2021 COST AND PAST PERFORMANCE REPORT

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COST AND PAST PERFORMANCE REPORT

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EXECUTIVE SUMMARY

In line with the European Commission's Request[1] to the European Supervisory Authorities (ESAs) to periodically report on the cost and past performance of retail investment products, this report provides an analysis of costs - for the year 2019 – and past performance – for the period 2015-2019. The products within scope for this iteration of the report by European Insurance and Occupational Pensions Authority (EIOPA) are: Insurance-based Investments Products (IBIPs) and Personal Pension Products (PPPs).

The report covers the European Union (EU) markets until 2019 and excludes UK, being most of the analysis based on ad-hoc data collection developed after the UK Brexit final decision.

While the focus is 2019, some general considerations on the impact of COVID-19 on the retail investment market are also presented. Given the extent of the crisis, some preliminary considerations are drawn as the length and depth of the crisis raises a number of issues with regard to the costs and performance of retail investment products. Beyond possible illiquidity risks, market shocks have indeed impacted returns and in the longer terms costs.

The findings presented are based on a sample covering:

- More than 680 IBIPs being marketed by over 160 insurance undertakings covering the 60% of the European IBIP market; and
- More than 210 PdPPs marketed by 69 insurance undertakings representing circa 1.4 million of contracts.

IBIPs

Following general financial market trends, 2019 was characterized by an extremely positive year for the IBIPs market. Unit-linked products overall performed better than profit participation products and hybrids. A consumer investing € 10,000 in January 2015 in a putative unit-linked product would have achieved, after costs, a net value of € 11,450 (2.7% per year) in December 2019. For the same time frame, an investment of € 10,000 in an average profit participation product would have paid a net value of € 10,706 (1.4% per year). For hybrid products the net value at the end of 2019 would have been € 11,122 (2.1% per year)[2], in nominal terms[3].

The difference in net return is explained by the structural differences in the level of costs and return volatility of the mentioned products. While the level of costs is generally stable and in line with findings of the previous editions of this report, exposure to risky assets and volatility for unit-linked and hybrid products is much higher than profit participation products. Buying unit-linked products consumers can reach higher net profits in case of favourable market scenarios while being exposed to negative returns in less

positive market developments. Looking at last year's data it could be observed that a putative consumer investing over the years 2014-2018 would have had a higher return with a profit participation product because of the protection offered during the 2018 market contraction.

While profit participation products offer 'stability', their performance after costs is low throughout the reference period. In particular when considering the impact of inflation, the value offered to consumers has been, on average, very little in real terms, though this is also true for other comparable financial instruments with conservative investment profiles, due to the European low interest yield environment.

Trends at Member States level differ. However, given the overall broader market stability, 2019 data confirms more homogeneous trends with respect to last year both in term of past performance and costs.

In terms of costs, profit participation products continue being cheaper (1.5%) than unit-linked (2.5%) and hybrid (2.1%), in terms of reduction in yield (RIY) at recommended holding period (RHP).

Amongst the different drivers of net performance and costs level analysed – by market, risk classes, recommended holding period and premium frequency, it can be observed that:

- the clearer driver of performance for unit-linked products was the risk level, while the main factor for profit participation products was the recommended holding period.
- Hence, riskier unit-linked products and longer term profit participation products paid higher net return in the years 2015-2019.

From a 'value for money' perspective, some trade-offs need to be considered in terms of returns and costs for hybrid products. In fact, while generally they have a higher degree of complexity because combining different option with different features, in case of positive market trends, on average terms, they show significantly lower profitability than unit-linked products. On a five years basis the median net return of hybrid was 2.1% vs. 2.7% of unit-linked, while being more expensive than profit participation products, 2.1% vs. 1.5%.

Finally in terms of costs composition, administrative costs continue being the most predominant driver of costs, often representing more than half of the total costs paid by consumers, followed by investment management costs and distribution costs. Biometric costs are minor costs elements.

PPPs

PPP similar to unit-linked (PPP-UL) showed higher average yearly returns but also higher volatility in comparison with PPP similar to profit participation (PPP-PP), 3.5% vs. 1.4%. PPP-UL net returns were also higher than the IBIPs unit-linked, 3.5% vs. 2.7%. However, trends in the net return and costs of personal pension products are similar to those observed for IBIPs: higher average yearly annual return but also higher volatility for PPP-UL in comparison with PPP-PP.

Challenges due to the lack of harmonization are still relevant with particular regard to the costs analysis.

Longer recommended holding periods were also identified as a driver of extra performance, in particular in relation to product similar to profit participation. Being pension products, by their nature, characterized by longer time duration the relation is more marked than in IBIPs.

Amongst different Members States trends in net return were homogenous, with PPP-UL net return in 2019 being extremely positive.

Similarly to the previous year reports, the costs level of personal pension products in terms of reduction in yield at recommended holding period were lower for PPP-UL than for IBIPs, being 1.9% (vs 2.5%). For PPP-PP the costs were similar to IBIPs, being 1.6% (vs. 1.5%).

Looking ahead, regarding both IBIPs and pension products, EIOPA plans to continue working on the costs standardization and methodology refinements to better address the challenges still in place, mainly on costs standardization and on hybrids. EIOPA also plans to further develop the preliminary and high level consideration of IORPs now presented and to start including some analysis on costs and performance of ESG products.

EUROPEAN SUPERVISORY AUTHORITIES REPORTS: PREVIOUS EDITIONS

To enhance transparency and ameliorate investor protection, the three European supervisory authorities (ESAs) publish reports on the performance and costs of retail investment products, in their remits on an annual basis. A summary of the key findings of the reports published in 2019 and 2020 is provided below, with the view of providing the necessary background, highlighting market developments, and outlining the enhancements of the 2021 report.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

EIOPA's 2019[4] and 2020[5] reports focus on net performance and costs of insurance-based investment products (IBIPs) and of personal pension products (PPPs) over the period 2013-2017 and 2014-2018. In summary, based on collected data, the reports highlight that:

- Higher risk classes for both unit-linked and profit participation products experienced, on average, higher net returns, despite higher costs. Also, returns' volatility was higher.
- Considering their nature, while unit-linked products offered higher returns, they also directly expose policyholders to market shocks. Therefore, while on average, they outperformed profit participation products over the period 2013-2017, due to the considerable market drop in 2018, past performance of profit participation products was higher than past performance of unit-linked products over the period 2014-2018, showing how profit participation products can smooth risks for consumers.
- Costs for profit participation products were generally lower than for unit-linked products. In particular:
  - Other ongoing[6] costs are higher for unit-linked products and represent the most prominent cost components.
  - Exit costs at maturity are marginal for both products.
  - Administrative costs are the most prominent costs, followed by distribution costs. Investment management costs are lower.
- Market coverage of the 2020 report increased to 57% (EUR 311bn in GWP) from 21% for the first edition of the report, (EUR 104bn in GWP). Data granularity for unit-linked products is greater than for profit participation and hybrid products, highlighting not only that data for unit-linked products is more reliable but also that for unit-linked products market transparency and comparability is higher.

- For Personal Pension Products (PPPs) offered by insurance undertakings the lack of a harmonized framework for transparency requirements hinders the comparability of the results. However the trends identified are generally similar to IBIPs with PPPs-UL having significantly higher volatility than PPPs-PP. The 2020 results were based on the analysis of ca. 110 products representing 940,000 contracts.

EUROPEAN SECURITIES AND MARKET AUTHORITY (ESMA)

The 2019 and 2020 reports[7] highlight the high impact of costs on the final returns of retail investors. The costs paid by retail investors are significantly higher than those paid by institutional investors, leading to lower net returns for this category of investors. Key findings of the 2020 report are:

- The volatility in returns across time is high. Average UCITS gross performance was lower than 0.2% in 2018, while it was 8.3% in 2017, for one-year investments.
- UCITS costs remained broadly stable and only marginally declined over time. For one-year investments, costs were 1.5% in 2018 compared to 1.6% in 2017. If gross annual performance is lower, the cost impact on final returns is stronger.
- The impact of costs on the final value of a retail investment was significant. A hypothetical ten-year retail investment of EUR 10,000 in equity, bond and mixed funds provided a net return of EUR 16,160 for the period 2009-2018, with costs at EUR 2,800.
- Higher risk exposures entail higher costs irrespective of the asset class.
- For the period 2009-2018, in the sample under analysis, the gross outperformance of active, compared to passive and ETFs UCITS, was not high enough to compensate for the higher costs charged by active UCITS.
- There is limited comparability across Member States. Heterogeneity and data availability issues persisted.
- The estimated NAV of retail alternative investment funds (AIFs) was around EUR 5.8tn. Retail AIF were 16% of the AIF market.
- For retail AIFs, gross returns in 2018, given the poor performance across asset classes, were negative for those AIFs on which retail investment concentrates: -2.1% for funds of funds and - 3.3% for the category Other.
- The lack of data for SRPs constrained the analysis on costs and performance.

INTRODUCTION

In line with the European Commission's[8] request to regularly monitor and report on cost and past performance and to fulfil the tasks outlined in Article 9[9] of EIOPA's founding Regulation, the aim of the work presented in this report is to offer a broad and comparative overview of the (past) performance and costs of retail investment products – within EIOPA's remit – with the aim of increasing transparency and comparability, to further enhance participation in capital markets.

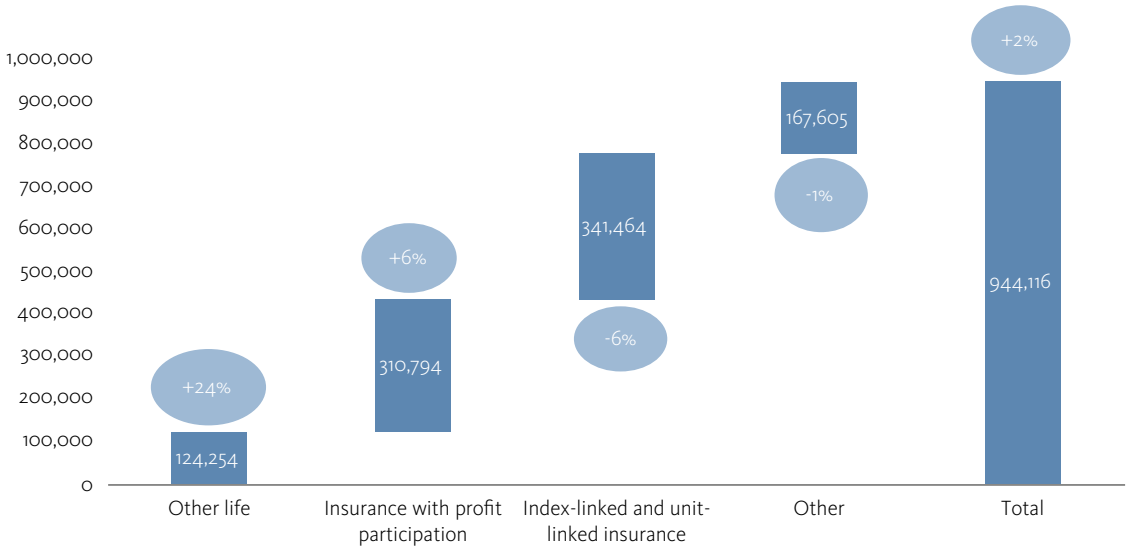
In line with the agreed upon methodology (Annex I), the analysis is based on data available in standardized disclosures – in particular the Key Information Documents (KID) for IBIPs. However, given the absence of data on past performance and the lack of a legal requirement to disclose information with a PRIIPs KID template on all the products in scope, EIOPA also carried out a market-wide survey to collect the relevant information.

1. MARKET OVERVIEW IN 2019

In 2019 the performance of the European financial markets strongly rebounded from the 2018 'market correction', despite volatility remaining high because of the uncertainties on trade negotiations, political developments, Brexit and concerns about the global economy. The positive financial performance contributed to the overall profitability of European insurers in 2019, which notwithstanding the challenging environment, improved their margins[10].

At the end of 2019, a majority of Member States in the EEA reported a limited increase in life insurance GWP, which grew by 1.8%, when compared with the end of 2018. Growth has been mainly led by a 23.9% increase in the 'other life' insurance line of business and a 6.1% increase in the 'insurance with profit participation' line of business. Following the 42% growth in 2017, index-linked and unit-linked insurance business decreased the second consecutive year. However, the 'index-linked and unit-linked' insurance line of business still remains the largest single life line of business (Figure 1)[11].

Figure 1 - EEA life insurance GWP in € million for selected lines of business — 2019

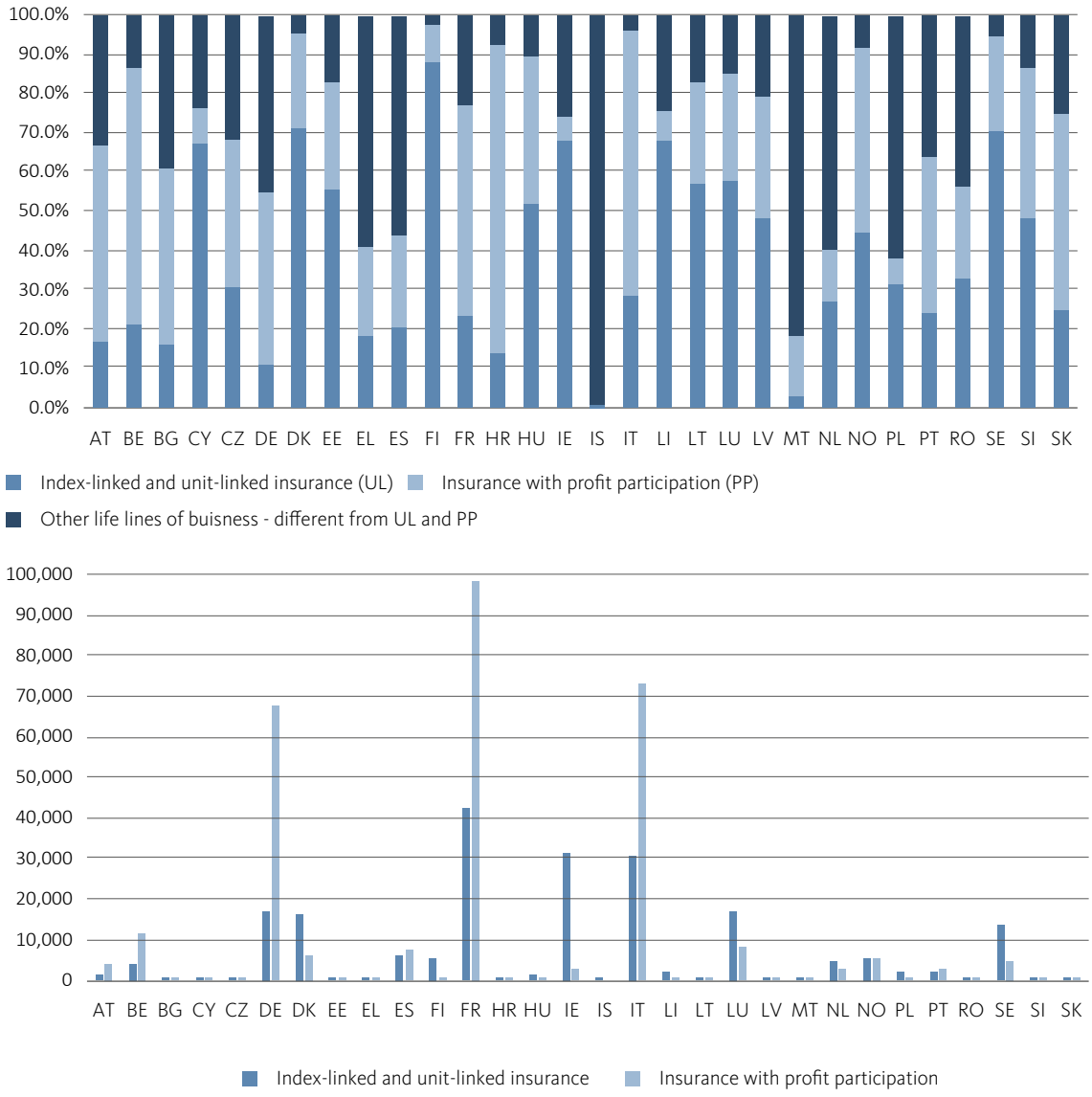


Source: Solvency II Database

An analysis at the Member State level shows significant differences in the split of GWP amongst the most relevant life lines of business as well as the size of the life insurance market is also diverse (Figure 2).

Although the analysis presented refers to Solvency II lines of business, considering the retail perspective of this report, the rest of this analysis is focused on retail products, with the aim of highlighting key trends from a consumers' perspective. Hence, it is important to highlight that at times there may be a difference between lines of business and products. For example, in the absence of a specific reporting line, premium collected for hybrid products – combining a unit-linked and a profit participation component – is often split between the index-linked and unit-linked line of business and the with profit participation line of business.

Figure 2 - GWP by line of business per country – as a percentage of total life insurance GWP (above) and as absolute value in € million (below) - 2019



Source: Solvency II Database

BOX 1

OVERVIEW ON HYBRID PRODUCTS

With the increasing shift from traditional profit participation products to products with less guarantees, hybrid products - mixing a traditional component with a unit-linked component - are becoming more and more common. This products, if adequately designed, should allow consumers to seek higher yields, whilst not being fully exposed to market shocks, and insurers to limit their exposure whilst still offering some guarantees.

In the absence of a formal definition, hybrid products can be defined as products combining different forms of capital guarantees and offering different levels of exposure to market volatility. Beyond these two aspects hybrid products can be presented in many different ways. For example, hybrid products can be:

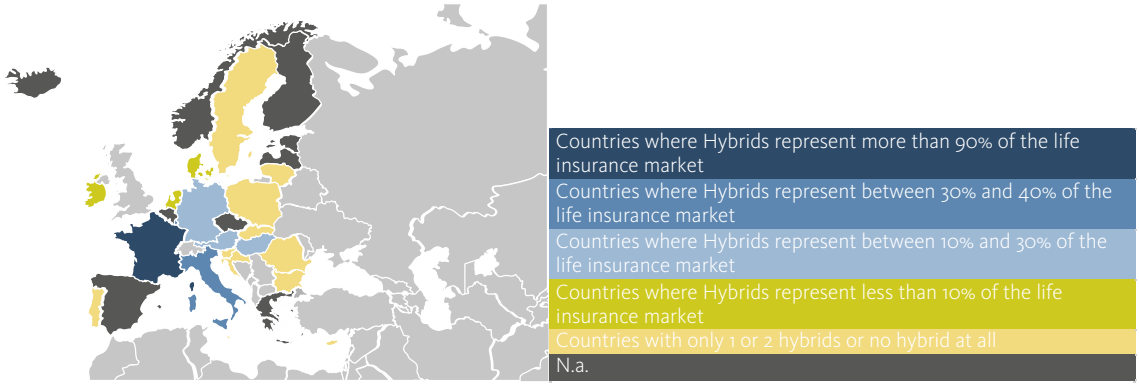
- Unit-linked products with a guaranteed component which offers to repay to the policyholder a defined percentage of the total premium paid (gross or net of costs);
- Unit-linked products with different guaranteed components, triggered only when certain conditions are met, including when the return may be lower than a pre-defined amount;
- Profit participation products which offer the possibility to gain extra returns by exposing part of the capital to market volatility;
- Multi-option products where the allocation of the premium paid between profit participation products and unit-linked products can be customized by the policyholder.

Despite the high diversity in terms of product offerings, there is a common understanding on the notion of hybrid products at European level, i.e. a product combining both features of unit-linked and profit participation products.

Source: EIOPA survey to the Committee on Consumer Protection and Financial Innovations on hybrid products

Hence, when specific references are made to GWP in this report, it is important to bear in mind that in some markets hybrid products have a significant presence: FR (more than 90%), IT and LU (between 30% and 40%), AT, HU, DE (between 10% and 30%)[12].

Figure 3 – Hybrid products in Europe



Source: Committee on Consumer Protection and Financial Innovations – questionnaire on hybrid products

2. COVID-19: INITIAL CONSIDERATIONS ON POSSIBLE IMPACTS FROM A CONSUMER PERSPECTIVE

The COVID-19 outbreak has had and continues having a significant impact on the insurance and pension sectors both from a prudential perspective, directly impacting profitability, and a consumer protection standpoint. Changes in consumers' behaviours, a possible increased liquidity need and the initial market shocks are examples of impact on consumers. The continued prolonged interest rate environment will also have an impact.

This increases some of the existing risks for consumers, surfacing possible issues. In fact, beyond possible illiquidity risks and lower returns caused by the initial market shocks, the length and depth of crisis raise a number of issues with regard to the costs and performance of retail investment products.

As presented in the 2020 Consumer Trend Report[13], the sharp fall in asset prices observed in March 2020, which was accompanied by redemptions from some investment funds and a deterioration in financial market liquidity, raised some concern of detrimental outcome for consumers. In fact, while for profit participation products shocks may have been smoothed because of their deferred profit allocation mechanism, for hybrid and unit-linked products returns may have been significantly impacted and the liquidity of some underlyings may have been temporarily impaired.

Moreover, as the crisis persists some existing structural problems may surface:

- On one hand, consumers may start to surrender their policies earlier, surfacing possible issues relating to a mismatch between actual and expected returns because of the features (e.g., complex fee structure) of some IBIPs.
- On the other hand, expected lower returns and market volatility can also further exacerbate existing problems in the medium to long term, heightening the impact that high costs can have.
- Similarly, as consumer may surrender their policy earlier because of liquidity needs, especially in instances of mis-selling, high surrender penalties may have a significant impact. In fact, if products are not adequately targeted and sold taking into account consumers' liquidity needs, products with longer recommended holding periods may be sold to consumers with limited liquidity, surfacing issues relating to high surrender penalties.

