Methodology on Value for Money Benchmarks

EIOPA-BoS-24-332
Consumer Protection Department
EIOPA REGULAR USE
27 August 2024

European Insurance and Occupational Pensions Authority

CONTENTS

1 BACKGROUND

1.1. Costs of unit-linked and hybrid insurance products, if not proportionate to the benefits offered to consumers, can have a significant impact on policyholders' returns and benefits. For several years, EIOPA has been reporting risks arising from the complexity and, on some occasions, the limited benefits attached to some unit-linked and hybrid products because of undue costs and/or features which do not offer value to consumers. In particular, EIOPA has highlighted that failure to address issues with such products – even though they do not represent the majority of products in the market – may lead to wider trust issues.

1.2. In 2021, following the publication of EIOPA's Supervisory Statement on value for money[1] (Supervisory Statement) and with the purpose of promoting a consistent and convergent approach across Member States, EIOPA started working on a methodology to evaluate value for money on unit-linked and hybrid insurance products markets[2] (VfM methodology). After publication, some jurisdictions laid down expectations on value for money assessments and developed some own work on benchmarks (i.e., Italy[3], France[4], and Germany[5]).

1.3. In view of several requests from stakeholders, and as agreed by the Board of Supervisors (BoS) to ensure more clarity and further promote convergence on value for money, EIOPA also begun working on developing value for money benchmarks (VfM benchmarks) with the objectives of assisting:

- National Competent Authorities (NCAs) in identifying products with higher value for money risks and promoting a more efficient and risk-based approach to conduct supervision; and
- Eventually, when data on benchmarks would be shared, insurance product manufacturers in identifying comparable offers to determine if their products offer value, including the assessment of costs for consumers to ensure they are due and proportional to the expenses borne by the provider and the benefits offered to policyholder.

[1] EIOPA Publications | "Supervisory statement on assessment of value for money of unit-linked insurance products under product oversight and governance", November 2021

[2] EIOPA Publications | "Methodology for assessing value for money in the unit-linked market", October 2022

[3] IVASS | Letter to the market on supervisory expectations on Product Oversight and Governance (POG), March 2024

[4] ACPR | Recommendation 2024-R-01 on insurance distribution, June 2024

[5] BaFin | Guidance on conduct of business supervision for saving products, June 2023

1.4. In December 2023, EIOPA launched a public consultation[6] on its proposed methodology for setting VfM benchmarks for unit-linked and hybrid insurance products (benchmarks methodology). The benchmarks methodology is meant as a supervisory tool to enable EIOPA and NCAs to adopt a more informed and risk-based approach to the supervision of value for money, support customer-centricity in the product testing, development, and review phases, and bring more clarity to supervisors and manufacturers on the approach to the identification of products which may not offer value for money.

1.5. The revised benchmarks methodology in this document results from stakeholders' feedback received during the public consultation and the execution of a data pilot in several Member States[7]. The methodology follows three main steps in which EIOPA has taken into account the common and differential characteristics of unit-linked and hybrid insurance products sold across the European Economic Area (EEA) as well as the need for reserving flexibility to cater for the evolving nature of the markets.

- **Step 1 – Features for product clusters:** definition of a minimum number of clusters[8] where products in scope are grouped according to features addressing policyholders' needs. Unit-linked and hybrid products across Europe can be highly diverse and, hence, the same benchmarks cannot apply to all products. The aim of the clusters is to ensure that products with similar characteristics are compared with one another. To accomplish this, the benchmarks methodology presents a list of minimum criteria (clustering features) to follow when calculating benchmarks and/or allocating products to clusters. Final clusters and benchmarks, even though the criteria are listed in this document, will be fully determined once the full dataset is available.
- **Step 2 – Value for money indicators (VfM indicators) around which benchmarks will be calculated:** benchmarks will be calculated for each cluster based on a list of indicators covering costs and returns. These indicators, which derive from the proposal in the public consultation, incorporate stakeholders' feedback. They also take into account the data pilot exercise, including considerations on data quality and availability with the view of limiting the reporting burden.
- **Step 3 – Data collection and calibration of the benchmarks:** Considering the need to limit the burden on the market, EIOPA will rely on the data collection process attached to the annual Cost and Past Performance (CPP) report and readjust the questionnaire and scope to ensure the collection of suitable data for both CPP report and benchmarks. Data collection and

[6] EIOPA Publications | "EIOPA consults on its methodology for setting value-for-money benchmarks" | December 2023

[7] 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.

[8] This represents the minimum number of clusters for which EIOPA intends to calculate benchmarks. Depending on data availability to populate such clusters, benchmarks may not be calculated for all.

benchmarks will be regularly calibrated to ensure results remain up-to-date and appropriate, with particular attention to the first years of implementation.

