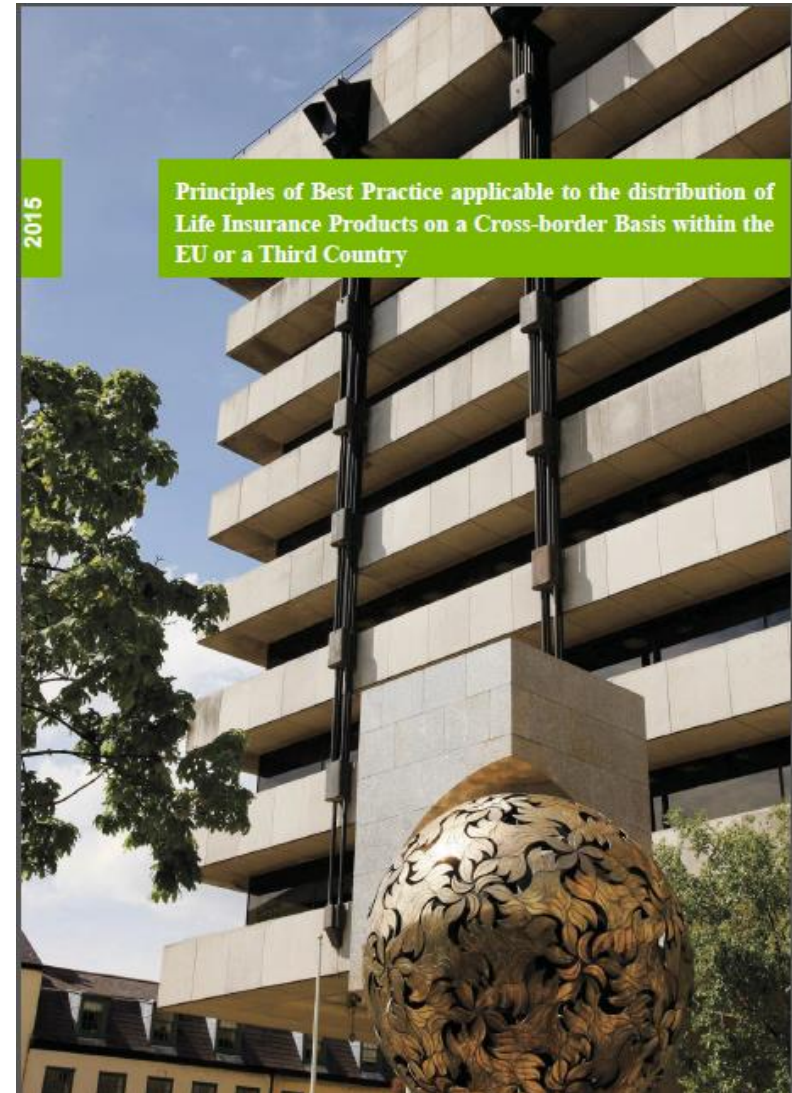
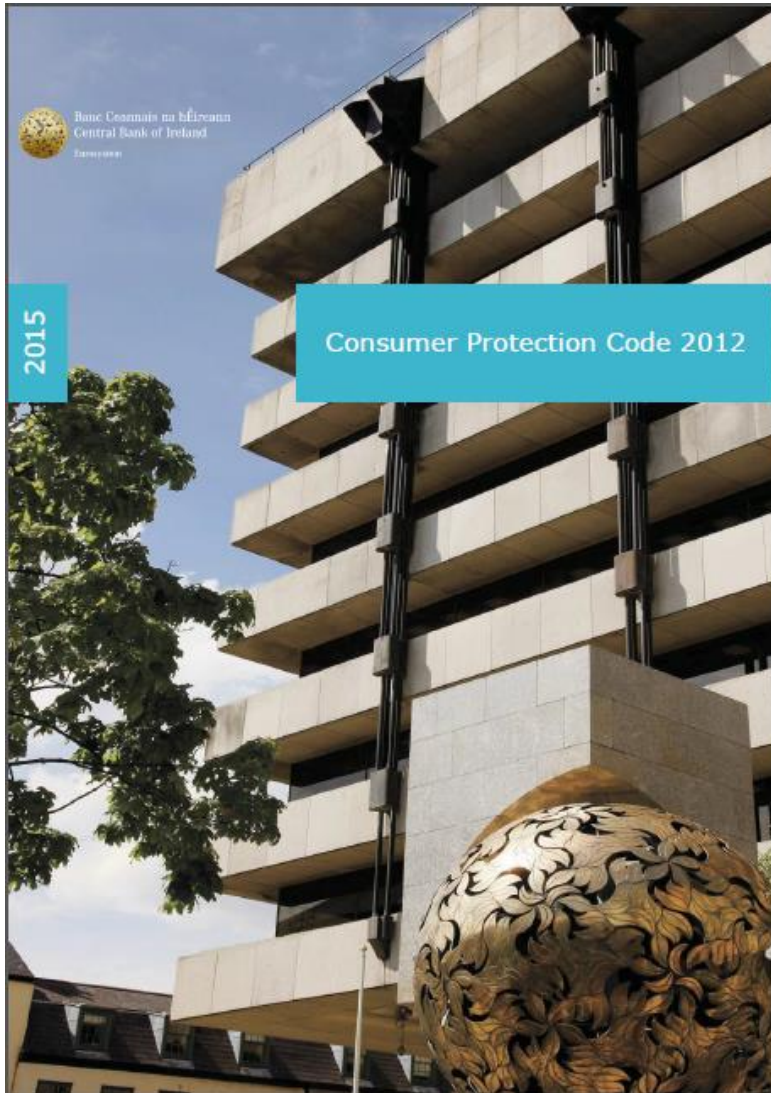
Assess suitable / unsuitable customers

