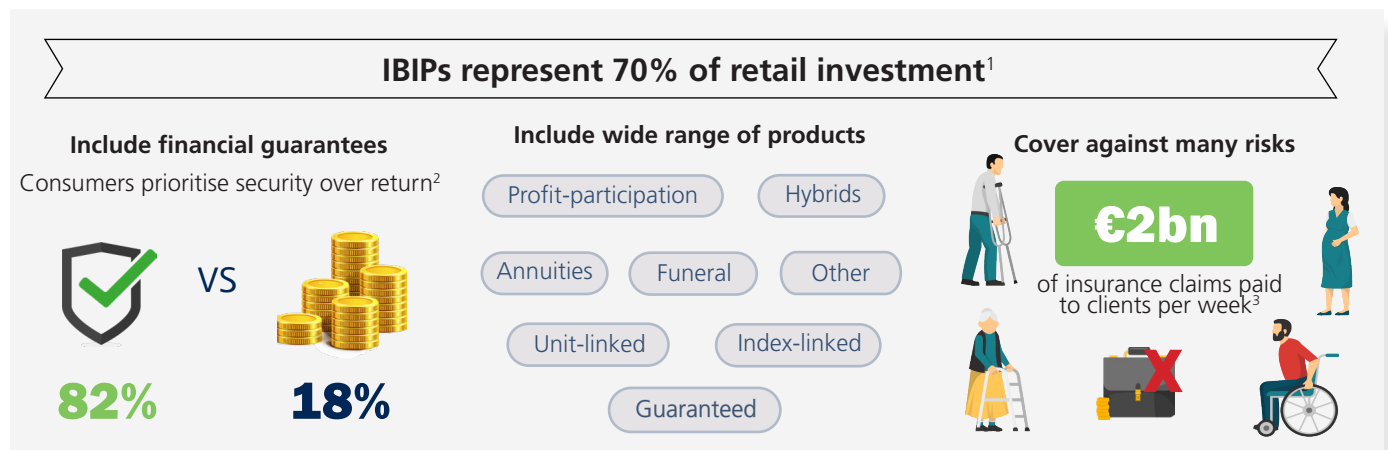


Making the Retail Investment Strategy (RIS) work for insurance and consumers

**Why is insurance key to the Capital Markets Union?
How does the RIS currently overlook insurance?
Why is this detrimental to consumers and what are the solutions?**

Insurance is different. Insurance-based investment products (IBIPs) are the only investment products that can provide a financial guarantee or coverage against risks together with an investment component. Thanks to their unique features, IBIPs can help consumers invest confidently, get the necessary insurance protection, and prepare for retirement. IBIPs can therefore play a key role in contributing to the Capital Markets Union (CMU) and creating a more resilient EU.



Yet, the RIS proposals were designed with pure investment products in mind and ignore the unique features and value of insurance, making new rules simply impractical for **insurance products, distributors, disclosures** – and ultimately **consumers**. This goes against the European Commission's President – Ursula von der Leyen's – promise to the European Parliament to complete the CMU and encourage more private savings.



Resolving these issues requires a stronger attention on the importance of insurance products, distributors and disclosures in the RIS and any policy discussion.

To this end, Insurance Europe calls for the creation of an **"insurance expertise centre"** within the European Commission to ensure that new initiatives do not compromise the availability and affordability of insurance.

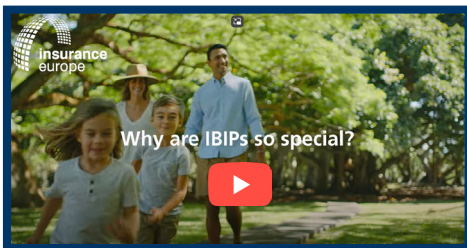
Want to learn more about insurance?
Check out our **Insurance Matters** papers!

¹ Based on EIOPA estimates in 2021
² Insurance Europe pension survey of 16 000 people in 15 EU countries, 2023
³ Estimate of biometric claims paid in 2020, based on 7 countries that represented 45% of all markets surveyed (EU27+LT+NO)
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Insurance products

IBIPs are not simply investment products

They are fundamentally different from other financial products and offer specific features which bring a unique added value to consumers. These can include insurance covers (eg against death, disability, sickness or unemployment), guarantees or capital protection mechanisms, flexibility of payments, assistance and services (eg telemedicine or second medical opinions).



[click here to know more about IBIPs](#)

How the RIS overlooks this:

- ❌ The provisions on Value for Money (VfM) focus on “cost and performance”. They do not sufficiently consider the qualitative features of products that are key to consumers’ decisions, such as an insurance risk coverage and a financial guarantee.
- ❌ The proposed new best interest test would nudge insurers to recommend the most “cost-efficient” and “cheaper” product, instead of the product that best meets the demands and needs of the consumer, for example in terms of risk protection. In insurance, cheaper does not necessarily mean better as it may result in less protection, less services and fewer benefits.
- ❌ Some provisions are copy-pasted from other sectorial regulation, designed for pure investment funds, and are unworkable for insurance. This includes the reference to “portfolio”, “range of products”, “redemption phase” or the misconception that a guarantee is simply an “additional feature”.

IBIPs can be designed and structured in many different ways

This allows insurers to adapt to consumers’ needs and evolving market conditions. For example, the current definition of IBIPs includes unit-linked, index linked, profit-participation, hybrid and guaranteed products, annuities and national-specific products such as certain funeral products. All these products can have various types and levels of guarantees at maturity, be linear or structured, static or dynamic and in many cases allow consumers to choose between different underlying investment options (so-called “Multi-Option Products” or MOPs).