1.6. It is important to highlight that while this methodology is published, EIOPA plans to conduct regular reviews of the general benchmarks methodology to adjust and improve the approach over time. The methodology will be adjusted one year after its finalization and will then be reviewed, at least on a two-year basis until a stable methodology has been developed. To this extent, EIOPA does not plan to share the benchmarks with insurance product manufacturers and/or publish them before dialogue with NCAs and only when the methodology is sufficiently tested and stable. Instead, EIOPA will circulate the benchmarks to NCAs for supervisory purposes such as the identification of products with higher value for money risks.

1.7. NCAs will use the benchmarks as part of their regular supervisory process and they will feedback to EIOPA how the benchmarks work, including the type of recalibration needed. In fact, it is important to note that while the indicators proposed in this methodology mix Layer I and II indicators from the VfM methodology, the purpose of the benchmarks is to take a risk-based approach to supervision rather than fully conclude if a product offers value or not. To reach this conclusion, supervisory judgement and additional analyses are needed. While NCAs, depending on their availability of data, may use the product-focused approach of VfM benchmarks for Layer I or II, the purpose of the benchmarks is to identify products requiring further analysis and increased supervisory scrutiny.

1.8. It is also important to note that the developments in the area of value for money within the Retail Investment Strategy (RIS) may inform future reviews of the VfM and/or benchmarks methodologies; however, EIOPA's ongoing work on benchmarks is to be considered as independent. In fact, before the publication of the RIS legislative proposal in May 2023, EIOPA had already started its work on value for money with the analysis of several products in 2020 and, following BoS steer, it continued to explore this area further.

1.9. Level 1 and Level 2 texts of Insurance Distribution Directive (IDD) do not explicitly refer to VfM benchmarks. Nevertheless, Article 25 of the IDD requires insurance product manufacturers to have product oversight governance arrangements and a product approval process. In more detail, Article 6 of the IDD Product Oversight and Governance (POG) Delegated Regulation, stemming out of Article 25, requires insurance products manufacturers to:

- *"To test their insurance products appropriately, including scenario analyses where relevant, before bringing that product to the market…That product testing shall assess whether the insurance product over its lifetime meets the identified needs, objectives, and characteristics of the target market. Manufacturers shall test their insurance products in a qualitative manner* *and depending on the type and nature of the insurance product and the related risk of detriment to customers, quantitative manner…"*

1.10. EIOPA will initially collect data as part of the annual Costs and Past Performance (CPP) including entry points that would allow further assessment of data on Quantitative Reporting Template (QRT) S.14.01 to, where possible, reduce the reporting burden and/or incorporate new indicators. The first benchmark exercise will evaluate the data collection to ensure it remains fit-for-purpose.

1.11. As stated in the Supervisory Statement and EIOPA's Approach to POG Supervision, value for money assessment is a clear element of product testing including the identification and quantification of costs to ensure they are justified, proportionate and aligned to the target market's needs, objectives, and characteristics considering comparable offerings in the market.

2 INTRODUCTION TO BENCHMARKS

▸ What are the benchmarks?

2.1. Benchmarks are the reference points which:

- On the one hand, support NCAs in their risk-based supervisory approach by allowing them to identify unit-linked and hybrid products which *prima facie* pose higher value for money risks, and which require higher supervisory scrutiny including enhanced POG assessment (i.e., products which are outside of the perimeter of the benchmarks).
- On the other hand, when discussed with national supervisors and eventually shared with insurance product manufacturers, enable them to identify the costs and benefits of comparable offers in the market and facilitate their product testing and pricing process, including assessing that all costs are proportionate and due. Benchmarks will facilitate product manufacturers' exchanges with supervisors. In fact, insurance product manufacturers would be able to easily demonstrate how they have considered the benchmarks in their product design process and how their products offer value, as part of the product testing (Art. 6 POG Delegated Regulation) and of the product monitoring and review process (Art. 7.1 POG Delegated Regulation).

2.2. It is important to note that benchmarks are carried out at the level of the combination of wrapper plus specific option. For instance, if one product offers 10 investment options, there will be 10 possible combinations of wrapper plus specific investment option (see Annex I). References to product throughout this methodology refer to the said combination.

2.3. Benchmarks will rely on VfM indicators looking at costs and benefits of the products and will be calculated for each cluster (i.e. the benchmark value of the same indicator will differ depending on the cluster). In doing so, EIOPA will promote a more transparent, efficient, and reliable comparison of products, which will allow the identification of those which *prima facie* may offer poor or no value to consumers and, hence, requiring higher supervisory scrutiny.

