



Survey of the customer information provided with investment baskets

1 Improvement needed in the quality of customer information on investment baskets

FIN-FSA examined the quality of the customer information on investment baskets associated with unit-linked life insurance policies, pension insurance policies and capital redemption contracts.

On the basis of the analysis, FIN-FSA considers that the information provided to customers does not enable customers to compare investment baskets or their features to the features of investment funds.

An investment basket is an investment product owned by an insurance company, and the value of an unit-linked insurance policy can be bound to the value development of such an investment basket. Depending on their contents, investment baskets are, from the perspective of the customer, investment objects similar to investment funds or index-linked bonds.

In FIN-FSA's view, customer information related to investment baskets should describe clearly the product's legal character, investment policy, risks and expenses. Most insurance companies disclose the above mentioned features in the information provided to customers, but the information is located in many different documents or the information is very general in nature.

Regulation of investment funds requires that investment funds prepare a fund prospectus and a concise and clear Key Investor Information Document that describes the key features of the investment fund. These requirements do not relate to investment baskets; they are subject to a disclosure obligation as referred to in the Insurance Contracts Act.

Regarding investments that are linked to insurance policies, section 5 of the Insurance Contracts Act requires that the insurance applicant be provided information on matters important for the selection of investments, taking into account the applicant's previous investment experience and investment target. By virtue of section 9 of the Insurance Contracts Act, insurance companies are responsible for the information provided to policyholders, and in accordance with this responsibility, the insurance contract is considered to be in force with the effect understood by the policyholder on the basis of the information received.

The European Parliament on 15 April 2014 adopted the Regulation of the European Parliament and of the Council on key investment documents for packaged retail investment products and investment insurance products (PRIIPs). The Regulation will be published when it has been adopted by the EU Council. The application of the Regulation will start in 2016. PRIIPs must be accompanied by a standardised document like the Key Investor Information Document of UCITS, which describes clearly the key



features of the products. The purpose of the document is to improve the comparability of products.

2 Legal character of product

2.1 Findings

Not all the investment basket prospectuses describe the legal character of the investment baskets tied to insurance policies.

2.2 FIN-FSA's view

An investment basket is an investment object owned by a life insurance company and it is bound to an unit-linked life insurance policy, pension insurance policy or capital redemption contract. There is no specific legislation that regulates the operation of investment baskets.

Customers should be provided with clear information at least on the following legal characteristics of the investment basket:

- it is not an investment fund regulated by the Mutual Funds Act, but an investment object which is managed by a life insurance company and which defines the value of an insurance policy
- the rules and regulations of an investment basket are not confirmed by an outside party; instead the insurance company defines the rules and regulations of the investment basket, and in accordance with the terms and conditions of the insurance policy, it has the right to change the rules and regulations of the investment basket or terminate the investment basket
- investment baskets' investment policy is not subject to statutory allocation requirements or other restrictions similar to the Mutual Funds Act's provisions on investments
- the insurance company is responsible for calculating the value of the investment basket, the principles for value calculation are not approved by an external party
- the policyholder is not in a customer relationship with the possible external asset manager of the investment basket, but rather with the insurance company
- the subscription and redemption of an investment basket may include restrictions defined in the rules and regulations of the investment basket and restrictions defined in the insurance contract.

3 Presentation of key information in various documents

3.1 FIN-FSA's findings

Not all the investment basket prospectuses provide a clear overall picture of the investment basket's risks, charges and achieved return; instead the



customer must study several documents (eg insurance prospectus, terms and conditions of the insurance policy, investment basket prospectus, monthly report, insurance offer, key information in the offer calculation, and performance information available on the insurance company's website) to be able to make an educated investment decision.

3.2 FIN-FSA's view

In FIN-FSA's view, good practice would be to compile in the investment basket prospectus provided to customers all the key information on the investment basket, including the risk of capital loss. The investment basket prospectus should also refer to documents in which additional information is available.

4 Structure and linguistic form of the text

4.1 FIN-FSA's findings

The investment basket documents provided to customers included a lot of text. In most cases, the text was difficult for the customer to understand.

4.2 FIN-FSA's view

A long text can be a challenge to a customer. In addition to a clear structure, text boxes describing the key features considerably facilitate the customer's understanding and make it easier to compare the product's features. In addition, diagrams (eg in connection with structured investment baskets) and examples of calculations could be used as tools for illustration.

5 Recommended holding period

5.1 FIN-FSA's findings

For nearly all the investment baskets, the recommended holding period/minimum holding period was stated.

5.2 FIN-FSA's view

In FIN-FSA's view, good practice would be to inform the recommended minimum holding period for the investment basket. FIN-FSA has already recommended that the minimum holding period for the insurance policy be stated (section 7, paragraph 9 of FIN-FSA Regulations and guidelines 16/2013).

Particularly in the case of structured investment baskets, it should be pointed out that, in the event of death, the investments linked to an insurance policy are realised at the value at the time of death, so any principal guarantee included in the structured product does not benefit the inheritors.



6 Investment policy and investment objects

6.1 FIN-FSA's findings

The descriptions of the investment activities of all the investment baskets indicated the markets and asset classes in which they invest. Many descriptions were however ambiguously structured, unclear or difficult to understand, and the descriptions did not provide a sufficient amount of more accurate information on the investment objects.

6.2 FIN-FSA's view

The customer should be told in easily understandable language how to choose the investment objects in the investment basket. The description should not include difficult expressions and terms.

The description should be sufficiently accurate. It should state the principles for choosing the investment objects and instruments used for making the investments.

The description of investment activity should also state the investment basket's allocation principles, as investment baskets are not subject to allocation requirements.

7 Risks

7.1 FIN-FSA's findings

Insurance companies disclose, as a rule, the risk of capital loss or the risk of a decline in capital related to unit-linked insurance, and the market risks of various asset classes. In contrast, descriptions of the specific risks related to the investment objects of investment baskets are often vague.

Some companies in their prospectuses used the seven-step risk and reward profile used in investment funds' key investor information documents, to illustrate the risks of the investment basket.

7.2 FIN-FSA's view

It is advisable to inform customers in more detail of possible specific risks related to the investment basket or its investment objects if the risks are material. These risks include credit risk, liquidity risk and counterparty risk.

In FIN-FSA's view, the use of a risk and reward profile that is in accord with the key investor information documentation facilitates the illustration and comparability of the risks in the investment baskets.



8 Presentation of charges

8.1 FIN-FSA's findings

Most life insurance companies present the charges of the investment baskets in an unclear manner. Customers are presented clearly only the annual administration fee charged by the investment basket. Information that funds that are the investment objects of the investment basket charge their own fees is sometimes disclosed ambiguously or the information is not disclosed at all.

Many companies also fail to disclose the total charges of the investment basket, some scatter the information on charges over several documents.

8.2 FIN-FSA's view

Customers should be informed of the charges for the investment basket so that they can easily get an overall picture of the charges that burden the return on the insurance policy.

When informing about the management fee for the investment basket, it would be advisable to point out that investment funds that may be used as investment objects may charge their own fees. At the same time, customers should be informed of the investment basket's total burden of charges, including the charges of the underlying fund.

9 Past performance

9.1 FIN-FSA's findings

The majority of companies provided information on past performance in a prospectus.

9.2 FIN-FSA's view

Investor's should be provided with a picture of how long the investment basket has been operating and how its value has developed. If the investment basket's objectives and investment policy have changed during the current period, it is advisable to inform the investor that past performance was achieved under conditions that no longer prevail.