Profit test from customer perspective

Lifecycle view – change in circumstances

Provide distributors with right information

Conduct of business or Prudential Supervision?



PRIIPS

An introduction

What is a PRIIP?

Packaged – excludes assets held directly

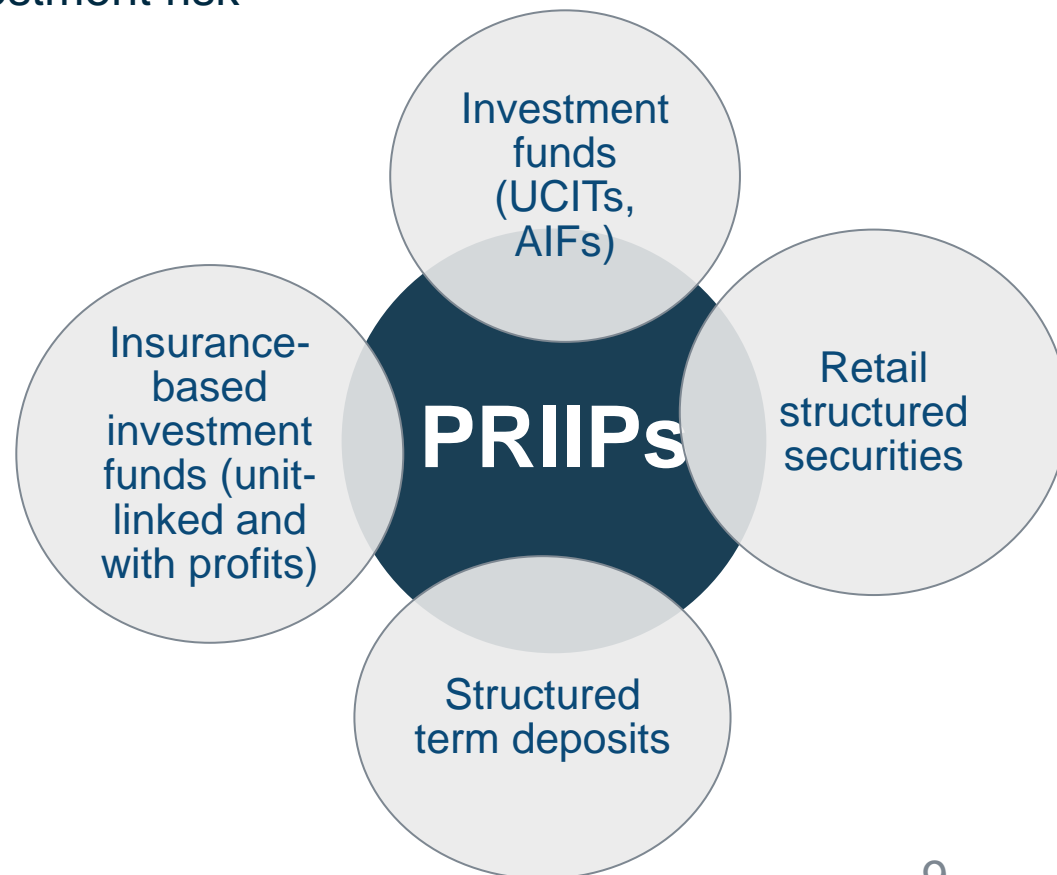
Retail – excludes institutional investment