2.4. Benchmarking is a complementary activity to the POG process[9] as products should provide value for money to consumers regardless of where they stand in relation to the benchmarks. In fact, market comparison *per se* does not ensure that a given product offer value for money to consumers. Insurance manufacturers' product testing should always verify and prove value for money regardless of the comparison with other offers in the market. Thus, benchmarking is a tool

[9] Benchmarks apply to products manufactured and/or significantly amended after date of entry in force of POG Regulation (1 October 2018)

amongst others to verify the customer-centric approach is well implemented in terms of product manufacturing and distribution.

2.5. EIOPA will initially share benchmarks with NCAs only. Once the benchmarks are sufficiently tested to demonstrate their feasibility and relevance and they are stable, NCAs may share the benchmark information with insurance product manufacturer to assist them in determining whether their products offer value – including whether costs are proportionate vis-à-vis other offers in the market.

2.6. Following initial benchmarks and possible refinements of the methodology, the publication of the benchmarks on EIOPA's website along with other technical information will be assessed and discussed with NCAs. Additionally, EIOPA could provide guidance to supervisors and manufacturers on how to treat products within and outside the benchmarks, how certain features could affect the cost, benefits, and performance of the products.

► What are the benchmarks not?

2.7. Manufacturers should not consider benchmarks as a safe harbour. They should continue ensuring that all costs are identified, quantified, due, and consistent with the target market's needs, objectives, and characteristics. Even if VfM indicators are within the EU benchmarks, manufacturers' compliance with POG requirements is neither waived nor automatically proved as, for instance, some costs could still be undue, and the product may fail to provide VfM.

2.8. In addition, benchmarks should not be seen and used as price regulation or cost-capping. In fact, EIOPA is aware that the benchmarks cannot capture all products' specificities and consumers' needs as they are varied in nature. Manufacturers, when appropriate, should go beyond the perimeter of benchmarks to see, for instance, if product testing proves that out-of-benchmarks values correspond to relevant benefits that are not captured by clustering features. Supervisors should take these elements into account in their assessment. On the contrary, if manufacturers fail to demonstrate additional value vis-à-vis benchmarks as part of the dialogue with supervisors, it may be concluded, based also on additional POG elements, that the product does not offer value.

2.9. Benchmarks should not be used as a consumer disclosure tool as the nature of the indicators and the product clustering process require in-depth technical knowledge of the VfM methodology which may not be easy to understand for most consumers.

▶ Comparability of products

2.10. Despite striving for a common EU approach to benchmarks, EIOPA is aware that the Insurance Based Investment Products (IBIPs) landscape in Europe consists of diverse products and features. Therefore, EIOPA developed a list of relevant and widespread product features (clustering features) that balance the need for comparability between similar products and limitations on data collection. The combination of such features has resulted in a minimum number of clusters that will enable supervisors and manufacturers to identify and compare similar products in an easy manner.

2.11. The benchmark exercise relies on the calculation of VfM indicators per each product cluster and the subsequent setting of reference values above/below which there is a higher value for money risk. The indicators proposed combine costs and performance metrics at periods of time for which, based on the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation[10] and the delegated regulation on the Key Information Document[11] (PRIIPs KID), product data is generally available to insurance manufacturers. As opposed to single benchmarks, which might produce misleading results, the joint evaluation of benchmarks attached to the different VfM indicators will lead to a more comprehensive analysis of the product features.

2.12. This exercise is neither performed at European or national level per se. It is performed based on product clusters using data from products across all the markets where they are distributed. This to make sure that consumers' outcomes are consistent across the relevant markets. Considering this perspective, the product clusters do not relate directly to specific national markets and certain clusters can be predominant in some markets depending on the products distributed. For instance, more heterogeneous markets will have products within more clusters if compared with homogenous markets where a more limited number of clusters might be relevant.

2.13. The product-led approach focuses on ensuring comparability without differentiating between national and European benchmarks. It also aims at making sure that costs and performance are not looked at in an isolated manner but always in combination.

[10] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

[11] Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 supplementing Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards regarding the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

3 BENCHMARKING PROCESS

3.1 STEP 1: PRODUCT FEATURES FOR CLUSTERING

3.1. Considering the existence of insurance wrappers offering the possibility to invest in a multitude of underlying investment options (whose combination is left to the choice of consumers) and the difficulty to assess all possible combinations, the product clustering of this methodology is carried out at the level of the insurance wrapper plus the specific underlying investment option. In doing so, the methodology follows the policyholder perspective to the greatest extent possible.

3.2. In the context of this methodology, investment options are differentiated in two categories:

- **Individual investment option**: an external or internal fund, a profit participation component, or direct lines (e.g. stocks, shares, bonds).
- **Combined investment option:** the combination of multiple external or internal funds according to a pre-determined investment allocation/strategy, either fixed or dynamic, which is predefined by the insurance undertaking.

