

# COSTS AND PAST PERFORMANCE REPORT – 2022

05 April 2022



**eiopa**

European Insurance and  
Occupational Pensions Authority

# CONTENTS

<b>Executive summary</b>	<b>3</b>
<b>EUROPEAN SUPERVISORY AUTHORITIES REPORTS: PREVIOUS EDITIONS</b>	<b>6</b>
<b>Introduction</b>	<b>9</b>
<b>Insurance Based Investment Products (IBIPs)</b>	<b>13</b>
1.1 Market Coverage	13
1.2 Net return	16
1.4 Costs	26
1.4.1 Costs drivers: an analysis by source and causes	32
1.5 Products with sustainability-related features	35
1.6 Summary findings on IBIPs	37
<b>Pension schemes and products</b>	<b>39</b>
1.1 Personal Pension Products (PPPs)	39
1.2 IORPs	49
1.3 Summary findings on the pension sectors	53
<b>Next steps</b>	<b>55</b>
Annex I – Methodology	56
1.1 IBIPs	56
1.2 Pension products	61
1.3 Methodological refinement	61
Annex II – Statistical annex	63
Annex III – Additional information on IORPs	67
Annex IV – Definitions	69
Annex V – List of national competent authorities	73
Annex VI – Abbreviations	74

## EXECUTIVE SUMMARY

Despite the unprecedented challenges posed by the COVID-19 pandemic, both the insurance and pension retail investment markets performed well. Net returns were overall positive and in line with the five year trend. The threat of rising inflation, however, represents an emerging risks to be monitored across the sector<sup>1</sup>.

For the 2022 report EIOPA received information on:

- ▶ more than 760 Insurance-based Investment Products (IBIPs), marketed by 160 undertakings accounting for 60% of total Gross Written Premiums (GWP) in the European Economic Area;
- ▶ more than 200 personal pension products (PPPs) corresponding circa 0.8 million contracts;
- ▶ data on assets, expenses and income of European Institutions for Occupational Retirement provision (IORPs).

**IBIPs offered steadily positive returns, with unit-linked products outperforming hybrid and profit participation products despite higher costs. Data on ESG products, albeit not representative, shows strong performance.**

**IBIPs offered steadily positive valuation in 2020 with unit-linked products outperforming hybrid and profit participation products, while also carrying higher costs.** Unit-linked products return was 6.0% while hybrids and profit participation had a net return of 2.0% and 1.4% respectively. A putative investor buying a unit-linked contract for € 10,000 in 2016 would have achieved a net value of € 12,564 at the end of 2022 (4.7% per year). Hybrid and profit participation products' past performance, albeit more stable, was lower, being on average 2.5% for hybrid and 1.7% for profit participation products.

**The shift from traditional profit participation products towards hybrid and unit-linked products observed in the past years accelerated in 2020,** heightened by the market environment characterised by the pandemic and the prolonged low interest rate environment. GWP corresponding to profit participation products decreased more than 10% in 2020.

**Higher risk classes delivered higher levels of net returns for unit-linked and hybrid products while longer holding periods continue driving higher performance of profit participation products.** Products corresponding to lower risk classes had particularly low net returns, at times negative

---

<sup>1</sup> [Financial Stability Report December 2021 | Eiopa \(europa.eu\)](#)

(ranging between -1% and 1%), questioning the value for money offered by these products. Riskier unit-linked products provided higher returns than hybrid products, having paid an annualised return of ca. 10%, almost twice the annualised average net return corresponding to riskier hybrids. For profit participation products longer holding periods remain a driver of extra performance, paying on average 1% more than products with shorter durations.

**Despite the higher net returns, unit-linked and hybrid products continue carrying higher costs increasing from 2019 to 2020.** On average, costs of unit-linked and hybrid products slightly increased, respectively being 2.7% and 2.2% in 2020, while profit participation products continued being the cheapest products, 1.3% of total costs on average. In terms of cost structure, costs categorized as other ongoing costs<sup>2</sup> remain the most prominent cost item, followed by wrapper costs<sup>3</sup> and entry costs. Looking at the costs drivers, in line with last years' findings, administrative costs, on average, are the main driver of total costs together with the investment management costs and distribution costs. Biometric costs are minor costs elements.

**Albeit not representative, an analysis of ESG products shows a strong performance.** The first analysis carried out on a sample of products reported as presenting sustainability-related features shows a clear over-performance compared to the other IBIPs included in the analysis. Costs were generally aligned, being cheaper for hybrid products presenting sustainability related features with respect to general IBIPs. This information should be interpreted cautiously, however, as it relates to a relative small size of the sample and there was not yet an harmonized regulatory framework<sup>4</sup> to determine whether these products actually have ESG features.

**The wide diversity of personal pension products (PPPs) markets continue to limit comparability however, some general trends can be drawn which highlight that PPPs in scope have overall behaved like IBIPs.**

The report presents for the first time a country by country analysis given the limited comparability amongst markets due to the absence of a common European framework. This country by country analysis provides detail on the structure of the different PPPs. In terms of European trends, it can be observed that 2020 was characterised by positive but low net return being 3% for PPP similar to unit-linked IBIPs and 1.5% for PPP similar to profit participation IBIPs at European aggregate level, having slightly decreased with respect to the previous five years. Costs were also higher than

---

<sup>2</sup> Recurring costs different from transaction costs.

<sup>3</sup> Working definition corresponding to the costs due to the presence of an insurance wrapper additional to option underlying costs – mainly relevant for multi option products.

<sup>4</sup> The analysis is ante the entering into force of the SFDR Regulation.

previous year's findings, being above 2% for PPP similar to unit-linked and hybrids, being aligned for PPP similar to profit participation (1.5%).

#### **IORPs' expenses are mostly drive by investment expenses**

The report provides some limited additional analysis at IORPs level, based on pension funds rather than following a members perspective, as information on the proportion of costs and income (and so of the net performance) passed onto members is not available. Expenses corresponding to Defined Contribution (DC) schemes were lower (ca. € 2 billion) than the investment income (ca. € 18 billion). In 2020 total expenses corresponding to IORPs DC schemes were mainly driven by investment expenses. Total investment income was driven by unrealised gains.

Looking ahead, EIOPA will continue working on costs standardization and methodology refinements to better address the challenges still in place, mainly in relation to hybrids. EIOPA also plans to further develop the analysis on ESG products leveraging on the recently introduced harmonised regulatory framework. For IORPs the analysis will be gradually expanded based on harmonized reporting for IORPs.

#### **Note for the reader**

For reasons of consistency with prior reports, including that of the European Securities and Markets Authority (ESMA), the report starts with an initial section summarising the findings from the previous edition of the report. This is followed by an introductory chapter outlining the market environment.

**The findings of the data collection and analysis for this edition of the report are presented from page 16 onward. Those familiar with the prevision editions of this report may begin reading at that point.**

# EUROPEAN SUPERVISORY AUTHORITIES REPORTS: PREVIOUS EDITIONS

To enhance transparency and improve investor protection, annually the European supervisory authorities (ESAs) publish reports on the performance and costs of retail investment products in their remits. A summary of the key findings of the reports published in previous years is provided below, with the view of providing the necessary background, highlighting market developments, and outlining the enhancements of the 2022 report.

## **EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)**

EIOPA's previous years reports<sup>5</sup> focused on net performance and costs of insurance-based investment products (IBIPs) and of personal pension products (PPPs) and highlighted that:

- Net performance from profit participation products, despite being steadily positive was low. When considering the inflation effect, the value offered to consumers has been on average very little in real terms. Profit participation products were cheaper than unit-linked despite increasing costs.
- Risk class can be considered the most relevant driver of performance for unit-linked products, while the longer recommended holding period resulted to be the most prominent driver of past performance for profit participation products.
- Unit-linked products offered higher returns while directly exposing policyholders to market shocks. 2019 was an extremely positive year for the IBIPs market, with positive return across all Members States, following the low and negative returns observed in 2018.
- 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. From a value for money perspective, some trade-offs need

---

<sup>5</sup> [EIOPA's first Report on Costs and Past Performance of insurance and pension products | Eiopa \(europa.eu\)](#)

[Cost and past performance 2020 report | Eiopa \(europa.eu\)](#)

[Cost and past performance report 2021 | Eiopa \(europa.eu\)](#)

to be considered in terms of returns and costs for hybrid products. Hybrid products are generally more complex because they combine multiple options, however the higher complexity does not necessarily mean higher returns for hybrids than for profit-participation products.

- In IBIPs administrative costs were the most prominent costs, followed by distribution costs and investment management costs. Biometric costs and exit costs were minimal.
- For Personal pension products 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. The costs level of personal pension products in terms of reduction in yield at recommended holding period were lower than for IBIPs.
- Longer recommended holding periods were also identified as a driver of extra performance in personal pension products, 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 for IBIPs.

#### **EUROPEAN SECURITIES AND MARKET AUTHORITY (ESMA)**

ESMA's previous year reports<sup>6</sup> cover Undertakings for Collective Investment in Transferable Securities (UCITS), Alternative Investment Funds (AIFs), and Structured Retail Products (SRPs) for the years 2010-2020. In summary:

- UCITS costs only marginally declined over time. For one-year investments they were 1.4% in 2019, while showing volatile returns as on average gross UCITS fund performance varies significantly over time.
- Retail clients paid on average around 40% more than institutional investors across asset classes.
- Higher risk exposures entailed higher costs irrespective of the asset class.
- In relation to active and passive funds it was observed that:
  - Costs were higher for active equity and bond UCITS compared with passive and ETFs.
  - There was net underperformance of active equity and bond UCITS, on average, compared with passive and ETFs.

---

<sup>6</sup> [esma\\_50-165-1710\\_asr\\_performance\\_and\\_costs\\_of\\_eu\\_retail\\_investment\\_products.pdf\(europa.eu\)](#)

- Top-25% active equity UCITS over performed compared to the top-25% passive and related benchmarks, at shorter horizons.
- ESG funds outperformed non-ESG equity UCITS, mostly due to sectoral factors, and were slightly cheaper.
- Retail AIFs showed high return volatility across years.
- Total costs were largely attributable to entry costs and varied substantially by country and payoff type. There was little difference in simulated returns between moderate and favourable performance scenarios.
- Heterogeneity and data availability issues persisted, as well as lack of harmonisation in national regulation and hence limited comparability across Member States.



# INTRODUCTION

In line with the European Commission's request<sup>7</sup> to regularly monitor and report on costs and past performance and to fulfil the tasks outlined in Article 9 of EIOPA's founding Regulation<sup>8</sup>, 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 and to contribute to the development of the Capital Markets Union (CMU).

EIOPA follows an agreed upon methodology<sup>9</sup>, covering costs and performance over the previous five years (from 2016 to 2020). The methodology mostly relies on data available in standardized disclosures – in particular the Key Information Documents (KID) for Insurance Based Investment Products (IBIPs); however, given the absence of data on past performance and the fact that not all products within EIOPA's remit are subject to the requirements of PRIIPs Regulation<sup>10</sup>, EIOPA also carried out a market-wide survey to collect additional relevant information on IBIPs and Personal Pension Products (PPPs). This year the report presents for the first time some analysis on Institutions for Occupational Retirement Provision (IORPs), following the implementation of the IORPs II Directive<sup>11</sup> and the availability of a European centralized reporting framework. Still these are limited at the level of IORPs, following a pension funds rather than members perspective.

## Market overview

The disruption brought by the COVID-19 pandemic in 2020 has strongly affected and challenged the insurance and pension markets. Amongst these, liquidity risk and a deterioration of return were identified as the key risks to be monitored affecting IBIPs, IORPs and PPPs<sup>12</sup>. As a matter of fact

---

<sup>7</sup> [Request request to esas to issue recurrent reports - cmu action.pdf \(europa.eu\)](#)

<sup>8</sup> [Regulation \(EU\) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority \(European Insurance and Occupational Pensions Authority\), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC \(europa.eu\)](#)

<sup>9</sup> The methodology is outlined in Annex I

<sup>10</sup> [EUR-Lex - 32017R0653 - EN - EUR-Lex \(europa.eu\)](#)

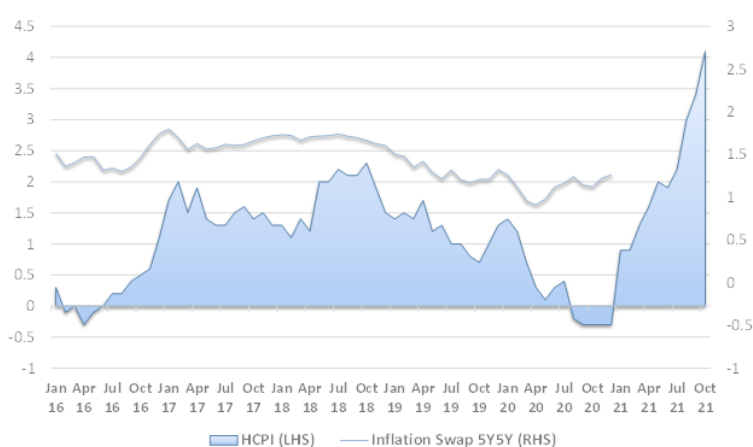
<sup>11</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)

<sup>12</sup> [Consumer Trends Report 2020 | Eiopa \(europa.eu\)](#)

liquidity risk, despite being identified as top threat did not materialise but is closely monitored, while the market turmoil driven by volatility, bond downgrades and lower profit distribution in the equity market weighed on assets valuation and therefore on IBIPs and IORPs' investment performance. The significant loss and devaluation suffered in the first half of the year have negatively affected the sector's investment performance while in the second half of the 2020, despite another wave of pandemic, a swift market rebound was observed<sup>13</sup>.

In this context the inflation represents a relevant source of risks. While in 2020 it further subdued, the shock on the demand and supply, the deterioration of households' savings and an increase in the unemployment rates set out the basis for an outlook of higher inflation. The increase of the 5Y5Y Swap rates, which proxies the expectation on inflation, and the actual spike registered in 2021 in the HICP (Harmonised Index of Consumer Prices) confirmed indeed the outlook (Figure 1). Higher inflation, despite being considered as transitory effect by central banks, weakens policyholders' purchasing power and lower their appeal in entering in multiyear life insurance contracts. Hence it represents a central element to bear in mind while interpreting the costs and past performance of insurance and pension products.

**Figure 1 - Inflation as HICP main components (annual % changes) and 5Y5Y% Inflation Swap rate**



Source: ECB, Eurostat<sup>14</sup>

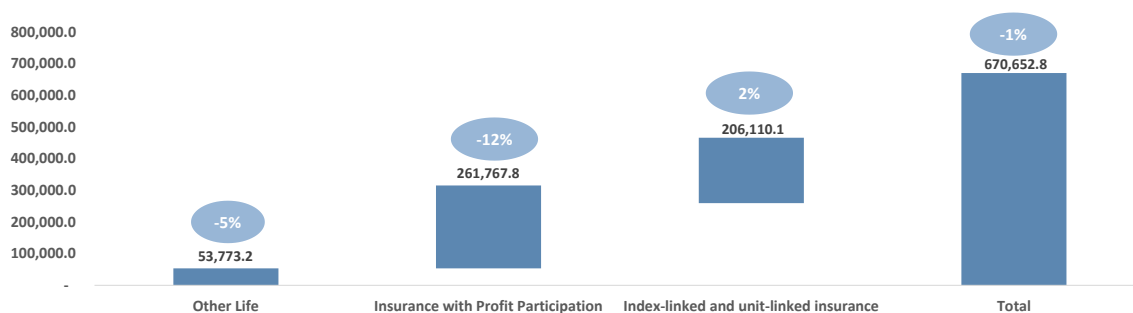
Focusing on the life insurance sector, after years of growth, in 2020 the life insurance business shrank (-1% in terms of GWP) accelerating the shift already identified from traditional profit participation products to unit-linked and hybrid products, i.e. products combining exposure to market returns with guarantees. The drop in terms of insurance with-profit participation GWP (-

<sup>13</sup> [Financial Stability Report December 2020 | Eiopa \(europa.eu\)](#)

<sup>14</sup> [My Selected Search Results - ECB Statistical Data Warehouse \(europa.eu\)](#)

12%) emerged as the major driver behind the decrease in life insurance. More than two thirds of EEA Member States reduced their exposure towards this business and the Member States where these products are predominant saw the biggest reduction in life premium, while Index-linked and unit-linked insurance still reported a growth (2%)<sup>15</sup> - Figure 2.

**Figure 2 - EEA life insurance GWP in € million for selected lines of business — 2020**



*Source: Solvency II Database*

The prolonged low interest rate environment, coupled with the COVID-19 crisis, has depicted an unfavourable market environment such that, on one hand consumers were discouraged by the low return of traditional guaranteed products, on the other hand they were exposed to the market volatility brought by the pandemic and embedded in unit-linked products. In this context hybrid products were more and more promoted and distributed, being:

- predominant in FR, where pure unit-linked and profit participation products are seldom sold;
- relevant in AT, BE, DE, IT and LU where hybrids are increasingly commercialised and growing faster than traditional profit participation and unit-linked products, which still remain substantial;
- emerging and growing in relevance in GR, HU, SK and SI<sup>16</sup>.

