



EIOPA consults on framework to address value for money risk in the European unit-linked market

NEWS
DATE:
13 Apr 2021

The European Insurance and Occupational Pensions Authority (EIOPA) announced today a [consultation on a framework to address value for money risk in the European unit-linked market](#). This consultation is a response to EIOPA's repeatedly highlighted concerns that, while unit-linked products can and often do offer important benefits for policyholders, costs for some unit-linked products continue to remain too high. Existing concerns have been heightened by the COVID-19 crisis. The low interest rate environment coupled to market shocks and the risk that households will need increased access to liquidity, underline how important it is that unit-linked products always offer value to consumers.

EIOPA considers that reliably putting consumer outcomes at the heart of product design, distribution and monitoring processes is critical for tackling value for

money issues, and that a European approach is needed to support the development of a stronger Capital Markets Union. Towards that goal, in its paper EIOPA presents the framework setting out how to assess whether unit-linked (and hybrid) products offer value for money, taking into account the needs, objectives and characteristics of a target market. The framework is centred around the principles that:

- Value offered by unit-linked (and hybrid) products should be assessed both taking into account the product as a whole as well as each product component (investment, insurance and guarantees, if any).
- When products are tested, manufacturers should assess the product features and characteristics, including costs and the reward profile of the products, vis-à-vis the target market characteristics, objectives and needs and they should ensure that no 'undue' costs are charged to consumers.
- Products which are difficult for consumers to understand should have more granular target markets and adequate measures in place to mitigate complexity related risks.

The framework is a first step towards a broader set of tools. These would provide further guidance for firms and supervisors for assessing when costs are undue, and to aid them in testing the value for money of products and by providing practical benchmarks.

EIOPA is seeking a market where consumers can be confident that the products on sale offer good value for money, including where they combine insurance and investment benefits. A flourishing unit-linked market could thereby significantly contribute to the development of the Capital Markets Union. It could also be a cornerstone for more sustainable household investments and savings.

EIOPA invites all interested stakeholders for concrete feedback on the different principles and guidance until 16 July 2021 by filling out the [EU Survey](#). A public event to further discuss the framework will also be organized by EIOPA.

Background

Unit-linked products - In gross-written premium terms unit-linked products are the most predominant insurance-based investment product in Europe, which amounted to EUR 340 billion for 2019. According to EIOPA's estimate unit-linked products account for a significant portion – over EUR 2.8 trillions of the total asset under management in Europe. The figure is approximate due to the fact that the

reporting is based on risks rather than products.

Value for money - While value for money is not explicitly defined in EU legislation, the Product and Oversight Governance (POG) framework clearly highlights that products characteristics - which include costs - need to be tested to ensure they are aligned to the target market's needs, objectives and characteristics, which also includes the target market's ability to pay and bear losses. Despite this, there is a need for more harmonised guidance to implement POG requirements and address consumer detriment arising from products where the costs and charges are not proportionate to the benefits and hence where products do not offer value to the target market.