COSTS AND PAST PERFORMANCE
2020 REPORT
CONTENTS

Executive summary 3
European Supervisory Authorities Reports: 2019 Edition 5
Introduction and background 7
Overview of the insurance sector 8
Insurance based investment products 10
  Market coverage 10
  Net Returns 12
    Unit-linked products 13
    Profit participation products 16
    Hybrid products 19
  Analysis on costs 21
    Unit-linked products 23
    Profit participation products 24
    Hybrid products 26
  Summary findings 27
Personal pension products 28
  Market coverage 28
  Net returns 29
  Costs 31
  Summary of key findings 32
Analysis of trends and market evolutions:
  comparison between the 2019 and 2020 edition of the Report 33
Next steps and future reports 33
Annex I — Methodology 34
  IBIPs 34
    Unit-linked products 35
    Profit participation products 35
    Hybrid products 35
  Personal pension products 36
Annex II — Cost mapping 37
Annex III — Profit sharing mechanisms 40
Annex IV — Abbreviations 45
Annex V — Definitions 46
Annex VI — List of national competent authorities 50
EXECUTIVE SUMMARY

In line with the European Commission’s Request\(^1\) to the European Supervisory Authorities (ESAs) to periodically report on the costs and past performance of retail investment products, this report provides an analysis of costs – for 2018 – and past performance – for the period 2014-2018. The products within scope for this iteration of the report by European Insurance and Occupational Pensions Authority (EIOPA) are: Insurance-based Investments Products (IBIPs) and Personal Pension Products (PPPs).

Considering that the Report covers European Union (EU) markets until the end of 2018, at which point the UK was still an EU Member State, all references to EU Member States mean EU27 and the UK.

Findings are based on publicly available disclosures – mainly packaged retail and insurance-based investment products (PRIIPs) Key Information Documents (KIDs) – and on data reported by insurance undertakings which selected products based on representativeness (i.e., three most sold products) and risk profile (i.e., at least one product for each KID risk class). However, given the lack of harmonization of PPPs, for this analysis PPP data has had to be adjusted to follow a methodology similar to the one used for PRIIPs KIDs, with the aim of increasing comparability. Hence, the findings for PPPs, in particular in relation to costs and in relation to the analysis by risk-classes should be interpreted with caution. Moreover, findings do not take into account distribution channels and do not differentiate between underlying assets; hence costs and returns can also vary for different products.

Over 530 IBIPs\(^2\) have been analysed amongst those reported by more than 120 insurance undertakings, which account for 57% of life insurance technical provisions and for over 54% of total insurance with profit participation and index-linked and unit-linked insurance gross written premiums (GWP).

Over 110 PPPs have been analysed accounting for 940,000 contracts and €48.2 billion in GWP.

2018 performance was the lowest for the last 5 years. As a result, albeit different in nature, IBIPs and PPPs show similar trends:

- Highly negative average net returns in 2018 can be observed for both unit-linked insurance products (-7%) and hybrid insurance products (-2%) and for those PPPs that are similar to unit-linked (PPP-UL) insurance products (-6%). This leads to the return for the entire reporting period being, on average, 0% or close to 0%. Of course within these product categories there are several products which reported higher returns.

- Because of their smoothing of market shocks for consumers, profit participation insurance products had a positive compounded average net return (2.3%) for the reporting period. This was the case, even though 2018 returns are also the lowest for the reporting period.

A comparison with last year’s analysis – where unit-linked products clearly outperformed profit participation products – shows how, given their nature, unit-linked products can offer high returns but also pose risks for consumers during periods of poor market returns.

Since market coverage achieved differs across Members States, caution is needed in interpretation of the data; the results for those Member States with lower market coverage may not be as representative as for those with higher market coverage, depending on the diversity on the national market. Nonetheless, an aggregate analysis at Member State level, shows, this caveat notwithstanding, diverging trends for profit participation insurance, unit-linked insurance and for PPPs:

---


2 This figure includes both products and options, as for unit-linked and hybrid products different options are treated as different products. For multi option-products, a bottom up perspective can identify a product as an option plus its wrapper; likewise from a top down perspective we analysed products looking at their most sold option only. In some cases, given that the most relevant option in terms of GWP 2018 belong to the same product, different option belonging to the same product were analysed.
While returns for unit-linked insurance and PPP-UL were negative across all Member States in 2018, the average net return for the reporting period remained high in some Member States.

Profit participation insurance and PPP-PP show milder differences amongst Member States in terms of return trends, even though some markets also reported relatively high returns.

Of course significant differences exist across products and the dispersion in returns is particularly high for unit-linked products.

Although, given the more limited number of products for which an analysis by risk classes was possible, such that this data should be interpreted with caution, such an analysis shows that higher risk classes have higher variability of net returns but on average they show higher net returns. For unit-linked insurance products, this is notable when comparing class 1 and 7. However for risk classes 2-5 there is no clear correlation between the level of costs/net return and the riskiness. It is also noteworthy that while longer-term (i.e. recommended holding period above 15 years) profit participation insurance is characterized by higher returns the same correlation is not observed for unit-linked insurance.

In relation to costs, as for 2019, the 2020 analysis shows that, in Reduction in Yield (RIY) terms, profit participation products have lower costs than unit-linked products (for IBIPs 1.6% vs. 2.3% and PPPs 1.8% vs. 2.0%). However, the gap between unit-linked and profit participation products appears to be slowly reducing.