3.3. The policyholder's perspective might at time differ from the manufacturer's perspective to the extent that the manufacturer will consider the full universe of possible investment options while a policyholder may choose to invest into a single or a sub-set of the full range of investment options. Hence, the following principles apply (see Annex I):

- Data collection and benchmarks' calibration will be carried out at the level of the combination of wrapper plus specific option, and they should be inclusive of all costs (wrapper and each relevant investment option).
- Manufacturers will be required to report a set of values for the calculation of VfM indicators for each combination of wrapper plus specific investment options.
- Manufacturer's reporting of data concerning the wrapper plus specific option should be sufficiently varied to populate the highest number of clusters and allow the calculation of the respective benchmarks. Depending on market developments and initial benchmarks exercises, the scope of the data collection can follow the minimum clusters set in this methodology, expand them slightly and/or create simplified clusters to reduce reporting burden[12]. To adapt to national specificities (i.e. considerable prevalence of certain RHPs) and

[12] For instance, EIOPA could use fewer clustering features and/or less granular subcategories within such features for data collection purposes.

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.

- In case of Multi-Option Products (MOPs), the data will be collected at the level of the most sold, the most expensive and the cheapest combination of wrapper plus specific investment option. In case of hybrid products with pre-determined strategy, the reporting may be reduced given the more limited number of options available (as opposed to those with individual investment options and no strategy which tend to have a very large number of possible investment options).
- The selection of the most expensive and the cheapest combination is based on reduction in yield at recommended holding period (RIY at RHP) whereas the most sold refers the gross written premium (GWP). During the first benchmark exercise, EIOPA will consider GWP of existing contracts[13] to facilitate the transition towards the adjusted CPP. Nevertheless, this metric will be reassessed to consider new contracts where possible.

3.4. Beyond differentiation between underlying investments options and to avoid confusion on whether one product falls within more than one cluster, if there are different versions of the same wrapper which present disparity in their clustering features (such as different premium frequency and/or recommended holding period), the versions will be considered as different products and fall within their respective clusters[14]. For benchmarking purposes and considering possible difference in costs and benefits of the same and/or comparable products of the same undertaking being sold in different markets, EIOPA and NCAs might also request and/or look at VfM indicators differentiating between host markets.

3.5. To ensure an adequate number of clusters with homogeneous products (while avoiding the creation of excessively detailed clusters), this methodology contains minimum clusters which can be further developed depending on data availability and the initial setting of benchmarks[15]. The minimum clusters are based on six clustering features resulting into a maximum of 204 product clusters[16] (for all product categories), and one extra feature for the profit participation component resulting in 12 additional product clusters.

[13] Data collection focuses on products still open for new premiums (run-off products at the reference period are excluded)

[14] For instance, wrapper available on single and regular premium version, and offering 2 underlying investment options (i.e. equity fund and asset allocation fund) would have 4 possible combinations: "*Single + equity*", "*Single + asset allocation fund*", "*Regular + equity*", "*Regular + asset allocation fund*". Each combination would be considered as a different product and fall into different clusters.

[15] The calculation of benchmarks will consider the number of products reported for each cluster. If they are deemed it insufficient, benchmarks may not be calculated for some clusters. On the contrary, if the number of products is sufficiently large to populate more detailed cluster, new clusters could be developed.

[16] Pure unit-linked (84), UL component of hybrid TYPE 1 (84), Hybrid TYPE 2 (36). This number of clusters, which includes both MOPs and non-MOPs, represents a substantial reduction from the 588 clusters included in the Public Consultation.

3.6. This does not mean that all clusters will be populated in the first exercise given that all possible combinations of clustering features might not be available and/or be representative of the market. In case that the data available allows to populate more detailed clusters, the minimum cluster could be extended, particularly in relation to recommended holding period and asset classes.

TABLE 1: CLUSTERING FEATURES AND CATEGORIES

CLUSTERING FEATURES	CATEGORIES	
▸ **Product category**	Unit-linked ∣ Hybrid (Type 1) ∣ Hybrid (Type 2)	
▸ **Premium frequency**	Single ∣ Regular	
▸ **Recommended holding period**	Short ∣ Medium ∣ Long	
▸ **Biometric coverage**	Significant ∣ Other	
▸ **Asset class**	Equity ∣ Asset allocation funds ∣ Rest	
▸ **Summary risk indicator (SRI)**	Equity and asset allocation funds	SRI: 2 - 4 ∣ 5 - 7
	Rest	SRI: 1 - 2 ∣ 3 - 4 ∣ 5 - 7

3.7. The clustering features will ensure that clusters are sufficiently representative of the market and there are enough products within most clusters. The following pages provide a description of clustering features and relevant categories. Annex II includes the representation of the minimum clusters resulting from the combination of these features.

3.8. **Product category** differentiates between pure unit-linked products and hybrids where the unit-linked part is combined (or can be combined) with profit participation features. Due to heterogeneous approaches to the allocation of monies into the unit-linked and profit participation, the creation of sub-categories of hybrids is necessary.

