

# CONSULTATION PAPER

on Methodology on Value for Money  
Benchmarks

15 December 2023



**eiopa**

European Insurance and  
Occupational Pensions Authority

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## RESPONDING TO THIS PAPER

EIOPA welcomes comments on the Consultation paper on Methodology on Value for Money Benchmarks.

Comments are most helpful if they:

- ▶ respond to the question stated, where applicable;
- ▶ contain a clear rationale; and
- ▶ describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the [EU survey](#) tool, by 15 March 2024

Contributions not provided using the survey or submitted after the deadline will not be processed and therefore considered as they were not submitted.

### Publication of responses

Your responses will be published on the EIOPA website unless: you request to treat them confidential, or they are unlawful, or they would infringe the rights of any third party. Please, indicate clearly and prominently in your submission in the respective field in the EU survey tool. Standard confidentiality statements in an email message will not be treated as request for not disclosure. EIOPA may also publish a summary of the survey input received on its website.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents.<sup>1</sup>

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### Data protection

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<sup>1</sup> [Public Access to Documents.](#)

## 1. INTRODUCTION

- 1.1. Following the publication of the Supervisory Statement<sup>2</sup> on Value for Money (VfM Supervisory Statement) in November 2021, EIOPA started working on a methodology to assess Value for Money (VfM) in the unit-linked and hybrid insurance products markets<sup>3</sup> (VfM methodology), with the aim of ensuring consistent and convergent approaches. The VfM methodology is meant as a supervisory tool for National Competent Authorities (NCAs). It aims at providing clarity for insurance manufacturers and distributors on the supervisory approaches to address VfM risks, to ensure that they are sufficiently customer-centric and that they take into account VfM considerations
- 1.2. Taking into account requests from stakeholders, and as agreed by the Board of Supervisors (BoS), EIOPA began working on developing reference benchmarks. This with the view of two objectives: 1) assist NCAs in identifying products with higher value for money risks and promote a more efficient and risk-based approach to conduct supervision; and 2) assisting product manufacturers in identifying comparable offers in the market to determine if their products offer value – by making sure all costs are due. It is important to highlight that the benchmarking exercise is to be considered complementary to the POG activities (i.e. product testing) performed by manufacturers during the product design. A product should provide value for money to consumers regardless of where it stands in relation to the benchmarks.
- 1.3. This document, issued for public consultation, presents how EIOPA aims to develop such reference supervisor benchmarks, by taking a gradual approach to ensure they well reflect the characteristics of products sold in different markets across the European Union (EU). Three steps are envisaged:
  - ▶ **Step 1 Defining the product clusters**: This would consist in defining the set of clusters based on which unit-linked and hybrid products are grouped according to policyholders' needs. The aim is to ensure that products with similar characteristics and with comparable features are compared with one another. Unit-linked and hybrid products across Europe can be highly diverse and, hence, there cannot just be one set of benchmarks for all products. While the final set of clusters will be defined based on the set of products which will be collected, the methodology already identifies some criteria and presents two possible options on how to clusters Multi-Option Products (MOPs).
  - ▶ **Step 2 Defining the indicators around which benchmarks will be developed**: The published VfM methodology already contains a set of indicators to measure VfM. EIOPA proposes revisions to these indicators to also include new ones which would help in further assessing if products offer VfM. The updated indicators will be defined based on feedback from the public consultation and once the data is available.

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<sup>2</sup> [Supervisory statement on assessment of value for money of unit-linked insurance products under product oversight and governance \(europa.eu\)](https://eiuropa.eu/supervisory-statement-on-assessment-of-value-for-money-of-unit-linked-insurance-products-under-product-oversight-and-governance)

<sup>3</sup> [EIOPA issues its methodology for assessing value for money in the unit-linked market \(europa.eu\)](https://eiuropa.eu/eiopa-issues-its-methodology-for-assessing-value-for-money-in-the-unit-linked-market)

- ▶ **Step 3 Data collection and the benchmarks calibration:** Considering the need to limit the burden on the market, EIOPA envisages relying on existing data collection process – i.e., the annual Cost and Past Performance (CPP) report. However, this will need to be refined and adjusted. This document presents how EIOPA plans to refine and adjust it including how the data collection would work depending on whether for MOPs Option 1 or Option 2 is chosen.
- 1.4. It is important to highlight that the approach for the definition of the benchmarks is to be considered an initial exercise that will require further recalibrations and possible revisions on the approach. EIOPA plans to revise and improve the methodology through a public consultation which will run from 15 December 2023 for 3 months, and through the input received through a pilot data collection exercise which will run in parallel to the public consultation.
  - 1.5. Beyond reviewing the methodology prior to collecting the data and developing the first set of benchmarks, EIOPA plans to conduct regular reviews to adjust and improve the methodology. To this extent, in the first phase EIOPA does not plan to publish the benchmarks on its website. Rather EIOPA envisages to:
    - ▶ Share the benchmarks with NCAs, which will use them for supervisory purposes – i.e., they will use the benchmarks to identify those products – within defined set of clusters – which pose higher value for money risks and which require higher supervisory scrutiny.
    - ▶ Share the benchmarks with NCAs and, once EIOPA is confident with the data quality, NCAs should share, in a confidential manner, the ones for the clusters which they deem relevant for their market with insurance product manufacturers. The aim of NCAs sharing them with insurance product manufacturers is for product manufacturers to take into account the benchmarks in their product testing process, in line with EIOPA’s VfM Supervisory Statement, and therefore to determine whether their products offer value – including if costs are proportionate vis-à-vis other offers in the market.
  - 1.6. It is worth noting that as part of its work on VfM, EIOPA in 2020 decided to gradually develop a comprehensive and proportional toolkit enabling NCAs to address value for money risks in the unit-linked and hybrid insurance products market. To this extent it decided and already started its work on the benchmarks prior to the publication of and independently from the Retail Investment Strategy (RIS), through which the European Commission envisages an Omnibus Act which would amend also the Insurance Distribution Directive (IDD)<sup>4</sup> alongside a number of other measures to increase consumers’ savings and enhance the Capital Markets Union (CMU). The proposal clarifies and further strengthens existing VfM requirements under Article 25 (POG) and it further suggests that EIOPA, after having consulted ESMA, should develop common benchmarks for insurance-based investment products (IBIPs) that should help insurance manufacturers perform product comparative assessments.

