

Implementing PRIIPs requirements – the KID



From 1 January 2018, Key Information Documents (KIDs) must be provided pre-sale for all PRIIPs (Packed Retail and Insurance-based Investment Products). The documents require detailed calculations. We have highlighted some of the challenges in preparing KIDs for your business in relation to the calculation of the Summary Risk Indicator, Performance Scenarios and Charges & Costs disclosure.

Summary Risk Indicator

The **Summary Risk Indicator (SRI)** of a PRIIP is determined by combining a **MRM** (market risk measure) and a **CRM** (credit risk measure). Associated narratives are required describing the risk-reward profile including **liquidity risk**.

The MRM calculation requires **historical data** on investment performance, or a benchmark indicator, for a period between **2-5 years**. The data will need to be sourced from various parties including your investment team, fund managers and/or other third parties.

Complicated simulations are required for some PRIIPs.

For the CRM calculation credit ratings will need to be sourced for underlying counterparties.

A **look through approach** is required for certain investments. CRMs need to be adjusted according to the **recommended holding period** or **maturity** of a PRIIP.

This is a sample PRIIPs KID for general information purposes only. Action should not be taken solely on the basis of the information set out herein without taking specific advice. Copyright © 2016 Milliman, Inc.

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 26th 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

1234567

←-----→

Lower RiskHigher Risk

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.

We have classified this product as 4 out of 7, which is a medium risk class.

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.

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.

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.

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.

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.

Performance Scenarios

A key element of a KID are the **Performance Scenarios**. Projected encashment values and average returns need to be calculated under **three scenarios - unfavourable, moderate and favourable**. The presentation is required to be **fair, accurate, clear and not misleading**.

The investment returns used in the projections should be **consistent with the MRM** - this may involve complicated simulations.

Additional scenarios are required if there is **significant downside risk**, or to reflect the impact of an insurance related event.

All **costs** need to be included on a look-through basis.

Performance Scenarios
This table shows the money you could get back over the next [recommended holding period] years, under different scenarios, assuming that you invest €10,000.

Investment]		X years	X years	X years
Unfavourable scenario	What you might get back after costs	€	€	€
	Average return each year	0%	0%	0%
Moderate scenario	What you might get back after costs	€	€	€
	Average return each year	0%	0%	0%
Favourable scenario	What you might get back after costs	€	€	€
	Average return each year	0%	0%	0%

The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products. The scenarios presented are an estimate of future performance based on evidence from the past, and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the investment/product.

The figures shown include all the costs of the product itself, but may not include all the costs that you pay to your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back.

What happens if XYZ Life is unable to pay out?
If we are not able to pay you what is owed, you could lose your entire investment.

What are the costs?
The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the investment return you might get. The total costs take into account one-off, ongoing and incidental costs.

The amounts shown here are the cumulative costs of the product itself, for three different holding periods. They include potential early exit penalties. The figures assume you invest €10,000. The figures are estimates and may change in the future.

The person selling you or advising you about this product may charge you other costs. If so, this person will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.

Costs over time

Investment €10,000		If you cash in after 1 year	If you cash in after x years	If you cash in after x years
Total costs		€	€	€
Impact on return (RIY) per year		0%	0%	0%

Composition of costs
The table below shows:
- The impact each year of the different types of costs on the investment return you might get at the end of the recommended holding period
- What the different cost categories mean.

Charges and Cost Disclosure

Total projected costs must be shown in **monetary amounts** and **percentage terms**.

The **amount and timing of all expected costs** will be required to populate this table.

The **impact of charges** on investment return needs to be shown in percentage terms, **split by cost type including exit penalties**.

The costs disclosed should be consistent with the output from the **moderate performance scenario**.

Historic data will be required on trades, performance fees, assets under management, recurring costs etc.

The projections need to account of the costs in relation to insurance cover referred to as the **biometric costs**.

This table shows the impact on return per year

One-off costs	Entry costs	0%	The impact of the costs you pay when entering your investment. This is the most you will pay and you could pay less.
	Exit costs	0%	The impact of the costs of exiting your investment when it matures.
Ongoing costs	Portfolio transaction costs	0%	The impact of the costs of buying and selling underlying investments for the product.
	Insurance costs	0%	The impact of insurance costs (the amount you are paying for insurance cover which exceeds the estimated value of insurance benefits).
	Other ongoing costs	0%	The impact of the costs we take each year for managing your investments.
Incidental costs	Performance fees	0%	The impact of the performance fee. We take this from your investment if the product outperforms its benchmark (y by x%).
	Carried interests	0%	The impact of carried interests. We take these when the investment has performed better than x%.

On the same basis, the additional impact of your insurance premium payments (equivalent to the estimated value of insurance benefits) is [x%]. Details of the insurance benefits such as death benefits are in the section "what is this product".

How long should I hold it and can I take money out early?
Recommended holding period: [x]

Full and partial surrenders are permitted at any time. There are surrender penalties applied to the value of the funds dependent on the policy year:

- 4% in year 1
- 3% in year 2
- 2% in year 3
- 1% in year 4
- No penalties applied after the fourth year

A €30 flat will apply for all total redemptions.