In terms of the relationship between costs and risk classes, while taking into account the more limited nature of this analysis, it can be noted that:

- As expected, for unit-linked insurance, on average, risk class 1 has the lowest level of costs (0.9%) and risk class 7 has the highest level of costs (5.7%). Similarly for PPP-UL, costs increase with the level of riskiness of the product, ranging from RIY at RHP of 1.2% to 2.1%.
- For unit-linked insurance the risk classes 2, 3, 4 and 6 show a homogeneous level of costs around 2% and risk category 5 has the highest costs, above 3%.
- For profit participation insurance costs are stable across all risk classes, for PPP-PP costs for risk classes 1 and 2 are similar (at 1.5% of RIY at RHP) but for risk class 3 costs rise to 2.7% RIY at RHP.

The costs composition of IBIPs is aligned with results from the 2019 Report.

Ongoing costs excluding transaction costs (that is, ‘other ongoing costs’ in the KID) are by far the most prominent cost component, representing 80% of the total unit-linked costs and 70% of the total costs of profit participation products. Entry costs are higher for profit participation products. Exit-costs are minor for both types of products.

When analysing costs according to their nature/cause, for both insurance product categories administrative costs are the most prominent cost item, followed by distribution costs. However, in the absence of a common definition this data needs to be interpreted cautiously.

For PPPs, other ongoing costs are higher for PPP-UL and they are the most prominent cost component. Entry costs are higher for PPP-PP than for PPP-UL. Exit costs are minor for both product categories; hence, the costs structure is aligned with the ones for IBIPs.

Finally, it is worth highlighting that some issues persist in terms of data quality and comparability, in particular in relation to PPPs and hybrid IBIPs. Data quality also differs across Member States, mandating caution when interpreting specific analyses.

Looking ahead, EIOPA will work on improving the methodology to calculate returns for profit participation, begin including occupational pensions and also working on costs definitions, for which more harmonization is necessary to ensure cost structures can be better understood and compared.
In order to enhance transparency and ameliorate investor protection, the three European supervisory authorities (ESAs) publish reports on the performance and costs of retail investment products in their remits on an annual basis. Ahead of unfolding the analysis characterising the current report below we provide a summary of the findings of the first reports published in 2019. This will provide the necessary background to highlight the developments and the enhancements of this year report with respect to the previous one.

**European Insurance and Occupational Pensions Authority (EIOPA)**

EIOPA’s first Report on Costs and Past Performance\(^3\) presents the net performance – over the period 2013-2017 – of insurance-based investment products (IBIPs) across the European Union (EU) and of some\(^4\) personal pension products (PPPs), showing that:

- Costs vary depending on the type of product, premium, risk class and jurisdiction;
- Reported costs for profit participation products are significantly lower than for unit-linked products;
- Average net returns for unit-linked products have typically but not always outperformed profit participation, however, given the absence of a standardized European methodology to calculate returns for profit participation, net returns for these products may be underestimated;
- Exit costs at maturity are marginal;
- Investment management costs vary significantly in relation to different risk classes and have an impact on the costs borne by policyholders;
- Finally, given data and comparability limitations, market coverage achieved was limited and challenges have been identified in comparing performance, in particular in relation to the impact of risks and volatility on net returns.

**European Securities and Markets Authority (ESMA)**

The 2019 report\(^5\) covers UCITS, AIFs and SRPs. Key findings for UCITS:

- The largest cost impact comes from ongoing costs, while subscription and redemption fees are significantly lower;
- Across asset classes costs differ; they are higher for equity and alternative UCITS;
- Costs are higher for retail compared to institutional investors;
- Active funds have higher costs than passive while net performance, for active, is lower;
- Cost heterogeneity is high across Member States.

Data quality and availability, including issues related to fund and investor domicile and heterogeneity in national treatment of costs, remained a significant challenge when assessing performance and costs.

There is lack of transparency for retail AIFs and SRPs. No data on costs and performance were available. Key results for retail AIFs are:

- The estimated NAV of AIFs is around EUR 5tn. Retail AIF are 18% of the AIF market;
- Risks related to liquidity transformation and liquidity mismatch are not significant;
- Heterogeneous distribution of retail AIFs in the EU falling under national regulations.

Key findings for SRPs are:

- Limited market size: EUR 500bn in 2017;
- Conclusive analysis is constrained by the large variety of SRPs and data availability.

---

\(^3\) EIOPA, First Report Costs and Past performance

\(^4\) The PPPs included are those with similar characteristics to IBIPs.

\(^5\) ESMA, 2019, “Annual Statistical Report, Performance and costs of EU retail investment products”
European Banking Authority (EBA)

The report focuses on structured deposits, which is the only product category in the EBA’s consumer protection remit that also falls into the product scope of the Commission’s request for cost and performance data. Key findings of the report include:

› The market for structured deposits in the EU appears to be limited in size, due to the low interest rate environment in recent years and, thus, the limited issuance volumes of structured deposits, with data on costs and performance not widely available as a result;

› The report includes a mapping of the regulatory requirements on pre-contractual disclosure and/or reporting applicable to structured deposits at European and national level;

› The report identifies the types and sources of data that would be required to fulfil the request.
INTRODUCTION AND BACKGROUND

In line with the EC request to regularly monitor and publish reports on costs and past performance, the aim of this Report is to offer a broad and comparative overview of the performance and costs of retail investment products within EIOPA’s remit – with the view of increasing transparency and comparability, to further enhance participation in capital markets.

The second EIOPA Report (2020) covers IBIPs and also PPPs. In line with an agreed upon methodology (Annex I), the analysis is based on data available in standardized disclosures – in particular the Key Information Documents (KID). However, given the absence of data on past performance and also taking into account that the requirement for providers to produce KID does not cover all products presented in this Report, EIOPA also carried out a market survey.

