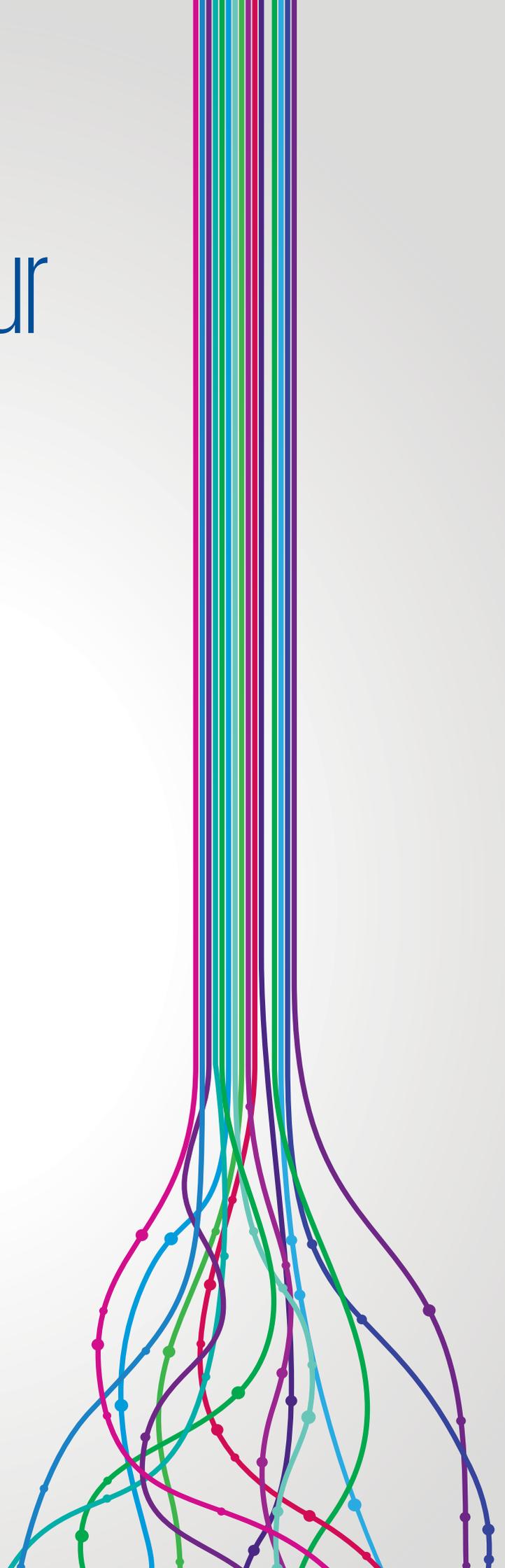




Managing your end-to-end distribution headaches

Regulatory Services



What challenges do PRIIPs and IDD present?

The PRIIPs Regulation (Packaged Retail and Insurance based Investment Products Regulation) is the first regulation on a European level to require the distribution of pre-contractual information for non-UCITS products. When coupled with the imminent enactment of IDD (the "Insurance Distribution Directive") it is clear that compliance with these requirements presents significant challenges for insurance undertakings and intermediaries, in particular.

KEY CHALLENGES FACING THESE FIRMS INCLUDE:

Firm	Challenge	Actions required
Insurance Undertakings – Life	<ul style="list-style-type: none"> Production and dissemination of the KID (Key Information Document) under PRIIPs 	<ul style="list-style-type: none"> Gather data on risk profiles, credit ratings, past performance and cost allocations Calculate risk indicators, performance scenarios and costs and charges Put in place an appropriate IT infrastructure to manage the production process Implement a monitoring process to manage changes to inputs into the KID
	<ul style="list-style-type: none"> Development of an effective product governance and oversight process 	<ul style="list-style-type: none"> Establish governance structures to assess and approve the target market for new products and any significant adaptations to existing products in the product suite
	<ul style="list-style-type: none"> Review of existing processes to ensure compliance with the new requirements 	<ul style="list-style-type: none"> Gap analysis between the Consumer Protection Code and PRIIPs/IDD and assessment of the firm's current state
	<ul style="list-style-type: none"> Ensure on-going compliance 	<ul style="list-style-type: none"> Conduct post-implementation assurance
Insurance Undertakings – Non-life	<ul style="list-style-type: none"> Production and dissemination of the IPID (Insurance Product Information Document) 	<ul style="list-style-type: none"> Implement the standardised template for the disclosure of pre-contractual information
	<ul style="list-style-type: none"> Development of an effective product governance and oversight processes 	<ul style="list-style-type: none"> Establish governance structures to assess and approve the target market for new products and any significant adaptations to existing products in the product suite
	<ul style="list-style-type: none"> Review of existing processes to ensure ongoing compliance with the new requirements 	<ul style="list-style-type: none"> Gap analysis between the Consumer Protection Code and PRIIPs/IDD and assessment of the firm's current
	<ul style="list-style-type: none"> Ensure on-going compliance 	<ul style="list-style-type: none"> Conduct post-implementation assurance
Insurance Intermediaries	<ul style="list-style-type: none"> Review of existing processes to ensure ongoing compliance with the new requirements 	<ul style="list-style-type: none"> Gap analysis between the Consumer Protection Code and PRIIPs/IDD and assessment of the firm's current state

These new regulations affect the end-to-end distribution of insurance products. They require firms to re-examine their strategy and make some crucial decisions, with the least disruption to operating models. For example firms that offer Multiple Investment Options (MOPs) must decide between two distinct versions of the KID, should it be a version with a combination of individual documents or a generic version of the document? How will they best interact with third party providers of data in order to produce an accurate KID? What IT solution can they

use to support the production of the KID? How will they evidence provision of the KID to the retail investor? How will they incorporate the product governance process into their existing governance structures? What existing processes need to be changed or enhanced to meet the new obligations? How much will all of this cost?

