

# FIRST REPORT COSTS AND PAST PERFORMANCE

DECEMBER 2018

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European Insurance and  
Occupational Pensions Authority

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## Executive Summary

The report sets out aggregate data on the costs of insurance-based investment products (IBIPs) across the EU, and, to a limited extent, certain personal pension products (PPPs). The data also sets out net performance for the period between 2013-2017.

It follows the European Commission request to the European Supervisory Authorities to periodically report on costs and past performance of retail investment products. It has been undertaken as a 'pilot' exercise, reflecting an anticipated need for improvements in future reports.

As requested by the European Commission, EIOPA sought to base the fundamentals of this report on data contained in the Key Information Documents (KID) required for IBIPs. However, given an absence of data on past performance in the KID, EIOPA had to request additional data from insurance undertakings. Similar requests were necessary for personal pensions. EIOPA would like to thank the insurance undertakings for participating in the data request.

Given data quality and comparability limitations, a significant proportion of the sample was not able to be used for the report. Many responses did not provide the level of data granularity or reliability necessary and had to be excluded from the analysed data. To ensure more reliable figures, the report has been cautious when including data. The included data on IBIPs covers 21% of the life insurance market in terms of life technical provisions (2016). The presented results are limited to this proportion of the market covered. In terms of number of insurance undertakings, data from 63 of the larger undertakings from 21 jurisdictions has been analysed, which represents 45% of the received responses.<sup>1</sup>

For PPPs, data from 10 insurance undertakings from 3 jurisdictions has been used.

### IBIPs results

The analysis of the data, weighted by Gross Written Premiums (GWP) for the period of 2013 to 2015, shows that costs vary across jurisdictions, premium type and by risk category. For unit-linked products this appears to be due to varied asset management costs. Regular premium products have higher costs than single premium. The impact of other on-going costs does not appear to vary materially by holding periods. Exit costs at maturity are marginal.

On weighted average, costs overall reduce yields by 2.50% (250 products/funds) for single premium business. For profit participation products, the total reduction is 1.24% (32 products, risk categories from 1 to 3), while for unit-linked products it is 2.60% (212 products/funds, risk categories from 1 to 7).

The majority of products included in the sample achieved net returns between 1% and 4% (unweighted) in 2017. Looking at the annual net returns from 2013 to 2017, weighted by GWP, unit-linked products returns (all premiums) have varied from 2.62% (2017) to 6.70% (2014), including products or funds of risk categories from 1 to 7. Profit participation products have given net returns varying from 2.31% (2016) to 3.21% (2015), including products or funds of risk categories 1 and 3.

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<sup>1</sup> The market representativeness in terms of technical provisions for life business of the received responses was of 49%, which is lower from the initially targeted market representativeness of at least 65% as defined in the methodology.

Given the differences between profit participation and unit-linked products, and diversity in the market for profit participation products, there are significant challenges with comparing performance, for example in view of the values of guarantees, the impact of smoothing mechanisms, and the impact also of risk and volatility. Annualised figures do not necessarily show shorter term volatility for unit-linked contracts or the value of guarantees. In addition, terminal bonuses for profit participation products might increase returns at maturity, while claw-backs or other adjustments may reduce returns. There was little comparable data available for this report on the levels of such bonuses or adjustments, so this report only shows partial returns for profit participation products as it only reflects regular bonuses.

In view of these differences, direct comparisons between unit-linked and profit participation products or conclusions on profit participation products of different types should be avoided in the context of this pilot report, though the sample shows that while the weighted average net returns of profit participation products were lower than the weighted average of unit-linked products prior to 2015, the picture has been less clear since then when viewed in aggregate.

There are few passively managed funds (only on offer from 17% of the sample undertakings) or ESG products.

Feedback from a majority of undertakings highlighted challenges they faced with the data request, such as difficulties with:

- identifying costs included in the KID and breaking them down as required by the request, as it goes beyond the cost presentation as required in the “composition of costs” table in the KID disclosure document;
- putting together information at the level of funds (fund KID’s or KIIDs) and at the level of the product in a RIY format in a way that includes all costs;
- calculating distribution costs and separating them from administrative costs. It is worth noting that the PRIIPs rules require manufacturers only to include distribution costs where the manufacturer knows them;
- identifying overall past performance for profit participation products;
- allocating the task internally to the relevant staff with expertise.

As a result, 57% of the responses received did not provide the level of data granularity or reliability necessary and had to be excluded from the analysed data.

For this reason, data at Member State level has only been included on an anonymous basis in this report, and conclusions on possible comparisons between different products have been avoided. It should be possible in future iterations of the report, once data quality and market representativeness can be improved, to include such data and draw conclusions.

To address issues with the consistency and quality of data in the future, cost definitions will need to be better defined and understood in practice, including those related to administration and distribution. In addition, further work is needed on common standards and methods for calculating comparable data on returns, especially for profit participation products.

To address issues with data quality resulting from the complexity of the exercise, future iterations of the report can also be simplified and streamlined. For instance, this could include a simpler method for comparing costs under different distribution models by focusing on overall costs and returns; reducing the number of products covered and providing more detailed guidance to NCAs and undertakings. The sampling methodology may also be refined to reduce burden but aiming at representativeness.

Regarding the analysis, the cost findings of this report appear broadly coherent with cost data reported by ESMA, with asset management of unit-linked products offered to retail investors matching UCITS asset manager's costs (TER) offered to institutional investors. Similarly, ESMA reported gross returns for mixed funds for 2017 are consistent with the 2017 gross returns of the unit-linked products included in this report.

### **PPP results**

The sample of PPP products included in the analysis was too small to draw any conclusions on results. An absence of standardisation will require further work to broaden the market coverage and products covered.

# I. Introduction

## 1. Background

On 13 October 2017, the European Commission requested the European Insurance and Occupational Pensions Authority (EIOPA) and the other two European Supervisory Authorities – the European Banking Authority, and the European Securities and Markets Authority – to publish recurrent reports on the costs and past performance of the main categories of retail investment, insurance and pension products, in order to provide consumers with a broad picture of the performance and costs of retail products in order to raise their participation in capital markets.

Throughout the work on the report it has become clear that the collected data at this stage requires an awareness of important limitations – notably in view of its market coverage – such that the report is more suited for regulatory and supervisory purposes than as an input for retail customers themselves. It is not however precluded that future iterations of the report will be capable of providing direct benefits for retail customers.

The request was in accordance with the obligation of each ESA set out in its founding Regulation to collect and analyse data for the purpose of monitoring and reporting market developments and consumer trends.

According to the request, the reports should be based as far as possible on existing data including in particular information originating from disclosures or reporting obligations in the EU acquis.

This first EIOPA Report covers insurance-based investment products (IBIPs) and as far as was viable at this early stage personal pension products. At a later stage, EIOPA will also report on the costs and performance of Defined Contribution occupational pension schemes.

EIOPA sought to base the fundamentals of this report on data contained in disclosures – in particular the Key Information Documents (KID) required for IBIPs, as well as for PPPs in few jurisdictions. However, given an absence of data on past performance in the KID, EIOPA had to request additional data. Similar requests were necessary for personal pensions that do not abide by PRIIPs rules. The report was prepared as a pilot exercise, given the issues anticipated in obtaining sufficient comparable data.

### **Important considerations**

In view of the variety of products on offer across the EU, and significant differences in the treatment and transparency of costs and return information, including those related to distribution, a number of issues on the comparability of costs and returns were anticipated, which are mentioned briefly in this report. The methodology that has been followed was designed to seek to address such issues as far as possible, but with the consequence that the methodology was more complex than a simple gathering of data reported in disclosures.

In addition, it is important to note that looking only at costs and aggregate or short-term returns can be misleading. Importantly, costs and returns have to be understood also in the context of risk. The recent period has seen high returns on a number of asset categories that may well not continue in the future. This is important in the context of savings and investment products offered by the insurance

sector, as these often provide guarantees to protect against downside risk, and reporting on short-term market returns does not necessarily show the benefits of these guarantees in the longer term.

A further important factor to take into account, which is not addressed in this report, is the issue of lapses and market timing, where aggregate returns can be misleading. The report looks at risks, returns and costs from the perspective of products as a whole and examines returns over standardised annual periods. However, the actual returns and costs experienced by individual policyholders will be different, and could be highly exposed to short-term volatility. This can be very significant in terms of actual returns for consumers -- herding behaviour has the consequence that typical market timing by non-professional participants in (liquid) investment markets can be far from optimal, with increased entries into markets when they are approaching their peaks, and increased exits from markets when they are reaching their lows.

In addition, and this is relevant for insurance products that may have longer term holding periods linked, for instance, to their tax treatment, it has been observed that policyholders, due perhaps to a behavioural bias of overconfidence, can underestimate their need for liquidity with investments. However, early lapses often can lead to consumer losses, both due to market timing and penalties in terms of fee structures.

EIOPA intends in future reports to examine possible ways of addressing some of these wider issues related to specific consumer behaviour and their impact on returns. It should be noted that those insurance products that include guarantees will generally carry a significant benefit in terms of protecting investors from market timing issues. It will be interesting to assess in the future whether this is borne out in reality.

From a more procedural standpoint, the report highlights some important lessons learned -- opportunities to streamline the data gathering for future reports, and areas where there can be further improvement in the availability and reliability of data on performance and costs.

## 2. Scope

The report covers the following products:

### **Insurance-Based Investment products (IBIPs)**

IBIPs are insurance products, which offer a maturity or surrender value wholly or partially exposed, directly or indirectly, to market fluctuations. IBIPs are a type of Packaged Retail Investment and Insurance-Based Product (PRIIP).

IBIPs provide a return over time, and have an element of risk. IBIPs can be unit-linked products, profit participation products, or hybrids of unit-linked funds and profit participation funds. The products often offer a guarantee (guaranteed premiums net of costs and in addition guaranteed returns), even in the case of unit-linked products, where a guaranteed investment option is often heavily subscribed to by policyholders. However, guarantees are typically offered by profit participation products or funds in hybrids. Additional benefits include death cover.

IBIPs can be regular or single premium; there is a much higher prevalence of regular premium products (accumulation products) in the insurance sector than in the securities and funds sector; typically longer term products are of a regular premium form.

Unit-linked (including index-linked) products typically will offer a wide range of potential investment risks and rewards, be designed for different target holding periods and do not offer a guarantee as they carry some exposure to underlying assets such as equity or bonds, typically via investment funds such as UCITS.

Profit participation products offer direct investments of the insurance undertaking in asset categories and distribute a portion of the insurance undertakings profits to policyholders. Unlike unit-linked products, profit participation products do not directly expose the policyholder to market risks, but 'smooth' market volatility, while aiming to offer some additional upside returns compared to investments in very low risk or risk-free assets.<sup>2</sup> The return will typically be a combination of investment returns on an asset pool with profit sharing, and typically includes a guaranteed return, in some cases set by legislation, as well as a non-guaranteed return.

In both cases, the insurance undertaking acts as the manufacturer of the product, with different distribution channels at its disposal (direct, banks, agents, brokers, etc).

### Personal pension products (PPPs)

PPPs are individual and voluntary personal pension contracts (third pillar) which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits such as pension tax reductions.<sup>3</sup> Like IBIPs, personal pension products can be unit-linked or profit participation products. In addition to longer holding periods and different tax treatments, personal pension products differ from IBIPs with regard to the pay-out options, as they may often be linked directly to annuities or drawdown schemes, and they may also include life-cycling, where the asset allocation changes over time to reduce risks towards retirement. This report covers exclusively the accumulation phase of such products. In some markets personal pensions are treated as IBIPs.

## 3. Size of life insurance sector

According to Eurostat, total financial assets of households in the European Union (EU) reached €33 850 billion in 2016, following an increase since 2008. **The assets mainly consisted of insurance, pensions and standardised guarantees<sup>4</sup>** (39.7% of all household financial assets) which represents €13 438 billion; followed by currency and deposits (30.3%), as well as equity and investment fund shares (24.7% - €8 360 billion).

According to ESMA, the assets under managements of EU UCITS that are held by/ retail investors are €4 300 billion in 2017. These represent also part of the assets of unit-linked insurance contracts.

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<sup>2</sup> Such products fall under Category 4, as defined in Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

<sup>3</sup> Most PPP products are listed in 'EIOPA's database of pension plans and products in the EEA'.

<sup>4</sup> Standardised guarantees are guarantees that are issued in large numbers, usually for fairly small amounts, along identical lines. Such arrangements involve three parties: the borrower, the lender and the guarantor. Either the borrower or the lender may contract with the guarantor to repay the lender if the borrower defaults. Examples are export credit guarantees and student loan guarantees. Eurostat, European System of Accounts.

Figure 1 – Total financial assets of households by financial instrument, EU-28, 2016 (% share of total financial assets of households) - Source: Eurostat

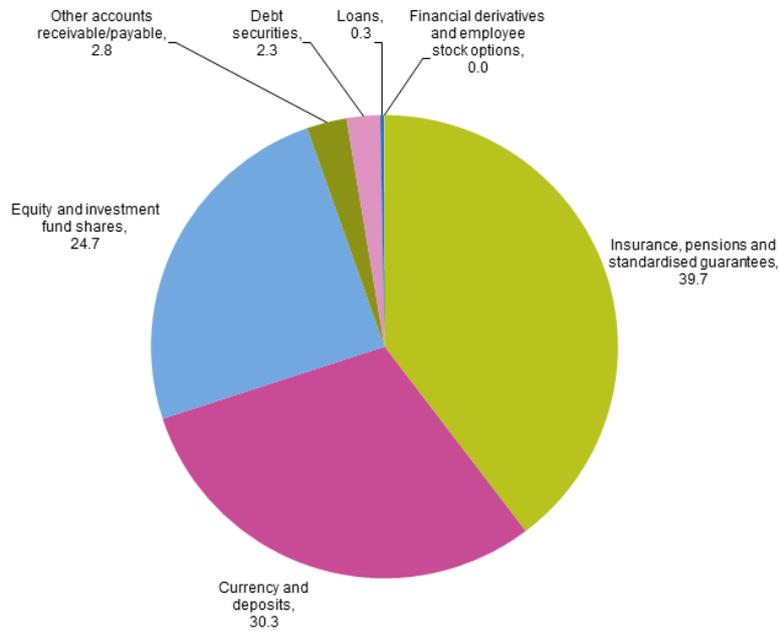
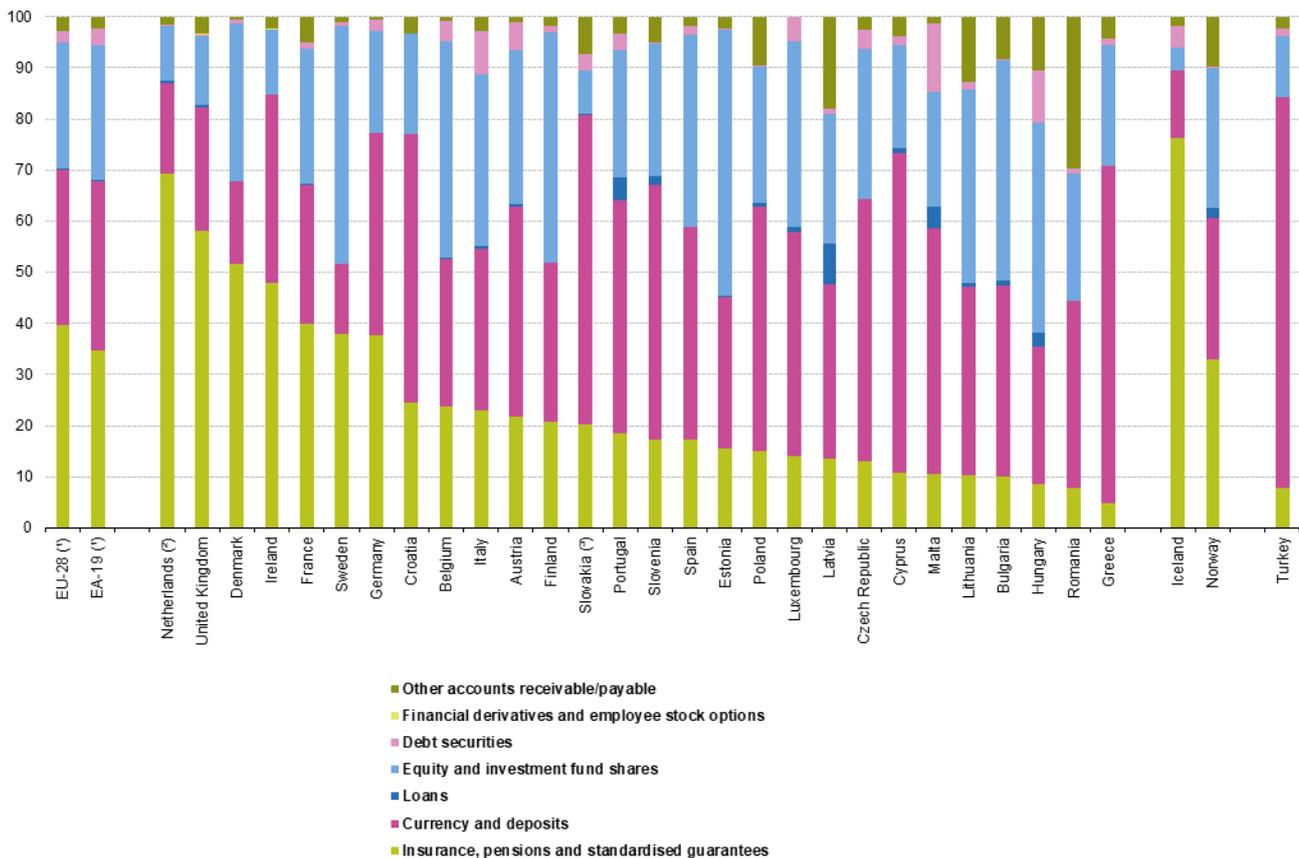


Figure 2 - Financial assets of households by financial instrument, per Member State, 2016 (% share of total financial assets of households) - Source: Eurostat



Based on EIOPA data, figure 3 shows significant differences in life insurance market size. The largest life insurance markets by technical provisions for life business are the United Kingdom, France, Germany, Italy and the Netherlands.