#### **BOX 1 – Focus on the COVID-19 impact on IBIPs – from manufacturers’ perspective**

While the Covid-19 disruption caused, and it is still causing, unprecedented challenges and changes in consumers’ behaviours and market practices, European insurance manufacturers provided homogenous feedback in continuing highlighting market volatility and uncertainty as the main

<sup>15</sup> [Consumer Trends Report 2021 | Eiopa \(europa.eu\)](#)

<sup>16</sup> In addition, in HR there is also one hybrid product commercialised to date whose premium are limited.

impact of the pandemic on their products, specifically for unit-linked and hybrid products. Answers provided to EIOPA were consistent in identifying the returns as being more exposed than costs, being overall more stable in time and to some extent fixed. The higher volatility measured during the first wave of the crisis triggered in many instances the review of the performances scenarios disclosed in the PRIIPs KID documents, showing less favourable outcomes, in terms of performance, while heightening the impact of costs. On the costs side, similarly to last year findings, manufacturers reported a limited increase of transaction costs due to the increase of bid-ask spread linked to the riskiness of some assets.

On the other hand, these effects were minor for profit participation products, having by definition profit allocation techniques aiming at smoothing market volatility. Furthermore some manufacturers highlighted that pandemic accelerated the shift out of this business, as it required pricy hedging strategies to absorb the volatility and ultimately resulting in being more costly for consumers.

The sample of products received in this iteration of the analysis, being larger on unit-linked and hybrids and narrower for profit participation than previous iterations, confirms this trend, with more and more European markets discontinuing the commercialisation of new profit participation products.

# INSURANCE BASED INVESTMENT PRODUCTS (IBIPS)

## 1.1 MARKET COVERAGE

160 undertakings from 26 Member States<sup>17</sup> participated in the current Costs and Past Performance exercise. More than 760 products have been analysed: 515 unit-linked (of which 40 having been designated as ESG products), 176 hybrid products (of which 19 having been designated as ESG products) and 84 profit participation (of which 4 having been designated as ESG products).

For the purpose of this analysis the notion of 'product' follows a policyholder's 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.

The market coverage represents the market shares, measured in GWP terms, of the undertakings whose products have been submitted and analysed in this work). 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 3) and profit participation products (Figure 4). In some markets, i.e. FR and LU, the inclusion of hybrid products was crucial to achieve the target coverage<sup>18</sup>.

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

- 60% of the European unit-linked market
- 62% of the European with-profits participation market

At Member States level the target was achieved for all Member States for the unit-linked/hybrid business (Figure 3) with the exception of:

- LI, as a relevant market player was excluded, because it offered only niche products to high net worth individuals;

---

<sup>17</sup> All EEA Member States were involved with the exception of CY, DK, IS and NO who did not participate to the exercise.

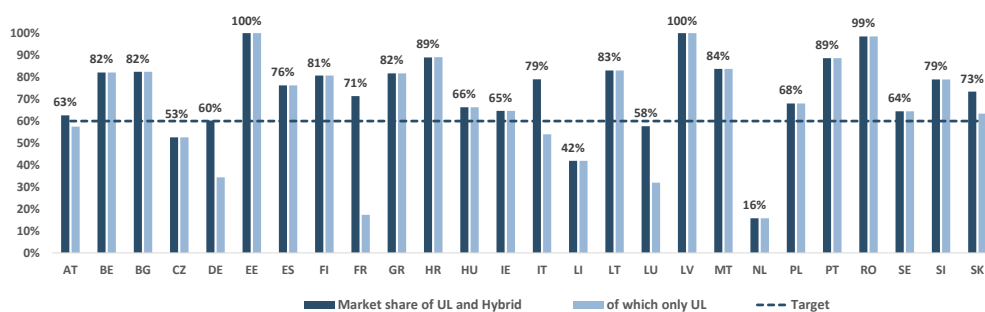
<sup>18</sup> All the data submitted to EIOPA was analysed, with limited exceptions due to data quality issues.

- NL, where as of today, these products are only commercialised by one undertaking while the residual coverage is characterised by run off products;
- CZ and LU where the sample analysed is slightly below the target but still relevant, being above 50%.

For profit participation products (Figure 4), despite the 60% target having been reached at aggregate European level, the coverage at Member State level was lower in:

- BG, GR, HR, PT, RO and SI, given that most of these products are in run-off and the rest are only commercialised by few manufacturers,
- LI, as only one insurance undertaking offer retail products,
- ES, FR, FI, IE, LT, LU, LV and NL where pure profit participation products were not sold at all in 2020.

**Figure 3 – Market coverage of the sample in scope – unit-linked and hybrid products<sup>19</sup>**

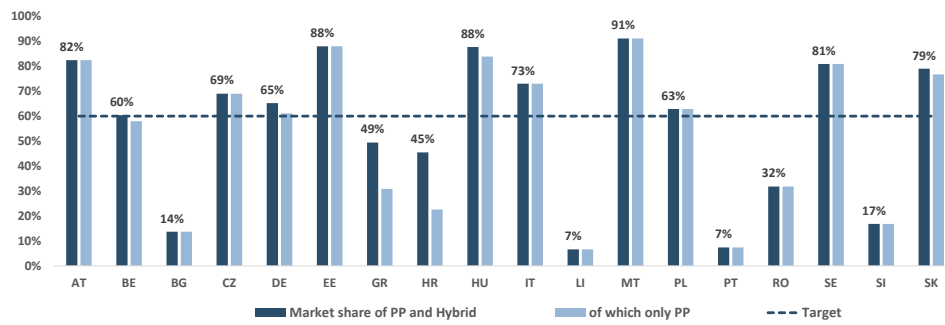


Source: Solvency II database

**Figure 4 - Market coverage of the sample in scope – profit participation and hybrid products<sup>20</sup>**

<sup>19</sup> The market coverage refers to the market share of undertakings whose products have been analysed – according to the agreed upon methodology detailed in Annex I. The number of products analysed by Member States varies and ranges from 5 (LU) to 74 (DE) for unit-linked products and from 6 (LU) to 61 (FR) for hybrids (Annex II).

<sup>20</sup> The market coverage refers to the market share of undertakings whose products have been analysed – according to the agreed upon methodology detailed in Annex I. The number of products analysed by Member States varies and ranges from 4 (CZ, PL, RO, SK) to 15 (IT) for profit participation products and from 6 (LU) to 61 (FR) for hybrid products (Annex II).



Source: Solvency II database

## 1.2 NET RETURN

Unit-linked products are inherently volatile. They offer consumers high returns during positive market trends but they also expose them to risky downturns during periods of economic turbulence, hence the product's name containing 'linked' (to the valuation of their underlying).

In the long term inflation also has an impact on consumer outcomes. Indeed, inflation over the longer term impacts 'real' returns of investments and consumers can find it difficult to assess or to take into account its effect. Given that some IBIPs can be whole-life products or be very long term, this is a relevant factor.

### BOX 2 – The inflation trend in Europe

The analysis presented in the report was done in nominal terms given that the inflation is an exogenous factor, i.e. outside the control of manufacturers. In the last five years the inflation level was medium-low but still positive and even high in some non-euro markets. In addition the inflationary push brought by the macroeconomic shock caused by the pandemic in 2020 has given the topic further relevance when interpreting return, ultimately impacting consumers' outcomes. The table below (Table 1) depicts the level of inflation by Member States for the years 2016-2021.

#### Table 1 – HICP, annual change by Member State<sup>21</sup>

---

<sup>21</sup> [My Selected Search Results - ECB Statistical Data Warehouse \(europa.eu\)](#)



	2016	2017	2018	2019	2020	2021
<b>EU27</b>	<b>0.3%</b>	<b>1.7%</b>	<b>1.9%</b>	<b>1.5%</b>	<b>0.8%</b>	<b>2.7%</b>
Austria	1.0%	2.2%	2.1%	1.5%	1.4%	2.8%
Belgium	1.8%	2.2%	2.3%	1.3%	0.4%	3.2%
Bulgaria	-1.3%	1.2%	2.6%	2.5%	1.2%	0.0%
Cyprus	-1.2%	0.7%	0.8%	0.5%	-1.1%	2.3%
Czech Republic	0.7%	2.4%	2.0%	2.6%	3.3%	3.3%
Germany	0.4%	1.7%	1.9%	1.4%	0.4%	3.2%
Denmark	0.0%	1.1%	0.7%	0.7%	0.3%	1.9%
Estonia	0.8%	3.6%	3.4%	2.3%	-0.6%	4.5%
Spain	-0.3%	2.0%	1.7%	0.8%	-0.3%	3.0%
Finland	0.4%	0.8%	1.2%	1.1%	0.4%	2.1%
France	0.3%	1.2%	2.1%	1.3%	0.5%	2.1%
Greece	0.0%	1.1%	0.8%	0.5%	-1.3%	0.6%
Croatia	-0.6%	1.3%	1.5%	0.8%	0.0%	2.7%
Hungary	0.5%	2.4%	2.9%	3.4%	3.4%	5.2%
Ireland	-0.2%	0.3%	0.7%	0.9%	-0.5%	2.4%
Italy	0.0%	1.3%	1.3%	0.7%	-0.1%	2.0%
Lithuania	0.7%	3.7%	2.5%	2.2%	1.1%	4.6%
Luxembourg	0.0%	2.1%	2.0%	1.6%	0.0%	3.5%
Latvia	0.1%	2.9%	2.6%	2.8%	0.1%	3.3%
Malta	0.9%	1.2%	1.7%	1.5%	0.8%	0.7%
Netherlands	0.1%	1.3%	1.6%	2.7%	1.1%	2.8%
Poland	-0.2%	1.6%	1.2%	2.1%	3.7%	5.2%
Portugal	0.6%	1.6%	1.2%	0.3%	-0.1%	0.9%
Romania	-1.0%	1.1%	4.1%	3.9%	2.4%	0.0%
Sweden	1.1%	1.9%	2.0%	1.7%	0.7%	2.6%
Slovenia	-0.2%	1.6%	1.9%	1.7%	-0.3%	2.0%
Slovakia	-0.5%	1.4%	2.5%	2.8%	2.0%	2.8%

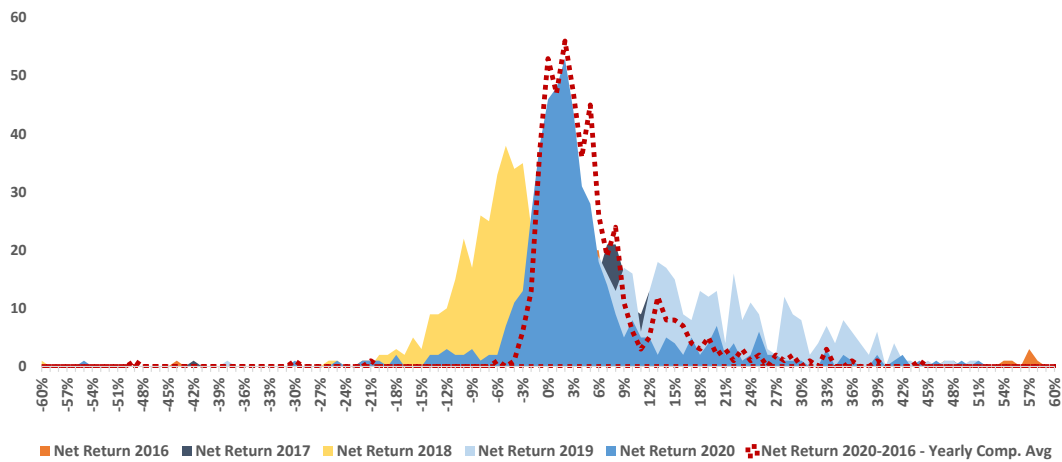
Source: ECB, Eurostat

Unit-linked products (Figure 5) in 2020 reported steadily positive net returns, normalizing from the high returns observed in 2019 and recovering from the heavy loss of 2018. The weighted average<sup>22</sup> return was 6.0% (simple average return was 4.7%). An investor buying a unit-linked product in 2016 would have achieved a net return of ca. 5% per year. Thanks to the remarked positive performance of 2020 and 2019, unit-linked outperformed products with guarantees (both hybrids and profit participation). Despite the COVID-19 pandemic not ultimately lowering returns, an impact was clearly visible on the level of volatility, which peaked in the 2020. Indeed, the measured standard deviation of the sample was 13%, which is its highest level in the last five years. Further, given the nature of unit-linked products (e.g. being at times exposed to losses such as in 2018), policyholders could have received very diverse investment outcomes in the last 5 years.

<sup>22</sup> The average is weighted on the 2020 GWP of the product. Unless differently specified the average shown in this work are weighted average on the basis of 2020 GWP.

Similarly, hybrids (Figure 6) reported positive net returns, despite a generally lower weighted average net return of 2% in 2020. Over the past 5 years, hybrid products have been paying policyholders 2% each year, lower than unit-linked products, whilst exposing policyholders to similar level of volatility (the measured standard deviation in the sample was 11%). Nevertheless both distribution were positive skewed and returns were mostly into the range of -1% to 6%, for unit-linked, and -1% to 3% to hybrids.

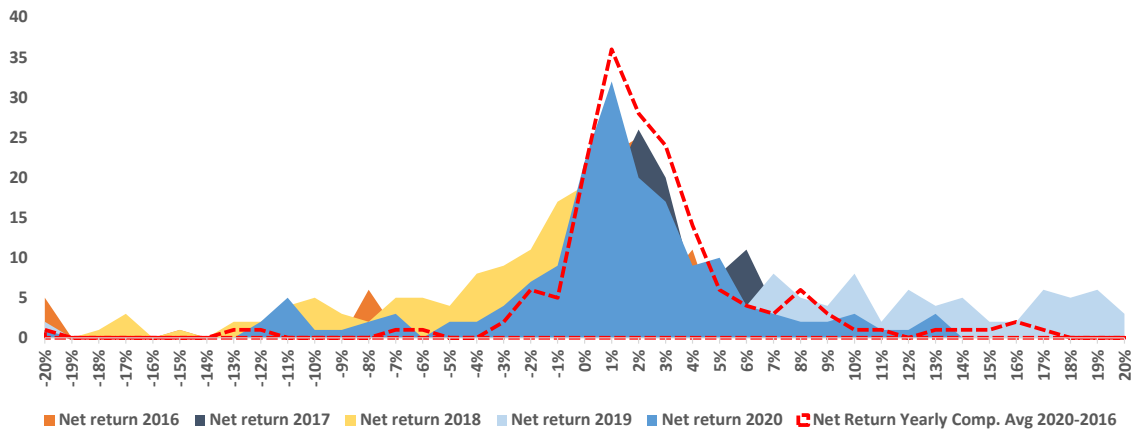
**Figure 5 - Net return distribution of unit-linked products 2020 – 2016**



	Net Return 2016	Net Return 2017	Net Return 2018	Net Return 2019	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg
Median	2.4%	4.1%	-5.6%	12.7%	1.8%	2.8%
Simple Average	4.5%	5.3%	-6.1%	14.1%	4.7%	4.7%
Weighted Average	5.0%	3.4%	-5.8%	14.5%	6.0%	4.7%
St deviation	10.6%	7.4%	5.2%	11.9%	12.9%	7.1%
25% Percentile	-0.3%	0.2%	-9.1%	4.3%	-0.9%	0.3%
75% Percentile	6.0%	8.2%	-2.4%	22.1%	5.7%	6.8%

Source: Costs and past performance survey

**Figure 6 - Net return distribution of hybrid products 2020 – 2016**



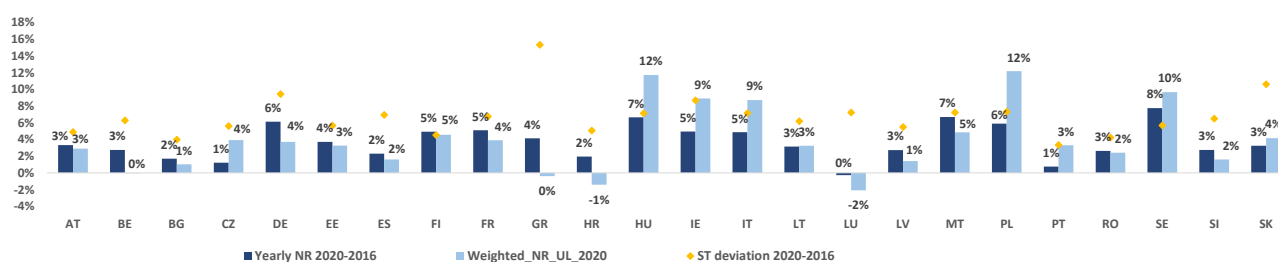
	Net Return 2016	Net Return 2017	Net Return 2018	Net Return 2019	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg
Median	1.0%	1.8%	-1.5%	5.7%	0.8%	1.3%
Simple Average	1.1%	2.4%	-2.6%	7.6%	2.4%	3.0%
Weighted Average	2.1%	2.1%	-1.3%	6.2%	2.0%	2.5%
St deviation	9.2%	4.3%	5.4%	8.6%	11.5%	10.0%
25% Percentile	-0.3%	0.7%	-4.8%	1.1%	-0.6%	0.2%
75% Percentile	2.7%	4.2%	0.5%	13.1%	3.2%	3.1%

Source: Costs and past performance survey

While there was a diversity of net return amongst different markets, overall unit-linked products had steadily positive returns across European markets both in 2020 and when looking at the past five years. In 2020, IT, IE, and SE reported very high net returns, being above 9%. PL and HU reported also very high returns (above 10%), however the higher inflation (above 3%) should also be taken into account. In the last five years, net returns compounded annually ranged between 0% and 7% with HU and SE reporting the highest and CZ, LU and PT reporting the lowest return (Figure 7 and Annex II).

Following a consumer perspective, the analysis also considers some cross-border marketed products<sup>23</sup>, which are categorised based on the market where they are commercialized (Host markets), (Table 2). The reported 77 unit-linked products commercialised cross-border with the exception of LV, had net returns lower than products marketed domestically (Figure 7). Nevertheless, this does not mean that the lower performance of such products is due to their cross-border nature, but rather that, because of other reasons, the sample of products which are offered on cross-border basis performed worse than the products offered on a domestic basis.