These are just some of the questions that the PRIIPs regulation and the IDD give rise to.

WHAT TO LOOK OUT FOR WHEN PRODUCING THE KID?

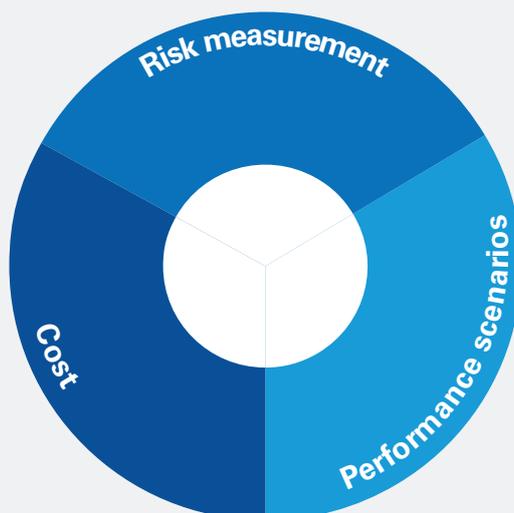
The production of the KID, in particular, and the IPID are technical and complex especially with technical standards and consultations still to be finalised. Recently issued Guidelines on PRIIPs from the European Commission and a Q&A from the European Supervisory Authorities on key aspects of PRIIPs have given some clarity on how to implement the PRIIPs regime and on the distribution

of the KID. For example, the PRIIPs manufacturer is required to produce a KID and publish it on its website, even in cases where the PRIIP is sold exclusively to intermediaries.

Key issues in relation to the KID include:

KID – KEY ISSUES

- All PRIIPs grouped into four categories for risk measurement purposes; however, no clarity regarding specific products falling into these categories
- Calculation of the seven-point scale Summary Risk Indicator for measuring risk
- Challenging methodology translating VaR results into a measurement of market risk
- Cumbersome credit risk methodology may require “look through” to underlying assets



- Costs section sets out specific provisions for investment funds, insurance products and other PRIIPs
- Presentation must be reflected in two tables “Costs over Time” and “Composition of Costs”

- Four performance scenarios must be shown – stress, unfavourable, moderate, and favourable
- Similar onerous calculation methodologies to those for market risk
- New templates for the presentation of performance scenarios

WHAT'S INVOLVED IN THE PRODUCT GOVERNANCE PROCESS?

IDD introduces general product oversight and governance requirements into EU insurance distribution law. The objective of these requirements is to ensure that all insurance products (and not just insurance-based investment products) meet the needs of their specific target market to avoid mis-selling.

The new requirements primarily apply to the manufacturers of insurance products and oblige them to put a product governance policy in place, which includes implementing a product approval process and identifying a target market for the product. Manufacturers must also test the insurance product to assess whether the product meets the target market needs and must monitor and review insurance products on an ongoing basis. Intermediaries may be considered manufacturers where they have an influence on the design and development of an insurance product. Insurance distributors have to support this process by putting product distribution arrangements in place which ensure that they have all the information needed to sell the product to their customers in accordance with the manufacturer's specifications.

A recently issued Delegated Regulation sets out criteria and practical details for the application of these new rules.

HOW KPMG CAN HELP

The approach to implementation of PRIIPs and IDD requires a multi-disciplinary team of subject matter experts across actuarial services, regulatory services and risk management. KPMG's unrivalled experience of large transformation change projects means we understand the challenges facing you and can assist you with them.

- **Regulatory** Our Regulatory team is a well-established, dedicated team of experienced regulatory professionals, specialising in interpreting regulation, tracking its development and applying it to business models. We deliver regulatory change projects and have, under MiFID, already assisted with the implementation of compliance monitoring frameworks for distribution and trading environments. We have extensive experience with MiFID II, the Consumer Protection Code, UCITS, Solvency II and other regulation.
- **Actuarial** Our dedicated actuarial practice combines technical knowledge and rigorous processes with wide-ranging commercial and market experience to provide progressive, high quality and flexible advice. Services range from model development and support to independently validating stochastic models and actuarial model efficiency review.
- **Risk Consulting** Our risk consulting team has proven technical, operational and programme management skills, which combine with actuarial skills and regulatory knowledge, to manage entire projects from planning through to implementation. The team

helps clients to design and implement appropriate governance arrangements and management reporting to enable appropriate oversight of risk and compliance within the business.

Our teams can work separately or on an integrated basis to offer you a full range of services which can be adapted to suit your specific needs at any stage in the process.



PRIIPs takes effect on 31 December 2017 and the recently issued Guidelines on PRIIPs explicitly state that firms are in breach of the regulations if a PRIIP is sold without a KID after this date. IDD applies to existing firms by 23 February 2019, a year after transposition.

Firms need to be preparing for these changes now in order to ensure compliance. Please feel free to get in touch with us to find out more about how we can help;

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