The order of the largest markets changes slightly when looking at Gross Written Premium (GWP) data. France is the largest market, followed by Italy, the United Kingdom, Germany and Ireland.

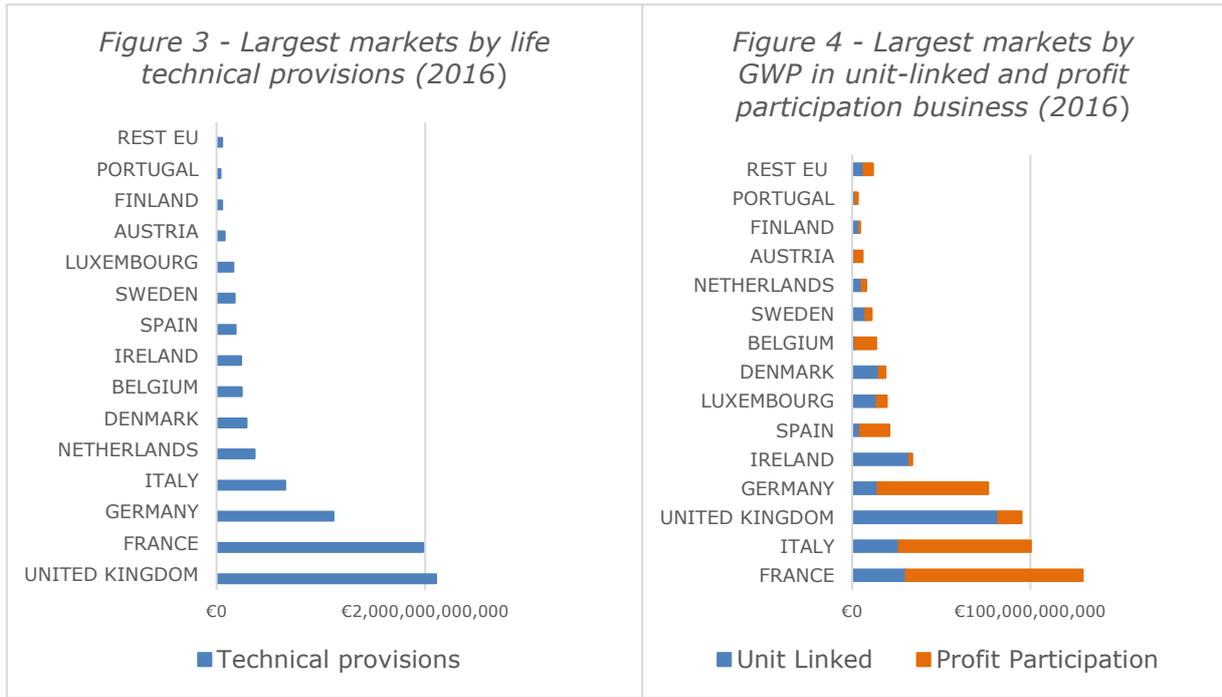
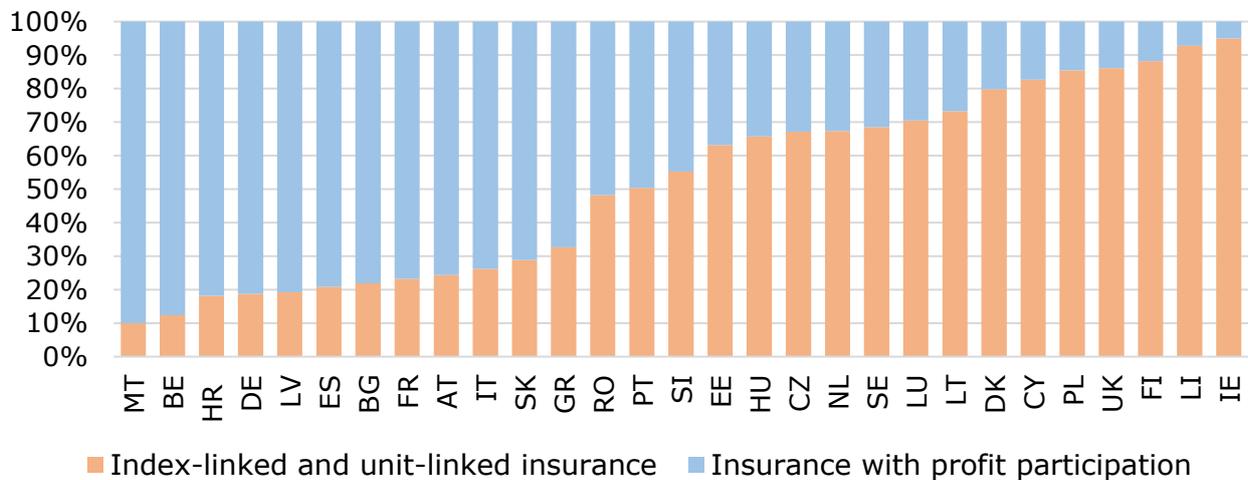


Figure 5 below shows in more detail Member States' market share of unit-linked and profit participation business in 2016, measured by GWPs. It shows the dominance of products in the European market per Member State in terms of life business.

Figure 5 - Shares of index-linked and unit-linked insurance and insurance with profit participation by GWP



Compared to 2016, the share of unit-linked business versus profit participation as well as to other lines of life business has increased in 2017 at EEA level (Figure 6).

Figure 6 - Unit-linked and with profit participation insurance business as a % of total life GWP

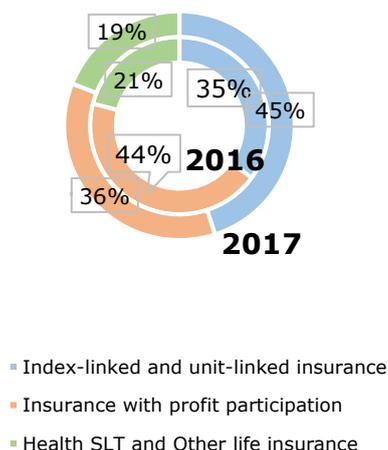
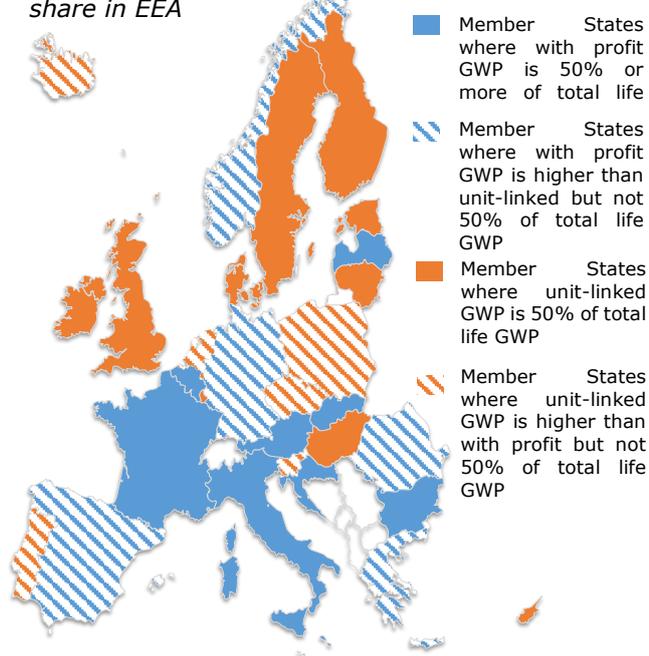


Figure 7 - Product market share in EEA



#### 4. Transparency and comparability of data in the insurance sector

The insurance and pension markets have low market incentives<sup>5</sup> to develop international standards on costs, risks and returns. This is by contrast to the investment fund sector, where international market standards on the calculation and disclosure of returns and costs have been developed.

Nonetheless, for IBIPs the PRIIPs Regulation provides as of 1 January 2018 a harmonised framework for pre-sale communications of costs and their calculation, supplemented by the IDD. There are however no EU requirements on methodologies for the calculation and disclosure of past performance for IBIPs.

The level of comparability is lower for personal pensions, where besides a limited number of Member States applying the PRIIPs regime to such products, the content and standardisation of disclosure varies greatly.

Gathering data for the report leveraging the PRIIPs KID, as requested by the European Commission, has highlighted diversity of practices regarding the inclusion of specific costs in the returns of unit-linked or profit participation products across the European Union, and a clear absence of agreed standards for performance reporting for profit participation products. The report methodology sought to address these inconsistencies by identifying where they are occurring, and seeking additional data so comparable cost figures could be prepared.

<sup>5</sup> Unlike insurance policies, mutual funds are targeted to both institutional and retail investors.

## II. Methodology

The foundation of the methodology was to gather data from a sample of undertakings for a sample of their products including different underlying investment options where these are offered.

These samples are not randomised -- the aim was to reflect the asset allocations of policyholders in practice, while also addressing some of the main different types of product on the markets. The size of GWPs was used for the purpose of weighting.

The methodology was also developed to draw on existing disclosures as far as possible.

### 1. Products with a KID: IBIPs and Personal Pensions

#### 1.1 Approach

The basis of the methodology is to use information in the KID, or required for the production of the KID.

Since past net returns cannot be derived solely from the KID information, supplemental data was requested. In short, EIOPA:

- collected product data from a sample of firms and products selected by the NCA for each Member State, according to common principles;
- analysed aggregated and averaged the data (weighted by Gross Written Premiums).

The data covered the most sold products in GWP terms and a range of risk categories, based on KIDs or KIIDs and on supplemental data gathered on certain costs and past returns.

For practical reasons to do with availability of KID information, the selection was limited to only those products that remained available on 1 January 2018.

The data was broken down where product features are significantly different – splits created “clusters” of products, classified according to:

- regular and single premiums;
- holding periods;
- risk categories / investment strategies, including active versus passive asset management; and
- the inclusion of guarantees.

In this way, costs and returns were distinguished where they materially vary depending on product features, so as to ensure proper comparisons can be made.

For IBIPs and PPPs with a KID, insurance undertakings were selected by size, and requested to report data for different type of products for the period between 1 January 2013 and 31 December 2017 and by type of risk category.

EIOPA used statistical measures of dispersal for the analysis of returns and costs.

Where a product was offered in different variants, undertakings were asked to select the variant that is most representative of their business, but to include data on a single premium basis as far as possible, with the exception of products with holding period of at least 30 years which requires regular premium.

Disability and occupational disability products, immediate annuities, certain endowments, and funeral products were all excluded.<sup>6</sup>

The GWP used for weighting results were the values for the variants included in the sample, for the period of 1 January 2013 to 31 December 2017 (that is, the business written during this period). In some markets the products on offer are new every year. In these cases older product generations that are representative could be used for previous years.

## 1.2 Methodology

EIOPA collected the data with a questionnaire circulated to selected insurance undertakings by National Competent Authorities (NCAs).

The focus was on allowing fair comparisons in accordance with three key metrics:

- *Costs*

The information in the KID shows the annual impact of the costs overall on the yield (RIY) during the recommended life of a product. This should include most costs, but does not always include distribution costs, as these are not always included in the KID and may vary for the same product for different distributors, for instance reflecting different advice costs or commission arrangements.

- *Returns*

Data on past performance and costs not included was collected from the industry to calculate gross and net figures in a consistent way. For reasons of comparability between different cost structures, one-off, on-going distribution and biometric risk costs were not included in the net returns. These costs were reported separately, but were not included in the calculation of the net return.

The adjustment of past performance for costs not included entailed some assumptions, as these costs were not collected for all years for reasons of proportionality.

- *Risks*

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<sup>6</sup> A number of endowment products has been included in the sample.

Data was collected for products for different risk categories, and on whether the IBIP included a guarantee or not. This is critical, as costs and returns have always to also be understood in the context of risks.

The methodology to calculate the performance of the products is specific to the type of product: unit-linked, profit participation and hybrid products (which combine both). Details are included in Annex II.

The report provides net performance in nominal terms. Separate data on inflation is included.

## Calculations

### Costs

Overall cost figures taking into account one-off (up-front or exit) costs are derived directly from the KID reported RIYs.

“Other on-going cost” figures are adapted from the KID reported RIYs. It is worth noting that the PRIIPs rules do not fully harmonise how undertakings should classify all costs as one-off or on-going.

The costs are always reported as RIYs. Where they are weighted by GWP this is stated.

### Returns

Based on reported returns (NAV data; regular declared bonuses; or returns used for KID performance scenarios), notional gross returns were calculated, alongside net returns adjusted for comparability (net of on-going costs, excluding biometric risk costs and distribution costs).

EIOPA employed the following measures to analyse the impact of costs on IBIP returns:

$r^G$	Gross returns: Gross yields (returns on underlying assets, a notional figure)
Returns based on NAV/bonus	Returns as commonly reported: returns for unit-linked funds (based on the Net Asset Values inclusive of fund distributions) and for profit-participation funds (Regular Bonuses)
$r^{NET}$	Net returns: Returns net of administrative and investment on-going costs, reflecting both costs at the level of the insurance undertaking and for the underlying investments.  <b>On-going distribution and biometric risk costs as well as one-off costs are not included in the net return.</b> This is for the purpose of comparability between different cost structures.

Due to comparability issues, returns net of all on-going and one-off costs were not calculated in this report.

The metrics are calculated on the basis of the data obtained from the EIOPA questionnaire. The calculation details are outlined in more detail in Annex II. Technical adjustments were foreseen in the methodology for return data depending on whether the data included all relevant costs or not.

Figure 13 below illustrates the differences of the calculation for unit-linked and profit participation products, based on the cost methodologies of the KID, depending on how costs were structured and the costs that were included or not in the returns that were reported.

Costs have been categoriyified following the KID cost typology and further broken down as follows:

- One-off
  - Entry costs – insurer’s entry costs broken down into distribution and administrative costs, for unit-linked entry costs broken down also into asset manager cost
  - Exit costs
- On-going costs, which are further broken down into:
  - Transaction costs
  - Other-on going costs, further broken down into:
    - On-going costs insurer:
      - Distribution costs
      - Administrative costs
      - Biometric risk costs
    - On-going costs asset manager (for unit-linked products)

Please note that in the analysis the report uses the term “on-going costs” to actually refer to “other on-going costs” as this is in the KID (on-going costs without transaction costs).

The cost structure mentioned under “unit-linked 2” in Figure 8 below is observed in a few countries such as Belgium, Ireland or Spain where NAVs reported at the level of funds appeared to be net of all on-going costs, and not only of those related to asset management.

Data on gross and net returns for profit participation products presented in this report reflects only regular bonuses and reported costs. While these are a good proxy for returns on profit participation products, the final picture will depend on the full holding period, which will typically be longer than the five years reported in this report, and terminal bonuses.

Figure 8 – IBIPs cost structure

IBIPs costs structure			
Unit-linked Model 1	Unit-linked Model 2	Profit participation Model 1	Profit participation Model 2
$r^G$	$r^G$	$r^G$	$r^G$
On-going costs: Transaction costs			
Other on-going costs: Asset manager cost	Other on-going costs: Asset manager cost		
	Other on-going costs: insurer's administrative cost		
	$r^{NET}$		
	Other on-going costs: insurer's distribution costs		
	Other on-going costs: Biometric risk costs		
NAV	NAV		
Other on-going costs: insurer's administrative cost			
$r^{NET}$		$r^{NET}$	$r^{NET}$
Other on-going costs: Distribution costs	One-off costs: all	Other on-going costs: insurer's administrative cost	Bonus
Other on-going costs: Biometric risk costs		Other on-going costs: insurer's distribution costs	Other on-going costs: insurer's administrative cost
One-off costs: all		Other on-going costs: Biometric risk costs	Other on-going costs: insurer's distribution costs
		Bonus	Other on-going costs: Biometric risk costs
		One-off costs: all?	One-off costs: all?
Return net of all on-going and one-off costs	Return net of all on-going and one-off costs	Return net of all on-going and one-off costs	Return net of all on-going and one-off costs

## 2. Personal Pensions without a KID

### 2.1 Approach, data collection and conclusions

EIOPA's approach sought to be similar to that for IBIPs, however the questionnaire aimed to gather data under existing national disclosures as available.

The aim was to collect data on annual one-off and on-going costs as % of contributions, Assets under Management, % of NAV or other, alongside data on past performance and information on which costs are covered in this data or not.

However, at this stage meaningful comparisons have not been possible given the variety in approaches and the absence of key information needed. Annex I provides further details on the differences across countries regarding the inclusion of information on costs and returns in national disclosure documents for personal pension products.