At the launch of the 2020 the exercise, EIOPA set to reach 60% market coverage1. Taking into account the data received, data quality and comparability, the current Report reached 57% average European market coverage. While this is high in aggregate terms, for some Member States market coverage still remains low, demanding caution when interpreting more granular analyses.

In line with the agreed upon methodology, products to be included in this analysis have been selected directly by insurance undertakings, taking into account instructions provided to ensure representativeness (i.e., the three most sold products) and that all risk classes were represented (i.e., at least one product per risk class where the insurance undertakings offers a range of products according to different risk classes).

In broad terms, the product categories analysed include:

- **Insurance-based Investment Products** which are insurance products, offering a maturity or surrender value wholly or partially exposed, directly or indirectly, to market fluctuations. IBIPs are a type of Packaged Retail Investment and Insurance-Based Product (PRIIP).

- **Unit-linked (including index-linked) products**, which typically offer a wide range of potential investment risks and returns. They are designed for different targeted holding periods and they do not offer a guaranteed return as they carry exposure to underlying assets such as equity or bonds either directly or via investment funds such as UCITS. For instance, looking at the EU/ European Economic Area (EEA) as a whole, around 80% of holdings in unit-linked life business is invested in UCITS.

- **Profit participation products**, which offer participation in the investments made by insurance undertakings by distributing a portion of the insurance undertakings profits to policyholders. Unlike unit-linked products, profit participation products do not directly expose the policyholder to market risks, but ‘smooth’ market volatility, aiming at offering some additional upside returns compared to investments in very low risk or risk-free assets. The return will typically be a combination of investment returns on an asset pool with profit participation, and typically includes a guaranteed return, in some cases set by legislation, as well as a non-guaranteed return – further details on these products are presented in Annex III.

- **Hybrid products**, which combine unit-linked funds and profit participation funds, offer the possibility to investors to choose guaranteed options (profit participation like option) and other options which follow the performance of a fund/index (unit-linked like options). Some manufacturers allow policyholders to customise their optimal allocation, while in other cases predefined composite options are offered. The products often include investments – such as holdings in investment funds – that themselves are managed by third parties.

- **Personal pension products** are individual and voluntary pension contracts (Pillar III) which, under national law, are recognized as having the primary purpose of providing savers with an income at retirement. PPPs often entitle investors to certain benefits such as pension tax reductions.

---

1. Given the limited coverage PPPs have been included on a best effort basis
2. Expressed in terms of technical provision based on Solvency II QRT Data. The cell notation formula to compute such measure is: S.02.01 Ro600 Co010 + S.02.01 Ro690 Co010.
9. EIOPA, 26-04-2017: Report on Thematic review on monetary incentives and remuneration between providers of asset management services and insurance undertakings
10. Pillar III products are defined by the OECD as “Pension plans which are established and administered directly by a pension fund or a financial institution acting as pension provider without any intervention of employers. Individuals independently purchase and select material aspects of the arrangements. The employer may nonetheless make contributions to personal pension plans. Some personal plans may have restricted membership”. Additional info can be found: http://www.oecd.org/finance/private_pensions/38356329.pdf
Like IBIPs, PPPs can be unit-linked (PPP-UL) or profit-participation products (PPP-PP). PPPs usually differ from IBIPs because of longer holding periods, different tax treatments and different pay-out options (i.e., possibility to annuitize payments). In some markets personal pensions are treated as IBIPs.\(^{11}\)

However, given the lack of harmonization of PPPs, the categorization is based on national legislation. For this analysis PPPs data has been adjusted to follow a similar methodology to the ones used for IBIPs, with the aim of increasing comparability, as further explained in the Report.

### OVERVIEW OF THE INSURANCE SECTOR

At the end of 2018, a majority of Member States in the EEA reported an increase in life insurance gross written premium (GWP), which grew by 5.7% when compared with the end of 2017 (Figure 1).

Growth has been mainly led by a 17.9% increase in other life insurance and a 3.8% increase in insurance with profit participation. Following 42% growth in 2017, index-linked and unit-linked insurance experienced no growth. However, index-linked and unit-linked insurance still represents the largest single line of business overall.

**Despite this growth, the profitability of insurers continues being under pressure given the current low yield environment.** Profitability further deteriorated in 2018 as returns on fixed-income investments, accounting for around two-thirds of total investments of insurers, remain low amid historically low yields. Adding to this, the political uncertainty around Brexit and the overall economic slowdown because of trade tensions has put a further strain on the insurance sector. The median return on excess of assets over liabilities dropped from 5.6% in 2017 to 4.9% in 2018.\(^{13}\)

Moreover, although product level information is not available via Solvency II Quantitative Reporting Templates (QRTs), an analysis of information on gains and losses from assets held in unit-linked or index-linked contracts shows potential high-volatility in unit-linked assets and potential low returns for unit-linked products.

---

\(^{11}\) These markets are DE, NL, AT, BE, HU, PL, SI also have some IBIPs sold as PPPs.

\(^{12}\) The total amount of 927.7 billion is representative of all the life line of business, while the chart represents only the three most important lines of business for the scope of the Costs and Past Performance 2020 analysis.

\(^{13}\) The return on excess of assets over liabilities is used as a proxy of return on equity. Additional details on the insurance market could be found in the EIOPA Financial Stability Report, June 2019: https://eiopa.europa.eu/Pages/News/EIOPA-Financial-Stability-Report-June-2019.aspx

\(^{14}\) In Solvency II cell notation, the formula used is as follows: S.09.01 (C0070 + C0080 + C0090 + C0110 yearN where assets are held in index-linked and unit-linked contracts)/S.02.01 C0010 - R0220 yearN-1.
The EEA return ratio\textsuperscript{15} of all assets held in index-linked and unit-linked contracts dropped from 7\% in 2017 to -5\% in 2018 with significant differences amongst insurance undertakings (Figure 2).