**Figure 7 – Unit-linked weighted average net return by Member States – 2020-2016<sup>24</sup>**



Source: Costs and past performance survey'

**Table 2 – Unit-linked sold on a cross border basis – net return<sup>25</sup>**

Home Country	Host Country	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg	N. of products
LI	AT	2.7%	6%	7
IE, LI	DE	2.6%	6%	29
LV	EE	0.4%	2%	6
LU	FR	-3.1%	-1%	4
IE, LI, LU	IT	2.9%	4%	12
LV, EE	LT	2.9%	4%	11
EE	LV	3.7%	4%	8

Source: Costs and past performance survey

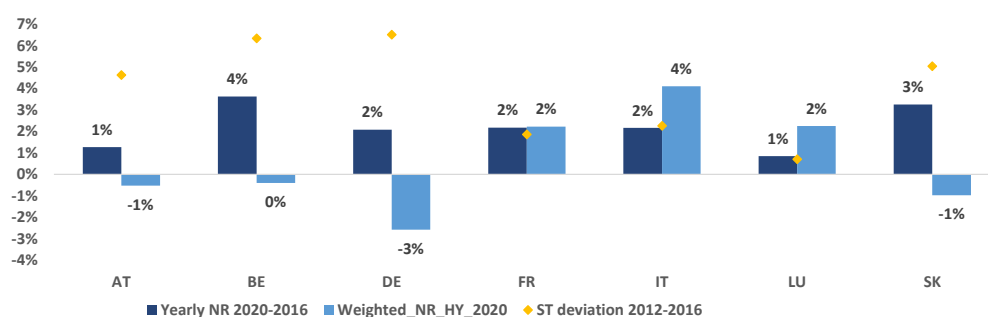
<sup>23</sup> According to the methodology (in Annex I) cross border has been included only when domestic volume was lower than 50%. Hence the results shown include cross border business only when this is very material, namely for: IE, LI, LU, EE, LV and LT. In addition information on NL are not presented as only 2 products were submitted.

<sup>24</sup> LI has been included in the analysis, however being all the products in scope being commercialised in other markets no single figure has been attributed to the LI market. Products corresponding to FR are mostly bundled in hybrid products so while in theory pure unit linked products can be commercialised, in practice this are usually combined with other guaranteed funds (namely Euro Funds).

<sup>25</sup> The findings on cross border business are limited to the sample in scope and other reasons, different from the product domiciliation and the cross border nature, could in principle explain the difference in the results.

On the other hand, hybrid products (Figure 8 and Annex II) were characterised by steadily positive net returns on a five years basis albeit lower, than unit-linked products, and in some instances negative returns in 2020. Given the uncertainty and the disruption raised by the pandemic, hybrid products underperformed unit-linked products as the more conservative investment strategies hindered their return in 2020, this despite their volatility mitigation activities smoothing marketed shocks. Products written on a cross border basis (Table 3) were also considered and the findings are in line with the trend identified for unit-linked products, showing returns lower than those of the whole sample of products written in a market, both on a cross border and domestic basis. Nevertheless, this does not mean that the lower performance of such products is due to their cross-border nature, but rather that, because of other reasons, the sample of products which are offered on cross-border basis performed worse than the products offered on a domestic basis.

**Figure 8 - Hybrids weighted average net return by Member States – 2020-2016<sup>26</sup>**



Source: Costs and past performance survey

**Table 3 – Hybrid products sold on a cross border basis<sup>27</sup>**

Home Country	Host Country	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg	N. of products
LU	FR	0.9%	1.4%	6

Source: Costs and past performance survey

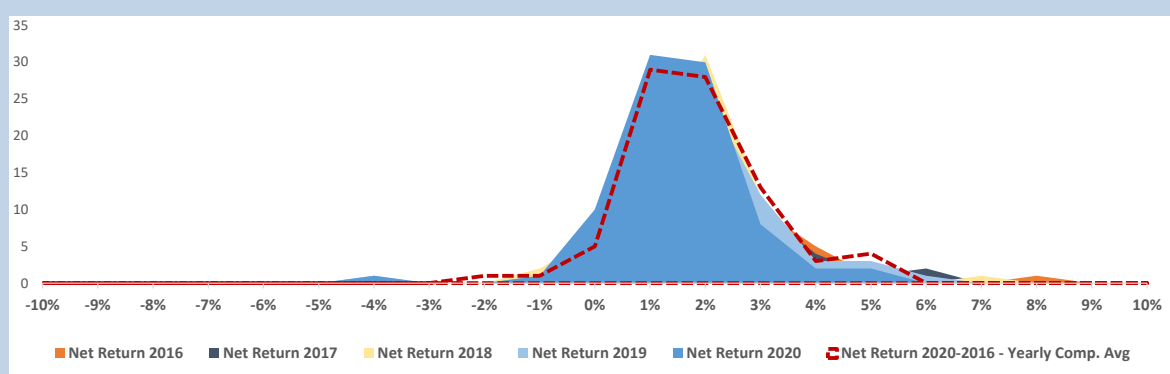
### BOX 3 – EEA and Member States’ level of return of profit participation products

<sup>26</sup> As from GR and HR only one hybrid product was submitted and from HU three products, these are not presented in the Member States analysis. DE negative aggregate return is mainly driven by the products corresponding to one undertaking commercialising dynamic hybrid products where the market shock of the pandemic triggered an asset reallocation such that at the end of the year (in a more bullish market environment) the product resulted having a lower net return.

<sup>27</sup> From the sample analysed, hybrid products commercialised from LU to FR were the only available. It is expected that hybrid products are also commonly commercialised from and to other Member States. In addition, the findings on cross border business is limited to the sample in scope and other reasons, different from the product domiciliation and the cross border nature, could in principle explain the difference in the results.

Despite being less sold, traditional profit participation products still represent a non-negligible amount of business and are particular relevance in AT, BE, DE and IT. These products are characterized by extremely stable returns as the profit allocation mechanisms smooth the market volatility assigning each year a part of the undertaking's profit to the policyholders. At European aggregate level, on average, net returns of profit participation products slightly decreased in the last five years moving from 1.7% in 2016 to 1.4% in 2020, as the sector has been considerably strained by the prolonged low yield environment making it difficult for manufacturers to offer higher returns due to the mismatch between assets and liability durations. Moreover, the impact of inflation further weighs on the real term value provided by these products.

**Figure 9 - Net return distribution of profit participation products 2020 – 2016**

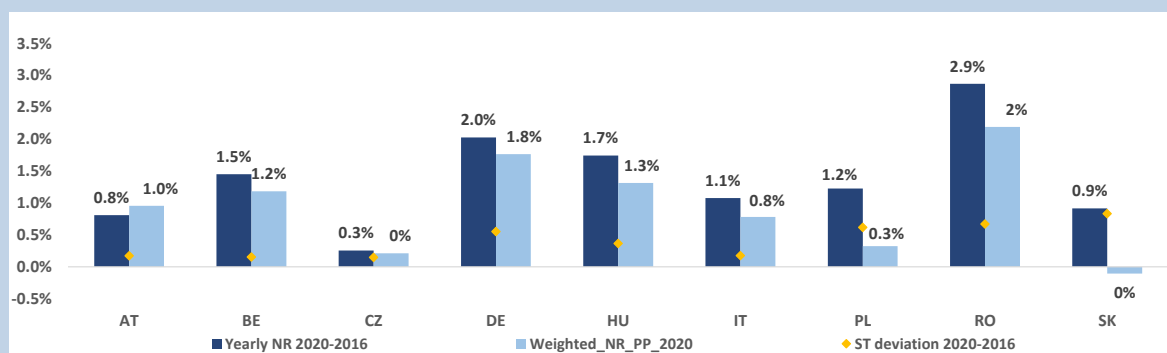


	Net Return 2016	Net Return 2017	Net Return 2018	Net Return 2019	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg
Median	1.5%	1.4%	1.4%	1.3%	1.0%	1.2%
Simple Average	1.7%	1.5%	1.4%	1.2%	0.9%	1.3%
Weighted Average	2.7%	1.7%	1.7%	1.6%	1.4%	1.7%
St deviation	1.5%	1.3%	1.3%	1.4%	1.2%	1.2%
25% Percentile	0.7%	0.6%	0.6%	0.5%	0.3%	0.5%
75% Percentile	2.3%	2.1%	2.0%	2.0%	1.5%	1.9%

*Source: Costs and past performance survey*

From a Member State perspective, in 2020 the net returns achieved ranged between 0% (CZ, PL and SK) to 2% (DE and RO) with extremely low volatility levels despite the turbulence brought by the pandemic (Figure 10 and Annex II).

**Figure 10 – Weighted average net return by Member States of profit participation products – 2020-2016<sup>28</sup>**



Source: Costs and past performance survey

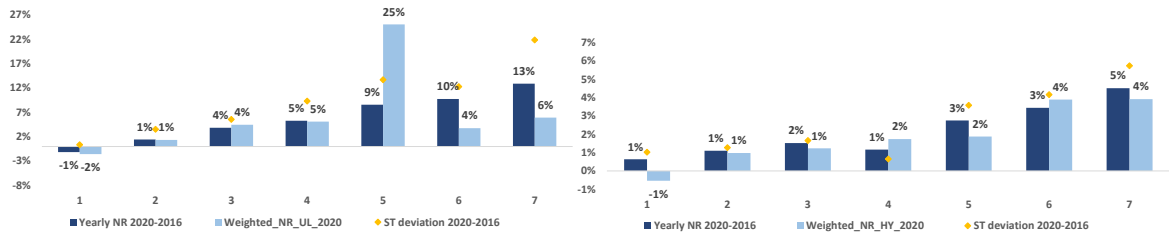
Further analysis looking at how net returns are clustered with respect to other products characteristics such as (i) risk level, (ii) recommended holding period (RHP) and (iii) premium frequency can also provide additional insights to better understand the past performance of IBIPs in the years 2016 – 2020.

In relation to the risk levels – ranging from 1 to 7, for unit-linked and hybrids – as expected, higher net returns and higher volatility correspond to riskier classes. The trend is consistent for both the five years average and the yearly return for 2020 - with the exception of the extremely positive figures clustered in unit-linked for products with risk class 5<sup>29</sup>. Moreover net returns corresponding to the risk classes 1 to 3 are the same for both types of products being even negative for those belonging to risk class 1. This finding questions the value for money offered by unit-linked belonging to lower risk class as they offer low returns without the additional safety features offered by hybrid products. On the contrary, for riskier products unit-linked resulted being more profitable than hybrid (Figure 11 and Annex II).

**Figure 11 - Weighted net return by risk class unit-linked (on the left) and hybrids (on the right) – 2020-2016**

<sup>28</sup> For BG, EE, FR, GR, HR, LI, MT, PT, SE and SI three or less products were submitted and hence no country level figures are shown for these markets.

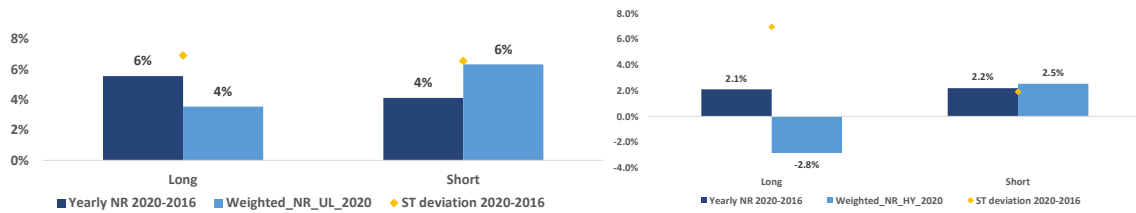
<sup>29</sup> Risk class 5 includes 59 unit-linked products out of which 8 outliers had a net return higher than 30% in 2020



Source: Costs and past performance survey

When looking at how net returns are clustered in relation to RHPs– ‘long’ RHPs being defined as above or equal to 15 years and ‘short’ RHPs being defined as below 15 years – the results challenge the assumption that products with longer duration are more profitable. The figures presented for unit-linked and hybrid products, both looking at 2020 and at the last 5 years (2016-2020), show homogenous net returns with an exception for 2020, where the evidence indicates that investing in products with a short RHP brought better financial results than holding products with longer RHP both for unit-linked (6% vs. 4%) and hybrids (2.5% vs. -2.8%), (Figure 12 and Annex 2).

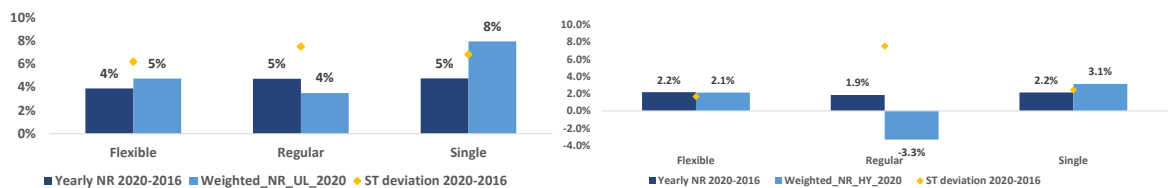
Figure 12 - Weighted net return for unit-linked (on the left) and hybrids (on the right) by RHP 2020-2016



Source: Costs and past performance survey

Finally, when considering the net return of unit-linked and hybrid products by premium frequency – flexible, regular or single – single premium products performed slightly better than other type of products, both when considering the yearly return for 2020 and the five year average. Single premium products allow to invest larger amount of money at once and require less administrative efforts possibly explaining the extra performance measured in the sample analysed (Figure 13 and Annex II).

Figure 13 - Weighted net return for unit-linked (on the left) and hybrids (on the right) by premium frequency – 2020-2016





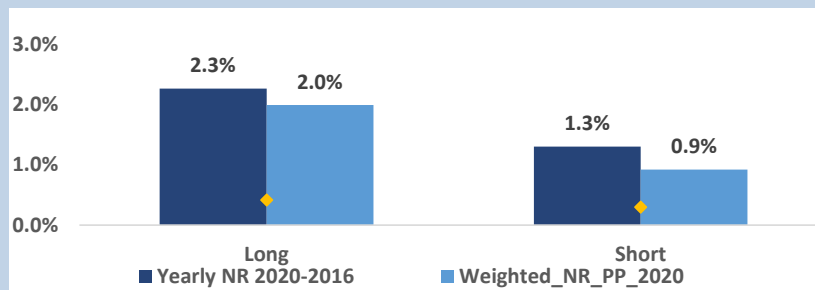
Source: Costs and past performance survey

#### BOX 4 – Further consideration on net return of profit participation products

##### Profit Participation Products

Looking at the net return by risk class, RHPs and premium frequency, the past performance of profit participation products is homogenous (further details are provided in Annex II). However, in line with last year findings, looking at the RHPs, a relevant extra performance of 1% was measured for profit participation with longer duration, both when considering 2020 and the five year average (Figure 14 and Annex II).

Figure 14 – Weighted net return for profit participation products by RHP – 2020-2016



Source: Costs and past performance survey

## 1.4 COSTS

Similarly to the findings on net returns, the analysis relating to the cost of IBIPs is sample-based. Conclusions of 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, at times, investment options consist in UCITs 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 (Key Information Document), while single option level costs are disclosed pursuant to the UCITs regulation, which differs from PRIIPs Regulation in terms of presentation of costs and which does not require to disclose transaction costs nor performance fees in the KIID (Key Investor Information Document). In preparing this report efforts were made to address these issues, including data quality checks, 'conversions' between UCITs disclosures and equivalent Reductions In Yields (RIYs) and the explicit data collection of 'wrapper costs' - costs that are not at the investment option level but are ultimately paid by consumers because part of the insurance product as a whole. These methodological challenges could slightly lower the comparability of the costs breakdown, without however affecting the comprehensiveness of the information provided on total costs. For the purpose of consistency, the sample of products considered for the costs analysis is the same as the one used in the net return section. Likewise the different market coverage (presented in Figure 3 and Figure 4) and the different size of the sample of analysed products (presented in Annex II) should be taken into account while comparing and interpreting the results.

Similarly to previous years, on average, products with guarantees (both hybrids and profit participation) are less costly than unit-linked products. The EEA weighted average is 2.7% for unit linked, 2.2% for hybrid and 1.3% for profit participation products, measured as Reduction in Yield (RIY) at RHP. Like in past years, other ongoing costs<sup>30</sup> are the most prominent cost element followed by entry costs and wrapper costs (limited to unit-linked) while exit costs are negligible (Figure 15 and Annex II). For hybrids the breakdown of the cost categories was not available given data quality issues on the breakdown of costs, and the complexity linked to the need of combining different options. However it was possible to compute the total amount of costs and, for the sub-set of hybrids which are sold in a unbundled<sup>31</sup> way (more than 114 on over 170 hybrid product analysed), it was also possible to assess the costs stemming from the unit-linked and the profit participation components of these products (Figure 16 and Annex II). The unbundled sub-set of products resulted

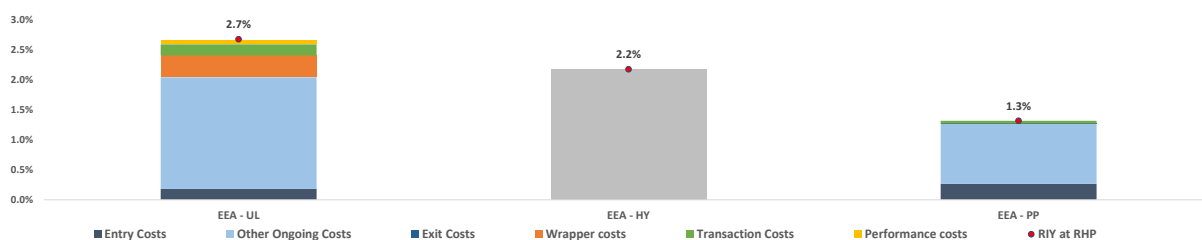
---

<sup>30</sup> The 'other on-going costs' refer to all on-going costs excluding transaction costs.