## III. IBIPs Data

### 1. Market coverage

In total 140 responses have been received (i.e. respondent undertakings), representing 6 responses in average per jurisdiction and 47% of the life insurance market in participating jurisdictions, in terms of life technical provisions (2016).<sup>7</sup> Each of these responses included a number of products. In order to ensure reliability and comparability of data, there was a need to sanitise the sample, leading to a decrease in the remaining sample's market coverage.

In total, data from 21 jurisdictions has been included in the report.<sup>8</sup> The total number of responses that could be used for comparisons is 63, which represents 49% of the received responses<sup>9</sup> and 21% of the life insurance market in participating jurisdictions in terms of life technical provisions (2016). On average, 67% of all the products offered by the 63 undertakings has been included in the analysed data. The undertakings provided only products domestically.<sup>10</sup> In total, 162 products have been included in the sample analysed in detail, and in total 351 underlying funds when different investment options are taken into account.

It is important to note that this is not a random sample, but is taken from the larger undertakings in each market.

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<sup>7</sup> The market representativeness in terms of technical provisions for life business of the received responses of 36.22% is lower from the initially targeted market representativeness of at least 65% as defined in the methodology.

<sup>8</sup> The jurisdictions covered are Lithuania, Estonia, Belgium, Spain, Malta, Italy, Portugal, Ireland, Finland, Sweden, Croatia, Austria, France, Cyprus, Poland, Netherlands, Czech Republic, Germany, United Kingdom, Hungary and Luxembourg.

<sup>9</sup> Data for Greece, Bulgaria, Slovakia, Denmark, Latvia, Romania and majority of the UK has been excluded

<sup>10</sup> FoS data has been excluded due to low quality.

In terms of GWP, the undertakings included in the sample represent an IBIPs market of €213 billion for the period between 2013 and 2017. According to Solvency II data, the 2017 GWP total figure in the participating jurisdictions is of €605 billion (this includes also legacy business prior to 2013).

Market representativeness of the responses included in the report in terms of technical life provisions (2016 data) varies across Member States. The largest market representativeness from approximately 30% to 75% was reached in Belgium, Spain, Portugal, Malta, Italy, Ireland, Finland, Sweden, Croatia, Austria, Lithuania and Estonia.

At least 50% of responses received have been included in the report from the following Member States: Lithuania, Ireland, Netherlands, Germany, Austria, Estonia, Portugal, Spain, Italy, Belgium, Malta and Sweden.

## 2. Limitations

### Low granularity of data

Around 51% of undertakings did not provide the granularity of data for the costs and performance analysis needed for fair comparisons. In the majority of the cases, KID costs were not broken down sufficiently or the respondent did not clarify clearly which costs are included in the return data provided. This meant a consistent picture of the insurer's costs was not possible and therefore these undertakings or products were excluded from the sample, because of difficulties comparing them with other undertakings.

More generally, where the data was not reliable or the granularity was not sufficient for reliable analysis in this report, the data was excluded.

### Differences in PRIIPs implementation

Reported underlying costs (for instance, for funds) sometimes included contract level costs and sometimes appeared to not do so, with differences emerging depending on different possibilities foreseen already in the PRIIPs Delegated Regulation (article 10).

In some cases, EIOPA observed diverse practices regarding the compliance with the look-through approach on cost disclosure (inclusion of asset management costs in the KID) and inclusion of all costs in KID performance projections.

EIOPA followed up to address these issues for this report, and excluded data where insufficient information was available to ascertain the reliability of the data.

### Standardisation and comparability of data

Across different markets, significant divergences in approaches and levels of standardisation have been observed, due for instance to different distribution models and the lack of common practises concerning the categorisation of costs, e.g. according to whether costs are related to distribution or administration, or in allocation of costs at the product level.

The majority of insurance undertakings included in the analysis were able to split insurer's costs into administrative costs and distribution costs: 83% of unit-linked products and 85% of profit participation products reported distribution costs separately from administrative costs, either as entry or other on-going costs or both. Some companies however reported only administrative costs, or only distribution costs. Some costs are of course not known by the manufacturer or may vary for the same product depending on distribution channel.

The allocation of costs for profit participation products also appeared to vary across some markets.

For unit-linked products, the level of standardisation of return data is high, given the predominance of funds as underlyings where market standards already apply (TER and NAV). However, net return calculations required a different approach depending on whether provided NAV data included or not insurer's on-going costs (these were included for example in Spain, Belgium and Italy).

Comparability of gross returns was also constrained for profit participation products, as the costs undertakings reported appeared to vary materially, and responses were often unclear about which costs were included. EIOPA followed up as far as possible to ensure more reliable gross returns.

It is also clear that the returns for profit participation do not provide a full picture as these were based for this report on declared bonuses. The treatment of these is not homogeneous across all markets, and these are only a proxy for actual returns, as other adjustments, including terminal bonuses, can apply. In addition, multi-year smoothing may not be fully clarified on the basis of a five year past performance time horizon.

Return data reported for unit-linked contracts was not always for past fund data but could be for benchmarks instead for new funds.

### **Unit-linked products**

The majority of products did not indicate entry costs at the level of the asset manager, with the exception of a number of products/funds in France, Ireland, Luxembourg, Belgium and Italy. It is not clear whether this is accurate or not. There may be some confusion as to how such entry costs should be placed in the KID.

In a few cases it is not clear whether reported NAV's complied with the UCITS requirement that past performance is calculated assuming re-investment of fund distributions.

### **Profit participation products**

Rarely were terminal bonuses reported. This does not mean that they are rarely paid. Other smoothing mechanisms may also apply that are were not effectively captured by the data collection for this report.

## **3. Analysis**

This section analyses the costs and past performance of IBIPs. All cost figures are expressed as Reductions in Yield (RIY). Where possible the data is presented for all products and by type of products (unit-linked, profit participation, hybrid products combining both profit participation and unit-linked),

as well as for all premiums and by type of premium (single/regular), aggregated at the national and European level.

In summary, figures are set for:

- The impact of costs on returns, more specifically:
  - unweighted and weighted average total costs, and the impact of the different types of costs per type of product and premium, aggregated at the EU level;
  - weighted average on-going costs of most sold products per type of product and premium, aggregated at the national and European level;
  - unweighted and weighted average on-going costs of all unit-linked and profit participation products sampled including products or funds offered for different risk categories; and
  - distribution and administrative costs as part of on-going costs.
- The analysis of returns:
  - the frequency of returns, unweighted;
  - annual gross returns and net returns<sup>11</sup> per type of product, weighted by GWP;
  - annual net returns<sup>12</sup> of single premium products for 2017, by risk category and type of product, unweighted;
  - the impact of inflation and taxes.

### 3.1 General observations

Costs vary materially, impacted mostly by the risk category of the product or underlying fund, implying that different asset management costs are the major driver of differences from a global perspective.

How premiums are paid impacts overall product costs: regular premium products carry some higher costs than single premium ones. However, other on-going costs do not appear to be materially impacted by holding periods.

The majority of products with guarantees are profit participation products (or profit participation funds offered within unit-linked products), with the exception of a few unit-linked products offering guarantees or capital protection in other ways. The most common guarantees offered are premiums reduced by paid costs (0% or 0.5% technical interest rate).

The data shows that there are fewer passively managed funds or products available to consumers than expected, and that ESG options also have not become mainstream. Only 20% of undertakings offered passively managed products. Passive funds did not always show lower costs, however the sample is not enough representative in size to draw any conclusions.

According to ESMA data, 10% of funds are passively managed.

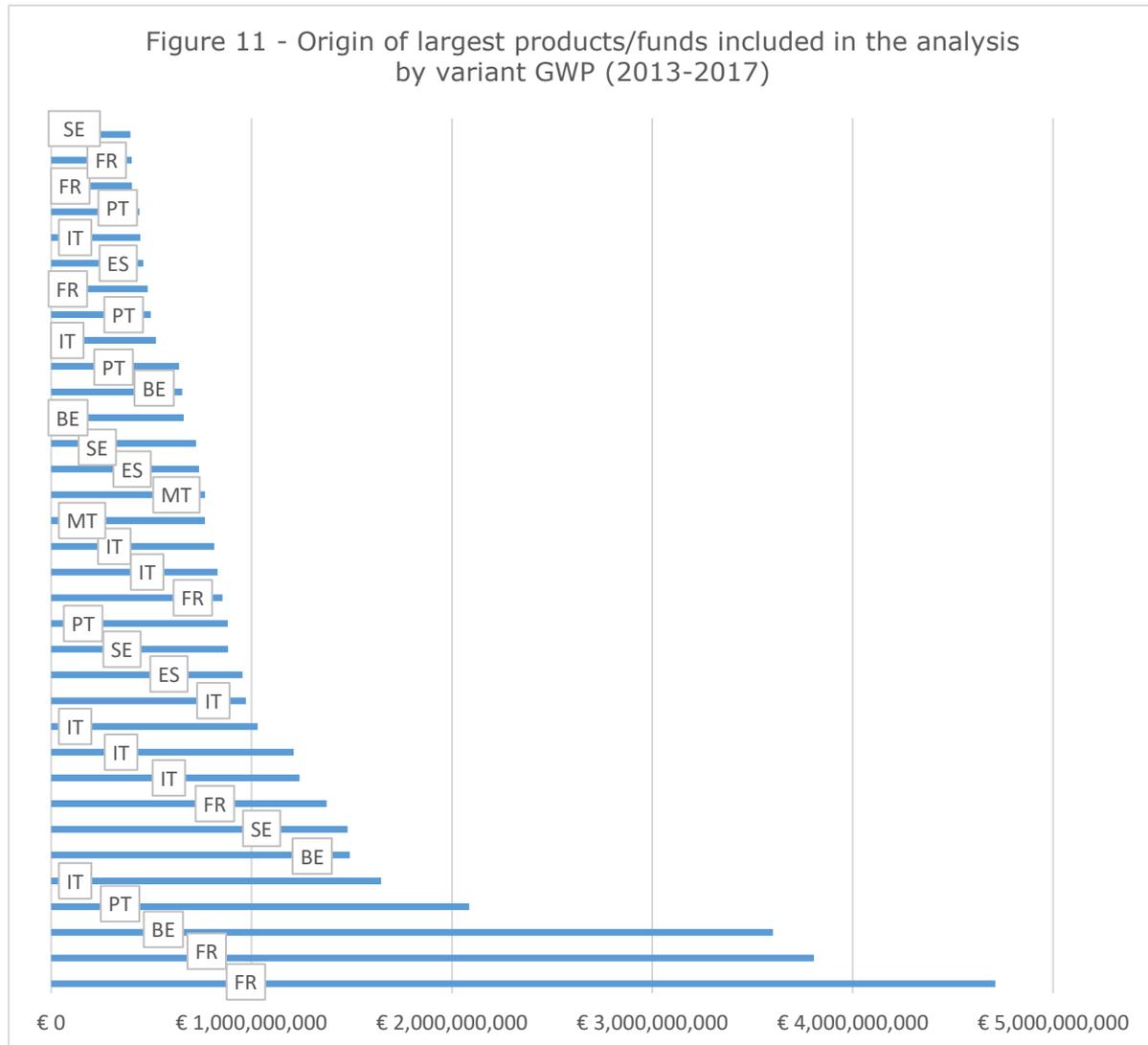
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<sup>11</sup> net of insurer's administrative and investment costs only

<sup>12</sup> Idem.

Likewise, only 4% of the included funds sample were identified as having ESG investment objectives; these were clustered in United Kingdom, Belgium, Sweden and Austria and were offered by 17% of respondents.

Figure 11 shows the origin and type of underlying funds which have most impacted the report’s data by GWP weighting (72% of the total included sample). Total GWP of the variants of the products included in the report is of €53 billion for the period 2013 - 2017.



### 3.2 Impact of costs on returns

EIOPA lists below the simple average for specific costs included in the RIY. It is worth noting that the size of the sample for each cost type differs, due to different cost structures across undertakings and Member States. For this reason, broken down costs cannot be summed up as such to calculate the total RIY cost.

On unweighted average, during the **whole life of a product of a single premium costs overall reduce yields by 2.29%** (250 products<sup>13</sup>). For profit participation products the total reduction is **1.26%** (32 products, risk categories from 1 to 3), while for unit-linked products it is **2.58%** (212 products or funds, risk categories from 1 to 7).<sup>14</sup>

On unweighted average, all **distribution costs** (both one-off or on-going) reduced the yield by **0.79%** (280 products). For unit-linked products, the reduction is **1.05%**.

Where they are charged, unweighted **entry costs** reduce the yield of profit participation products by **0.31%** (29 products) and for unit-linked products by **0.34%** (113 products). Data shows that **exit costs** at maturity are rarely applied across Member States. This does not mean that there is however little use of exit penalties for early exit. Given that the impact of entry costs varies by holding period, and that this differs from Member State to Member State, this report presents returns net of “other on-going costs” only.

Reported transaction costs are minimal (0.14% and 0.11% for unit-linked and profit participation respectively – 99 and 11 products, unweighted).

On average (unweighted), all “**other on-going costs**” reduce the yield by **2.41%** (unit-linked; 197 products) and **1.09%** (profit participation; 27 products). This includes:

- Insurer’s administrative costs are **0.68%** (unit-linked; 188 products) and **0.78%** (profit-participation; 27 products)
- Biometric risk costs are **0.05%** (unit-linked; 83 products) and **0.05%** (profit participation; 5 products).
- On-going distribution costs are of **0.83%** for unit-linked (113 products) and of **0.52%** for profit participation (16 products).
- In addition for unit-linked products, asset management costs on average are of **1.27%** (197 products).

Costs vary across jurisdictions, product types, type of premium and risk categories.

### 3.2.1 Costs per type of product and premium (weighted)

Figure 12 below shows the characteristics and weights of products included in this analysis, and as set out in Figure 13.

Figure 12 - Sample of products: weights

Sample of products: weights		
Type of Product	Sample weight	Total number of funds/products
Hybrids	15%	15
Unit linked	36%	243
Profit Participation	48%	49
<b>Total</b>	<b>100%</b>	<b>258</b>

<sup>13</sup> or underlying funds.

<sup>14</sup> But of 2.27% when all unit-linked products are included, also those that did not report asset management costs separately from the insurer’s on-going costs. Remaining products not separately reported are hybrid MOPs.

On weighted average, during the whole life of a product of a single premium, costs overall reduce yields by 2.58% (250 funds/funds). For profit participation products, the total reduction is 1.24% (49 products, risk categories from 1 to 3), while for unit-linked products it is 2.60% (243 products/funds, risk categories from 1 to 7).

The cost listed below are the average costs of products most bought by people in the last five years. This includes different risk categories and RHP.

It is worth noting that the impact of entry costs and subsequently the total costs are affected by the recommended holding period (RHP), which differs from Member State to Member State for the same or similar products. Ongoing costs are not so impacted.

The data provided for each cost in the tables below is not cumulative as the cost structure differs from product to product, and the sample thereby differs.

Figure 13 - KID costs broken down

KID Costs (broken down data differ from type of cost to type of cost)		Unit-Linked Av RHP 6.7 y (from 48 to 173 Products)			Profit Participation Av RHP 8.69 y (from 5 to 49)		
		All premium types	Single	Regular	All premium types	Single	Regular
<b>Total RIY</b>		<b>2.60%</b>	2.58%	2.87%	<b>1.24%</b>	1.21%	1.78%
<b>which includes:</b>	<b>Entry costs</b>	<b>0.30%</b>	0.29%	0.55%	<b>0.33%</b>	0.33%	0.32%
	<b>Exit costs</b>	<b>0.25%</b>	0.26%	0.05%	<b>0.11%</b>	0.15%	0.08%
	<b>Transaction costs</b>	<b>0.11%</b>	0.12%	0.05%	<b>0.14%</b>	0.15%	0.08%
	<b>Other on-going costs</b>	<b>2.35%</b>	2.31%	2.75%	<b>1.10%</b>	1.08%	1.48%
	which includes:						
	Administrative	0.59%	0.57%	0.78%	0.70%	0.69%	0.98%
	Biometric	0.04%	0.04%	0.13%	0.20%	0.05%	0.32%
	Distribution	1.00%	1.01%	0.75%	0.55%	0.56%	0.43%
	Asset manager	1.06%	1.01%	1.75%	-	-	-

Exit costs at maturity are zero for the majority of funds, such costs were only reported for 37 funds/products.

A majority of charges are not allocated for investment purposes, but to cover administrative and distribution costs. Asset manager's costs represent 40% of total costs.

In the majority of cases, performance fees are not reported or included.

It is worth noting that biometric risk costs are higher for profit participation than for unit-linked products, as would be expected.