- **Unit-linked:** insurance wrapper carrying a unit-linked investment option regardless of whether the investment option comprises one or more fund/asset.

- **Hybrid:** Insurance wrapper carrying and/or offering the possibility to carry both unit-linked investment option and profit participation investment option. Hybrid products can be differentiated depending on the allocation of investments between the unit-linked and the profit participation component:

- **Type 1:** the allocation between components follows consumer's choice and cannot be pre-determined at the inception of the contract. In this case, the data collection and the calibration of benchmarks will be done for the unit-linked and the profit participation component separately. In practice, this is a hybrid product where a consumer can decide how much of their investment is allocated to the product participation options and underlying investment funds.

- **Type 2:** the allocation between components follows a pre-determined strategy, either fixed or dynamic, at the inception of the contract. In this case, the data collection and the calibration of benchmarks will follow the pre-determined strategy and thus unit-linked and the profit participation component will be considered jointly. This is a hybrid product where a consumer has one or more pre-determined allocations.

3.9. **Premium frequency** relates to different consumers' needs in terms of premium payment. Two main categories are included.

- **Single:** single premium products (one-off payment)
- **Regular**: regular premium products (i.e., monthly payments, quarterly payments, etc.)

3.10. Considering differences in policyholder's use of flexible premium[17] across the EEA, the allocation of these products to single or regular premium category for each national market will be initially determined by NCAs. Following the initial data collection and testing of benchmarks, EIOPA and NCAs will reassess the treatment of products with flexible premium.

3.11. **Recommended holding period (RHP**) of the wrapper. Three categories are considered[18]:

- **Short:** insurance wrapper with less than 10 years RHP
- **Medium**: insurance wrapper between 10 and 20 years RHP
- **Long**: insurance wrapper with more than 20 years RHP

3.12. **Level of biometric coverage** differentiates between products providing a significant level of coverage for consumers vis-à-vis the premium paid at RHP. Two categories are considered:

- **Significant**:

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[17] Single premium products where the policyholder has the option to pay additional premiums (top-up option). For this methodology, flexible premium does not refer to regular premium products where policyholders are allowed to adjust the frequency of the payment.

[18] For the initial iteration of benchmarks and depending on data collection, thresholds attached to the categories could vary to ensure availability of products for testing and analysis. In case of insufficient number of products for the minimum clusters, EIOPA could combine the categories (Medium and Long = Medium-long) until more data to produce relevant benchmarks is available.

- If short RHP: insured event scenario at RHP covering 150% or more of the premium paid at that time
- If medium or long RHP: insured event scenario at half RHP covering 120% or more of the premium paid at that time.

- **Other:** Rest of the cases

3.13. **Underlying asset classes** (Investment) considers the most relevant asset classes and apply to pure unit-linked and hybrid products (Type 1), particularly to its unit-linked component. In cases where there is more than one asset class backing the product, the most predominant asset class at the inception of the contract will be considered. Three categories are developed for this clustering feature.

- **Equity** - Complementary Identification Code (CIC) no. 41 and no. 31
- **Asset allocation funds** - Complementary Identification Code (CIC) no. 44
- **Rest**

3.14. **Summary Risk Indicator (SRI)**[19] will allow to differentiate between risk of the investments and foster comparison between similar products. SRIs are grouped in two or three categories depending on the underlying asset class:

- **Equity:** SRI 2-4 and 5-7. SRI 1, if any, will be included in rest.
- **Asset allocation funds**: SRI 2-4 and 5-7. SRI 1, if any, will be included in rest.
- **Rest:** SRI 1-2, 3-4 and 5-7

3.15. Depending on data received, more categories regarding RHP could be created by including additional ranges of time. For instance, the existing three categories and its thresholds could be redefined and increased up to four periods: short, medium-short, medium-long, and long. In addition, EIOPA could add a separate cluster on debt funds (CIC no. 42).

3.2 STEP 2: VALUE FOR MONEY INDICATORS

3.16. The VfM indicators (Layer II VfM methodology) further develop the market-wide assessment of Layer I and enhance supervisory practices through the calculation of benchmarks at product level. In fact, the benchmarks exercise in this methodology expands and improves both Layer I and II by developing a product-focused approach to value for money work including clarifications on

[19] SRI does not apply as clustering feature for the Profit Participation component of Hybrid (Type 1)

comparability (clustering and non-clustering features) as well as the evaluation of performance and costs (VfM indicators).

