

Suspected Prips watering down disappoints reformers

By Jeremy Woolfe

Published: June 5 2011 11:20 | Last updated: June 5 2011 11:20

Reformist groups fear that July's scheduled publication of the European Commission's proposals for the forthcoming Packaged Retail Investment Products (Prips) directive will reveal a heavily watered-down document. They suspect the legislation will be a shadow of former intentions and narrower in scope.

The Prips directive was originally planned to cast light on the sales practices used for retail products, ranging from annuities to life insurance and managed funds. Part of its focus was to rein in hidden sales commissions and other sales malpractices.

The scale of the ethical issue is so widespread that it calls for political intervention, according to Agnes Le Thiec, head of the Brussels office of the CFA Institute.

However another French national, Guillaume Prache, managing director of EuroInvestor, a Brussels-based lobby group representing small investors, fears that in the end, the "intervention" will, as the French saying goes, turn out to be like a mountain (of effort) giving birth to a mouse, despite a gestation period dating back to 2007.

The volume of investment potentially liable to the proposed directive – in the form of investment funds, unit-linked life investments, structured retail securities and deposits – adds up to something like €13,000bn, with investment funds the dominant element.

Mr Prache tells FTfm that the original "broad scope" intended by retail investor groups for Prips was to help and encourage retail investors to invest with confidence. The groups' target for the directive was to provide sales disclosure and sales practice rules for everything, including listed shares, bonds and other fixed income securities such as bank certificates of deposit, commercial paper, and government treasury bills, as well as packaged products.

Also to be included were traditional life insurance, savings accounts, non-mandatory pensions subscribed to by the individual, annuity products and some derivatives, as long as they are regularly sold to retail investors. But now, Mr Prache believes, the Commission appears to be on track to exclude most bank savings products, all personal pension investment products (which can sometimes lock-in a customer for decades) and the bulk of life insurance contracts.

While life insurance may technically be included, in France, for example, the Commission is likely to exclude from the scope of the proposed legislation all but unit-linked life insurance policies, where investments are wrapped up, or packaged, in an insurance policy.

In other words, the big market of straight life policies, worth €1,200bn in asset value, would be excluded, with only policies with a value of €200bn remaining within the scope of the directive.

Mr Prache argues the evidence for the heavy dilution of the original aspirations is clear from the wording of the Commission's recent consultation paper. The Commission itself says it is currently "finalising its proposals" on the basis of feedback from interested parties.

Mr Prache's position is supported by EuroShareholders, the European Federation of Financial Advisers and Financial Intermediaries (FECIF) and the Association of International Life Offices.

The UK's Investment Management Association takes a roughly similar view, but it does not ask to have savings accounts or individual equities or bonds included.

The blame for any weakening of the proposed legislation is placed on opposition by other interest groups to a crucial part of the exercise, the Key Investor Information Document (Kiid). Under this, the seller has to provide a potential customer with a standardised form, comprising a list of mandatory information written in simple language, on not more than two pages.

One opponent of a universal Kiid is the European Banking Federation, which does not believe that such a document should be required for all types of packaged retail investment products, given the important differences between products.

The forecast enfeeblement of Prips from its original intention is "disappointing", according to Peter de Proft, director general of the European Fund and Asset Management Association. He criticises the Commission's decision to split the regulation of product disclosure from the rules concerning sales practices.

Rules on distribution concerning insurance, in the Insurance Mediation directive, will be reviewed and aligned with the existing Markets in Financial Instruments directive, or Mifid, but a proposal for the IMD is not expected until late this year. Rules applying to sales practices of other investment products will remain covered by Mifid, which is also under review. Here, revision has been delayed from July to the autumn.

The danger is a legislative "Balkanisation", or a divergence between the master legislation and technical measures, as set, at a lower level, by sectorial regulators.

A further lack of harmonisation could ensue given that three different European supervisory authorities will be involved. Depending on the financial product being sold, the relevant supervisor will either be the European Securities and Markets Authority, the European Banking Authority or the European Insurance and Occupational Pensions Authority, says Mr de Proft.

Regarding the scope of Prips, Efama largely agrees with the Commission but disagrees with the decision to exclude all pension products. It argues that all insurance products with an investment element should be included.

[Copyright](#) The Financial Times Limited 2011. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.