Insurance-based – includes insurance products, existing regime for UCITs

Investment – excludes products without investment risk

Product

PENSIONS?



What do I need to do?

- PRIIPs regime is all about the KIDs
- Key Information Document needed for each investment offering
 - What does this mean?
 - What does a KID look like?



When do I need to do it?

- You need to comply by 1 January 2017
- When do you need to start?

Select one option from the list below:

- (a) Soon
- (b) Now
- (c) Yesterday

PRIIPS - introduction

The detail


My focus on PRIIPs

What is in a KID

Key Challenges

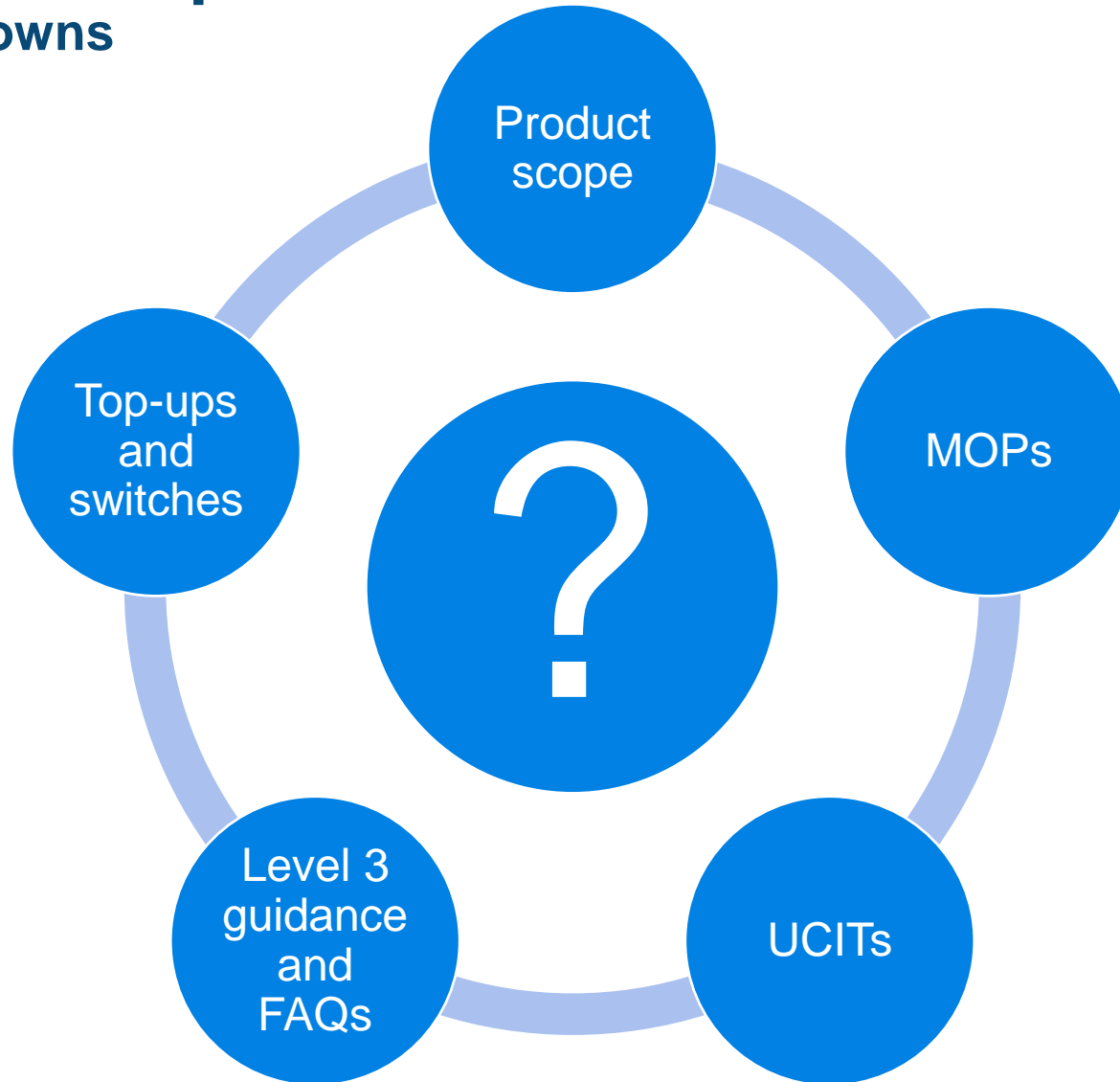
How we can help

What is in a KID?

Key Information Document	
Purpose	This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.
Product	'ABC Life Product' manufactured by XYZ Life Ltd. Call +353 1 xxx xxxx for more information. The Central Bank of Ireland is the competent authority of XYZ Life Ltd. This KID was produced on 26 th April 2016.
What is this product?	
Type	This product is a unit-linked investment product offering access to a range of funds. It is a whole of life product on a single life basis.
Objectives	The product aims to provide long-term capital growth by investing in a combination of equity, bonds and cash funds. The investor has the option of which funds to select.
Intended retail investor	This product is designed for customers who want a high degree of diversification on the basis of their risk profile and their expectations of performance. This product is available to individuals aged between 18 and 79 on a single life basis only.
Insurance benefits	This is a single premium product with a minimum premium of €15,000. Top-ups are allowed for a minimum of €5,000. There is no premium charge, i.e. 100% of premiums are invested. The amount of the additional death benefit ranges from 0.15% to 1% of the policy value varying by age of the life assured. Surrenders are permitted at any time.
What are the risks and what could I get in return?	
Risk Indicator	
	<p>The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.</p> <p>We have classified this product as 4 out of 7, which is a medium risk class.</p> <p>This rates the potential losses from future performance at a medium level, and poor market conditions could impact the capacity of XYZ Life to pay you.</p> <p>Be aware of currency risk. You will receive payments in a different currency, so the final return you will get depend on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.</p> <p>You are not entitled to receive back a minimum percentage of your capital. The amount you receive will be related to the value of the funds at the time of death or surrender which depends on future market performance and is uncertain.</p> <p>This product does not include any protection from future market performance so you could lose some or all of your investment. If we are not able to pay you what is owed, you could lose your entire investment.</p> <p>However, you may benefit from a consumer protection scheme (see the section "what happens if we are unable to pay you"). The indicator shown above does not consider this protection.</p>