3.17. EIOPA will collect data from insurance product manufacturers to produce 8 indicators and calculate VfM benchmarks per indicator and cluster. To ensure consumer perspective and support harmonisation and simplicity across Member States, the collection of the data and the production of the indicators will:

- Consider both wrapper and investment jointly except for the internal rate of return (IRR) that will look at the investment only.
- Follow PRIIPs KID assumptions for the moderate scenario. As stated in the PRIIPs regulation, in case of lack of historical data, an appropriate benchmark or proxy can be used[20]. In case of enhanced supervisory activities and/or reasonable suspicious of inaccurate data, NCAs would assess whether the proxy used is adequate and appropriate.
- Consider different points in time of the insurance wrapper (RHP and half RHP) when the product has 10 or more years RHP. For all indicators apart from IRR, the RHP of the wrapper will be considered.
- Not all the VfM indicators would be appropriate for the clusters. For example, indicators at half RHP will not be calculated for clusters with short RHP. Similarly, the insurance benefit ratio will not be considered in case of products whose level of biometric coverage is classified as 'Other',

3.18. The indicators cover metrics which are highly relevant to evaluate value for money in view of products costs and benefits. All the indicators will be also evaluated during the first calibration exercise and revised if the analysis of the data collected shows a low level of statistical significance.

- **Entry costs**: entry costs, which are paid at policy subscription, could have a significant impact on the amount that will be invested. Therefore, it is important to understand their relevance with respect to total premium and total costs.
- **Total costs indicator:** the assessment of all costs borne by the policyholders is an essential part of the value for money assessment.
- **Reduction in yield (RIY):** calculated according to PRIIPs KID methodology with both wrapper and investment costs.

[20] PRIIPS RTS, 31 March 2016. Part 1, Market Risk Assessment: Use of appropriate benchmarks or proxies: *"Where appropriate benchmarks or proxies are used by a PRIIP manufacturer, these shall be representative of the assets or exposures that determine the performance of the PRIIP. The PRIIP manufacturer will document the use of such benchmarks or proxies".*

- **Surrender:** comparing the surrender value with the premium paid will provide valuable information to the value for money assessment as higher costs and/or lower returns may significantly affect the amount received by policyholders vis-à-vis the premium paid over the years.
- **Internal rate of return (IRR):** calculated according to PRIIPs KID methodology with the RHP of the underlying investment.
- **Insurance benefit:** besides considerations on the level of coverage to ensure an appropriate clustering of products with significant coverage (and therefore higher benefits for consumers), it is important to assess the premium which is given back to consumers if the insured event occurs.
- **Break-even return:** this metric will enable to understand the minimum performance of the underlying investment which is required to break even. This indicator will leverage from data on the annual average return of the investment (net of investment costs and biometric risk premium) that would allow the product to break even at either half RHP or RHP, depending on whether the products belong to short, medium or long cluster.

TABLE 2: VALUE FOR MONEY INDICATORS

	INDICATOR	DESCRIPTION	SHORT	MEDIUM AND LONG	
			At RHP	At half RHP	At RHP
1	**Entry costs 1**	Total entry costs / Total premium	Yes	Yes	Yes
2	**Entry costs 2**	Total entry costs / Total costs	Yes	Yes	Yes
3	**Total costs**	Total costs / Total premium	Yes	Yes	Yes
4	**Reduction in yield (RIY)**	Reduction in yield	Yes	Yes	Yes
5	**Surrender**	Surrender value / Total premium	Yes	Yes	Yes
6	**Internal rate of return (IRR)**	Internal rate of return of the investment option	Yes	Yes	Yes
7	**Insurance benefit**	Insured event scenario / Total premium	Yes	Yes	No
8	**Break-even return**	Average annual return of the investment needed to break even. *The return should be net of underlying investment costs and biometric premium.*	Yes	Yes	No

3.19. Considering the risks of focusing on either performance or costs when assessing VfM, this methodology does not include a single benchmark for each product cluster but rather a list of indicators covering costs and/or benefits that should be evaluated jointly. The purpose of the joint evaluation is to assess indicators in a comprehensive manner, for which supervisory judgment and non-clustering considerations are also necessary. Following the initial iterations, EIOPA could prepare supporting material to guide the joint analysis of indicators (see section 3.4)

3.20. Benchmarks should incorporate both commissions and advice fees as they have an impact on the outcomes for consumers. While commissions will be part of the data collection from undertakings, the reporting of advice fees might not be always available as manufacturers most often do not have this information. In case of sales with advice that do not incorporate the respective advice-fees in the data collection, a margin on fees will be added to costs-related indicators (i.e. entry costs, total costs, etc.). The margin will be determined by EIOPA and its Members and communicated along with benchmark information.

3.21. EIOPA will evaluate the composition of the clusters and, if necessary, implement further adjustments to benchmarks applicable to products with advice or, when possible, adapt clustering criteria. As part of the evaluation, EIOPA will consider both the benefits (i.e. more detailed comparison) and drawbacks of adjusting the minimum criteria (i.e. lack of products to populate new clusters, increasing complexity to the methodology, etc.).

