



THE SOCIETY OF ACTUARIES IN IRELAND

**Submission on the Central Bank of Ireland's Consultation
Paper 47, "Review of the Consumer Protection Code"**

January 2011

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1 Introduction

The Society of Actuaries in Ireland is the professional body representing the actuarial profession in Ireland. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of insurance companies and pension schemes. The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value. In this context, we welcome the opportunity to submit this response to the Central Bank of Ireland's Consultation Paper 47 (CP47), "Review of the Consumer Protection Code".

In this submission, we focus on Questions 5 to 14 of the Consultation Paper.

The Society responded to Consultation Paper 34 (CP34), "Review of the Life Assurance (Provision of Information) Regulations, 2001", in October 2008. It is worth noting that there is some similarity between the questions posed in CP47 and those posed in CP34. For this reason, we have included our response to CP34 in the Appendix to this submission.

We would be happy to elaborate further on any points made in this submission, if required.

On a practical note, we recommend that, where consultation papers set out regulatory text, the proposed changes to existing text should be highlighted (either through "track changes" or other mechanisms). We believe that this will help readers to understand all changes being proposed (not just those summarised in the introductory section). For instance, we note that "investment product" now includes life assurance products that have a surrender or maturity value. This means that life assurance companies will be required to provide the detailed annual statements specified in Chapter 6, Provision 11. This was not flagged in the summary.

2 Response to Questions 5 - 14

Information about products

5. Do you think the proposed requirements in relation to the provision of information about products are adequate? If not, please set out how you think the requirements could be strengthened.

We are strongly of the view that the same disclosure requirements should be applied in respect of all investment products, in the interest of consumer protection. We therefore urge the Central Bank of Ireland (Central Bank) to use the disclosure regime for life assurance products as a basis for a consistent regime to be applied to the entire panoply of regulated investment products.

We believe that the disclosure regime for life assurance products (as specified in the Life Assurance (Provision of Information) Regulations, 2001 and Actuarial Standards of Practice issued by the Society of Actuaries in Ireland) provides an effective model for informing customers of illustrative benefits, charges and remuneration. However, as noted in our 2008 submission on CP34 (see Appendix to this submission), there is scope to summarise some information, highlight the main features and reduce the amount of further information given to customers, while ensuring that customers are provided with the necessary information to enable

them to understand the fundamental features of their policies. The model could also be improved by introducing improved requirements for disclosure of the different risks associated with different investments and the (relative and absolute) extent to which outcomes on different investments are likely to vary. In this context, we welcome the focus on disclosure of risk in Chapter 4, Provisions 27 and 32 of the proposed Code.

6. In light of the developments at European level, do you think we should introduce requirements in relation to the presentation of information on investment products in a short ‘Key Facts’ Document?

AND:

7. Is there any specific information that should be provided, either in a ‘Key Facts’ Document or otherwise, in respect of other types of product?

In principle, we support the introduction of a “Key Facts” Document for investment and other products.

In our submission in response to CP34, we recommended that a summary document be introduced which set out the key facts of the contract (see Appendix). At European level, the most developed area has been that in relation to UCITS. We believe that, for certain contracts, additional information beyond that specified for UCITS would need to be provided in any key facts document to ensure that consumers can make an informed assessment of whether the product meets their needs. For example, for life assurance products, information on risk benefits would be required, and for pension contracts, information on the effects of inflation on the purchasing power of projected benefits should be included.

We believe the following should be included in a key facts document:

- The aims of the product and (except for insurance-only products¹) the nature of the underlying assets
- The customer’s commitment (including premium amount and frequency, where applicable)
- The risks involved
- The risk / reward profile of the underlying assets (except for insurance-only products and deposit accounts)
- Information on past performance (except for new funds, insurance-only products and deposit accounts), together with a warning that past performance is not necessarily a guide to future performance
- The charges and (except for insurance-only products and deposit accounts) the reduction in yield²

¹ Non-life insurance policies and life assurance products that do not have a surrender or maturity value.

² Or “equivalent annual charge” – see Appendix.