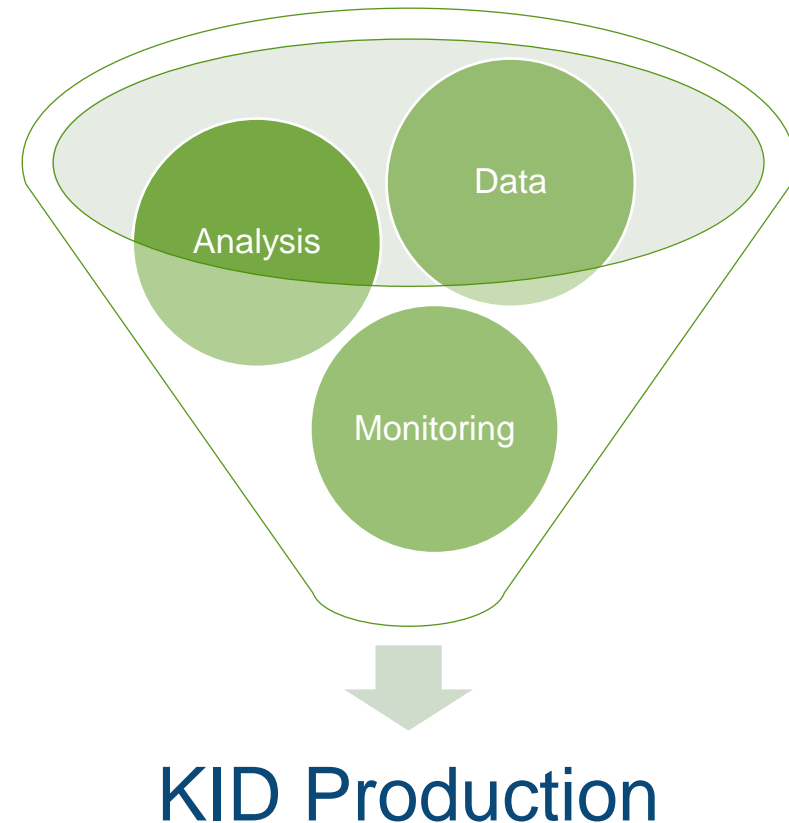
Setting the scope

Known unknowns

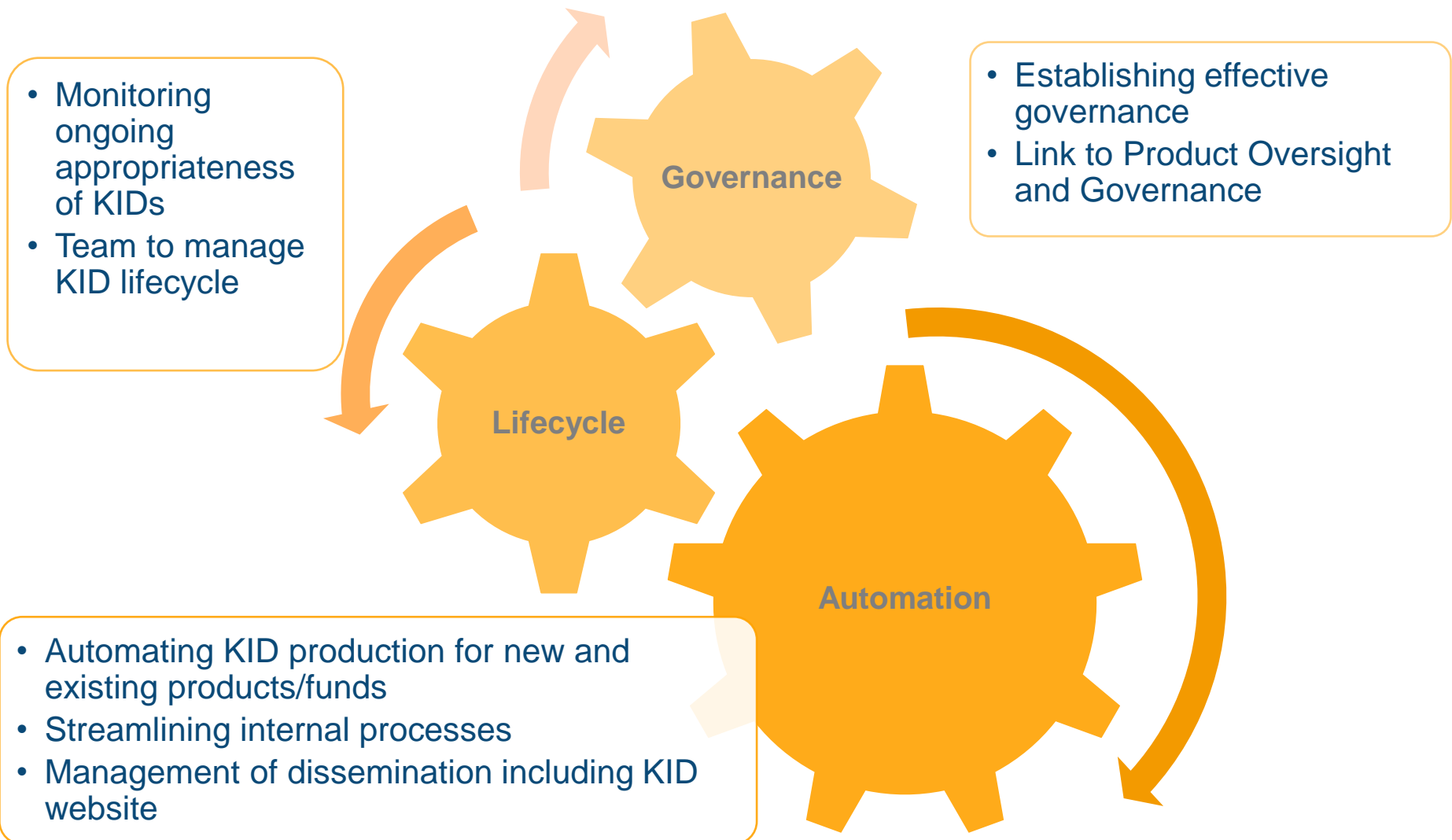


Key challenges

- **Interpretation** of the PRIIPs rules
- Significant **data gathering** exercises on past performance, cost allocations, credit ratings, risk profile, etc
- **Categorisation** of products and funds in determining their risk and reward profile
- Building and validation of **calculation engines** and simulation models needed to produce the Summary Risk Indicator (SRI)
- Use of **proxies** for funds lacking data
- Development of **governance structures** around the assessment of appropriateness of risk ratings, determination of recommended holding periods and target customers, signing-off of complete KIDs, etc