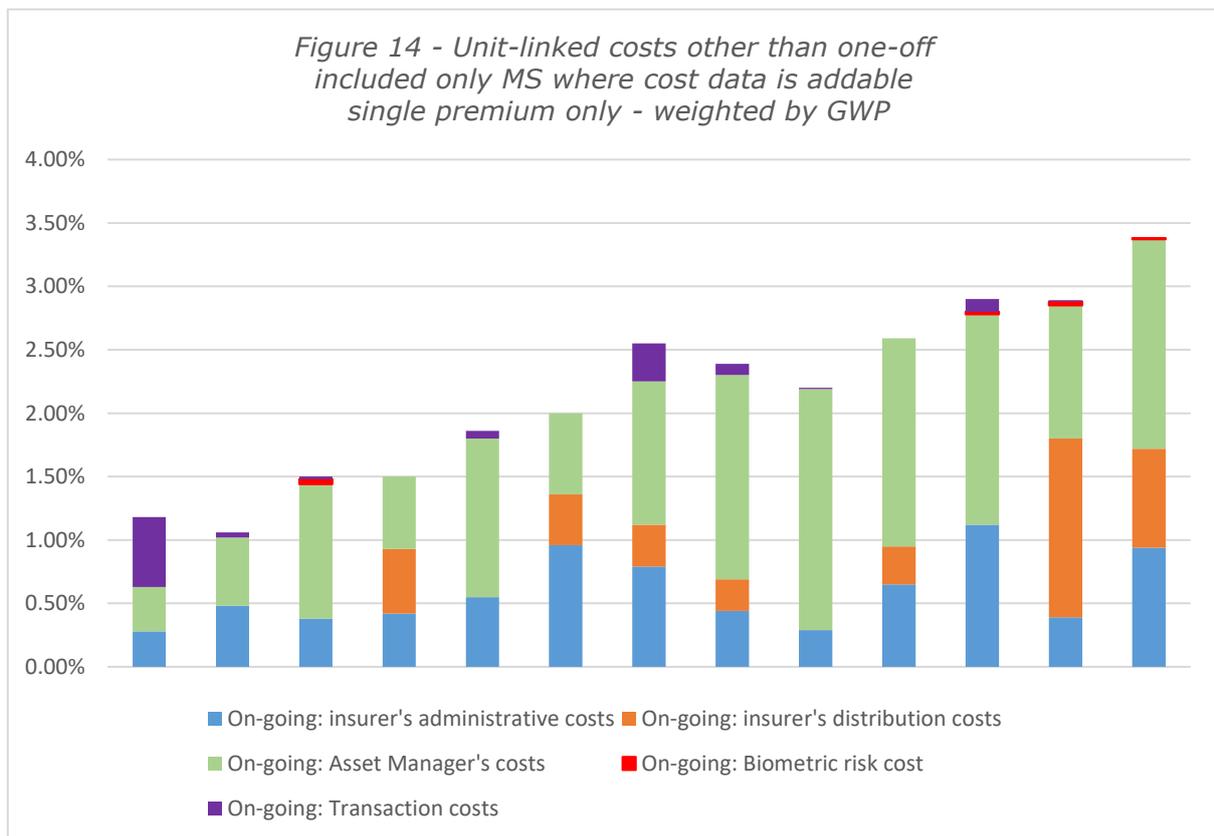
### 3.2.2 Break down of unit-linked costs per Member States, single premium (weighted)

The figure below presents the break down in costs for unit-linked products. It includes only data for single premium (weighted by GWP), reported by insurers' in 13 Member States, for the products where the data provided is fully comparable and consistent. This allows total "other on-going costs" to be presented as a simple sum.

In addition, transaction costs have been also included in the comparison, where reported. Undertakings in 4 Member States did not report transaction costs at all.

One-off costs are not included in Figure 14.

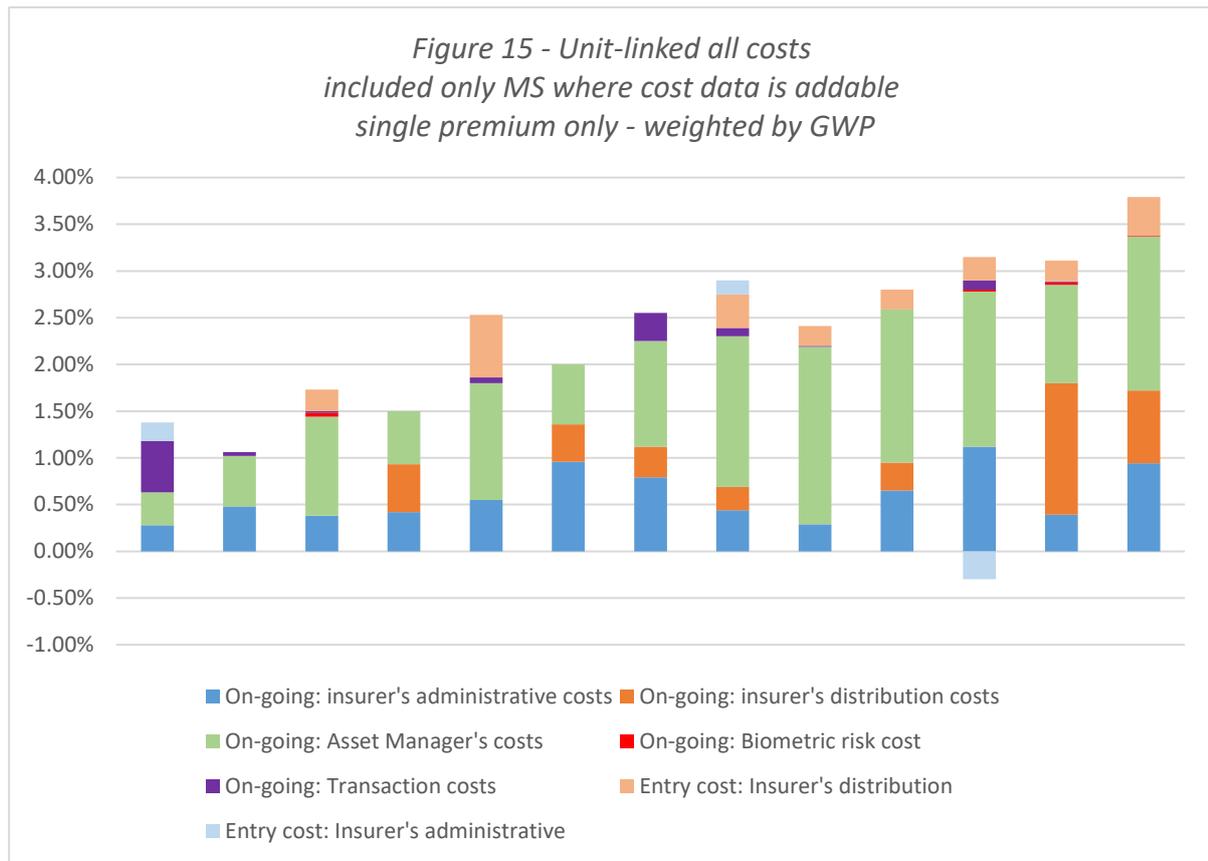
Differences of risk categories included in the sample in each Member State may have impacted the results (there is a correlation between risk class and costs). Nonetheless, the breakdown by national markets shows a significant divergence in both the structure and the scale of costs, and it will be interesting to see whether this is due to limitations in the market coverage, differences in appetite for different products, or differences in costs for broadly the same underlying products.



Bearing in mind the limitations of comparing entry costs, figure 15 completes the cost picture with entry costs, in order to provide a better picture of costs in some markets where a significant part of insurer's distribution or administrative costs are passed to the consumer in entry costs.

One Member State reported negative administrative costs, to cancel the effect of some distribution costs, which are not borne by the consumer.

The sequence of the Member States is the same in both graphs.



### 3.2.3 On-going costs: most sold products only

Figure 16 sets out the weighted average on-going costs of the five most sold products to consumers for participating insurers (up to 80% of their total GWP).

The weighted figure includes all the “other on-going costs” (this includes biometric costs and administrative costs, distribution costs where these were provided separately, and finally asset management costs). Transaction costs are not included.

Given the diversity of products typically sold in different markets, it is necessary to analyse the costs of each type of product separately – profit participation and unit-linked products and hybrids of these two. In addition, the type of premium impacts the on-going cost, which is further explored for each type of product.

The figures demonstrate costs reported in the sample vary by product type, and that the scale of the costs varies significantly across Member States. However, as noted, these costs and their variability should be considered alongside net returns and risk profiles. More granular comparisons, which would be possible in future reports in view of higher market coverage, should allow for conclusions to be drawn. To put this another way, the comparability of the costs of each type of product is impacted by different weights of the risk categories represented in the sample of most sold products – different national markets have different risk appetites, and in general, higher risk investments appear to carry higher costs.

Figure 16 – On-going costs of most sold products

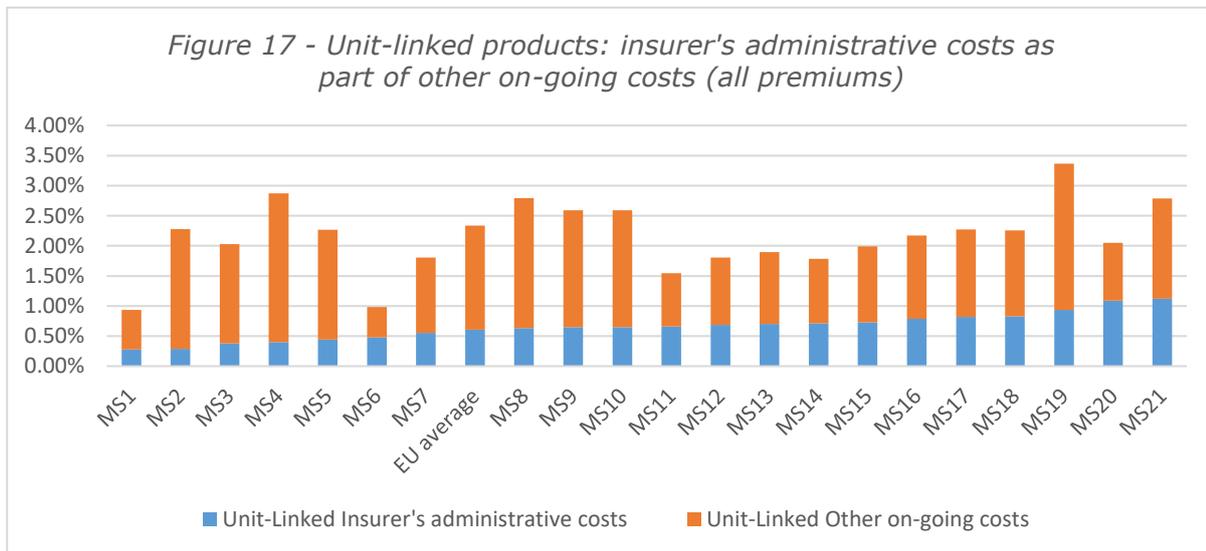
On-going costs most sold products								
All product types	Hybrids	Profit participation			Unit linked			
All premiums	All premiums	All premiums	Single	Regular	All premiums	Single	Regular	
<b>Min</b>	0.75%	0.72%	0.46%	0.39%	0.46%	0.88%	0.88%	1.79%
<b>EU average</b>	1.38%	0.99%	1.17%	1.15%	1.41%	2.12%	2.12%	2.08%
<b>Max</b>	3.30%	2.63%	1.55%	1.55%	2.07%	3.30%	3.30%	2.63%

In summary, the weighted average the “other on-going costs” of the most sold unit-linked products is of 2.12%, and of 1.17% for the most sold profit participation products.

The on-going costs of the most sold hybrids are 1.62%. These are the most sold products in particular in France and are sold in material amounts in another three jurisdictions (Belgium, Czech Republic and Italy).

### 3.2.4 Administrative and distribution costs: unit-linked products (all products and premiums)

The split between administrative and total costs for unit-linked and how this varies across the 21 Member States is shown in figure 17.



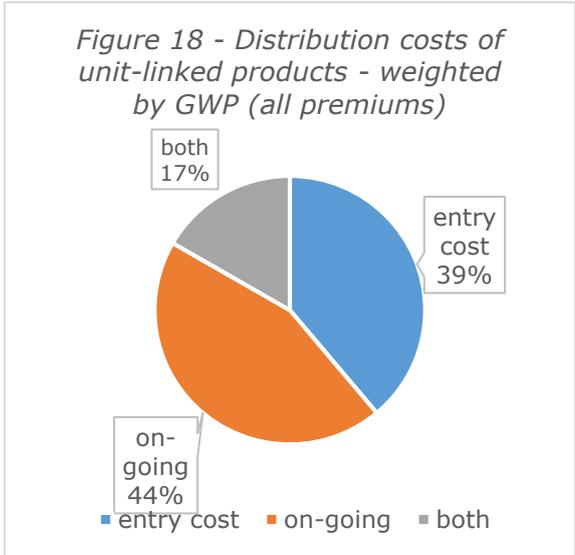
There appears to be no strong correlation between cost levels and administrative costs.

However, in some Member States administrative costs might include distribution costs, as a result of ambiguity in categorising these costs in many jurisdictions. Consequently, it is difficult to draw comparative conclusions on the level of administrative to overall other on-going costs reflected in the graph above.

The size of distribution costs is certainly material -- where provided separately to administrative or asset management costs they amounted to 1.01% on average.

In total 83% of unit-linked products reported distribution costs (unweighted - either as entry or other on-going costs or both). It is not clear for the remaining 17% of products whether distribution costs are part of the reported administrative costs or the asset management costs, or some other part of the costs.

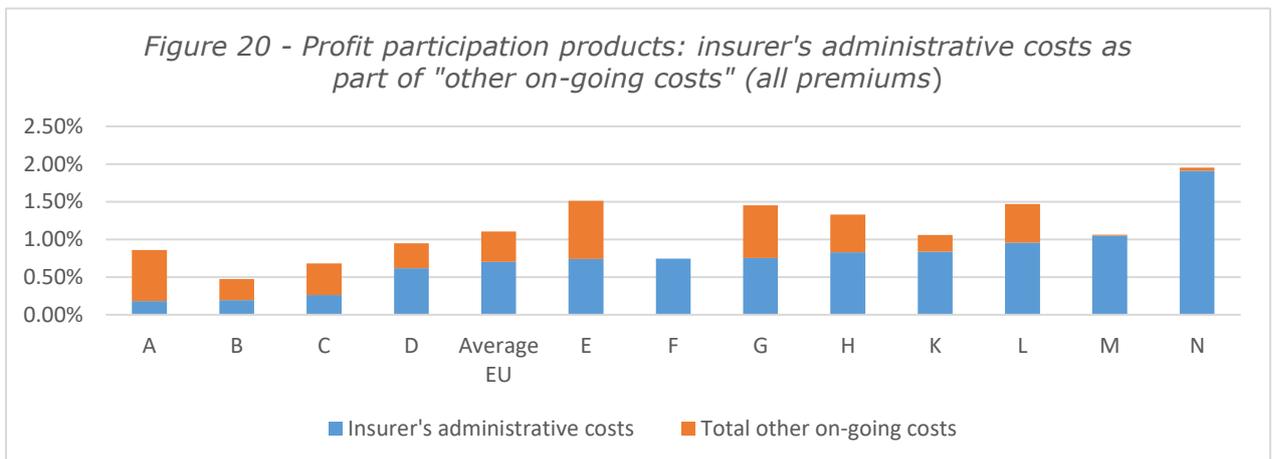
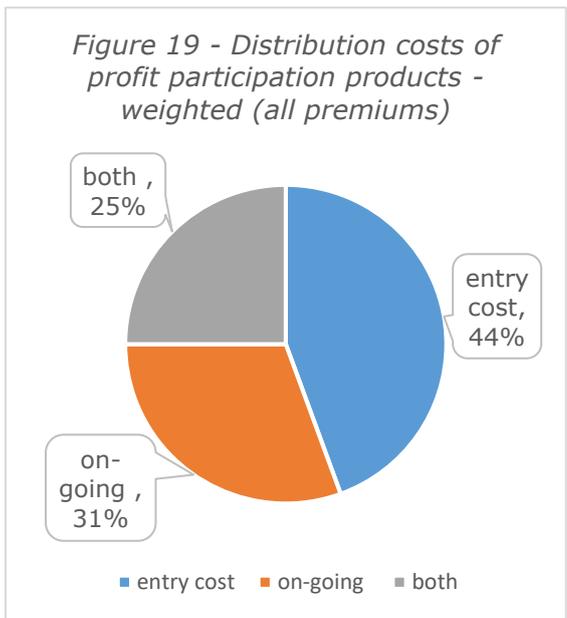
Figure 18 shows that from the products reporting distribution costs, almost an equal number reported distribution costs only as part of on-going costs or as part of entry costs, while 17% reported them split in both entry and other on-going costs.



**3.2.5 Administrative and distribution costs: Profit participation products (all premiums)**

On weighted average, 71% of profit participation products reported distribution costs as entry costs (separately from administrative entry costs), and 41% reported distribution costs in “other on-going costs”, separately from other subtypes of on-going costs. This includes products where distribution costs were both reported as entry and “other on-going costs”. Figure 19 shows that from the products reporting distribution costs, slightly more products included distribution costs as entry than other on-going costs.

As figure 20 shows, unlike unit-linked products, insurer’s administrative costs for profit participation products represent the bulk of total other on-going costs.



