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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Cost and past performance of retail investment, insurance and pension products

EIOPA Insurance and Reinsurance Stakeholder Group meeting
Frankfurt, 4 April 2018

- **Why is the topic on the agenda?**
 - o To consult the IRSG on the draft methodology for the 2018 report
- **What is expected from the IRSG?**
 - o To comment on the methodology
- **Next steps**
 - o Launch of Industry Questionnaires (templates) in May
 - o Report to be published in December 2018

- 2018 Report to focus **on (i) net past performance and (ii) comparison of KID costs**.
- The approach consists in collecting data for a **sample** of products from a representative selection of undertakings, via the National Competent Authorities (NCAs). Aim in 2018 Report to develop **classification of type of products** and **investment strategies** represented in the sample.
- Significant divergences in data quality and comparability are expected. The Report will **contain significant caveats** and **indications for future improvement**.
- The 2018 Report will include also **recommendations** for improving sampling, and on how to further develop methodologies for personal and occupational pensions.

General approach for IBIPs



The general approach EIOPA proposes is as follows:

- **Sample** of firms and products representative for each national markets, working with NCAs;
- **Information gathered from firms** in the sample, based on KIDs (and/or KIID for UCITS for 'multi-option products'); supplemental data necessary;
- Gather details from firms on the **assumptions used** in their data, given divergences in practical implementation of KIDs;
- **Data analysis** to prepare different groupings for comparisons. It is proposed to include separate data on inflation for different member states, and clarification of impact this can have over time.

Since both ESMA and EBA will also be preparing reports, EIOPA is in discussion with them to ensure the reports are aligned as and where appropriate.

However, given necessary differences in data and methodology, the 2018 reports will not easily permit cross-sectoral comparisons.

- The sample will include **products that are most sold to consumers**, for which a KID is available, but across different **risks** (investment strategies), and products with or without guarantees.
- Covers **unit-linked, with-profits, and hybrids of these two**.
- Where relevant data collected for **different holding periods**, and between **regular** and **single premium** forms of products.
- Focus solely on **domestic markets** for 2018; cross border in subsequent reports. The **largest insurance undertakings** selected will report data for:
 - o Products the **most sold to consumers** in terms of Gross Written Premium, and up to 5 products;
 - o Top **new products** (GWP), launched up to 2 years ago;
 - o Top products (GWP) **by type of risk category for each type of product**
 - o Top product **ESG invested** (GWP), if any, and;
 - o Additionally one product passively managed and another with a Recommended Holding period of at least 30 years, if not provided under other categories.

Comparisons between clusters of IBIPs



Data should be compared in clusters, as the methodologies will differ from cluster to cluster.

Type of product	Presence of a guarantee	Investment strategy	Risk category/ Asset category	Recommended Holding Period
Pure Unit-linked products These will mostly be so-called 'MOPs' but some may not offer choices as the underlying investments	With guarantees	Actively managed	Risk category from 1 to 7	As relevant
	Without guarantees	Passively managed		
Hybrid These may offer a choice on underlying investments, or not, but in all cases combine unit-linked and with-profits parts.	With guarantees	Actively managed	Risk category from 1 to 7;	As relevant
	Without guarantees	Passively managed		
Traditional profit participation	With guarantees	Actively managed	Risk category from 1 to 7	As relevant
	Without guarantees	Passively managed		

- **Net returns** (NAV) collected for past years. These will need to be adjusted for any costs not reflected, e.g. using KID data.
- The KID categories of **costs broken down** further as necessary according to whether costs are reflected in the NAV returns or not.
- **Biometric risk cover and associated costs to be excluded**, but data from KID gathered and to be addressed in report separately.

Required data:

- NAV over 5 (ideally 10) years for sampled units
- Split in KID costs between those reflected in the NAV and those not (e.g. asset manager costs versus any additional insurer costs).
- Split in KID costs for commissions / distribution costs versus product costs, if possible, if not available, indication of what is included in the costs, and where (on-going or one-off costs), and information on additional distribution costs not included in the KID

Returns

- Ideally performance gathered for policyholders **redeeming at contract maturity** for products with a KID available. But such a sample likely extremely small.
- No harmonised measure of net returns in EU on an ongoing basis. Proxies in national markets: e.g. **'total interest', profit participation/regular and final bonuses**, or surrender values on ongoing basis in different markets.
- Proposal to gather net returns according to existing national disclosures or reporting as far as possible, alongside information on what costs returns include or not; gaps to be addressed bilaterally working with NCAs.

Costs

- Costs information to be gathered via KIDs; Costs to be broken down according to whether reflected in the net return measure or not.
- **Biometric risk cover costs excluded**, but data from KID gathered and to be addressed in report separately.

Methodology for hybrid products and personal pensions



Hybrid products

- For hybrid products, the methodologies for unit-linked and with-profits will be followed for the unit-linked and with-profit parts respectively.

Personal pensions

- For personal pensions there are 5 MSs which apply PRIIPs to some products: AT, EE, DE, NL and SK. These countries will report the KID data following the IBIPs methodologies.
- Other markets to report data on net returns (e.g. fund NAVs) and costs (consistent with PRIIPs KID method for costs) where possible.
- To avoid distorted comparisons, report will include cost data only where it is sufficiently comprehensive. Extensive gaps in data for 2018 expected.