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<sup>4</sup> Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016

- 1.7. EIOPA's current work is therefore to be considered independent from the RIS and fully entrenched and based on existing IDD requirements. In fact, even though EIOPA is of the view that this preliminary work can inform the RIS as it will provide real practical expertise on how to develop benchmarks before the methodology under the RIS is developed, EIOPA's work and approach is different from the RIS as it would develop benchmarks based on a sample of products and such benchmarks would be used for supervisory purposes (i.e., to inform a more risk-based approach).
- 1.8. Finally, while EIOPA has not carried out an impact assessment prior to the publication of this consultation paper, EIOPA encourages stakeholders feedback as to the possible costs and impact of the proposal and approach included in this methodology. EIOPA views the current approach as not increasing the costs; in fact, as presented in Section 6 of this consultation paper the data collection would rely on the CPP data collection process and only in case Option 2 is preferred for MOPs the number of products to be reported would significantly increase. Moreover, EIOPA expects to rely on data which insurance product manufacturers – if they carry out sufficient and adequate product testing in line with Article 6 of the POG Deleted Regulation (POG-DR)<sup>5</sup> – should have readily available. On the contrary, EIOPA expects that the current approach would limit costs and facilitate insurance manufacturers' work by providing them with key indicators on comparable offers in the market by enabling a more risk-based approach to supervision.

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<sup>5</sup> Commission Delegated Regulation (EU) 2017/2358 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council

## 2. BACKGROUND

- 2.1. Costs, if not proportionate to the benefits offered to consumers, can have a significant impact on the returns and benefits of unit-linked and hybrid products. EIOPA has reported for a number of years that important risks can emerge from the fact that unit-linked and hybrid products are overly complex with limited direct benefits for consumers, specifically in light of undue costs and product features which do not offer value to consumers. To mitigate these risks, EIOPA is promoting a more consumer-centric approach towards product development and product testing.
- 2.2. A fundamental piece of work that EIOPA is bringing forward is the development of a benchmark methodology, issued for public consultation. Benchmarks are a tool meant to enable i) supervisors to adopt a more risk-based approach for the identification of unit-linked and hybrid products which may not offer value for money and ii) insurance product manufacturers to better determine if their products offer value to consumers (or not). Benchmarks would in particular help manufacturers in determining that no undue cost is charged, by ensuring proportionality and taking into account the expenses borne by the provider and the benefits offered to policyholders. The tool would also help perform the comparison with other similar products offered in the market.
- 2.3. In line with EIOPA's VfM methodology, some national jurisdictions have in fact already proceeded EIOPA's work in laying down expectations on VfM assessment and national benchmark requirements (e.g., Italy<sup>6</sup>, France<sup>7</sup>, and Germany<sup>8</sup>).
- 2.4. In line with the gradual approach envisaged by EIOPA, the benchmarks will be reflective of markets' specificities, taking into account the evolving nature of the unit-linked market. Finally, EIOPA envisages a public consultation, alongside a data pilot exercise with selected undertakings as well as undertakings, who are willing to voluntarily participate to the dry run of the benchmarks' methodology. In particular:
  - ▶ Benchmarks and clusters, albeit outlined in this document, will be determined only once the full data-set is available; and
  - ▶ The methodology will be adjusted one year after its finalization and will then be reviewed, at least on a two-year basis.

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<sup>6</sup> [IVASS Consultation Paper on POG](#)

<sup>7</sup> [20230614\\_cp\\_acpr\\_frais\\_assurance\\_vie\\_uc.pdf \(banque-france.fr\)](https://www.banque-france.fr/content/download/20230614_cp_acpr_frais_assurance_vie_uc.pdf)

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[https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Merkblatt/VA/mb\\_01\\_2023\\_wohlverhaltensaufsichtliche\\_aspekte\\_va\\_en.htm](https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Merkblatt/VA/mb_01_2023_wohlverhaltensaufsichtliche_aspekte_va_en.htm)  
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### 3. HOW BENCHMARKS SHOULD FUNCTION

#### WHAT BENCHMARKS ARE

3.1. Benchmarks are meant to be reference points which:

- ▶ On one hand, support NCAs in their risk-based supervisory approach by allowing them to identify products which prima facie pose higher value for money risks and which require higher supervisory scrutiny including through enhanced POG assessments – i.e., those products which are outside of the perimeter of the benchmarks.
- ▶ On the other hand, enable product manufacturers to identify the costs and benefits, including insurance coverage and qualitative aspects offered by comparable offers in the market, to facilitate their product testing and pricing process, including assessing that all costs are proportionate and due.

3.2. It is important to highlight that EIOPA is not advocating for a one size fits all methodology. Rather, multiple product clusters will be created, based on a set of criteria and features which ensure only comparable products are within said clusters. The criteria are based on the various products available in the market to allow for a transparent market observation and comparison, and therefore limiting products with poor or no inherent value in the market. Hence only comparable products are taken into account when value for money considerations are made.

3.3. This approach will allow room for comparison of products with similar criteria, and single out unit-linked and hybrid products within the relevant cluster of comparable that do not offer VfM.