How can I complain?
If you would like to lodge a complaint about the product or the conduct of XYZ Life or the person advising on, or selling, the product you can do so by contacting us by email at or by registered post to XYZ Life Ltd

IFSC
Dublin 1

The complaint should specify the following details:

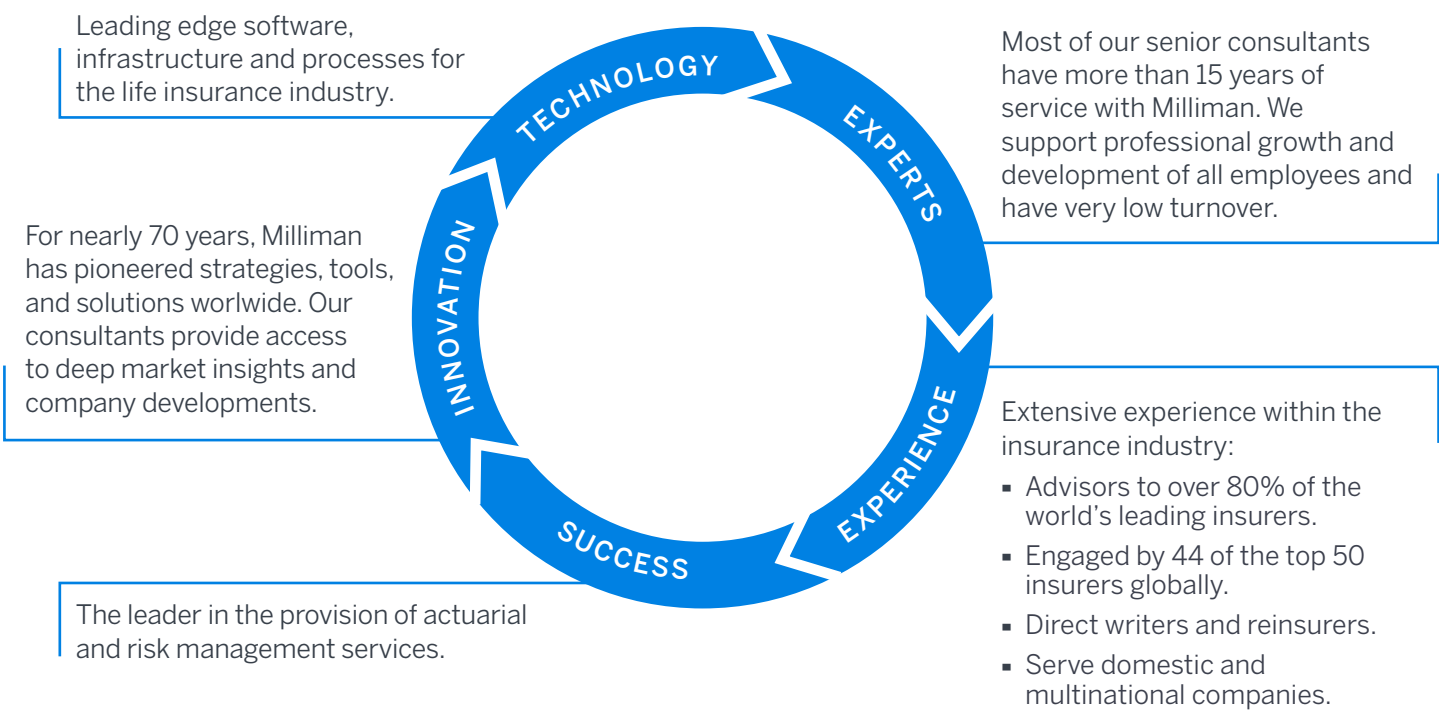
- Name, surname and full address of the complainant;
- Policy number and name of the policyholder;
- Details of the person/persons whose behaviour is the subject of the complaint.

Further information can be found at [www.xyz.com](#)

Other relevant information
Additional information documents that can be provided include a product summary and policy conditions. These are available on our website.

Our extensive experience in the PRIIPs market	Followed PRIIPs developments since their inception.	Informed views on how to best address challenging aspects of PRIIPs regulations.	Ongoing involvement with industry bodies where PRIIPs is a current hot topic.
	Held ongoing client discussions to explore options on how to best meet their individual compliance requirements.	Published analyses of each document prepared by the European Supervisory Authorities during the development phase of the PRIIPs regulations.	
	Involved in the development of tools to assist in producing risk ratings, performance scenarios and cost illustrations.	Presented widely on how best to meet the requirements of PRIIPs regulations.	
Thought leaders	Our consultants have produced an extensive body of insurance research, including regular PRIIPs updates, offering valuable insight into best practices and establishing us as thought leaders.		This experience equips us with strong benchmarking capabilities and deep understanding of insurance business operations.

Why Milliman?



KEY CONTACTS

Aldo Balestreri
Principal, Consulting Actuary
Milan, IT
aldo.balestreri@milliman.com

Luca Cavaliere
Consulting Actuary
Milan, IT
luca.cavaliere@milliman.com

AT A GLANCE

Implementing PRIIPs requirements – the KID