Lapse/surrender risk has indeed been considered with 'medium materiality' in many of the European markets[14]. The information collected on penalties/surrender costs are limited to few products[15], but it has been observed that surrender costs/penalties and more generally exit costs, despite being null or close to zero at the recommended holding period (RHP), are relevant in case of early surrender/lapse. An analysis of selected products from which surrender information were available shows that, usually, surrender costs are between 1% and 5% of the value of the insurance contract at the point in time of the surrender. Generally, these costs tend to decrease over time, hence the later the surrender happens the lower is the impact, being extremely high at product inception – and generally during the first five years - to then smoothly

decrease. In less frequent cases a fixed costs is charged. In some other instances, there are no surrender costs at all.

Some risks related to this costs are also due to less transparent disclosure, as the corresponding KID cost item, the "exit costs", refers to the exit costs at recommended holding period, hence basically zero, not capturing the impact of such costs at different point in time.

Providers highlighted that the main impact of COVID-19 on IBIPs and on PPPs was the decrease in the equity valuation, which despite the robust rebound of the second half of the 2020 still represents a source of risk. On the bonds' market the picture reported was more mixed: on one hand slightly improved valuation were achieved due to a further decrease in the interest rates, on the other hand the rating downgrade of debt instruments counterbalanced this effect.

Manufacturers reported that unit-linked contracts backed by riskier assets, such as high yield debt, equities, and emerging market assets, were, and still are, the most exposed products. They also expect these products to remain very volatile in 2021.

During the crisis manufacturers were pushed towards more defensive investment strategies, reducing the exposure to some volatile asset classes to minimize the loss in the short run. Hence, in the medium to long term the impact of the COVID-19 crisis will also be observed on profit participation and hybrid products, leading to lower amounts of total credit rate/profit participation component to be paid to the policyholder. In fact, while the amount of total credit rate/profit participation component corresponding to the year 2020 was, in general, already defined, preventing a sudden negative market effect, the impact may be observed in the coming years.

In relation to costs, no important changes have been reported to costs structures and cost levels. Only a few undertaking reported the following costs variations, which in both cases will have a negative effect on consumers:

- increase in transaction costs, due to higher bid-ask spread because of the increase in the illiquidity risk of some assets;
- higher reduction in yield for the one-off costs figures, due to a lower expected return in the moderate scenario of the PRIIPs KID.

However, if the short term impact on costs is negligible, in the long run, some concerns on the costs structure are raised. Due to the COVID-19 outbreak the volume of new business has decreased and the pressure on undertakings' profitability could likely result in costs increases. This could also trigger a lower allocation of credit rate on products with guarantees (pure profit participation or hybrids products).

Similar issues were reported for pension products, for which, however, because of the long-terms nature impact may be less obvious.

INSURANCE BASED INVESTMENT PRODUCTS (IBIPs)

1. MARKET COVERAGE

160 undertakings from 26 Members States[16] participated in the 2021 Cost and Past Performance exercise. In order to ensure data quality and comparability, more than 680 products have been analysed: 437 unit-linked, 90 profit participation and 156 hybrid products.

In this work the notion of 'product' follows a consumer perspective – i.e., it looks at how products are perceived by consumers. Hence in case of multi-options products, an investment option (or a combination of a limited number of investment options) plus the wrapper (i.e. the insurance package used to carry the investment options) are considered as a single product. This perspective, can differ from the manufacturer's point of view where a product can be seen as all the possible investments options available plus the wrapper.

In terms of GWP all insurance undertakings which provided data for one or more products account for:

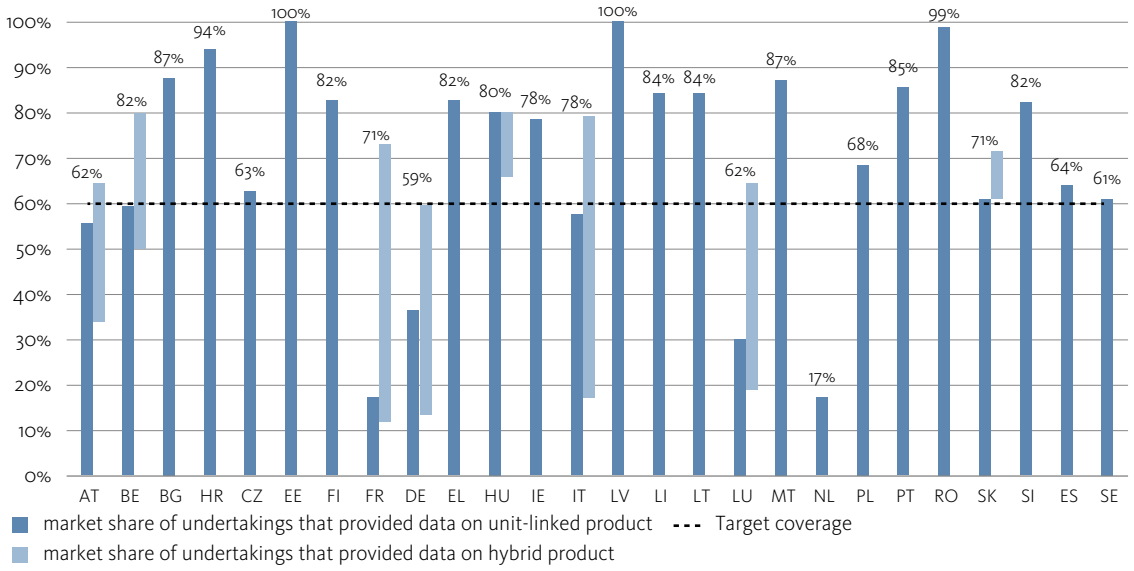
- 57% of the European unit-linked market;
- 62% of the European with-profits participation market;

This is in line with the target to achieve at least 60% market coverage.

For unit-linked insurance, the target has been achieved for all Member States which provided data, with the exception of the Netherlands, where the coverage achieved only relates to the sole insurance undertaking still selling IBIPs[17] (Figure 4).

The market coverage represents the market share in GWP terms of the undertakings whose products have been submitted and analysed in this work and it should be read in conjunction with the relevance of the different products in each European market (Figure 2). Hybrid products are generally unbundled in the unit-linked and profit participation reporting so the charts give evidence of the market share of the undertakings whose hybrid products have been analysed jointly with the unit-linked (Figure 4) and profit participation products (Figure 5)[18]. In some market, i.e. France and Luxemburg, the inclusion of hybrid products was crucial to achieve the target coverage. Indeed in these Member States hybrid products are predominant. In Italy, Austria and Germany while being very common, they are an alternative to the traditional 'pure' profit participation products or unit-linked products.

Figure 4 - Percentage of market coverage achieved – unit-linked and hybrid products[19]

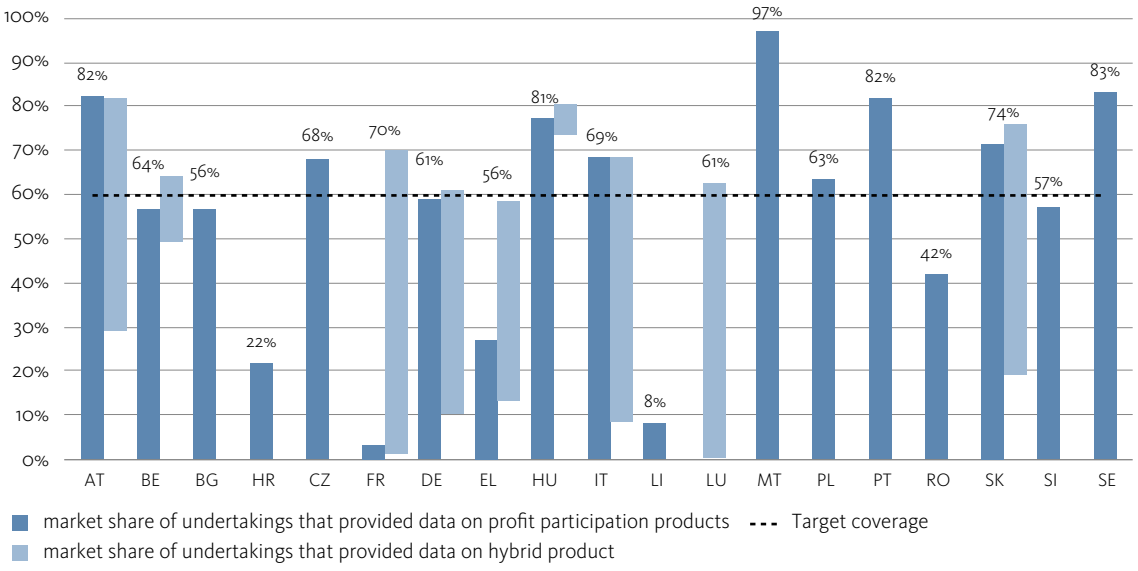


Source: Solvency II Database

For profit participation products (Figure 5), considering that for Bulgaria, Greece, and Slovenia the market coverage achieved is only slightly below the 60% threshold, the target coverage has been reached in the majority of the countries. The exception are:

- Croatia, because the residual percentage of profit participation products is not IBIPs,
- Romania, where the missing coverage is due to run-off business which has not been reported, and
- Liechtenstein, where however the profit participation market is very small as shown Figure 2.

Figure 5 - Percentage of market coverage achieved – profit participation and hybrid products[20]



Source: Solvency II Database

2. NET RETURN

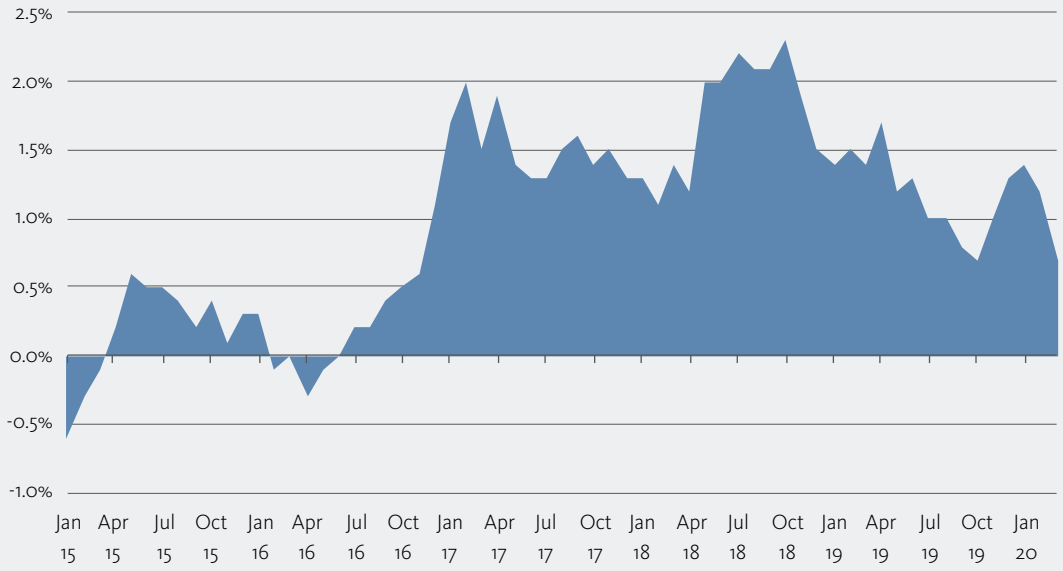
In past years, net returns of unit-linked products showed high volatility offering consumers high gains during positive market trends while exposing them to risky downturns during periods of economic turbulence. Profit participation products, conversely, are designed to smooth such volatility. The following analysis aims at highlighting the trends and the differences between such products in nominal terms. However, in the long term inflation has also an impact on the ultimate consumer outcome. Inflation over the longer term impacts 'real' returns of investments and consumers can find it difficult to assess or take into account its effect. Given that some insurance-based investment products can be whole of life or very long term, this can be a relevant factor.

BOX 2

INFLATION TREND IN EUROPE

The analysis presented in the report is in nominal terms, being the inflation an exogenous factor, outside the control of manufacturers and to a certain extent also from Members States actions. In the last five year the inflation was low but still positive (Figure 6). Nevertheless, the European inflation trends and those amongst Members States are represented below because ultimately impacting consumers' outcomes in the long run hence while interpreting the results provided, a limited but still definite impact of the inflation should be taken into account.

Figure 6 - Inflation as HICP main components (annual % changes), EEA and Member States level



Source: ECB, Eurostat

	2015	2016	2017	2018	2019	2020
EEA	0.1%	0.3%	1.7%	1.9%	1.5%	0.8%
Austria	0.8%	1.0%	2.2%	2.1%	1.5%	1.4%
Belgium	0.6%	1.8%	2.2%	2.3%	1.3%	0.4%
Bulgaria	-1.1%	-1.3%	1.2%	2.6%	2.5%	1.2%
Cyprus	-1.5%	-1.2%	0.7%	0.8%	0.5%	-1.1%
Czech Republic	0.3%	0.7%	2.4%	2.0%	2.6%	3.3%
Germany	0.7%	0.4%	1.7%	1.9%	1.4%	0.4%
Denmark	0.2%	0.0%	1.1%	0.7%	0.7%	0.3%
Estonia	0.1%	0.8%	3.6%	3.4%	2.3%	-0.6%
Spain	-0.6%	-0.3%	2.0%	1.7%	0.8%	-0.3%
Finland	-0.1%	0.4%	0.8%	1.2%	1.1%	0.4%
France	0.1%	0.3%	1.2%	2.1%	1.3%	0.5%
Greece	-1.1%	0.0%	1.1%	0.8%	0.5%	-1.3%
Croatia	-0.2%	-0.6%	1.3%	1.5%	0.8%	0.0%
Hungary	0.1%	0.5%	2.4%	2.9%	3.4%	3.4%
Ireland	0.0%	-0.2%	0.3%	0.7%	0.9%	-0.5%
Italy	0.1%	0.0%	1.3%	1.3%	0.7%	-0.1%
Lithuania	-0.7%	0.7%	3.7%	2.5%	2.2%	1.1%
Luxembourg	0.1%	0.0%	2.1%	2.0%	1.6%	0.0%
Latvia	0.2%	0.1%	2.9%	2.6%	2.8%	0.1%
Malta	1.2%	0.9%	1.2%	1.7%	1.5%	0.8%
Netherlands	0.2%	0.1%	1.3%	1.6%	2.7%	1.1%
Poland	-0.7%	-0.2%	1.6%	1.2%	2.1%	3.7%
Portugal	0.5%	0.6%	1.6%	1.2%	0.3%	-0.1%
Romania	-0.4%	-1.0%	1.1%	4.1%	3.9%	2.4%
Sweden	0.7%	1.1%	1.9%	2.0%	1.7%	0.7%
Slovenia	-0.8%	-0.2%	1.6%	1.9%	1.7%	-0.3%
Slovakia	-0.3%	-0.5%	1.4%	2.5%	2.8%	2.0%

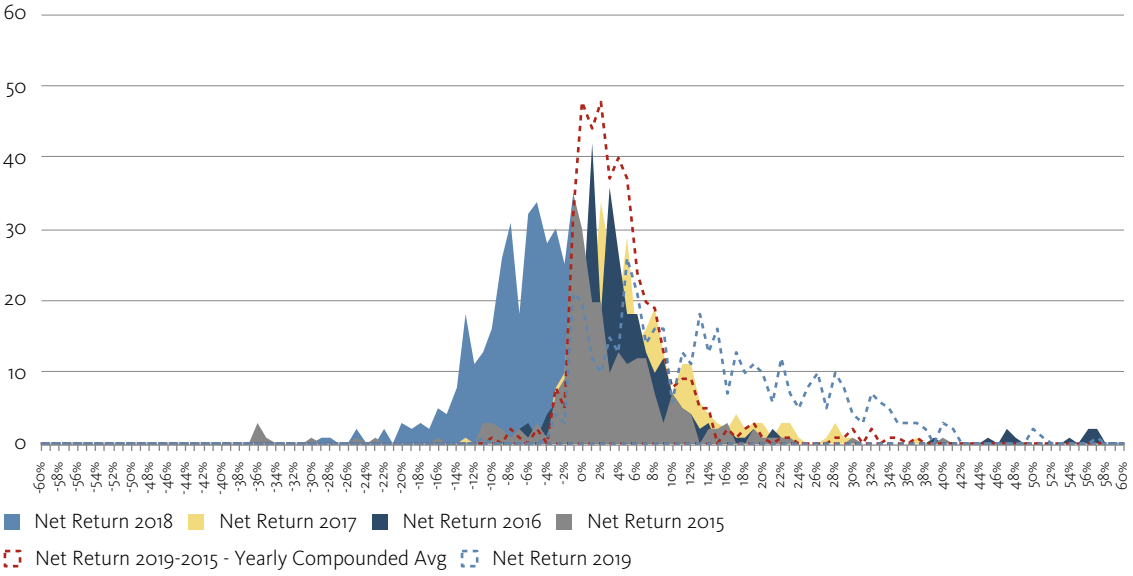
Source: ECB, Eurostat

Unit-linked products (Figure 7) in 2019 reported extremely high returns, recovering the loss of the previous year, with a median return of all 11.4%. On average, an investor buying a unit-linked product in 2015 would have achieved a net return of 2.7% per year, hence, thanks to the remarked positive performance of 2019, unit-linked outperformed profit participation products. However a standard deviation in the range of 6.2% and 11.5% was also measured for the same time frame. Given the nature of unit-linked products, policyholders could receive very diverse investment outcome.

On the other hand, profit participation products (Figure 8) continue to offer stable, despite generally low, returns. On average, over the past 5 years, profit participation products have been paying policyholders slightly more than 1% each year with a much more homogeneous and less volatile sample. However, bearing in mind the impact of the inflation, in real terms, the value provided by these products, similarly to other financial instruments with a conservative investment profile, resulted to be very low, if not even negative, due to the European low interest yield environment.

In 2019 the net return distribution of unit-linked had a positive skew, more remarked than for profit participation products. Similarly, in 2018, the unit-linked distribution was far more negative exposed than for profit participation products.

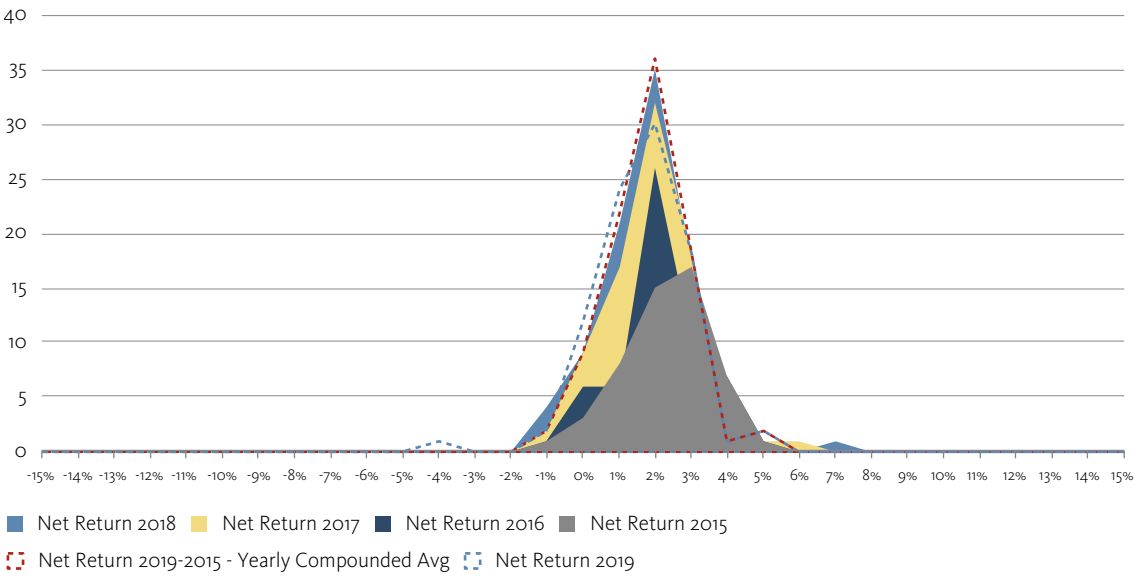
Figure 7 - Net return distribution of unit-linked products between the years 2019 – 2015



Source: Cost and past performance survey

	Net return 2019	Net return 2018	Net return 2017	Net return 2016	Net return 2015	Net return compounded 2019-2015
Median Net Return	11.4%	-5.9%	3.8%	2.8%	0.9%	2.7%
Average Net Return	13.2%	-6.4%	5.1%	4.9%	1.4%	4.0%
St dev	11.4%	5.7%	6.9%	9.8%	8.7%	6.1%
25% percentile	4.2%	-9.7%	0.5%	0.3%	-1.4%	0.3%
75% percentile	21.2%	-2.4%	8.0%	6.1%	5.3%	6.0%

Figure 8 - Net return distribution of profit participation products between the years 2019 – 2015

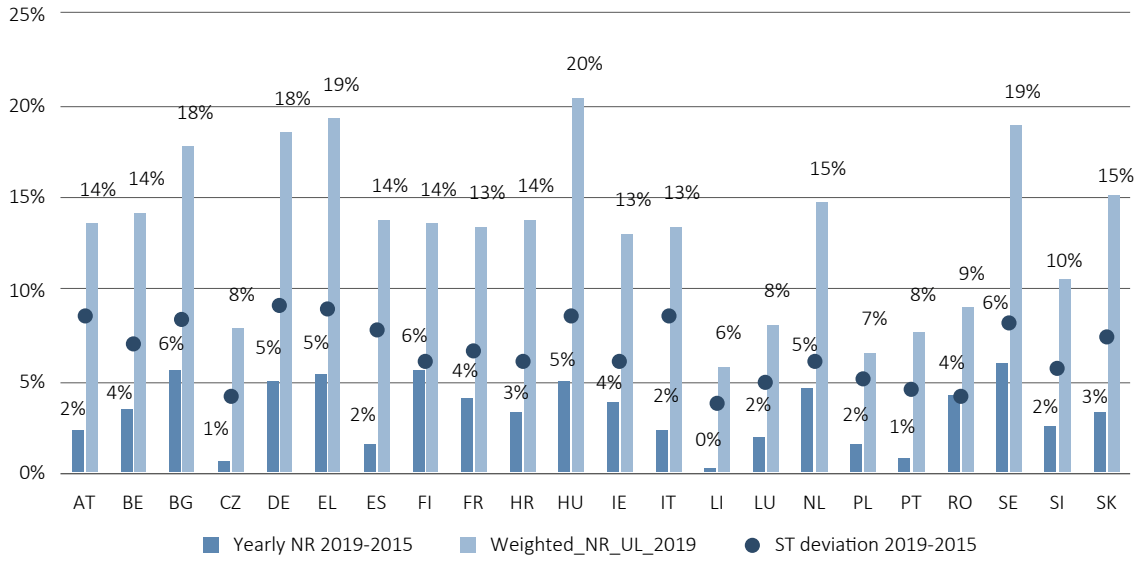


Source: Cost and past performance survey

	Net return 2019	Net return 2018	Net return 2017	Net return 2016	Net return 2015	Net return compounded 2019-2015
Median Net Return	1.2%	1.3%	1.3%	1.5%	1.9%	1.4%
Average Net Return	1.1%	1.2%	1.4%	1.6%	1.8%	1.3%
St dev	1.2%	1.2%	1.2%	1.3%	1.2%	1.1%
25% percentile	0.6%	0.6%	0.8%	1.0%	1.1%	0.6%
75% percentile	1.9%	1.9%	2.1%	2.4%	2.4%	2.0%

While there was a diversity of net return amongst different markets, unit-linked products had a considerable positive return in all countries in 2019 – in 16 markets, the average return was above 10%. On the contrary, on average in the previous years a much lower - but still positive – return was achieved. The average annual yearly compounded net return ranged between 0% and 6% with Bulgaria, Finland and Sweden, reporting the highest and Liechtenstein reporting the lowest return. The standard deviation measured in each market was also high, and the markets were the highest standard deviation was measured are also those with higher past net returns.

