

# FEEDBACK STATEMENT

## METHODOLOGY ON VALUE FOR MONEY BENCHMARKS

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## Introduction

On 15 December 2023, EIOPA published a Consultation Paper on its proposed methodology to develop value for money benchmarks<sup>1</sup> (benchmarks methodology) where it presented the approach to the setting of value for money (VfM) benchmarks for unit-linked and hybrid insurance products. The proposal followed a three steps process:

- ▶ Step 1 – Definition of product clusters
- ▶ Step 2 – Definition of the indicators around which benchmarks will be developed
- ▶ Step 3 – Data collection and calibration of the benchmarks

During the public consultation, 53 stakeholders submitted their contributions to EIOPA. Non-confidential feedback and EIOPA's responses are published along with the revised benchmarks methodology on EIOPA's website. Contributions were received from several stakeholders:

- ▶ 3 consumers associations
- ▶ 21 (re)insurance undertakings
- ▶ 19 (re)insurers associations
- ▶ 8 other stakeholders including 2 bancassurance associations, 2 actuarial associations and 1 independent actuary.
- ▶ 2 academics.
- ▶ EIOPA's Insurance and Reinsurance Stakeholders Group (IRSG) published its feedback<sup>2</sup>.

EIOPA would like to thank all the stakeholders for their responses as their inputs have been crucial for EIOPA's revision and development of increasingly robust benchmarks methodology. All comments submitted were given careful consideration. This feedback statement summarizes the main comments received and how EIOPA considered them in the finalization of the revised methodology.

Furthermore, the review of the benchmarks methodology benefitted from a data pilot involving different Member States and insurance manufacturers<sup>3</sup>. This exercise allowed EIOPA to evaluate the approach to Multi-Option Products (MOPs) as well as the general availability of data for the VfM indicators and the product clustering.

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<sup>1</sup> [EIOPA Publications | EIOPA consults on its methodology for setting value for money benchmarks, December 2023](#)

<sup>2</sup> [EIOPA Publications | Insurance and Reinsurance Stakeholders' Group \(IRSG\) - Advice on Consultation Paper on the Methodology on Value for Money Benchmarks](#)

<sup>3</sup> In February 2024, EIOPA launched a voluntary data pilot exercise to collect data that supports the revision of the benchmarks methodology. The data pilot covered 9 Member States, 22 insurers and 5,302 investment options.

## 1. How benchmarks should function

In the Consultation Paper, EIOPA indicated that the main objective of the methodology would be to develop benchmarks to be shared with National Competent Authorities (NCAs) for supervisory purposes. EIOPA stated that NCAs should use benchmarks to identify products that are outside of the perimeter of the benchmarks. As a result, NCAs would be able to take a more risk-based approach to supervision and be able to focus their analysis on products with higher value for money risk to determine whether they offer value or not.

### 1.1. Summary of Stakeholders' Feedback

Generally, whilst recognising the importance of detecting products which offer poor value for money, several industry respondents expressed concerns on the overall idea of developing value for money benchmarks. They emphasized that if not properly explained and developed, benchmarks may cause unintended effects such as like price-capping and limit innovation and competition. Some industry representatives also emphasized the risk of excessive focus on costs, highlighting that lower costs do not necessarily translate into better or more suitable products for consumers, and EIOPA should consider how non-quantifiable elements more explicitly (e.g., advice, sustainability attributes, digital features, guarantees, etc.).

Some respondents underlined that Product Oversight and Governance (POG) requirements have been designed to remain flexible, granting manufacturers discretion in their design and pricing of products. They also indicated that Insurance-Based Investment Products (IBIPs) are sufficiently regulated, and supervisors have already several tools (e.g., POG, EIOPA's Supervisory Statement and Methodology on the assessment of VfM) to ensure adequate consumer outcomes and address problems on an individual basis. They further indicated that benchmarks may lead to distortion in the market as some insurance product manufacturers could design and price products solely to avoid supervisory scrutiny – e.g., to remain within the benchmarks. From a more technical perspective, several respondents also indicated that some actuarial methods are too complicated to incorporate benchmarks.

While neither strongly opposing nor fully supporting EIOPA's proposed approach, some respondents indicated that benchmarks could be a positive tool if properly used. They indicated that deviating from the benchmarks should not automatically denote poor value for money.

Consumers' associations and some industry respondents provided support to EIOPA's proposed benchmarking methodology, finding it appropriate and necessary. These stakeholders underlined that EIOPA's proposed approach brings a measure of harmonisation and product comparability across EU markets, whilst respecting relevant product characteristics and specificities. They further emphasized that the proposed approach, if benchmarks would be published, would help consumers in making more informed choices. While supporting the overall approach, some stakeholders emphasized that VfM benchmarks should not result in "safe harbours as products within the perimeter of the benchmarks must comply with POG requirements".