3.3 STEP 3: SETTING BENCHMARKS

3.22. Following the collection of data from undertakings and the calculation of the indicators, benchmarks will be established for each cluster based on the quartiles of the distribution of the indicators. Benchmarks will be set at the third quartile (Q3), except for the surrender, IRR and insurance benefit indicators for which benchmarks will set at the first quartile (Q1) because, as opposed to the other indicators, lower values represent higher value for money risk. For instance, higher entry costs may lead to higher value for money risk (the higher the entry costs, the worse for consumers) whereas higher IRR may deliver higher value for money (the higher the IRR, the better for consumers).

3.23. Since percentiles do not consider the dispersion of the values attached to the indicators, the benchmark methodology also incorporates a “caution area” around the benchmarks which is linked to the dispersion of the distribution. This area gathers values of the indicators that could initially indicate value for money risk but demand NCAs’ further assessment to confirm it[21].

[21] As opposed to values out of the perimeter of both caution area and benchmarks, and for which the existence of high value for money is signaled in a clearer manner.

TABLE 3: CAUTION AREA

BENCHMARK	RANGE OF CAUTION AREA	
	Lower limit	**Upper limit**
▸ If Q3	Q3	Q3 + standard deviation * 0.5
▸ If Q1	Q1 - standard deviation * 0.5	Q1

3.24. Considering that the indicators and benchmarks require testing and possible adjustments, the methodology refers to the initial benchmark calculations. Quartiles and standard deviations, in an initial phase – i.e., until the methodology is stable – will be reviewed at least every two years based on Members' views and inputs.

EXAMPLE OF POSSIBLE BENCHMARKS

Following NCA's market-wide assessment and the identification of undertakings and/or products showing potential value for money risks (Layer I of the VfM Methodology or already the benchmarks depending on the data available at the NCA), the NCA investigated the products of the undertakings and compared the results of its VfM indicators with the benchmarks of the clusters to which these products belong.

Since the benchmarks of the applicable clusters resulted from products with similar features (i.e. regular premium, SRI 5-7, investment in asset allocation fund and significant biometric coverage, etc.) differences with them signal higher value for money risks.

In fact, the combined analysis of the VfM indicators highlighted that the values attached to costs and performance of some products were outliers. For instance, total costs represented 30% of the total premium while the benchmark (third quartile) was established at 20%, and the IRR represented 2% while the benchmark (first quartile) was established at 4%. For the product identified as possibly problematic – i.e., identified as higher risk – the NCAs carried out enhanced supervision. This would include:

- Additional product analysis for NCAs that do profitability testing and look at more indicators than those identified for the benchmarks' methodology.
- POG supervisory activities to determine if value is proven and all costs are due.

For some products, it was determined that non-clustering features such as high guarantees at RHP (120% of the premium paid) and sustainable investment backing the product could justify the higher costs / lower returns and this is demonstrated in the POG process.

For others, it was overall determined that no value was offered as the POG process including qualitative product testing did not allow to identify whether value is proven or not.

3.4 STEP 4: NON-CLUSTERING FEATURES AND OTHER CONSIDERATIONS

3.25. The clustering features and VfM indicators provide a comprehensive approach to the assessment of value for money risks including the comparison of similar products and the production of benchmarks covering several features. Nevertheless, previous steps of this methodology do not consider other qualitative benefits that unit-linked and hybrid products could offer to consumers. Therefore, EIOPA will also collect data and inform NCA about features which could justify deviation from benchmarks:

- **Guarantees**: circa 80% or more premium guaranteed at RHP could be a reason for higher costs. In addition, the effective date of the guarantee can be considered as relevant. In particular, the possibility to withdraw the capital guaranteed at any time could justify higher costs (if compared to products where the guarantee can be only executed after a certain time).
- **Digitalisation:** during the data collection exercise, EIOPA will identify and share with NCAs differential and value-adding digital features (either at point of sale or throughout the consumer journey) that are beneficial to consumers and could potentially justify a deviation from the benchmark.
- **Risk mitigation techniques:** the existence of dynamic allocation between a minimum number of assets during product lifecycle and/or between a significant number of countries/currencies/other characteristic (with the purpose of mitigating financial risks) could be considered a reason for higher costs. The number of investment assets and geographical/currency dispersion or other risk mitigation techniques that could justify a deviation from the benchmarks will be determined after the first benchmark exercise.

3.26. Considering the particularities and benefits for consumers resulting from pension features (i.e. increasing benefits and costs attached to the annuitisation of pay-outs when these are charged during the accumulation phase) and/or sustainable features (i.e. classified as article 8 or 9 according to sustainability-related disclosures[22]), EIOPA and NCA could, following the analysis of the data, adjust the caution area for such products to limit the threshold where they could be considered as outliers.