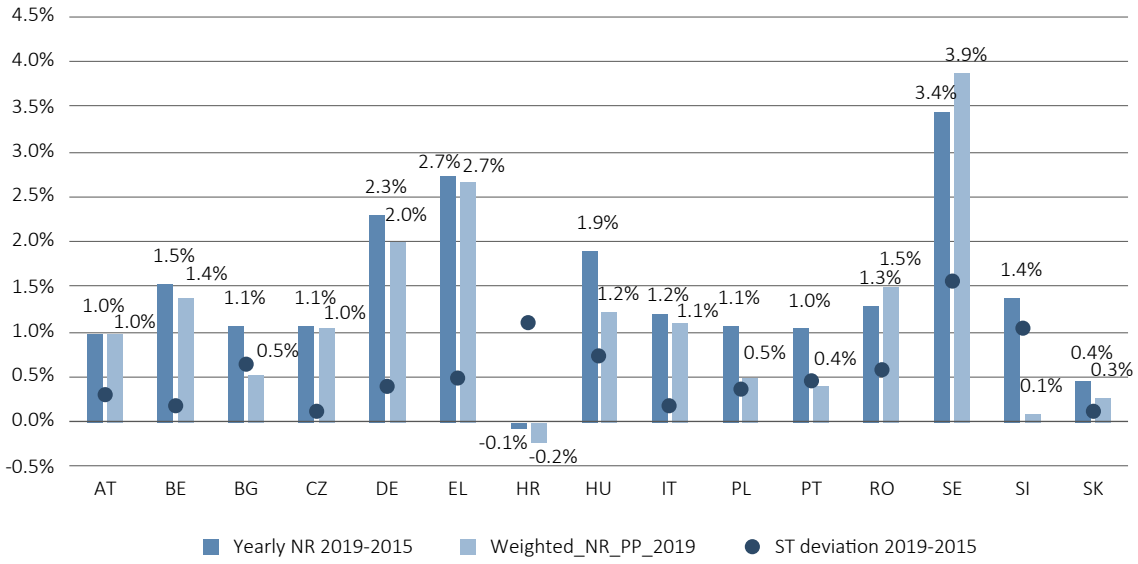
Figure 9 - Unit-linked products GWP weighted average net return by Member State – 2019-2015[21]



Source: Cost and past performance survey

The profit participation market (Figure 10) was characterised by stable but lower net returns in all Members States. A small decrease over time is observed, this is possibly driven by a decreasing technical interest rates across the European insurance sector. The compounded yearly net return of the last five years is indeed close to the 2019 net return. In 2019, with the exception of one country, profit participations' net returns were positive in all European markets. However, differently from the trend of unit-linked products the 2019 performance was not higher than that achieved in the previous year – with the only exception for Romania and Sweden. A possible explanation of this can be that the smoothing mechanism of profit participation on one hand softened the loss of 2018, when the market turbulence where much higher, on the other hand prevented a full exploitation of the positive trend of the financial market in 2019. Indeed both Romania and Sweden registered in 2018 a more limited loss than other Member States allowing the possibility to allocate a greater stake of profit in 2019.

Figure 10 - Profit participation products GWP weighted net return by Member State[22]



Source: Cost and past performance survey

The tables below are meant to complement the reading of the results shown. The number of products analysed jointly with the market coverage represented in Figure 4 and Figure 5 are informative of the representativeness of the analysis carried out.

The diversity in net average returns across different markets, cannot be explained by differences in features. In fact, the sample of product submitted was diversified in terms of risk classes, premium frequency and recommended holding period to avoid that concentration of some features could mislead the reading of the results by Member States.

Table 1 - Number of products analysed, standard deviation and GWP weighted net return by Member State of unit-linked (above) and profit participation products (below)

UL								
Country	**N.of products**	**ST deviation 2019-2015**	**Yearly NR 2019-2015**	**Weighted_ NR_UL_2015**	**Weighted_ NR_ UL_2016**	**Weighted_ NR_UL_2017**	**Weighted_ NR_ UL_2018**	**Weighted_ NR_ UL_2019**
AT	22	9%	2%	-5%	6%	9%	-9%	14%
BE	13	7%	4%	3%	5%	4%	-7%	14%
BG	6	8%	6%	3%	2%	12%	-6%	18%
CZ	7	4%	1%	-2%	2%	1%	-5%	8%
DE	34	9%	5%	5%	7%	6%	-10%	18%
EL	16	9%	5%	5%	4%	9%	-8%	19%
ES	38	8%	2%	0%	1%	5%	-10%	14%
FI	19	6%	6%	4%	11%	3%	-3%	14%
FR	10	7%	4%	2%	8%	4%	-6%	13%
HR	6	6%	3%	3%	3%	2%	-5%	14%
HU	18	8%	5%	1%	2%	7%	-5%	20%
IE	36	6%	4%	5%	3%	5%	-6%	13%
IT	27	8%	2%	-4%	11%	2%	-9%	13%
LI	9	4%	0%	-4%	-4%	3%	-1%	6%
LU	12	5%	2%	4%	3%	1%	-7%	8%
NL	2	6%	5%	4%	6%	2%	-4%	15%
PL	21	5%	2%	-3%	4%	7%	-5%	7%
PT	14	5%	1%	1%	-1%	3%	-6%	8%
RO	9	4%	4%	5%	1%	8%	-2%	9%
SE	29	8%	6%	-1%	10%	7%	-3%	19%
SI	20	6%	2%	3%	4%	3%	-7%	10%
SK	12	7%	3%	2%	2%	6%	-8%	15%

Source: Cost and past performance survey

PP Country	N.of products	St deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_PP_2015	Weighted_ NR_ PP_2016	Weighted_ NR_PP_2017	Weighted_ NR_ PP_2018	Weighted_ NR_ PP_2019
AT	7	0.3%	1.0%	0.9%	0.4%	1.3%	1.2%	1.0%
BE	8	0.2%	1.5%	1.9%	1.4%	1.5%	1.5%	1.4%
BG	6	0.6%	1.1%	1.9%	1.8%	0.6%	0.5%	0.5%
CZ	4	0.1%	1.1%	1.2%	0.9%	1.1%	1.1%	1.0%
DE	11	0.4%	2.3%	2.8%	2.6%	2.0%	2.0%	2.0%
EL	4	0.5%	2.7%	2.3%	3.5%	2.9%	2.2%	2.7%
HR	2	1.1%	-0.1%	-1.1%	-1.4%	1.3%	1.1%	-0.2%
HU	5	0.7%	1.9%	3.3%	2.0%	1.6%	1.4%	1.2%
IT	14	0.2%	1.2%	1.5%	1.0%	1.1%	1.1%	1.1%
PL	4	0.4%	1.1%	1.4%	1.3%	1.4%	0.8%	0.5%
PT	7	0.5%	1.0%	1.7%	1.2%	1.1%	0.7%	0.4%
RO	5	0.6%	1.3%	2.1%	0.6%	0.6%	1.6%	1.5%
SE	2	1.6%	3.4%	1.1%	2.4%	4.3%	5.6%	3.9%
SI	3	1.0%	1.4%	2.9%	2.1%	1.3%	0.5%	0.1%
SK	4	0.1%	0.4%	0.6%	0.4%	0.4%	0.4%	0.3%

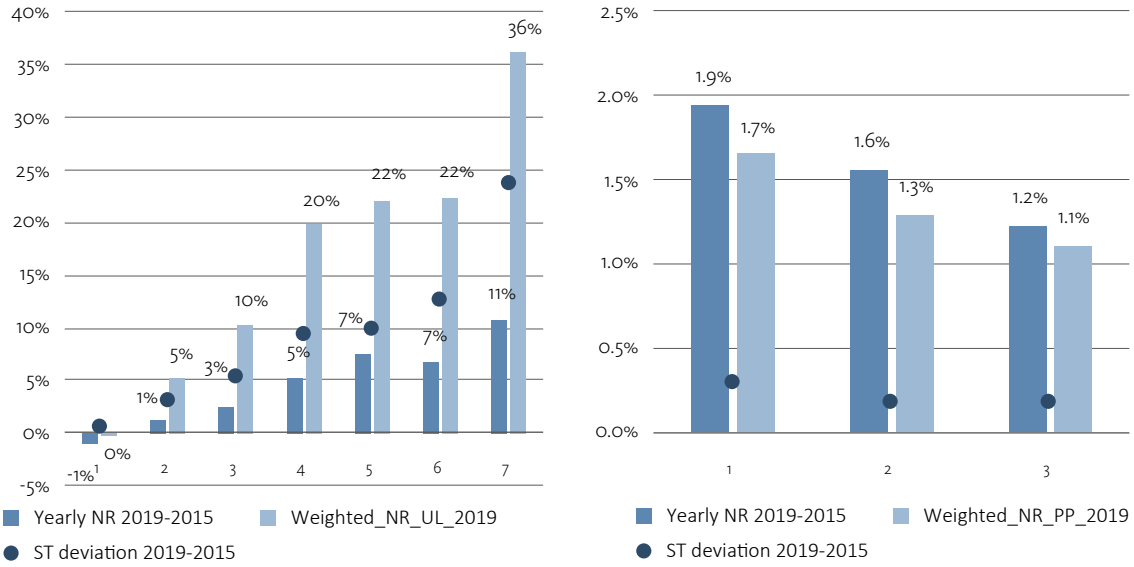
Source: Cost and past performance survey

In relation to the net return achieved by unit-linked products per risk class it is interesting to highlight the positive correlation between risk class, standard deviation and level of net return:

- Higher risk classes have higher standard deviation and higher net return.
- This happened both when considering the 2019 year and when looking at the average yearly compounded return during the years 2015-2019.

On the other hand, the correlation results are negative for profit participation products. This is most likely due to the fact that profit allocation mechanisms are designed to correct market volatility so that it is possible to achieve positive net returns without taking riskier exposure. Also the difference in the level of the net returns is little. The risk classes with the highest number of products reported for unit-linked are risk class 2, 3 and 4 while for profit participation products the risk class 1 and 2 are much more representative than the risk class 3 (Table 2). It is also notable that the standard deviation of net returns from unit-linked products belonging to risk class 7 were very high (23%), almost double than the risk class 5 and 6. However the five years net return is only slightly higher, hence the reward for the risk taken in the class 7 appears to be worse than for products belonging to classes 5 and 6 (Figure 11).

Figure 11 - GWP weighted Net return per risk class for unit linked (left) and profit participation products (right)[23]



Source: Cost and past performance survey

Table 2 - Number of products analysed, standard deviation and weighted net return by risk class of unit-linked (above) and profit participation products (below)

UL

Kid Risk Class	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_UL_2015	Weighted_ NR_ UL_2016	Weighted_ NR_UL_2017	Weighted_ NR_ UL_2018	Weighted_ NR_ UL_2019
1	39	1%	-1%	-1%	-1%	-1%	-2%	0%
2	88	3%	1%	2%	2%	2%	-4%	5%
3	109	5%	3%	3%	3%	4%	-6%	10%
4	92	9%	5%	4%	6%	7%	-9%	20%
5	57	10%	7%	8%	5%	12%	-8%	22%
6	37	13%	7%	-3%	21%	6%	-10%	22%
7	16	23%	11%	-15%	45%	7%	-7%	36%

PP

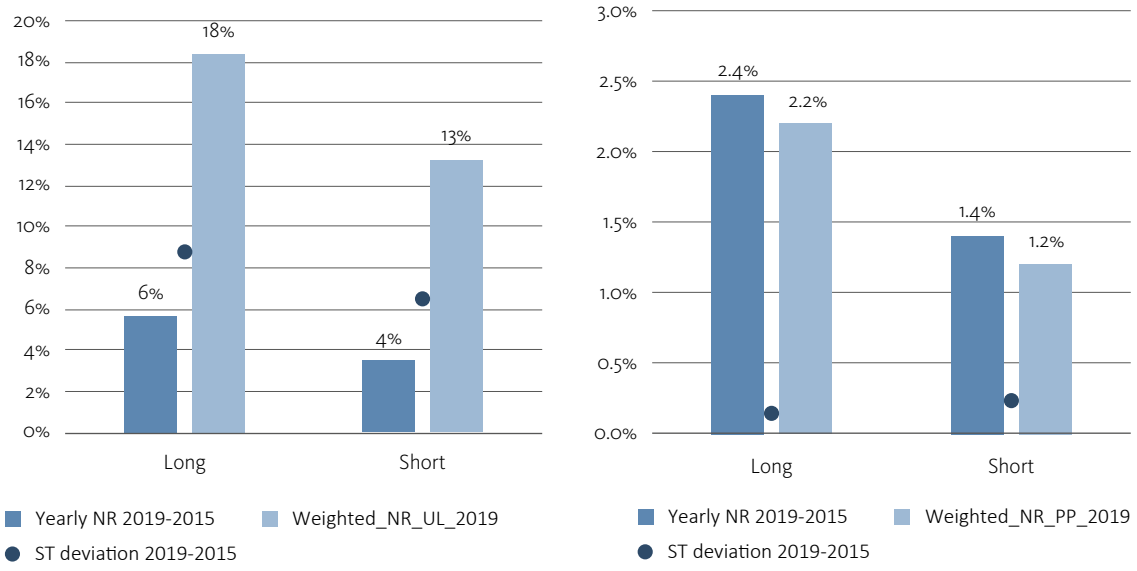
Kid Risk Class	N.of products	St deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_PP_2015	Weighted_ NR_PP_2016	Weighted_ NR_PP_2017	Weighted_ NR_PP_2018	Weighted_ NR_PP_2019
1	39	0.3%	1.9%	2.4%	2.1%	1.8%	1.7%	1.7%
2	34	0.2%	1.6%	1.7%	1.7%	1.6%	1.5%	1.3%
3	13	0.2%	1.2%	1.4%	1.4%	1.3%	0.9%	1.1%

Source: Cost and past performance survey

In relation to the correlation between the level of net return and the product duration (Figure 12) - i.e. the recommended holding period (RHP) - the sample of products has been divided in two clusters: the products with a 'long' duration, greater or equal than 15 years, and those with a 'short' duration, whose RHP is shorter than 15 years.

Products designed with a longer RHP proved to pay a higher net return for both unit-linked and profit participation due to the impact of higher costs for products with shorter RHP. This finding is valid along all the years of the analysis. For profit participation products the correlation between RHP and net return is particularly remarkable. Indeed, as shown in Figure 8, at aggregate European level the median return of profit participation products was smaller than 2%, therefore the longer duration can be interpreted as a relevant driver of the over performance of some products with respect to the EEA average (Figure 12).

Figure 12 - GWP weighted net return per recommended holding period for unit linked (left) and profit participation products (right)



Source: Cost and past performance survey

Table 3 - Number of products analysed, standard deviation and weighted net return by recommended holding period of unit-linked (above) and profit participation products (below)

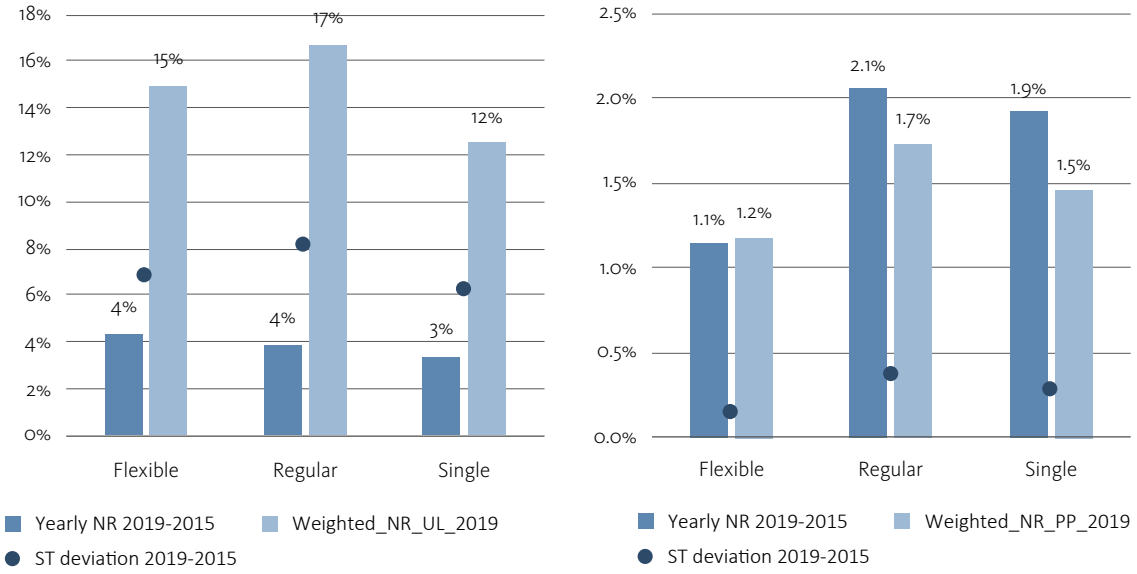
UL								
RHP	**N.of products**	**ST deviation 2019-2015**	**Yearly NR 2019-2015**	**Weighted_ NR_UL_2015**	**Weighted_ NR_ UL_2016**	**Weighted_ NR_UL_2017**	**Weighted_ NR_ UL_2018**	**Weighted_ NR_ UL_2019**
Long	117	8.7%	5.6%	3.3%	10.7%	5.5%	-8.0%	18.3%
Short	320	6.3%	3.5%	1.2%	6.0%	4.4%	-6.2%	13.2%

PP								
RHP	**N.of products**	**ST deviation 2019-2015**	**Yearly NR 2019-2015**	**Weighted_ NR_PP_2015**	**Weighted_ NR_PP_2016**	**Weighted_ NR_PP_2017**	**Weighted_ NR_PP_2018**	**Weighted_ NR_PP_2019**
Long	41	0.1%	2.4%	2.7%	2.4%	2.4%	2.4%	2.2%
Short	49	0.1%	2.4%	1.8%	1.5%	1.3%	1.2%	1.2%

Source: Cost and past performance survey

Finally, when considering the net return of unit-linked and profit participation products by premium frequency no strong correlation is noticed. However, regular premium products achieved a higher net return both when considering the 2019 net return and also the previous years of analysis (Figure 13).

Figure 13 - GWP weighted net return per premium frequency for unit linked (left) and profit participation products (right)



Source: Cost and past performance survey

Table 4 - Number of products analysed, standard deviation and weighted net return by premium frequency of unit-linked (above) and profit participation products (below)

UL

Premium frequency	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_UL_2015	Weighted_NR_UL_2016	Weighted_NR_UL_2017	Weighted_NR_UL_2018	Weighted_NR_UL_2019
Flexible	157	7%	4%	2%	7%	5%	-6%	15%
Regular	118	8%	4%	1%	5%	6%	-8%	17%
Single	162	6%	3%	1%	6%	4%	-6%	12%

PP

Premium frequency	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_PP_2015	Weighted_NR_PP_2016	Weighted_NR_PP_2017	Weighted_NR_PP_2018	Weighted_NR_PP_2019
Flexible	15	0.1%	1.1%	1.4%	1.0%	1.1%	1.0%	1.2%
Regular	48	0.4%	2.1%	2.6%	2.4%	1.8%	1.7%	1.7%
Single	27	0.3%	1.9%	2.3%	2.1%	2.0%	1.8%	1.5%

Source: Cost and past performance survey

To complement the picture on the net return of European products, an analysis on the past performance of hybrid products is also presented, bearing in mind the popularity of these product in some markets.

