Remarks to set the scene for the Panel IBIPs value for money

Valérie Mariatte-Wood (Head of the Consumer Protection Department – EIOPA)

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Ladies and gentlemen

Thank you very much for inviting me to today's conference. Consumer protection is at the very heart of EIOPA's activity and the focus of today's event on consumer centricity is very relevant to our work.

Consumer centricity means that products are designed, manufactured and distributed with the consumer in mind. These products must also offer value to those same consumers.

To set the scene for the final panel of today, I am happy to share with you EIOPA's perspective on why value for money is so important and some of the elements of our work in this area.

Let me start by saying that addressing value for money risks is crucial to ensure that insurance-based investment products (or IBIPs) truly benefit consumers.

Indeed, value for money has been on our radar for some time. Many of you will know that we have identified and highlighted risks in this market for a number of years through our Consumer Trends work.

Nonetheless, EIOPA is of the view that IBIPs, if well designed, can offer significant benefits. And customer centricity - that is, putting consumer outcomes at the heart of product design, distribution and accompanying monitoring processes - is critical for tackling value for money issues.

Our work on costs and past performance shows that there are unit-linked and hybrid products that offer value for money. But sadly there are pockets of products that regrettably, do not.

It is because of these outliers, that EIOPA and national supervisors have highlighted value for money concerns, emphasizing that if the issues are not addressed there is risk of a loss of consumer trust.

Earlier this year, EIOPA surveyed consumers across Europe (as part of our Eurobarometer). While most consumers feel their products do offer them value for money, a not insignificant percentage believe that this is not the case.

In particular, consumers believe that IBIPs may pose greater value for money issues compared to other products. Far example, our survey results tell us that some 27% of consumers feel that IBIPs do not offer value for money, compared to motor insurance (22% of consumers), and household insurance (20%).

Looking further at these results, we can see there is a moderate correlation (0.5%) between consumer views on value for money and whether they trust insurers. Hence the importance of addressing risks early to avoid a broader loss of trust in the insurance sector.

We have already observed this in the Netherlands, where high costs and poor performance of some unit- linked products led to a general loss of trust from consumers. This scandal completely destroyed the IBIP market in the Netherlands.

Beyond this extreme scenario, and unless the current rules are applied properly and manufacturers ensure that their products offer value for money, there is a risk that stronger measures may become necessary.

For example, we have observed that in Poland - as a result of significant risks which persisted in their unit-linked market - supervisors have had to carry out a product intervention measure.

While EIOPA supports and welcomes measures designed to prevent detriment to policyholders, we are also of the view that - where possible - one-size fits all approaches should be avoided. Not all consumers want the same type of product or have the same needs and requirements and we want to avoid that - as a result of a blanket approach - certain products end up disappearing from the market.

Now, building on its work to identify risks in the unit-linked and hybrid insurance markets, in 2020 EIOPA started enhanced supervisory activities to better understand product design and manufacturing, to identify products which may not offer value for money.

Adopting a risk-based approach, EIOPA identified specific products and carried out enhanced product oversight and product testing analyses.

From this work it emerged that many of the products identified did not, in fact, offer value for money.

We saw that:

- To break even at recommended holding period some of the products required an annual average yearly return which was significantly higher than the market average;
- Some of the products, even relying on the assumptions of the PRIIPs KID moderate scenario, did not break even at recommended holding period;
- Other products, assuming an average annual return equal to the market average for the past years, would not break even either.

In addition, EIOPA also identified that some of these products had significantly higher costs that were often not justified by the benefits and services offered . This finding was also confirmed by the findings from several national supervisors who investigated the product oversight and governance processes for these products.

At the extreme end of the spectrum, EIOPA identified products whose costs over the entire recommended holding period equalled almost 80% of the total premium paid. Other examples, include products with high biometric risk premiums/costs not counterbalanced by high biometric risk coverage offered.

Finally, for a number of products EIOPA identified very complex features and structures which resulted in the products not offering value to the identified target market. Namely, bonus structures which are costly and kick in late in the product, different layers for returns and costs calculation etc.

Based on these findings, EIOPA's Board of Supervisor s decided to start developing a toolkit to address value for money risks.

The first step was a supervisory statement, issued in 2021, which highlighted that value for money is a key element of the current product oversight and governance framework and which aimed at promoting more convergence in how supervisors assess this aspect.

The statement clarified that while supervisory activities should not interfere with pricing. Manufacturers should be able to present a structured pricing process. This should ·include evidence that costs and charges are properly identified, quantified and are due, taking into account the needs, objectives and characteristics of the target market and the costs borne by providers.