<sup>31</sup> As a matter of facts, hybrids can be sold either in an unbundled manner, i.e. consumers can freely choose amongst options with guaranties (profit participation options) and unit linked options either in a bundled products where the options available are already a pre-defined combinations.

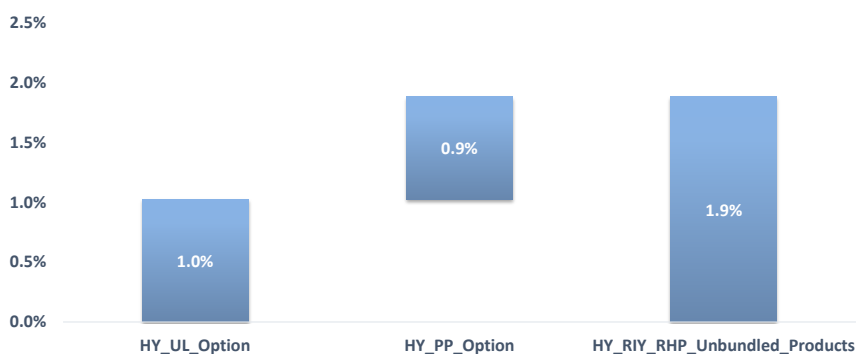
to be slightly cheaper than all the sample of hybrids products, namely 1.9% vs 2.2%. Moreover, hybrids' unit-linked options are essentially as expensive as the profit participation ones, possibly due to the impact of wrapper costs that in hybrids often relates to both underlying.

**Figure 15 – Weighted average costs at recommended holding period for unit-linked hybrids and profit participation products in 2020 – EEA**



Source: Costs and past performance survey

**Figure 16 – Hybrid costs breakdown – EEA weighted average**



Source: Costs and past performance survey

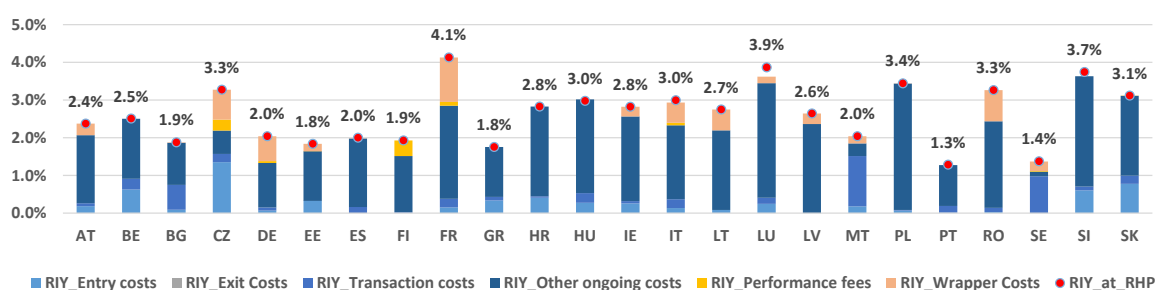
Looking at the level of costs by Member State, unit-linked costs ranged between 1.3% and 4.1% in 2020 (Figure 17), while for hybrids in 2020 the range was between 2.1% and 4.8% (Figure 18). In 2020, the market combining lowest costs and highest net returns was SE with net returns of 10% and costs below 2% while for hybrid products it was IT, with net returns above 4% and costs below the EEA weighted average. Similarly to previous years' analyses, the impact of wrapper costs is relevant in many markets, being often unit-linked and hybrids multi-option products. This, in some instances, could also raise some conduct issues, because such costs are often not clearly disclosed but rather identifiable only when comparing the disclosure at investment option level with the generic product information<sup>32</sup>. Moreover in some instances, mainly in FR, unit-linked multi options

<sup>32</sup> 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.

are often bundled into hybrids products and pure unit-linked products are only rarely chosen by consumers, being in practice often combined with cheaper guaranteed options. Hence, the information provided may in theory be accurate, in reality it is unlikely these options are bought by consumers.

Akin the net return analysis, cross border business also has been considered when looking at the costs by market and similar evidence can be found, with the exception of IT, LT and LV, as the costs of products written on a cross border basis are higher than the weighted average shown for each market.

**Figure 17 – Weighted average costs of unit-linked products by Members States – 2020<sup>33</sup>**



Source: Costs and past performance survey

**Table 4 - Unit-linked sold on a cross border basis – costs<sup>34</sup>**

Home Country	Host Country	RIY at RHP	N. of products
LI	AT	4.1%	7
IE, LI	DE	2.5%	29
LV	EE	2.0%	6
LU	FR	4.8%	4
IE, LI, LU	IT	2.4%	12
LV, EE	LT	2.6%	11

<sup>33</sup> According to the methodology (in Annex I) cross border has been included only when domestic volume was lower than 50%. Hence the results shown include cross border business only when this is very material, namely for: IE, LI, LU, EE, LV and LT. In addition information on NL are not presented as only 2 products were submitted.

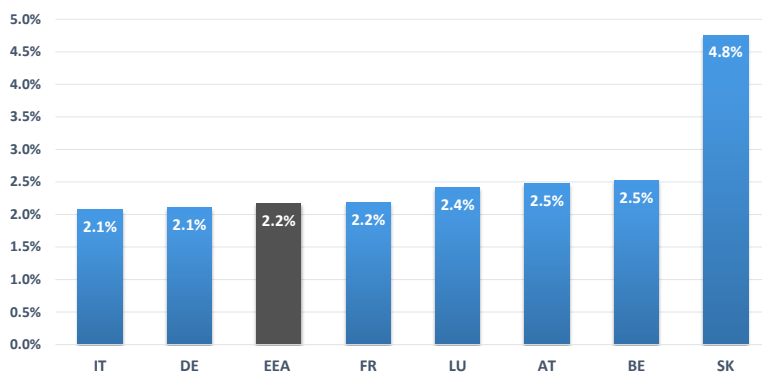
In addition, the French figure is based on a limited number of products and does not reflect the order of magnitude of the costs of unit-linked investment options for all French multi-support products, but corresponds only to the cost of these investment options when they are offered through multi-option products that do not offer investment options in euros.

<sup>34</sup> The findings on cross border busines are limited to the sample in scope and other reasons, different from the product domiciliation and the cross border nature, could in principle explain the difference in the results.

EE	LV	2.1%	8
----	----	------	---

Source: Costs and past performance survey

Figure 18 – Weighted average costs of hybrid products by Members States – 2020



Source: Costs and past performance survey

Table 5 - Hybrid products sold on a cross border basis – costs<sup>35</sup>

Home Country	Host Country	RIY at RHP	N. of products
LU	FR	3.0%	6

Source: Costs and past performance survey

### BOX 5 - Member States’ level of costs for profit participation products

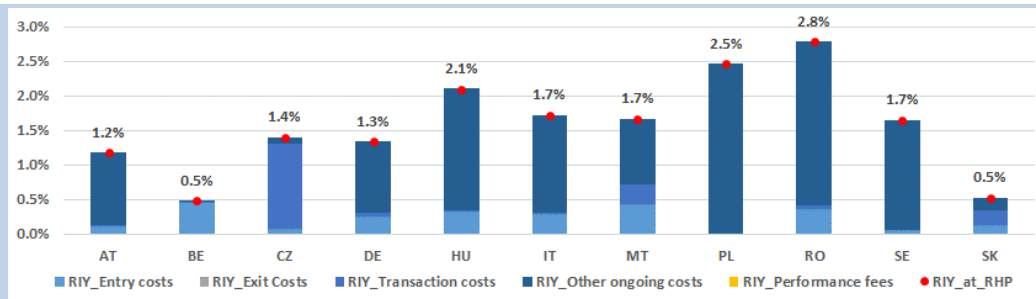
#### Profit Participation Products

The costs of profit participation products are lower than those reported for unit-linked and hybrids across Member States and particularly low in BE and SK (0.5%). It is interesting to highlight that entry costs are proportionally more relevant than in other type of products despite other ongoing costs being still the most prominent element (Figure 19).

Figure 19 – Weighted average costs of Profit participation products costs as RIY at RHP – 2020<sup>36</sup>

<sup>35</sup> From the sample analysed, hybrid products commercialised from LU to FR were the only available. It is expected that hybrid products are also commonly commercialised from and to other Member States. In addition, the findings on cross border business is limited to the sample in scope and other reasons, different from the product domiciliation and the cross border nature, could in principle explain the difference in the results.

<sup>36</sup> For BG, EE, FR, GR, HR, LI, MT, PT, SE and SI three or less products were submitted and hence no country level figures are shown for these markets.



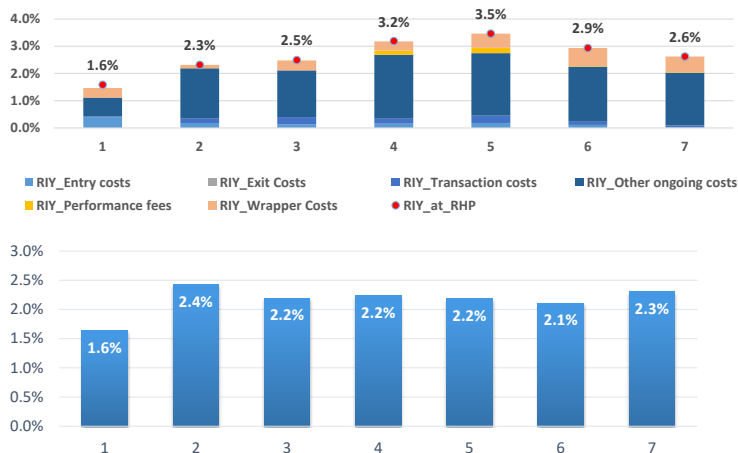
Source: Costs and past performance survey

Similarly to the analysis performed on IBIPs' past returns, further research looking at how costs are clustered with respect to other products features such as (i) risk level, (ii) RHP and (iii) premium frequency have been carried out to complement the understanding on costs of IBIPs.

Looking at products by risk class (Figure 20 and Annex II), it can be observed that:

- Risk class 1 products are cheaper than other risk classes' products for both unit-linked and hybrids, being 1.6% in both cases;
- Unit-linked belonging to riskier classes are more expensive than riskier hybrids (ca 3% vs. 2%);
- For unit-linked products, wrapper costs are more marked in riskier products.

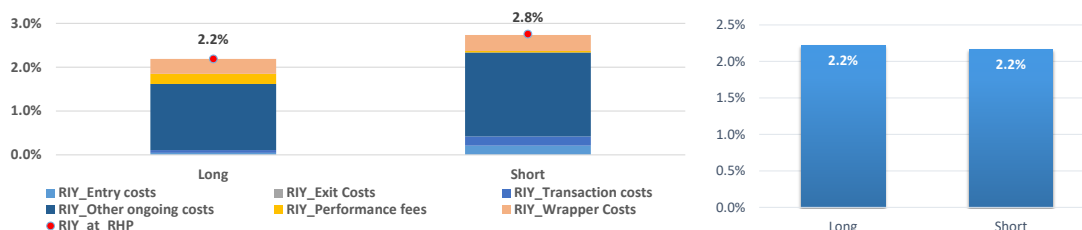
Figure 20 – Weighted average costs by risk class of unit-linked (above) and hybrid (below) - 2020



Source: Costs and past performance survey

In relation to the analysis of costs' level with respect to the products RHPs, the results are aligned at 2.2%, with the exception of costs for unit-linked products with shorter duration which were slightly more expensive (Figure 21 and Annex II).

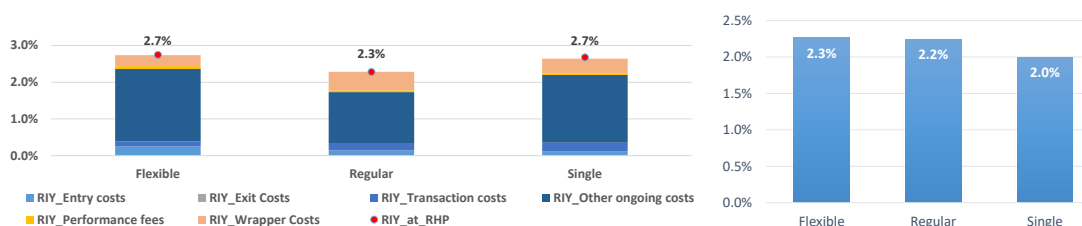
**Figure 21 – Weighted average costs of unit-linked (on the left) and hybrid products (on the right) by RHP – 2020**



Source: Costs and past performance survey

Finally, also the classification of costs by premium frequency does not point at clear results. Regular premium unit-linked were cheaper (-40 bps) than other unit-linked products while for hybrids the single premium products were slightly cheaper (-20 bps), (Figure 22 and Annex II).

**Figure 22 - Weighted average costs of unit-linked (on the left) and hybrid products (on the right) by premium frequency – 2020**



Source: Costs and past performance survey

### Box 6 – Further consideration on the costs of profit participation products

#### Profit participation products

Costs are more stable than returns and profit participation are designed to be stable products with as constant as possible costs and net returns. Therefore, similarly to what observed for past performance, clustering the profit participation costs by risk classes, RHP and premium frequency shows very homogenous results (further details are provided in Annex II). However, it is interesting to mention that:

- In relation to risk class, which for profit participation ranges from 1 to 3, products with risk class 3 had higher costs than risk class 2 (+50 bps) and risk class 1 (+60 bps).
- Products with RHPs shorter than 15 years were cheaper (-40 bps) than products with longer RHPs.
- Products with flexible premium were cheaper than those with regular and single premium payment, having a RIY lower than 1%.

### 1.4.1 COSTS DRIVERS: AN ANALYSIS BY SOURCE AND CAUSES

Following the analysis on the costs' level, this section focuses on the main components and source of product costs.

Additional cost-related information on the most relevant products of various undertakings was collected, totalling 128 unit-linked products, 64 profit participation products and 51 hybrid products. For the three product types (unit-linked, hybrid and profit participation), total costs were broken down into five categories: administrative costs, biometric costs, distribution costs, investment management costs and additional costs in order to better understand the nature of the costs going beyond the PRIIPs KID classification. While interpreting this analysis it is important to consider that the disclosure around these costs is not as straightforward as for the PRIIPs KID categorization (entry costs, exit costs, transaction costs, other ongoing costs and performance costs) and hence different cost categorizations may be interpreted differently by providers as the definitions used are working definitions.

#### Box 7 – Drivers of costs in the IBIPs market<sup>37</sup>

- 1) **Administrative costs:** costs incurred to handle the insurance policy contracts and meet the contractual obligations. 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.
- 2) **Biometric costs:** costs related to the biometric risk cover provided by the IBIP products, computed as from PRIIPs delegated regulation (Annex VI, points 54-60).
- 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.

---

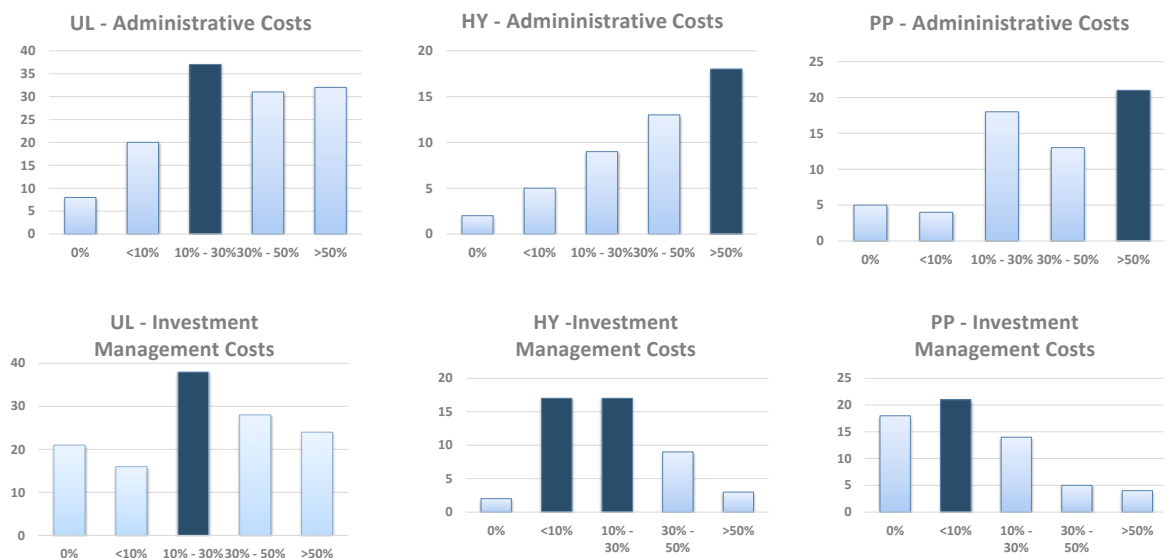
<sup>37</sup> These definition are working definition used in the context of the analysis. However, despite the lack of a formal definition of such cost groups in the PRIIPs delegated regulation, with the exception of biometric costs, the same cost categorization is commonly used in practice in the terms and condition of IBIPs products.