3.4. The benchmarks will be based on multiple quantitative and qualitative indicators, which when considered jointly, will shed light on the costs and benefits of insurance products.

3.5. Finally, benchmarks should also facilitate manufacturers' exchanges with supervisors, in fact, manufacturers would be able to easily demonstrate how they have taken into account the benchmarks in their product design process and how their products offer value. To summarize:

- ▶ Benchmarks are meant to facilitate and enable a more risk-based approach to ongoing supervision;
- ▶ Benchmarks are a tool meant to enable insurance product manufacturers to better determine if their product offers value by assessing whether the costs are proportionate to the benefits offered by comparing available offerings in the market; and
- ▶ They are comprised of multiple qualitative and quantitative indicators for relevant product clusters to avoid an over focus on costs and to ensure value is offered taking into account the needs, objectives and characteristics of the target market.

#### WHAT BENCHMARKS ARE NOT

3.6. Benchmarks should not be used as consumer disclosure tool. The nature of the indicators and the product clustering process are requiring an in-depth knowledge of the VfM methodology which is not targeted for consumers. EIOPA may consider publishing the benchmarks on its



website alongside other technical indicators such as the risk-free-rate; however, considering the benchmarks will need several iterations, this will only be carried out once the methodology is fully refined. Initially, EIOPA will only share benchmarks with NCAs which will share them, in a confidential manner, with market participants once EIOPA determines the data is sufficiently viable. EIOPA is also considering sharing additional guidance that would accompany the benchmarks values. The guidance would explain to supervisors and manufacturers how to treat products within and outside the benchmarks, how certain specific product features could affect the cost, benefits and performance of the products.

- 3.7. Benchmarks should not be considered a safe harbour, meaning that even though the products' indicators are within the EU benchmarks for the relevant product clusters, manufacturers are not exempted from complying with POG requirements, including the EIOPA VfM Supervisory Statement which requires ensuring that all costs are due and consistent with the target market's needs and objectives are clearly identified and quantified. By being within the perimeter of the benchmarks, manufacturers are not automatically complying with POG as some of the costs could still be undue and/or value for money is not proven. The market comparison by itself will not ensure that a product offer value for money to consumers as this should be verified with the manufacturer's product testing activity. The product should provide value for money in itself, regardless of the comparison with the products sold in the EU market. The comparison benchmarking should only be considered a complementary activity in the global assessment conducted by the manufacturers. Benchmarks should also not be seen and used as price regulation or cost-capping. In fact, EIOPA is of the view that the benchmarks cannot capture all products' specificities and all consumers' needs as these are varied in nature. Hence, manufacturers can – and should when appropriate – go beyond the perimeter of benchmarks if from their product testing, they can prove that the product, including relevant additional features may correspond to higher costs or simpler features may correspond to lower benefits.
- 3.8. Vice-versa they can also facilitate supervisory interventions if, vis-à-vis the benchmarks, insurance products manufacturers fail to prove the additional value offered by their products who go beyond the perimeter of said benchmarks.

#### Questions to stakeholders:

Q1: Stakeholders are invited to provided inputs and views as to how value for money benchmarks should work and their usefulness for product comparability.

Q2: Stakeholders are also invited to share whether they agree on what the benchmarks are and are not.

Q3: Do you already have similar tools in your market that would serve the same purpose?

Q4: While EIOPA indicated that initially it will not publish the benchmarks, stakeholders are also invited to share views as to whether the benchmarks should be published or not already in the first initial phase.

## 4. PRODUCT CLUSTERING: ENSURING COMPARABILITY

### HOW WOULD THE BENCHMARKS APPLY TO DIFFERENT PRODUCTS

- 4.1. Despite striving for a common EU approach to benchmarks, EIOPA is also aware that the European IBIPs landscape is composed by a variety of product structures with diverse product features. EIOPA therefore envisages developing a list of product features, a combination of which, will create a number of product clusters. While the latter will not be directly connected to specific national markets, there will be cases in which one product cluster will be predominant in a market while in other markets, a different selection of clusters will be more appropriate. The benchmark calibration exercise will be performed at EU level to make sure that consumers' outcomes are consistent across the EU and to avoid that market segments for consumers remain consistently more expensive. On the one hand, considering some markets are more homogenous than others, some clusters will be relevant to specific national markets. On the other hand, some national markets are heterogenous and therefore there will be multiple product clusters which are relevant and which would apply.
- 4.2. The clustering process should allow for an appropriate benchmarking exercise in which the manufacturers should easily identify the appropriate cluster for their products and should also ensure that the benchmarks are relevant.
- 4.3. The product clusters will be designed to include as many characteristics as possible, taking into account the diversity and the different features and benefits which unit-linked and hybrid products sold in the EU offer and data collection limitations.
- 4.4. The development of European benchmarks would ensure that issues relating to highly expensive markets are tackled and that they also address cross-border business aspects to ensure consistent outcomes and promote the enhancement of the CMU. The benchmark indicators proposed in this methodology are a mixture of cost and performance indicators analysed through a number of scenarios<sup>9</sup>. The joint evaluation of the benchmarks will allow for a full analysis of the product features as the consideration of a single benchmark might produce misleading results.
- 4.5. NCAs when carrying supervisory activities and identifying products which require higher supervisory scrutiny, will look at those products which, based on the relevant features and characteristics fall within the cluster(s) under examination. In a second phase, having identified products which prima facie pose higher value for money risks, NCAs carrying out enhanced supervisory activities, will also assess whether the process followed by the manufacturer to identify the most appropriate cluster(s) for the concerned product(s) is the correct one.