- Any other key features specific to the product that the customer needs to know about to make an informed decision on purchase, e.g. details of insured benefits, guarantees, options, reviewability clauses, restrictions on access to funds or payment of benefits, the impact of taxation on the proceeds of the contract, the impact of inflation on the proceeds, the rate of interest payable on deposit accounts, etc
- Details of intermediary remuneration
- Details of where to go for further information or to make a complaint.

8. Do you have any ideas about how to disclose risk in the case of investment products in a way that would be consistent enough to be useful for consumers?

This is a very complex area. Explaining risk to consumers in terms that they understand is very difficult. In addition, providing the relative probability weight of risks is even more difficult.

Providing an exhaustive list of potential risks is probably not possible and in any event would not enlighten the consumer.

Any documentation provided needs to stand the test of time and/or consumers need to be regularly updated in anticipation of events (rather than after they have taken place). The current global financial crisis has shown that certain risks which were deemed insignificant became significant (e.g. liquidity, counterparty risk, concentration of investment in “blue-chip” securities and stocks). Other risks were not well understood by some consumers and product providers (e.g. the effect of gearing).

However, we need to be wary about “outlawing” or excessively discouraging consumers from taking on risk. There are times when consumers need to take on risk (e.g. investing in equities for long term pension provision), though they need to be aware of risks they are taking on.

In addition, consumers need to carry some responsibility for purchasing products. In this context, a simple but basic message along the lines “*If you do not understand this product, do not purchase it*” could be effective.

In November 2007, John Caslin FSAI and Damian Fadden FSAI presented a paper to the Society of Actuaries in Ireland entitled “How risky is my investment?”³ The authors proposed an approach to illustrating investment returns under which consumers could be provided with information on historic returns in a format that demonstrated the variability of returns and the likelihood of returns falling within specific ranges. The table could be used to assess the risk implications of investing in any particular fund and to compare the relative risk of different funds.

³ The paper is available on the Society’s website (www.actuaries.ie) at <http://bit.ly/HowRiskyNov07>.

The authors subsequently carried out a survey among a large, representative sample of the Irish population, to test consumers’ understanding of risk and return and the effectiveness of the proposed tables. They presented the findings at a Society of Actuaries in Ireland evening meeting in April 2009⁴.

They found that consumers placed quite a high degree of trust in their financial advisers and that the overall level of awareness and understanding of risk/reward concepts was low. The illustrative investment tables did not materially impact on consumers’ rankings of funds in terms of return and risk, though this may have been impacted by the fact that the survey took place in late 2008, after much turbulence in equity markets. They commented that consumers found it difficult to understand numerical disclosures and statistical concepts and that the survey indicated a need to educate consumers on the concepts of risk and reward.

The Committee of European Securities Regulators (CESR) – now the European Securities and Markets Authority (ESMA) - and the Association of British Insurers (ABI) have both assessed pictorial disclosures of product risks. ABI research indicated that “Pictorial presentations can improve people’s ability to pick the right fund by over 20% relative to a purely text based version”⁵. The research found that the most effective pictorial design is a horizontal thermometer. A version of this design is specified in ESMA guidelines, published in December 2010, on the UCITS Key Investor Information document⁶, as follows:

Lower risk Higher risk
 <----->
 Typically lower rewards Typically higher rewards



The shaded number reflects the risk level of a particular product/fund. A narrative explanation of the risk indicator and its limitations is also specified in the guidelines.

A similar approach could usefully be introduced for non-UCITS investment products. However, it would be important to ensure that consistent pictorial representation of risk was underpinned by a consistent methodology for the calculation of the risk level of different funds.

9. In a system such as a ‘traffic light’ system, how do you think the different categories of risk, i.e., red, amber and green, should be determined?

We believe that a traffic light system in itself is not appropriate for illustrating risk. The use of colours may deter customers who need to take on risk from doing so. We would favour instead a system such as a horizontal thermometer (see question 8 above), which is equally explanatory but less alarmist.

⁴ The presentation, entitled “How risky does the public think their investments are?”, is available on the Society’s website at <http://bit.ly/HowRiskyApr09>.