- 4) Investment management costs:** costs related to the investment of the contribution paid by the policyholder. 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.
- 5) Additional costs:** other costs paid by the policyholder

In line with previous years, administrative costs are the biggest contributors to total costs, for all three product types. Indeed, for more than half of all products (unit-linked, profit participation and hybrids), administrative costs account for more than 30% of total costs. This trend is even more prevalent for profit participation products and hybrid products, where one third of the products for which data is available, has administrative costs accounting for more than 50% of total costs. On the other hand, investment management costs are more relevant in unit-linked than in hybrid and profit participation as their investment strategies' costs are expected to be higher than the costs related to the profit allocation mechanism. In some instances costs related to profit allocation mechanism are considered as administrative – hence explaining the higher allocation of costs to this category for profit participation products. Further, investment management costs vary depending on the type of investment strategies. As a matter of fact more than 20 unit-linked products reported investment management costs above 50% of total costs (Figure 23).

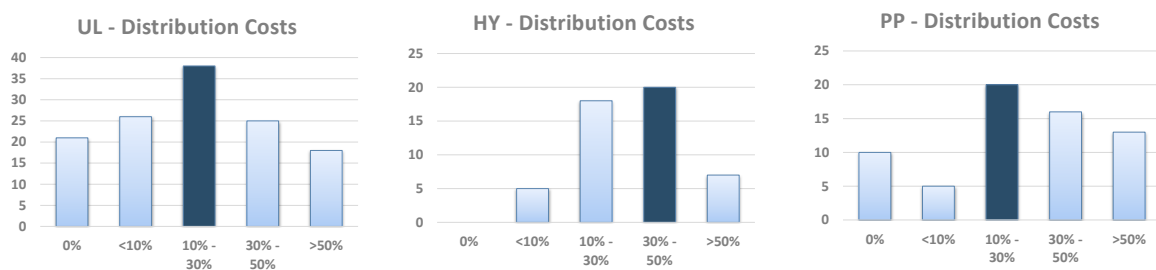
**Figure 23 – Proportion of administrative costs (above) and investment management costs (below)**



Source: Costs and past performance survey

In relation to distribution costs, these are also very sizeable costs. Most products fall into the 10-50% of total costs bracket therefore being more heterogeneous and being influenced by a number of variables such as, the presence of advice, the use of digitalization channels, the type of distributor (broker, tied-agent, etc.), the business model of the company etc. These are all elements influencing both the size and the disclosure of the distribution costs, which that based on the information available could be understated. Interestingly, for hybrid products, a higher number of respondents identified distribution costs as a more relevant costs than for other products. Possibly the complexity associated to these products (combining options with different features) correlates with higher distribution costs as policyholders are more likely to receive advice or other form of support to select their most adequate product.

**Figure 24 - Proportion of distribution costs**



*Source: Costs and past performance survey*

On the other hand, biometric costs resulted homogenously below 10 % of total costs or null for the large majority of products (all types). They are one of the lowest cost contributors due to multiple reasons. First, for some products very little biometric coverage is foreseen, given their predominant investment nature. Second, biometric costs depend largely on the age of the policyholder. Third, for some products the biometric coverage represents a separate option that needs to be additionally selected.

The last costs category, the additional costs, regroups other costs. These resulted to be minimal across products and typically relate to taxes, entry or exit costs, penalties or guarantee costs.

## 1.5 PRODUCTS WITH SUSTAINABILITY-RELATED FEATURES

This section presents some initial findings on IBIPs which have been identified by the reporting insurance undertakings as carrying sustainability features.

However, as the timeframe of this analysis covers 2016 and 2020, before the entering into force of the European Sustainable Finance Disclosure Regulation (SFDR)<sup>38</sup> - March 2021 - the analysis leverages on the manufacturers own classification of what constitute an ESG objective and hence can be heterogeneous across providers and may not be taxonomy compliant. Similarly, the difference between EU funds promoting either environmental or social characteristics ('light green' funds) or with sustainable investment objectives ('dark green' funds) has not been possible to be considered. However, the growing consumer appetite and consequently the capital inflows in this sector demands for preliminary analysis of the costs and past performance of these products vs products which cannot be categorised as ESG.

In 2020, the demand and offer of sustainable financial products in Europe increased remarkably. Different institutions monitoring<sup>39</sup> the funds industry agree in highlighting, both at global and European level, fast growing inflows of capital into these type of funds, with respect to the net outflows accounted in 2020 for non-ESG funds.

Focusing on the IBIPs market, 56 manufacturers shared information on 40 unit-linked products (UL\_ESG), 19 hybrids (HY\_ESG) and 4 profit participation (PP\_ESG), belonging to 19 different Member States<sup>40</sup>, indicating that while ESG products are becoming more present, they are not yet prevalent.

From the analysis carried on unit-linked and hybrids ESG products the following findings are notable:

- The sample submitted are heterogeneous in terms of market of commercialisation, risk level, RHP and premium frequency (Annex 2), indicating that ESG offers are not present in all product categories and representing less than 10% of the GWP analysed in the sample

---

<sup>38</sup> [Regulation \(EU\) 2019/2088](#) of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

<sup>39</sup> International Monetary Funds:

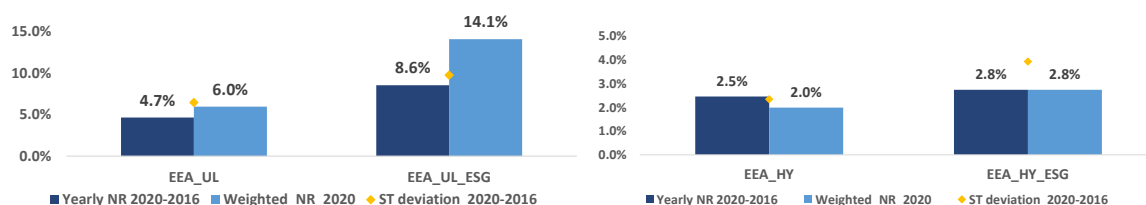
[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKewiihY7Fzsr1AhUNIf0HHTr0BTcQFnoECBAQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2FFiles%2FPublications%2FGFSR%2F2021%2FOctober%2FEnglish%2Fch3.ashx&usg=AOvVaw06VZLq\\_kpkRYJX\\_XIJ-4q0](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKewiihY7Fzsr1AhUNIf0HHTr0BTcQFnoECBAQAQ&url=https%3A%2F%2Fwww.imf.org%2F-%2Fmedia%2FFiles%2FPublications%2FGFSR%2F2021%2FOctober%2FEnglish%2Fch3.ashx&usg=AOvVaw06VZLq_kpkRYJX_XIJ-4q0)

OECD: [Financial-Markets-and Climate Transition \(oecd.org\)](#)

<sup>40</sup> AT, BE, BG, CZ, DE, EE, ES, FI, FR, HU, IE, IT, LI, LT, MT, NL, SE, SI, SK

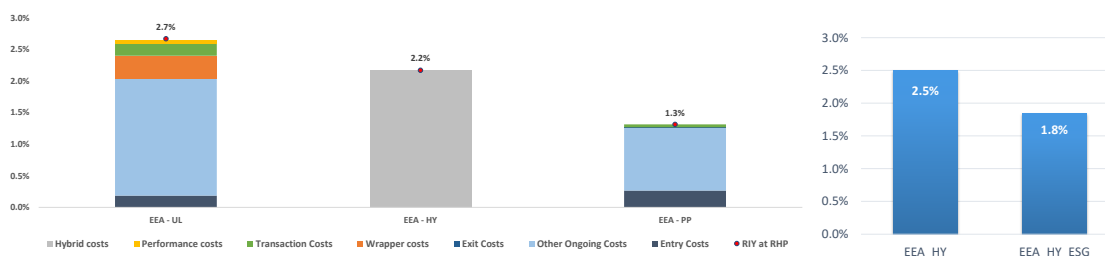
- The average size of UL\_ESG contracts is the largest, being above € 44 thousands vis-a-vis the average of ca. € 35 thousands. HY\_ESG contracts also have a relevant size, ca. € 30 thousands.
- Net returns for the ESG sample are higher than for non-ESG products, for unit-linked and hybrids, both for the 2020 yearly return and the five year return (Figure 25).
- For unit-linked product, costs of products with ESG features were aligned with those without ESG features, while for hybrids the latter were significantly cheaper (Figure 26).

**Figure 25 – Weighted average net return of ESG unit-linked (on the left) and ESG hybrids products (on the right) vs. non ESG products**



Source: Costs and past performance survey

**Figure 26 – Weighted average costs as RIY at RHP of ESG unit-linked (on the left) and ESG hybrids products (on the right) vs. non ESG products**



Source: Costs and past performance survey

These findings, despite the aforementioned limitations and the limited sample available, show that the appetite for ESG financial products applies to the IBIPs market too, where the good performance presents opportunities for consumers and can be explained in light of:

- The positive valuation of the asset classes to which ESG funds are normally exposed, namely technology and healthcare sectors, which had favourable valuation especially during the pandemic have also driven the ESG IBIPs performance<sup>41</sup>.

<sup>41</sup> [ESG Investing: Practices, Progress and Challenges \(oecd.org\)](https://www.oecd.org/esg-investing-practices-progress-and-challenges/)

- The wide spread interest on the ESG sector, which boosted the demand for these products ultimately increasing their valuation and pricing.

On the other hand, some risks need also to be mentioned. From a consumer's perspective there are risks related to greenwashing practices that could actually deceive consumers into buying products which are ultimately different from their preferences or much less sustainable than advertised.

Moreover, the widespread appetite in the financial sector for products with sustainability related features may be artificially boosting their valuation, including IBIPs. This is of particular detriment especially when coupled with the concerns on greenwashing and the actual level of sustainability and good governance offered vis-a-vis consumers' expectations. The combination of these risks poses some questions on the long term sustainability of the high performance achieved in the last years.

Nevertheless these products resulted having offered good value for money for consumers. The improved transparency introduced by the recent SFDR and the Taxonomy Regulation would be key in shaping the future of this market and mitigate some of the risks highlighted.

## 1.6 SUMMARY FINDINGS ON IBIPS

The Covid-19 pandemic shaped the 2020 market environment, posing unprecedented challenges. IBIPs showed resilient valuations despite the high levels of volatility. The threat of rising inflation, decreasing consumers' appetite for long term life insurance policy, while also hindering their purchasing power, represents important risks to be monitored, in particular for products with lower returns, namely profit participation and unit-linked or hybrids belonging to lower risk classes. The shift out of traditional profit participation products, gradually ongoing in the last several years, was exacerbated by the market turbulence brought by the pandemic coupled with the prolonged low interest rate environment.

Unit-linked outperformed hybrids and profit participation products, but such products carry higher costs. Their net return was, in 2020, 6%. A putative investor buying a unit-linked contract in 2016 would have gained 5% per year, being at time also exposed to some loss, while hybrids and profit participations' past performance, albeit more stable, was lower, being on average 2.0%, in 2020 for hybrids, and 1.4% for profit participation.

Costs of unit-linked products increased with respect to previous year's analysis, being 2.7% (measured as RIY at RHP) in 2020, despite showing no differences in terms of cost structure with other ongoing costs being the most prominent cost item, followed by the wrapper costs and the entry costs. Looking at the costs' drivers, in line with last years' findings, administrative costs

represented, on average, the most predominant costs together with the investment management costs and distribution costs. Biometric costs are minor costs elements.

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 the analysis being sample based.

Higher risk classes correspond to higher level of net returns for unit-linked and hybrid products. Products corresponding to lower risk classes had a particularly low net returns, at times negative, questioning the value for money offered by these products. On the contrary, for riskier products unit-linked resulted being more profitable than hybrids, therefore offering better outcomes for consumers. RHPs for profit participation was a driver of extra performance as products with longer RHPs paid on average 1% more, which is notable given their average performance below 2%.

Finally, the first analysis carried out on a sample of products presenting sustainability-related features, despite the limitation linked to the relative small size of the sample and the not yet harmonized regulatory framework, shows a clear over performance of these products with respect to the non ESG IBIPs. Unit-linked ESG costs were aligned to non ESG unit-linked products while for hybrids ESG they were cheaper. Greenwashing coupled with the high appetite and demand for these products question the long term sustainability of such high valuation achieved in the past year. In this context the entering into force of the SFDR directive will have a crucial role.

# PENSION SCHEMES AND PRODUCTS

This section of the report focuses on PPPs and IORPs. Both instruments aim at providing retirements benefit but have different features. Adhesion to IORPs schemes can be voluntary or mandatory and schemes have an occupational nature, being offered by employers. On the other hand, PPPs are characterised by an individual adhesion and are voluntary products. PPPs can be directly sold by insurance undertakings, banks, asset managers and by IORPs. This report only considers PPPs sold by insurance undertakings and the analysis follows a retail based perspective since data are collected on ad-hoc basis despite not corresponding to a unique harmonised framework and the comparability amongst markets is limited. Following the implementation of the IORPs II Directive<sup>42</sup> some harmonised analysis on the expenses and income of IORPs managing Defined Contribution (DC) schemes<sup>43</sup> in Europe are introduced. Still the analysis is carried out at IORPs level due to the unavailability of retail information.

## 1.1 PERSONAL PENSION PRODUCTS (PPPS)

The lack of harmonisation at the European level of what is commonly defined as personal pension product demands the usage of a categorization based on national legislation. Therefore, under PPPs category there is a variety of products. PPPs could be IBIPs or non IBIPs products. Given the different frameworks applicable to PPPs, EIOPA applied the same IBIPs template to collect the data.

Despite the diversity of the sector, there are some common features that, at least partially, recur across Member States when it comes to identifying the main features of a personal pension product, namely<sup>44</sup>:

- The individual membership and the voluntary basis;
- The independence from Labour Law;
- The independence from an Employment Relationship;
- The linkage to retirement objectives;

---

<sup>42</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)

<sup>43</sup> [Request to esas to issue recurrent reports - cmu action.pdf \(europa.eu\)](#)

<sup>44</sup> [Consumer Trends Report 2021 | Eiopa \(europa.eu\)](#)

- Privately managed and funded;
- Tax advantages.

In line with 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’ and personal pension products similar to profit participation – ‘PPP\_PP’, this despite the fact that in some markets PPPs are not formally IBIPs.

Based on the information provided by 68 insurance undertakings from 17 Member States<sup>45</sup>, more than 200 personal pension products have been analysed: 153 PPP\_UL and 54 PPP\_PP, accounting for ca. 0.8 million of contracts sold and ca. € 55 billion GWP during 2020.

Despite the European trend to shift out products with guarantees towards unit-linked profit participation products are still a relevant category for pension products which are usually more conservative products and have longer duration, features which are closer to the pure profit participation products.

European aggregate trends show that net returns of personal pension products were positive in 2020 for all products, despite being relatively lower than in the previous five years. The aggregate 2020 weighted average figures were (Figure 27):

- 3.1% for PPP\_UL, vs. 5 years average of 4.7%
- 1.5% for PPP\_PP, vs. 5 years average of 1.7%

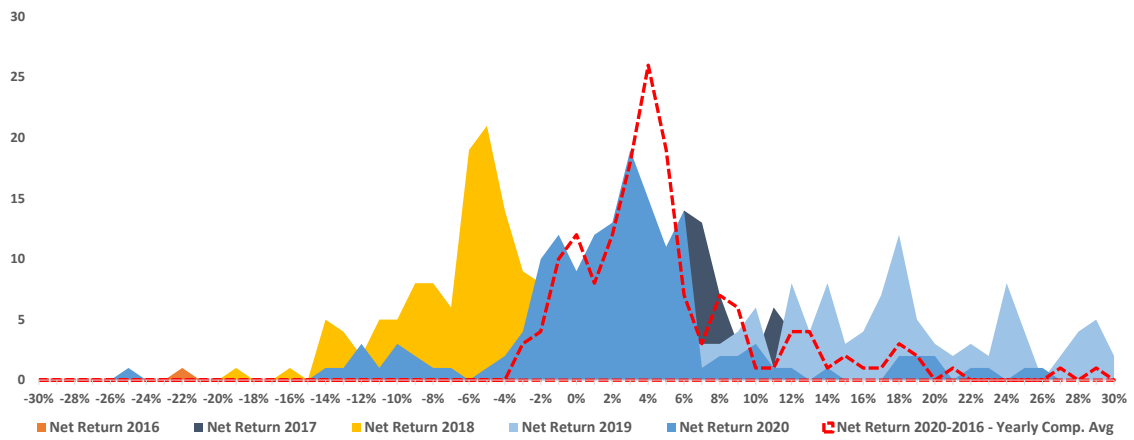
2020 net returns were lower in all instances than the 5 years average showing a decreasing trend. While a lower net return is clearly not a positive outcome, still PPPs provided a positive net return despite the turbulence brought by the Covid-19 and the difficulties in seeking good returns amidst the prolonged low yield environment. In addition, having usually long duration, these products are also less sensitive to market shocks such as the ones caused by COVID-19. However low returns, especially for the long-term oriented pension sector, are exposed to inflation and hence, the impact of rising inflation is of more detriment for these products.