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<sup>9</sup> Surrender scenario, biometric scenario and considering various point in time

## STEP 1: PRODUCT CLUSTERING

### The general principle

- 4.6. The approach EIOPA proposes to identify the product features around which clusters will be performed is based on:
- ▶ **A consumers' needs principle:** the features are based on the consumers' needs the product is meant to address considering the added value each feature provides to consumers;
  - ▶ **A bottom-up approach:** NCAs have been consulted to provide information on their market specificities which should be taken into account when developing clusters.

### The product features

- 4.7. Currently, considering EIOPA will be basing the benchmarking exercise on a sample of products collected for the CPP, the product clustering task presents the challenge of finding the right balance between the need to have a sufficient number of homogenous products and sufficiently detailed clusters.
- 4.8. To address this challenge, EIOPA for the first benchmarking exercise will base the product clustering on a set of identified essential features, to form the clusters.
- 4.9. However, considering the additional benefits which IBIPs offer and also considering qualitative element which can offer value to consumers, EIOPA will also collect information on additional features. In practice:
- ▶ A set of clusters will be developed based on the essential features. These basic essential features will ensure that the clusters are sufficiently representative – i.e., a sufficient number of product for each clusters;
  - ▶ The additional features will give the possibility to EIOPA to develop additional clusters if sufficient products exist, or alternatively they will enable EIOPA to analyse the impact of the additional features to the benchmark indicators and include some additional considerations on the value offered by such additional features and the relevant impact on costs, benefits, and performance. For example, for each cluster and for each benchmark EIOPA could also provide possible ranges or indicate if a particular feature drives the indicators up or down.
- 4.10. The list of essential features includes the following:
- ▶ **Type of product:** unit-linked or hybrid
  - ▶ **The Recommended Holding Period (RHP):** Short (<5 years included), medium (between 5 and 10 years included) or long (>10 years);
  - ▶ **The risk class:** SRI classes grouped in 3 intervals for the unit linked investment options (1-2, 3-4, 5-6-7);
  - ▶ **The premium frequency:** Single or Regular;
  - ▶ **The death coverage:** low/high (which will be calibrated based on the death benefit/surrender ratio during the first benchmark exercise).

- 4.11. The combination of these features would, in principles, create 72 possible product clusters. This does not mean that all the clusters will be populated with the product information collected in the first exercise given that the totality of all the features' combination might not present a clear representation of market rather it indicates the highest number of possible clusters.
- 4.12. The additional features include the following:
- ▶ The presence of additional biometric coverages as an essential product feature – i.e., not as a rider;
  - ▶ The asset type: equities, bonds, money market funds, alternative investment funds, other funds – this because at times costs and performance can vary depending on the asset type;
  - ▶ The presence of the pension benefit option – i.e., different decumulation options – which can lead to slightly higher costs given the added benefits to consumers;
  - ▶ The presence of a guarantee and the level of such guarantees (below 25%, between 25% and 50%, between 50% and 75%, and above 75%);
  - ▶ The presence of enhanced risk mitigation techniques;
  - ▶ The type of distribution channel;
  - ▶ The presence of ongoing advice services;
  - ▶ The presence of digital tools which enable constant communication with consumers, including the changing of asset allocation;
  - ▶ The presence of sustainability features.
- 4.13. The list of additional features is indicative as further refinements might be required during the review of the CPP data collection.

### The case of Multi-Option Products

- 4.14. In the identification of product clusters specific attention has been paid to some MOPs. These are MOPs which offer policyholders the possibility to – under one single insurance product (i.e., the wrapper) – invest in a multitude of underlying investment options which are varied in nature. These products also offer the possibility to switch amongst options without incurring in penalties and/or tax implications which are generally applicable when switching takes place. For the purpose of this exercise EIOPA also considers MOPs those for which the combination of options is not pre-defined but rather, left to the choice of consumers.
- 4.15. Performing a meaningful product cluster for these products is difficult due to the potential high number of combinations of their underlying investment options. However, it is also important to bear in mind the value these products may offer to consumers. Hence, EIOPA decided to analyse these products following the policyholder perspective as already stated in the published VfM Methodology<sup>10</sup>:

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<sup>10</sup> See page 10 of the [“Methodology to assess value for money in the unit-linked market”](#)

4.16. *“The notion of product refers to the policyholder’s perspective, meaning that product is considered as an option (or a given combination of options) plus the wrapper. This perspective might at time differ from the manufacturer’s perspective, whereby a product might be considered as the set of all the possible available combinations of options as a whole. In case of multi-option products, the assessment might happen at the option/combination of option level. The impact of the wrapper should be considered as it generally carries extra costs.”*

4.17. In light of the above statements, the following principles will apply:

- ▶ Data for the benchmarks’ calibration will have to be collected at option level, and they should be inclusive of all costs (wrapper and each relevant investment option); and
- ▶ Manufacturers will be required to report a set of statistics for the data needed to calculate the benchmark indicators at option level.

4.18. Since the consumers will have the opportunity to create their own investment strategy on the basis of the portfolio of the underlying options they will be choosing, it is not possible to identify a unique benchmark for these products as the investment possibilities and their costs, benefits and possible performance can be multiple. For this reason, EIOPA suggests two possible approaches:

4.19. **Option 1:** The data for the MOPs will be collected at the level of the most expensive, the cheapest and the average option for each relevant cluster. This will contribute to the calibration of the benchmarks together with all other products.

4.20. In practice, for a unit-linked product with SRI 1-7, short RHP, not significant death coverage and single premium, information will be collected on three options which might be a combination of all risk classes. Each of these options will be clustered with other products with similar features.

4.21. Similarly, based on each of the features of each of the option collected each option will be clustered with the relevant group and relevant benchmarks would apply. This solution would not lead to the multiplication of clusters – i.e., a total of 72 clusters as shown in the table below.