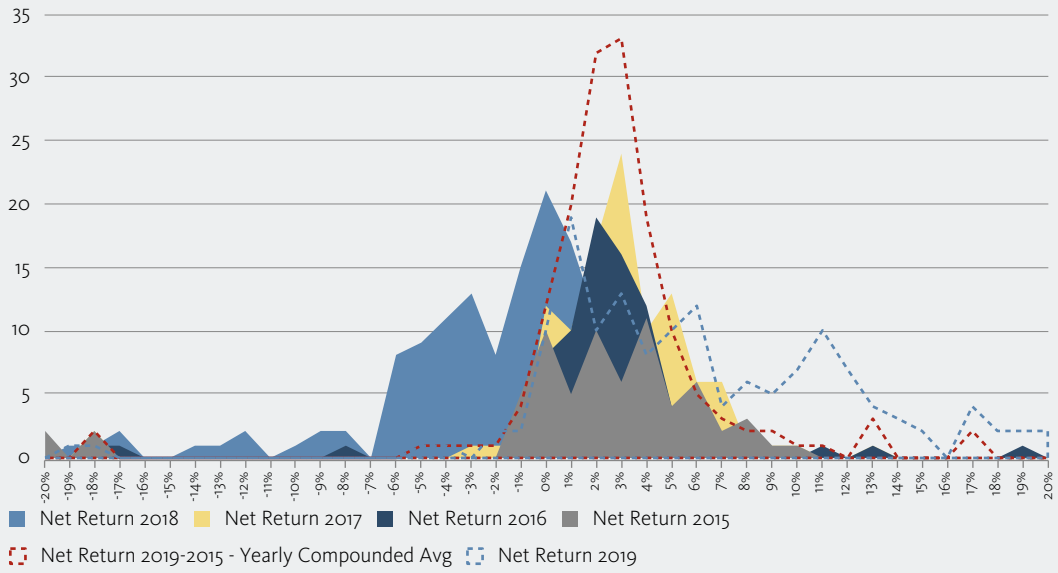
BOX 3

FOCUS ON NET RETURN OF HYBRID PRODUCTS

An analysis of more than 150 hybrid products belonging to 9 Members States shows that:

1) Overall a consumer buying a hybrid product in 2015 would have gained, at the end of 2019, an annual compounded return of 2.1%. 2019 was the most positive year, with a median net return of 5.0% while 2018 was the year where the highest loss were incurred and the median net return was -1.6%. Not surprisingly these results are a balanced representation of the results observed for the unit-linked and profit participation market (Figure 14), hence given the positive market performance in 2019, a consumer would have been better off buying a 'pure' unit-linked product.

Figure 14 - Net return distribution of hybrid products between the years 2019-2015

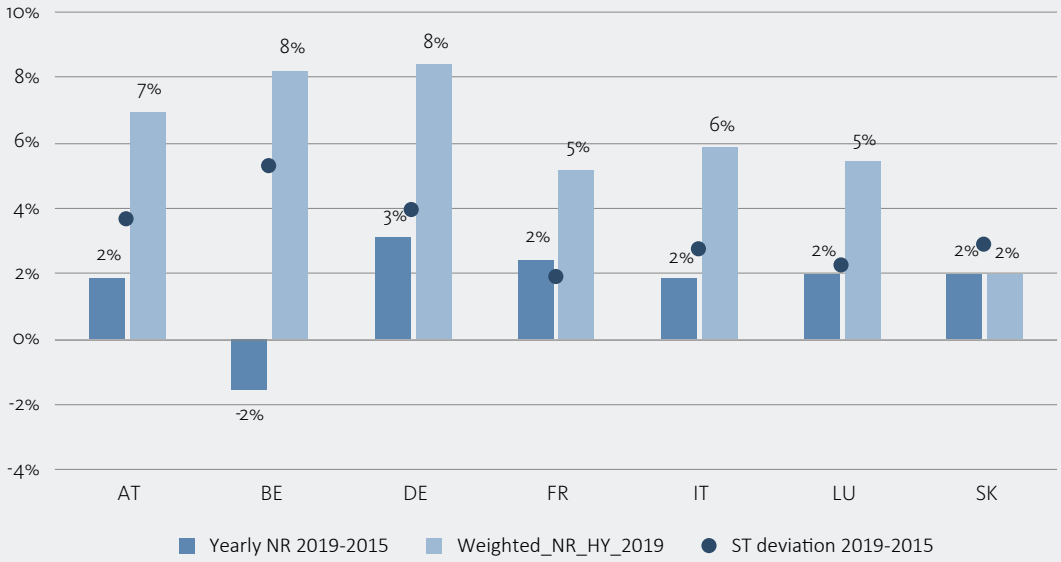


	Net return 2019	Net return 2018	Net return 2017	Net return 2016	Net return 2015	Net return compounded 2019-2015
Median Net Return	5.0%	-1.6%	2.4%	2.0%	2.0%	2.1%
Average Net Return	6.4%	-2.6%	2.8%	3.1%	0.6%	2.3%
St dev	7.4%	4.5%	5.4%	8.9%	8.7%	4.0%
25% percentile	1.1%	-4.4%	1.0%	0.7%	-0.1%	0.8%
75% percentile	10.5%	0.3%	4.4%	3.2%	4.0%	3.6%

Source: Cost and past performance survey

2) A country level analysis[24] (Figure 15) shows that the results achieved by the different countries are homogeneous and positive and with a limited standard deviation. However on a 5 years basis the net return are equal or even lower than the return achieved by unit-linked products (Figure 9).

Figure 15 - Hybrid products GWP weighted average net return by Member State – 2019-2015



HY Country	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_ HY_2015	Weighted_ NR_ HY_2016	Weighted_ NR_ HY_2017	Weighted_ NR_ HY_2018	Weighted_ NR_ HY_2019
AT	21	4%	2%	3%	1%	3%	-4%	7%
BE	21	5%	-2%	-7%	-2%	0%	-6%	8%
DE	21	4%	3%	0%	6%	4%	-3%	8%
FR	43	2%	2%	3%	3%	2%	-1%	5%
IT	26	3%	2%	1%	2%	3%	-3%	6%
LU	14	2%	2%	3%	2%	1%	-2%	5%
SK	7	3%	2%		3%	7%	-1%	2%

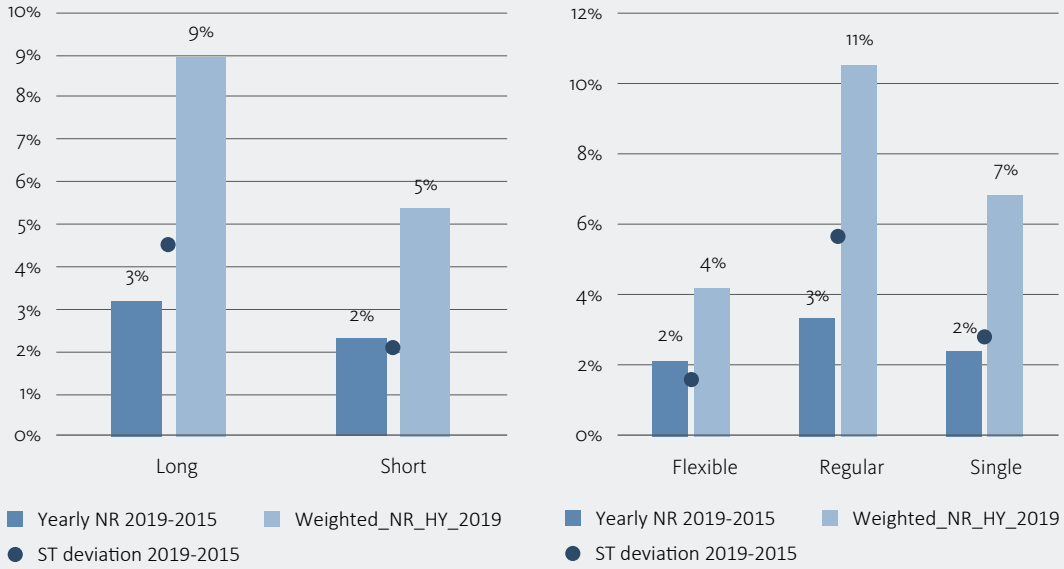
Source: Cost and past performance survey

3) Drawing conclusion on the relation between the level of net returns and the risk class of the hybrid products has not been possible because of the multi options nature of hybrid products. For only 38 of the 156 products analysed a combined reporting was provided (and hence with single risk class) – while all the remaining products are a combination of unit-linked and profit participation underlying investments which are mixed on an ad-hoc basis by consumers[25].

However of the 38 products, for which a combined reporting was shared, 20 belong to the risk class 1 and 2 and reported a slightly lower return in 5 years average terms than those belonging to the risk class 4, 5 and 6 so confirming a possible positive correlation between risk and return in hybrid products.

4) In the hybrid market, as for unit-linked and profit participation products, the correlation between longer RHP and higher net return has been confirmed. Similarly also the net return for regular premium products is higher than the return registered for single and flexible premium products.

Figure 16 - GWP weighted net return per recommended holding period (left) and premium frequency (right) for hybrid products



Country	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_HY_2015	Weighted_NR_HY_2016	Weighted_NR_HY_2017	Weighted_NR_HY_2018	Weighted_NR_HY_2019
Long	35	5%	3%	0%	7%	4%	-3%	9%
Short	120	2%	2%	2%	3%	2%	-1%	5%

Country	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_HY_2015	Weighted_NR_HY_2016	Weighted_NR_HY_2017	Weighted_NR_HY_2018	Weighted_NR_HY_2019
Flexible	50	2%	2%	3%	3%	2%	-1%	4%
Regular	37	6%	3%	-1%	8%	5%	-5%	11%
Single	69	3%	2%	2%	2%	3%	-2%	7%

Source: Cost and past performance survey

3. COSTS

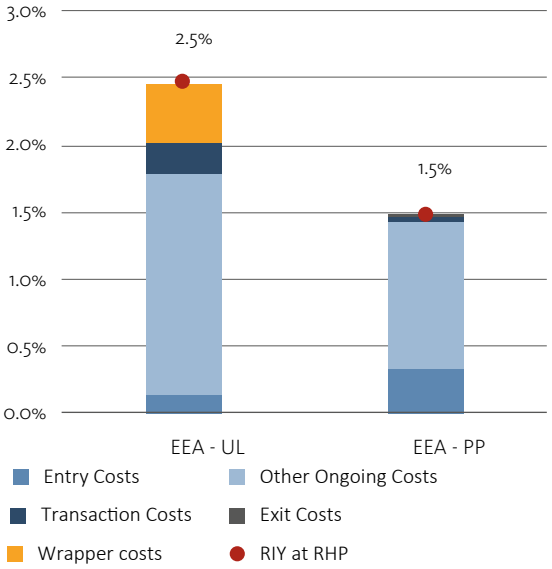
Similarly to the findings on net return, the results stemming from the costs analysis are dependent on the sample based approached in place, hence informative on the extent of the coverage achieved. Conclusions on the analysis on costs should be interpreted bearing in mind that comparability across products is not entirely accurate. In particular, costs concerning multi-option products may not be precise because sometimes options are UCITS funds investment for which different disclosure requirements under the UCITS regulation are in place. In many instances, there is a generic cost information disclosed as a range in the PRIIPs KID while option level costs are disclosed pursuant to the UCITS regulation, which unlike PRIIPs Regulation does not require to disclose transaction costs nor performance fees in the KIID, and further the presentation differs with respect to the PRIIPs KID regulation. In preparing this report efforts were made to address these issues, including data quality checks, 'conversions' between UCITS disclosures and equivalent reduction in yields (RIYs) and the explicit data collection of 'wrapper costs' - costs that are not at the option level but are ultimately paid by consumers because part of the insurance product as a whole. These costs, when the information is disclosed as range in the generic KID may not always be easily identifiable. Therefore these methodological challenges could slightly lower the comparability of the costs breakdown, without however affecting the comprehensiveness of the total costs.

For coherence reasons, the sample of products considered for the costs analysis is also the same used in the net return section, hence the number of products for each cluster – aggregation at EEA, by Member states, risk classes, RHP and premium frequency is the same as the one presented for the net return consideration.

Overall, on average, as in previous years, profit participation products are less costly than unit-linked products - 2.5% vs. 1.5%, measured in Reduction in Yield (RIY) at recommended holding period (RHP). Like in past years, other ongoing[26] costs are the most prominent cost element followed by entry costs and wrapper costs[27], limited to unit-linked ad exit costs are dismissible (Figure 17).

Looking at surrender value, from a consumer perspective, entry costs, despite less marked than other costs components are however relevant. In fact, regardless of the point in time the consumers exit their contracts – upon maturity or before – entry costs, being by definition charged immediately, always impact the final consumers' outcome.

Figure 17 - GwP weighted average RIY of costs at recommended holding period for unit-linked and profit participation products



Source: Cost and past performance survey

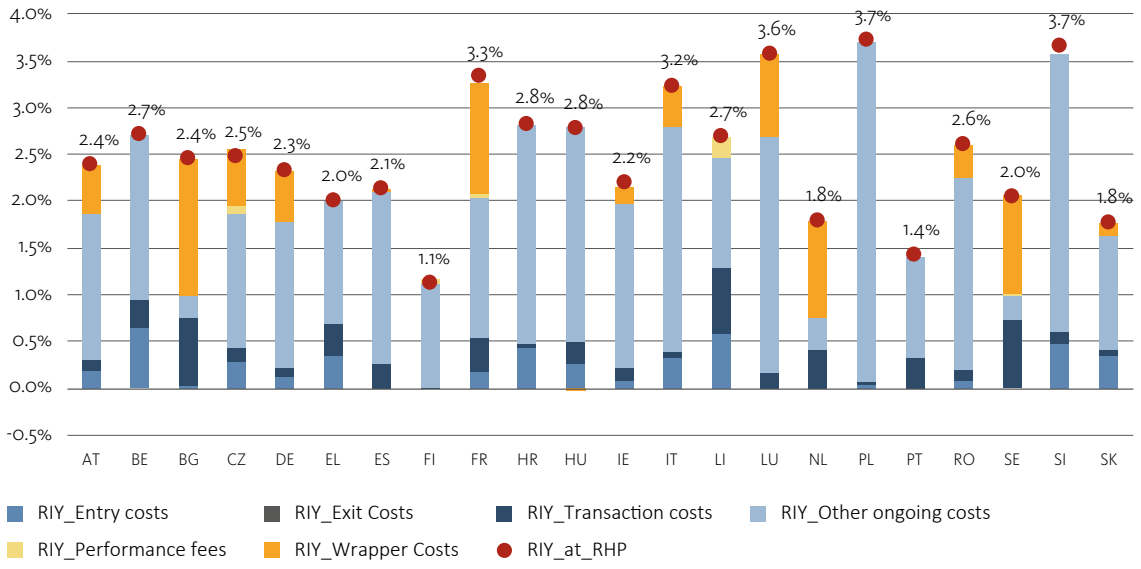
	EEA - UL	EEA - PP
Entry Costs	0.1%	0.3%
Other Ongoing Costs	1.7%	1.1%
Transaction Costs	0.2%	0.0%
Exit Costs	0.0%	0.0%
Wrapper costs	0.4%	0.0%
RIY at RHP	**2.5%**	**1.5%**

Similarly to the analysis carried out for the net returns, the following study presents a comparison between the level of the total costs, expressed in reduction in yield terms at recommended holding period (RIY at RHP), by Member States, risk classes, products' recommend holding period and premium frequency.

When comparing costs levels by Member States, all the products submitted in each market were considered, without differencing for duration, premium frequency or risk class. The analysis aims at the considering the impact of each different factor on a singular basis. The sample of products in each market is diversified in terms of risk class premium frequency and duration.

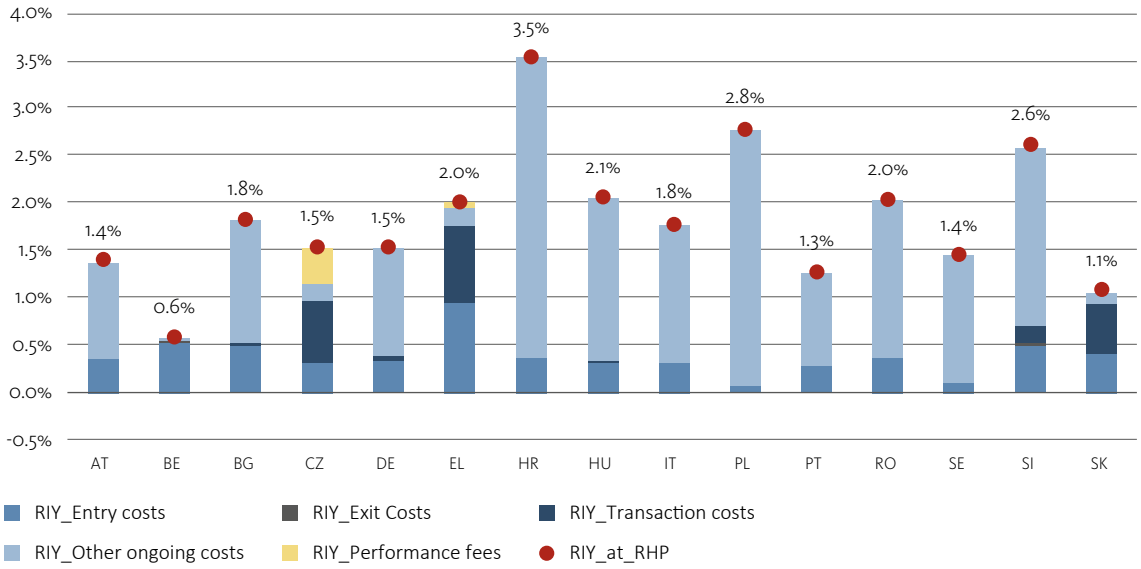
Looking at the level of costs by Member State, unit-linked costs ranged between 1.1% and 3.7% in 2019 (Figure 18), while for profit participation in 2019 the range was between 0.6% and 3.5% (Figure 19). In 2019 the markets which combined lower costs and higher net return were Sweden and Greece, with net return above 19% and costs below 2.5%. For profit participation products they were Sweden and Germany, with net return above 2% and costs below 1.5% in 2019. In all markets unit-linked costs are higher than profit participation. Interestingly, the impact of wrapper cost is relevant in many markets, being often unit-linked multi-option products. This, in some instances, could also rise some conduct issues, because such costs are not often clearly disclosed but rather identifiable only when comparing the disclosure at option level with the generic product information[28].

Figure 18 - GWP weighted RIY at RHP for Member States - unit-linked products[29]



Source: Cost and past performance survey

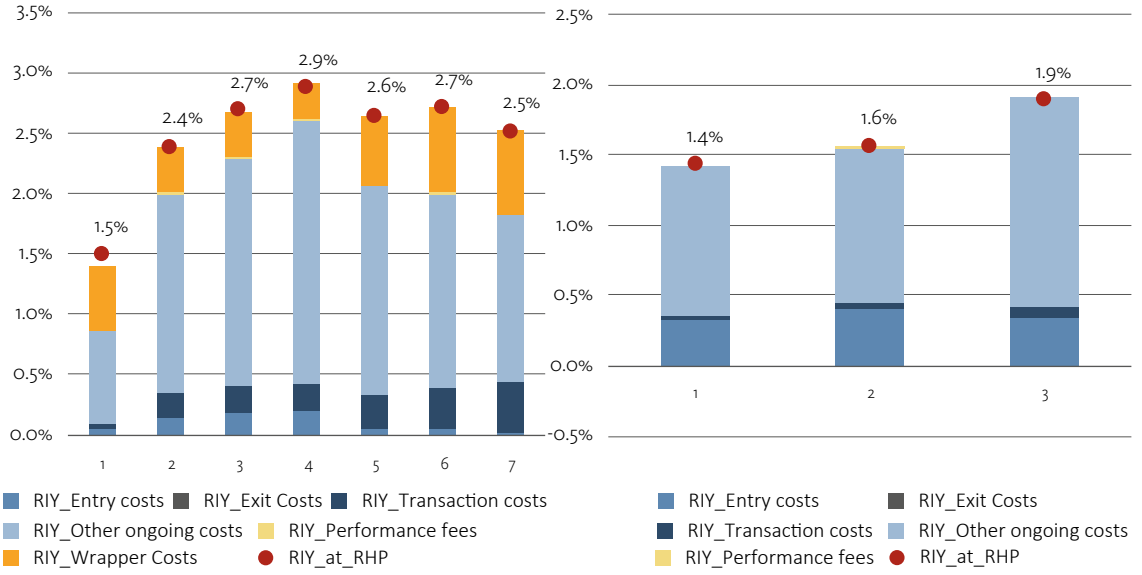
Figure 19 - GWP weighted RIY at RHP for Member States – profit participation products



Source: Cost and past performance survey

Costs are much more homogeneous than net returns also when considering the different risk classes. Despite risk class 1 costs were significantly lower than other risk levels (at 1.5% for unit-linked and 1.4% for profit participation products) there is not a remarkable difference in the level of costs amongst the other risk classes. In profit participation products higher risk classes correspond to slightly higher costs, however this is not the case for unit-linked (Figure 20). Also this finding can justify the apparently counterintuitive negative correlation between net return and costs for profit participation products (Figure 11).

