

COSTS AND PAST PERFORMANCE – PARTICIPATION PRODUCTS

Products with profit participation do not offer a clearly identifiable value in the same way as unit linked products, which have a measurable market value at any point. We have carried out a detailed survey on this subject which has identified a significant number of issues which impact on value at any time and which lead to expected differences between undertakings within countries and across borders. Some of these factors include:

- level of guarantee offered; clearly, higher levels of guarantee can be expected to provide less scope for profit participation and vice versa
- regulatory requirements relating to profit sharing
- different methodologies for adding bonuses
- different investment policies
- inclusion of different sources of profit in bonus, e.g. investment, cost, mortality
- different approaches to establishing values on surrender
- holding period/investment horizon
- the decline in interest rates has led to new products or product generations (e.g. maximum guarantee lowered by the regulator, shift from yearly guaranteed to terminal guarantees, shift from year-on-year profit participation to terminal bonus), some of which are fundamentally different from past products
- the level of reserves available to enhance and smooth profit participation level

Defining a past performance methodology for products with profit participation requires a deep understanding of the mechanisms governing these products. Using the results of these calculations also requires a certain level of expertise in order to avoid misinterpretations and draw valid conclusions. Notwithstanding this difficulty, past performance, relating to features such as risk, liquidity or cost, is a key point for a consumer when deciding whether or not to invest. Competitive markets are based on comparison and it is important to facilitate this.

Our survey has identified material falls in levels of guarantee and bonus in recent years in countries covered. These new levels will lead to slower build up of benefits than in the past and a likely divergence of outcomes on profit participation products in the future from those in the past. An average customer is likely to misinterpret past performance information and be inclined to erroneously extrapolate from the path of the past to similar future possible paths.

In addition, past performance must allow for the cost of any protections against death or disability to be valid, and should not be publicised without consideration of the value of guarantees provided by the relevant product.

We are committed to extending the work of our recent survey to provide insights for EIOPA's ongoing work on costs and past performance relating to participation products. We will explore the means available in each market to identify and compare similar products, neutralising as far as possible the impact of factors which introduce difference. We will make this work available to EIOPA in the form of a qualitative commentary for inclusion in its December 2019 report on costs and past performance. For 2020, we plan to extend our input to provide support for inclusion of suitable quantitative measures.

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