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Overall, while several industry participants disagree with the concept of having benchmarks, most emphasize that if they were to be developed, they should follow the principles proposed by EIOPA. They agree that benchmarks should serve as a reference point for supervisors to identify products requiring further scrutiny in a risk-based manner, and that this should be considered a complementary tool to support other activities carried out by NCAs and manufacturers including considerations on qualitative aspects of products and the level of service and reliability of the entities. Some respondents also recognise the purpose of benchmarks as enhancing risk-based supervision, finding this to enhance transparency and fairness in the market and consumer protection.

All respondents agree that products should offer value for money. However:

- ▶ Some argue that this should be independent from other offers on the market.
- ▶ Others highlighted the efforts required by the industry for the benchmarking exercise (e.g., data collection) may not be proportionate.
- ▶ A few consumers' associations note that beyond inter-product comparison, the approach to value for money should have a fixed criteria that applies to all products (e.g., all products should exceed the expected inflation rate of 2% over long recommended holding periods). Some industry respondents also agree that there should be some objective criteria beyond peer-group comparison to indicate the performance of the cluster and market as a whole.

Finally, some note that EIOPA should clarify that benchmarking only applies to products sold after the introduction of the VfM methodology.

## 1.2. EIOPA's response

EIOPA noted that while there are clearly differing views around the introduction and concept of VfM benchmarks, those who opposed emphasize that if they were to be introduced, they should be used following the principles and criteria proposed by EIOPA.

EIOPA shares the view and the concerns that an overfocus on costs should be avoided; however, EIOPA's annual Costs and Past Performance (CPP) work, ongoing market monitoring and concerns shared by NCAs (e.g., via EIOPA's Consumer Trends work) have been indicating for many years that several products – mainly unit-linked and hybrid IBIPs – do not offer value for money. Because of these products, there is a risk of consumers losing trust in insurance and there may be a social norm effect where some limited bad experiences with poor value products can lead to a broader belief that IBIPs do not offer value for money<sup>4</sup>. Hence, while costs should not be the sole focus, they are an important datapoint to consider and measure.

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<sup>4</sup> [EIOPA Publications | EIOPA' Consumer Trends Report, 2023](#)

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Given the increasing concerns relative to value for money, there have been several instances of NCAs taking measures banning *de facto* poor value products – supported by EIOPA given the magnitude of the issues – and/or discussions on the introduction of cost caps. EIOPA shares the views that cost caps may limit product innovation and/or lead to a ‘race-to-the-bottom’ in terms of price which may be detrimental to consumers. It is important to note that the benchmarks are a reference and would not be finite points. NCAs will have supervisory judgement when assessing whether products offer value or not, regardless as to whether they are within or outside the perimeter of the benchmarks.

To emphasize these discretionary elements and avoid that benchmarks are seen as a hard cap, the revised methodology:

- ▶ Does not introduce a hierarchy between essential and additional clustering features. Instead, it provides some minimum clustering, with an indication that more qualitative elements may be considered (See Section 4)
- ▶ Introduces the concept of ‘caution areas’ for products above/below the benchmarks, indicating additional non-monetary benefits which may clearly justify the deviation from the benchmarks (See Section 7)

The concept of caution areas and the clear supervisory judgement that NCAs will have in determining if a product offers value for money can promote innovation. Innovative elements which offer value to the identified target market can be clear justifications for deviating from the benchmarks (e.g. a cost differentiation for a new product in comparison with products with same basic essential features can be fully justified). Indeed, there could be extra costs in the first years after launching a new product which are inherent to innovation, and NCAs can fully exercise supervise judgement on these aspects.

Furthermore, EIOPA’s VfM indicators factor in clear performance elements to avoid an overfocus on costs (see Section 6)

With regards to the flexibility granted by POG and the fact that tools to address value for money issues already exist for NCAs, EIOPA fully shares stakeholders’ feedback and would like to emphasize that:

- ▶ All insurance product manufacturers should comply with POG regardless as to whether they are within or outside the perimeter of the benchmarks.
- ▶ The benchmarks are a tool to:
  - Facilitate NCAs’ risk-based supervision and – when benchmarks will be shared – insurance product manufacturers’ value for money assessment.
  - Enable a supervisory dialogue on the product design and pricing process between NCAs and insurance product manufacturers.

In relation to its entry into application, EIOPA is of the view that value for money is not a new requirement. Rather, it is clearly embedded in POG – particularly Article 6 and 7 of the POG Delegated Regulation – hence, value for money aspects apply to all products manufactured, distributed, or significantly modified on or after 1 October 2018<sup>5</sup>. Considering that benchmarks are meant for supervisors to take a risk-based approach – e.g., identify possible products with issues – EIOPA does not see the need to limit the scope of the benchmarks.

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<sup>5</sup> Depending on national transposition of POG requirements (IDD - Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016), earlier dates are also possible.