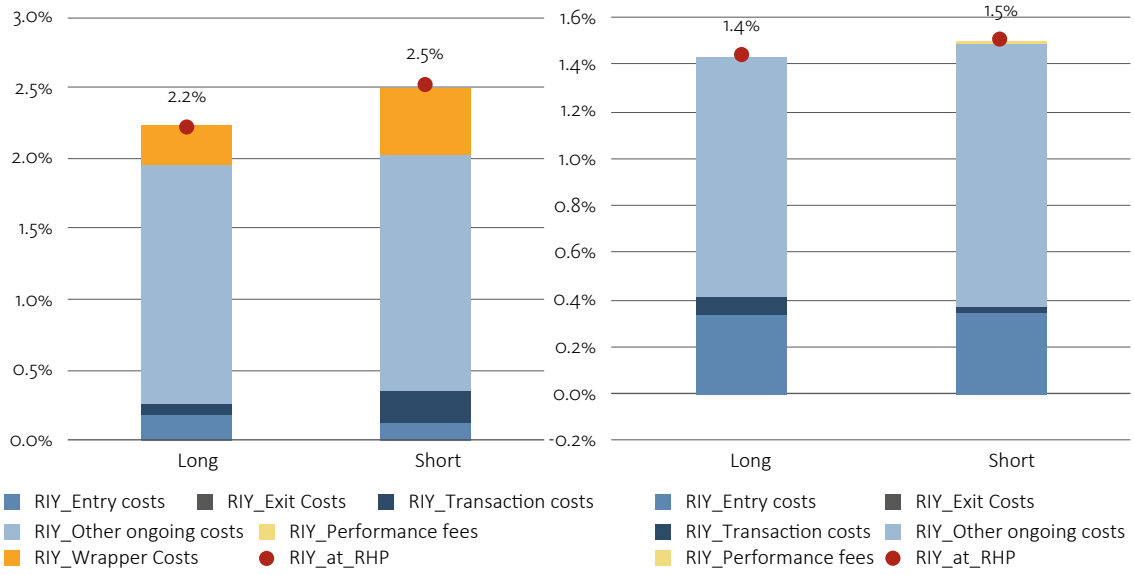
Figure 20 - GWP weighted RIY at RHP for risk class - unit-linked products (left) and profit participation products (right)



Source: Cost and past performance survey

When looking at the RHP it can be observed costs are more homogenous. Similarly to the approach used to analyse the net returns, a RHP equal or greater than 15 years has been classified as 'Long' while the other has been classified as 'Short'. Both for unit-linked and profit participation products the short term products are more costly than the longer term ones (Figure 21). This results is coherent with the finding on the net return and it can explain the higher performance achieved by products with longer RHP (Figure 12).

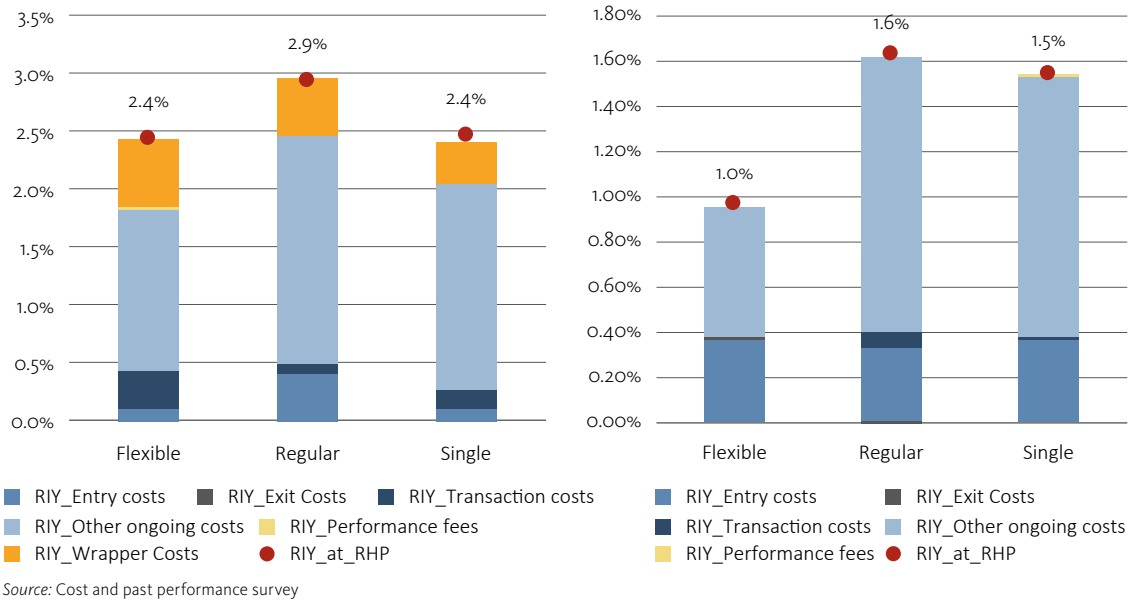
Figure 21 - GWP weighted RIY at RHP per recommended holding period – unit-linked (left) and profit participation products (right)



Source: Cost and past performance survey

Finally by jointly looking at the costs level and the premium frequency (Figure 22), costs for regular premium products are higher in both unit-linked and profit participation products. Interestingly the results for profit participation products are less homogenous than that for unit-linked, being the costs for flexible premium in profit participation products of only 1%.

Figure 22 - GWP weighted RIY at RHP per premium frequency– unit-linked (left) and profit participation products (right)



Source: Cost and past performance survey

BOX 4

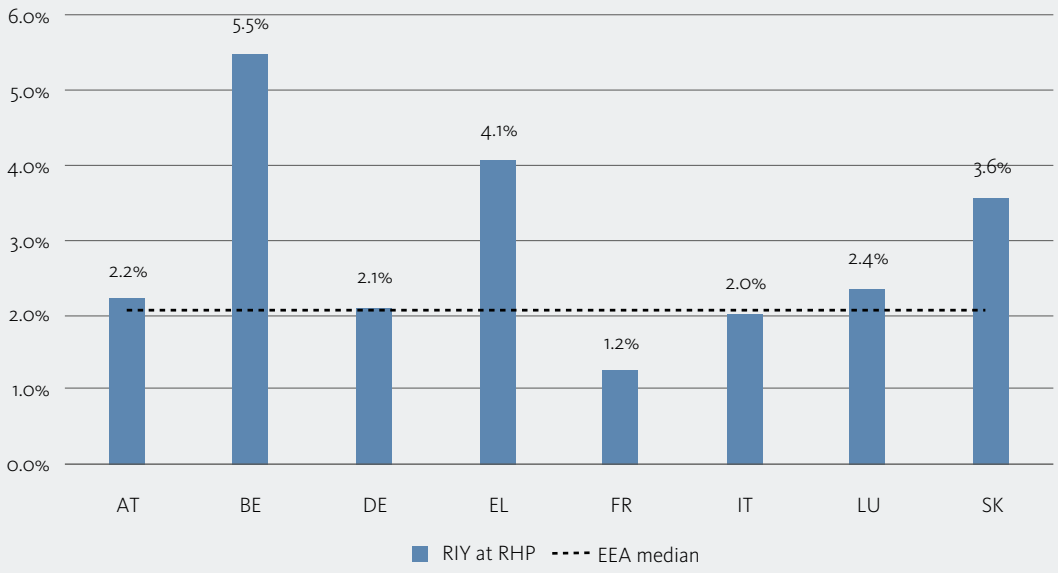
FOCUS ON COSTS OF HYBRID PRODUCTS

The costs of hybrid products have similarities with the costs features of the unit-linked and profit participation products. From the analysis on more than 150 hybrids belonging to 9 Members States the median aggregate total costs in 2019 was of 2.1% (as RIY at RHP), hence slightly lower than unit-linked products, with an RIY at RHP of 2.5%, but higher than profit participation ones, with and RIY at RHP of 1.5%.

Likewise the net return analysis, it is not possible to draw conclusion on the correlation between the risk classes and the cost levels of hybrid products, because for only 38 products of the 156 considered a unique risk class was identifiable - the other being unbundled between unit-linked and profit participation products[30]. Nevertheless, some consideration can be drawn when looking at the level of costs of hybrid products by Members States, RHP and premium frequency (Figure 23 and Table 5):

- Costs by Member States range between 1.2% and 5.5%. Markets where hybrids are more common are cheaper (FR, LU, IT, DE, and AT) signalling higher efficiency in the offers of these products which are more complex by their nature.
- France, Luxemburg and Italy, which are the countries with a high proportion of hybrid have costs lower than the market average.
- Costs were higher for hybrid with longer duration, differently for what found in relation to unit-linked and profit participation products.
- Costs by premium frequency confirm the trend found for unit linked and profit participation products, hence costs for regular premium products were also higher than for flexible and single premium products.

Figure 23 - GWP weighted RIY at RHP per Member State[31] - Hybrid



Source: Cost and past performance survey

Table 5 - Number of hybrid products analysed and total costs per Member States (left), recommended holding period (centre) and premium frequency (right)[32]

Country	N.of products	RIY at RHP
AT	21	2%
BE	21	6%
DE	21	2%
FR	43	1%
IT	26	2%
LU	14	2%
SK	7	4%

RHP	N.of products	RIY at RHP
Long	35	2.2%
Short	120	1.5%

Premium frequency	N.of products	RIY at RHP
Flexible	50	1.4%
Regular	37	2.6%
Single	69	1.6%

Source: Cost and past performance survey

3.1. COSTS DRIVERS: AN ANALYSIS OF COSTS BY THEIR NATURE AND CAUSE

Going beyond the time/frequency based costs categorization of the PRIIPs KID, and looking at the drivers of the costs, information on the most relevant products for each undertaking were collected, hence 128 products were considered for unit-linked and 64 for profit participation products. The drivers of the costs considered are: administrative, biometric, distribution and investment management costs.

BOX 5

DRIVERS OF COSTS IN THE IBIPS MARKET

Despite the variety of costs names and practice, it is possible to reconcile each costs element in four different groups[33]:

1) Administrative costs: costs incurred to handle the insurance policies contract and meet the contractual obligation. Some administrative costs relate directly to activity regarding a specific insurance contract (e.g. maintenance costs) such as cost of premium billing, cost of sending regular information to policyholders and cost of handling policy changes (e.g. conversions and reinstatements). Other administrative costs relate directly to insurance activity but are a result of activities that cover more than one policy such as salaries of staff responsible for policy administration. Costs item that can be categorized as administrative are: structuring/constitution costs, costs for capital guarantees, penalties costs and exit costs, FX translation costs, governance, regulation and compliance costs, property management and headcount costs, communication costs, costs for advisory.

2) Biometric costs: costs related to the biometric risk cover provided by the IBIPs products, computed as from PRIIPs delegated regulation[34].

3) Distribution costs: they cover all costs arising from the undertaking's activities when marketing and selling the product, including any form of monetary and non monetary benefits given to insurance intermediary, based upon an agreement with the intermediary, in relation to the sale of an insurance product. This includes the distribution efforts i.e. overheads to bring the product onto the market, the assessment of the demands and needs of the consumer as well as where applicable the cost of advice, and the costs relating to the sale process of the product such as the conclusion of the contract. Costs item that can be categorized as distribution costs are: marketing costs, monetary benefit to insurance intermediaries and the intermediary distribution efforts related costs.

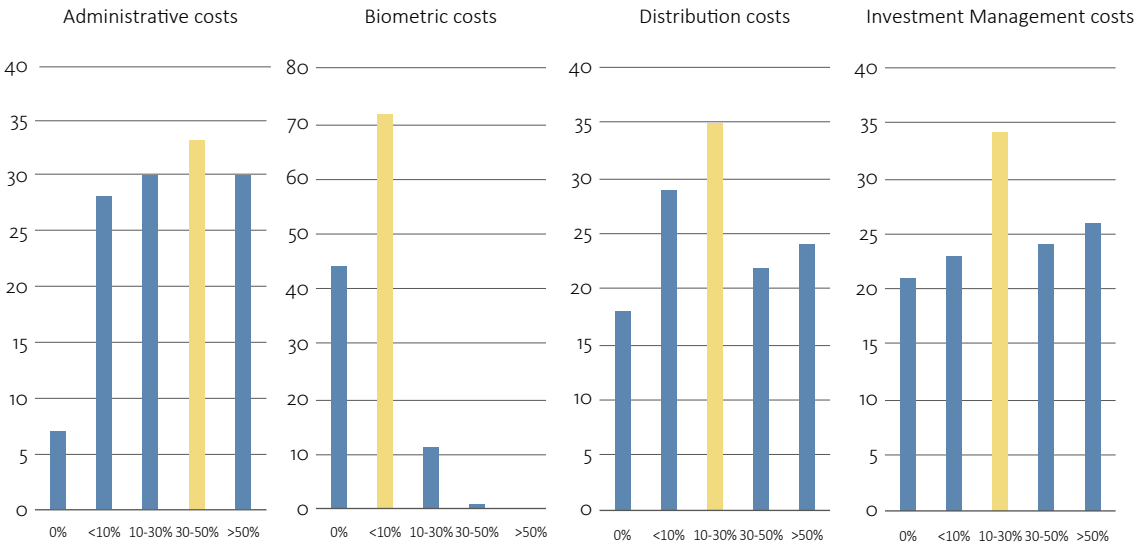
4) Investment management costs: costs related to the investment of the contribution paid by the policy holder. These costs include expenses of record keeping of the investment portfolio, salaries of staff responsible for investments, remunerations of external advisers, expenses connected with investment trading activity (i.e. buying and selling of the portfolio securities) and in some cases also remuneration for custodial services and any eventual costs paid to third parties. Costs item that can be categorized as investment management are: transaction related costs, payment of investment service. For unit-linked and hybrid products there can also be: costs due to the unit valuation and fund accounting services, fund related governance, regulation and compliance costs, fund related property management and headcount costs, performance fees, carried interest.

Administrative costs in both unit-linked and profit participation products are the most prominent cost category. More than half of the undertakings affirmed that administrative costs represent the higher source of costs for profit participation products (Figure 25) and unit-linked (Figure 24). Distribution costs and investment management costs have, on average, the same impact, between 10% and 30% of the total costs. However, while generally investment management costs are charged on an ongoing basis distribution costs are charged upfront, having a significantly higher impact on consumers who may surrender their policy earlier.

Biometric costs, which are linked to a specific benefit offered to consumers, are the smallest costs driver, this is because they are linked to basic biometric coverage. Biometric costs resulted also often not to be included in the total costs of the products. This can be explained by the fact that, in some instances, the products in scope of the analysis were pure investment products not offering any biometric coverage at all. Also by looking at the investment management costs, it results that in limited cases (ca. 20 products out of 128 for unit linked and 5 out of 64 for profit participation) they are not included. This is because in some market the generic PRIIPs KID only includes the wrapper level information, hence the information on the investment management costs is disclosed only at the underlying level[35]. This finding is not hindering the comparability of the costs analysis because the analysis performed have been adjusted to include in a comprehensive manner all the relevant cost components despite the disclosure approach although it signals that consumers might face difficulties in understanding the actual cost of a product.

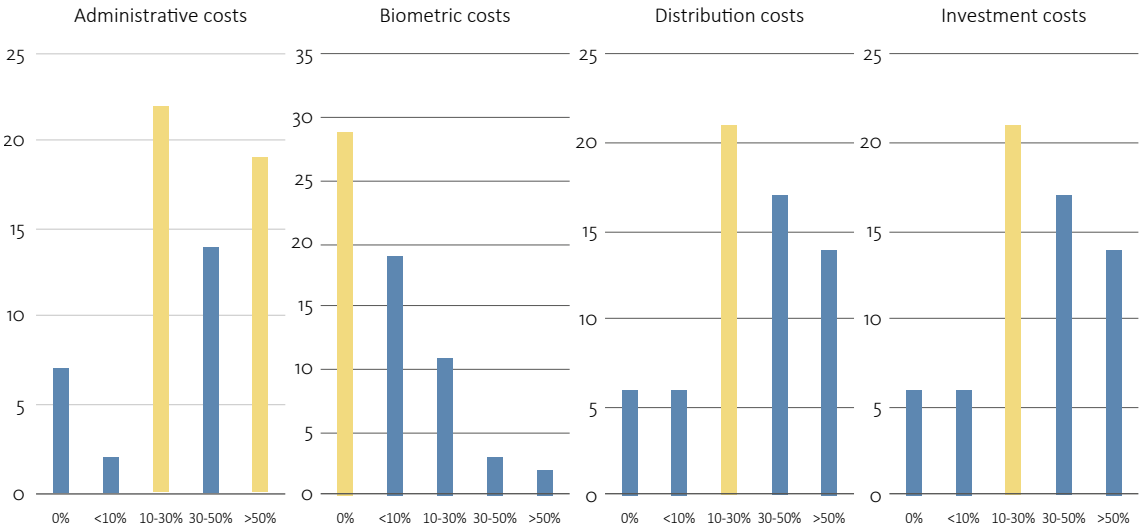
Finally, as far as the distribution costs are concerned, they are usually included in the total costs – as only less than 20 unit-linked out of 128 products, and in 5 on 64 profit participation excluded them. This result is not dependant on any specific country practice.

Figure 24 - Proportion of the different costs driver on the total costs for unit-linked products[36]



Source: Cost and past performance survey

Figure 25 - Proportion of the different costs driver on the total costs for profit participation products[37]



Source: Cost and past performance survey

Practices in the way in which these costs categories are presented in KID can be different (Table 6):

- Administrative and biometric costs are mostly reported under 'other ongoing costs';
- Distribution costs for unit-linked products are reported under 'other ongoing costs' and 'entry costs' and for profit participation products they are mostly reported under 'entry costs',
- Investment management costs are disclosed as both 'transaction costs' and other 'ongoing costs'.

Table 6 - Classification in the KID costs categorization of the different drivers of costs in the unit-linked (above) and profit participation products (below)

	Administrative costs	Biometric costs	Distribution costs	Investment Management costs
Other ongoing costs	83	71	33	39
Entry costs	4	3	46	0
Transaction costs	3	1	1	20
Entry costs and Other ongoing costs	11	2	27	0
Other ongoing costs and transaction costs	0	0	0	41
n.a.	27	51	21	28
Total	**128**	**128**	**128**	**128**

	Administrative costs	Biometric costs	Distribution costs	Investment Management costs
Other ongoing costs	45	31	8	26
Entry costs	4	1	30	0
Transaction costs	0	0	0	7
Entry costs and Other ongoing costs	10	2	18	2
Transaction costs and other ongoing costs	0	0	0	14
n.a.	5	30	8	15
Total	**64**	**64**	**64**	**64**

Source: Cost and past performance survey

4. SUMMARY FINDINGS ON IBIPS

Following the general market trends, 2019 was an extremely positive year for the IBIPs market, with positive return across all Members States, past performance however is particularly impacted by the negative trends observed in 2018. While, thanks to the trends observed in 2019, unit-linked products overall performed better than profit participation products and hybrids, they also have a higher degree of volatility, for the same unit-linked product:

- A consumer surrendering its policy in 2018 would have had a very low/negative returns;
- While a consumer surrendering its policy in 2019 would have had a very positive return.

Net performance from profit participation products, despite being steadily positive in all years of the analysis, is low, in particular when considering the inflation effect, the value offered to consumers has been on average very little in real terms, similarly to other financial products with a conservative investment profile, due to the European low interest yield environment. Also the slightly decreasing trend in net return, despite favourable market condition highlights some risks and a possible push to divest from traditional products.

Profit participation products continue being cheaper than unit-linked despite increasing costs. At EEA level:

- Costs of profit participation products were 1.3% in 2017, 1.6% in 2018 and 1.5% in 2019.
- Costs for unit-linked products in 2019 2.5%, aligned to 2017, after a slight drop in 2018 (2.3%).

Trends at Member States level at times differ and challenges persist in achieving homogenous coverage, taking into account the impact that concentration has on the market, and being the analysis sample base.

However the 2019 data confirm more homogeneous trends with respect to last year both in term of past performance and costs.

In terms of risk classes there is positive correlation between net returns and costs level in the unit linked market. For profit participation the correlation is instead negative, because of their reallocation mechanism, profit participation products can achieve higher return with less risky exposures. Also riskier profit participation were also slightly more expensive.

Unit-linked, profit participation and hybrids products with longer recommended holding period reported higher net returns. Regular premium products paid also higher net return despite being more expensive, but the extra performance explained by the type of premium frequency is less noticeable, hence the correlation is not as strong as the impact of longer recommended holding period. These findings are aligned to the findings of the previous year.

Risk class can be considered the most relevant driver of performance for unit-linked, while the longer recommended holding period resulted to be the most prominent driver of past performance in profit participation products, amongst the different factors investigated to explain the driver of higher net return. These trends are more marked than last year findings because of the higher number and diversity of product analysed in this iteration of the report.

From a 'value for money' perspective, some trade-offs need to be considered in terms of returns and costs for hybrid products. In fact, while some hybrid products have a higher degree of complexity, when the market grows they are significantly less profitable than unit-linked products, despite lower costs, whilst providing slightly higher return of profit participation. The net return provided on a five year basis is lower than the net return offered by unit-linked (2.1% vs. 2.7%), while outperforming profit participation products (2.1% vs. 1.4%) and being more costly, (2.1% vs. 1.5%). In 2019 the difference were even more marked when, unit-linked product paid more than 11% of return (vs. 5% of hybrids) while being 40 basis points more expensive (2.5% vs 2.1%). Hence, questions remains as to whether, on a long-term perspective, some hybrid products offer higher value.

Finally in terms of costs composition, **administrative costs represent on average the most predominant costs driver followed by investment management costs and distribution costs. Biometric costs are minor costs elements.** The costs shown in the KID resulted comprehensive of all the relevant costs item with limited exception due to different practice of product disclosure.

PENSION PRODUCTS

PERSONAL PENSION PRODUCTS

Given the lack of harmonisation at the European level of what is commonly defined as personal pension product (PPP), the categorization is based on national legislation. Therefore, under PPPs category there is a variety of products. PPPs could be IBIPs with KID, IBIPs without KID and non IBIPs products. Given the different frameworks applicable to PPPs, EIOPA applied the same IBIPs template to collect the data. Similarly they can be directly sold by banks, asset managers, and IOPRs. This report only considers PPPs sold by insurance undertakings.