- Improvement of **documentation** management systems
- **Drafting skills** to prepare clear and concise KIDs in the appropriate language for the target market



PRIIPs – Operational Challenges



Project Risks

Tight deadline

- Level 2 not necessarily final and Level 3 yet to be published

Reliance on third-parties

- Data and look-through

Multi-territory and multi-language

- Differing interpretations and application by regulators

Ex-ante notification and product pre-approval

- Again differing application by regulators

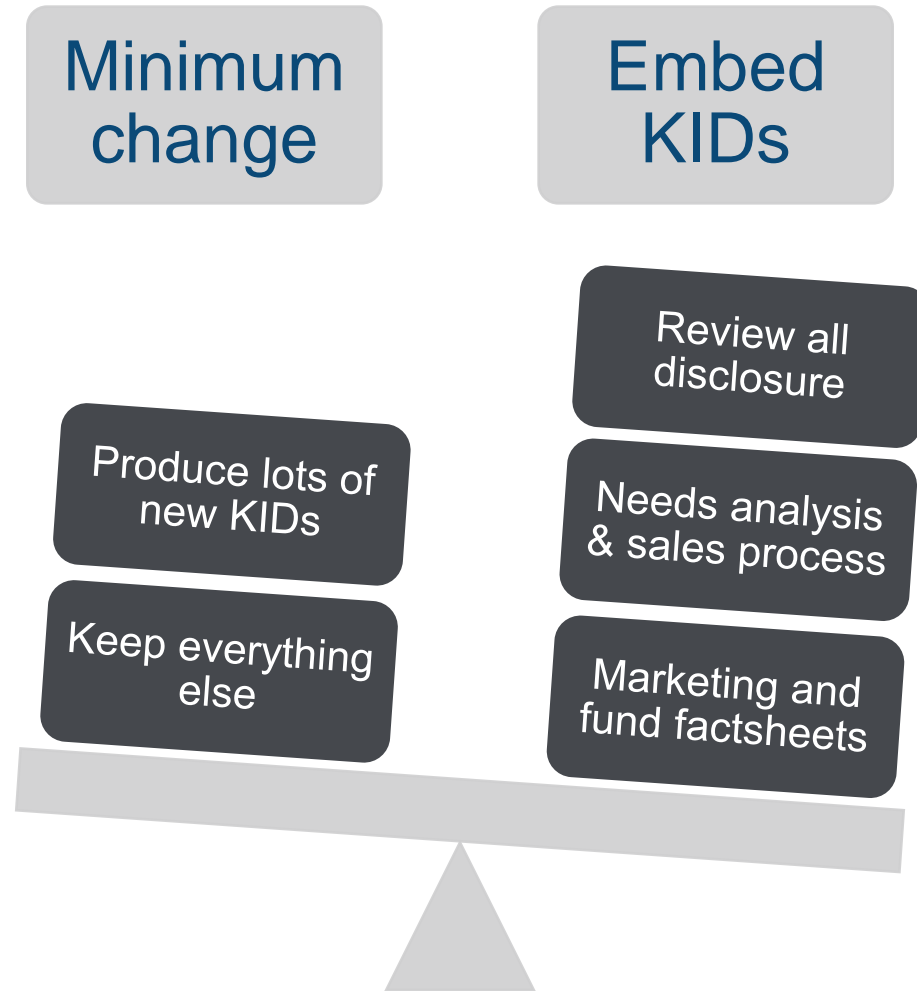
Enforcement

- Liability and fines – up to €5m for a company or €700,000 for individuals
- Reputation – name & shame

Existing disclosure rules to change?