## 2. Product features in the benchmarks

### 2.1. Summary of Stakeholders' Feedback

Many stakeholders underlined that qualitative aspects such as guarantees, biometric risk covers, risk mitigation, level and quality of service, flexibility, digitalization, and the insurer's financial soundness and Environmental, Social, and Governance (ESG) features should also be considered. On the other hand, other stakeholders emphasized that not all product features can be considered as it may lead to an overly complex methodology.

Respondents raise specific factors to be included or excluded from benchmarks. For instance, one association notes that benchmarking should include all charges made to the customer, including distribution charges. Some stakeholders highlight that product comparisons should not include investment performances or should be included in a manner that distinguishes the impact of charges and the impact of performance.

Several stakeholders emphasized national specifics. Some raise that for the French market, taxation and inheritance structures must be considered. Others note that in markets such as Luxembourg there is a substantial number of products targeted at high-net-worth-individuals which are highly personalized.

### 2.2. EIOPA's response

EIOPA notes that stakeholders' views diverge in relation to the product features and how granular they should be when developing clusters and benchmarks. Since VfM benchmarks should support the detection of products with higher VfM risks, it is essential to cluster and compare products that are similar. Lessons learned from both public consultation and data pilot exercise showed that the methodology (from both supervisors and undertakings' point of view) should be:

- ▶ **Simple:** for feasibility purposes, the number of indicators and features for clustering (including sub-categories within each feature) should be limited; hence, EIOPA has revised some of the features and taken a simple approach to product clustering as better explained in Section 4.
- ▶ **Consumer-oriented:** considering that products should provide value for money to consumers, the revised methodology bringing the benchmarks as much closer as possible to the consumer-perspective by focusing on features which have a clear impact on consumers.
- ▶ **Flexible:** the revised methodology clarifies the benchmarks approach and provide minimum criteria for clusters, however, some aspects such as recommended holding period are envisaged to remain flexible because of market developments, dependency on data availability and novelty of benchmark work.

In addition to these principles, the methodology clearly emphasizes that while the quantitative indicators will be used as benchmarking reference points, NCAs should also consider non-monetary features, when assessing the value and structure of products. At the time, non-monetary and



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monetary indicators should be considered jointly to assess both the benefits and costs of insurance products.

It is important to note that the benchmarks should be considered as reference point. The benchmarks are not final value for money thresholds and NCAs will play a key role through their supervisory judgement. In doing so, NCAs should particularly consider the target market. For instance, if the product is exclusively targeted at high-net-worth-individuals, NCAs may decide to disregard the benchmark because the product may have been designed specifically to tailor the needs and objectives of an individual policyholder.

Finally, EIOPA takes note of the comments on taxation. EIOPA has consistently held the view that products should offer value regardless of any tax treatment. In fact, tax benefits are offered by governments given the societal value they associate with insurance. Nevertheless, a product should offer value to its target market – even more when there are tax benefits which incentivize uptake. While EIOPA's approach is tax agnostic in terms of value, EIOPA is also aware tax can impact costs and these are clear elements which NCAs may consider when assessing whether a product offers value or not.

### 3. Publication of benchmarks and revision of the methodology

In the Consultation Paper, EIOPA indicated that benchmarks data could be shared with insurance product manufacturers only when the methodology would be sufficiently robust including the availability of high-quality data. The purpose of sharing benchmarks with insurance product manufacturers would be to support their product testing process, in line with EIOPA's VFM Supervisory Statement<sup>6</sup>, and the determination of whether their products offer value – including if costs are proportionate – vis-à-vis other offers in the market.

#### 3.1. Summary of Stakeholders' Feedback

The public consultation showed that stakeholders' views vary significantly. Some expressed that publication may introduce unintended product ranking, price standardization and innovation-dampening effects as insurers may prioritize convergence to average benchmark values over improving products and services. Further, some noted that benchmarks may lead to consumer misunderstanding because the methodology would be technical and complex. Many industry respondents find that benchmarks should not be made available to the public, and should be reserved for supervisory, industry, or expert use. In fact, according to these stakeholders there are already valuable consumers' disclosure tools.

On the other hand, several consumer organizations, and other respondents find that benchmarks should be published for the sake of transparency, with some finding it important that the methodology is stable before publication while others encouraging immediate publication. Some of these respondents find that consumers will benefit from benchmarks as they could be a straightforward way to understand the value of the products and facilitate the identification of underperforming products. Some consumers' association take further views that benchmarks should be fully embedded and included in consumers' disclosure documents.

Some insurance undertakings note that insurers and other stakeholders, with the publication of the benchmarks, could be enabled to understand market expectations and adjust their product offering accordingly, promoting a more competitive and efficient market. Very few stakeholders also caution against the publication of the methodology noting that more time should be given for supervisors to adopt EIOPA's guidance on the assessment of value for money before the benchmark methodology is introduced.

Finally, while many stakeholders emphasized the need to adapt to product innovation, some cautioned against periodic reviews of the methodology to avoid methodological uncertainties.