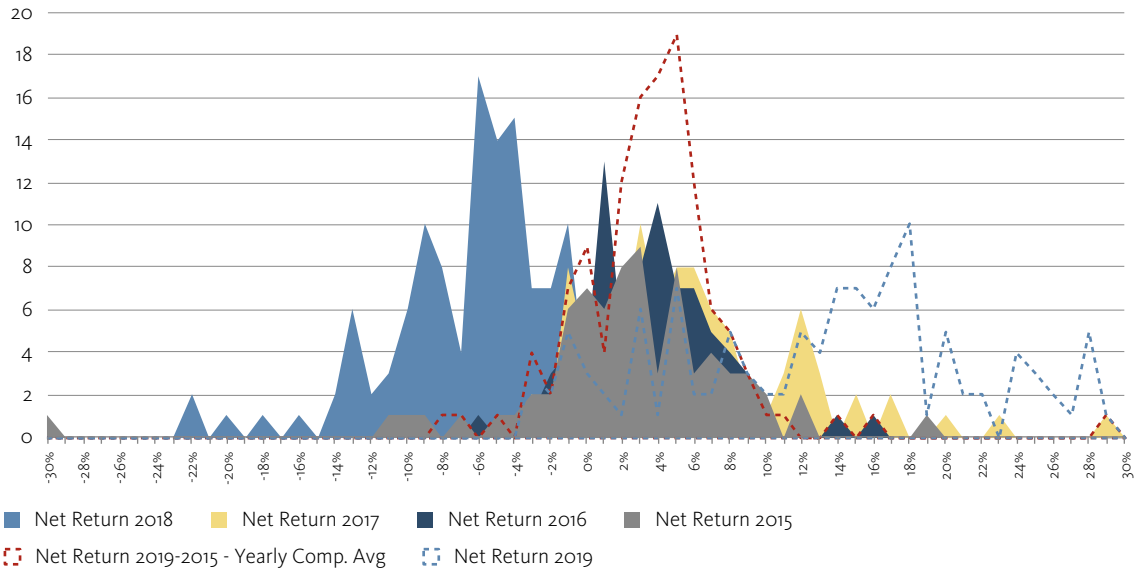
Following the agreed upon methodology, taking in account proportionality, the product categories considered are the same as for the IBIPs, hence personal pension products similar to unit-linked –'PPP-UL', personal pension products similar to profit participation –'PPP-PP' and personal pension products similar to hybrid– 'PPP-hybrid', despite in some markets PPPs are not formally IBIPs. The main challenge in this regard are the absence of a PRIIPs KID, hence costs sometimes need to be adjusted or, for example, the risk class categorization is not applicable. The countries for which this difference can be stronger are EE, IT, MT for which none of the PPP analysed are IBIPs. For AT and DE, PPPs are solely represented by IBIPs, and in the remaining markets PPP are sold both as IBIPs and non IBIPs products.

Based on the information provided by 69 insurance undertakings from 14 Member States[38], more than 210 personal pension products have been analysed: 125 PPP-UL, 53 PPP-PP and 38 PPP-Hybrid, accounting for ca. 1.4 million of contracts sold and ca. € 27 billion GWP during 2019[39].

1. NET RETURN

As expected, the trend in the net return of personal pension products are similar to the ones observed for IBIPs, hence higher average yearly annual return but also higher volatility for PPP-UL in comparison with PPP-PP. The net return achieved in 2019 was also the highest for the period 2015-2019. Notably, the net return of PPP-UL resulted to be higher than the IBIPs unit-linked, 3.5% vs. 2.7%. The traditional longer investment horizon of PPPs could explain the higher return (Figure 26 and Figure 27).

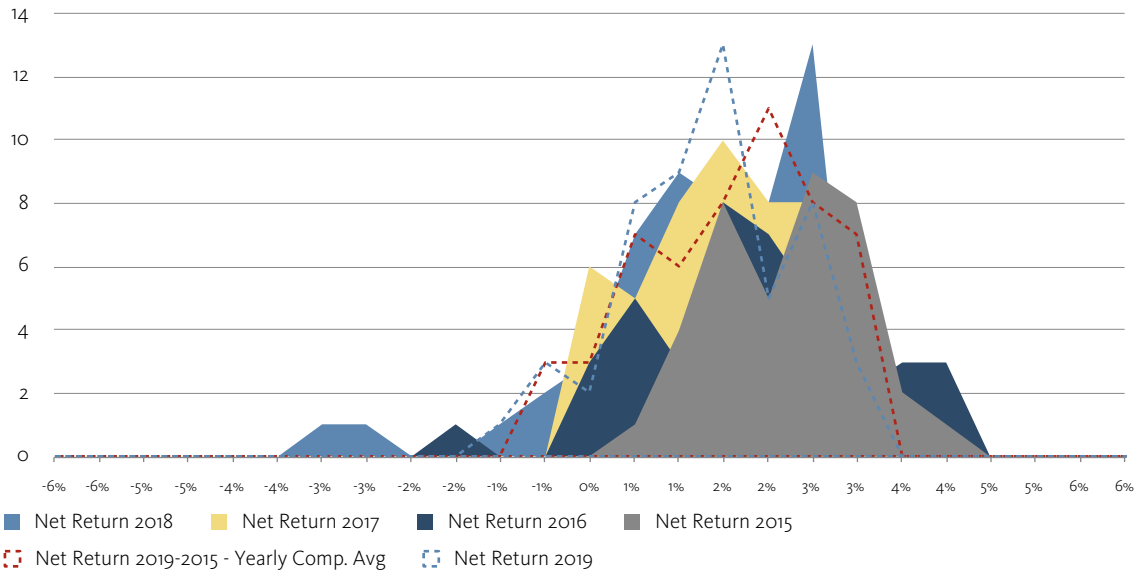
Figure 26 - Net return distribution of PPP-UL products between the years 2019 – 2015



	Net return 2019	Net return 2018	Net return 2017	Net return 2016	Net return 2015	Net return compound 2019-2015
Median Net Return	14.1%	-6.0%	4.3%	3.2%	2.1%	3.5%
Average Net Return	13.5%	-6.8%	4.9%	3.9%	2.3%	3.6%
St dev	10.0%	4.6%	5.5%	7.1%	6.2%	5.0%
25% percentile	5.8%	-9.6%	1.6%	0.7%	0.0%	1.4%
75% percentile	19.0%	-4.1%	7.4%	5.8%	5.2%	5.2%

Source: Cost and past performance survey

Figure 27 - Net return distribution of PPP-PP products between the years 2019 – 2015



	Net return 2019	Net return 2018	Net return 2017	Net return 2016	Net return 2015	Net return compunded 2019-2015
Median Net Return	1.2%	1.3%	1.4%	1.5%	2.2%	1.4%
Average Net Return	1.2%	1.0%	1.3%	1.5%	1.9%	1.3%
St dev	1.2%	1.2%	1.0%	1.2%	0.8%	1.0%
25% percentile	0.4%	0.3%	0.5%	0.5%	1.2%	0.5%
75% percentile	1.8%	1.9%	2.1%	2.3%	2.6%	2.1%

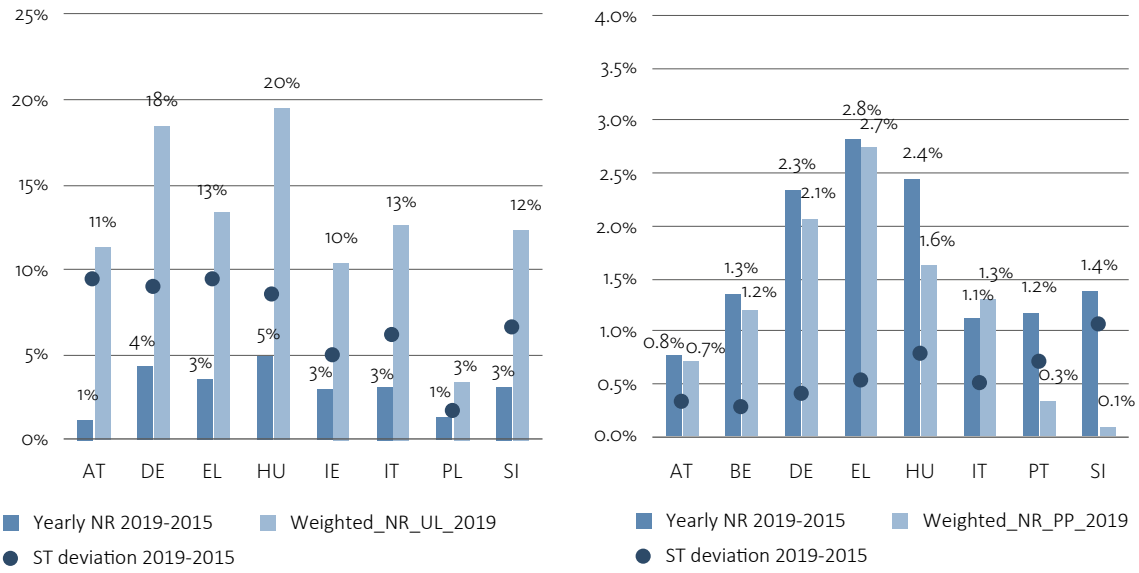
Source: Cost and past performance survey

From a Member States perspective, the trend identified for IBIPs are in line with the evidence collected for the PPPs (Figure 28 and Table 7):

- Net return for PPP-UL and PPP-PP were steadily positive in all markets especially for the year 2019 when for PPP-UL the performance achieved was extremely high across markets.
- In PPP-PP 2019 returns were similar but slightly lower than the annual average return for the previous five years, in all markets with exception of Italy, where the 2019 was higher.

› Despite the diversity in the number of product analysed per Members States (Table 7) and the diversified landscape at national level on PPPs, trends amongst different markets are homogenous.

Figure 28 - GWP weighted average net return by Member State for PPP-UL products (left) and PPP-PP (right) – 2019-2015[40]



Source: Cost and past performance survey

Table 7 - Number of products analysed, standard deviation and weighted net return by Member State of PPP-UL (above) and PPP-PP (below)

Country	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_PPP-UL_2015	Weighted_NR_PPP-UL_2016	Weighted_NR_PPP-UL_2017	Weighted_NR_PPP-UL_2018	Weighted_NR_PPP-UL_2019
AT	6	9%	1%	-8%	1%	13%	-9%	11%
DE	32	9%	4%	2%	6%	6%	-9%	18%
EL	4	9%	3%				-6%	13%
HU	14	8%	5%	1%	4%	7%	-6%	20%
IE	17	5%	3%	2%	4%	4%	-5%	10%
IT	22	6%	3%	3%	3%	4%	-6%	13%
PL	6	2%	1%	0%	1%	3%	0%	3%
SI	16	6%	3%	3%	5%	4%	-8%	12%

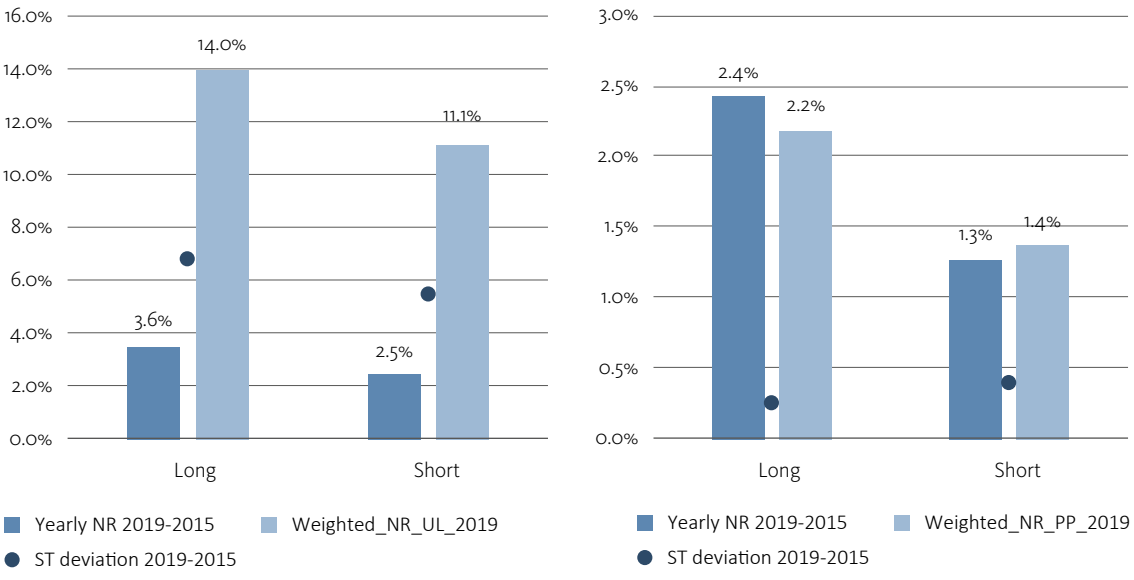
Country	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_NR_PPP-PP_2015	Weighted_NR_PPP-PP_2016	Weighted_NR_PPP-PP_2017	Weighted_NR_PPP-PP_2018	Weighted_NR_PPP-PP_2019
AT	5	0%	1%	1%	0%	1%	1%	1%
BE	4	0%	1%	2%	1%	1%	1%	1%
DE	11	0%	2%	3%	3%	2%	2%	2%
EL	3	1%	3%	2%	4%	3%	2%	3%
HU	5	1%	2%	4%	3%	2%	2%	2%
IT	12	0%	1%	2%	1%	1%	0%	1%
PT	3	1%	1%	2%	2%	1%	0%	0%
SI	3	1%	1%	3%	2%	1%	0%	0%

Source: Cost and past performance survey

An analysis based on the risk class for personal pension products was not possible as for a number of products submitted there is not a risk class available[41], given that they do not have a PRIIPs KID. Moreover for those where a class of risk was available, only a few products were submitted for riskier class, which are usually less frequently sold, e.g. for risk class 7 only 3 products are available.

However, some consideration on the recommended holding period as driver of performance can be made. In particular, products with a longer recommended holding period in 2019 show again higher net return, hence this factor can again be considered as a driver of the net performance, similarly to IBIPs. Personal pension products, by their nature, have a longer duration with respects to IBIPs which are not sold as pension products, therefore the extra performance of longer term PPPs compared to shorter terms between 2015 and 2019 was even higher than IBIPs (Figure 29 and Table 8).

Figure 29 - GWP weighted net return per recommended holding period for PPP-UL (left) and PPP-PP (right)



Source: Cost and past performance survey

Table 8 - Number of products analysed, standard deviation and weighted net return per recommended holding period of PPP-UL (above) and PPP-PP (below)

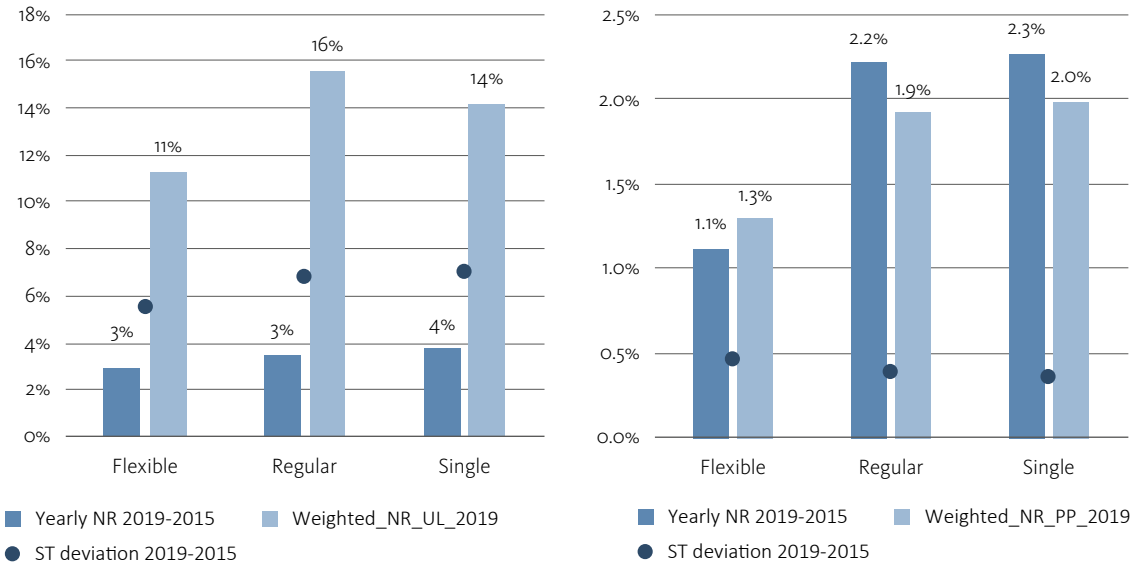
RHP	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_PPP-UL_2015	Weighted_ NR_PPP-UL_2016	Weighted_ NR_PPP-UL_2017	Weighted_ NR_PPP-UL_2018	Weighted_ NR_PPP-UL_2019
Long	67	7%	4%	2%	5%	5%	-7%	14%
Short	52	5%	2%	3%	2%	3%	-6%	11%
n.a.	6							

RHP	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_ PP_2015	Weighted_ NR_ PP_2016	Weighted_ NR_ PP_2017	Weighted_ NR_ PP_2018	Weighted_ NR_ PP_2019
Long	23	0.3%	2.4%	2.8%	2.6%	2.3%	2.2%	2.2%
Short	30	0.4%	1.3%	1.9%	1.2%	1.2%	0.7%	1.4%

Source: Cost and past performance survey

Finally, when considering the net return by premium frequency, flexible premium products had in 2019 lower net return both for PPP-UL and PPP-PP, but there are not strong differences. Products with regular premium are also the more frequently sold followed by the flexible premium products, where members/consumer can customize their contribution both in terms of amount and frequency (Figure 30 and Table 9).

Figure 30 - GWP weighted net return per premium frequency for PPP-UL (left) and PPP-PP (right)



Source: Cost and past performance survey

Table 9 - Number of products analysed, standard deviation and weighted net return per premium frequency of PPP-UL (above) and PPP-PP (below)

Premium Frequency	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_PPP-UL_2015	Weighted_ NR_PPP-UL_2016	Weighted_ NR_PPP-UL_2017	Weighted_ NR_PPP-UL_2018	Weighted_ NR_PPP-UL_2019
Flexible	34	5%	3%	2%	3%	4%	-6%	11%
Regular	60	7%	3%	1%	4%	3%	-6%	16%
Single	31	7%	4%	5%	4%	5%	-8%	14%

Premium Frequency	N.of products	ST deviation 2019-2015	Yearly NR 2019-2015	Weighted_ NR_ PP_2015	Weighted_ NR_ PP_2016	Weighted_ NR_ PP_2017	Weighted_ NR_ PP_2018	Weighted_ NR_ PP_2019
Flexible	16	0.5%	1.1%	1.8%	1.0%	1.0%	0.4%	1.3%
Regular	30	0.4%	2.2%	2.8%	2.5%	1.9%	1.9%	1.9%
Single	7	0.3%	2.3%	2.8%	2.5%	2.1%	1.9%	2.0%

Source: Cost and past performance survey

2. COSTS

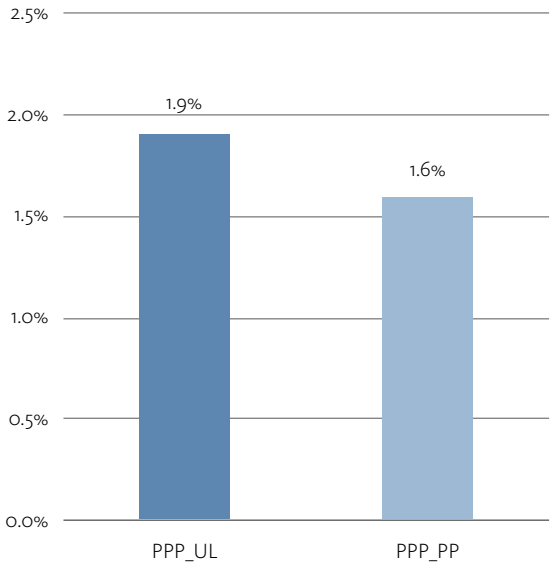
As for the IBIPs, the costs consideration made in this section follow a look through approach, hence the representation of costs aims at being comprehensive of all the costs charged to the consumers.

Despite the relevant limitations on the costs analysis of personal pension products both related to (i) the challenges mentioned for the reporting of costs in IBIPs, mainly linked to the multi options features of some products and (ii) the pitfall of the lack of an harmonised framework for PPPs, mainly due to the absence, in some instances, of a PRIIP KID, the analysis performed shows that costs of the PPP-UL were higher than costs for those similar to PPP-PP, 1.9% vs. 1.6% in 2019 (Figure 31). PPP-UL resulted also cheaper than IBIPs while the costs of PPP-PP are aligned to the IBIPs profit participation products.

For comparability reasons, the sample of products considered for the costs analysis is also the same used in the net return section, hence the number of products for each cluster – aggregation at EEA, by Member states, risk classes, RHP and premium frequency is the same as the one presented for the net return consideration.

Given that a break-down of different costs components was not available in all markets, only the total reduction in yield at recommended holding period is shown as aggregate measure of total costs.