⁵ “Helping Consumers Understand Investment Risk”, Driver *et al*, 2010 (http://bit.ly/ABI_RP25)

⁶ “CESR’s template for the Key Investor Information document” (http://bit.ly/ESMA_KII)

As regards determining risk, the CESR and ABI favour approaches based on the volatility of past returns⁷. However, there are some differences between the two organisations' proposals.

While the Society notes their conclusions, we retain some concern about using past performance as a predictor of future risks. This is particularly the case where past performance is not representative of likely future performance (e.g. after fund consolidation, change in fund style, new funds, etc).

The Society is currently carrying out some work on determining and communicating investment risk. While we have yet to finalise our conclusions, our current thinking is that the CESR approach to determining risk may be too prescriptive to deal with changes in fund manager, investment mandates, etc over the lifetime of a fund. We feel that a more principles-based approach that involves greater disclosure and an ongoing understanding of fund managers' actions, and the limits to which they are working, merits exploration. To achieve the objectives of such an approach, regular questioning of fund managers and communication to consumers would be essential.

We plan to produce a report on our work on determining and communicating investment risk in March 2011. We would be happy to discuss this report with the Central Bank when it is available.

Information on products - PRSA

10. Do you think these requirements continue to be appropriate?

We feel that the qualitative information on PRSAs set out in Appendix B of the proposed Code is useful and should be retained, though it may be timely to review the precise text. For example, the statement that a defined benefit pension scheme "promises" a pension related to the consumer's salary perhaps gives a misleading impression that the benefit is fully guaranteed, which, as recent events have shown, might not be the case.

Product Producer Responsibilities

11. In relation to identifying a target market of consumers for a product, what are the key consumer criteria that you believe should be used?

Under Chapter 3, Provision 43 of the proposed Code, when designing an investment product, a product producer must "identify the target market" for the product. The target market "must only comprise the types of *consumer* for which the product is likely to be suitable". The product producer must also identify "the target market for which the product is not suitable".

⁷ CESR: "CESR's guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document" (http://bit.ly/CESR_RiskCalc)

ABI & IMA (Investment Management Association): "Developing a Risk Rating Methodology", A. Clare, 2010 (http://bit.ly/ABI_IMA_2010)

Presumably “identifying a target market” in question 11 means identifying the types of consumer for which a product might or might not be suitable (rather than making a business decision to target a particular market)⁸.

We suggest that the key consumer criteria used to identify types of consumer for which a product might or might not be suitable should include:

- Investment objectives
 - o Which consumers will this product suit / not suit – those who require security of capital? or capital growth? or a steady income? or a guaranteed return? or exposure to a particular asset class? etc.
- Investment time horizon and need for liquidity
 - o Is the product designed for persons who want (and, for medium- to long-term investments, have the capacity) to invest on a short-, medium- or long-term basis?
 - o To what extent do features such as restrictions on access to the investment, or charges for early exit, or investment in assets that may be vulnerable to prolonged periods of price volatility, impact on the suitability or otherwise of the product for various types of consumers?
- Attitude to risk
 - o Which consumers will this product suit – e.g. those who need modest returns and low risk, or those who are seeking higher returns and higher risk, etc?
 - o Capacity to withstand adverse outcomes: is the level of investment risk such that the product would not be suited to certain types of consumers, or would be suitable only for a limited proportion of an investment portfolio?
- Level of investment knowledge / experience
 - o How complex is the product? Does it include features such as gearing or investment in exotic assets? To what extent would investment knowledge / experience be required in order to understand the product fully? How does this impact on its suitability or otherwise for various types of consumers?

To “identify” a target market may be interpreted as to “ascertain” the target market, and it is not clear from the proposed Code that there will be any obligation on product producers to communicate the target market to consumers or intermediaries. We recommend that the proposed Code be amended to explicitly require regulated entities to state the types of consumer for which a product is likely to be suitable, and the types for which it is not suitable, in the brochure or other materials normally used to market the product to consumers.

⁸ We believe that products should be designed to meet identified consumer needs. It follows from this that the consumers for whom a product is suitable should be identified before the product is designed, rather than *vice versa*. The key investment criteria listed in the response to question 11 can be used to articulate the types of consumer for which a product is or is not suitable. They can also be used to segment a customer database in order to identify potential target markets or design marketing programmes. However, when deciding which of the potential markets it will target, a product producer will also consider questions such as the size of the markets, product profitability and advisers’ availability to sell the appropriate products to the chosen market.