<i>Product features</i>	<i>Total possible product clusters 72</i>	<i># Options</i>
<b>Type of product</b>	<b>Unit-linked, hybrid</b>	2
<b>RHP</b>	Short, Medium, Long	3
<b>Risk class</b>	Low risk (1-2), Medium (3-4), High (5-6-7)	3
<b>Premium frequency</b>	Regular - Single	2
<b>Biometric cover</b>	Significant - Not significant	2

4.22. **Option 2:** An additional and separate cluster for MOPs is created. This cluster would carry the same list of essential product features listed above. However, the risk class will be sub-grouped under each type of asset class for the underlying options, increasing the number of clusters.

<i>Product features for the MOPs cluster</i>	<i>Total possible product clusters 588</i>	<i># Options</i>
<b>RHP</b>	Short, Medium, Long	3
<b>Premium frequency</b>	Regular - Single	2

<b>Biometric cover</b>	Significant - Not significant	2
<b>Risk class</b>	SRI 1 to 7	7
<b>Type of investment option</b>	Equity, bonds, money market, mixed funds, real estate funds, hedge funds, profit participation investment option <sup>11</sup>	7

4.23. Option 2 aims at singling out those products which include a choice of a high number of investment options that can be freely chosen by the policyholders and that are not pre-packaged by the manufacturer.

Questions to stakeholders:

Q5: Stakeholders’ views on the approach to product clustering are sought.

Q6: Do you agree with the essential and additional criteria for product clustering? Should additional criteria be collected?

Q7: Do you agree with the proposed approach to use the additional criteria to either develop more detailed clusters or to provide qualitative considerations on how to take these elements into account when looking at the benchmarks?

Q8: Do stakeholders think that for MOPs Option 1 would suffice or that Option 2, which would be more substantial in terms of reporting but also more precise and granular, should be preferred?

Q9: For Option 2 do you think the clustering approach should be revised by focusing more on the underlying options and less on some of the other essential product features?

Q10: For Option 2 do you think that the inclusion of the profit participation investment option in the asset class feature is appropriate for a correct interpretation of hybrid products?

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<sup>11</sup> An additional grouping including the “profit participation investment option” have been included into the Asset Class feature. This should allow for the inclusion of those options where there is a capital guarantee similar to profit participation insurance module provided in hybrid products.

## 5. STEP 2: VALUE FOR MONEY INDICATORS

- 5.1. EIOPA views that the indicators of the Layer II VfM Methodology are the best tools for the benchmarking exercise<sup>12</sup> as they provide detail on key product features, including those which are specific to IBIPs – i.e., not just on performance and costs. Hence, there will not be a single benchmark for each product cluster but rather a set of indicators for each cluster which will be interpreted jointly. For example, some indicators will measure costs while others will measure the level of benefits, and finally others are already built with a costs-benefit analysis.
- 5.2. Not all the value for money indicators would be appropriate for the clusters. For example, for the clusters where the biometric coverage is not significant, the indicators for the death benefit component should not be considered relevant. The relevance of each indicator per cluster will be further defined by EIOPA once the clusters are defined and the data on indicators is received to calculate the benchmarks.
- 5.3. The indicators included in the methodology are grouped in quantitative indicators (for the surrender scenario, for the biometric risk scenario and other additional indicators) and qualitative indicators. While only the quantitative indicators will be used for the benchmarking exercise, non-monetary qualitative product characteristics or added services might also affect the cost structure of the products. EIOPA will provide guidance on how to take into account these non-monetary value features also based on the empirical evidence emerging from the collection of the “additional” features identified in Section 4.2. An example of a qualitative checklist is provided in the VfM methodology. The proposed revised Layer II value for money indicators are:
- ▶ For the life benefit component: (i.e., surrender scenario): *Surrender value/premiums paid* and the annual *IRR* (internal rate of return according to the PRIIPs methodology)
  - ▶ For the costs component: *RIY* (reduction in yield according to the PRIIPs methodology) and *Total costs paid / premiums paid*.

These indicators should be evaluated jointly and at three different points in time: 5 years, half RHP and RHP.

- ▶ For the death benefit component (i.e., biometric scenario): *Biometric risk benefit/premiums paid*.

The points in time at which this indicator should be considered slightly differ from the ones defined in the surrender scenario for three main reasons: i) death is not a voluntary financial decision taken by the consumer, ii) the RHP concept is a pure financial indicator, iii) given the high capital strain at the inception of the unit linked and hybrid products more attention should be placed on the biometric scenario at the beginning of the policy. For these reasons the

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<sup>12</sup> See pages 11-14 of the “[Methodology to assess value for money in the unit-linked market](#)”

biometric scenario indicators should be evaluated at 3 years, 5 years, and 10 years of the policy life.

- ▶ *Entry costs/total costs paid*: entry costs are paid at policy subscription and they significantly impact the amount that will be invested into the unit-linked funds; therefore, it is important to understand their relevance with respect to the total costs;
- ▶ *Minimum average yearly return required to break – even* at half RHP and at RHP net of the biometric risk premium which allows to understand the minimum required underlying performance for products to break-even;
- ▶ *Year of break – even of the surrender value* with average yearly return equal to a given set of returns<sup>13</sup>.
- ▶ *Total costs/surrender value*: comparing costs to the surrender value might be useful (in particular for long term products) as higher costs may significantly impact the life-benefit in case the surrender is done before the RHP. On the other end, higher costs could be related to additional services which can lead to higher benefits for consumers.