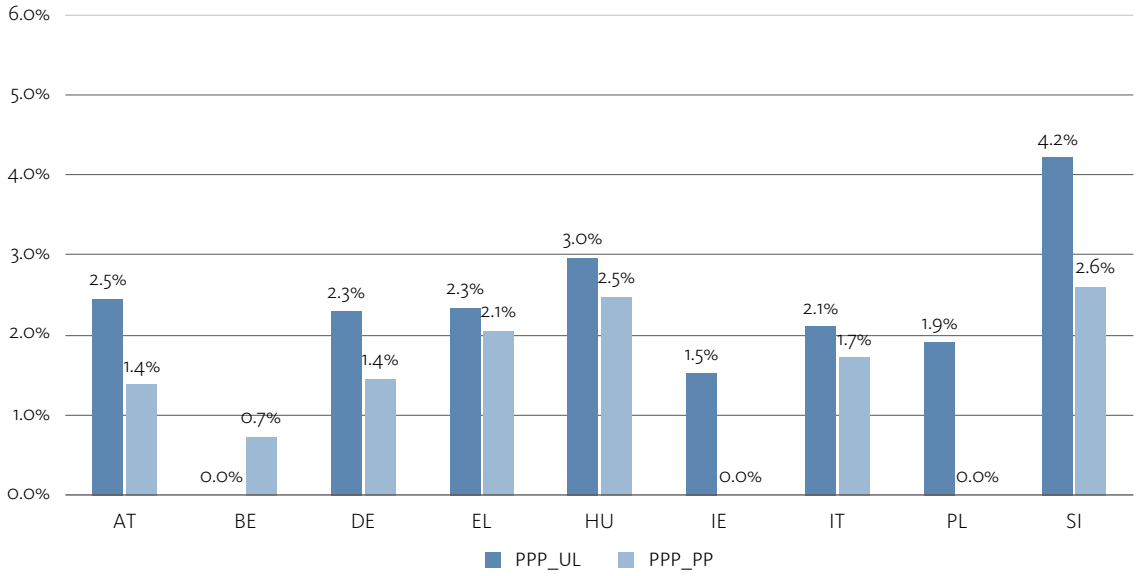
Figure 31 - GWP weighted total costs as RIY at RHP for PPP_UL and PPP_PP



Source: Cost and past performance survey

From a Member States perspective, in 2019 PPP-UL costs ranged between 1.5% and 4.2%, while for PPP-PP the range of costs was between 0.7% and 2.6% (Figure 32). In all markets, the costs of unit-linked similar products were higher than profit participation ones. PPP-PP costs were also more homogenous amongst different market.

Figure 32 - GWP weighted RIY at RHP by Member States – PPP-UL and PPP-PP[42],[43]



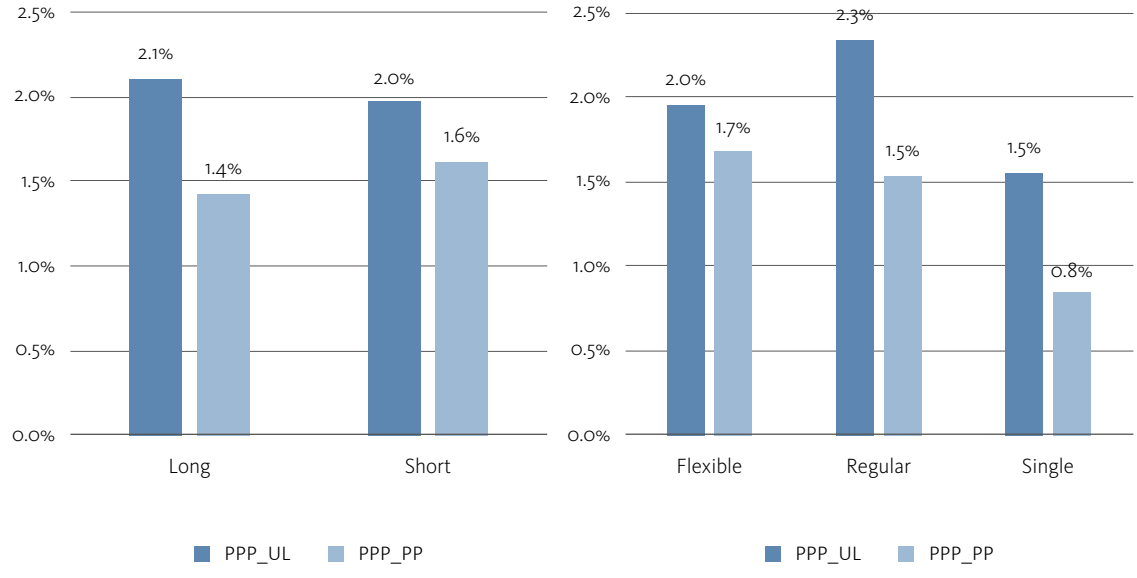
Source: Cost and past performance survey

Likewise the net return analysis on PPPs, an analysis based on the risk class for personal pension products is not shown as for a number of products submitted there is not a risk class available, given that some of the personal pension products do not have a PRIIPs KID.

In relation to the costs by recommended holding period, while for PPP-PP the longer horizon products resulted to be cheaper than those with a shorter period, for PPP-UL there is not a relevant difference in costs (Figure 33). This confirms the findings on the IBIPs identifying lower costs in profit participation products with longer duration as a driver of extra performance.

Finally as long as the correlation between premium frequency and level of costs is concerned, regular premium products were slightly more expensive than single or flexible premium products for PPP-UL, while for PPP-PP products with flexible premium and regular premium were both pricier than the single premium products (Figure 33).

Figure 33 - GWP weighted RIY at RHP per recommended holding period (left) and premium frequency (right) – PPP-UL and PPP-PP



Source: Cost and past performance survey

BOX 6

FOCUS ON PERSONAL PENSION PRODUCTS SIMILAR TO HYBRIDS

Only 38 personal hybrid pension products have been reported as part of the sample, from four Member States (AT, BE, DE, FR); hence some limited high level evidence can be reported. Overall, the trends are in line with the findings on IBIPs hybrid products with very positive average net return of 7.2% in 2019, higher than the 2015-2019, when the yearly compounded annual return was of 2.4%.

In terms of costs, overall the total RIY at recommended holding period accounted for 1.8% in the 2019, hence only 10 basis points below PPP-UL products.

Overall the majority of the products in the sample are regular premium products – 23 out of 38. Similarly, there is predominance longer terms hybrid products with respect to the shorter – 24 out 38.

3. SUMMARY FINDINGS ON PERSONAL PENSION PRODUCTS

PPP-UL showed higher average yearly return but also higher volatility in comparison with PPP-PP, 3.5% vs. 1.4%. PPP-UL net return resulted also to be higher than the IBIPs unit-linked, 3.5% vs. 2.7%. However, trends in the net return and costs of personal pension products are similar to those observed for IBIPs: higher average yearly annual return but also higher volatility for PPP-UL in comparison with PPP-PP.

Longer recommended holding periods is also identified as a driver of extra performance, in particular in relation to product similar to profit participation. Being pension products, by their nature, characterized by longer time duration the relation is more marked than in IBIPs.

Amongst different Members States trends in net return were homogenous, with PPP-UL net return in 2019 being extremely positive. Costs were also higher. In comparison with IBIPs the costs level of personal pension products were lower for PPP-UL and for PPP-PP they were aligned to IBIPs. Similarly to the previous year report, the costs level of personal pension products in terms of reduction in yield at recommended holding period were lower for PPP-UL than for IBIPs, being 1.9% (vs 2.5%). For PPP-PP the costs were similar to IBIPs, being 1.6% (vs. 1.5%).

Personal pension products similar to unit-linked with regular premium resulted, as for IBIPs, slightly more expensive.

Challenges due to the lack of harmonization are still relevant with particular regard to the costs analysis.

4. ADDITIONAL FOCUS ON IORPs

The Institutions for Occupational Retirement Provision (IORP) sector in Europe accounted for € 2,300[44] billion of assets in 2019, having increased from € 2,036 billion in 2018. More than half of the sector in terms of total active members is characterised by Defined Contribution (DC) schemes while the residual proportion is represented by Defined Benefit (DB) schemes or hybrid schemes (HY)[45]. The share of DC in 2019 was 55% having increased from 51% in 2017 in terms of total active members[46].

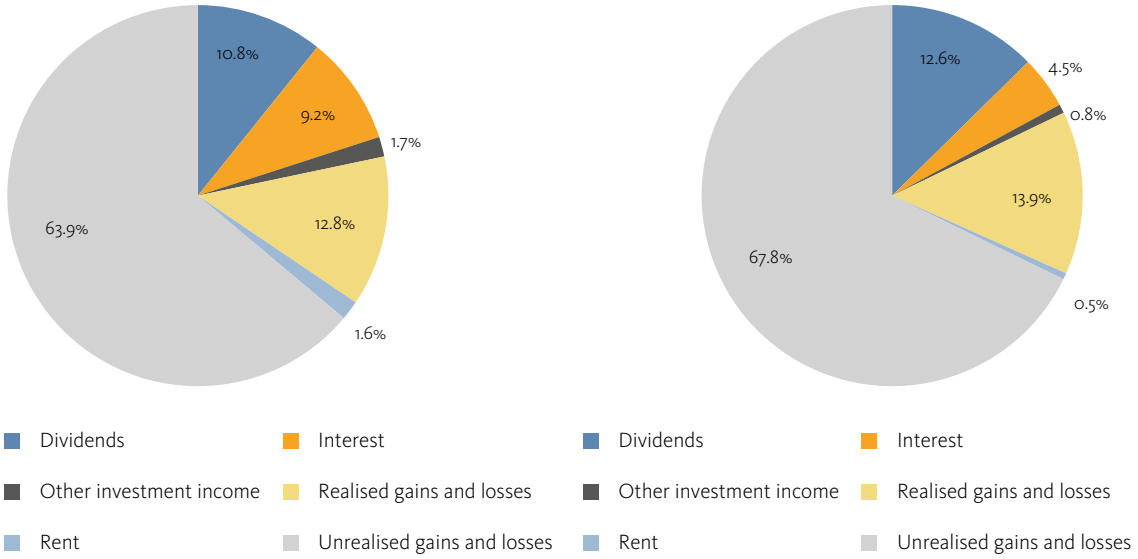
Although a detailed picture from the perspective of an IORPs members is not available, the first EIOPA data gathering on quantitative information at the level of IORPs[47] offers some preliminary findings in terms of their profitability expressed as 'Investment Income' and 'Expenses' of IORPs based on data reported to EIOPA. Also

the information we have are not yet complete because CY, NL, IE, EL, SE will start submitting that information relating on the 2020[48].

In relation to the Investment Income[49], being the first year of the data collection it has not been possible to compute a return for the funds, hence the data are shown in € values terms.

From the limited information EIOPA received, the Investment Income reported for DC was € 18.3 billion[50]. The split by the different drivers of such income is visible in Figure 34, both at aggregate level and individually for DC. The main driver of the Investment Income of the pension fund are the unrealised gains[51], followed by realised gains[52] and dividends (Figure 34).

Figure 34 - Investment Income of pension funds schemes at EEA level, all schemes (left) and DC schemes (right)

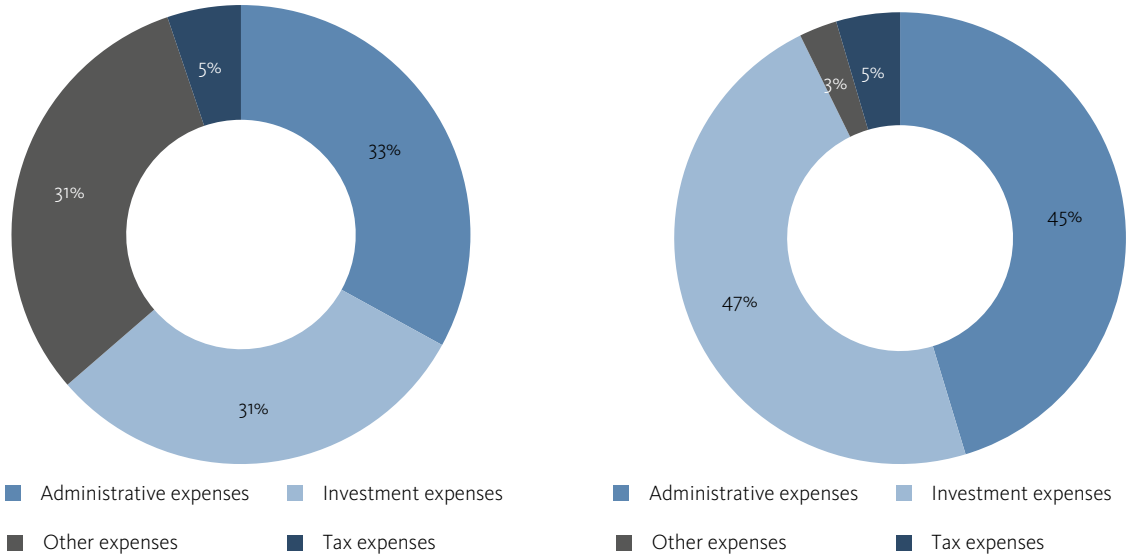


Source: EIOPA IORPs statistics

In relation to the IORPs Expenses[53], it is also worth highlighting that the reported expenses do not necessarily equal the costs charged to the members, because they do not include investment costs that are not charged with a fee to the IORP, but passed as a reduction of the Net Asset Value, nor includes transaction costs, hence what charged to the members could be higher.

The expenses reported to EIOPA at EEA level for DC schemes are mainly driven by Investment and Administrative expenses (Figure 35) and in 2019 accounted for € 0.5 billion[54].

Figure 35 - Total expenses breakdown – EEA all schemes (left) and DC schemes (right)[55]



Source: EIOPA IORPs statistics

NEXT STEPS

Despite the continuous improvements path on which this work is developing from its first edition in 2017, the number of challenges to be addressed are still relevant. EIOPA anticipates the following actions:

IBIPs

- To continue working on the costs standardisation, especially beyond the KID costs classification focusing on the driver of costs;
- To possibly add some additional reporting on ESG features and biometric covers;
- To keep up strengthening the market coverage aiming at including a higher number of products as possible;
- To improve the analysis of multi-options products with a specific focus on hybrids.

PPPs

To further work on the standardization and harmonization of the data collected.

IORPs

Leveraging on the second edition of the yearly data collection, more granular analysis could be performed in terms of performance and expenses. Such analysis will remain at the level of IORPs, hence it would still be based on pension funds rather than members perspective, because, for proportionality reason it is not yet planned to perform an ad-hoc data collection on extra data.

Nevertheless, the extent of the analysis to be performed on IORPs is expected to increase.

ANNEX I — METHODOLOGY

The methodology aims at gathering, from a representative sample of insurance undertakings, data on a product sample taking into account the most sold products and risk categories.

These samples are not randomised. The aim is 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 has been used for the purpose of weighting of product figures.

While relying on information provided in 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. 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 2019 GwP).

To ensure consistency across Member States and market representativeness, the sample was targeted to the largest insurance undertakings covering 60% of the market in terms of GwP. While in the previous iterations of the report the market coverage was measured in terms of technical provisions for life business[56] for the 2021 report, GwP has been identified as more straightforward measure being more directly related to the product and being more transparent when comparing different undertaking in the European market. To measure GwP the data from the Quantitative Reporting Template (QRT) S.05 are used[57]. The target market coverage of the sample has been still set at 60% of the EEA market in term of GwP for unit-linked and profit participation products.

The sample for the 2021 report, as for the previous iteration, mainly focused on products that are sold in the domestic market by domestic market participants[58] taking-up business in the home country. Cross-border activity[59] is limited to those markets where domestic business represents less than 50% of the total GwP volume.

EIOPA collected the data with questionnaires circulated to selected insurance undertakings by NCAs.

Disability and occupational disability products, immediate annuities, certain endowments, and funeral products were all excluded.

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.

IBIPs

The data covered the most sold products in GwP terms by risk categories.

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

- Premium frequency: regular, single or flexible premiums
- Recommended holding periods: Long (>=15Y) or Short (<15Y)
- Risk categories: from 1 to 7 (for unit-linked and hybrids) and from 1 to 3 for the profit participation products.

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 practical reasons to do with availability of KID information, the selection was limited to only those products that remained available on 31st December 2019, given that KID requirements entered in force in 2018.

EIOPA requested to report data for the most relevant products in 2019 GWP terms per each risk class.

The approach for IBIPs consists in gathering extra past performance data, to be adjusted for costs not included in the past performance. Extra data have be requested on both past performance and on costs not reflected in that performance. The methodology to calculate the performance of the products is specific to the type of product: unit-linked, profit participation and hybrids.

This report focuses on net performance in nominal terms, i.e. gross of inflation and tax effect. The RIY figures as reported in the KID will be used to compare products in terms of cost levels and risk profiles.

UNIT-LINKED PRODUCTS

For the iteration of the 2021 report, as for the 2020 edition, a unique template for both 10.a and 10.b Unit-linked products[60] was used. In particular, data from the largest fund options (in terms of GwP 2019) were collected and analysed.

The net return computations is based on the NaV YoY change as unit value, to prevent possible fluctuation due to submission/redemption or dividends, adjusted for all the costs not included in the NaV in order to be able to compute a net return.

CALCULATIONS – UNIT LINKED PRODUCT

R(j): observable annual return of the unit of the fund in year j, i.e. $\mathbf{R(j) = \frac{NaVj}{NaVj-1} - 1}$

RIY(j): Reduction in Yield of all the costs components not included in R(j)

R(j)_n: net return for the year j, i.e. **R(j)_n = R(j)-RIY(j)**

R_av_n: average net return of the fund in the sample period (n=5), i.e.:

R_av_n = ((1+R(1)_n)•….• (1+R(n)))^(1/n)-1

PROFIT PARTICIPATION PRODUCTS

To measure the past performance of profit participation products EIOPA has used data on the evolution of the Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or profit sharing rate. These are broadly understood as a reasonable proxy for overall performance trends.

Undertakings were required to provide the past annual profit participation rates for the last 5 years. All the costs items not already accounted in the provided profit rate were to be shown in terms of RIY on separate basis in order to compute the net return.

CALCULATIONS – PROFIT PARTICIPATION PRODUCT

R(j): observable annual return of the unit of the fund in year j, i.e. **R(j) = Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or Profit sharing rate**

RIY(j): Reduction in Yield of all the costs components not accounted in R(j)

R(j)_n: net return of the product for the year j, i.e **R(j)_n = R(j)-RIY(j)**

R_av_n: average net return of the product in the sample period (n=5), i.e.:

R_av_n = ((1+R(1)_n) •….• (1+R(n)))^(1/n)-1

HYBRID PRODUCTS

Hybrid products are a mix of unit-linked and products with profit participation. For these products, the net return was computed with two alternative approaches, depending on how the products were sold i.e. as combination already set by the manufacturer or just a variety of option were the allocation between the two components is customized by the policyholder.

In the former case the net return for hybrid products is simply the aggregate net return of the combination offered were the most relevant one in terms of GwP per risk class is considered.

In the second case, the net return of the hybrid product is a weighted average of the most popular unit-linked and profit participation components. The weighting factor used provided by the product manufacturers as representative of the average allocation for consumers. This, while being often an approximation offered by the manufacturers, represents an improvement with respect to the previous iteration of the report, where as weighting factor the relative weight of GWP from unit-linked and profit participation components were used

Respondents had the possibility to choose the approach most adequate to represent the feature of their product, hence either to provide two underlying options with their weight, either to provide the information on the hybrid product as aggregate.

CALCULATIONS – HYBRID PRODUCT

1st approach to compute hybrid net return: weighted average between the most common UL and PP options chosen

UL net return Calculation

R(j)_UL : observable annual return of the unit of the fund in year j, i.e. $\mathbf{R(j) = \frac{NaVj}{NaVj-1} - 1}$

RIY(j)_UL: Reduction in Yield of all the costs components not included in R(j)

R(j)_n_UL: net return for the year j, i.e **R(j)_n_UL = R(j)_UL - RIY(j)_UL**

PP net return

R(j)_PP : observable annual return of the product during year j, i.e. **R(j)_PP = Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or Profit sharing rate**

RIY(j)_PP: Reduction in Yield of all the costs components not accounted in R(j)_PP

R(j)_n_PP: net return of the profit sharing component of the product for the year j, i.e **R(j)_n_PP = R(j)_PP - RIY(j)_PP**

HYBRID NET RETURN

K: relative weight of the UL components with respect to the PP component

1-K: relative weight of the PP components with respect to the UL component

R(j)_n_HY: net return of the Hybrid product, weighted average of the UL and PP net return for the year j, i.e. **R(j)_n_HY= R(j)_n_UL*K + R(j)_n_PP * (1-k)**

R_av_n_HY: average net return of the fund in the sample period (n=5), i.e.

R_av_n_HY = ((1+R(1)_n) •....• (1+R(n)))^(1/n)-1

2nd approach to compute hybrid net return

R(j)_HY : observable annual return of the product during year j, i.e. **R(j)_ HY= Total return computed by the undertaking on an aggregate basis**

RIY(j)_HY: Reduction in Yield of all the costs components not accounted in R(j)

R(j)_n_HY: net return of the profit sharing component of the product for the year j, i.e **R(j)_n_HY = R(j)_HY - RIY(j)_HY**

R_av_n_HY: average net return of the product in the sample period (n=5), i.e.

R_av_n_HY = ((1+R(1)_n) •....• (1+R(n)))^(1/n)-1

PERSONAL PENSION PRODUCTS

Given the lack of harmonisation at the European level of what is commonly defined as personal pension product (PPP), the categorization is based on national legislation. Therefore, under PPPs category there is a diversity of products. PPPs could be IBIPs with KID, IBIPs without KID and non IBIPs products. Given the diverse framework, EIOPA requested to report data for only the 3 most relevant Personal Pension Product in 2019 GWP terms.

However EIOPA applied the same IBIPs template to collect the data, bearing in mind that the absence of a harmonised framework as PRIIPs implies a lower data granularity and availability.

The calculation followed to compute the net return of personal pension product are those shown above for the unit-linked, profit participation and hybrid products.

AAE FEEDBACK ON THE CURRENT METHODOLOGY

The Actuarial Association of Europe (AAE) - Consumer Protection Working Group – has finalised the work aimed at providing support to EIOPA on improving the understanding of the profit sharing mechanism and ultimately ameliorate the methodology in place, in relation to the measures used to compute the net returns: the "Total Credit Rate" and the "Reduction in Yield".

