

Do you want PRIIPs with that?

Seamless processes are necessary to ensure accuracy, reliability and consumer confidence when it comes to the Packaged Retail and Insurance Investment Products Directive, says Paolo Brignardello of Fundsquare

Many investment funds will need to adapt to the Packaged Retail and Insurance Investment Products (PRIIPs) Directive soon. While others may have until 2020 to adapt, unit-linked insurance and pension wrappers will require their underlying funds to provide a host of synthetic or raw data, and as of 1 January 2017, all retail financial products with an investment element will need to be accompanied by a key information document (KID).

Life insurance and pensions companies don't have much time to produce the standardised three-page document that must be provided to potential clients before any proposal or sale. This is especially evident considering that the European Commission only released the final technical rules on 30 June, including details of what data must be included—risk-reward profile, market and credit risk, all types of fees, and potential performance scenarios—and the required presentation format.

Unit-linked products

UCITS management companies with funds being sold directly to retail clients are in fact exempt from PRIIPs until at least 2020. The key investor information document (KIID) introduced with UCITS IV in 2012 is deemed to be sufficient for the rest of this decade.

However, UCITS and alternative investment funds (AIFs) used by pension funds and life insurance products to provide investment exposure will have to act quickly to communicate a range of data. The insurance and pension industries have worked to establish industry-wide standards and data templates, but company-specific requirements are inevitable. Some will need fund managers to provide synthesised information similar to that used in the UCITS KIID, while others may require raw data. Moreover, there will be different schedules with requirements for information to be promptly provided. A KID will be submitted prior to the retail client subscription, and then on a monthly, quarterly, half yearly or annual basis.

A strategic tool

PRIIPs is seen by the EU as a pillar of its consumer protection agenda and as a driver to create a single European market in investment products. And many practitioners agree that the documents are key to helping explain packaged investment products to European savers. However, they could also have wider strategic implications, enhancing competition across products, sectors and countries.

For this to happen, the industry must ensure that data is accurate, explained clearly, up-to-date, and provided at an acceptable cost. KIDs will contain synthetic measures and estimated performance indicators, which will work best if data is as fresh and accurate as possible. The regulator will impose penalties if there are mistakes, which will be compounded by reputational damage.

The operational choice

At first glance, asset managers might think providing data case-by-case, point-to-point will require the least investment. This can work pragmatically when providing calculated data, and most probably will be supported by a common standard template, but if they

provide raw data to enable insurers and pension funds to build their own reports at different levels of detail, this may become complex.

Superficially, 'point-to-point' might appear to be the most attractive approach, however, operators of unit-linked products may not appreciate being passed responsibly and costs in this way. The insurer and pension fund manager will often be left with the unpleasant and costly challenge of integrating multiple data feeds presented in a range of formats, requiring the creation of ad hoc, hybrid operating models. This will have a negative impact on the attractiveness of unit-linked products.

Streamlined approach

An industrialised process using a centralised hub cuts costs and boosts accuracy. Practitioners may wish to build their KIDs in-house or they may outsource, but a hub will enable them to avoid constructing a confusing network of information provision. Standardised data could be taken from a mutualised utility that hosts harmonised data. A utility receives and organises information from a variety of different sources around several markets.

This enables business partners to establish an efficient hub-and-spoke model, rather than a tangled web of point-to-point connections. This model also facilitates frequent KID updates, as well as boosting accuracy and efficiency.

Fundsquare already plays a key role in the production of 1.1 million UCITS KIIDs per year and is extending that functionality for other packaged financial products, with separate, specially-designed data collection and data dissemination services.

Deadline pressures

Questions remain around whether the implementation deadline of 1 January 2017 will be maintained. The European Fund and Asset Management Association has asked for a 12-month delay, pointing to how the introduction of the UCITS KIID benefitted from a postponement, enabling the industry and regulators to work through many highly technical considerations.

The size of the task is illustrated by the complexity of the market. Even in 2009, the European Commission estimated the total PRIIPs market in the EU to be €9 trillion, of which non-UCITS products accounted for 42 percent.

Also, there are questions about how PRIIPs interacts with the Markets in Financial Infrastructures Directive (MiFID) II regarding contractual, disclosure and reporting documents.

Parts of the industry are encouraged that MiFID II implementation was delayed by a calendar year. However, the Commission is keen that this flagship consumer protection measure should not be delayed, and the recent technical guidelines point in this direction.

Fund managers will also need to keep an eye on this question in the long term, as PRIIPs is already due for review and potential revision, come 2019. **AST**