

ACTUARIAL ASSOCIATION OF EUROPE (AAE)

ANNUAL MEETING OF 8-9 OCTOBER 2020

SUMMARY VIEW OF THE WORK OF THE AAE CONSUMER PROTECTION WORKING GROUP

Since spring 2020, the Consumer Protection WG has focused its work on the issue of measuring past performance of insurance products. This project is a response to a request made by EIOPA. The EIOPA has indeed been commissioned by the European Commission, like other ESAs, to establish an annual report listing the costs and performance of insurance savings products for each country of the Union.

In life insurance, the issue of measuring the past performance of contracts with participation features raises major difficulties of definition, homogeneity and measurement.

AAE Survey on past performance for products with participation features

The AAE has therefore launched a survey among its members to gather a precise vision of the functioning of the main products in their respective markets and the functioning of profit-sharing for these products.

Although limited to four, these responses reflect the disparity of situations.

- Spain (a single PP contract and a hybrid contract) and France have relatively simple contracts.
- Italy shows a more diversified situation, with regular premium contracts and flexible contracts, with profit-sharing that can be acquired at any time or only at term.
- Germany shows a very diversified situation, with several components of profit-sharing, regular, single premium or flexible contracts, MOP and non-MOP hybrid contracts.

Except from UK, the three largest life underwriters have responded. Those 4 countries represent 70 % of the aggregate life's GWP¹.

The Consumer Protection Working Group would like to extend a warm thank you to those who responded to the survey.

¹ Without UK. Source : EIOPA.

Exchanges with EIOPA on the Cost and Performance project

Following receipt of the survey, AAE held an exchange of views with EIOPA to present the results and answer EIOPA's questions. This work comforted EIOPA's view that the current framework was a reasonable way of capturing the benefits of profit sharing, at least for the countries that responded to the survey, and subject to making readers of EIOPA's report on costs and performance aware of the differences between different products in Europe. EIOPA recognized that because of these differences, the principle of a uniform framework for measuring costs and performance may leave the results somewhat theoretical.

We hope that our study has contributed to a better understanding of MOPs (multiple option products) by confirming and clarifying the way in which products operating as an "envelope" architecture are addressed, particularly with regard to the treatment of costs, and by highlighting the existence of more sophisticated products, i.e. "true" hybrid products with a strong interaction between unit linked funds and profit sharing funds.

The study encouraged greater consideration of the nature of the products where it differs significantly, such as between regular premium and single premium products or between products with or without significant biometric coverage.