We suggest that consideration be given to requiring product producers to list, in their marketing materials and on a product-specific basis, types of consumer who might be vulnerable consumers in respect of (and having regard to the characteristics of) each product. Using this as the reference point may be more effective than requiring that suitability be assessed by reference to a very broad definition of vulnerable consumer, as proposed under Chapter 5, paragraph 10.

12. Is the consumer information listed in Chapter 4, Provision 32 useful when identifying a target market?

As in question 11, presumably “identifying a target market” means identifying the types of consumer for which a product might or might not be suitable. The information in Chapter 4, Provision 32 is useful in considering scenarios to determine whether a product is suitable for a particular target market.

13. Do you agree with the requirements outlined in Chapter 3, Provision 45? How often do you think that reviews of products should be undertaken?

Under Chapter 3, Provision 45, if a product producer establishes that a product no longer meets the general needs of the target market for which it was designed, the producer must:

- (a) reassess the product to identify the consumer type for which it is suitable, and
- (b) immediately update the information it provides to intermediaries in relation to the product.

We agree with requirements (a) and (b), though options to modify or withdraw the product should also be included.

Requirement (c), to notify the Central Bank, requires further elaboration. What is to be notified? What details are required? How soon is notification required? What will the outcome of such notification be - what action will the Central Bank take (if any)?

We suggest that the wording of the Provision be amended to address the situation where it transpires that a product is taken up by a significant number of consumers beyond the target market for which it was designed.

We agree that an annual review of products should normally be sufficient. However, we believe that each product should have specified triggers (defined by the product producer) that require an immediate review. For example, for tracker bonds, a downgrade of a counterparty should automatically trigger a review.

14. Should product producers be required to periodically review applications for their investment products, received through their direct sales force and through the intermediary channel, to ensure that actual sales are consistent with the targeted market? Do you foresee any hurdles to the implementation of this requirement in practice?

We believe that this is a good idea and we understand that many product providers carry out this activity already. This activity should not be carried out in isolation but should be combined with other measures, such as monitoring of complaints, lapses, etc. In addition, rather than a

prescribed format that might inadvertently foster a “tick box” approach, any review should be customised so as to focus on any risks inherent in the product, as identified during the product development process.

Appendix

Copy of October 2008 Submission to the Financial Regulator on Consultation Paper 34, “Review of the Life Assurance (Provision of Information) Regulations 2001”

Introduction and Executive Summary

The Society of Actuaries in Ireland welcomes the opportunity to make this submission in response to the Financial Regulator’s Consultation Paper CP 34 “Review of the Life Assurance (Provision of Information) Regulations 2001”. We are responding to this consultation in the context of the profession’s mission to serve the public interest in areas where our input can be of benefit. The Society has worked closely with the relevant regulatory bodies in the past in relation to the disclosure regime for life assurance and has built up significant experience in this area. The Society has been proactive in adapting its Actuarial Standards of Practice in relation to disclosure to address issues arising from the evolution of the marketplace. We look forward to continued cooperation with the Financial Regulator in the further development of the disclosure regime.

We have responded to each of the individual questions in the Consultation Paper. The detail of our response is contained in the following pages. However, we would like to draw particular attention to the following points:

- **As stated in the past, we are strongly of the view that the same disclosure requirements should be imposed on all investment products, whether or not an insurance policy is involved, in the interests of consumer protection. The Consumer Protection Code has been effective in enabling comparisons across all tracker bonds, in particular. However, other investment vehicles need to be brought within this framework.**
- The Society believes that changes to the disclosure regime for life assurance should also be reflected in the Consumer Protection Code to maintain consistency between the two.
- We believe that the existing disclosure regime for life assurance provides an effective model for informing customers of projected benefits, charges and remuneration. However, there is scope to summarise some information, highlight the main features and reduce the amount of further information given to customers, while ensuring that customers are provided with the necessary information to enable them to understand the fundamental features of their policies. To that end, the Society suggests that a summary document be produced which highlights the key features, risks and benefits under the policy – see Appendix. We believe that the existing disclosure document can be appended to this in order to provide consumers with more detail, should they require it. However, we recommend that some items be removed from this disclosure document where they add little additional information or where the information is not appropriate to the product being offered (see Appendix).
- We believe that product features should be expressed in clear, jargon-free language and we propose the use of standardised definitions for commonly-applied charges. As part of this, we support the renaming of “reduction in yield” to a term such as “equivalent annual charge” or “effect of charges”.