The dispersion, measured by standard deviation, was also larger in 2018 than in 2017 (8.5\% vs 5.3\%). In 2018 more than the 80\% of the sample had a return into the range +/- 1 standard deviation from the mean. In 2017 it was the 94\%\textsuperscript{16}.

Therefore, the result presented in the report must be read taking into account the current economic environment.

\textbf{Figure 2 - Return ratio for assets held in index-linked and unit-linked contracts: frequency distribution for all insurance undertakings - 2017 and 2018}

\textsuperscript{15} This ratio is computed based on the Solvency II line of business figures and it is available only for the unit linked-index linked line of business. Therefore it is different from a product based return which is shown in this Report.
INSURANCE BASED INVESTMENT PRODUCTS

MARKET COVERAGE

128 undertakings from 25 Members States participated to the exercise while NL, IS, SK, CY, DK & NO did not participate. Taking into account data quality and comparability, over 530 products have been analysed: 367 unit-linked, 78 profit participation and 88 hybrids.

This results in the Members States non-weighted average market coverage\(^1\) for all IBIPs, being (Figure 3):

› \(65\%\) taking into account all the insurance undertakings which provided data;

› \(57\%\) taking into account those insurance undertakings for which product data were analysed.

By looking at market coverage in GWP terms for unit-linked and profit participation insurance\(^1\), similar results can be observed:

› The total unit-linked and with profit participation GWP for all the insurance undertakings which provided data accounts for 66\% of the total EEA unit-linked and with profit participation GWP in 2018;

› The total unit-linked and with profit participation GWP for the all the insurance undertakings for which products have been analysed accounts for 54\% of the total EEA unit-linked and with profit participation GWP in 2018.

Market coverage\(^2\) for single IBIP categories is as follows:

For unit-linked products, the insurance undertakings which submitted data account for 62\% of the market and the insurance undertakings for which data has been considered account for 55\% of the market;

› For profit participation products\(^2\), the insurance undertakings which submitted data account for 48\% of the market and the insurance undertakings for which data has been considered account for 43\% of the market;

› For hybrid products, the insurance undertakings which submitted data account for 33\% of the market and the insurance undertakings for which data has been considered account for 28\% of the market.

When interpreting the analysis shown on net returns and costs it is important to bear in mind, that while on average market coverage is high, for the more granular types of analysis (e.g., Member States, risk-classes), these are sample-based analyses, based on information submitted.

The sample achieved is not fully homogeneous because of the diversity in coverage achieved for different national markets, ranging from below 35\% in DE, LI, and LU to above 80\% in AT, SI, and RO. Hence, the analysis presented below, where relevant, should be complemented with Figure 3, implying that for those markets where achieved market coverage is below the target of 60\%, the data presented may not be sufficiently representative; average costs and average net returns could potentially be higher or lower.

Similarly, when analysing different types of products by risk-classes and by premium type and recommended holding period, the analysis presented should be read in conjunction with the number of products analysed for which this data were available.

Finally, it is worth highlighting that to ensure confidentiality of the data presented, no information broken down at the Member State level is provided for smaller or highly concentrated markets.\(^2\)

---

17 This figure include both products and options. For unit-linked and hybrids different options are treated as different products.
18 Calculated by looking at technical provisions.
19 GWP for hybrids products is not possible to be isolated from the Solvency II database because hybrids products can be unbundled in different line of business or can be reported in the line of business “other life” line of business.
20 Calculated on the basis of technical provisions.
21 Considering the way in which technical provisions are reported via Solvency II QRTs, for profit participation and hybrid products the market coverage has been calculated based on life insurance technical provisions – excluding index-linked and unit-linked technical provisions.
22 The criteria used to measure the concentration was not to show Member States level data for the markets where 3 or less companies represent at least 80\% of the market in terms of life technical provisions. This is the case of EE, LV, LT, MT.
BOX 1 – METHODOLOGICAL FOCUS ON MULTI OPTION PRODUCTS

Focus on Multi Options Products (MOPs)

MOPs are products which offer the consumer the possibility to choose amongst several underlying options, customizing consumers’ allocations based on the diversity offered. MOPs can be unit-linked or Hybrids and their disclosure requirements are defined by PRIIPs Regulation in the article 10.a and 10.b.

Sometimes MOPs provide for automatic switches from one option to another; in other cases the policyholder can switch voluntarily; still other times policyholders are invested in a combination of options. In all these cases the characteristics of the single option do not reflect the actual risk which consumers are subject to because there are dynamic changes over time or based on the combination selected, and these can be different for each consumer.

Given this, the methodology agreed upon (better detailed in Annex I) analysed one underlying option per product, i.e. the most relevant in terms of GwP 2018. Each option, together with its wrapper costs/information is treated as a single product. Given that the survey launched to collect the data aimed also at gathering data for different risk classes, for some products more options have been analysed separately where the most important option per risk class in terms of GwP 2018 for a particular insurer belonged to the same overall product.

Since the options analysed are those that were most relevant in terms of GwP, the picture provided in the Report, even though not capable of reflecting the full diversity of ways in which consumers may use MOPs, has the following advantages:

- It captures the most bought allocation among consumers;
- It streamlines the level of complexity (and therefore improve the quality of data collected) for the undertaking responding to the survey.