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<sup>6</sup> [Supervisory statement on assessment of value for money of unit-linked insurance products under product oversight and governance - European Union \(europa.eu\)](#)

### 3.2. EIOPA's response

Stakeholders' responses highlighting strong views in favour and against publication of benchmarks. EIOPA is of the view that benchmarks, given the complexity of the indicators and insurance specificities with them, should not be used a consumer disclosure tool.

Nevertheless, EIOPA also sees clear benefits in sharing benchmarks with insurance products manufacturers and publishing them alongside relevant public documents – following dialogue with NCAs and once the methodological approach has been clearly defined. This would not only promote supervisory transparency but also – as indicated by some stakeholders – market discipline and easier product testing.

In relation to the revision and publication, EIOPA notes the possible concerns and would like to highlight that:

- ▶ The revised methodology is based on the data pilot, the feedback to the public consultation, and EIOPA and NCAs' experience on value for money.
- ▶ The publication methodology does not pose particular risks. Instead, it promotes transparency for insurance product manufacturers to understand how the supervisory process would work.
- ▶ While EIOPA would publish a methodology, the purpose is not to stop working on the methodology but rather to use it and, together with NCAs, begin evaluating how benchmarks work, what adjustments are required, etc.

EIOPA also shares the concerns on having many revisions and would like to emphasize that:

- ▶ Revisions should have minimal impact on insurance product manufacturers as benchmarks would remain only within the supervisory community initially.
- ▶ Revisions will be made only when strictly necessary.

## 4. Product clustering approach

The first step of the proposed benchmarks methodology consists in the definition of product clusters where unit-linked and hybrid insurance products would be grouped according to policyholders' needs. The aim of product clusters is to ensure that products with similar features are compared with one another. EIOPA emphasized that unit-linked and hybrid insurance products across Europe can be highly diverse and, hence, there cannot just be one set of benchmarks for all products.

In the public consultation, EIOPA explained that the final set of clusters will be defined based on the products received as part of the data collection. Nevertheless, the proposed methodology already identified some criteria and presented two possible options on how to cluster MOPs.

### 4.1. Summary of Stakeholders' Feedback

Several stakeholders pointed out that the European IBIPs market is diverse and includes different product features, which can be driven by some national specificities. Stakeholders emphasized the need to remain flexible and ensure a good trade-off between capturing the nuanced products/market characteristics and supporting simplicity and practicality as well as avoiding over-generalization of products into very broad clusters.

As a result, several industry representatives, especially from selected markets, find that clustering at EU level may be complex and not capture all markets' specificities. For this reason, several respondents promote an approach whereby product clustering could either be based on basic indicators like reduction in yield (RIY) or be national.

Opposing those who emphasize national and/or simple European approaches, some stakeholders, including consumer associations, highlighted the need for EU clustering whilst avoiding it becomes too detailed leading to having limited number of products per clusters.

As a middle ground, some stakeholders support EIOPA's approach emphasizing that product comparison should take place between products with similar characteristics, especially in terms of risk class or death coverage, which substantially impact the value and costs. To avoid 'cluster shopping', some stakeholders also argue that a clear explanation on the choice of cluster should be required from insurance product manufacturers as part of POG requirements so that supervisors could assess the manufacturers' justification for the choice of the cluster.

Some stakeholders expressed concerns about differentiating between essential and additional features as both are equally important. They suggest a more detailed approach with several features for clustering. For example, some stakeholders noted the need for more granularity on the recommended holding period (RHP) while others noted that additional features can substantially influence product costs. However, to avoid over-complicating the exercise, especially for MOPs, this could either be undertaken on the national level or NCAs should be granted discretion to identify each market's appropriate features.

Conversely, other stakeholders underlined that the number of clusters should be limited to avoid an overly complex methodology that loses meaningful comparability. Some industry participants indicated that qualitative elements should be part of the POG process and not benchmarking.

#### 4.2. EIOPA's response

EIOPA's approach is to have benchmarks at the level of a comparable group of products. This means that benchmarks will relate to products with comparable features – whereby features are defined considering consumers' needs and profiles (e.g., benchmarks will not be general but at the level of clusters where products with similar features are included).

Creating national benchmarks for products categories which are marketed in multiple Member States may undermine the single market, increase compliance costs and regulatory burden. EIOPA sees risks in having national benchmarks for a comparable group of products which are marketed in multiple Member States as this can lead to divergent approaches and unfair outcomes for consumers in terms of the quality of the products.

In EIOPA's clustering approach, there will be comparability of products in relation to their benchmark: one cluster could refer to only one Member State (e.g., products with clustering features that exist in one Member States only) or multiple Member States (e.g., products that are common across Europe). It is essential that the clustering process ensures comparability amongst products with similar features, however, if such features are unique to one market, then the benchmark would be applicable and relevant only to that national market.