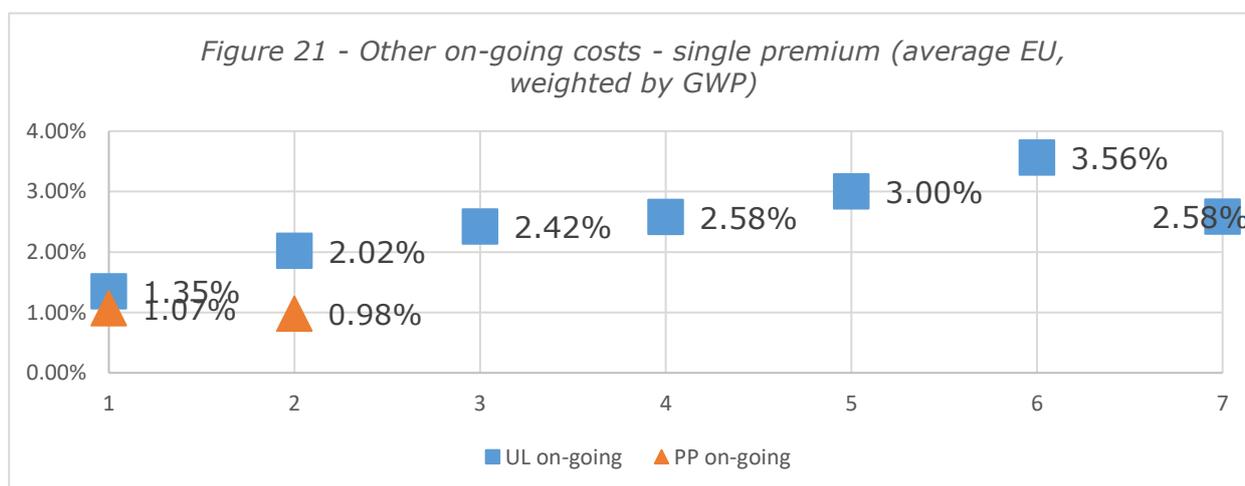
It is not possible to conclude fully on whether the disparities in reported costs represent differences in cost levels or differences in what is being allocated as costs in practice.

### 3.2.6 On-going costs: impact of risk category (all products)

Irrespective of differences regarding the inclusion of distribution costs, it is clear that the risk category of a product impacts significantly product costs.

For unit-linked products, the costs increase proportionally with the risk category from risk category 1 to 6. The other on-going costs of risk category 7 is however lower than for products categoriyified with a risk category 6, 5 and 4. Lower risk categories might be more frequently invested in bonds and higher risk categories in equities and more exotic assets. Different markets in the same asset categories also of course carry different costs. The costs of funds invested in bonds are typically lower than of funds invested in equities.

As expected, profit participation products are limited to risk categories 1-2. Unlike unit-linked products, other on-going costs decrease with the increase of risk category when weighted by GWP at the European level.



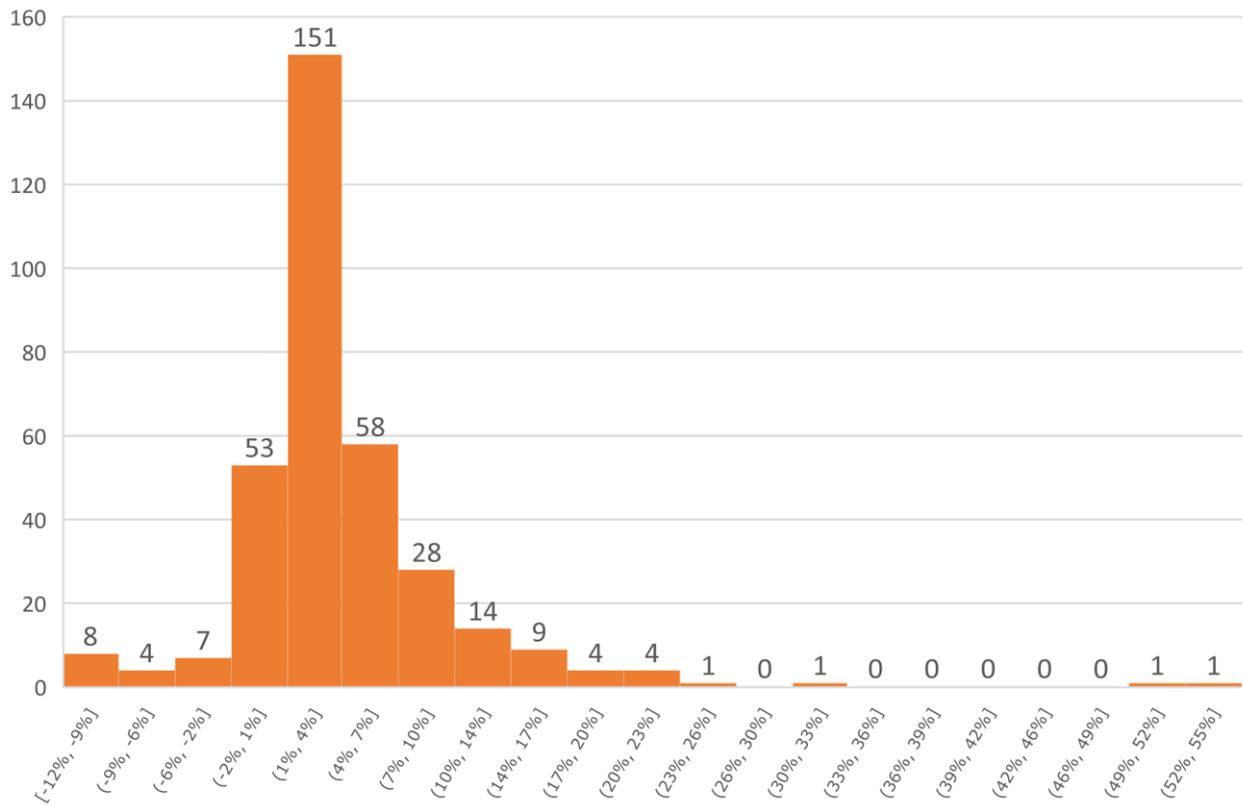
## 3.3 Returns

EIOPA used data on annual NAV returns (for unit-linked), regular bonuses (for profit participation), and KID-based returns (net of one-off and other on-going costs, these are underlying figures used for the preparation of the KID performance scenarios) for calculating gross figures ( $r^G$ ), and figures net of investment and administrative other on-going costs,<sup>15</sup>  $r^{net}$ .

The figure below show the frequency of all observed returns.

<sup>15</sup> But not net of on-going distribution and biometric costs, where these were provided

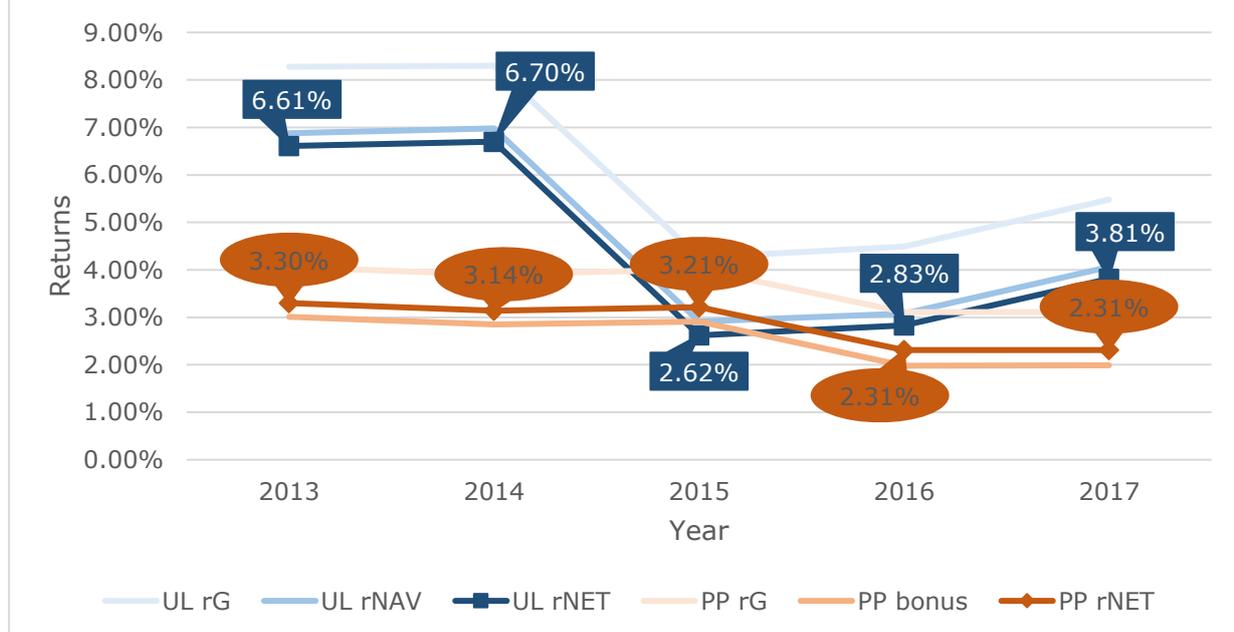
Figure 22 - Net returns 2017 - frequency (number observations, unweighted)



### 3.3.1 Unit-linked and profit participation returns

The figure below illustrates annual total gross returns ( $r^G$ ), NAV and bonus returns, and returns net of other on-going costs except for distribution and biometric risk costs ( $r^{net}$ ).

Figure 23 - Annual returns over time  
All products - all premiums - All risk categories (EU weighted GWP)



Looking at the annual net returns from 2013 to 2017 weighted by GWP, unit-linked product returns (all premiums) have varied from 2.62% (2017) to 6.70% (2014), including products of risk categories from 1 to 7. Profit participation products have given returns varying from 2.31% (2016) to 3.21% (2015), including products of risk categories 1 and 2. They exceeded unit-linked in 2015.

Due to smoothing mechanisms, profit participation returns are less volatile year per year than unit-linked products.

To assess the reliability of unit-linked returns, the unit-linked weighted NAV-based returns in 2016 (3.13% - gross returns) were compared with insurance undertakings' return on assets net of expenses on unit-linked business in the Member States covered, an average of 4% (unweighted, Solvency II data). In addition, 2017 average unit-linked gross returns are similar to the 2017 annual returns of mixed funds reported by ESMA.

Given the differences between profit participation products across Member States as well as between these and unit-linked products, there are significant challenges with comparing the returns, e.g. in view of the values of guarantees, the impact of smoothing mechanisms, and the impact also of risk and volatility: annualised figures do not show the impact that short term volatility can have for unit-linked contracts. In view of these differences, direct comparisons between unit-linked and profit participation products should be avoided, though the sample shows that while the weighted average net returns of profit participation products were lower than the weighted average of unit-linked products prior to 2015, the picture has been less clear since then when viewed in aggregate.

In addition, terminal bonuses might increase returns at maturity, while claw-backs or other adjustments may reduce returns in some cases. No data was provided by insurance undertakings on such bonuses or adjustments.

### **3.3.2 Total net returns per risk category and premium type (2017)**

To take into account the variables impacting costs, including risk category and type of premium, the figures below show the 2017 net returns of single premium products, as well as the trends across risk categories.

Figure 25 for unit-linked products shows that higher risk categories (from 4 to 7) present higher level of dispersal most likely due to high volatility of net returns. These includes both KID and KIID risk categories.

Figure 25 - Returns unit-linked by risk category - single premium (unweighted, 2017)

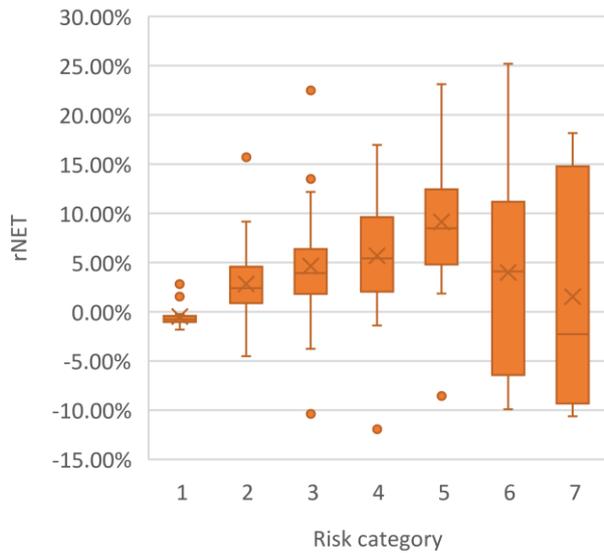
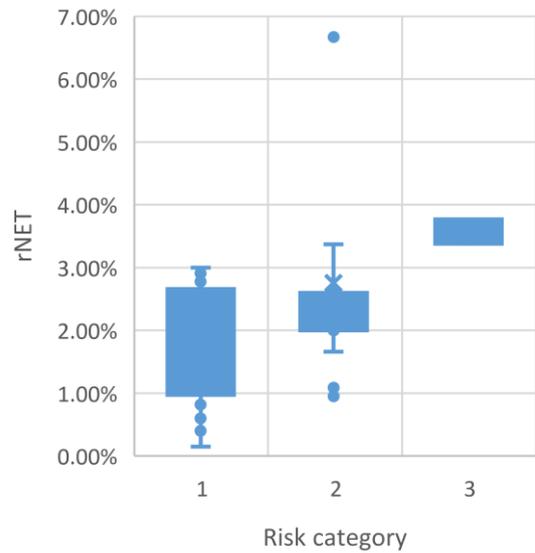


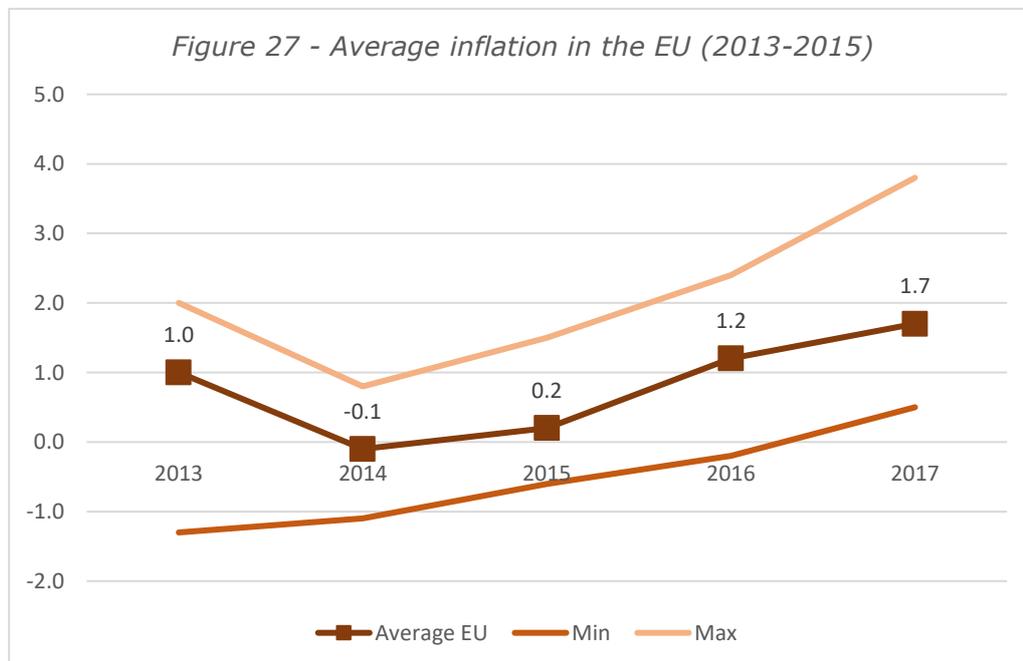
Figure 26 - Profit Participation single premium net return by risk category (unweighted, 2017)



### 3.3.3 Impact of inflation and taxes

Returns are impacted by inflation. Figure 27 below shows the data for inflation for the last 5 years (2013 – 2017) where overall inflation remained very low. Inflation has been negative in 2014. It can be seen however that the spread across the EU can be relatively wide.

Figure 27 - Average inflation in the EU (2013-2015)



The impact of inflation is important in two respects.

Firstly, over the longer term it will significantly impact the ‘real’ returns of an investment, an impact that consumers may find difficult to assess or take into account. Given that some insurance-based investment products can be whole of life or very long term, this can be an important factor, and is one

reason why projections for pension products are sometimes presented in real terms (adjusted for inflation). In general, it is important that savings and investments are able reliably to beat inflation.

Secondly, inflation in national markets is an important factor in considering asset pricing in those markets. It is understood that there remains an important 'home bias' in investments within national markets, such that products within a particular market will see returns that may reflect local inflation. This factor (and related issues related to currency rates) has not been considered in this report, but could be an important factor in assessing different rates of return across different Member States.

In terms of taxation, only a small proportion of respondents indicated that taxes were included in the costs figures (usually yield taxes). In general, taxes impacting directly (be this positively or negatively) the returns at the level of products or their underlying investments are expected to be reflected in the figures in this report.

EIOPA was not able to take into account personal taxation in the context of this report, as this varies across Member States and between individuals. However, personal taxation can be a significant factor in household asset allocations, including the choice of IBIPs or other investment or savings products.

## IV. Personal Pensions Data

### 1. Limitations

The sample was limited to personal pension products (PPPs) provided by insurance undertakings in Germany, Austria and the Netherlands, as these markets provided responses according to the same methodology as used for IBIPs (that is KID-based information). Given this, the information should be considered as an addendum to the information on the IBIPs market more broadly contained in this report.

In total, data from 3 jurisdictions has been included in the report. The total number of responses that could be used for comparisons is **10** and the number of funds analysed is **24**.

The scope for conclusive analysis is there very significantly constrained by market coverage limitations, due to issues with availability, quality and comparability of data. As reported in detail in Annex II, the information included in national disclosure documents of personal pension products that originate from national law is not comprehensive enough to enable comparisons of costs and performance across jurisdictions, due to the diverse rules and the lack of detailed and shared methodologies for information on costs and performance.

## 2. Analysis

### 2.1 Impact of costs on returns

Figure 28 below shows the average weighted costs per type of PPP most bought by consumers in the last five years. This includes different risk categories and RHPs.