Overall, amongst the 367 unit-linked analysed, 129 belong to the 10.a class under PRIIPs, 211 are 10.b; and for 27 products this information was not available. Looking at the 88 Hybrids, 77 are Hybrids MOPs, 9 are non-MOPs and for 2 products the information was not available.
NET RETURNS

An analysis of net returns across the types of IBIPs shows that while unit-linked products, when market trends are upwards, offer higher returns – as also highlighted in the first edition of this Report – these returns can significantly drop with downward market trends - unit-linked and hybrid products reported on average no net returns for the reporting period. This reflects their design by which policyholders can be relatively directly exposed to market risks. Of course, given the diversity and different risk profiles of unit-linked and hybrid products, as described below, some products offered rather high returns.

On the other hand, profit participation products smoothed shocks, as they are designed to do, reporting an overall positive average net return for the period 2014-2018.

BOX 2 - NET RETURNS AND INFLATION

As for the 2019 Report, this Report focuses on net performance in nominal terms. However returns are impacted by inflation and by different tax regimes at the Member State level.

While it is difficult to calculate the impact of taxation, Figure 4 below shows inflation figures for the reporting period.

Figure 4 - Inflation rate in % terms 2014-2018

Source: Eurostat

Inflation is relevant because over the long-term, it can significantly impact ‘real’ returns of investment products. This is an impact that, because of expertise but also because of biases, consumers may find difficult to assess or to take into account, especially given that some IBIPs can be very long term. However, given the relatively low level of inflation for Europe, at present the analysis in the Report is only in nominal terms.
Unit-linked products

An analysis of net returns for unit-linked products shows high volatility in the market, with significant variations both amongst different products and fluctuations over the years, including in the 2014-2018 reporting period.

The unit-linked frequency distribution provides a picture of how the net return were spread by years:

- Volatility across years is more marked between 2017 and 2018, with returns in 2018 being far more negative than in recent years – both in 2017 and 2016 the average weighted net return was positive and above 5% (Figure 5);
- Overall, the average weighted return for the reporting period (2014-2018) is low with the geometric average\(^{23}\) net return being flat at -0.1%;
- However, the 75th percentile reported an average return for the same period of 2.7%.

Volatility across products analysed for this Report can also be observed. The standard deviations – indicating the dispersion of returns for the products analysed – are high for all the reporting years. For example, in 2018 the standard deviation for unit-linked products was 6.5% and in 2016 it was 13.0% while for profit participation products the standard deviation, for the years considered, ranged between 1.6% and 2.9%. This is as would be expected, given the range of risk exposures provided for by unit-linked products.

![Figure 5 - Frequency distribution of net return for unit-linked products – 2014-2018](image)

\(^{23}\) The average considered is a geometric average to take into account the financial compounding as also presented in the methodology and used in the calculation of ESMA Report 2020.
To be interpreted with the necessary caution and jointly with Figure 3, an analysis at the Member State level shows that, on average in 2018, net returns for unit-linked products were negative across all Member States with HR and IT reporting the highest drop between 2017 and 2018 (Figure 6).

Different trends can be, however, observed across markets. The weighted geometric average (based on 2018 GwP) for the period 2014-2018 shows that, the Member States which reported the highest returns are DE and UK reporting an average return of 6.3% and 5.9% respectively; while several Member States reported a negative average return for the same period.

Moreover, an analysis of unit-linked products shows significant differences in net returns across Member States and within the same market. The gap between the minimum, maximum and the average weighted net return for the period 2014-2018 varies in different Member States:

- The average net return reported by some unit-linked products in some markets is very low, even below -15%. In these markets, there are no corresponding

