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Observations following the qualitative examination of KIDs for MOPs

Based on the PRIIPs Delegated Regulation, a manufacturer who offers a range of investment options underlying an insurance contract (Multi-Options Product, or “MOP”) and who is unable to provide all the information in a single concise KID can choose one of the following options:

- draw up a KID for each underlying investment option (see point 1 below);
- use a generic KID that describes the PRIIP, in conjunction with a Specific Information Document (“SID”) for each underlying investment option (see point 2 below).

Most Belgian manufacturers opt to draw up a KID for each underlying investment option. Several manufacturers who initially used a generic KID in conjunction with a SID have moved to the option of drawing up a KID for each underlying investment option.

In what follows, the FSMA presents its main observations coming out of its qualitative examination of KIDS for MOPs.

1. Use of a KID for each underlying investment option¹

In accordance with the PRIIP Delegated Regulation², the KID drawn up for each investment option must provide the minimum information about the MOP(s) in which the option may be included.

The FSMA recommends that the section containing the product description should include a specific part for the insurance contract, which is relatively easy to distinguish from the description of the underlying option. The following formulation could, for example, be used: “XX is an (internal) investment fund linked to the XX class 23 life insurance contract”.

If the recommended holding period for the contract differs from that of the option, then specific information in that regard should be included and the two periods should be distinguished. The difference between the two recommended holding periods should likewise be explained.

Lastly, the FSMA recommends including a description of the impact of the costs associated with the insurance contract. For example, the costs associated with a potential switch to an investment option within the same contract should be set out.

The FSMA recommends that where a KID is drawn up for each underlying investment option, the latter should also include a description of the contract within which this option can be chosen. Specific information on the recommended holding period for the contract is also included if this differs from the recommended holding period for the option. Moreover, the FSMA also recommends providing a description of the impact of the costs associated with the insurance contract.

2. Use of a generic KID and a SID³ for each underlying investment option

a. Generic KID

In practice, it seems that most manufacturers do not include specific information on the underlying investment options, and thus make no reference to the SID in the generic KID. The result is a lack of clarity for retail investors as regards the investment options available within the contract.

A number of manufacturers do, however, inventory the investment options by name in the section titled "What is this product?". These examples demonstrate that it is possible to include all the options in the generic KID, even if these are numerous.

The FSMA recommends indicating in the "What is this product?" section Of the generic KID the underlying investment options available to retail investors within the contract, and therefore to refer to the SID.

b. SID: addition of all the contracts within which the option may be chosen

The PRIIP Delegated Regulation determines that the specific information on underlying investment options must always include the features of the contract within which these underlying options are offered⁴. An SID that does not refer to the generic KID does not contain complete information about the product as a whole (that is, the insurance contract and the options chosen), and therefore does not inform the retail investor in a satisfactory manner.

The FSMA considers that each SID must refer to the generic KID with which the SID should be combined. If an option can be chosen in several different insurance contracts, the name of the contracts to which this option may be linked must be mentioned in the SID. The documents examined by the FSMA almost never fulfilled this recommendation.

The FSMA recommends that the SIDs should specify all the contracts within which an underlying investment option can be subscribed.

c. SID: mention of the total costs (contract and investment option)

The FSMA understands that, in cases where an investment option can be linked to several MOPs, each of which can have its own cost structure, the correct total cost cannot be included in the SID.

In such cases, the only solution for achieving a consistent and transparent presentation of the costs, in accordance with the PRIIP Regulation, seems to be for the manufacturer to prepare a SID by combining the underlying investment option and the MOP to which this option can be linked. This means, however, that there will be multiple documents for a single investment option.

To avoid this, some manufacturers seem to have decided to state the costs associated with the MOP in the generic KID and the costs associated with the specific option in the SID. The disadvantage of this presentation is that investors must themselves add up the costs to determine the total, instead of finding the relevant total cost directly in the SID. In addition, this practice would appear to be contrary to the PRIIP Delegated Regulation, which provides that the SID must always contain the cost of the MOP within which the option is offered⁵.

The FSMA recommends including all costs (that is, those associated with the underlying investment option and those associated with the contract) in the SID.

¹ Article 10, a) of the PRIIP Delegated Regulation.

² Recital 17 of the PRIIP Regulation.

³ Article 10, b) of the PRIIP Delegated Regulation.

⁴ Recital 18 of the PRIIP Delegated Regulation.

⁵ Article 14 of the PRIIP Delegated Regulation.