The costs cannot be added one to the other as different sample sizes were used in the data, depending on product cost structure.

It is worth noting that the impact of entry costs and subsequently the total costs are affected by holding periods (time to retirement), which differ from Member State to Member State for the same or similar products or for different consumers.

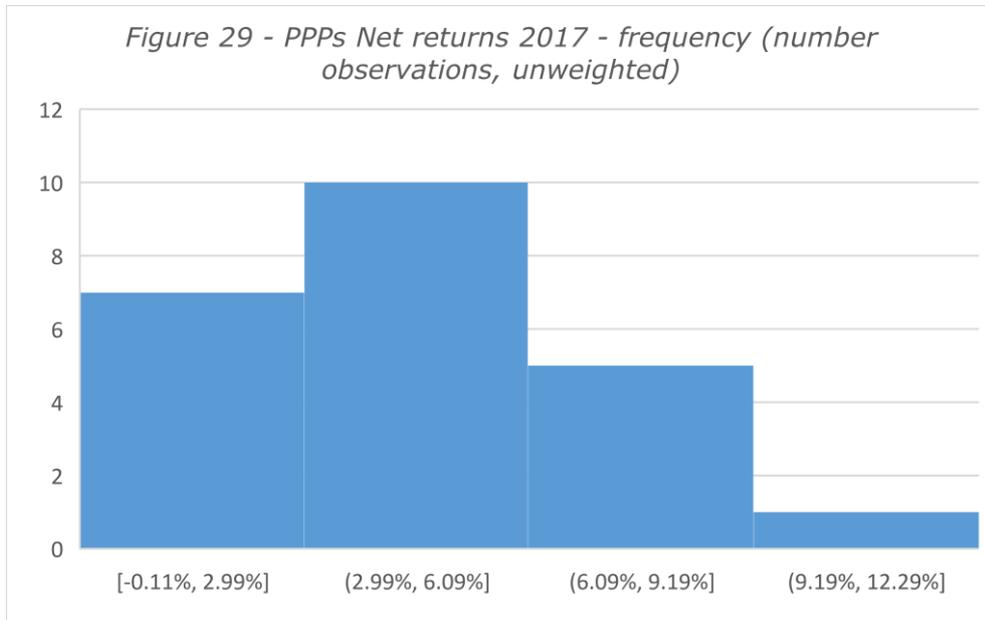
Like for IBIPs, unit-linked based personal pensions are more expensive than profit participation based pensions.

Figure 28 - PPPs KID Costs broken down

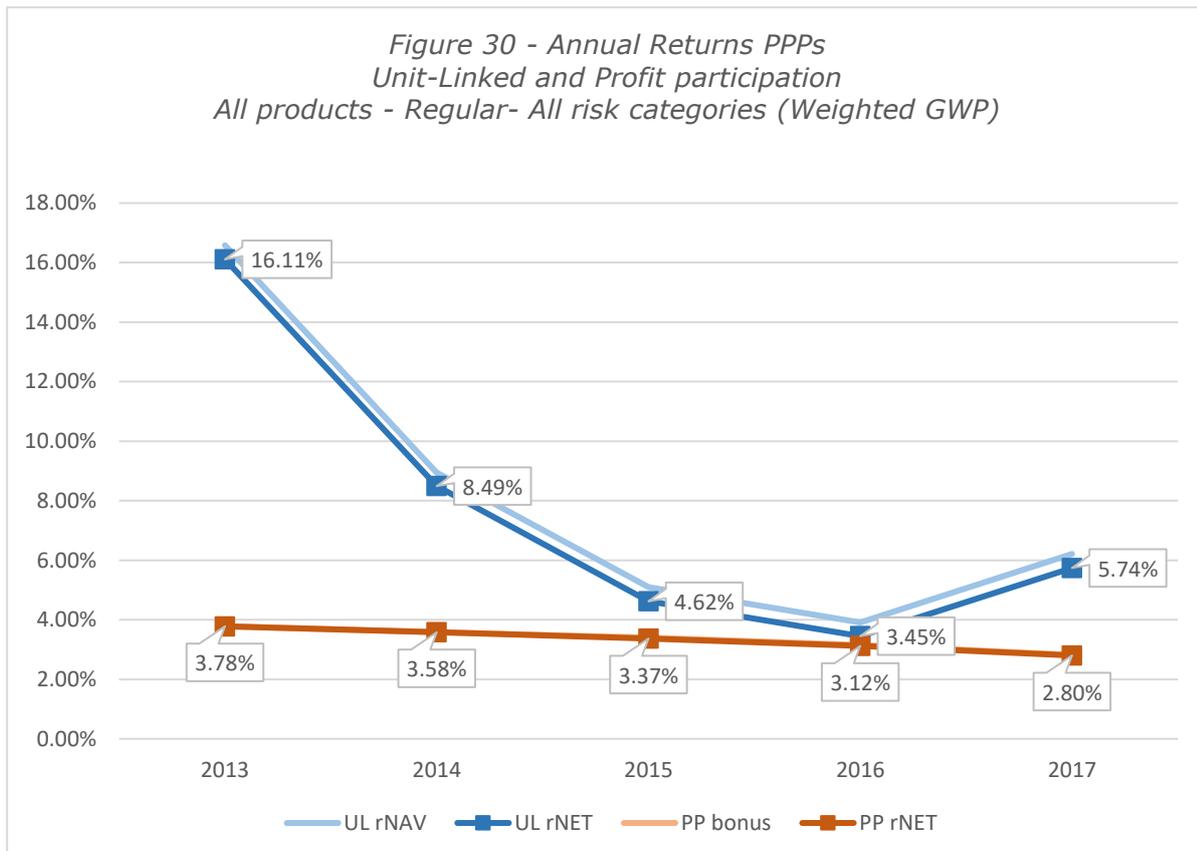
PPPs KID Costs			All products	Unit linked (15)	Profit Participation (7)
<i>(broken down data differ from cost to cost)</i>			<i>Av RHP 29 y</i>		
<i>Regular premium only</i>			<i>(24 products)</i>		
Total RIY  which includes:			1.43%	2.37%	1.42%
		Entry costs	0.18%	0.15%	0.18%
		Exit costs	NA	NA	NA
		Transaction costs	0.03%	0.18%	0.03%
		Total other on-going costs	1.24%	1.86%	1.23%
		which includes:			
		Administrative	1.20%	0.47%	1.21%
	Biometric	0.01%	0.01%	0.01%	
	Distribution	0.45%	0.33%	0.48%	
	Asset manager	NA	1.35%	NA	

## 2.2 Returns

The figure below show the frequency of all observed returns.



Overall, returns achieved by PPP seem to follow a similar trends to IBIPs.



## Next steps for future reports

As noted already, this first report was undertaken as a pilot exercise, to identify issues that can be addressed for future reports.

EIOPA will work further on developing its methodology and approach for future reports. The aim will be to increase market and product type coverage, to enable more granular data reporting and meaningful comparisons.

### IBIPs

EIOPA anticipates:

- working with experts to establish a common methodology for fair comparisons of the performance of profit participation products of different types across Member States; and
- working to further standardise cost definitions and their practical implementation, so there is greater consistency and availability of data.

In order to improve data quality of the responses, EIOPA also considers that significant measures can be taken to simplify the data gathering exercise, and to ensure a common understanding amongst NCAs and insurance undertakings who are taking part.

### PPPs

Work on costs and performance definitions is needed in order to enable better availability and comparability of data for personal pensions.

# Annex I - Mapping of the costs and performance data requirements

On 13 October 2017 the European Commission (EC) sent a request to ESMA, EBA and EIOPA to report regularly on the costs and past performance of the main categories of retail investment, insurance and pension products. This request contains the specific requirement that the ESAs reporting should be based on relevant data and information originating from disclosures and reporting already required by Union law (e.g. UCITS, MiFID/MiFIR, IDD, IORP and PRIIPs) or national legislations.

To this end, as the first step, the ESAs are required to conduct a mapping of the costs and performance data requirements under EU or national legislation for pre-contractual disclosures and reporting to investors. The aim of the mapping is to enhance the understanding of the relevant information, which manufacturers and distributors are required to publish prior or in addition to the implementation of the PRIIPs KID or IDD requirements, for the categories of the products in scope.

## 1. Mapping EU legislation for pre-contractual disclosures and reporting to investors

### 1.1 Legal mapping of KID-based documents: IBIPs and PPPs

The legal requirements for IBIPs and for PPPs where PRIIPs KID is applicable concern pre-contractual information offered to consumers under PRIIPs. In addition, IDD legal requirements are also analysed for the distribution costs of IBIPs and UCITS for products invested in UCITS.

**PRIIPs** - The use of the Packaged Retail and Insurance-based Investment Products (PRIIPS) Key Information Document (KID) EU pre-contractual requirements under IDD and PRIIPs is limited to IBIPs. In addition, the use of the KID is also possible for personal pension products in four Member States where the KID is required for such products.

As of 1<sup>st</sup> January 2017, IBIPs (Investment-Based Insurance Products) were required to present pre-contractually KID information to consumers. In addition, as of October 2018, pre-contractual information on distribution costs under IDD will be required.

The KID includes cost and performance information, which is calculated in a standardised way across the EU. In regards IBIPs, there are no existing costs or performance disclosures that are standardised or available across the EU. Pre-existing EU law was minimally harmonising and did not address costs and performance disclosures in detail.

The KID cost indicators, which present estimations of the future total costs during the life of the product, are based on the cost information from the past 3 to 5 years. The costs presented in the KID are not equal to the past annual costs, as sought in the Commission request; the latter is a standard typical in the fund industry, where costs are typical reported on an annual basis as an expenses ratio.

Consequently, the use of the KID cost data for the Commission request entails adjustments and assumptions, such that the overall costs for the product being shown in the KID can be used as a proxy

for an annualised cost figure. For insurance products, costs over the entire product lifecycle are most relevant, so this assumption is fair for comparisons between different IBIPs. Costs derived from the KID in this fashion should not however be compared with fund costs unless the latter are also adapted to show the costs over the lifetime of an investment (e.g. including up front and exit costs).

The KID performance indicators are forward-looking, though based on past returns. The underlying return data used for the calculation of the performance scenarios could be limited to two years where daily pricing is available and up to five where it is not. For IBIPs, generally speaking, there is no EU rules on disclosure of past returns, though where the underlyings of an IBIP are investment funds, performance for those investment funds will typically be separately disclosed.

Even where underlying return data is separately obtained, there are difficulties with the consistency of this data (it will typically be net of costs, but always the same or all costs), and linked difficulties with finding the associated 'gross' returns. The aggregate costs shown in the KID would need to be further broken down to get comparable gross and net return figures. A major issue here is that some costs – notably those related to distribution, and in particular those paid in upfront fees or separate fees to the distributor – may not be known to the insurance undertaking and where not known would not be shown in the KID. In addition, distribution costs can vary for the same product depending on where and when it is bought, so that the costs borne by individual customers are not always the same.

In summary, EIOPA considers the information in the KID is a good starting point, but it needs to be supplemented by additional past return and cost breakdown data. This data should in principle be available as inputs in the process for drawing up a KID.

**IDD** - IDD requires insurance undertakings to present pre-contractually information on distribution costs to consumers. This information is not available for the 2018 report due to delays of the directive's transposition. Once available, the possibility to use IDD data to calculate the retail performance net of all costs, complementing KID cost information, would need to be assessed.

**UCITS** - UCITS KIID provides information on the past performance and past costs (entry and exit costs; on-going costs, performance fees) of a UCITS. When an IBIP or a PPP is invested in a UCITS, the cost and performance information provided concerns only the underlying investment, and does not include the one-off or other on-going costs of the insurance undertaking.

The UCITS KIID presents past costs information, but unlike PRIIPs KID it does not include transaction costs and the ongoing charge does not take the timing of the cost withdrawals into account. The cost data does not include the costs of the product provider not concerning the underlying investment.

Due to the lack of inclusion of insurer's costs, EIOPA is of the view that the exclusive use of the UCITS KIID is not adequate for the purpose of analysing past costs and performance data on IBIPs and KID-based PPPs. The KIID can be used to complete the past performance fund information when it is not provided by the underlying KID broken down data.

Figure 1 below presents the detailed legal mapping of the most relevant EU requirements for IBIPs and KID-based PPP - PRIIPs and IDD – and analyses its use for the purpose of issuing recurring reports on costs and performance.

Figure 1. Legal mapping of the costs and past performance data requirements under EU legislation for pre-contractual disclosures and reporting to investors for IBIPs and Personal Pensions for which a KID is required

PRIIPs Regulation. Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products		
The Packaged Retail Investment and Insurance Products (PRIIPs) regulation, requires PRIIP manufacturers to draw up the Key Information Document (KID) and providers (persons advising on or selling) of investment products to provide the KID to beginning in 2018. These requirements have been further developed in level 2 measures, see Commission Delegated Regulation (EU) 2017/653 <sup>16</sup> .		
Article	Description	Comments
<p><b>Form and content of the Key Information Document</b></p> <p>Articles 6 - 8</p>	<p>The KID includes IBIP pre-contractual information and should be provided in good time before retail investors are bound by any contract or offer relating to the PRIIP. The KID also applies to some PPPs in 4 Member States.</p> <p>The KID should include information on expected costs and performance of the product.</p> <p><i>Performance</i></p> <p>The KID shall contain under a section titled ‘What are the risks and what could I get in return?’ a brief description of the risk-reward profile including appropriate performance scenarios.</p> <p><i>Costs</i></p> <p>The KID shall contain under a section titled ‘What are the costs?’ the costs associated with an investment in the PRIIP, comprising both direct and indirect costs to be borne by the retail investor, including one-off and recurring costs, presented by means of summary indicators of these costs and, to ensure comparability, total aggregate costs expressed in monetary and percentage terms, to show the compound effects of the total costs on the investment.</p> <p>If there are other costs different from those specified above should be provided in detail by advisors, distributors or any other person advising on, or selling, the PRIIP.</p>	<p>Performance scenarios and cost information in the KID are expected returns and costs, however the EC letter request the ESAs to issue reports on past performance.</p> <p><i>Performance</i></p> <p>As a result the KID information on performance is not appropriate for the Commission request. The performance scenarios however are based on past performance information (up to 3 years). As a result, although the performance information of the KID as such cannot be used for the Commission request, the use of the underlying performance data that was used for the elaboration of the KID can be used as a source of data to comply partially with the Commission request, as the past performance data is limited to 2 or 3 years (the Commission requests 10 years of data), and is also insufficient to calculate a net performance at the product level, unless it is combined with relevant cost information.</p> <p><i>Costs</i></p> <p>The costs presented in the KID are expected costs, based on past costs (up to 5 years). The Commission time horizon of 10 years of past cannot be achieved with PRIIPs cost data.</p>
<p><b>Delegated regulation (EU) 2017/653</b></p> <p>Article 3 and 5</p>	<p>Article 3 and annexes IV and V specifies how performance scenarios should calculated and presented. Article 5 and Annex VI does the same in relation to costs.</p>	<p>Nonetheless, the KID cost information could be used with the assumption that past costs were stable and therefore equal to the costs presented in the KID. Alternatively underlying past cost information used for the elaboration of the KID could be used, however the data is limited to 3-5 years. With this assumption, KID cost information can be used to compare IBIPs as such, however it has limited use for the calculation of net performance at the product level. In order to use KID cost information to calculate net past performance, the KID cost information shall be broken down and categorized by costs included or</p>

<sup>16</sup> Commission Delegated Regulation of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents

		not in the past return data that was used for the performance scenarios.
<b>European Commission Communication</b>  Guidelines on the application of the PRIIPs Regulation (2017/C 218/02)	(12) Offers closed by 31 December 2017  Where a PRIIP is no longer made available to retail investors as of 1 January 2018 and changes to the existing commitments are only subject to the contractual terms and conditions agreed before that date, a KID is not required.  Where those contractual terms and conditions allow exiting the PRIIP, but that PRIIP is no longer made available to other retail investors after 1 January 2018, a KID is not required.	The KID is only required for IBIPs marketed to clients and not for IBPS already marketed and not available to consumers anymore.  As a result, the use of the KID for the Commission request is limited to products sold to consumers on 1 <sup>st</sup> January 2018.
<b>IDD</b> <b>Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution<sup>17</sup>.</b>		
<b>Article</b>	<b>Description</b>	<b>Comments</b>
<b>Information to consumers</b>  Art 29	The IDD includes pre-contractual information for consumers with regard to the distribution of IBIPs. Where applicable, such information shall be provided to the customer on a regular basis, at least annually, during the life cycle of the investment.  This shall include information on the cost of advice, where relevant, the cost of the insurance-based investment product recommended or marketed to the customer and how the customer may pay for it, also encompassing any third party payments.  The information about all costs and charges, including costs and charges in connection with the distribution of the insurance-based investment product, which are not caused by the occurrence of underlying market risk, shall be in aggregated form to allow the customer to understand the overall cost as well as the cumulative effect on the return of the investment, and, where the customer so requests, an itemised breakdown of the costs and charges shall be provided.	The cost information provided under IDD is forward-looking. The use of the information is possible for IBIPs (not for PPPs for which a KID is required) only with the assumption that past costs are stable and equal to the IDD forward-looking costs. This information can be used jointly with underlying KID information, with the same approach.  The IDD information will be available for the 2019 report, based on 2018 distribution cost data.  It is not possible to use IDD cost information for the 2018 report.