---

**Table 1** - Number of unit-linked products submitted, unweighted geometric average net return ranges by Member States – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>16</td>
<td>-6.6%</td>
<td>8.1%</td>
<td>2.4%</td>
<td>1 and 3 to 7</td>
<td>Long: 5, Short: 6, n.a. 5</td>
</tr>
<tr>
<td>BE</td>
<td>13</td>
<td>-15.9%</td>
<td>2.3%</td>
<td>-6.3%</td>
<td>1 to 5</td>
<td>Short: 13</td>
</tr>
<tr>
<td>BG</td>
<td>3</td>
<td>-1.9%</td>
<td>0.3%</td>
<td>-0.8%</td>
<td>3</td>
<td>Long:1, Short: 2</td>
</tr>
<tr>
<td>CZ</td>
<td>6</td>
<td>-1.5%</td>
<td>0.9%</td>
<td>0.2%</td>
<td>1 to 3</td>
<td>Short: 6</td>
</tr>
<tr>
<td>DE</td>
<td>10</td>
<td>-2.7%</td>
<td>7.3%</td>
<td>6.3%</td>
<td>2 to 5</td>
<td>Short: 5, Short: 5</td>
</tr>
<tr>
<td>ES</td>
<td>14</td>
<td>-12.1%</td>
<td>2.7%</td>
<td>-2.6%</td>
<td>2 to 5</td>
<td>Short: 13, n.a. 1</td>
</tr>
<tr>
<td>FI</td>
<td>19</td>
<td>-12.2%</td>
<td>3.4%</td>
<td>-2.4%</td>
<td>1 to 7</td>
<td>Short: 19</td>
</tr>
<tr>
<td>FR</td>
<td>6</td>
<td>-25.7%</td>
<td>6.9%</td>
<td>2.0%</td>
<td>2 to 6</td>
<td>Short: 5, n.a. 1</td>
</tr>
<tr>
<td>GR</td>
<td>19</td>
<td>-6.9%</td>
<td>12.2%</td>
<td>-0.5%</td>
<td>1 to 7</td>
<td>Short: 4, Short: 13, n.a. 2</td>
</tr>
<tr>
<td>HR</td>
<td>15</td>
<td>-46.2%</td>
<td>2.7%</td>
<td>-3.6%</td>
<td>2 to 5</td>
<td>Long: 8, Short 7</td>
</tr>
<tr>
<td>HU</td>
<td>31</td>
<td>-39.0%</td>
<td>14.8%</td>
<td>-1.8%</td>
<td>1 to 5</td>
<td>Long: 5, Short: 26</td>
</tr>
<tr>
<td>IE</td>
<td>45</td>
<td>-9.0%</td>
<td>15.8%</td>
<td>-2.8%</td>
<td>1 to 5</td>
<td>Short: 45</td>
</tr>
<tr>
<td>IT</td>
<td>23</td>
<td>-14.9%</td>
<td>5.9%</td>
<td>-2.3%</td>
<td>1 to 7</td>
<td>Long: 8, Short 15</td>
</tr>
<tr>
<td>LU</td>
<td>3</td>
<td>-12.6%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>3 to 4</td>
<td>Long: 2, Short 1</td>
</tr>
<tr>
<td>NL</td>
<td>8</td>
<td>-1.3%</td>
<td>1.4%</td>
<td>-0.7%</td>
<td>2 to 3 and 5 to 6</td>
<td>Short: 8</td>
</tr>
<tr>
<td>PL</td>
<td>24</td>
<td>-18.9%</td>
<td>7.6%</td>
<td>0.1%</td>
<td>1 to 6</td>
<td>Long: 5, Short: 19</td>
</tr>
<tr>
<td>PT</td>
<td>7</td>
<td>-0.2%</td>
<td>0.7%</td>
<td>0.3%</td>
<td>1 to 3</td>
<td>Short: 7</td>
</tr>
<tr>
<td>RO</td>
<td>8</td>
<td>1.5%</td>
<td>8.4%</td>
<td>4.0%</td>
<td>2 to 5</td>
<td>Long: 8</td>
</tr>
<tr>
<td>SE</td>
<td>32</td>
<td>-1.3%</td>
<td>26.5%</td>
<td>4.5%</td>
<td>1 to 7</td>
<td>Short: 24, n.a. 8</td>
</tr>
<tr>
<td>SI</td>
<td>21</td>
<td>-10.3%</td>
<td>5.0%</td>
<td>0.7%</td>
<td>1 to 6</td>
<td>Long: 16, Short: 5</td>
</tr>
<tr>
<td>UK</td>
<td>15</td>
<td>-7.0%</td>
<td>18.6%</td>
<td>5.9%</td>
<td>1 and 3 to 6</td>
<td>Short: 15</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

---

24 For DE, LI, LU, PT the total market coverage achieved as from Figure 3 was low, below 40% and for PL, SE and UK between 40% and 50%.

25 For FR, pure UL products are hardly ever sold given that the most popular products are hybrid, composed of both guaranteed and UL parts. Thus the figures provided here are not representative of the features of the UL on the French market. A more reliable representation of the FR market is provided in the section on hybrid.

26 The net return considered are minimum and the maximum geometric average return between 2014-2018 observed by product, while the average figure shown is the weighted average by GwP 2018.
products reporting also higher returns; hence, the asymmetry of the positive and negative legs of the range of return observed raise concerns for consumer outcomes in these markets.

- On average the delta between the minimum and maximum net return for unit-linked is the high (17.4 percentage points), indicating high disparity in possible consumer outcomes and, hence, requiring adequate protections when such products are sold. In some Member States the delta is above 30 percentage points.

By looking at risk classes and taking into account the number of products available for each risk class when interpreting the data, unit-linked products with higher risk classes, generally performed better than those with lower risk classes:

- Net returns related to the unit-linked risk class 1, 2 and 3 (Figure 7) are low. Considering that risk classes 1 to 3 have the highest concentrations of products (196 in total), in average terms close to half of the products had negative returns.

- Risk classes 4 and 7, with 85 products, had on average a high return (5.9% and 4.2%) between the years 2014-2018.

By looking at the minimum, maximum and average weighted net return for the period 2014-2018 (Table 2) by risk class, it can be observed that the level of dispersion of net returns is very high for unit-linked products; however, interestingly risk classes 4 and 5 have higher dispersion than risk classes 6 and 7.

Finally, by looking at product duration – i.e., 'long' vs 'short' recommended holding periods (RHP) - and premium types it can be observed that:

- For unit-linked products the net return is not dependent on the RHP;
- Returns are higher for unit-linked products with regular premiums.

Table 2 - Number of products submitted, unweighted geometric average net return range of figures by risk class – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>37</td>
<td>-6.6%</td>
<td>1.5%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>2</td>
<td>70</td>
<td>-16.9%</td>
<td>7.3%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>3</td>
<td>89</td>
<td>-20.9%</td>
<td>7.6%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>4</td>
<td>71</td>
<td>-46.2%</td>
<td>15.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>5</td>
<td>53</td>
<td>-14.9%</td>
<td>26.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>6</td>
<td>27</td>
<td>-25.7%</td>
<td>14.6%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>7</td>
<td>14</td>
<td>-3.1%</td>
<td>12.2%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

Figure 7 - Unit-linked weighted average net return by risk classes (on the left) and number of products analysed by risk classes (on the right) – 2018

Source: Costs and past performance survey

27 Long RHP corresponds to 15 years or more while short RHP corresponds to less than 15 years.

28 This needs to be interpreted taking into account that the distribution of products between short and long RHP is not even. The number of unit-linked products with recommended holding period above 15 years is 76 while the number of unit-linked products with recommended holding period below 15 years is 271 - for 22 products information on the recommended holding period was not available.