Overall, EIOPA agrees with the need to balance between simplicity and having detailed clusters. Considering differing views, EIOPA's proposed approach is to maintain clusters but to allow flexibility in the approach to reflect market specificities where appropriate (e.g., having minimum criteria for clusters that could be reviewed depending on data availability).

Further, to adapt to national specificities (e.g., considerable prevalence of certain RHPs) and not to request data on products which are not relevant in the market, EIOPA and NCAs could further adjust the clusters and/or thresholds applicable to the data collection. The revised methodology also reduces the number of indicators from the public consultation which would simplify comparability.

EIOPA acknowledges that features in the public consultation – even those labelled as additional – are important for consumers and the use of 'essential and additional' wording may be somewhat misleading. Overall, the use of some features over others is explained by the need to find common and well-understood features (e.g., RHP exists in all products while pension feature does not). To this extent, while not proposing to make the additional features mandatory for clustering, EIOPA proposes a flexible approach with some minimum criteria for clustering and allowing the creation of more clusters if there are enough products with such features.

## 5. MOPs – Option 1 and 2

The public consultation included two options for the treatment of MOPs in the benchmark methodology:

- ▶ **Option 1** – collection of MOPs data on selected options only and then clustering them together with other products.
- ▶ **Option 2** – collection of MOPs data on all available options and then clustering separately.

### 5.1. Summary of Stakeholders' Feedback

Most stakeholders find that Option 1 is too simple (insufficient granularity for MOPs) whereas Option 2 too complex (creation of a high reporting burden). Some find that, since MOPs can be tailored and be used to invest in many combinations of investment funds, they do not necessarily fit into a 'pre-determined' product category or fund choice. Several undertakings and industry and consumer associations find that MOPs should be considered at the level of combination of both the underlying options and wrapper. In practice, the benchmarks would apply to the underlying options plus wrapper, which would facilitate comparison with other products and amongst MOP variants. This would allow all products to be clustered in the same manner, and the difference between traditional products and MOPs would no longer be an issue.

Finally, several stakeholders find it difficult to establish an overarching rule for the treatment of the profit participation (PP) component in hybrid products because the proportion invested in this component can be static or dynamic.

### 5.2. EIOPA's response

Considering that most stakeholders highlighted that neither Option 1 nor 2 would work and taking into account the findings from the pilot exercise, EIOPA's revised methodology focuses on the VfM assessment of the combination of the wrapper plus the specific investment option. This approach brings harmonization between MOPs and non-MOPs and allow the assessment of offers from a consumer perspective. Noting the difficulty to report granular data on all underlying options (e.g., undertakings fixed or dynamic strategy to the allocation of financial assets and/or PP and UL component), the reporting would not require separate information on every asset but the figures resulting from the strategy.

In terms of data collection for MOPs, EIOPA combined a more limited number of clusters with a representative data collection based on the most sold, the most expensive, and the cheapest combination for each selected cluster. This approach reduces the reporting burden if compared with the reporting of all existing investment options and asset classes proposed in Option 2. EIOPA understands that the selection (not the reporting) of the most sold, the most expensive and the cheapest might apply to all investment options. Thus, the selection for reporting will focus on simple and widespread metrics such as RIY, gross written premium and/or new contracts.

## 6. Value for money indicators

The benchmarks methodology for consultation contained a set of indicators to measure value for money. The indicators were based on EIOPA's VfM Methodology<sup>7</sup> and included the possibility to add new indicators to enhance VfM assessment.

### 6.1. Summary of Stakeholders' Feedback

Most stakeholders raised that Layer I indicators and the relevant data such as PRIIPs KID and Solvency II already enable supervisors to detect potential outliers, and that Layer II may not be necessary. Whilst Layer I indicators are noted by several as easy to implement, consumers' associations and industry respondents raise issues as Layer I indicators may not capturing the nuances of product differences – particularly the specificities of insurance products. Several stakeholders also argued that PRIIPs KID data may poor and/or not be sufficient and so other data should be used.

Industry respondents do not find it relevant to assess value for money at different points in time as consumers are advised to keep their product until the RHP and IBIPs are not meant to be purchased or switched often. On the other hand, consumer associations generally agree with the proposed intervals for the assessment of each indicator. A consumer association proposes a further assessment beyond the RHP as well as a calculation of indicators after 1 year to capture the effect of entry costs in more detail.

Many industry participants find that "Entry costs / Total costs" ratio may not be appropriate as it focuses too much on entry costs, and some products may be structured to have higher entry costs and other costs are lower. Also, a few industry participants find RIY irrelevant as it depends on performance. On the other hand, a few agree that RIY is a robust and appropriate indicator.

Some raise that indicators should be re-evaluated after some time, giving the industry time to adapt. One industry association finds that indicators should be assessed at regular intervals (e.g. once every 1-3 years) with the possibility to review more frequently given substantial macro-economic changes that may influence value for money.