**Figure 27 – Net return distribution of PPPs\_UL 2020 – 2016**

---

<sup>45</sup> AT, BE, DE, EE, FR, GR, HU, IE, IT,LT, MT, PL, PT, RO, SE, SI



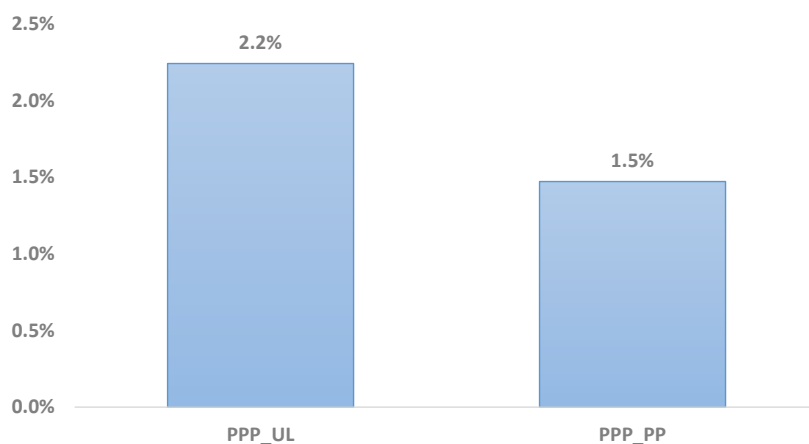


	Net Return 2016	Net Return 2017	Net Return 2018	Net Return 2019	Net Return 2020	Net Return 2020-2016 Yearly Comp. Avg
Median	3.1%	5.1%	-5.8%	14.4%	2.2%	3.3%
Simple Average	5.2%	5.3%	-6.0%	15.1%	2.8%	4.7%
Weighted Average	5.8%	4.2%	-6.6%	16.4%	3.1%	4.7%
St deviation	11.0%	6.5%	4.5%	11.9%	10.1%	6.0%
25% Percentile	0.7%	1.4%	-8.8%	5.8%	-1.2%	1.3%
75% Percentile	5.5%	7.5%	-3.7%	22.4%	4.8%	6.4%

Source: Costs and past performance survey

Costs were in 2020 2.2% for PPP\_UL while being 1.5% for PPP\_PP (Figure 28). Similarly to previous years' findings PPP\_UL in 2020 were also cheaper than IBIPs, while their costs slightly increased with respect to 2019, when the aggregate costs were 1.9%, still comparability is limited given that not all PPPs are IBIPs.

Figure 28 – Total weighted average costs of personal pension products as RIY at RHP




Source: Costs and past performance survey

Given the heterogeneity of the market and the relative small sample available, an overview at Member State level is presented for the markets where the information available were more granular<sup>46</sup>.

### Austria

PPPs are state-sponsored retirement provision (Prämienbegünstigte Zukunftsvorsorge), a form of pension insurance, under which, upon reaching a defined retirement age, a life-long annuity is paid out. Usually a survivor's provision is also arranged, such that following the death of the insured person an annuity continues to be paid to the insured's widow(er). A particular feature of state-sponsored retirement provision is the existence of a capital guarantee and a state premium. The product also has preferential tax treatment, with no insurance tax, no capital yield tax and no income tax being accrued.

	PPP_UL	PPP_PP
		
<i>N. of products analysed</i>	7	8
<i>Weighted Average Net Return 2020</i>	-5.3%	0.8%
<i>Weighted Average Net Return 2020-2016</i>	4.3%	0.8%

<sup>46</sup> PPP\_UL specific information are not shown for EE, FR, GR, MT, NL, RO and SE being only 3 or less product available. Similarly PPP\_PP they are not shown for: EE, LT, PT and SI. For unit-linked products information corresponding to LV are not shown as the number of provider is below 3.

<i>Weighted Average costs (as RIY at RHP)</i>	2.1%	1.2%
<i>Range of risk classes</i>	1 to 7	1 and 2
<i>Range of RHPs</i>	25 years	15 - 25

## Belgium

Under Belgian insurance law, PPPs are insurance pension savings belonging to the 3<sup>rd</sup> pension pillar. They can be concluded either as unit-linked insurance products, profit participation products or as hybrid products. With the exception of the Belgian Tax Law, there is no specific legal framework for PPPs. The legal framework is the one applicable to all life insurance (i.e. mainly the Law of 4 April 2014 on insurance and the Royal Decree on Life Insurance).



	PPP_UL	PPP_PP
<i>N. of products analysed</i>	7	6
<i>Weighted Average Net Return 2020</i>	5.2%	0.9%
<i>Weighted Average Net Return 2020-2016</i>	7.3%	1.3%
<i>Weighted Average costs (as RIY at RHP)</i>	2.9%	0.6%
<i>Range of risk classes</i>	2 - 5	1 - 3
<i>Range of RHPs</i>	3 – 10 years	8 – 20 years

## Germany

In addition to the IBIPs sold with the aim of providing a retirement benefit, there are also 7 additional personal pension products categories, namely Riester products following Altersvorsorgeverträge-Zertifizierungsgesetz (AltZertG). These are voluntary, individual-based and have a DB feature. They are state subsidised pension products which were introduced in Germany in 2001 and are not insurance specific. They may comprise: classic private pension schemes, bank savings plan, funds-related pension scheme; internal and external investment funds, funds savings plan, direct insurances and pension funds, 'Wohn-Riester' (home owner) - a contract of loan to buy or build privately used real estate and cooperative shares. Combinations are also possible. The information provided below refer to the IBIPs sold with the aim of providing retirement benefit.

PPP\_UL<sup>47</sup>

PPP\_PP

	PPP_UL <sup>47</sup>	PPP_PP
<i>N. of products analysed</i>	50	13
<i>Weighted Average Net Return 2020</i>	3.8%	1.8%
<i>Weighted Average Net Return 2020-2016</i>	6.6%	2.0%
<i>Weighted Average Costs (as RIY at RHP)</i>	2.0%	1.4%
<i>Range of risk classes</i>	1 - 7	1 and 2
<i>Range of RHPs</i>	1 – 40 years	12 – 40 years

## Hungary

Voluntary pension funds offer an institutional form for retirement support, introducing additional capital in the market that can support long term investment. Members can join the funds voluntarily on individual basis. Members are the owners of the pension funds. They are supplementary pension products designed to substantially improve the amount of the state pension.

In case of PPPs which are also IBIPs, these products are life insurance products where the insurance event is the retirement of the client. Usually tax refund can be claimed, but only after the accumulation phase. These contracts have a separate, dedicated account, where also the tax benefits are credited, and which cannot be surrendered in a flexible way. In case of early surrender the tax benefit has to be paid back entirely (Act CXVII of 1995 on Personal Income Tax).



PPP\_UL

PPP\_PP

	PPP_UL	PPP_PP
<i>N. of products analysed</i>	17	5
<i>Weighted Average Net Return 2020</i>	11.2%	1.9%
<i>Weighted Average Net Return 2020-2016</i>	7.5%	2.4%

<sup>47</sup> 12 of the 50 PPP\_UL considered are commercialised in DE on a cross border basis by IE and LI

<i>Weighted Average costs (as RIY at RHP)</i>	3.0%	2.2%
<i>Range of risk classes</i>	2 to 5	1 to 3
<i>Range of RHPs</i>	10 – 25 years	10 – 20 years

## Ireland

There are two forms of personal pension contracts used to save for retirement: Personal Retirement Savings Accounts (PRSAs) and Retirement Annuity Contracts (RACs). PRSAs can also be used by people in pensionable employment who wish to make Additional Voluntary Contributions (AVCs). RACs are used mainly by the unincorporated self-employed, but also to a much lesser extent by employees in non- pensionable employment. There is a third type of retirement contract, Personal Retirement Bonds or ‘buy out bonds’ which are designed only to accept transfers from occupational pension schemes in lieu of maintaining a preserved benefit in the scheme. Generally, individuals can take a tax-free lump sum from a PRB and use the remaining funds to buy an annuity (pension) or invest in an Approved Retirement Fund (ARF).



PPP\_UL

<i>N. of products analysed</i>	12
<i>Weighted Average Net Return 2020</i>	2.3%
<i>Weighted Average Net Return 2020-2016</i>	4.2%
<i>Weighted Average Costs (as RIY at RHP)</i>	2.4%
<i>Range of risk classes</i>	1 and 3
<i>Range of RHPs</i>	n.a.

## Italy

Pillar III products include “PIPs” (Piani individuali pensionistici di tipo assicurativo) and open pension plans (so called “fondi pensione aperti”) with individual adhesion. PIPs are individual pension plans implemented through life insurance contracts offered by insurance companies; they can be either

in the form of with-profit (traditional policies) or unit-linked policies and they only support personal plans. Open pension funds are promoted by banks, insurance companies, asset management companies. They support both occupational plans (collective adhesion) and personal plans (individual adhesion).

In both PIPs and open pension funds the assets of the products are required to be segregated by those of the provider and they do not have legal personality.

In Italy private pension products have a specific legal regime and have the same fiscal treatment of occupational pension funds which is more favorable compared to other financial and insurance products. They have the same rules for adhesions, disclosure and benefits payment of occupational pension funds. Italian private pension products are not considered IBIPs and are not subject to the PRIIPs regulation.



	PPP_UL	PPP_PP
<i>N. of products analysed</i>	20	12
<i>Weighted Average Net Return 2020</i>	1.6%	0.6%
<i>Weighted Average Net Return 2020-2016</i>	1.9%	0.9%
<i>Weighted Average Costs (as RIY at RHP)</i>	2.3%	1.8%
<i>Range of risk classes</i>	n.a.	n.a.
<i>Range of RHPs</i>	10 – 15 years	5 – 15 years

## Poland

IKZE (Individual retirement savings account) and IKE (Individual retirement account) are personal saving accounts that facilitate saving for the future retirement need. They are part of DC funds.



	PPP_UL
<i>N. of products analysed</i>	9
<i>Weighted Average Net Return 2020</i>	4.4%

<i>Weighted Average Net Return 2020-2016</i>	3.2%
<i>Weighted Average Costs (as RIY at RHP)</i>	1.9%
<i>Range of risk classes</i>	1 to 4
<i>Range of RHPs</i>	10 – 20 years

### Portugal

PPPs are in the form of life insurance and pension funds. They can offer tax benefits. The reimbursement of the accumulated amount is possible at any time, but a tax penalty applies. In some specific cases, such as at retirement age, disability, pre-retirement or early retirement or in cases of serious illness, permanent incapacity and long-term unemployment the reimbursement of the accumulated amount is possible without tax penalties.

Pillar III products are: individual membership of open pension funds, retirement saving schemes (Plano Poupança Reforma - PPR) financed by insurance contracts, retirement saving schemes (Plano Poupança Reforma - PPR) financed by pension funds and retirement saving schemes (Plano Poupança Reforma - PPR) financed by investment funds.



PPP\_UL

<i>N. of products analysed</i>	5
<i>Weighted Average Net Return 2020</i>	2.2%
<i>Weighted Average Net Return 2020-2016</i>	1.5%
<i>Weighted Average Costs (as RIY at RHP)</i>	2.1%
<i>Range of risk classes</i>	2 to 4
<i>Range of RHPs</i>	3 – 8 years

### Slovenia

PPPs are life cycle products based on the rules set for occupational pensions. In such products the investment strategy of the product is more aggressive at inception to be then shifted to more

moderate investment strategy (middle age group) and finally for older contributors it is moved to an investment return guarantee strategy.



PPP\_UL

<i>N. of products analysed</i>	12
<i>Weighted Average Net Return 2020</i>	2.6%
<i>Weighted Average Net Return 2020-2016</i>	7.6%
<i>Weighted Average Costs (as RIY at RHP)</i>	5.3%
<i>Range of risk classes</i>	1 to 6
<i>Range of RHPs</i>	10 – 25 years

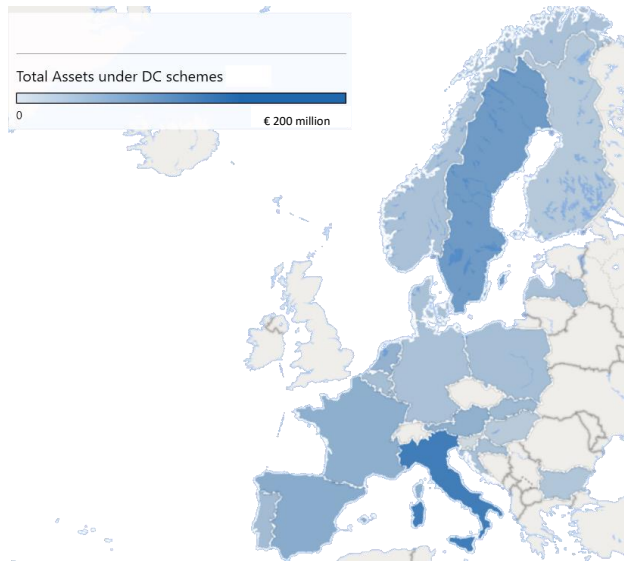


## 1.2 IORPS

The scope of the analysis on IORPs refers to occupational schemes managed by IORPs and it does not provide a global picture for the whole occupational pensions sector, given that some occupational pension schemes can be managed by providers other than IORPs. The heterogeneity of practice ranges from instances where occupational pension schemes are mainly state funded, and thus, do not qualify as IORPs as it is for Finland, to countries where insurance undertakings - rather than IORPs - manage the largest part of the occupational pension schemes, as for Belgium. The heterogeneity in pensions markets is a limitation and the analysis presented should be interpreted carefully.

In 2020, the assets backing DC schemes accounted for € 337 billion while those backing all schemes (defined benefit “DB” and DC) were € 2.5 trillion (Figure 29). The strong difference is due to the high concentration of assets in DB schemes, mainly in NL, which has a market share in Europe of 70%, in terms of assets. IT and SE hold the largest share of assets under DC schemes, representing 46% and 23% of the total amount, respectively (Figure 30).

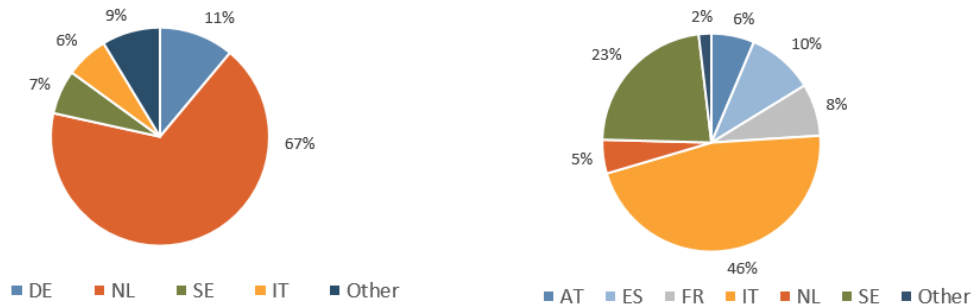
**Figure 29 - Assets in DC schemes - 2020<sup>48</sup>**



Source: IORPs database

<sup>48</sup> In 2020 DC schemes were not present in: DE, DK, SI

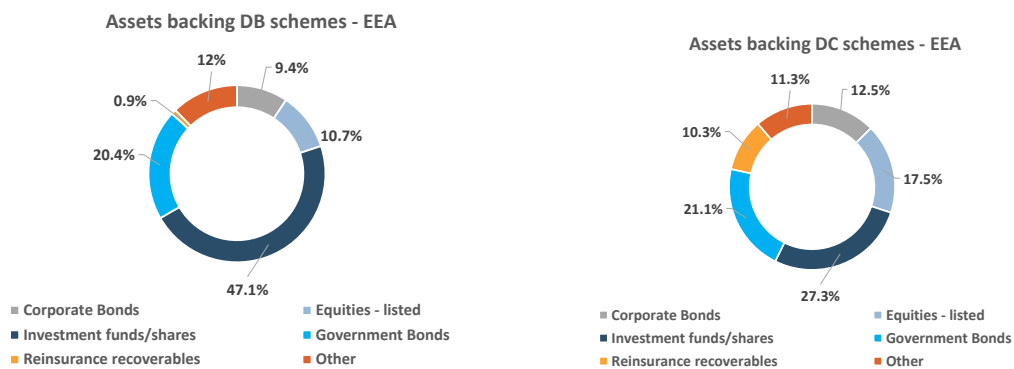
**Figure 30 - Assets (%) under IORPs all schemes (on the left) and DC schemes (on the right) across top Member States - 2020**



Source: IORPs database

The asset allocation in DC funds differs across Members, but at EEA level around 30% is allocated to investment funds. Direct investments in government bonds represent 21% and listed equity 18%. With respect to DB schemes, DC ones tend to invest more in equity (17% vs 11%) while also relying more on reinsurance strategies (10% vs 1%). DB schemes differ from DC, where members bear the investment risk related to the capitalisation of the contributions paid without any guarantees associated to the contributions and/or not guaranteed replacement ratios, as it happens for DB schemes.

**Figure 31 - Breakdown of assets under DB schemes (on the left) and DC schemes (on the right) - EEA - 2020**

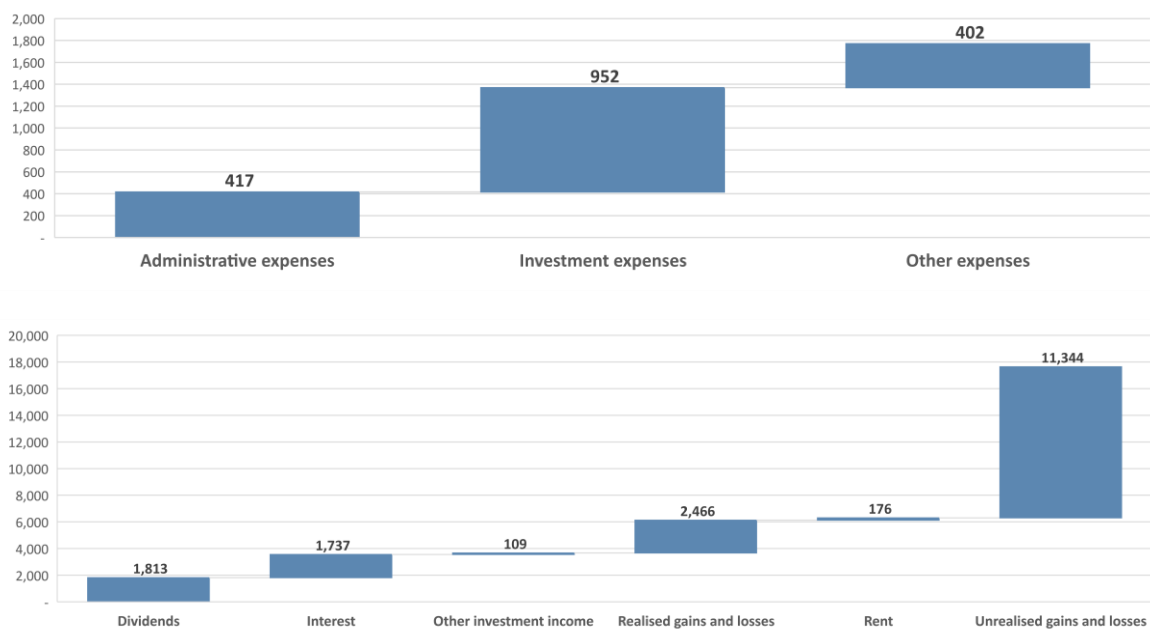


Source: IORPs database

Despite the limitation due to the absence of information on expenses actually paid by members and performances of the schemes to which members adhere, some considerations based on the data collected at IORPs level can be made, bearing in mind that expenses and income shown in this section are born by IORPs, making it impossible to understand the proportion of expenses passed on to schemes' members or if these bear additional expenses not captured at the IORPs level.