29 Unit-linked products were broken down as follows: 99 with flexible premium; 88 with regular premium; 179 with single premium; and for 3 products the information on premium frequency was not available.
An analysis of net returns for profit participation products, as expected, shows that returns are more stable and consistent both in relation to differences in the products analysed and in relation to fluctuations over the years considered:

- The frequency distribution of net returns for profit participation products by year (Figure 9) shows that, even though on average in 2018 returns dropped, this was not as significant as the average drop for unit-linked products and on average between 2014 and 2018 the net return was positive;

- As already mentioned, the variability of the net returns is lower with a standard deviation, amongst all the products analysed, of 1.7% in terms of average return for period 2014-2018. Consequently, profit participation products offered – as expected – protection against the difficult market conditions in 2018 despite not giving high returns.

An analysis at the Member State level, to be interpreted bearing in mind different market coverages achieved, shows consistent positive returns. In fact, whilst differences amongst markets exist, profit participation net returns are more stable across markets, with HU and SE reporting the highest 2014-2018 return (Figure 10).
Despite an overall positive picture and more homogeneity in terms of net returns across products, some differences exist. In some markets where there is a high dispersion for unit-linked products, there is also a high dispersion for profit participation products.

To complement the analysis at the Member State level, Table 3 presents the range of net return by Member State. The ranges are more homogeneous and the gap is smaller than for unit-linked products.

Table 3 - Number of profit participation products submitted, net return ranges by Member States unweighted geometric average – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>9</td>
<td>0.6%</td>
<td>2.6%</td>
<td>0.9%</td>
<td>1 and 2</td>
<td>Long: 9</td>
</tr>
<tr>
<td>BE</td>
<td>7</td>
<td>0.6%</td>
<td>1.9%</td>
<td>1.8%</td>
<td>1 and 2</td>
<td>Short: 7</td>
</tr>
<tr>
<td>CZ</td>
<td>1</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>2</td>
<td>Short: 1</td>
</tr>
<tr>
<td>DE</td>
<td>5</td>
<td>1.5%</td>
<td>3.7%</td>
<td>2.4%</td>
<td>1 and 2</td>
<td>Long: 4, Short: 1</td>
</tr>
<tr>
<td>ES</td>
<td>1</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>2</td>
<td>Long: 1</td>
</tr>
<tr>
<td>FI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GR</td>
<td>3</td>
<td>3.4%</td>
<td>3.4%</td>
<td>3.4%</td>
<td>6</td>
<td>Long: 3</td>
</tr>
<tr>
<td>HR</td>
<td>5</td>
<td>2.2%</td>
<td>3.6%</td>
<td>3.2%</td>
<td>2</td>
<td>Long: 3, Short: 2</td>
</tr>
<tr>
<td>HU</td>
<td>8</td>
<td>0.2%</td>
<td>5.7%</td>
<td>3.6%</td>
<td>2 and 3</td>
<td>Long: 5, Short: 3</td>
</tr>
<tr>
<td>IE</td>
<td>16</td>
<td>0.7%</td>
<td>3.2%</td>
<td>1.2%</td>
<td>1 to 3</td>
<td>Long: 4, Short: 12</td>
</tr>
<tr>
<td>LI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>2</td>
<td>1.1%</td>
<td>2.0%</td>
<td>1.9%</td>
<td>2</td>
<td>Long: 1, Short: 1</td>
</tr>
<tr>
<td>PT</td>
<td>2</td>
<td>-1.9%</td>
<td>-1.3%</td>
<td>-1.7%</td>
<td>1 and 2</td>
<td>Short: 2</td>
</tr>
<tr>
<td>RO</td>
<td>6</td>
<td>-0.1%</td>
<td>4.8%</td>
<td>1.3%</td>
<td>1 to 3</td>
<td>Long: 3, Short: 3</td>
</tr>
<tr>
<td>SE</td>
<td>4</td>
<td>2.0%</td>
<td>7.0%</td>
<td>6.6%</td>
<td>2 and 3</td>
<td>Long: 4</td>
</tr>
<tr>
<td>SI</td>
<td>4</td>
<td>1.8%</td>
<td>3.9%</td>
<td>3.0%</td>
<td>1 and 2</td>
<td>Long: 3, Short: 1</td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
<td>2</td>
<td>Short: 2</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

Even in terms of risk classes, profit participation products (Figure 11) net returns are more stable. Risk class 3, which represents the highest risk class for profit participation products, reported the highest returns. Despite the higher return for risk class 3, the risk class with highest amount of products is class 2, representing the half of the product submitted.31

30 For DE, and PT the total market coverage achieved as from Figure 3 was low, below 40% and for PL, SE and UK between 40% and 50%.

In addition to the caveat due to the different level of market coverage in relation to ES and PT, the only data submitted were 2018 data. Therefore, for these countries comparisons must be limited to 2018 year.

31 There are additionally 3 profit participation products submitted from GR, which belong to risk category 6. This is a specificity of the GR market due to the credit risk effect on the calculation of the KID risk category. These products are included in the analysis even if not shown in this chart because this represents a specificity of the Greek market.
By looking at the minimum, maximum and average weighted net return for the period 2014-2018 (Table 4) by risk class, it can be observed the width of the range of net returns is lower for risk class 3 than for the other classes, but the differences among risk classes are less remarked than for unit-linked.