## 1.2 Legal mapping for PPPs without a KID

There are no EU disclosure requirements for PPPs as such.

**UCITS** - UCITS KIID provides information on the past performance and past year's costs (entry and exit costs; on-going costs, performance fees) of an UCITS. When a PPP is invested in UCITS, the past cost and performance information provided in the KIID can be useful to collect data on the last year's costs of the underlying investment, with the limitation that the UCITS KIID information does not include transaction costs data. The cost data is limited to one year. In addition, the KIID does not include the one-off or on-going costs of the insurance undertaking.

<sup>17</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016L0097>

The UCITS KIID cannot be considered as the sole source of information for costs at product level. Although the UCITS KIID does not fully satisfy the data requirements for the Commission request, EIOPA is of the view that the UCITS KIID can be used as a source of underlying investment performance data for personal pension products invested in UCITS. This information shall be complemented with product data not included in the KIID.

Figure 2 below presents the detailed legal mapping of UCITS for PPPs for which a KID is not required and analyses its use for the purpose of issuing recurring reports on costs and performance.

Figure 2 - detailed legal mapping of UCITS for PPPs for which a KID is not required

Undertakings for collective investment in transferable securities (UCITS)		
Commission Regulation (EU) No 583/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website <sup>18</sup>		
Article	Description	Comments
<p><b>Commission Regulation (EU) No 583/2010</b></p> <p>Article 10, 15, 16, Annex II</p>	<p><i>Performance</i></p> <p>The information about the past performance of the UCITS shall be presented in a bar chart covering the performance of the UCITS for the last 10 years</p> <p><i>Costs</i></p> <p>The KIID should include:</p> <ul style="list-style-type: none"> <li>- entry and exit charges, which shall each be the maximum percentage which might be deducted from the investor's capital commitment to the UCITS;</li> <li>- a single figure shall be shown for charges taken from the UCITS over a year, to be known as the 'ongoing charges,' representing all annual charges and other payments taken from the assets of the UCITS over the defined period, and based on the figures for the preceding year</li> </ul> <p>The ongoing charges figure is based on the last year's expenses.</p>	<p><i>Performance</i></p> <p>The performance data on the underlying investment is complete and can be used for the recurring reporting. The lack of product cost information not related to the underlying investment in the KIID, restricts the performance data to underlying performance data. In order to calculate a net performance at the level of the product, product data shall be collected from other data sources.</p> <p><i>Costs</i></p> <p>The cost information provided under UCITS is limited to one year.</p> <p>Transaction costs cannot be reported with UCITS cost data.</p> <p>The Commission data time horizon of 10 years cannot be achieved with UCITS cost data.</p> <p>Nonetheless, the KIID cost information could be used to issue recurrent reports on PPPs invested in UCITS, with the assumption that past costs were stable over last years and with complementary product cost data from other data sources.</p>

<sup>18</sup> <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32010R0583>

## 2. Mapping national legislation for pre-contractual disclosures and reporting to investors

EIOPA collected information on national legislation for pre-contractual disclosures and reporting to investors via National Competent Authorities in addition to the minimum requirements foreseen under EU law.

- **Unit-linked IBIPs**

Only five national authorities have defined a methodology for past performance in disclosures. In the majority of jurisdictions national authorities have not reported standardised cost methodologies. Forward-looking cost information is required pre-contractually in eighteen jurisdictions (broken down in thirteen jurisdictions) but not periodically to consumers. Only in thirteen jurisdictions is past performance required in periodic disclosures, while only in six pre-contractually.

While it would therefore be possible to use past performance data originating from periodic disclosure documents and forward-looking cost data from pre-contractual product documentation in less than half of the EU, data is either not prepared under standardised methodologies or not using ones that are consistent across markets. As a result, comparability of data originated from national disclosure documents is low.

- **Profit participation IBIPs**

Authorities in thirteen jurisdictions require profit sharing information annually or periodically to consumers during the life of the contract. Pre-contractual or periodic disclosure of costs is required in twelve jurisdictions. In the majority of jurisdictions there are no legal requirements to disclose past returns pre-contractually nor to report to the supervisor. As a result, there is insufficient data on costs and past performance for products with profit participation under national disclosure requirements.

- **Personal pension products**

While a significant number of jurisdictions requires disclosure of past performance in annual/periodic disclosure documents to consumers (twenty), past performance is legally defined only in five jurisdictions. Cost are rarely disclosed in periodic documents and in the majority of Member States cost methodologies are not standardised by National Authorities. As a result, EIOPA concludes that it is not possible to calculate a net performance at the product level from periodic disclosure documents.

Majority of Member States (eighteen) requires disclosing projected costs pre-contractually, while pre-contractual information rarely includes past performance data (five).

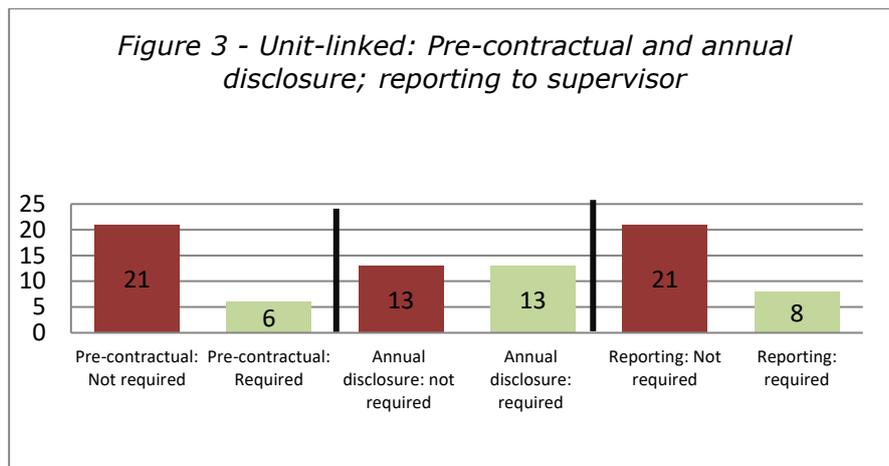
Past performance data disclosed in periodic documents could be used in combination with cost information disclosed in pre-contractual documents to calculate a net performance. However, the data is not defined with methodologies approved by national authorities, resulting in a low

comparability of data as well as an impossibility to calculate net performance at the level of the product.

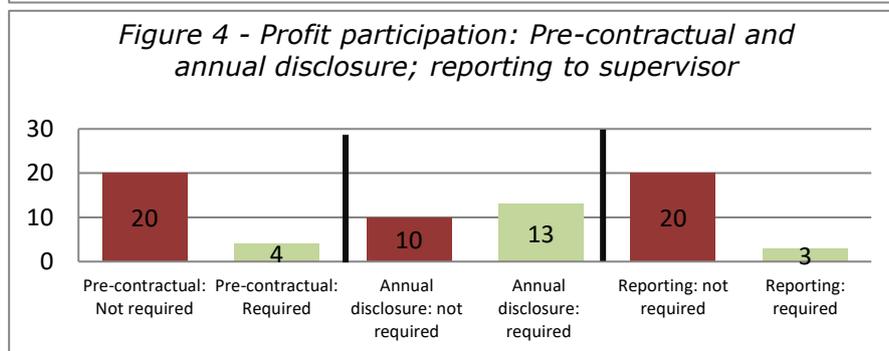
The Charts below demonstrate the summary of the results of the legal mapping conducted with 30 National Authorities<sup>19</sup>.

## 2.1 Disclosure of returns

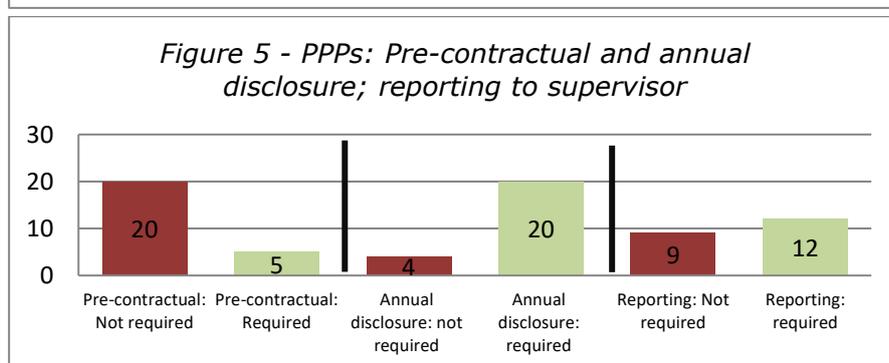
The Charts below show the number of jurisdictions where returns are required to be disclosed pre-contractually, periodically during the contract duration and to the supervisor for unit-linked IBIPs, with profit participation IBIPs and PPPs.



43% of jurisdictions require disclosing returns in periodic documents.



Pre-contractual documents rarely include past return data.



Reporting to supervisory authorities is required in 40% jurisdictions for PPPs and is rare for IBIPs.

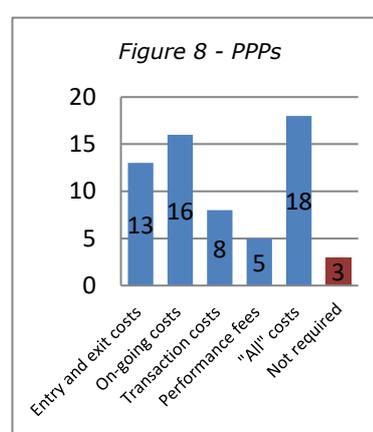
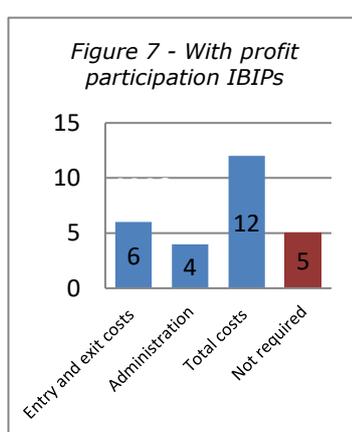
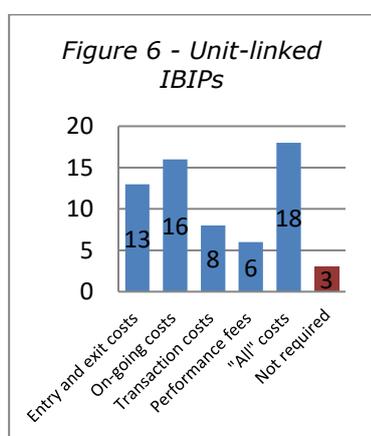
<sup>19</sup> Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lichtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

## 2.2 Disclosure of costs

- Pre-contractual disclosure

The Charts below show the number of jurisdictions where costs are required to be disclosed pre-contractually for unit-linked IBIPs, with profit participation IBIPs and PPPs under national law. This covers disclosures in place prior to the point of application of the PRIIPs KID.

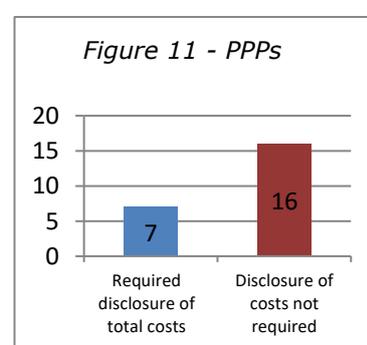
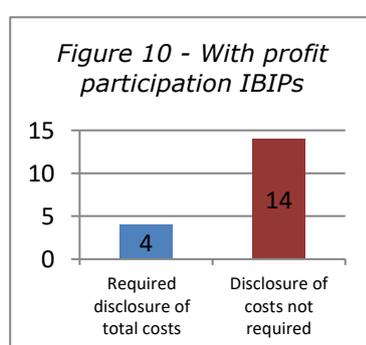
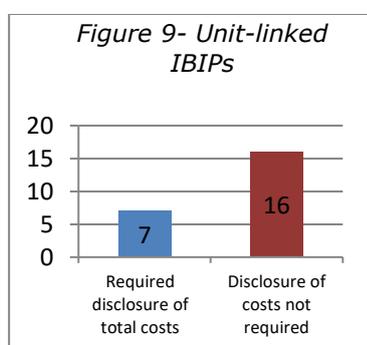
In the majority of Member States, there are at the moment national requirements in force - or there were prior to the entry into force of the PRIIPs rules - related to the pre-contractual disclosure of total costs charged to the product. The definitions of the costs are not standardised legally.



- During the life of the product

The Charts below show the number of jurisdictions where costs are required to be disclosed periodically during the contract duration for unit-linked IBIPs, with profit participation IBIPs and PPPs.

Annual or periodic disclosure to consumers is not required in the majority or Member States. Likewise, in the majority of Member States there are no requirements to report costs at the level of the product to NCAs.



### 2.3 Conclusion of national legal requirements mapping

EIOPA concludes that the information included in disclosure documents of unit-linked with profit participation and personal pension products that originate from national law is not comprehensive enough to enable comparisons of costs and performance across jurisdictions, due to the diverse rules and the common lack of detailed methodologies of costs and performance.

# Annex II - Detailed methodology and market representativeness

## 1. Market representativeness

The sample of participating insurance undertakings has been selected by National Competent Authorities (NCAs) following the following principles:

- To ensure consistency across Member States and market representativeness in selecting which insurance undertakings should be included in the sample, the sample method aimed at including the largest undertakings covering up to 80% of national markets in terms of technical provisions for life business<sup>20</sup>.
- Where achieving the threshold of 80% of market representativeness in terms of technical provisions would require including a large number of Insurance Undertakings in the sample, a threshold of market representativeness of 65% in terms of technical provisions for life business was aimed. The threshold was further lowered when a significant number of undertakings are closing IBIPs business. In any case, when selecting insurance undertakings NCA should ensure that the sample is composed of the largest insurance undertakings manufacturing IBIP products.
- With few exceptions<sup>21</sup>, the sample of participating insurance undertakings selected by NCAs included only domestic insurance undertakings operating in the home market.

## 2. Methodology

### 2.1 Unit-linked (Non-MOPs)

When invested in UCITS, the insurance undertaking can offer a choice of underlying mutual funds (as Multi-Option Products) or a choice of investment portfolios composed of packaged underlying investment funds. There are differences in the structure of returns and costs of both types of unit-linked products. The return of the underlying funds normally matches with the return communicated by the underlying UCITS, and is net of investment costs of the fund. However, in the latter case, the returns achieved by the portfolios might include the insurer's general management costs. EIOPA net return calculations are adjusted for this difference.

The data has been collected using the same scenarios as the used in the KID, with a preference for a single premium of 10.000 euro. The RIY as reported in the KID were used to compare products in terms of cost levels and risk profiles.

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<sup>20</sup> As expressed as a sum of sum of data in R0600 and R0690 template "S.02.01 - Balance sheet", Annex II, Solvency II requirements, 2016 data.

<sup>21</sup> the sample of participating insurance undertakings to be selected by the authorities where the Freedom of Services business based on Solvency II GWP data was the highest above 50% (Ireland and Luxembourg) was additionally complemented by domestic insurance undertakings taking-up business in another Member State under the freedom of establishment, this is by branch offices of EU/EEA insurance undertakings and any permanent presence of an insurance undertaking even where that presence does not take the form of a branch, but consists, for example, of an office managed by the own staff of the insurance undertaking or by a person who is independent but has permanent authority to act for the insurance undertaking as an agency would.

In addition, KID broken down costs were used to calculate the past net returns at the level of the product. Returns data over five years were collected.

### Assumptions

To leverage the use of the PRIIPs KID, the underlying broken down cost information of the KID in the form of Reduction in Yield was used for reporting costs and for calculating past net returns. Where the past performance data expressed in Net Asset Value (NAV) collected is not net of all costs, the past performance data is adjusted for these.

Reporting the figures in this way allowed for necessary adjustments to the NAV and to the total costs in view of biometric risk costs, different approaches to commissions and distribution costs in different markets, and differences over whether reported NAV figures are net of all costs or not.

The calculation of net performance assumption is that **ongoing costs** are relatively **stable year on year**.

A breakdown between other on-going costs reflected in the past performance data and those that are not, enabled to calculate a net performance at the product level. Biometric risk costs are removed in view of a fair comparison with other investments.

In addition, the methodology distinguished between those costs related to **distribution and advice** (i.e. commissions) and those related to the product and asset manager, as otherwise it was not possible to compare those products where commissions are included in the costs of the product with those products where the commissions are not. As a minimum, those products for which commissions are included are distinguished from those for which commissions are not included.

One-off costs are excluded from the net return calculation, as these depend on the RHP.

### Calculation of Net Performance

The default net performance of the fund or underlying investments can be derived by using its NAV.

For Unit-linked products invested via UCITS the NAV shows the performance after deducting the TER of the funds - which is similar to the PRIIPs part of the other on-going charges corresponding to the fund. It does not reflect one-off costs carried by the investor for buying or selling units in the fund. Transaction costs and performance fees are reflected by their nature in the NAV.

For Unit-linked products packaged in portfolios, the NAV of the portfolio might include on-going costs of the insurer. When the fund is invested via UCITS, the NAV communicated to consumers might not match with the NAV of the respective UCITS, due to the inclusion of costs of the undertaking therein.

