



**Financial Services
User Group's (FSUG)**

reply to the

**Consultation on PRIPs
(Packaged Retail
Investment Products)**



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FSUG reply to the Consultation on PRIPs

The FSUG met for the first time on 27 January 2011. But, although the deadline for submitting replies to the European Commission's 'PRIPs' (Packaged Retail Investment Products), the group felt this issue was too important to pass by and decided to reply quickly and shortly to the Commission.

The FSUG strongly supports the horizontal approach taken by the European Commission for its PRIPs initiative, which is the right way to harmonize the selling practices of retail investment products, as most of them are substitutable for each other, and most of them are or can be sold by the same intermediaries. We do recognize it is innovative and challenging for the EC to cut through existing 'silo' organigrammes and directives.

We also support the proposals aimed at using the UCITS 'KIID' (Key Investor Information Document) as much as possible as a benchmark for the summarized mandatory pre-contractual information of other retail investment products. This is the only way to make the comparison of retail investment products easier for the consumer.

We nevertheless regret that the retail investor's perspective is not fully taken into account. The current definition and scope of PRIPs does not reflect the reality at the point of sale. A lot of retail investment products would not qualify as PRIPs under the EC's proposed definition. Bank saving accounts, traditional life insurance contracts (like 'with profit' contracts in the UK or 'fonds en euros' in France), equities, bonds and all long term savings and pension products that can be subscribed on a voluntary basis nevertheless constitute a big portion of retail investments offered to the public by financial intermediaries in Europe.

We regret that the initial name of the EU Commission project – '**substitute**' investment products – has been discarded for the narrower and unsatisfactorily defined '**packaged**' investment products one. Investors do not care whether an investment product is packaged or not, and most often do not know what the word packaged means anyway. The Commission has consequently excluded a large part of substitutable retail investment products for no explicit reason. SRIPs do matter for the retail investor, more than PRIPs only.

All substitute retail investment products at the point of sale should be included. This would result in a rather limited and artificially defined section of the retail investment products market. Regulatory arbitrage would likely be very widespread and the retail market playing field very uneven, which is what the EC wanted to avoid in the first place. Due to emerging popularity of unit-linked products there are already many national regulations in place concerning the scope of information etc. That is why insurance companies quite often replace unit-linked by endowment products with clear investment aim. It means that PRIPs regulations will be ineffective just after implementation. In this case regulatory arbitrage is obvious.

The FSUG also believes the definition of PRIPs should not focus only on 'fluctuations in investment values', but also on:

- fluctuations in real investment values (net of inflation), and
- fluctuations in income values.

Because, at the end of the day, the performance of an investment product for the consumer does not only result from its nominal terminal value, but more from its real terminal value including accumulated income.

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Focusing only on fluctuations in nominal values of investments will leave a lot of retail investment products outside of the PRIPs' scope and will facilitate regulatory arbitrage by investment product providers.

For example, deferred annuities (a quite popular retail investment product in France for example) are indeed packaging a portfolio of securities according to the EC proposed definition, but they guarantee that the value will never go down. According to the EC's definition of PRIPs, such products would therefore be considered 'non-PRIPs'. But we have evidence of big deferred annuities products (one million subscribers) which have increased the annuities values much less than inflation for the last 8 years. As a result, retail investors in these products are suffering from heavy real values losses on their investments.

Lastly, the FSUG regrets that the proposal does not include any provisions regarding selling practices, advice and conduct of business. The FSUG understands this will be done by amending the MiFID on the one hand, and amending the IMD (insurance mediation) on the other hand. A high level of harmonisation of all retail investors' protection rules at the European level would be much better ensured by one single omnibus directive covering all retail investments products.