5.4. The calculation of the above indicators would require the manufacturers to set a number of assumptions (i.e., the performance of the underlying investments over the policy life, the age of the policyholder at the inception of the contract, the amount of premium, etc). In order to allow for comparability whilst also requiring manufacturing to do additional steps, insurance product manufacturers should use the same assumptions used in the PRIIPs KIDs for the calculation of the moderate scenario. As stated in the PRIIPs regulation, in case of lack of historical data, an appropriate benchmark or proxy can be used<sup>14</sup>, in this case NCAs when carrying out enhanced supervisory activities would assess whether the proxy use is adequate and appropriate.

5.5. All the indicators will be also evaluated during the first calibration exercise. If, the analysis of the data collected shows a low level of statistical significance, the list will be revised.

#### Questions to stakeholders:

Q11: Stakeholders are invited to provide feedback on the use of VfM Methodology Level II indicators, are these a good fit for the benchmarks? Should Level I indicators be used?

Q12: Stakeholders' views on the proposed indicators are sought, including on the intervals at which the indicators need to be assessed.

<sup>13</sup> The set of return rate should be based on i) the return used to perform the moderate scenario of the PRIIPs KID or ii) a set of returns provided by EIOPA.

<sup>14</sup> PRIIPS RTS 31 March 2016. Part 1, Market Risk Assessment: Use of appropriate benchmarks or proxies: "Where appropriate benchmarks or proxies are used by a PRIIP manufacturer, these shall be representative of the assets or exposures that determine the performance of the PRIIP. The PRIIP manufacturer will document the use of such benchmarks or proxies"



Q13: Stakeholders are invited to also provide feedback as to which indicators works best for which cluster/product features.

Q14: Do you believe additional indicators should be measured?

Q15: In case option 2 for MOP is chosen, do you think that more appropriate indicators applicable only to the single investment options should be identified?

Q16: Do you agree with the proposal of using PRIIPs KID assumptions for the moderate scenario for the calculations of the indicators? Should an additional scenario (point in time) being included to evaluate the current performance of the product?

## 6. STEP 3: BENCHMARKS SETTINGS

- 6.1. Leveraging on the number of indicators, and their agreed upon interpretation, the proposal is to consider the percentiles of the distribution of the indicators measuring value for money for each product cluster, as benchmarks. The percentiles can only be identified once the relevant data is received and analysed. It is therefore proposed to define which percentiles the benchmarks should be based on once the data collection for the first exercise has been completed.
- 6.2. Considering that the indicators may need to be adjusted once the data is available and that the benchmarks would need to be tested, the methodology refers exclusively to the first benchmark calculation exercise. The methodology will therefore be reviewed at least every two years based on Members' views and inputs.

### Examples of possible benchmarks

During the works leading to its VfM toolkit, EIOPA analysed a sample of unit-linked and hybrid products, that were highlighted as at risk of poor VfM based on a market wide assessment performed by EIOPA with the help of its Members (what then evolved in the Layer 1 assessment in the EIOPA VfM Methodology). It further identified some products with similar features which offered good value for money – from the preliminary analysis – and based on this it clustered products. It is important to note the clusters were created based on a very few products even though this was based on the CPP database; hence EIOPA's analysis rather than being representative were meant to be informative for the analysis carried out.

In this analysis a number of preliminary value for money indicators were calculated per product considering both the life benefit component and the death benefit one. The combined analysis of the indicators highlighted issues with some products.

For example, one product analysed had the following VfM indicators: was not profitable at RHP with the given rate of return, required an average yearly return of the underlying assets of 7.3% to break even at RHP, had a total costs over premium ratio of 33.3% and had a consistently lower death benefit than the premiums paid for the entire life of the contract.

In comparison to products with similar characteristics (i.e., the cluster), identified by EIOPA as part of this exercise as a control sample, it clearly emerged that the highlighted product did not offer value. In fact, the products with similar characteristics on average (considering the importance of the death benefit, the SRI, and the type of premium) had the following indicators: profitable at least after 7 years with a given rate of return, required an average yearly return of the underlying assets of 1.6% to break even at RHP, had total costs over premium ratio of 9.2%; and the death benefit reached, at some point within the life of the policy, 139% of the premiums paid at RHP.

For the product identified as problematic NCAs carried out enhanced POG supervisory activities and for some products it was determined that additional features offering value justified the higher costs / lower benefits and returns while for others it was overall determined no value was offered.

While the example provided is based on a sample analysed by EIOPA, which at the time was limited, the above shows how the benchmarks would work. The indicators will be calculated for all the products in the clusters and the benchmarks would be represented by a percentile of the distribution. This will help identify which products require enhanced POG assessments.

Questions to stakeholders:

Q17: Do stakeholders agree to use percentiles to define benchmarks?

Q18: Do stakeholders agree that percentiles should be defined once the data is available and that such percentiles should be adjusted as relevant?

Q19: In stakeholders' views are there some minimum/maximum percentiles which should be used?