- We have reservations about proposals to provide projections on a range of growth rates. We believe that more work needs to be done to determine effective ways of explaining to consumers the different risks associated with different investments and the (relative and absolute) extent to which outcomes on different investments are likely to vary. We are willing to work with the Financial Regulator to take this forward.
- The current disclosure regulations for life assurance products exclude Occupational Pension Schemes. We understand that the Pensions Board is creating new regulations for the provision of illustrations for defined contribution pension schemes. The provision of information for Occupational Pension Schemes is a complex area and it would take more time than is available for this consultation to consider it properly. The Society is willing to work with the Financial Regulator and Pensions Board to determine whether the disclosure regime for Occupational Pension Schemes could and should be improved.
- The Society believes that, for savings and investment products, the provision of a detailed annual statement would be very useful for customers.
- Mindful that changes to the disclosure regime may be costly to implement, we recommend that the Financial Regulator carry out ‘road-testing’ of any proposals for change that it decides to take forward as a result of this consultation, to ensure that changes will genuinely add value to consumers.

Responses to questions raised in Chapter 2, General Issues

2.1.1. How can financial advisers be encouraged to explain the disclosure material to their customers?

It may be that customers pay more attention to the personalised documentation (such as “reasons why?” letters etc.) than the disclosure material. Does the Financial Regulator’s research provide evidence of this? If so, consideration should be given to the inclusion of more of the disclosure material within these letters rather than in separate stand-alone documentation.

2.1.2 The financial adviser signs a declaration stating that the particular consumer has been provided with a copy of the material required under the 2001 Regulations. How useful is this declaration?

The Society feels this declaration is useful to the extent that it underlines the importance of providing the documentation to the customer and serves as a good reminder to financial advisers to provide this. In the event of dispute, a signed statement may be very important to all parties.

2.1.3 The consumer signs a declaration stating that they have received the information specified in the Regulations. How useful is this declaration? Could a checklist of what was discussed in relation to the disclosure documentation be incorporated into this declaration?

The Society agrees that this declaration is important for the reasons given in response to Q2.1.2. A checklist would also be useful. In addition, a key issue is whether the customer has actually read any of the information provided. It may be useful to incorporate a statement to this effect in the declaration.

2.2.1. Does the present layout of this section (key features) adequately communicate key/relevant information on the product to consumers? Is the questions/answers format an effective way of communicating this information?

The Society believes that the questions and answers format is a useful format for communicating this information.

However, the Society feels that the disclosure documentation, while very comprehensive, suffers from the lack of a summary and anecdotal evidence is that it may not be read or understood properly by customers. The Society recommends that a summary of the main disclosure information (no longer than two pages) should be prepared (see Appendix). More detailed disclosure information can be contained in a longer document (broadly similar to the current one) but avoiding any unnecessary duplication of information contained in the Summary.

In addition, where the questions are simply not applicable, the Society believes that they should be omitted. For example, where the premiums are not reviewable, do not include a question about premium reviews.

2.2.2. Using the existing format, are additional questions and answers required? If so, please provide an outline of such questions.

We suggest that a question be included regarding the effect of inflation on the investment.

There is also a need for more information on possible risks inherent in the investment – see response to question 3.4.1.

2.2.3 Is the information about the product already adequately communicated in product brochures or does it need to be restated separately in the disclosure documentation?