Respondents also noted that adding indicators would be unnecessary and, in some cases, suggested a simpler approach with fewer indicators as the benchmarking process could become complex. Also, some consumer organizations proposed an alternative approach to benchmarks with additional comparison datapoints such as inflation rates and/or underlying capital market performance.

### 6.2. EIOPA's response

Considering different stakeholders' view and the fact that Layer II indicators would allow supervisors to be increasingly risk-based, EIOPA has adopted a simpler approach mixing both Layer I and Layer

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<sup>7</sup> [EIOPA issues its methodology for assessing value for money in the unit-linked market - European Union \(europa.eu\)](https://europa.eu/europa/en/press-room/infographic/europa-issues-its-methodology-for-assessing-value-for-money-in-the-unit-linked-market)

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II indicators. In fact, VfM indicators further develop the market-wide assessment of Layer I and enhance supervisory practices through the calculation of benchmarks at product level, the provision of clarifications on comparability and the evaluation of products' benefits and costs.

The proposed approach would limit the burden whilst aiming at overcoming some of the issues and challenges with the PRIIPs KID methodology. Having said this, it is also important to note that EIOPA wants to limit the burden on the market and PRIIPs KID is already available and easy to provide for undertakings. As a result, EIOPA took an approach where VfM indicators consider values at RHP for all clusters, however, in case of longer-term products where the risk of not holding them until RHP may be higher, half RHP will be also evaluated.

In addition, as part of the joint assessment of indicators, NCAs can consider other quantitative insights such as number of contracts surrendered and high exit costs/penalties to determine, for instance, if surrender metrics requires further investigation (e.g., evaluation of value for policyholders at earlier point in time). During the first iterations, EIOPA will continue looking at available data and evaluate the possibility to provide further support to NCAs assessment.

Furthermore, specificities related to pension features (e.g. consideration on costs attached to the annuitization of pay-outs and charged over the accumulation phase) are incorporated to the non-clustering features. If data availability allows, additional clusters could be created.

To mitigate the risk of overfocusing on single metrics, the VfM assessment combines the evaluation of costs and benefits and will make use of different data points and indicators. Based on stakeholders' inputs about the number of indicators, EIOPA has reduced them in the methodology.

EIOPA thinks that entry costs ratio is particularly relevant as it provides information on the weight of costs that are charged at the beginning and thus have an impact on the initial invested capital generating returns for consumers. In relation to RIY, this metric is also relevant due to its harmonization under PRIIPs KID which will ultimately facilitate the development a common approach at EU level. More broadly, EIOPA also agrees with the proposal to review the indicators regularly.

With regards to possible benchmarks that do not directly leverage on product metrics (e.g., inflation, market performance), EIOPA acknowledges the importance of contextualizing results with market developments. In line with this, the annual CPP report includes inflation-related information; however, setting benchmarks out of IBIPs data will increase complexity and thus such considerations could be taken into account by NCAs when using benchmarks for supervisory purposes.



## 7. Benchmarks setting and percentiles

### 7.1. Summary of Stakeholders' Feedback

Some respondents disagree with the use of percentiles as they may suggest that there is an objective ranking of products' value for money while, in practice, this would depend on the context, the investment allocation, and consumer preferences. It was noted that manufacturers should be granted discretion in their development of new products, and this should not be curbed by standards established by benchmarks as it is more important that target markets' demand, needs and objectives are met.

For this reason, many note that, if adopted, percentiles would need to consider the dispersion of value for money indicators' values from the mean. Some find that percentiles should solely be used for supervisory purposes with no automatic consequences for belonging to a specific percentile, and not form a part of POG requirements.

On the other hand, several industry and consumer associations agree that percentiles are valuable in comparing and identifying outliers within a cluster that would require further examination. It is noted that percentiles offer a statistically robust and standardized means to underpin benchmarks, assess risk in detail, and allow benchmarks to be adjusted dependent on the data distribution.

More broadly, it was also noted that revisions to percentiles should occur at justified frequencies, considering market developments and data trends. Nevertheless, revision should not take place too frequently as it could create confusion in how benchmarks are interpreted. Supervisors should consider that each percentile will automatically capture some proportion of products and thus it is important to incorporate dispersion of data.

### 7.2. EIOPA's response

EIOPA is of the view that percentiles support a consistent, easy-to-understand and granular approach to VfM methodology. In finding a balance between stakeholders arguing for stricter approaches and those who want less quantitative means, EIOPA adopted an approach which includes percentiles but also areas of caution considering the standard deviation of the distribution of the indicators' values.

While EIOPA conducted the data pilot exercise to evaluate the approach to benchmark and the revision of the methodology has leveraged on actual market data, EIOPA also shares the view that percentiles and overall data should be revised regularly, and this is considered in the methodology.