[22] 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

3.27. As part of the joint assessment of indicators, NCAs can consider other insights[23]:

- **High number of early surrenders[24] and high exit costs/penalties**[25] to determine, for instance, if surrender metrics require further investigation. The aim is to support value for money assessment in view of products with higher risk of early surrender (low surrender ratio should not be considered *per se* as a better value for money of the product).
- **Claims rejected for the biometric coverage**, to determine, for instance, if value for money issues exceeds the analysis of insurance benefit indicator and demands NCA's further scrutiny of riders, claims management and exclusions
- **Results from previous years' exercises.** Considering the regular production of indicators/ benchmarks and the respective changes in values, the scrutiny of suspicious products can be reinforced by looking at previous years' exercises. For instance, products constantly presenting indicators within caution area may confirm higher value for money risk.
- **Materiality of the product (i.e. GWP, number of contracts, etc).** Benchmarks are relevant for all products in scope regardless of market relevance. Nevertheless, in view of the risk-based nature of this methodology, supervisors can decide not to focus on niche products or, as part of the joint assessment of such products, consider that they could entail higher costs/lower benefits because of the specific market they serve.

[23] During the first iterations, EIOPA will continue looking at available data (i.e QRT S.14.01) and evaluate the possibility to provide more further support to NCAs assessment.

[24] Metrics such as the number of contracts surrendered can be considered.

[25] When applicable, exist costs and exit penalties are included in "Total costs" and "Surrender value" indicators. Nevertheless, these costs might not be incorporated for all products (i.e. when they are only triggered in case of surrender before half RHP)

ANNEX I - CONCEPT OF COMBINATION AND PRODUCT SELECTION PRINCIPLE

MANUFACTURER PERSPECTIVE: 2 products

Wrapper 1

- UL
- Medium RHP
- Regular premium
- Significant cover

Option 1 - Equity fund | SRI 5
Option 2 - Equity fund | SRI 5
Option 3 - Equity fund | SRI 5
Option 4 - Asset allocation fund (AAF) | SRI 2

Wrapper 2

- UL
- Medium RHP
- Regular premium
- Significant cover

Option 1 - Asset allocation fund (AAF) | SRI 2
Option 2 - Asset allocation fund (AAF) | SRI 2
Option 3 - Asset allocation fund (AAF) | SRI 3
Option 4 - Asset allocation fund (AAF) | SRI 3

POLICYHOLDER PERSPECTIVE: 8 combinations/products

Combination	Clustering features	Values	
1. Wrapper 1+ investment option 1	UL | Regular | Medium | Significant | Equity | SRI 5	RIY 4% | GWP 8m	Most sold
2. Wrapper 1+ investment option 2	UL | Regular | Medium | Significant | Equity | SRI 5	RIY 7% | GWP 3m	Most expensive
3. Wrapper 1 + investment option 3	UL | Regular | Medium | Significant | Equity | SRI 5	RIY 1% | GWP 2m	Cheapest
4. Wrapper 1+ investment option 4	UL | Regular | Medium | Significant | AAF | SRI 6	RIY 2% | GWP 10m	Most sold
5. Wrapper 2 + investment option 1	UL | Regular | Medium | Significant | AAF | SRI 2	RIY 3% | GWP 5m	
6. Wrapper 2 + investment option 2	UL | Regular | Medium | Significant | AAF | SRI 2	RIY 3% | GWP 9m	
7. Wrapper 2 + investment option 3	UL | Regular | Medium | Significant | AAF | SRI 3	RIY 6% | GWP 7m	Most expensive
8. Wrapper 2 + investment option 4	UL | Regular | Medium | Significant | AAF | SRI 3	RIY 1% | GWP 8m	Cheapest

Data collection

For instance, simplified clusters (see the table) to guide the selection of products for reporting.

Following the example above, the table shows which combinations should be reported based on the rules for MOPs (the most sold, the most expensive and the cheapest)

		Unit-Linked						
		Equity		Asset allocation funds		Rest		
		2-4	5-7	2-4	5-7	1-2	3-4	5-7
Significant	Short							
	Medium		No. 1 | No. 2 | No. 3	No. 4 | No. 7 | No. 8				
	Long							

ANNEX II - MINIMUM CLUSTERS FOR BENCHMARKS

			Unit-Linked							Hybrid				
			Equity		Asset allocation funds		Rest			Type 1		Type 2		
			2-4	5-7	2-4	5-7	1-2	3-4	5-7	UL[26]	PP	1-2	3-4	5-7
Significant	Single	Short												
		Medium												
		Long												
	Regular	Short												
		Medium												
		Long												
Other	Single	Short												
		Medium												
		Long												
	Regular	Short												
		Medium												
		Long												

[26] It refers to UL component of hybrids products without pre-determined strategy in the allocation between UL and PP component. Minimum clusters follow the same structure of 'pure' UL.

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