- CBI and FCA have indicated there will be some changes

Minimum compliance or major overhaul?

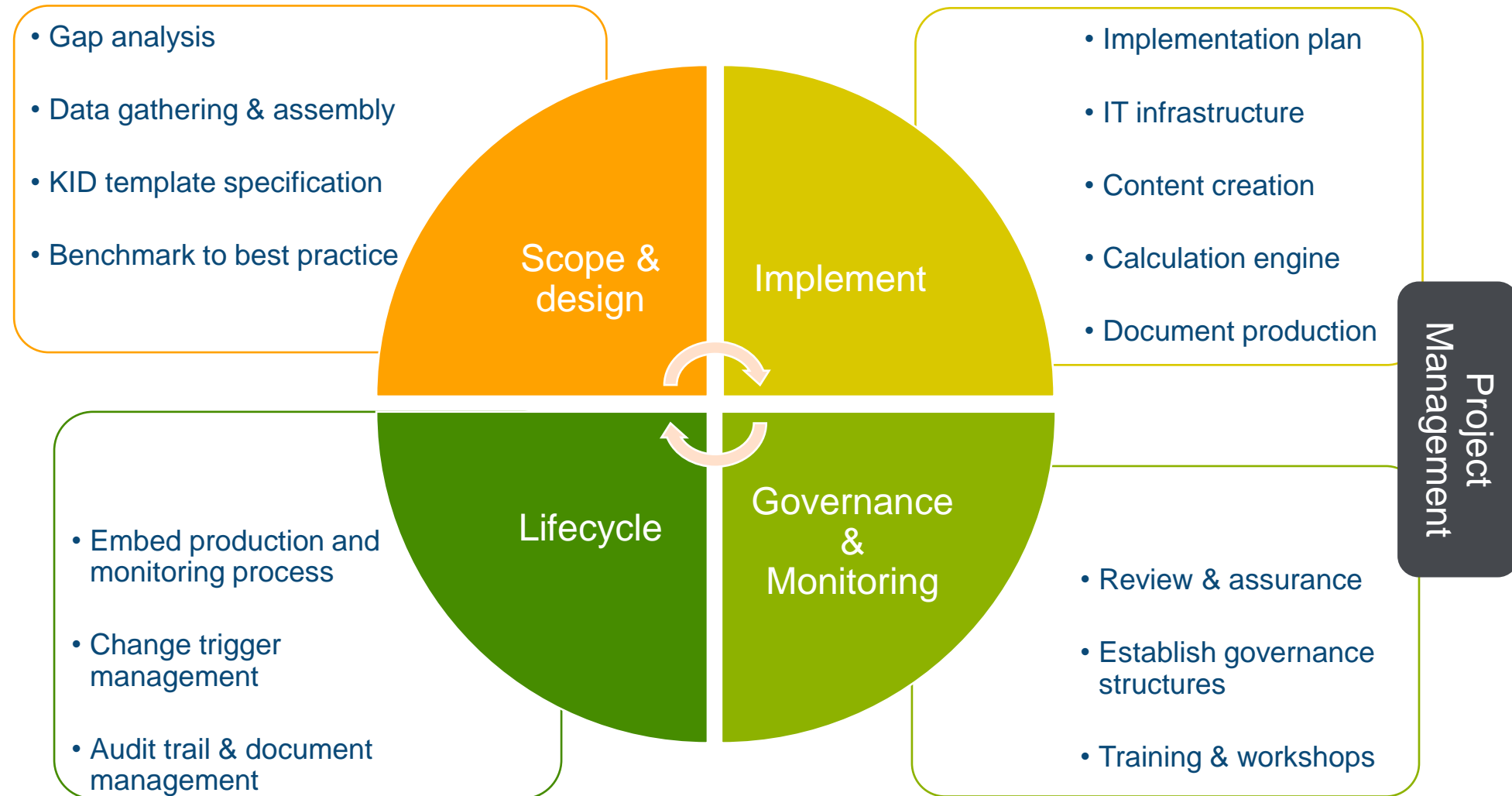


Milliman and PRIIPs

How we can help

Milliman PRIIPs Proposition

Elements of our service



Further information

- See our website www.milliman.ie
 - Briefing notes on PRIIPs

- We can provide sample KID templates

- Arrange a meeting with us
 - Gap analysis
 - Project scoping
 - Implementation

PRIIPs Implementation

Prepare Now For PRIIPs
April 2016

The European Supervisory Authorities have agreed and published the regulatory technical standards on PRIIPs. We are working with our clients to ensure a smooth implementation project to successfully achieve compliance as required by end 2016.

