

EIOPA-IRSG-18-07

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**European Commission's Request to the
ESAs to report on the cost and past
performance of the main categories of
retail investment, insurance and pension
products**

**Opinion by the
EIOPA Insurance and Reinsurance
Stakeholder Group**

General comments

The IRSG welcomes the proposal to introduce greater transparency of past performance and costs for retail financial services products through recurrent reporting as a means of attracting retail investors to capital markets investments on a widespread and sustained basis. It notes that recent regulation covering UCITS and PRIIPS has increased the amount of data available on product charges, performance and risks. However, the new regulations do not facilitate comparison across the broad product groups and they do not include in their scope a number of the product types now included by the Commission in its request of the ESAs, e.g. pensions.

The IRSG notes that reporting on cost and past performance across such a wide range of products on a consistent basis and in a form which can be understood by consumers is an enormous and potentially very costly task. For instance, customer goals associated with UCITS and pensions products may be quite different and yet these goals should be reflected in assessing product performance. A one size fits all approach to this task is not appropriate given the wide range of product, investment and Member State variations which exist. In light of this view, the IRSG considers that the timescales set out in the Commission request are optimistic.

As an example of the complexity involved in this work, the IRSG notes the potential requirement to collect data relating to each distinct product type (and potentially product sub-groups displaying different characteristics) for all Member States. This work would potentially be carried out by NCAs. Following on data collection, amalgamation of data available from individual providers in order to establish representative measures of cost and past performance for each Member State and by product category may require application of weightings to products. An example of a measure which may be considered suitable to weight providers is funds under management. Resulting representative measures would need to be considered to establish whether aggregation, by normalising outliers, could itself be misleading.

The IRSG supports the use of existing regulation as an appropriate starting point for the establishment of the methodologies to be used in calculating and reporting on cost and past performance. It is of the view that it would not be constructive to begin the process again given the substantial work which has gone into UCITS, MiFID/MiFIR, IDD, IORP and PRIIPS regulation. In terms of timing however, it should be noted that data from IDD will likely not be available for the first time until October 2018 and data for other initiatives is only becoming available now.

The IRSG proposes that work to be undertaken in response to this request must at all times seek consistency of outcomes, both across product types and Member States. This consistency cannot be achieved unless all fund managers and/or insurers take the same approach to all cost types and performance definitions in the disclosures they make.

The IRSG considers that a relatively small number of simple to understand measures will be most valuable and encourages EIOPA to target simplicity and understandability in outputs of this exercise.

The IRSG considers it inappropriate to consider, compare and analyse past performance without considering the risks associated with underlying assets and the customer expectation at the time of purchase.

Preparation of information to support this task should not create significant additional costs for contributing firms. This supports the use by firms of existing information sources as far as possible in fulfilling this requirement.

As indicated in the request from the Commission, the IRSG expects that preparation of the reporting envisaged will be an evolving process, that adequate data in order to provide expected product and geographic comparability will not immediately be available, and that the lack of data availability will require compromise in the scope of analysis in the short term. The IRSG recommends that the ESAs look to create and build on some intermediate successes in working towards a final comprehensive outcome. The outcome at each intermediate stage should include a clear statement of areas remaining to be addressed.

The IRSG recognises that there are considerable implications for pension funding vehicles in this request and considers that it would be appropriate to establish a joint group with the OPSG to consider issues arising as the work moves forward.

Planning

The IRSG suggests that a clear plan should be established in order to achieve a robust and sustainable outcome. It welcomes the steps laid out in the request by the Commission and suggests the following additional requirements:

- Clear definition of the scope of the product types covered.
- A process for definition of the measures to be used for cost and past performance, building on existing regulation where possible. Clarity at a detailed level on the measures from an early stage will be vital to ensure consistency across product types and Member States. Measures to be used should seek to take into account the objective of the product from the customer perspective, i.e. how does actual performance relate to the reasonable expectation of the customer at the time of purchase. This clarity should extend to itemising all costs and charges to be included in disclosures as well as specifying means of calculation of performance for different product types. For instance, unit-linked, structured, active/passive, products with life or health insurance features, and guaranteed funds are all likely to require different treatment as they will each have had different expectations associated with them from the outset.
- Identification of shortcomings of existing regulation and establishment of measures to address identified shortcomings.
- A process for mapping personal pension products to existing regulation requirements (e.g. UCITS or PRIIPS) as well as for accessing data relating to personal pension products.
- Creation of a presentational template for each product in scope, giving clarity as to what is required to be included. As stated above, these should be consistent as far as possible but take account of differences between products and related customer expectation.
- Consultation on proposed measures and identified approaches.

Specific comments

The impact of protection features on insurance or pension contracts must be carefully considered to ensure that relative past performance is not biased as between different product types as a result of their inclusion.

Comparison of costs or performance in isolation can be misleading. For instance, performance could be better than average or benchmark despite costs being higher than the average (for instance due to quality of fund management).

Measurement of costs for funds of funds is likely to be particularly complex and the IRSG proposes that there should in general be full look through to underlying funds in assessing costs.

Analysis of past performance should be accompanied by a clear statement that the past performance shown is not necessarily an indicator of expected future performance.

The IRSG notes the proposal to compare past performance with an index and with benchmarks. Identification of suitable indices and benchmarks is rarely straightforward and comparison with unrepresentative indices and benchmarks can give misleading results. In some cases, such as target return funds, it may be appropriate to compare performance with fund objectives rather than a separate benchmark.

The IRSG welcomes the proposal to take inflation into account in order to demonstrate the real purchasing power of investment outcomes. The levels of inflation to be included should reflect the investment scenarios to which they relate.

When comparing costs and performance it should also be taken into account that the time horizon of many insurance and pension contracts is often much longer than that of other investment products. The request of the EC is focusing on investment periods of 1, 3, 7 and 10 years without taking into consideration that the investment period of many long-term and retirement insurance products can be much longer (even more than 30 years).

The Commission request notes the possible need for simplification as a consequence of potential data limitations. Simplifications, for instance working on the basis of representative samples of products, should be carefully analysed to ensure they facilitate consistent comparison and do not distort outcomes relating to individual products contained in the samples.

Simplification of how costs, charges and fund data is presented will not, on its own, provide the clarity retail consumers need when choosing investment products. The IRSG would like to make the point that until the underlying product offering is simplified, this will always remain a difficult task. The wide variation in product structure and complexity already make it extremely difficult for consumers to decide which product is the most appropriate and offers the most value for money. When developing a mechanism that will allow consumers to compare costs, charges and performance on a like for like basis, the Commission should keep this in mind and encourage simplification of products as well as product data as much as possible.