Many providers have taken the initiative to incorporate the disclosure information into product brochures. This means that they can provide further detail in a user-friendly fashion and it assists the consumer in understanding the product. Where this has been carried out, the Society believes that there is no need for the information to be repeated in any formal disclosure document. However, if the Financial Regulator considers that there is merit in having all the key information in a structured format within one document (e.g. to facilitate comparisons between products), the document could nevertheless be shortened if sign-posting to other disclosures of the information (e.g. within a product brochure) was allowed.

2.3.1 Use of plain language and clear presentation

The Society believes that language should be as plain as possible. There should be little or no need for jargon and therefore a “jargon buster” should not be required. However, there will be instances when financial terms are necessary, e.g. to avoid misinterpretation, and where this is the case, they should be fully explained, perhaps in a glossary.

We suggest that consideration be given to drawing up standardised definitions of commonly-applied charges for use in disclosure documentation. In addition, we suggest that terms such as “initial allocation” and “bid-offer spread” should be condensed into a single number described as a “premium charge”.

We agree that graphics could be used effectively (particularly in pre-printed documents – graphics might be impracticable in, for example, documents produced by point-of-sale systems). If the Financial Regulator believes that graphics are not appropriate, then a simple table could be used instead of graphs.

2.4.1 Proposal on layout of disclosure to reflect complexity of information

The proposal in CP34 is that predominantly textual information should be included at the start of the documentation and more complex, numerical information should be set out later in the documentation.

The Society considers that a mixture of numerical information and textual information can be useful in assisting the customer to understand the product. For instance, a description of charges followed by the effect of charges (in numerical terms) can show the customer the overall effect of the charges described. The Summary suggested in the Appendix reflects this view.

2.5.1/2 Questions regarding duplication of certain information

In CP34, the Financial Regulator notes that certain information is included in both the disclosure information and the Terms of Business document and questions whether the relevant section of the disclosure documentation should be limited to information about the insurer only.

We believe that the information on service fee should remain in the disclosure document and should be placed close to the adviser remuneration section. The information concerning the insurer, intermediary or sales employee should be grouped together and our preference is for it to be placed in the Terms of Business. This has the beneficial effect of shortening the disclosure information.

Responses to questions raised in Chapter 3, Main Proposed Changes

3.1.1 Proposal to customise disclosure according to product type

In CP34, the Financial Regulator proposes that the Illustrative Table of Projected Benefits and Charges and information on the Reduction in Yield be shown only in respect of policies that offer the prospect of a surrender value.

The Society heartily agrees with the suggestion to remove the detailed charges and expenses table from the disclosure document in the case of contracts which do not acquire a surrender value. This would include term assurances, mortgage protection and investments which do not acquire a surrender or transfer value before maturity (e.g. some types of tracker bonds which are included under the Consumer Protection Code in any case).

We note a comment in CP34 that “The Illustrative Tables . . . outline the projected performance of the product from an investment point of view”. This could be taken to mean that the Tables indicate expected performance. That is not the case. The Tables are illustrations of projected benefits (and charges) **on the basis of a particular assumed rate of investment return - and (as prescribed by regulation) a standardised rate of investment return is used, in order to facilitate comparisons of different products on a consistent basis.** Perhaps there is a need for further notes to be included with the illustration to make this clear.

3.2.1. Is there justification in showing more than one table of remuneration or is the inclusion of one table sufficient?

For contracts where the renewal commission is dependent on some factor (such as investment performance), it is important that the customer is made aware that the commission payable will depend on outcomes in relation to that factor. An example is “trail commission” which is based on fund value. Disclosure may be through the illustration of different figures for different investment returns (as is the current situation) or, if commission moves linearly with fund performance, disclosure may be through the illustration of a single set of figures (based on (say) 6% p.a. investment return) with a statement that “The renewal commission is based on the value of the fund at the end of each year. Should fund performance be better than that illustrated, your adviser will receive higher commission than that shown. Should fund performance be worse than that illustrated, your adviser will receive lower commission than that shown”.

3.2.2 Should commission for protection-only products, which do not have an investment element, be disclosed differently than commission for investment products? What justification is there for a separate form of disclosure? What format should such disclosure take?

The Society believes that the current format is suitable for both protection and investment products and recommends that no changes should be made.