In relation to expenses, in 2020, at EEA aggregate level, the total expenses<sup>49</sup> corresponding to DC schemes were € 1.8 billion, mainly driven by investment expenses. In 2020 positive investment return were measured in the sector and expenses resulted low compared to the total investment income, accounting to € 17.7 billion (Figure 32).

**Figure 32 - Total Expenses breakdown at EEA level (above) and total investment income (below) – DC schemes, in € million - 2020**



Source: IORPs database

An analysis at Member States level<sup>50</sup> shows consistent results in relation to the investment income with unrealised gains being the major driver of return. In relation to expenses, at Member State level the proportion of administrative expenses is above 50% of total costs for 8 Member States, while in 3 others investment expenses represent more than 90% of the total.

**Figure 33 - Total Expenses breakdown at Member State level (above) and total investment income breakdown (below) – DC schemes, 2020<sup>51</sup>**

<sup>49</sup> Total expenses analysis and figures are based on the reporting template PF.05.03. Tax expenses, despite being reported in the template are excluded for comparability reason as tax system and tax rates vary by country.

<sup>50</sup> The Member States in scope of the analysis at country level are those that have more than 2 IORPs (offering both DC schemes only or being mixed institutions, offering DC and DB schemes). Annex III provides a summary of the number of IORPs per market (template PF.01.02.02). Therefore data from BG, DE, FR, FI, HU, LI, NO, PL are not shown. While IORPs in DE, DK, SI do not have any DC schemes at all. MT is excluded as members covered are all non-Maltese residents and the indicators shown would not be meaningful.

<sup>51</sup> In SE other costs correspond mainly to interest rate expenses and exchange rates expenses.



Source: IORPs database

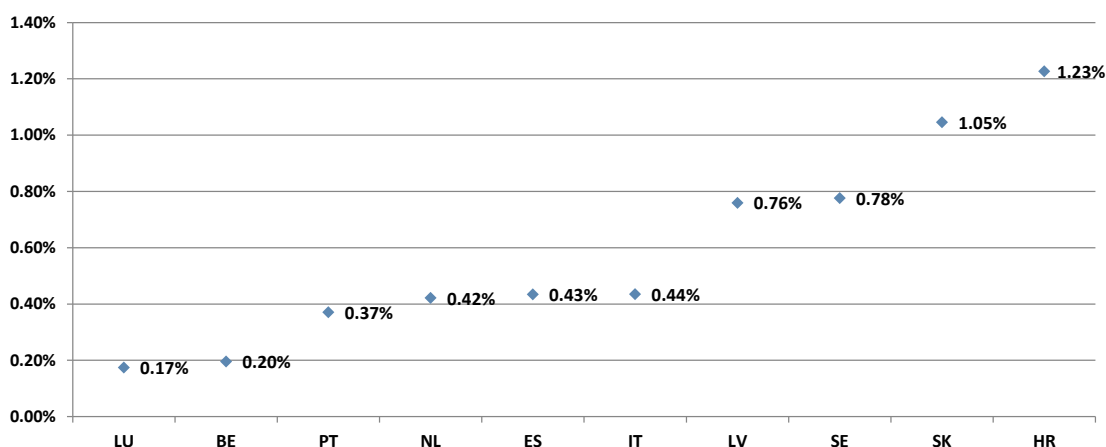
Looking at the breakdown of the investment income, some concerns arise in LV and HR where gains (unrealised and realised) resulted to be negative, hence possible representing a loss for the contributors, given that by definition DC schemes transfer the risk to schemes members without any guarantee.

Overall, being 2020 characterised by positive investment return, expenses were lower than the investment income accounted for DC schemes in all Member States, being below 10% for BE, NL and PT and higher for LV (50%) and HR (80%)<sup>52</sup>. A more accurate picture of the efficiency and profitability of the European DC schemes is obtained by computing the expense ratio, i.e. expenses versus total assets. The expense ratio also provides an indication on the performance of such schemes, measuring how much of a scheme's assets are used for administrative, investment and other operating expenses. Those reduce the fund's assets, thereby reducing the return to

<sup>52</sup> A more appropriate picture of the expenses and income relation at schemes level should be performed on a longer time horizon than on only one year, as represented in the report, given that in years of positive investment return it is likely that return are higher than expenses and the comparative analysis should consider years of lower investment return. As 2020 is to date the first year of data availability the meaningfulness of the comparison is limited. Further analysis will be carried out and enhanced in the upcoming years, when longer time series would be made available.

consumers. The expense ratio ranges between 0.2% (LU and BE) to 1.2% (HR), (Figure 34). Overall, the expense ratio is aligned with the benchmark used for similar products managed by investment and mutual funds (around 1%)<sup>53</sup>, which offer long-term investment options.

Figure 34 – Expense Ratio at Member States - DC schemes, 2020<sup>54</sup>



Source: IORPs database

Expenses and income are only two of several factors driving the performance of pension funds to provide the adequate retirement income to their members. In fact, other factors such as density of contributions and the behaviour of participants in choosing a retirement age also play an important role.

### 1.3 SUMMARY FINDINGS ON THE PENSION SECTORS

The macroeconomic environment characterised by rising inflation rates, low interest rates and the uncertainty brought by the COVID-19 pandemic shape the current European pension sector which is also undergoing a number of structural changes, such as the shift of large markets (such as NL) towards DC schemes. Looking at the sector in the last years and based on the scope of the analysis of this report, the following findings are identified:

- PPPs: 2020 was characterised by positive but low net return being 3% for PPP\_UL and 1.5% for PPP\_PP at European aggregate level, having slightly decreased with respect to the previous five years. Costs were also higher than previous year's findings, being above 2%

<sup>53</sup> Zhang, Andrew (Jianzhong), *Mutual Fund Expense Ratios in Market Equilibrium (July 20, 2007, Pension Charges Survey 2020, Department for Work and Pensions (DWP) (January 2021)*

<sup>54</sup> The expense ratio measures the proportion of the expenses with respect to the assets. Nevertheless it is to be interpreted cautiously being a proxy and being not further broken down in more precise subcategories, e.g by young active members with (old) pensioners.

for PPP\_UL and PPP\_HY, while they were aligned for PPP\_PP at 1.5%. Comparability amongst Member States is limited due to different definitions and practice and also because of the absence on a common European framework.

- IORPs: total expenses of DC schemes were lower (ca. € 2 billion) than the investment income achieved (ca. € 18 billion). In 2020 total expenses corresponding to IORPs DC schemes were mainly driven by investment expenses. Total investment income was driven by unrealised gains. The analysis presented remains at IORPs level, hence based on pension funds rather than offering a members perspective, as information on the proportion of expenses and income (and so of the net performance) passed onto members is not available.

## NEXT STEPS

After few iterations of the analysis presented on costs and past performance, from its first edition in 2019, the granularity and the market coverage have gradually increased both in terms of number of products and availability of information in particular for the IBIPs market, having reached the target market coverage of 60% and having analysed almost 800 products. Still the sample based nature of the work and the heterogeneity of market structures and business models amongst European Member States challenge the completeness of the results and further improvements are planned.

### IBIPs

For the first time some considerations on ESG products and cross border business were introduced in the analysis. These show that the IBIPs coverage as whole has improved significantly but further work is needed to better develop this new set of analyses. Some additional refinements are also expected on costs, especially on multi option hybrid products, being more complex and hence more difficult to be aggregated at different level.

### IORPs

2020 was the first year with available centralized data on IORPs, which allowed to carry out some analysis both at aggregate European level and at Member State level. Still, being the first year, information on trends and performance were unavailable. The next iteration is expected to further develop the extent of the analyses on IORPs. These analyses will remain at the level of IORPs, hence it would be based on pension funds rather than members perspective, because, for proportionality purposes, it is not yet planned to perform an ad-hoc data collection also on IORPs.

### PPPs

Taking into account comparability issues that emerged last year due to the diversity of the markets and also due to the lack of a unique legal framework of reference, this year the aggregate trends were more limited in favour of a more granular representation at Member State level. Work to additionally improve the comprehensiveness of this section is expected to continue.

## ANNEX I – METHODOLOGY

### 1.1 IBIPS

The methodology describes how to compute costs and past performance from a representative sample of products sold by insurance manufacturer, focusing on the most sold products per undertakings and their risk class.

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 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 2020 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. To measure GWP the data from the Quantitative Reporting Template (QRT) S.05 is used<sup>55</sup>. The target market coverage of the sample is set at 60% of the EEA market in term of GwP for unit-linked and profit participation products.

The sample for the 2022 report, as for the previous iteration, mainly focused on products that are sold in the domestic market by domestic market participants<sup>56</sup> taking-up business in the home country. Cross-border activity<sup>57</sup> is limited to those markets where domestic business represents less than 50% of the total GWP volume. For the first time the 2022 iteration present some separate figures on the costs and past performance of products sold on a cross border basis.

---

<sup>55</sup> The Solvency II cell notation is: S.05.01.01 R1410 C0220, S.05.01.01 R1410 C0230

<sup>56</sup>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.

<sup>57</sup> 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.



EIOPA collected the data with questionnaires circulated to selected insurance undertakings by NCAs and past performance over a period of 5 years is sought. For the current iteration of the report the timeframe was 2016-2020.

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.

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

- Premium frequency: regular, singular or flexible premiums
- Recommended holding periods: Long ( $\geq 15Y$ ) 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 are distinguished where they materially vary depending on product features, to ensure adequate comparisons.

The selection was addressed to those products that were commercialised at least until 31<sup>st</sup> December 2020 to exclude products in run-off.

While for costs information publicly available input from the PRIIPs KID is used, extra data have been requested on past performance and on costs not reflected in that performance to allow computing a past performance net of all costs. 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. Some consideration on inflation are also provided together with the actual rate of inflation measured in the years of analysis. On the other hand, for the analysis on costs, the Reduction in Yield (RIY) figures as reported in the KID are used without the need to collect other ad-hoc input.

### **Unit-linked products**

For the iteration of the 2022 report, as for previous ones, a unique template for both 10.a and 10.b unit-linked products<sup>58</sup> was used. In case of single option products the collection is straightforward. In case of multi-option products the data collection is based on the largest underlying options (in terms of GWP 2020) and the insurance wrapper. A product is therefore

---

<sup>58</sup> 10.a and 10.b unit-linked product refers to Article 10 PRIIPs-RTS / delegated regulation

considered as one option plus its wrapper, following a consumer perspective. This may differ from the manufacturer's perspective where a product can be defined as all the available underlying options plus the insurance wrapper.

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.  $R(j) = \frac{NaV_j}{NaV_{j-1}} - 1$

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.:

$$R_{av\_n} = ((1+R(1)_n) \cdot \dots \cdot (1+R(n)))^{(1/n)} - 1$$

#### 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.:

$$R_{av\_n} = ((1+R(1)_n) \cdot \dots \cdot (1+R(n)))^{(1/n)} - 1$$

### **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
- a variety of options where the allocation between the two components (the unit-linked and the profit participation one) is customised by the policyholder.

In the former case, the net return for hybrid products is simply the aggregate net return of the combination offered where 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 allocation between the two options is provided by the product manufacturers as representative of the average allocation for policyholders. This, while being often an approximation as the allocation changes consumer by consumer, aims at providing an aggregate meaningful picture. For example, a manufacturer can use assets under management or GWP allocation to compute the average allocation per option.

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 relative allocation, either to provide the information on the hybrid product as aggregate.

## Calculations – Hybrid Product

### 1<sup>st</sup> approach

$R(j)_{HY}$  : 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.

$$R_{av_{n_{HY}}} = ((1+R(1)_n) \cdot \dots \cdot (1+R(n)))^{(1/n)} - 1$$

### 2<sup>nd</sup> approach

As unit-linked and profit participation options are unbundled, at first the net return has to be computed for each option individually. Secondly the hybrid net return is obtained weighting the two components.

#### UL net return Calculation

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

$RIY(j)_{UL}$ : 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.

$$R_{av_{n_{HY}}} = ((1+R(1)_n) \cdot \dots \cdot (1+R(n)))^{(1/n)} - 1$$

## 1.2 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 and non IBIPs products. Given the diverse framework, EIOPA requested to report data for only the 3 most relevant Personal Pension Product in 2020 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.

In addition the survey on IBIPs ask direct information on whether the IBIPs product represented is also sold with the aim to provide a pension benefit during the retirement age. The report also shows the costs and the performance of this subset of products.

## 1.3 METHODOLOGICAL REFINEMENT

Leveraging on the lessons learnt from previous editions, some refinements to the methodology of the 2022 report were made with respect to the previous years' edition. This paragraph aims at giving transparent evidence of such methodological improvements.

In particular:

- In order to compute weighted return and weighted costs figures it was finally possible to use the GWP corresponding to the product rather than the one corresponding to the undertaking per line of business. This was ultimately possible as the quality of the input collected corresponding to the field GWP 2020 was adequate.
- The return and costs by markets reflect the country of commercialization of the product taking into consideration product written on a cross border basis. The report, despite having mainly a domestic focus, for the first time, given the improved data quality, allow to introduce more consideration on the cross border business for those market where this is more relevant.

- The 2022 report introduced some initial analysis on the costs and performance of ESG products. The sample collected, despite being small and covering the 2020 market (before the application of the SFDR directive) show how the demand in this area of the market is growing exponentially and the additional analysis to be performed on the 2021 sample, after the introduction of SFDR will be of further interest and importance.
- The current year report presents for the first time analysis some analysis on IORPs leveraging on a centralised European data repository. The analysis performed aims at being comprehensive of the European IORPs landscape and show some indication of profitability and costs at IORPs level using indicators developed on the basis of the data centralised in the repository. The further iteration of the report, together with the availability of time series will allow to better develop and fine tune the indicators of performance and costs considered.

