EIOPA consults on framework to address value for money risk in the European unit-linked market

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No.	Question	Response AAE
1	Do you agree with the definition of value for money presented in paragraph 1.7?	**General comments** The AAE welcomes EIOPA's approach with great interest. The issues identified seem to us to be particularly relevant and address essential elements to foster investment in the European Union. We also generally agree with most of the principles outlined. However, we are very sceptical about the ability of a standardised and uniform approach to translate these principles into practice, given • the difficulty of defining the underlying concepts in a satisfactory manner • the limitations of an analytical approach in terms of product costs and benefits • the diversity of markets and, within markets, of products. It is precisely for this last reason that the AAE has chosen to respond to the consultation, on the one hand through some general focus iin relation to the main issues raised by the questionnaire, and, on the other hand by endorsing the responses of three of its members (Germany, France and Ireland). These responses show a real convergence of approach among actuaries, but their specific viewpoints in each of the markets concerned also help to illustrate this diversity. With regards to the concept of value for money itself, the question of its definition is a key element. Whereas we may agrre on high-level principles, the proposed definition does not appear sufficient to found an assessment approach.
2	Do you share EIOPA's concerns about value for money in certain areas of the UL-market?	Please see Q1
3	Do you believe that more emphasis on value for money considerations as part of POG, in particular through product testing, will ultimately improve the value propositions in the unit-linked market?	**Taking account of market mechanisms and market conduct for an efficient implementation of the POG** We fully share the objective of giving full effect to the POG provisions as established by the IDD.This directive sets out a clear framework for the duty to advise, to which are added, in the three countries that responded for the AAE, but in others as well, provisions that protect policyholders and allow the supervisor to intervene in the event of prejudice to policyholders' interests. This point seems to us of paramount importance because the responsibility to ensure a consumer receives value for money and purchases an appropriate product to their needs, lies primarily with the advisor. The existing information obligations are also decisive. We agree, however, that the mass of information required can be an obstacle and may not always be properly used by the consumer. This reinforces the need for advice as it contributes to the value of the information provided. Finally, the markets are, at least in the three countries that responded, highly competitive markets, characterised by a great diversity of players, business models and distribution models. It is important not to lose sight of this aspect, which clearly has very strong effects in terms of the quality of the offer and value for money.
4	Based on the framework presented below, do you believe there may be principles you feel are missing? Please explain.	**Framework of the approach and methodological caution** The AAE would also like to stress the quality of the discussions and the interest of the communication made by EIOPA at its conference on 23 June. We appreciate the methodological caution shown and note the following points, which we believe to be very important for the work undertaken to reach a satisfactory conclusion: • The approach aims to give full effect to the implementation of the Product Oversight and Governance (POG) within the INsurance Distribution Directive (IDD), of which it appears to be an operational prolongation. • The approach is intended for supervisors, to support them in this work • It should not lead to new regulatory obligations • The assessment of the value for money of a product is not supposed to result in the mechanical qualification or disqualification of products with a yes or no verdict. • EIOPA does not yet seem to have any certainty as to the feasibility of a tool for assessing the value for money of a product • The envisaged tool would aim at identifying the points requiring further examination, the characteristics likely to be questionnable with regards to value for money for the consumer
5	What additional measures could EIOPA facilitate to advance value for money in unit-linked and hybrid products?	
6	Do you agree that costs and charges need to be due?	The need for a good definition of concepts is a matter of concern. The first two principles put forward by the consultation are based on two concepts that are not made explicit: the concept of value for money itself and the concept of costs and charges due. Particularly with regards to the fact that cost and charges would need to be due, the analysis brought by our contributors show a situation far more complex than what could be inferred from the very expression of principle.