3.3.1 The Financial Regulator welcomes suggested formats for explaining the reduction in yield.

3.3.2 Is the actual phrase “Reduction in Yield” confusing and is there a better way to explain the concept?

3.3.3 Would it be beneficial for consumers to be provided with RIYs for each 5 year period?

The Society considers the reduction in yield figure to be essential in communicating the effect of charges to customers. It is a key number within the disclosure document which can facilitate comparison between products. We agree that the phrase “reduction in yield” may be somewhat confusing to some consumers. The phrase “equivalent annual charge” might be more appropriate, with an explanation as follows:

“The projected value of your policy is net of charges. The effect of these charges is to reduce your overall investment return. The higher the amount of charges, the greater the reduction in return to you. The “equivalent annual charge” indicates how much your annual return is reduced by charges. For instance, if the investment return was 6% p.a. and the equivalent annual charge was 1.5% p.a., the net return to you would be 4.5% p.a.”

There may be a number of other, equally appropriate (or better) possibilities. The Society is willing to work with the Financial Regulator to explore options.

The Financial Regulator may wish to consider some industry standard for colour-coding the “effect of charges” figure depending on the level of this number, which could highlight high charges to the customer.

On duration-specific reduction in yield figures:

- We believe that a reduction in yield (RIY) number after various durations could be useful. RIYs could be illustrated for each 5-year period, as suggested. Alternatively, the duration-specific RIYs could be tailored to the product such that there is a total of three RIY figures produced (e.g. short-term after 3 years, medium-term 7 years, long-term 20 years), to avoid confusion. We believe that an RIY figure at maturity remains essential.
- We are conscious, however, that producing RIY figures for a range of durations is complex. It would require significant enhancement of IT systems and may impact on the operating performance of the systems due to the iterative nature of the calculations involved. The costs of the additional effort will ultimately be borne by consumers, and the benefits need to be weighed against the costs. It may be impracticable to include RIYs for a range of durations other than in generic, pre-printed disclosure documentation and subject to reasonable approximations being permitted in the calculation of the RIYs.
- We suggest that it would be worthwhile road-testing expanded RIY disclosures using, say, consumer focus groups in advance of firm decisions in this area. This research could also explore the effectiveness of other options – e.g. for savings plans, showing the breakeven point as well as the RIY might be effective. In any event, there may be a need for more consumer education on the meaning of RIY(/similar terminology) before introducing duration-specific figures.

We believe that the RIY information should be provided in the summary (see Appendix) rather than within the body of the disclosure document.

3.4.1 Proposals regarding rates of investment growth for the Illustrative Tables of Projected Benefits and Charges

In CP34, the Financial Regulator invites comments on the following proposals:

- The present option of including a second full illustrative table at a growth rate higher than the primary rate should be removed.
- Encashment values at the end of a set number of years should be shown for a wider range of possible investment outcomes than are currently shown. As well as the primary rate, encashment values after (say) 5 and 20 years, assuming growth rates 2% and 4% below the primary rate, should be shown, possibly in a separate table to the existing Table A.
- In addition, for products where the initial capital is not guaranteed throughout the term of the product, a projection at a negative rate of growth of -2% p.a. should also be shown.

The Society agrees that the second “full table” is of limited use.

Regarding the other proposals, we agree that it is important to convey to consumers that investment growth is not guaranteed, a range of outcomes is possible and (where applicable) the capital value of the investment is not guaranteed

We have concerns, however, about the proposals to show projections at a range of values. There is a risk that this will be confusing to customers and will lead to inappropriate assumptions about the likelihood of the various projections – e.g. all might be considered equally likely; it might be assumed that the most likely outcome is the average of all the outcomes shown; the “middle” value shown might be assumed to be the most likely outcome; the lowest and highest outcomes shown might be assumed to represent limits; etc.

We feel uncomfortable with proposals to show illustrations at a range of values, without any indications about the relative likelihood of different scenarios.

However, this is a complex area.

In November 2007, John Caslin, FSAI, and Damian Fadden, FSAI, presented a paper to the Society of Actuaries in Ireland entitled “How risky is my investment”? The paper is available on the Society’s website at:

<http://www.actuaries.ie/Events%20and%20Papers/Events%202007/How%20Risky%20is%20my%20Investment%20-paper-%20.pdf>.