## 7. THE DATA COLLECTION

- 7.1. The approach described above would require the collection of a series of data that are not currently available to EIOPA, but which insurance product manufacturers should have available based on the requirement to carry out sufficient and adequate product testing. To guarantee a level playing field and comparability a standard template should be used. To avoid additional burden, EIOPA proposes to leverage the data collection for the CPP and proposes to continue with a sample-based analysis without expanding the number of insurance product manufacturers which are required to answer the questionnaire – i.e., keep the 60% market coverage target.
- 7.2. The current Cost and Past Performance questionnaire would require some amendments: several data inputs will be substituted with more appropriate model points which would allow to calculate the indicators around which benchmarks would be defined. The substitution process will avoid over-burdening the industry. By removing information which is not used and to add additional required information which EIOPA deems to be easily available to insurance product manufacturers – i.e., information which manufacturers should have from their product testing. Once the data is received and processed, EIOPA will define and calibrate the benchmarks.
- 7.3. In terms of the number of products to be reported, the current CPP approach envisages participating insurance product manufacturers to report the most sold product for each risk class. However, to ensure that there are sufficient products per clusters to define benchmarks, EIOPA is considering proposing for the next CPP to collect information from the most sold product per each product cluster when available.
- 7.4. If Option 1 for MOPs is opted for, it is important to highlight that, while 72 possible product clusters can theoretically exist, not all clusters will practically exist and most insurance undertaking, considering markets are different, would commercialize products which would fall in around 10 to 15 clusters.
- 7.5. If Option 2 for MOPs is opted for, for products which do not fall within the separate MOP category a number of additional MOPs would need to be reported.
- 7.6. To test the approach proposed in this methodology, including the possible practicality of implementing Option 2, EIOPA would carry out a pilot exercise with the view of collecting data from the 3 largest undertakings in the larger markets as well as data from additional undertakings who would like to volunteer for this exercise. The pilot will run in January 2023 until March 2024.
- 7.7. The pilot will not only help in defining whether Option 1 or Option should be used for MOPs, but it will also assist in defining the CPP data collection.

Questions to stakeholders:

Q20: Do stakeholders think that the data collection should be expanded?

Q21: If yes, which data collection principles should be used?

Q22: Do stakeholders foresee a significant impact in the data collection in terms of resources and time in comparison to the current Cost and Past Performance data collection?

Q23: How would you assess the impact that the benchmarks methodology would have in your organisation? Please consider both the data collection and the use of the benchmarks when they will be available.

## 8. IMPACT ASSESSMENT

8.1. To date EIOPA has not yet carried out an impact assessment on the proposed methodology to set benchmarks which is presented in this Consultation Paper. However, EIOPA has identified some benefits which this methodology would bring forward:

- ▶ **Increased consumer value:** The proposed benchmarking approach aims at further enhancing the value for money approach already enshrined in POG. In particular, it will provide more qualitative and quantitative objective measures for insurance product manufacturers to use in their value for money assessment. This whilst avoiding cost caps and price regulation which can often be counterproductive – i.e., limit value and offer to consumers. In EIOPA's view insurance product manufacturers are best placed to determine whether their product offer value or not and the benchmarks represent just one of the many elements to be taken into account and insurance product manufacturers can go outside the perimeter of the benchmarks.
- ▶ **Facilitating manufacturers' implementation of EIOPA's VfM approach:** Considering that under POG, insurance product manufacturers are required to test that their products are aligned with the target market's needs, objectives, and characteristics and – as declared by EIOPA in its VfM Supervisory Statement – they are required to make sure all costs are due by ensuring proportionality including in light of comparable offers in the market, this methodology and approach does not introduce new elements. Rather it facilitates manufacturers' comparison with other comparable offers in the market and it provides more objective elements in relation to value.
- ▶ **Facilitating risk-based supervision and enhancing the CMU:** By providing NCAs with indicators and qualitative guidance on how to identify products which may prima facie not offer VfM this approach would facilitate risk-based supervision. It would further enhance the CMU as the European approach, whilst considering markets' specificities and enhance cross-border business and competition.

8.2. While there are several benefits which EIOPA sees in its proposed approach, EIOPA recognizes that the CPP has now become a standard exercise and, hence, changes to the questionnaire could mean added costs. However, EIOPA will take the opportunity to remove data and information which is not useful to limit the burden. Finally, while recognizing that Option 2 for MOPs can be more beneficial as it would allow for the development of more accurate benchmarks, EIOPA recognizes that the data collection could be more burdensome, whilst offering the benefit of making sure the benchmarks are more granular and accurate.

Questions to stakeholders:

Q24: Do stakeholders agree with benefits of the proposed approach?

Q25: Are there additional benefits in stakeholders' views?

Q26: What could be the costs of implementing Option 2?

## 9. LOOKING AHEAD: EIOPA'S METHODOLOGY AND THE RIS PROPOSAL

- 9.1. The proposal for the RIS mandates EIOPA and ESMA to develop VfM benchmarks. It is also proposing inter alia reporting requirements which should enable the calculation of those benchmarks.
- 9.2. While EIOPA understands that additional reporting can be burdensome, new reporting requirements would result in more limited/no bespoke data collections (e.g., Costs and Past Performance). In terms of reporting EIOPA foresees two possible approaches:
  - ▶ **Option 1:** Developing a new data reporting framework for IBIPs. While this can be burdensome, it would not require changing existing processes and procedure put in place for Solvency II reporting.
  - ▶ **Option 2:** Relying on existing reporting requirements, namely the Qualitative Reporting Templates (S.06.02 and S.14.01). In particular, S.14.01 already provides a product-by-product reporting and already contains data which can be relevant for the benchmarks. With some adjustments, including the removal of some cells and the addition of new ones for S.14.01 this approach would limit new reporting and would rely on the existing reporting infrastructure. However, it may require changes to the existing reporting tools which would generate extra costs.
- 9.3. The benchmarks methodology in this Consultation Paper, pilot phase and initial phase for the development of benchmarks envisaged by EIOPA would facilitate and inform the development of a more sound and robust methodology. If the RIS proposal goes forward, as part of the methodology development exercise under the RIS, EIOPA envisages developing a paper on lessons learnt from the current approach to also receive feedback from stakeholders. It would also publish the proposed methodology under RIS for public consultation. Hence, the current work can strengthen and further make sure any methodology under the RIS reflects market's specificities and taken into account the reality of products – including different products and/or different markets' specificities.
- 9.4. Since the RIS proposal also mandates ESMA the calculation of the benchmarks, EIOPA believes that for some MOPs there could be efficiencies as the benchmarks constructed for the underlying could be leveraged for the benchmarking of the underlying investment options.