7	Do you agree that for evaluation purposes, costs and charges should be assigned to specific benefits and services?	**Analytical approach of the product : methodological point of concern** We understand that an analytical approach to breaking down the benefits and costs of products is envisaged. This approach is reflected in the second principle of the consultation ("each product feature should deliver value for money") which we do not agree with. Two objections seem decisive to us: The interactions between the components of an insurance contract can create value, either by combining the risks covered or simply by the fact that selling on a stand-alone basis would be more expensive than having all parts within one product. The decomposition of benefits and costs seems to us to be illusory, both in terms of the ability to distinguish benefits (we understand that only the investment component and the death component would be examined in terms of value for money) and the ability to distinguish costs. We draw attention to the following points: • some fee structures, although very transparent and simple for the client, do not allow for a proper distinction between distribution and management fees; • In general, value for money should be assessed on the basis of costs (paid by the client) and not expenses (incurred by the insurer), which depend on its competitiveness: in this respect, we are dubious about the notion of proportionality (which is related to the problem of concepts whose definition is very uncertain) • the desire to break down the cost structures between the components of a product (guarantees and associated services, including advisory services) adds an additional dimension of complexity which seems to us to clearly condemn the approach to a dead end • in a context of very low interest rates, it should be paid attention to the cost involved by the regulatory framework as a whole as far as they have a direct impact on the final value for money, so that the legal diligence is focussed in the most efficient way and the cost/benefit balance remains largely positive. An excessively complex approach as the one that seems to be envisaged threatens this essential condition.
8	Do you agree that the costs which cannot be directly linked to a specific product component, should be assigned to the dominant product feature? If not, do you have an alternative proposal?	No. Please see Q7
9	Do you agree that active investment management involves additional costs and benefits?	
10	Do you agree that each product feature should deliver Value for Money as well as for the product as a whole?	It is very often not possible to break up products along features for stand alone valuation. We refer to remarks under Q7 and to the responses of local AAE's member associations (please see Q1).
11	Do you agree that value for money is dependent on the target market's characteristics, needs, and objectives?	We agree that value for money depends on the demands and needs of clients. In this respect, the value for money has a subjective character which represents an additional obstacle to its quantification. In concrete terms, a risk-averse client may highly value a guarantee to cover losses on an investment vehicle and will be willing to pay the cost. A client with a higher risk tolerance may prefer to suffer potential losses and not pay for the guarantee.
12	Do you agree that active and passive investment management have different target markets?	Not necessarily. We refer to the response of local AAE's member associations.
13	Do you agree that distribution costs which are charged to the consumer as a percentage of the premium paid or the performance of the units can create a risk of being poor value for money?	Not in a general way. The analysis would have to take into account the specific fees arrangement and the other relevant aspects (product features, distribution framework, etc.).
14	Do you agree on the assumptions to be made when assessing the reasonableness of the expected break-even point and of the expected returns?	See Q1 for methodological concerns about a possible quantitative assessment tool and Q4 to establish the conditions for a reasonable framework of reflection towards more operational ways of addressing the value for money issue.
15	Views on other criteria / ways to assess reasonableness are sought	
16	Do you agree that manufacturers have a duty to review costs and charges, performance and the services offered on a regular basis?	
17	Do you agree that policyholders should expect returns that are in line with market returns over the long run?	
18	Do you agree that actively managed underlying funds should be reviewed in relation to their performance against that of their related benchmarks?	Yes, provided that a relevant the benchmak exists (which shouldn't be the case for funds that do include financial guarantees).

19	Do you agree that mass marketed UL products should provide a limited number of options?	**Complexity and MOPs** The consultation repeatedly refers to MOPs and questions their complexity and the risk involved. • As regards investment options, their number does not necessarily imply a complexity of the product whose "wrapper" structure can remain simple whether it provides only unit-linked options or hybrid investment. • some investment vehicles may be complex in themselves • a real diversity of options within a multisupport may, on the contrary, limit the risk for the policyholder by giving him/her the possibility of modifying his/her allocation without fiscal friction and with more limited costs than if he/she had to change contract • the choice of investment vehicles may require a good level of financial education (for consumers who are autonomous in defining their allocations), but this can be compensated for by advice at the time of subscription and during the life of the contract, as well as by the availability of standard portfolios or management mandates
20	Do you see alternative measures to mitigate risks associated with a high number of options?	Please see Q19
21	Do you agree that UL products require a high degree of financial literacy for consumers to understand?	Please see Q19
22	Do you agree that products with many different options carry additional conduct risks?	Please see Q19
23	Do you agree with the variables to be taken into account to determine product groupings? Or do you believe more/less variables should be taken into account?	
24	For each of the variables identified provide views on options which EIOPA should consider	
25	Do you think there may be other criteria to be followed when grouping products?	
26	Considerations on the model are sought	Please see for example Q7 and Q11 for methodological points of concern. More specifically, it should be underlinded that, in the case of savings products, the performance of the investment vehicles is a very important component in assessing the value for money. However, financial performance is by nature random, which is very structuring for any valuation model