The paper includes proposals on how risk and reward might be presented and explained to consumers. The Society believes that more work needs to be done to take these proposals forward within a solid framework, but they merit careful attention. Further work might well conclude that educating consumers on risk/uncertainty and its relationship to return is beyond the scope of a disclosure document, and that disclosure should focus only on charges / remuneration.

The Society would welcome an opportunity to discuss the proposed changes, and possible alternatives, with the Financial Regulator more fully.

3.5.1 Is there scope for reducing the numbers of years for which information is provided in Table A? If so, how many years and which particular years should be shown to provide meaningful information to the consumer?

The Society believes that having graphical information (at least in pre-printed documents – see response to qt. 2.3.1) and a summary (see Appendix) should assist many customers in understanding the product. For those who require further detail, we believe that Table A should remain largely as is within the body of the disclosure document. Consideration could be given to limiting the projection period for Table A to a number close to the target term envisaged by the product provider. For example, if the product is explicitly marketed as a medium-term product with a target term of 5 to 7 years, a limit of 10 years may be more appropriate than 20 years.

Responses to questions raised in Chapter 4, Other Key Issues

4.1.1. Would the extension of the Life Disclosure Regulations to Occupational Pension Schemes benefit consumers or is the present disclosure regime for such pension schemes sufficient?

The current disclosure regulations for life assurance products exclude Occupational Pension Schemes. We understand that the Pensions Board is creating new regulations for the provision of projections for defined contribution pension schemes. The provision of information for Occupational Pension Schemes is a complex area and it would take more time than is available for this consultation to consider it properly. The Society is willing to work with the Financial Regulator and Pensions Board to determine whether the disclosure regime for Occupational Pension Schemes could and should be improved.

4.1.2. Many responses to CP9 indicated that commission/remuneration disclosure should be extended to occupational pension scheme policies. Should such disclosure mirror the present life disclosure requirements? If not, what changes to the existing commission/remuneration disclosure should be made for occupational pension schemes?

We believe that commission and remuneration disclosure should be consistent for all financial products (whether these are life assurance or pension policies or not) throughout the industry. The current commission disclosure structure should be adequate to deal with this. There may be complexities in disclosing remuneration for occupational pension schemes but we do not believe that these are insurmountable.

4.2.1 The Financial Regulator invites views on whether the following information should be provided to policyholders on a yearly basis on the policy anniversary:

- **Opening policy surrender value**
- **Amount paid in by policyholder in the year**
- **Details of charges related to risk benefits deducted in the year (if any)**
- **Other charges deducted in the year**
- **Investment Growth in the year**
- **Closing policy surrender value**
- **Details of risk benefits covered (if any)**

The Society believes that, in relation to policies that have a surrender or maturity value, the suggested statement would be very useful to customers. Also, for protection policies, an annual statement of current sum assured would be useful.

Appendix [to 2008 submission on CP34]

We recommend that the disclosure document should start with a Summary (1-2 pages) that sets out succinctly:

- The **Aims** of the product
- The customer's **Commitments**, including premium amount and frequency
- The **Risks** involved
- The **Charges** and the **Reduction in Yield**, with an explanation and a statement of the assumptions used in the calculation
- Any other **Key Features** of the product that the customer needs to know about in order to make an informed decision on purchase
- Details of the **Intermediary Remuneration**
- Details of **Where to go for further information or to make a complaint**.

The remainder of the disclosure information should remain in the main body of the disclosure document. We suggest that the some of the information currently required could be omitted or (as above) moved to the Summary, as follows:

- Any questions that are not relevant to the particular product (see response to question 2.2.1)
- Information that is provided elsewhere (qt. 2.2.3)
- Information about the insurer, intermediary or sales employee (qt. 2.5.1/2)
- If the product does not have a surrender value: Table A (qt. 3.1.1)
- Reduction in Yield (move to Summary – qt. 3.3.3)
- Optional year-by-year illustrations at a growth rate higher than the primary rate (qt. 3.4.1)
- Intermediary remuneration (move to Summary)



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