In addition to what outlined in the previous iteration of the report on the functioning of the profit sharing mechanism amongst Member States[61], the AAE carried out some additional work and it appeared that methodology currently used has been overall endorsed.

On the one hand, both the AAE work and the analysis of EIOPA 2020 Cost and Past Performance show that the methodology currently used signal a diversity of situations with a variable meaning of the returns reported.

On the other hand even if the performance includes heterogeneous components (guaranteed or not guaranteed) it seems that the different contributors were able to provide comprehensive performance figures, therefore providing a meaningful indication of the return of the product.

A possible way forward proposed by the AAE, to better collect evidence of such differences, is to further cluster the data collection using a higher number of surveys. Nevertheless, this would not change the ultimate figures used to compute the net return in the different markets.

This relate to the trade-off between capturing all the specificities in different markets and need to use a standardize data collection at the European level.

Finally, the theoretical nature of this work, which demands to disregard some contract specificities to draw

conclusions for a putative European consumer, lead AAE and EIOPA to continue in the application of the current methodology.

The AAE work include also some additional broader reflections, i.e.:

- the importance of isolating the impact on the net return on the frequency of premium paid (singular vs. regular) is highlighted. The methodology currently in place represents the costs and net return by type of premium and aim at signalling a possible correlation between the type of premium and the costs/net return.
- the importance of isolating the impact of different level of biometric risk cover. While the data collection gathers some information on the biometric costs and the report aims at giving evidence of the level and size of such costs, the current analysis does not present the impact on biometric cost. Therefore, EIOPA considers to further developing the analysis in this regard for the future iterations.
- the appropriate representation of the return for hybrid products. Finally another area of particular focus addressed by the AAE is the complexity of multi-options structure (MOP). In this regard a different data collection with separate templates is deemed appropriate as the only way to tackle the diversity and complexity of their multi-option structure is to use different surveys for hybrid sold disjoint as unit-linked and profit participation options and those sold jointly. This is how the data collection on hybrid is currently run.

METHODOLOGICAL REFINEMENTS

Leveraging on the lessons learnt from previous editions some refinements to the methodology of the 2021 report took place with respect to the previous years' edition. This paragraph aims at giving transparent evidence of such methodological fine-tunings.

In particular:

- To measure the market coverage the GWP were used as measure of reference. In the previous iterations of the report the market coverage was instead measured in terms of technical provisions for life business[62]. This has the aim to be a more straightforward measure. Also the QRT S.05 from the Solvency II database (where GWP are reported) allows a classification which is closer to the product perspective, being available for both unit-linked and profit participation (hybrids are unbundled). On the other hand, the technical provision are reported in the QRT S.02 of the Solvency II database as unit-linked technical provision and other life technical provision different form unit-linked.
- To combine the underlying options of hybrid products an average allocation was asked to manufacturer, rather than using the relative weight of the different GWP components on the total. This has been made to avoid possible mistake due to a wrong or non-homogenous reporting of GWP, and also to avoid possible bias when few options are frequently sold, hence very popular, but bought by consumer only for a limited percentage of their portfolio, hence to avoid the disproportion between consumers' portfolio actual allocation and the size of the underlying funds.
- To enhance the comparability in terms of net return, the RIY of the costs not accounted in the NAV or Total Credit rate/Profit participation allocation was provided on 10 years basis regardless of the duration of the recommended holding period of the products, this limited to the calculation of the net return. The aim of this amendment was to limit possible distortion in the representation of the one-off costs, despite usually limited in size with respect to the ongoing costs.
- To allow more comparability amongst costs level the "wrapper costs" category was introduced. Sometimes costs at the option level do not include some additional costs which are ultimately paid by consumers, so in such cases considering only the option level information would be misleading. Similarly, the disclosure at product level sometimes reports information as range of costs and therefore is not informative of the total level of costs for a consumer buying a specific option (or a limited number of options). To try to address this challenge the working definition of 'wrapper costs' was introduced when the data collection was launched. This cost category aims at representing all the additional costs which are not at the option level but are normally paid and are not identifiable in the available disclosure. These costs can generally include: distribution costs, biometric costs, administrative costs and other costs components.

ANNEX II — DEFINITIONS

One-Off costs - PRIIPs regulation Annex VI points: 47-49	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. One-off costs include, but are not limited to, the following types of entry costs and charges that shall be taken into account in the amount to be disclosed for insurance-based investment products: (a) structuring or marketing costs; (b) acquisition, distribution, sales costs; (c) processing/operating costs (including costs for the management of the insurance cover); (d) cost part of biometric risk premiums; (e) costs of holding required capital (up front part to be disclosed insofar as they are charged).
Ongoing Costs - PRIIPs regulation Annex VI points: 50-53	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. The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount of the 'Other ongoing costs' in table 2 of Annex VII: (a) structuring or marketing costs; (b) acquisition, distribution, sales costs; (c) processing/operating costs (including costs for the management of insurance cover); (d) cost part of biometric risk premiums referred to in point 59 of this Annex; (e) other administrative costs; (f) costs of holding capital (recurring part to be disclosed insofar as they are charged); (g) 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.); (h) 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 transaction costs as referred to in points 7 to 23 of this Annex). Where an insurance-based investment product invests a part of its assets in UCITS or AIFs, in a PRIIP other than UCITS or AIFs or in an investment product other than a PRIIP, points 5(l), 5(m) and 5(n) of this Annex shall be applied respectively.

Carried Interest - PRIIP Regulation - Annex VI, point: 25 - 26	To calculate carried interests, the following steps shall be taken: (a) compute the fees on the basis of historical data covering the last 5 years. The average annual carried interests shall be computed in percentage terms; (b) where a full carried interests history is unavailable because the fund/share class is new or the fund's terms have changed due to the introduction of carried interests or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps: (i) take the relevant available history of the carried interests of the fund/share class; — for any years for which data is not available, estimate the return of the fund/share class, — for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer group's returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class. (ii) compute the carried interests from the beginning of the sample period, as required in point (a), until the date of availability of the actual carried interests data of the fund, applying the relevant algorithm to the abovementioned historical series; (iii) concatenate both carried interests series to one series over the full sample period as required in point (a); (iv) compute the carried interests using the methodology referred to in point (a) (average of annual carried interests). If no carried interests are taken throughout the investment, a warning needs to accompany the indication of zero carried interests in the composition of costs table in order to clarify that a payment of x % of the final return shall take place subsequently to the exit of the investment.
Costs part of biometric risk premiums - PRIIPs regulation Annex VI points: 54-60	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. The fair value of biometric risk premiums is the expected present value, of the future benefit payments from insurance coverage taking into account the following: (a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer; (b) other payoffs related to insurance cover (rebates on biometric risk premiums paid back to the retail investors, increase of benefit payments, reduction of future premiums, etc.) resulting from profit sharing mechanisms (legal and/or contractual). Best estimate assumptions on future benefit payments from insurance coverage shall be set in a realistic way The estimated future benefit payments shall not include prudency margins or costs for the management of the insurance cover For manufacturers within the scope of Directive 2009/138/EC these best estimate assumptions shall be consistent with the respective assumptions used for the calculation of the technical provisions in the Solvency II balance sheet The cost part of biometric risk premiums is the difference between biometric risk premiums charged to the retail investor referred to in point 54 of this Annex and the fair value of the biometric risk premiums referred to in point 55 of this Annex. A PRIIP manufacturer may include the full biometric risk premiums in the calculation of one-off costs or recurring costs in the place of the cost part of those premiums.

Incidental Costs – Performance fees - PRIIP Regulation-Annex VI, point: 24	To calculate performance related fees, the following steps shall be taken: (a) compute the fees on the basis of historical data covering the last 5 years. The average annual performance fees shall be computed in percentage terms, (b) where a full performance fees history is not available because the fund/share class is new or the fund's terms have changed due to the introduction of the performance fee or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps: (i) take the relevant available history of the performance fees of the fund/share class; (ii) for any years for which data is not available, estimate the return of the fund/share class and, in case of a relative performance fee model, take into account the historical series of the benchmark/hurdle rate; for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer groups' returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class; (iii) compute the fees from the beginning of the sample period, as required in point (a), until the date of availability of the actual performance fee data of the fund, applying the relevant algorithm to the abovementioned historical series; (iv) concatenate both performance fee series to one series over the full sample period as required in point (a); (v) compute the performance fees using the methodology referred to in point (a) (average of annual performance fees).
Unit-linked - working definition	It is a category of life insurance contract where the benefits are wholly or partly determined by reference to the value of a fund or index. There is a segregation between the assets of the undertaking and those connected to the insurance policy. These products generally offer a biometric risk cover (e.g. death, life, disability…), the treatment and feature of such cover do not affect their definition.
Profit participation – Working definition	It is an insurance contract which provides insurance benefits through eligibility to participate materially in periodic discretionary distributions based on profits arising from the insurance undertaking's business. These products usually have a minimum guarantee return or capital protection. These products generally offer a biometric risk cover (e.g death, life, disability…), the treatment and feature of such cover do not affect their definition.
Hybrid product – working definition	It is a category of life insurance contract with feature of both unit-linked and profit participation. Usually it represents a product whose benefits are linked to the value of a fund or index (unit-linked component of the hybrid product) and at the same time offers the distribution of a minimum guaranteed profit (profit participation component of the hybrid product). The features and treatment of the biometric cover do not affect the definition of such products.
Product (MOP) – Working definition	A Multi Options Product (MOP) in the context of this work is simplified to an investment option plus its wrapper. This is meant to be closer to the perspective of the policyholder who buys an option (or a limited combination of them) plus its wrapper. This definition is therefore different form the insurance manufacturer perspective where a product can be considered as a wrapper plus all the investment options offered.
Defined Benefit schemes (DB)	Retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.
Defined Contributions schemes (DC)	A pension plan where the only obligation of the plan sponsor is to pay a specified contribution (normally expressed as a percentage of the employee's salary) to the plan on the employee behalf. There are no further promises or 'guarantees' made by the sponsor.
Hybrid schemes (HY)	A plan which has two separate DB and DC components but which are treated as part of the same scheme (definition based on "Survey on fully funded, technical provisions and security mechanisms in the European occupational pension sector" (Report of the Solvency Sub-Committee), CEIOPS-OPSSC-01/08 Rev 4, 14 March 2008)

ANNEX III — LIST OF NATIONAL COMPETENT AUTHORITIES

Austria	AT	Financial Markets Authority (FMA)
Belgium	BE	Financial Services and Markets Authority (FSMA)
Bulgaria	BG	Financial Supervision Commission
Croatia	HR	Croatian Financial Services Supervisory Authority (HANFA)
Cyprus	CY	Ministry of Finance Insurance Companies Control Service (ICCS) Ministry of Labour, Welfare and Social Insurance; Registrar of Occupational Retirement Benefit Funds
Czechia	CZ	Czech National Bank
Denmark	DK	Financial Supervisory Authority (Danish FSA)
Estonia	EE	Estonian Financial Supervision Authority
Finland	FI	Finnish Financial Supervisory Authority (FIN-FSA)
France	FR	Autorité de Contrôle Prudentiel et Resolution (ACPR)
Germany	DE	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
Greece	EL	Bank of Greece Hellenic Ministry of Labour, Social Security and Social Solidarity
Hungary	HU	Central Bank of Hungary
Iceland	IS	Financial Supervisory Authority (FME)
Ireland	IE	Central Bank of Ireland Pensions Authority
Italy	IT	Instituto per la Vigilanza sulle Assicurazioni (IVASS) Commissione di Vigilanza sui Fondi Pensione (COVIP)
Latvia	LV	Financial Capital Market Commission
Liechtenstein	LI	Financial Market Authority (FMA)
Lithuania	LT	Bank of Lithuania
Luxembourg	LU	Commissariat aux Assurances
Malta	MT	Malta Financial Services Authority
Netherlands	NL	Financial Supervisory Authority (AFM)
Norway	NO	Financial Supervisory Authority of Norway
Poland	PL	Financial Supervision Authority (KNF)

Portugal	PT	Insurance and Pension Funds Supervisory Authority (ASF)
Romania	RO	Financial Supervisory Authority (ASF)
Slovakia	SK	National Bank of Slovakia
Slovenia	SI	Insurance Supervision Agency
Spain	ES	Ministry of Economy — Directorate-General of Insurance and Pension Funds
Sweden	SE	Finansinspektionen (FI)

ANNEX V — ABBREVIATIONS

DB	Defined benefit
DC	Defined contribution
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESA	European Supervisory Authority
ESMA	European Securities and Markets Authority
FoE	Freedom of establishment
FoS	Freedom to provide services
IBIPs	Insurance-based investment products
IDD	Insurance Distribution Directive
IRSG	Insurance and Reinsurance Stakeholder Group
IORPs	Institution for Occupational Retirement Provisions
GWP	Gross written premium
KID	Key information document
KIID	Key investor information document
ITS	Implementing Technical Standard
MOP	Multi Option Products
NAV	Net Asset Value
NCA	National competent authority
OPSG	Occupational Pensions Stakeholder Group
POG	Product oversight and governance
PP	Profit participation product
PPP	Personal pension product
PRIIPS	Packaged retail and insurance-based investment products
QRT	Quantitative reporting template
RHP	Recommended holding period
RIY	Reduction in yield
SRI	Summary risk indicator
UCITS	Undertakings Collective Investment in Transferable Securities
UL	Unit linked product

ENDNOTES

[1] Request to the European supervisory authorities to report on the cost and past performance of the main categories of retail investment, insurance and pension products

[2] The considered net returns are the median rates of the annualised performance observed in the sample between 2015 and 2019.

[3] The calculation stems from the analysis shown in the report which are based on net returns indicators rather than actual values. This sentence aims at providing a better understanding in euro value terms of the impact of the performance indicators analysed. The report does not further consider actual values figures but only performance indicators.

[4] EIOPA, First Report Cost and Past Performance

[5] EIOPA, 2020 Report on Cost and Past Performance

[6] The "other on-going costs" refer to all on-going costs excluding transaction costs.

[7] ESMA, January 2019, "Performance and Costs of Retail Investment Products in the EU". ESMA, April 2020, "Performance and Costs of Retail Investment Products in the EU".

[8] Request to the European supervisory authorities to report on the cost and past performance of the main categories of retail investment, insurance and pension products

[9] Article 9(1)(a), Regulation 1094/2010 establishing EIOPA.

[10] EIOPA Risk and Financial Stability Report 2019

[11] EIOPA 2020 Consumer Trend Report

[12] Source: Committee on Consumer Protection and Financial Innovations – questionnaire on hybrid products

[13] EIOPA 2020 Consumer Trend Report

[14] Impact of ultra-low yields on the insurance sector, including first effects of COVID-19 Crisis, EIOPA 2020

[15] The focus of the analysis on costs in this report is mainly on the total costs at recommended holding period.

[16] IS, CY, DK & NO did not participate in the exercise.

[17] In the Netherland, after the market scandal of 2012 the IBIPs market crashed and the residual unit-linked products relate to closed books business.

[18] In some markets undertakings provided both hybrids and either unit-linked either profit participation products, hence there is an overlap between the coverage achieve analysing hybrid products and unit-linked/profit participation products stand alone. Therefore, the amount of coverage achieved by the hybrids in some instances complements and in some other cases overlaps the coverage achieved by the individual unit-linked or profit participation products. This reflects the Solvency II reporting.

[19] All the data submitted to EIOPA were analysed, with the exception of limited additional data (2% of coverage) from Spain and Germany that was submitted but could not be included. Moreover the contribution of the hybrid and unit-linked products should be considered jointly.

[20] All the data submitted to EIOPA were analysed, with the exception of limited additional data (5% of coverage) from Bulgaria that was submitted but could not be included. Moreover the contribution of the hybrid and profit participation products should be considered jointly.

[21] To ensure confidentiality, no individual Member State data is shown for MT, EE, LV and LT where there is a high concentration of the insurance market share amongst a few undertakings.

[22] LI, having submitted only one products was not represented on the Member States level analysis on profit participation products

[23] There are additionally 2 profit participation products submitted from GR, belonging to risk category 6. This is a specificity of the Greek market due to the credit risk effect on the calculation of the KID risk class. These products are included in the analysis even if not shown in this chart because it represents a specificity of the Greek market.

[24] EL and HU were excluded by the Member State level analysis because only one or two products were provided.

[25] In case of hybrid products reported in an unbundle manner, to allow the computation of the net return and costs, a standard allocation amongst the two options was used. This allocation was provided by the undertakings as representative of the allocation for policyholders. However while a weighted average of net return and costs is sensible, it would be artificial and ultimately misleading to also weight the risk class of the option underlying the hybrid products.

[26] "other on-going costs" refer to all on-going costs excluding transaction costs.

[27] Wrapper costs were introduced in the costs representation used in this report to avoid the risk that, in case of multi option products, only the costs of the underlying option level were shared, so respondent were asked to disclose both information clearly.

[28] In some other instances this is clarified using a PRIIPs KID for each option available or for example clearly stating this costs on a separate basis.

[29] As for the net return analysis, information on costs are not shown at Member States level for concentrate market where it would be possible to reconcile the name of the undertakings with the figure shown. This applies to EE, LV, LT, MT.

[30] To allow the computation of the net return and costs, a standard allocation amongst the two options was used. This allocation was provided by the undertakings as representative of the allocation for policyholders. However, while a weighted average of net return and costs is sensible, it would be artificial and ultimately misleading to also weight the risk classes of the option underlying the hybrid products.

[31] For HU and EL market data is not shown individually, because only one or two products were provided.

[32] For HU and EL market data is not shown individually, because only one or two products were provided.

[33] These definition are working definition used in the context of the analysis. However, despite the lack of a formal definition of such cost groups in the PRIIPs delegated regulation, with the exception of biometric costs, the same cost categorization is commonly used in practice in the terms and condition of IBIPs products. Also the same costs categorization is expected to be used for PEPP products.

[34] PRIIPs Delegate Regulation, Annex VI, points 54-60.

[35] This practice has been found in some markets (FI, SE, CZ).

[36] The coloured column is meant to highlight the most frequent answer.

[37] The coloured column is meant to highlight the most frequent answer.

[38] The Members States having shared information on personal pension products are: AT, BE, DE, EE, EL, FR, HU, IE, IT, MT, NL, PL, PT, SI.

[39] In the previous year report, despite a lower number of products considered, the GWP analysed resulted higher because of few products from UK with high GWP values, that this year are not any more in scope of the analysis.

[40] NL and BE, having provided only one PPP-UL product were not presented in the Member State level analysis.

[41] 27 out of 125 PPP-UL provided cannot be matched with a unique assets class, for PPP-PP it is 15 out 53.

[42] NL and BE, having provided only one PPP-UL product were not presented in the Member States level analysis for PPP-UL products

[43] As for the previous analysis at Member States level, information on costs are not shown at Member States level for concentrate markets where it would be possible to reconcile the name of the undertakings with the figures shown. This applies to EE, MT.

[44] These figures also includes pension funds for € 41 billion of assets from Romania and Iceland which are not IORPS, and are not included in the EIOPA pension data reporting. Source: Financial stability report, December 2020

[45] The definition of DB, DC and hybrids are presented in Annex II

[46] Financial stability report, December 2020 and EIOPA 2020 Consumer Trend Report

[47] As clarified in the Board of Supervisor 'Decision on EIOPA's regular information requests towards NCAs regarding the provision of occupational pensions information'

[48] The Members States whose data were available and have been considered are: AT, BE, BG, DE, DK, ES, FI, FR, HR, IT, LI, LU, LV, MT, NO, PL, PT, SI, SK.

[49] Template of reference PF.09.02.24

[50] This data refers to the latest data available to EIOPA at the extraction date, 10th March 2021.

[51] Unrealised capital gains (or losses), not carried through the profit and loss account. Capital gains and losses arise from the variation between the valuation of investments at the beginning of the accounting period (or at purchase, if later) and their valuation at the end of the accounting period (or at sale, if earlier).

[52] Realised gains (or losses) refer to realised capital gains (or losses) carried through the profit and loss account. Capital gains or losses arise from the variation between the valuation of investments at the beginning of the accounting period (or at purchase, if later) and their valuation at the end of the accounting period.

[53] Template of reference PF.05.03.24

[54] This data refers to the latest data available to EIOPA at the extraction date, 10 March 2021.

[55] The definition of the different items are: Administrative Expenses - Expenses related the administration of the pension scheme arrangement, Investment expenses - Expenses related to the asset management of the pension scheme arrangement, Tax expenses - Tax expenses incurred in relation to the pension scheme arrangement, Other expenses – expenses incurred in relation to the pension scheme arrangement, not elsewhere shown.

[56] The technical provision covered were expressed as a sum of data in R0600 C0010 and R0690 C0010 template, S.02.01, Solvency II requirements.

[57] The Solvency II cell notation is: S.05.01.01 R1410 C0220, S.05.01.01 R1410 C0230

[58] In the case of insurance undertakings, domestic market participants are defined as insurance undertakings with primary corporate headquarters located in that Member State, subsidiaries of EU/EEA and non-EU/EEA country insurance undertakings and branches from insurance undertakings of non-EU/EEA countries.

[59] Cross-border business is composed of domestic insurance undertakings taking-up business in another Member State under the freedom of establishment or the freedom to provide services.

[60] 10.a and 10.b unit-linked product refers to Article 10 PRIIPs-RTS / delegated regulation

[61] EIOPA, 2020 Report on Cost and Past Performance, Annex II

[62] The technical provision covered were expressed as a sum of data in R0600 C0010 and R0690 C0010 template, S.02.01, Solvency II requirements.

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