How the RIS overlooks this:

- ❌ The proposed VfM benchmarks would discourage insurers from offering products that provide innovative features or higher protection simply because they would deviate from the average level of costs in the market. This would result in product homogenisation, to the detriment of consumers’ choice.



The solutions?

Make sure the new RIS rules:

- Prioritise the qualitative elements of insurance products (eg risk coverage, guarantees, ESG features and flexibility of payments).
- Support product diversity and insurers’ freedom to design insurance products that are tailored to consumers’ diverse needs and objectives.

Insurance distribution

There is no single EU distribution system for insurance

Insurance products can be distributed by various channels: agents, brokers, bancassurance, direct sales, etc. all of which can be different sizes, offering different services and meeting different consumer preferences. Often the sales are carried out by small distributors such as sole-traders or microenterprises with 2 or 3 employees only.

How the RIS overlooks this:

- ❌ The best interest test criterion (a) imposes on the distributor to have an “appropriate range of products”. This condition cannot be met by smaller insurance distributors such as tied and multi-tied agents or employees who only have a few products in their catalogue. They will not be able to proceed with the sale, and consumers will lose out on the possibility of purchasing an IBIP.

Advice and other distribution services need to be remunerated

Insurance distributors can provide advice as well as a number of other services such as customer support in the administration of the insurance contracts and in the event of a claim. Moreover, for all insurance sales, regardless of whether advice is provided or not, they must carry out a “demands and needs” test and provide a significant volume of pre-contractual information. All this entails costs and needs to be remunerated. Remuneration can take different forms, including the payment of commissions. This is the most prevalent remuneration system in the EU which allows all types of consumers, especially those with less experience and less financial capacity, to shop around without having to pay upfront out of their own pocket.

How the RIS overlooks this:

- ❌ The introduction of any type of EU-wide ban on commission, including for sales without advice (so-called sales with “appropriateness test” and “execution-only” services), would reduce consumer choice and access to insurance protection and investment.



The insurance sales process is already robust and long

In line with the EU's Insurance Distribution Directive (IDD), distributors must carry out consumer "demands and needs" test. If they provide advice, they must also demonstrate how the recommended product best meets the consumers' demands and needs. On top of that, they must then assess the knowledge and experience of consumers, their financial situation and ability to bear losses, as well as their investment objectives and risk tolerance as part of the suitability test. In addition, distributors must check consumers' sustainability preferences. Altogether, this results in a lengthy and discouraging purchasing process that lasts about 2 hours and includes an overwhelming number of pages of tests and questions!

How the RIS overlooks this:

- ❌ The RIS proposals would make the purchasing process even longer, adding new conditions in the suitability and appropriateness assessments, and new tests such as the best interest test. This would further discourage consumers from investing and add an unnecessary burden on distributors, resulting in less cost-efficient services.

Insurance distributors have specific licences and qualifications

Under the IDD rules, distributors must comply with demanding professional requirements about insurance and undertake at least 15 hours of training per year. This ensures they can provide high quality advice and support to their customers on insurance products. However, it does not put them in the position to offer advice on other types of investment products.

How the RIS overlooks this:

- ❌ The RIS proposals are imposing on distributors to check the consumer's "portfolio composition" and "need for diversification" as part of new requirements under the suitability test. However these requirements cannot be met by insurance distributors who are not qualified nor licensed to assess investment products other than IBIPs.

The solutions?



- Simplify and shorten the current purchasing process instead of making it more time-consuming.
- Do not limit access to advice and distribution channels.
- Ensure the RIS proposals account for the variety of distribution channels, including smaller ones, which have their own specificities and added-value for consumers.

Insurance disclosures

Too much information

Today, consumers looking for a sustainable IBIP receive 339 pieces of pre-contractual information. This is the result of overlapping requirements stemming from multiple EU laws on insurance, including the Sustainable Finance Disclosure Regulation (SFDR), Solvency II Directive, Packaged retail and insurance-based investment products (PRIIPs), IDD, e-Commerce Directive, General Data Protection Regulation (GDPR) etc. This overwhelming number of disclosures confuses and discourages consumers, who may then simply refrain from investing.

How the RIS overlooks this:

- ✘ The RIS is adding new disclosures and risk warnings exacerbating current information overload and making IBIPs even less appealing for consumers.

Consumers need to understand both the costs and benefits of products

Today, the EU's Key Information Document (KID) presents consumers with up to 30 cost disclosures, but offers barely no information on the existence or lack of financial guarantees and insurance risk coverage, while these are key drivers of consumer choice when investing.

How the RIS overlooks this:

- ✘ The RIS would further confuse consumers by focusing excessively on quantitative information, while insufficient attention is paid to information on the product benefits. Overloading consumers with cost details would push them towards the cheaper product, rather than one that best meets their needs.

IBIPs can offer different features and can be constructed in different ways

For example, many consumers like MOPs as they can provide the possibility to invest in different combinations of funds to better meet each consumer's specific needs and individual objectives.

How the RIS overlooks this:

- ✘ The proposed standardised format for IBIPs pre-contractual information and annual statement would not work well in practice and would be too confusing for consumers. This is because, as part of IDD, consumers are used to receiving information which is tailored to their own needs and to the national specificities of their product.
- ✘ On MOPs, the RIS proposals would impose more cost disclosures and the creation of an IT interactive tool with individualised calculations which would make it more difficult to offer these products – to the detriment of consumer preferences and needs.



The solutions?

- Reduce information overload.
- Focus on essential information that matters to consumers in their investment decision such as a financial guarantee or a protection against risks.
- Pre-test any new disclosures with “real consumers” to ensure that they are understandable and usable.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings that account for around 95% of total European premium income.