Finally, EIOPA also agrees with stakeholders that product value is not just a simple percentile; hence, as part of its methodology it emphasized that VfM benchmarks are just reference points which do not exonerate manufacturers from conducting product testing and which do not function like a cost cap. They are meant to guide supervisors in taking a risk-based approach to supervision.

## 8. Data collection

To limit the burden on the market, the proposed benchmarks methodology indicated that EIOPA could rely on existing data collection processes such as the annual CPP report. It was indicated that EIOPA would work on adjusting and refining the CPP questionnaires to reflect how the CPP evolved over the last years and make this data collection fit for purpose in the context of VfM benchmarks.

### 8.1. Summary of Stakeholders' Feedback

Many industry respondents consider that data collection should not be expanded as there are existing data sources available<sup>8</sup> and data collection beyond them would introduce additional reporting burden for the industry and would be contrary to the European Commission's commitment to reduce reporting requirements by 25% and ease conduct of business for Small and Medium-sized Enterprises (SMEs).

Some industry associations find that even though the CPP sampling may not be fully representative of market data, the alternative of gathering a more substantial, representative amount of data may be costly. Several industry respondents foresee an increase in resources and time needed for data collection since data points would be more granular, potentially leading to increased compliance complexity.

It was also noted that the substitution of some data in favour of new data points will require the adaption of internal data collection mechanisms, performing manual calculations, reassessment of regulatory compliance systems, and additional time for entities to familiarize themselves with the new questionnaire. On the other hand, consumers and some other stakeholders highlight the benefits of expanding the data collection as it would enhance the comprehensiveness and precision of the benchmarks. An insurance undertaking notes that expanded data collection may allow stakeholders to better understand product features, market trends, and consumer preferences, but the costs of this should be weighed against benefits.

A few consumers' associations find that data collection should cover the whole market, as opposed to CPP which has a 60% market coverage. Several stakeholders noted that since insurance product manufacturers in line with POG should already conduct testing on all products, data should already be available and would not require undue additional burden.

### 8.2. EIOPA's response

EIOPA is conscious of the fact that several stakeholders cautioned against the possible extra reporting and emphasized the need to balance between publicly available data and additional request as they could lead to increasing burden on insurance product manufacturers. On the other hand, EIOPA also notes that:

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<sup>8</sup> e.g., PRIIPs KID, Solvency II, national reporting and European Single Access Point (ESAP) when implemented.

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- ▶ Many stakeholders underline the importance to rely on meaningful data which enables to fully understand the products
- ▶ PRIIPs KID data, while publicly available, is not easily and readily available to many NCAs and EIOPA, requiring some reporting, at least until ESAP become available. Furthermore, PRIIPs KID data may not reflect adequately insurance-specific characteristics and features.

While EIOPA shares the view that producing the required data would not be burdensome as insurance product manufacturers should have this data readily available based on the POG product testing, EIOPA also understands that the reporting itself may be burdensome. Considering all different views, EIOPA adopted a simplified approach which:

- ▶ Uses fewer indicators and these have been selected considering data availability.
- ▶ Requires non-PRIIPs KID data only when strictly necessary to consider product specificities.
- ▶ Allows the selection of simplified clusters to limit the number of products around which reporting is required.

Finally, EIOPA will continue assessing new data availability including with the ESAP with the effort of further limiting the reporting burden.

## ANNEX I - IMPACT ASSESSMENT

As part of the public consultation, EIOPA also included an impact assessment which focused on the main benefits identified by EIOPA, which were presented as follows:

- ▶ Increased consumer value by more objective measures for IBIPs product manufacturers to use in the assessment of their products' value.
- ▶ Facilitating implementation of EIOPA VfM's approach. EIOPA emphasized the methodology did not introduce new elements, but it is expected to facilitate manufacturers' comparison with other offers in the market.
- ▶ Facilitating risk-based supervision and enhancing the Capital Market Union (CMU). The detection of products which do not offer *prima facie* VfM would be simplified, and this framework could enhance the CMU by considering markets' specificities and cross-border business and competition.

Stakeholders provided opposing views around the possible impact the methodology. Many industry respondents find that since the proposed methodology, at the time of the consultation, had not yet been finalized and changes to the CPP questionnaire were not yet clear, it was difficult to assess its impact. Despite this, they highlighted the importance of avoiding "red tape" and seek for the most cost-effective approach leveraging existing data such as KID data via the ESAP once it is operational. Also, they noted the need to consider the existing solutions in individual markets based on existing toolkits and supervisory empowerments.

Consumer associations on the other hand, noted that additional data would be useful for market monitoring, promoting awareness amongst retail investors, alerting policymakers to instances of market failures, and contributing to the policy debates about retail investment regulation. They emphasized that clustering and benchmarking will be very useful in identifying market segments requiring further scrutiny in an evidence-based manner.

In terms of benefits, most respondents agree with increasing value for consumers and facilitating manufacturers' implementation of EIOPA's VfM approach. However, many industry respondents foresee potential negative consequences, including reduced competition, innovation, product standardisation, consumer choice, and price-capping, as well as increased costs and burden. Many industry respondents emphasized that this work should not pre-empt the Retail Investment Strategy (RIS).

