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EU: Legislation to improve Consumer Protection in Financial Services



The European Commission has presented a three-part legislative package dedicated to rebuilding consumer trust in financial markets. The package includes a proposal for a regulation on transparency in packaged retail investment products (PRIIPS), a revision of the Insurance Mediation Directive (IMD), and a proposal for an amendment to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive.

The main elements of the package's components are:

- **PRIPS:** The Commission's PRIPS proposal improves the quality of information that is provided to consumers when considering investments. Investment products are complex and it can be difficult to compare them or fully grasp the risks involved. The consequences of taking unexpected risks and facing consequent losses can be devastating for consumers, given that investments often form the backbone of a consumer's life savings. Given an EU retail investment market of up to 10 trillion euro, buying wrong or unsuitable products can quickly become a major problem. The Commission proposal aims to inform consumers in a format easy to understand by introducing a new, innovative standard for product information, one that is short and plain-speaking, and thus far more consumer-friendly. This document is called the 'Key Information Document' (KID). The proposal foresees that every manufacturer of investment products (*e.g. investment fund managers, insurers, banks*) will have to produce such a document for each investment product. Each KID will provide information on the product's main features, as well as the risks and costs associated with the investment in that product. Information on risks will be as straight-forward and comparable as possible, without over-simplifying often complex products. The KID will make clear to every consumer whether or not they could lose money with a certain product and how complex the product is. The KIDs will follow a common standard as regards structure, content, and presentation. In this way, consumers will be able to use the document to compare different investment products and ultimately choose the product that best suits their needs. The products for which a KID will be required include all types of investment funds, insurance-based investments and retail structured products, in addition to private pensions.
- **Revision of IMD:** The Commission is proposing a revision of the IMD, which currently regulates selling practices for all insurance products, from general insurance products such as motor and household insurance to those containing investment elements. Consumers are often not aware of the risks associated with the purchase of insurance cover. Whilst accurate professional advice is crucial for insurance sales, recent

surveys show that more than 70% of insurance products are sold without appropriate advice. The current EU legislation does not deal in detail with the sale of insurance products, rules differ across Member States, and apply solely to intermediaries. The goal of the Commission's proposal is to upgrade consumer protection in the insurance sector by creating common standards across insurance sales and ensuring proper advice. It will do so by improving transparency and establishing a level playing field for insurance sales by intermediaries and sales by insurance undertakings. To achieve this, the following changes are proposed: (a) The same level of consumer protection will apply, regardless of the channel through which consumers purchase an insurance product. Whether a consumer purchases a product directly from an insurance undertaking or indirectly from an intermediary (*e.g. an agent or a broker*), the consumer will receive the same level of protection. This does not exist today as the current IMD only covers sales provided by intermediaries; (b) Consumers will be provided in advance with clear information about the professional status of the person selling the insurance product. Rules will be introduced to address more effectively the risks of conflict of interest, including disclosure of the remuneration received by sellers of insurance products; (c) Insurance product sales will have to be accompanied by honest, professional advice; and (d) It will be easier for intermediaries to operate cross-border, thus promoting the emergence of a real internal market in insurance services.

- **UCITS V:** The original UCITS Directive created the internal market for investment funds in Europe. The current EU legislation for investment funds (*the UCITS Directive*) has been the basis for an integrated market facilitating the cross-border offer of collective investment funds. Managing almost €6 trillion in assets, UCITS have proved successful and are widely used by European retail investors. UCITS are also regularly sold to investors outside the EU where they are valued due to their high level of investor protection. The Commission's proposed amendments to the current UCITS rules are based on the experience from the financial crisis, so as to continue to ensure the safety of investors and the integrity of the market. In particular, the proposal will ensure that the UCITS brand remains trustworthy by ensuring that the depositary's (*the asset-keeping entity*) duties and liability are clear and uniform across the EU.

Note: related documents available on www.fecif.org



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