The supervisory statement was followed by a methodology on how to assess value for money risks in the unit -linked and hybrid insurance market.

The methodology aims to ensure a minimum common approach by national supervisors and also offers more clarity to insurance manufacturers and distributors regarding the supervisory expectations when addressing value for money.

Beyond the methodology, EIOPA was also tasked to give national supervisors more tools to address these issues following a risk-based approach.

This is where benchmarks come in. And long before benchmarks started being associated with the retail investment strategy, EIOPA had already begun working on developing value for money reference benchmarks.

And as we know there are many questions on this topic, let me start by saying how EIOPA sees the benchmarks we are currently working on - what they are and just as important, what they are not.

For EIOPA, benchmarks are:

- A tool to help supervisors in taking a more risk based approach to supervision by identifying outliers, i.e. those products which are outside of the perimeter of the benchmarks, and which may require greater supervisory scrutiny;
- A tool meant to enable insurance product rnanufacturers to better determine if their product offers value or not - i.e., the requirement to determine if costs are proportionate to the benefits offered, taking into account other available offers in the market;
- Multiple quantitative and non-monetary indicators, for relevant product clusters.

They are not:

- Intended as a consumer disclosure tool
- A cost cap: manufacturers can go beyond the benchmarks if from the testing they can prove the product/additional features offer value to consumers
- A safe harbour: being within the benchmarks does not mean manufacturers are excluded from further testing. Manufacturers should ensure the product offers value
- One indicator: they are multiple quantitative indicators which are meant to highlight costs and benefits of insurance products. EIOPA plans to also include considerations on non-monetary aspects to facilitate the value for money assessment
- one size fits all: different product clusters will be created, and different benchmarks will refer to different clusters.

In practice, EIOPA expects that benchmarks will help supervisors in identifying products which at first glance may not offer value for money and for which an enhanced supervisory assessment is required .

Once we are confldent wlth the benchmarks and the data, national supervisors will also share the benchmarks with manufacturers - and eventually we will also publish them. Hence, the benchmarks will provide manufacturers' data on 'other comparable offers in the market' and manufacturers can take this into account to help determine if their product offers value or not.

Now, just this morning, we are publishing our methodology for public consultation. You can check our website for the details. We are expecting many responses!

But let me explain something about our methodology now. It envisages a three -step approach:

- **In Step 1**: EIOPA proposes a system to categorize unit –linked and hybrid insurance products with similar features into groups based on policyholders' needs.
  This is fundamental to bring much-needed comparability to a market characterized by highly diverse products.
  While the criteria for clustering are identified, the final set of clusters will be determined based on empirical data as some clusters may not have enough products to develop benchmarks and/or for some of the non-essential features there may be enough products to have different clustering.

- **In Step 2**: Building on the value for money methodology published last October, EIOPA suggests new indicators around which value for money benchmarks should be developed. EIOPA, based on the data, will also determine which indicators work best for which product.
- **In Step 3**: The third step concerns data collection and benchmark calibration. To minimize the reporting burden on the market, EIOPA recommends leveraging existing data collection processes, such as the one for the annual cost and past performance report . Once the data is available benchmarks will be developed based on percentiles.

Beyond the quantitative benchmarks, which already take into account some non-quantitative product features, EIOPA will also provide guidance to national supervisors on how non-monetary benefits can offer value / relate to the benchmarks.

Finally, before I conclude I would like to address the big question. How does this relate to the RIS proposal?

As I said earlier, since 2020, EIOPA has been gradually developing a comprehensive and proportional toolkit that enables national supervisors to address value for money risks in the unit-linked and hybrid insurance products market.

As part of this, EIOPA had already started its work on the benchmarks prior to the publication of and independently from the RIS.

While EIOPA welcomes this RIS proposal, EIOPA's current work should be considered independent from the RIS and fully based on existing IDD requirements. In fact, even though EIOPA is of the view that this preliminary work can inform the RIS as it will provide real practical expertise on how to develop benchmarks before the methodology under the RIS is developed, EIOPA's work and approach is different from the RIS as our approach is to develop benchmarks based on a sample of products and that those benchmarks would be used for supervisory purposes (i.e., to inform a more risk based approach).

Benchmark, value for money, cost and past performance, consumer trends. These are all vital elements of EIOPA's work that are designed not only to enhance consumer protection but also to foster trust and stability in the insurance market.

I hope that in setting out EIOPA's views on these issues, I have paved the way for a good debate in the next panel.

Thank you very much.