## 10. ANNEX II SUMMARY OF QUESTIONS TO STAKEHOLDERS

Questions to stakeholders:

Q1: Stakeholders are invited to provide inputs and views as to how value for money benchmarks should work and their usefulness for product comparability.

Q2: Stakeholders are also invited to share whether they agree on what the benchmarks are and are not.

Q3: Do you already have similar tools in your market that would serve the same purpose?

Q4: While EIOPA indicated that initially it will not publish the benchmarks, stakeholders are also invited to share views as to whether the benchmarks should be published or not already in the first initial phase.

Q5: Stakeholders' views on the approach to product clustering are sought.

Q6: Do you agree with the essential and additional criteria for product clustering? Should additional criteria be collected?

Q7: Do you agree with the proposed approach to use the additional criteria to either develop more detailed clusters or to provide qualitative considerations on how to take these elements into account when looking at the benchmarks?

Q8: Do stakeholders think that for MOPs Option 1 would suffice or that Option 2, which would be more substantial in terms of reporting but also more precise and granular, should be preferred?

Q9: For Option 2 do you think the clustering approach should be revised by focusing more on the underlying options and less on some of the other essential product features?

Q10: For Option 2 do you think that the inclusion of the profit participation investment option in the asset class feature is appropriate for a correct interpretation of hybrid products?

Q11: Stakeholders are invited to provide feedback on the use of VfM Methodology Level II indicators, are these a good fit for the benchmarks? Should Level I indicators be used?

Q12: Stakeholders' views on the proposed indicators are sought, including on the intervals at which the indicators need to be assessed.

Q13: Stakeholders are invited to also provide feedback as to which indicators work best for which cluster/product features.

Q14: Do you believe additional indicators should be measured?

Q15: In case option 2 for MOP is chosen, do you think that more appropriate indicators applicable only to the single investment options should be identified?



Q16: Do you agree with the proposal of using PRIIPs KID assumptions for the moderate scenario for the calculations of the indicators? Should an additional scenario (point in time) being included to evaluate the current performance of the product?

Q17: Do stakeholders agree to use percentiles to define benchmarks?

Q18: Do stakeholders agree that percentiles should be defined once the data is available and that such percentiles should be adjusted as relevant?

Q19: In stakeholders' views are there some minimum/maximum percentiles which should be used?

Q20: Do stakeholders think that the data collection should be expanded?

Q21: If yes, which data collection principles should be used?

Q22: Do stakeholders foresee a significant impact in the data collection in terms of resources and time in comparison to the current Cost and Past Performance data collection?

Q23: How would you assess the impact that the benchmarks methodology would have in your organisation? Please consider both the data collection and the use of the benchmarks when they will be available.

Q24: Do stakeholders agree with benefits of the proposed approach?

Q25: Are there additional benefits in stakeholders' views?

Q26: What could be the costs of implementing Option 2?

## Privacy statement related to Public (online) Consultations

### Introduction

1. EIOPA, as a European Authority, is committed to protect individuals with regard to the processing of their personal data in accordance with Regulation (EU) No 2018/1725 (further referred as the Regulation).<sup>15</sup>

### Controller of the data processing

2. The controller responsible for processing your data is EIOPA's Executive Director.  
Address and email address of the controller:
3. Westhafenplatz 1, 60327 Frankfurt am Main, Germany  
fausto.parente@eiopa.europa.eu

### Contact details of EIOPA's Data Protection Officer

4. Westhafenplatz 1, 60327 Frankfurt am Main, Germany  
dpo@eiopa.europa.eu

### Purpose of processing your personal data

5. The purpose of processing personal data is to manage public consultations EIOPA launches and facilitate further communication with participating stakeholders (in particular when clarifications are needed on the information supplied).
6. Your data will not be used for any purposes other than the performance of the activities specified above. Otherwise you will be informed accordingly.

### Legal basis of the processing and/or contractual or other obligation imposing it

7. EIOPA Regulation, and more precisely Article 10, 15 and 16 thereof.
8. EIOPA's Public Statement on Public Consultations.

### Personal data collected

<sup>15</sup> Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, and repealing Regulation (EC) No 45/2001 and Decision No 1247/2002/EC.

9. The personal data processed might include:

- Personal details (e.g. name, email address, phone number);
- Employment details.

#### Recipients of your personal data

10. The personal data collected are disclosed to designate EIOPA staff members.

#### Transfer of personal data to a third country or international organisation

11. No personal data will be transferred to a third country or international organization.

#### Retention period

12. Personal data collected are kept until the finalisation of the project the public consultation relates to.

#### Profiling

13. No decision is taken in the context of this processing operation solely on the basis of automated means.

#### Your rights

14. You have the right to access your personal data, receive a copy of them in a structured and machine-readable format or have them directly transmitted to another controller, as well as request their rectification or update in case they are not accurate.

15. You have the right to request the erasure of your personal data, as well as object to or obtain the restriction of their processing.

16. For the protection of your privacy and security, every reasonable step shall be taken to ensure that your identity is verified before granting access, or rectification, or deletion.

17. Should you wish to access/rectify/delete your personal data, or receive a copy of them/have it transmitted to another controller, or object to/restrict their processing, please contact [legal@eiopa.europa.eu]

18. Any complaint concerning the processing of your personal data can be addressed to EIOPA's Data Protection Officer (DPO@eiopa.europa.eu). Alternatively you can also have at any time recourse to the **European Data Protection Supervisor ([www.edps.europa.eu](http://www.edps.europa.eu))**. In case of questions concerning the consultation you can contact EIOPA at valueformoney@eiopa.europa.eu