Conversely, consumer organisations and other respondents find the approach appropriate to improve consumer understanding and agree that NCAs, consumers and insurers will be better informed.

EIOPA REGULAR USE

Some independent respondents find that the proposed approach would enable manufacturers to understand their product better as a whole, assessing whether a product offers VfM in its entirety, not just a component of it.

Most respondents who support EIOPA’s approach find that this approach does not constitute price regulation, since considering both qualitative and quantitative indicators offer a holistic picture of the IBIPs. Some industry respondents find that this tool may increase NCAs’ risk-based supervision and ultimately the value provided to consumers, and that this may increase the transparency of supervision, whilst keeping in mind that benchmarks should only be one supervisory tool among others.

Considering the above-mentioned responses, EIOPA considered the following options:

- ▶ **OPTION 1:** Non-issuance of any methodology and wait for the RIS.
- ▶ **OPTION 2:** Implementation of targeted revisions<sup>9</sup> to the existing methodology.
- ▶ **OPTION 3:** Implementation of major revisions<sup>10</sup> to the existing methodology while keeping the product-focused and clustering approach.
- ▶ **OPTION 4:** Implementation of major revisions to the existing methodology including national benchmarks for products which belong to product clusters which are not national.

**OPTION 1 - Non-issuance of any methodology and wait for the RIS.**

<b>Costs</b>	Consumers	In the absence of benchmarks, value for money issues would not be tackled in a risk-based manner. This would result in NCAs not being able to effectively address value for money risks which in turn would lead to consumers paying higher costs and receiving overall low value.
	Insurers	Insurers may not benefit from benchmarks which would allow them to easily compare products and determine if their products offer value.
	Supervisors	Supervisors would need to dedicate significant resources to supervise value for money requirements as they will not be able – especially those

<sup>9</sup> Limited amendments to value for money indicators, minimal changes to the number and definition of (non)clustering features, and selection of either option 1 or 2 for the treatment of MOPs, amongst other.

<sup>10</sup> Substantial improvements to the treatment of MOPs for data collection and benchmarking, reduction in the number of value for money indicators and clusters, and implementation of non-clustering features to enhance NCA’s assessment, amongst other.

		with limited data and methodologies – to identify products which require attention.
<b>Benefits</b>	Consumers	None
	Insurers	No additional reporting burden.
	Supervisors	No need to work on reporting and calculate benchmarks.
<b>OPTION 2 - Implementation of targeted revisions to the existing methodology</b>		
<b>Costs</b>	Consumers	Benchmarks and clusters may be too granular resulting in a difficult implementation which could have an indirect impact on consumers.
	Insurers	Significant reporting burden given the limited flexibility in terms of clustering and the high number of indicators. Solely use of percentiles approach could lead towards an excessively strict assessment.
	Supervisors	High number of indicators making it difficult to determine which products may require higher supervisory scrutiny
<b>Benefits</b>	Consumers	Detailed indicators and overall benefit from products which offer more value for money.
	Insurers	Benchmarks which help insurers in the value for money assessment.
	Supervisors	Availability of understandable and detailed benchmarks.
<b>OPTION 3 - Implementation of major revisions to the existing methodology while keeping the product-focused and clustering approach.</b>		
<b>Costs</b>	Consumers	None
	Insurers	Even though the methodology has been simplified and non-PRIIPs KID data is required only when strictly necessary, there will be some reporting burden.

	Supervisors	Given the lack of national specific clusters, need to identify clusters which are relevant for their markets
<b>Benefits</b>	Consumers	Better value for consumers in view of a methodology which follows a consumer perspective and considers market specificities only when relevant. In particular, the product grouping/cluster-based approach – rather than National vs European – ensures all consumers are treated equally and fairly for the same product.
	Insurers	Significantly less indicators and data to be reported as well as simplified clustering.
	Supervisors	Less data to be checked. Availability of understandable and detailed benchmarks resulting from a leaner and smoother methodology which also considers market specificities.
<b>OPTION 4 - Implementation of major revisions to the existing methodology including national benchmarks for products which belong to product clusters which are not national.</b>		
<b>Costs</b>	Consumers	Diminished benefit from the single market. Consumers in more expensive markets may continue paying higher costs.
	Insurers	Compliance with possible 27 different regimes for VfM benchmarks including cases where divergences are not justified (e.g. same undertaking distributing the same product or similar products in different markets).
	Supervisors	No benefit from convergence elements and from EIOPA’s production of benchmarks which will lower burden on NCAs.
<b>Benefits</b>	Consumers	None
	Insurers	Having market specificities fully reflected in the value for money approach including when specificities are not relevant,
	Supervisors	Having an approach which is in line with the relevant supervisory processes and approaches.

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