NAV: is the net asset value which is calculated as the (market) value of a pooled fund's assets minus its liabilities. It is in effect the realisable value of each unit/share of the fund, and often the performance of units in a unit-linked insurance contract will reflect directly the NAV of the underlying funds. Additional costs may be charged at the level of the insurance contract itself, while the insurer may receive a proportion of the on-going charges made by the fund (which are already reflected in the NAV) to cover distribution and other costs, or to be offered as rebates to the customer.

The net performance of the product is the default net performance of the fund minus any additional administrative on-going costs of the insurer (distribution costs and biometric risk costs are excluded).

## 2.2 Multi-Option Products (MOPs)

The same definitions of performance apply as for non-MOPs unit-linked above. The methodology applies also for MOPs that are hybrids of unit-linked and profit participation funds.

The cost data for the MOP KIDs broken down reflected costs at each 'level' for the specific underlying options, at the level of the underlying and at the level of the wrapper/product.

Information on costs and performance for Multi-Option Products was collected and averaged based on the three largest underlying options (in terms of Gross Written Premiums) for each product, using weights for variants.

## 2.3 Products with profit participation

As with MOPs and non-MOP unit-linked, the cost information in the KID showed the impact of the costs overall on the yield (RIY), taking into account the recommended holding period (RHP) and possible future costs in one-off costs. Other on-going costs were used in the methodology directly to compare products in terms of cost levels and risk profiles.

In addition, broken down other on-going costs were used to calculate the net returns at the level of the product. Returns data over 5 years was requested.

### Costs

As with unit-linked, the overall costs were broken down to separate out costs not included in the returns as well as distribution/commission costs, so fair comparisons between products embedding such costs and those that do not could be made.

The ongoing evolution of the policyholders profit participation (and guaranteed rate of return) was viewed as net of indirect costs, but not all costs. Insurers were asked to break down the RIY to separate the costs already included in the return, from the costs not reflected in the profit participation/bonus/annual rate.

### Calculation of net performance

Returns of products with profit participation are composed of different elements. For instance, there may be a guaranteed return (interest rate, technical interest); as well as an additional regular (annual) bonus, also called profit participation rate, total credited rate, lock-in bonus, defined by the undertakings each year. This might include a pre-guaranteed profit participation.

In addition, there may be multi-year smoothing, and a terminal bonus at maturity, which might be allocated each year or not to consumers by the undertaking. For returns for products with profit participation data for the whole duration of the product until maturity (covering the whole RHP of the products) is most accurate, since the cost structure and returns are typically not linear and only fully are revealed at the RHP. However gathering a sample with a sufficient track-record allowing to collected data for a participant that has redeemed his participation at maturity was not possible. For this reason, EIOPA used data on the evolution of regular profit participation (broadly understood) as a

reasonable proxy for overall performance trends in the first report. Undertakings were required to provide the past annual profit participation rates for the last 5 years.

Comparisons within profit participation products and also with unit-linked were limited due to the non-inclusion of the unallocated profit (reserve), as well as due to the differences across jurisdictions regarding the inclusion of costs in the annual profit participation rates. Cross-market comparability is limited.

The on-going administrative costs containing the costs which are taken after profit participation were subtracted from the bonus/total interest/credited rate to give a net past performance figure. Biometric risk and on-going distribution costs were excluded from the calculation. Insurers were required to break down the costs KID RIY to separate the costs already included in the return as well as distribution/commission costs, from the costs not reflected in the annual profit participation.

When the regular bonus was net of on-going distribution costs and biometric risk costs, these costs were added to the bonus to calculate the net return.

## 2.4 Methodology for MOP hybrid products

MOP hybrid products are a mix of unit-linked and products with profit participation. For these products, the methodologies for unit-linked and products with profit participation were followed for the unit-linked and with profit participation parts respectively. The index for hybrid MOPs was composed of the weights of the three largest unit-linked funds and the largest profit participation fund.

Hybrids that are MOPs followed the methodology for MOPs.

Hybrid products that are not composed of more than one Unit-Linked fund are not covered by the report. Separated

## 2.5 Calculations

The list below provides the details of the calculations of returns based on KID broken down costs and additional return data.

$RIY = KID \text{ one-off costs} + KID \text{ transaction costs} + KID \text{ other on-going costs (+ KID performance fees)}$

Calculation of  $r^c$  - gross yield

a) Unit-Linked:

- When NAV is only net of asset manager on-going costs

$r^c = NAV + \text{Asset manager costs (as part of other on-going costs)} + \text{transaction costs} + \text{asset manager entry costs (when reported)}$

- When NAV is net of all insurer's and asset manager's on-going costs

$r^G = NAV + \text{other on-going costs included in the NAV} + \text{transaction costs} + \text{asset manager entry costs}$

b) Profit Participation:

- When bonus is net of all on-going costs:

$$r^G = \text{bonus} + \text{other on-going costs} + \text{transaction costs}$$

$$r^G = \text{bonus} + \text{other on-going insurer's distribution costs} + \text{other on-going biometric costs} + \text{administrative insurer on-going costs} + \text{transaction costs}$$

- When bonus is not net of all costs:

$$r^G = \text{bonus} + \text{insurer on-going costs included in the bonus} + \text{transaction costs}$$

**$r^{NET}$  - Net return for comparative purposes**

**$r^{NET}$  is the return net of on-going administrative costs, on-going investment and transaction costs. On-going distribution and biometric costs excluded, as well as one-off costs**

a) Unit-Linked:

- When NAV is only net of asset manager on-going costs

$$r^{NET} = NAV - \text{"on-going insurer's administrative costs"}$$

Where NAV means: *return based on the NAV =  $\{[Ending NAV (1+ Distribution/Reinvestment NAV) - Beginning NAV] / Beginning NAV\} \times 100$*

- When NAV is net of all insurer's and asset manager's on-going costs

$$r^{NET} = NAV + \text{on-going insurer's distribution and biometric risk costs}$$

b) Profit Participation:

$$r^{NET} = \text{regular bonus} + \text{distribution costs (if included in the bonus)} + \text{biometric risk cost (if included in the bonus)} - \text{(on-going costs mentioned as not included in the return)}$$

## Annex III - Definitions and abbreviations

### COSTS AND RETURNS

**One-off costs** As defined in the PRIIPs Delegated Regulation (Commission Delegated Regulation (EU) 2017/653): A one-off cost is an entry or exit cost which is either: a) paid directly by the retail investor; or b) deducted from a payment received by or due to the retail investor. A one-off cost is an entry and exit cost which includes initial charges, commissions or any other amount paid directly by the retail investor or deducted from the first payment or from a limited number of payments due to the retail investor or from a payment upon redemption or termination of the product. One-off costs are borne by an insurance-based investment product, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it (asset manager).

For example: structuring or marketing costs; acquisition, distribution, sales costs; processing/operating costs (including costs for the management of the insurance cover); cost part of biometric risk premiums; costs of holding required capital (up front part to be disclosed insofar as they are charged).

**One-off costs insurer** The one-off costs of the insurer are therefore part of one-off costs. The one-off costs of the insurer are costs borne by the insurer (including distribution costs), but not for the remuneration of a party providing services (asset manager).

**One-off cost asset manager** This one-off costs is borne by the insurer for the remuneration of the asset manager (or other provider) for the subscription fees acquired or not to the fund or the share category or portfolio mandate. One-off costs of the asset manager include fund distribution, marketing and subscription fees. As defined in the European PRIIPs Template, the one-off costs of the asset manager can be:

Fees acquired to the fund: This data correspond to fixed fees that may be charged to any subscriber and that are acquired to the fund. It is the case for some real estate funds. These costs are paid by the subscriber but included in the assets of the fund.

Fees not acquired to the fund: This data is the maximum costs that may be charged by the Asset managers. These costs are generally acquired to the insurer. It is indicative and should be adapted by the insurance company receiving the file to take into account the commercial agreement with the asset manager.

**Other costs on-going costs** As defined in the PRIIPs Delegated Regulation. Recurring costs are payments regularly deducted from all payments from the retail investor or from the amount invested or amounts that are not allocated to the

retail investor according to a profit sharing mechanism. The recurring costs include all types of costs borne by an insurance-based investment product whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it. Type of on-going costs: structuring or marketing costs; acquisition, distribution, sales costs; processing/operating costs (including costs for the management of insurance cover); cost part of biometric risk premiums; other administrative costs; costs of holding capital (recurring part to be disclosed insofar as they are charged); any amount implicitly charged on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.); payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including portfolio transaction costs).

**On-going costs insurer (manufacturer)** On-going costs that are not expenses or costs incurred for the remuneration of the fund/asset manager or listed under the definition of "on-going costs asset manager" below, but at the level of the insurer themselves. Examples of on-going costs of the insurer: structuring or marketing costs, acquisition, distribution costs borne by the insurer, sales costs, operating costs, biometric risk premium costs.

This costs is further broken down in costs related to:

Administration

Biometric risk costs

Distribution

**Costs of biometric risk premium** As defined in the PRIIPs Delegated Regulation. Biometric risk premiums are those premiums paid directly by the retail investor or deducted from the amounts credited to the mathematical provision or from the participation bonus of the insurance policy, that are intended to cover the statistical risk of benefit payments from insurance coverage. Please note that the biometric risk premium costs are not the same as the full biometric risk premium except where the insurer has decided not to distinguish between the two.

**On-going costs asset manager** Insurance undertaking's payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (excluding including portfolio transaction costs). Part of the on-going costs, charged by the investment manager to cover the costs of running the fund. Any amount implicitly charged by the asset manager/ service provider on the amount invested such as the costs incurred for the management of the investments of the insurance company (deposit fees, costs for new investments, etc.). Encompasses management fee as

well as fees paid to other service providers such as the fund's custodian, auditor and regulator. More in detail, it includes all payments to the management company of the fund, directors of the fund if an investment company, the depositary, the custodian(s), any investment adviser; to outsource services such as providers of valuation and fund accounting services, shareholder service providers such as the transfer agent and broker dealers that are record owners of the fund's shares and provide sub-accounting services to the beneficial owners of those shares, providers of collateral management services, providers of prime-brokerage services, securities lending agents, providers of property management and similar services; registration charges, listing fees; regulatory charges and similar charges, including passporting fees; provisioned fees for specific treatment of gain and losses; audit fees; payments to legal and professional advisers; any costs of distribution or marketing of the fund, to the extent that the amount is known to the management company; financing costs, related to borrowing (provided by related parties); costs of capital guarantee provided by a third party guarantor; the value of goods or services received by the management company or any connected person in exchange for placing of dealing orders. It excludes explicitly transaction costs and performance fees.

- Transaction costs** As defined in the PRIIPs Delegated Regulation. Payments by the asset manager to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset in the fund's portfolio calculated following the methodology defined in PRIIPs Delegated Regulation. Transaction costs are part of the on-going costs, however they are not part of the "on-going costs asset manager". Transaction costs shall be calculated on an annualised basis, based on an average of the transaction costs incurred by the PRIIP over the previous three years, where possible.
- Performance fee** As defined in the PRIIPs Delegated Regulation. A performance-related fee payable to the management company calculated following the methodology defined in PRIIPs Delegated Regulation.
- Distribution costs** Costs that are borne by the insurer in order to cover the intermediary 'remuneration', by commission, charge or other payment, including an economic benefit of any kind or any other financial or non-financial advantage or incentive offered or given in respect of insurance distribution activities. When the costs vary, please provide the maximum level of commission. This excludes fees paid by the consumer for the remuneration of the intermediary (fee-based distribution).
- Distribution costs can be part of one-off costs, on-going costs or both.

**Wrapper costs** In the context of a MOP (see below definition), the wrapper costs are the costs of the insurer (both on-going and one-off) that are not borne to cover the underlying fund's costs.

**NAV-based return (unit-linked products)** A return based on the difference between the NAV values in different points of time  $[(NAV_2 - NAV_1)/NAV_1]$ .

In unit-linked products invested in pooled investment products (UCITS), the value of the share/unit is expressed in Net Asset Value (NAV). The NAV is calculated by taking the gross assets and subtracting accrued liabilities including the fees payable to the management company and all other receivables and payables. The normally daily calculation of the NAV per share (unit) consists in dividing at the end of the day the NAV of the fund by the shares (units) outstanding. It is in effect the realisable value of each unit/share of the fund, and often the performance of units in a unit-linked insurance contract will reflect directly the NAV of the underlying funds. Additional costs may be charged at the level of the insurance contract itself, while the insurer may receive a proportion of the ongoing charges made by the fund (which are already reflected in the NAV) to cover distribution and other costs, or to be offered as rebates to the customer.

Although there is no fully detailed specification of the specific costs to be used for the NAV, it is common practice in the investment management industry to present the NAV returns of pooled investments net of all the management costs (on-going charges, including transaction costs, and performance fees), except for the entry costs (front load fees) and implicit transaction costs.

**Fund distribution** Dividends or capital gains of the fund (unit-linked).

**Regular bonus (profit participation product)** The annual return of a Profit Participation product is defined as the regular (annual) profit participation bonus also called profit participation rate or total credited rate, technical interest or lock-in bonus, defined by the undertakings each year. This might include a pre-guaranteed profit participation

**Terminal bonus (profit participation product)** A final bonus that might be added when the profit participation policy matures.

## OTHER DEFINITIONS

**Product** A product is defined as an insurance contract that is still open on 1 January 2018 for new premiums, and a KID has been issued for that contract. The definition of product covers all the possible variants of a product: one product covers both variants for single and regular

premiums and the variants for a the range of individual RHP that can be applicable to this product. Each of the variants for different RHP or Single/Regular premiums are variants of the product. Undertakings were requested to select the variant that prevails the most concerning RHP and single premium. Excluded products from the sample were: some endowment policies; disability and occupational disability products; immediate annuities and funeral products.

<b>Gross Written Premium (GWP)</b>	The GWP figures provided is for the period from 1 January 2013 until 31 December 2017, and cover only premiums paid up till 31 December 2017. The amount is expressed in Euro.
<b>Gross Written Premium of Variant</b>	The GWP of the variant relates to the GWP of a specific variant of the product which is defined by the type of premium (single/regular) and the duration of the RHP.
<b>Recommended Holding Period (RHP)</b>	The RHP as mentioned in the KID. When different RHP variants were possible within a product, undertakings were requested to select the age cohort that prevails the most.
<b>Domestic insurance undertakings operating domestically</b>	Insurance undertakings with head office located in that Member State, operating in the home market.
<b>Domestic insurance undertaking operating FoS/FoE</b>	An insurance undertaking with head office located in that Member State but operating in other Member States under Freedom of Establishment or Freedom of Service.
<b>Unit-linked product (UL)</b>	A category of life insurance where the benefits are wholly or partly determined by reference to the value of or the income from property of any description (e.g. mutual fund) or by reference to fluctuations in, or in an index of, the value of property of any description. These include mostly unit-linked 'MOPs' but some may not offer choices as the underlying investments.
<b>Multi-Option Product (MOP)</b>	Multi-Option Product as defined in Article 10 PRIIPs Delegated Regulation. A MOP can be composed of pure UL fund or a mix of UL and PP funds.
<b>With profit participation product (PP)</b>	Long-term insurance contract which provides benefits through, at least in part, eligibility to participate materially in periodic discretionary distributions based on profits arising from the insurance undertaking's business or from a particular part.
<b>Hybrid MOP</b>	These may offer a choice on underlying investments, or not, but in all cases combine unit-linked and products with profit participation parts.

## Annex IV – IBIPs detailed results

### Returns of unit linked and profit participation products

All risk categories, all premiums

	2013	2014	2015	2016	2017
UL rG	10.04%	8.45%	3.16%	3.13%	3.67%
UL rNAV	8.97%	7.37%	2.07%	1.96%	2.49%
UL rNET	8.64%	7.04%	1.73%	1.65%	2.18%
PP rG	3.88%	3.74%	3.92%	2.94%	2.97%
PP bonus	2.89%	2.73%	2.81%	1.85%	1.88%
PP rNET	3.33%	3.17%	3.29%	2.30%	2.32%

### Inflation (source of data Eurostat, extracted 30.10.2018)

GEO/TIME	2013	2014	2015	2016	2017
European Union (current composition)	1.0	-0.1	0.2	1.2	1.7
Belgium	1.2	-0.4	1.5	2.2	2.1
Czechia	1.5	0.0	-0.1	2.1	2.2
Germany	1.3	0.0	0.2	1.7	1.6
Estonia	2.0	0.1	-0.2	2.4	3.8
Ireland	0.3	-0.3	0.2	-0.2	0.5
Spain	0.3	-1.1	-0.1	1.4	1.2
France	0.8	0.1	0.3	0.8	1.2
Croatia	0.5	-0.1	-0.3	0.7	1.3
Italy	0.6	0.0	0.1	0.5	1.0
Cyprus	-1.3	-1.0	-0.6	0.1	-0.4
Lithuania	0.5	-0.1	-0.2	2.0	3.8
Luxembourg	1.5	-0.9	0.9	1.6	1.6
Hungary	0.6	-0.8	1.0	1.8	2.2
Malta	1.0	0.4	1.3	1.0	1.3
Netherlands	1.4	-0.1	0.5	0.7	1.2

Austria	2.0	0.8	1.1	1.6	2.3
Poland	0.6	-0.7	-0.4	0.9	1.7
Portugal	0.2	-0.3	0.3	0.9	1.6
Finland	1.9	0.6	-0.2	1.1	0.5
Sweden	0.4	0.3	0.7	1.7	1.7
United Kingdom	2.0	0.5	0.2	1.6	3.0

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