Milliman Briefing Note

Key Information Document
November 2014

New EU requirements to protect Retail Investment are set to add to insurers' work and recasting of the MIFID

INTRODUCTION

In April 2014 the trilogue of the Euro Commission (EC), the European Parliament and the Council of Ministers agreed a regulation on pre-disclosure information provided to retail customers relating to investment products. The new regulation is to become effective in Q4 2016 with a period of preparatory work required in advance beginning back to comply with the regulation. The regulations relate to what are called Packaged Retail Investment and Insurance-based Investment Products or PRIIPs.

On 17th November the joint European Supervisory Authorities (ESAs) published a discussion paper requesting support from stakeholders in drafting of the additional Level 2 technical guidance which will support the Level 1 in the Briefing Note we highlight the key facing firms in meeting the new requirements.

COVERAGE

The Key Information Document or KID is provided for the following types of products:

- UCITS investment funds
- Non-UCITS investment funds
- Packaged insurance products with and without a surrender or maturity value exposed to market fluctuations
- Structured investment products

UCITS funds already have their own requirement to produce a Key Investor Information Document or KIID since 2011 under the UCITS IV Directive and

¹ Text of ESAs regulation

November 2014

Milliman Briefing Note

PRIIPs update
December 2015

The European Supervisory Authorities (ESAs) published a consultation paper on the regulatory technical standards (RTS) for PRIIPs compliance by 1 January 2016.

INTRODUCTION

On 11 November 2015 the joint European Supervisory Authorities (ESAs) published a consultation paper¹ concerning the regulatory technical standards (RTS) covering risk, performance scenarios and cost disclosures for Packaged Retail and Insurance-based Investment Products (PRIIPs). The RTS will now be submitted to the European Commission for approval.

We firstly draw your attention to some of the key highlights of the RTS.

HIGHLIGHTS

We have been closely following the development of the RTS undertaken by EIOPIA, the ESA and ESMA. In the final RTS agreed between the three parties some changes were introduced compared to the previous draft and certain areas have been further clarified. Some notable items include:

- Insurance-based investments (i.e. structured investments such as UCIT Alternative Investment Funds)
- structured products
- derivatives

Products excluded from the scope of the RTS are occupational pensions, traditional annuities, pure life insurance products and simple deposits.

A lack of clarity still remains regarding the application of the requirements to products generally referred to as 'personal pensions'. The primary regulations provide for an exclusion for pension products which 'under national law are subject to the national law of the Member State'.

¹ Link to PRIIPs draft RTS on ESA website

December 2015

- The volatility bands have been increased for the market risk measure of MRM. This will have the effect of certain products being given a lower overall summary risk indicator.
- For example, under the previous draft many equity-type investments would have fallen into one of the two highest MRM classes (i.e. 6 or 7) whereas now they would fall into class 4 or 5 depending on their volatility.
- Three performance scenarios are to be shown in tabular format and now linked more directly to the market risk indicator. Overall the methodology is more prescriptive leaving less room for the judgement of individual product manufacturers.
- For Multi-Option Products there is no explicit requirement to show every possible combination of underlying investment but there still remains a considerable volume of information that must be made available to potential customers.
- KIDs should be designed so they don't need to be continually updated which is particularly relevant for derivative products where pricing parameters may change on a frequent basis.
- The volume of information on costs has been marginally reduced. It is now only necessary to show monetary amounts in aggregate terms rather than split by different types of costs. There still remains the requirement to show the reduction in yield (RIY) percentage split by cost type though.
- We note the removal of the requirement to publish the KID within five business days if it has been missed. The requirement now is to publish "without undue delay".
- The ESAs are working on FAQs or "how to" Guides and also plan to develop supporting Level 3 guidelines which will aid manufacturers in drafting their KIDs.

April 2016



This presentation is for general information purposes only. Action should not be taken solely on the basis of the information set out herein without taking specific advice.

Thank you

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