## ANNEX II – STATISTICAL ANNEX

Table 6 – Unit-linked net return by Member States – 2020-2016

Country	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_NR_UL_2016	Weighted_NR_UL_2017	Weighted_NR_UL_2018	Weighted_NR_UL_2019	Weighted_NR_UL_2020
AT	33	5%	3%	4%	5%	-5%	11%	3%
BE	23	6%	3%	9%	2%	-7%	10%	0%
BG	9	4%	2%	2%	3%	-5%	7%	1%
CZ	7	6%	1%	-2%	-1%	-5%	11%	4%
DE	74	9%	6%	9%	5%	-7%	22%	4%
EE	17	6%	4%	5%	4%	-5%	13%	3%
ES	35	7%	2%	1%	6%	-8%	13%	2%
FI	17	5%	5%	6%	4%	-2%	12%	5%
FR	16	7%	5%	9%	6%	-6%	14%	4%
GR	6	15%	4%	0%	12%	-16%	30%	0%
HR	14	5%	2%	4%	1%	-4%	11%	-1%
HU	21	7%	7%	4%	7%	-4%	17%	12%
IE	30	9%	5%	-3%	8%	-6%	18%	9%
IT	43	7%	5%	5%	3%	-6%	16%	9%
LT	18	6%	3%	1%	5%	-6%	13%	3%
LU	5	7%	0%	0%	0%	-10%	12%	-2%
LV	17	5%	3%	4%	4%	-6%	11%	1%
MT	10	7%	7%	7%	7%	-3%	19%	5%
PL	21	7%	6%	3%	12%	-7%	11%	12%
PT	23	3%	1%	-1%	1%	-5%	5%	3%
RO	9	4%	3%	0%	6%	-3%	8%	2%
SE	32	6%	8%	8%	7%	-1%	16%	10%
SI	19	7%	3%	3%	2%	-7%	14%	2%
SK	11	11%	3%	-3%	9%	-11%	20%	4%

Table 7 – Hybrids products net return by Member States – 2020-2016

Country	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_HY_2016	Weighted_N R_HY_2017	Weighted_N R_HY_2018	Weighted_N R_HY_2019	Weighted_N R_HY_2020
AT	21	5%	1%	1%	3%	-5%	9%	-1%
BE	7	6%	4%	1%	4%	-1%	16%	0%
DE	38	7%	2%	0%	4%	-5%	14%	-3%
FR	61	2%	2%	2%	2%	-1%	5%	2%
IT	30	2%	2%	2%	1%	-1%	5%	4%
LU	6	1%	1%	1%	1%	0%	0%	2%
SK	8	5%	3%	12%	5%	-3%	3%	-1%

Table 8 – Profit participation net return by Member States – 2020-2016

Country	N.of products	St deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_PP_2016	Weighted_NR_PP_2017	Weighted_N R_PP_2018	Weighted_N R_PP_2019	Weighted_N R_PP_2020
AT	6	0.2%	0.8%	0.5%	0.9%	0.8%	0.9%	1.0%
BE	9	0.2%	1.5%	1.5%	1.6%	1.6%	1.4%	1.2%
CZ	4	0.1%	0.3%	0.0%	0.3%	0.3%	0.5%	0.2%
DE	13	0.6%	2.0%	3.1%	1.7%	1.8%	1.7%	1.8%
HU	7	0.4%	1.7%	2.4%	1.7%	1.7%	1.6%	1.3%
IT	15	0.2%	1.1%	1.2%	1.0%	1.3%	1.1%	0.8%
PL	4	0.6%	1.2%	1.8%	1.9%	1.3%	0.8%	0.3%
RO	4	0.7%	2.9%	3.7%	3.7%	2.5%	2.3%	2.2%
SK	4	0.8%	0.9%	1.8%	1.6%	1.4%	-0.1%	-0.1%

**Table 9 – Unit-linked net return by risk class – 2020-2016**

Kid Risk Class	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_NR _UL_2016	Weighted_NR _UL_2017	Weighted_NR _UL_2018	Weighted_NR _UL_2019	Weighted_NR _UL_2020
1	45	0%	-1%	-1%	-1%	-2%	-1%	-2%
2	93	4%	1%	1%	2%	-4%	7%	1%
3	122	6%	4%	6%	4%	-6%	12%	4%
4	113	9%	5%	1%	10%	-8%	20%	5%
5	59	14%	9%	-3%	7%	-7%	25%	25%
6	53	12%	10%	19%	12%	-9%	27%	4%
7	15	22%	13%	48%	-5%	-7%	32%	6%

**Table 10 - Hybrid net return by risk class – 2020-2016**

Kid Risk Class	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_HY_2016	Weighted_N R_HY_2017	Weighted_N R_HY_2018	Weighted_N R_HY_2019	Weighted_N R_HY_2020
1	18	1%	1%	0%	1%	0%	2%	-1%
2	32	1%	1%	0%	1%	-1%	3%	1%
3	31	2%	2%	1%	2%	-1%	4%	1%
4	34	1%	1%	1%	2%	0%	2%	2%
5	22	4%	3%	2%	3%	-2%	9%	2%
6	25	4%	3%	2%	3%	-2%	11%	4%
7	11	6%	5%	10%	0%	-3%	12%	4%

**Table 11 – Profit participation net return by risk class – 2020-2016**

Kid Risk Class	N.of products	St deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_PP_2016	Weighted_NR _PP_2017	Weighted_N R_PP_2018	Weighted_N R_PP_2019	Weighted_N R_PP_2020
1	39	0.3%	1.8%	2.3%	1.8%	1.7%	1.7%	1.4%
2	35	1.6%	2.0%	5.1%	0.9%	1.7%	0.7%	1.6%
3	9	0.4%	2.0%	2.4%	2.3%	1.9%	2.1%	1.4%

**Table 12 - Unit-linked net return by recommended holding period – 2020-2016**

RHP	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_NR _UL_2016	Weighted_NR _UL_2017	Weighted_NR _UL_2018	Weighted_NR _UL_2019	Weighted_NR _UL_2020
Long	167	6.9%	5.6%	8.3%	4.7%	-4.5%	16.8%	3.5%
Short	338	6.5%	4.1%	2.3%	5.0%	-6.1%	14.1%	6.3%

**Table 13 - Hybrid net return by recommended holding period – 2020-2016**

RHP	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted _NR_HY_2016	Weighted _NR_HY_2017	Weighted _NR_HY_2018	Weighted _NR_HY_2019	Weighted _NR_HY_2020
Long	62	7.0%	2.1%	0.3%	4.5%	-5.0%	14.7%	-2.8%
Short	114	1.9%	2.2%	2.3%	1.9%	-0.8%	5.2%	2.5%

**Table 14 – Profit participation net return by recommended holding period – 2020-2016**



RHP	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_PP_2016	Weighted_NR _PP_2017	Weighted_N R_PP_2018	Weighted_N R_PP_2019	Weighted_N R_PP_2020
<b>Long</b>	35	0.4%	2.3%	3.1%	2.1%	2.2%	2.0%	2.0%
<b>Short</b>	49	0.3%	1.3%	1.8%	1.3%	1.3%	1.2%	0.9%

Table 15 - Unit-linked net return by premium frequency – 2020-2016

Premium frequency	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_NR _UL_2016	Weighted_NR _UL_2017	Weighted_NR _UL_2018	Weighted_NR _UL_2019	Weighted_NR _UL_2020
<b>Flexible</b>	172	6%	4%	2%	6%	-6%	13%	5%
<b>Regular</b>	126	8%	5%	7%	5%	-7%	17%	4%
<b>Single</b>	201	7%	5%	4%	3%	-6%	15%	8%

Table 16 - Hybrids net return by premium frequency – 2020-2016

Premium frequency	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_HY_2016	Weighted_N R_HY_2017	Weighted_N R_HY_2018	Weighted_N R_HY_2019	Weighted_N R_HY_2020
<b>Flexible</b>	52	1.7%	2.2%	3.0%	1.8%	-0.5%	4.6%	2.1%
<b>Regular</b>	58	7.5%	1.9%	-0.1%	4.4%	-5.9%	15.5%	-3.3%
<b>Single</b>	66	2.4%	2.2%	0.7%	2.1%	-1.1%	6.1%	3.1%

Table 17 – Profit participation net return by premium frequency – 2020-2016

Premium frequency	N.of products	ST deviation 2020-2016	Yearly NR 2020-2016	Weighted_N R_PP_2016	Weighted_NR _PP_2017	Weighted_N R_PP_2018	Weighted_N R_PP_2019	Weighted_N R_PP_2020
<b>Flexible</b>	9	0.2%	1.5%	1.7%	1.7%	1.7%	1.4%	1.1%
<b>Regular</b>	45	0.4%	2.2%	3.0%	1.9%	2.0%	1.9%	2.0%
<b>Single</b>	29	0.4%	1.4%	2.0%	1.3%	1.4%	1.3%	0.9%

Table 18 – Unit-linked costs statistics – 2020

	RIY at RHP	Entry Costs	Exit Costs	Transaction Costs	Other Ongoing Costs	Performance Fees	Additional Wrapper costs
Median	2.4%	0.0%	0.0%	0.0%	1.7%	0.0%	0.0%
Simple Average	2.6%	0.3%	0.0%	0.3%	1.8%	0.0%	0.6%
Weighted Average	2.7%	0.2%	0.0%	0.2%	1.9%	0.1%	0.4%
St dev	1.4%	0.6%	0.0%	0.6%	1.3%	0.2%	0.9%
25% percentile	1.6%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%
75% percentile	3.4%	0.3%	0.0%	0.3%	2.5%	0.0%	1.0%

Table 19 – Hybrids costs statistics – 2020

	RIY at RHP
Median	2.2%
Simple Average	2.5%
Weighted Average	2.2%
St dev	1.3%
25% percentile	1.8%
75% percentile	2.8%

Table 20 – Profit participation costs statistics – 2020

	RIY at RHP	Entry Costs	Exit Costs	Transaction Costs	Other Ongoing Costs
Median	1.5%	0.3%	0.0%	0.0%	1.2%
Simple Average	1.6%	0.3%	0.0%	0.1%	1.2%
Weighted Average	1.3%	0.3%	0.0%	0.0%	1.0%
St dev	0.9%	0.3%	0.1%	0.2%	0.9%
25% percentile	1.0%	0.0%	0.0%	0.0%	0.4%
75% percentile	2.1%	0.5%	0.0%	0.1%	1.5%

**Table 21 – Unit-linked, profit participation and hybrid costs by Member State – 2020**

Unit-linked			Profit Participation			Hybrid		
Country	N.of products	RIY_at_RHP	Country	N.of products	RIY_at_RHP	Country	N.of products	RIY_at_RHP
AT	33	2%	AT	6	1.2%	AT	21	2.5%
BE	23	3%	BE	9	0.5%	BE	7	2.5%
BG	9	2%	CZ	4	1.4%	DE	38	2.1%
CZ	7	3%	DE	13	1.3%	FR	61	2.2%
DE	74	2%	HU	7	2.1%	IT	30	2.1%
EE	17	2%	IT	15	1.7%	LU	6	2.4%
ES	35	2%	PL	4	2.5%	SK	8	4.8%
FI	17	2%	RO	4	2.8%			
FR	16	4%	SK	4	0.5%			
GR	6	2%						
HR	14	3%						
HU	21	3%						
IE	30	3%						
IT	43	3%						
LT	18	3%						
LU	5	4%						
LV	17	3%						
MT	10	2%						
PL	21	3%						
PT	23	1%						
RO	9	3%						
SE	32	1%						
SI	19	4%						
SK	11	3%						

**Table 22 – Unit-linked, profit participation and hybrid costs by risk class**

Unit linked			Profit Participation			Hybrid		
Risk Class	N.of products	RIY_at_RHP	Risk Class	N.of products	RIY_at_RHP	Risk Class	N.of products	RIY_at_RHP
1	45	2%	1	39	1.3%	1	18	1.6%
2	93	2%	2	35	1.4%	2	32	2.4%
3	122	2%	3	9	1.9%	3	31	2.2%
4	113	3%				4	34	2.2%
5	59	3%				5	22	2.2%
6	53	3%				6	25	2.1%
7	15	3%				7	11	2.3%

**Table 23 - Unit-linked, profit participation and hybrid costs by RHP**

Unit linked			Profit Participation			Hybrid		
RHP	N.of products	RIY_at_RHP	RHP	N.of products	RIY_at_RHP	RHP	N.of products	RIY_at_RHP
Long	167	2.2%	Long	35	1.5%	Long	62	2.2%
Short	338	2.8%	Short	49	1.1%	Short	114	2.2%

**Table 24 - Unit-linked, profit participation and hybrid costs by premium frequency**

Unit linked			Profit Participation			Hybrid		
Premium Frequency	N.of products	RIY_at_RHP	Premium Frequency	N.of products	RIY_at_RHP	Premium Frequency	N.of products	RIY_at_RHP
Flexible	172	2.7%	Flexible	9	0.7%	Flexible	52	2.3%
Regular	126	2.3%	Regular	45	1.5%	Regular	58	2.2%
Single	201	2.7%	Single	29	1.3%	Single	66	2.0%

**Table 25 – ESG unit linked and hybrid sample – main features**

ESG UL					ESG Hybrid				
Country	Product Number	Premium_Frequency	Risk_Class	RHP	Country	Product Number	Premium_Frequency	Risk_Class	RHP
AT	1	Single	4	15	AT	1	Flexible	4	25
	2	Single	1	10		2	Single	1	15
	3	Flexible	4	25		3	Regular	6	25
	4	Single	4	6	DE	1	Regular	5	40
BE	1	Flexible	2	3		2	Regular	1	40
	2	Flexible	3	6	3	Regular	n.a.	40	
	3	Flexible	4	5	FR	1	Flexible	1	8
BG	1	Regular	3	3		2	Single	3	8
	DE	1	Regular	6		20	3	Flexible	2
2		Flexible	3	30		4	Single	6	8
3		Regular	6	30		5	Flexible	6	8
4		Regular	3	40		6	Flexible	6	8
5		Single	3	20		7	Flexible	6	8
6		Single	4	32		8	Flexible	6	8
7		Regular	3	30	IT	1	Single	2	7
EE	1	Flexible	5	10		2	Flexible	4	3
	ES	1	Single	2		10	3	Single	2
2		Flexible	2	5	SK	4	Single	2	10
FI		1	Flexible	4		20	1	Regular	4
	2	Flexible	3	30					
	3	Flexible	6	7					
FR	1	Flexible	1	8					
	2	Flexible	3	2					
HU	1	Regular	4	15					
	2	Single	3	10					
IE	1	Flexible	4	5					
	2	Flexible	3	7					
	3	Single	4	7					
IT	1	Single	2	5					
	2	Single	5	5					
LT	1	Regular	6	20					
	2	Flexible	5	30					
MT	1	Single	4	20					
NL	1	Regular	3	20					
SE	1	Single	6	5					
	2	Flexible	5	5					
SI	1	Regular	6	25					
	2	Single	6	10					
SK	1	Regular	4	30					
	2	Regular	4	20					

## ANNEX III – ADDITIONAL INFORMATION ON IORPS

The analysis performed is based on the IOPRs data reporting - 2020 is the first complete reporting year, following the “Decision on EIOPA's regular information requests towards NCAs regarding the provision of occupational pension’s information”<sup>59</sup>. This dataset covers IORPs which comply with the European definition of an institution for occupational retirement provision (IORP) and criteria pinpointed in the aforementioned IORP II Directive<sup>60</sup>.

<sup>59</sup> [Decision on EIOPA's regular information requests towards NCAs regarding the provision of occupational pension’s information](#)

<sup>60</sup> Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs)

In addition the analysis provided in this section must be cautiously interpreted given the persistent issues related to harmonization on definitions and scope for costs aggregation. Considering that costs and charges might have a detrimental impact on the future income expected by beneficiaries, a transparent and comprehensive view of these figures is crucial for IORPS, members and supervisors.

**Table 26 – Number of IORPs according to their classification (PF.01.02)**

	Total n. of IORPs	N. of DB IORPs	N. of DC IORPs	N. of MIXED IORPs <sup>61</sup>
<i>AT</i>	8	1	2	5
<i>BE</i>	162	151	3	8
<i>BG</i>	1		1	
<i>DE</i>	121	121	0	0
<i>DK</i>	18	17		1
<i>ES</i>	347	1	149	197
<i>FI</i>	37	36	1	
<i>FR</i>	7	2	2	3
<i>HR</i>	21	1	20	
<i>HU</i>	1		1	
<i>IT</i>	221	17	191	13
<i>LI</i>	3	1	2	
<i>LU</i>	15	8	6	1
<i>LV</i>	6		6	
<i>MT</i>	7	0	7	0

<sup>61</sup> Mixed IORPs are IORPs offering both DC and DB schemes

NL	213	206	7	
NO	84	82	1	1
PL	2		2	
PT	184	66	37	81
SE	3			3
SI	3	3		
SK	19		19	

Source: IORPs database

## ANNEX IV – DEFINITIONS

<p><b>One-Off costs - PRIIPs</b> regulation Annex VI points: 47-49</p>	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>(a) structuring or marketing costs;</li> <li>(b) acquisition, distribution, sales costs;</li> <li>(c) processing/operating costs (including costs for the management of the insurance cover);</li> <li>(d) cost part of biometric risk premiums ;</li> <li>(e) costs of holding required capital (up front part to be disclosed insofar as they are charged).</li> </ul>
<p><b>Ongoing Costs - PRIIPs</b> regulation Annex VI points: 50-53</p>	<p>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.</p> <p>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.</p> <p>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;</p> <ul style="list-style-type: none"> <li>(b) acquisition, distribution, sales costs;</li> </ul>

	<p>(c) processing/operating costs (including costs for the management of insurance cover);</p> <p>(d) cost part of biometric risk premiums referred to in point 59 of this Annex;</p> <p>(e) other administrative costs;</p> <p>(f) costs of holding capital (recurring part to be disclosed insofar as they are charged);</p> <p>(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.);</p> <p>(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).</p> <p>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.</p>
<p><b>Carried Interest</b> - PRIIP Regulation - Annex VI, point: 25 - 26</p>	<p>To calculate carried interests, the following steps shall be taken:</p> <p>(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;</p> <p>(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:</p> <p>(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.</p> <p>(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;</p> <p>(iii) concatenate both carried interests series to one series over the full sample period as required in point (a);</p> <p>(iv) compute the carried interests using the methodology referred to in point (a) (average of annual carried interests).</p> <p>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.</p>
<p><b>Costs part of biometric risk premiums</b> - PRIIPs regulation Annex VI points: 54-60</p>	<p>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.</p> <p>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:</p>

	<p>(a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer;</p> <p>(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).</p> <p>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.</p> <p>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.</p>
<p><b>Incidental Costs – Performance fees - PRIIP</b> Regulation-Annex VI, point: 24</p>	<p>To calculate performance related fees, the following steps shall be taken:</p> <p>(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,</p> <p>(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:</p> <p>(i) take the relevant available history of the performance fees of the fund/share class;</p> <p>(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;</p> <p>(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;</p> <p>(iv) concatenate both performance fee series to one series over the full sample period as required in point (a);</p> <p>(v) compute the performance fees using the methodology referred to in point (a)(average of annual performance fees).</p>
<p><b>Unit-linked - working definition</b></p>	<p>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.</p>
<p><b>Profit participation –</b></p>	<p>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</p>

Working definition	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.
<b>Hybrid product</b> – 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.
<b>Product (MOP)</b> – 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 from the insurance manufacturer perspective where a product can be considered as a wrapper plus all the investment options offered.
<b>Defined Benefit schemes (DB)</b>	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.
<b>Defined Contributions schemes (DC)</b>	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.
<b>Hybrid schemes (HY)</b>	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 V – 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	Istituto 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)

## ANNEX VI – 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

**EIOPA**

Westhafen Tower, Westhafenplatz 1

60327 Frankfurt – Germany

Tel. + 49 69-951119-20

[info@eiopa.europa.eu](mailto:info@eiopa.europa.eu)

<https://www.eiopa.europa.eu>