Source: Costs and past performance survey

Finally, by looking at the impact on returns which different premium types and different RHP can have, it can be observed that:

- Profit participation products with a long RHP\(^{33}\) have always outperformed those products with a shorter duration;
- As for unit-linked products, those profit participation products which are regular premiums report higher returns.\(^{34}\)

Figure 11 - Weighted average net return by risk class profit participation (on the left) and number of products analysed by risk class (on the right) – 2018

Table 4 - Number of products submitted, unweighted geometric average net return range of figures by risk class – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22</td>
<td>-1.9%</td>
<td>3.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2</td>
<td>42</td>
<td>-1.3%</td>
<td>7.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>0.2%</td>
<td>4.8%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

Figure 12 – Weighted average profit participation of net returns by recommended holding period (on the left) and by premium frequency (on the right) – 2018\(^{32}\)

Table 4

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22</td>
<td>-1.9%</td>
<td>3.7%</td>
<td>2.1%</td>
</tr>
<tr>
<td>2</td>
<td>42</td>
<td>-1.3%</td>
<td>7.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>0.2%</td>
<td>4.8%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

\(^{32}\) Please consider that the higher net return of 2016 is due to the presence of few relevant products in terms of GwP which achieved in 2016 a higher net return compared with the previous year.

\(^{33}\) The number of profit participation products with a recommended holding period above 15 years is 36 vs. 39 for those with a recommended holding period below or equal to 15 years.

\(^{34}\) Profit participation products were broken down as follows: 11 with flexible premium; 30 with regular premium; and 33 with single premium.
Hybrid products

As expected, an analysis of net returns for hybrid products shows that the distribution of returns is between unit-linked and profit participation values (Figure 13). Overall, returns are more negative, with the average net return for the reporting period being 0.0%; however, the volatility between products and between years is counterbalanced by the presence of profit participation funds.

Even though data availability for hybrid products is less granular and differences in market coverage should be borne in mind when interpreting the data, an analysis at the Member State level shows significant differences in terms of average net returns for hybrid products, with BE and DE, reporting the highest returns (Figure 14).

In line with the average net return, differences amongst products – i.e., minimum, average and maximum return – for the net return (2014-2018) are also more notable than for profit participation products. This is also shown in Table 5.

An analysis of net returns for hybrid products split by risk class was not possible because of the methodology adopted.

Finally, given the limited data granularity an analysis for returns by RHP and by premium type is not possible.

Figure 13 - Frequency distribution of net return for Hybrid products – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th>Average 2014</th>
<th>Net return 2015</th>
<th>Net return 2016</th>
<th>Net return 2017</th>
<th>Net return 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Net Return</td>
<td>0.9%</td>
<td>-0.2%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Average Net Return</td>
<td>0.0%</td>
<td>-2.0%</td>
<td>1.6%</td>
<td>1.1%</td>
<td>1.5%</td>
</tr>
<tr>
<td>St dev</td>
<td>3.5%</td>
<td>4.5%</td>
<td>2.4%</td>
<td>3.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>25% percentile</td>
<td>-0.8%</td>
<td>-3.2%</td>
<td>0.8%</td>
<td>0.2%</td>
<td>0.6%</td>
</tr>
<tr>
<td>75% percentile</td>
<td>1.7%</td>
<td>1.0%</td>
<td>2.2%</td>
<td>2.2%</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

35 See Table 5 and Figure 3
36 For ES and HU being available only the 2018 data, it is not possible to make any statements on the average performance between 2014 and 2018.
37 Unit-linked products often offer also several options with different risk class but the methodological assumption used in the report is to simplify the analysis considering only a single option, the most relevant for GwP without the need to blend several options, which instead is needed for Hybrids.
For DE and LU the total market coverage achieved as from Figure 3 was low, below 40%. In addition to the caveat due to the different level of market coverage, in relation to ES, HU and LU, the only data submitted were 2018 data. Therefore, for these countries, the comparisons must be limited to 2018 year.

### Table 5 - Number of profit hybrid products submitted, net return ranges by Member States unweighted geometric average – 2014-2018

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>21</td>
<td>-0.2%</td>
<td>3.7%</td>
<td>1.2%</td>
<td>n.a.</td>
<td>Long: 21</td>
</tr>
<tr>
<td>BE</td>
<td>5</td>
<td>0.4%</td>
<td>2.2%</td>
<td>1.5%</td>
<td>n.a.</td>
<td>Short: 5</td>
</tr>
<tr>
<td>BG</td>
<td>1</td>
<td>-0.8%</td>
<td>-0.8%</td>
<td>-0.8%</td>
<td>n.a.</td>
<td>Long: 1</td>
</tr>
<tr>
<td>DE</td>
<td>3</td>
<td>1.8%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>ES</td>
<td>1</td>
<td>-17.4%</td>
<td>-17.4%</td>
<td>-17.4%</td>
<td>n.a.</td>
<td>Short: 1</td>
</tr>
<tr>
<td>FI</td>
<td>4</td>
<td>-0.1%</td>
<td>3.0%</td>
<td>1.8%</td>
<td>n.a.</td>
<td>Short: 4</td>
</tr>
<tr>
<td>GR</td>
<td>3</td>
<td>-1.3%</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>n.a.</td>
<td>Long: 3</td>
</tr>
<tr>
<td>HR</td>
<td>3</td>
<td>-9.6%</td>
<td>-7.4%</td>
<td>-5.6%</td>
<td>n.a.</td>
<td>Short: 2</td>
</tr>
<tr>
<td>IT</td>
<td>20</td>
<td>-4.5%</td>
<td>1.5%</td>
<td>-0.6%</td>
<td>n.a.</td>
<td>Short: 19, Long: 1</td>
</tr>
<tr>
<td>LU</td>
<td>3</td>
<td>-1.2%</td>
<td>-0.2%</td>
<td>-0.9%</td>
<td>n.a.</td>
<td>Long: 3</td>
</tr>
<tr>
<td>PL</td>
<td>2</td>
<td>-1.5%</td>
<td>-1.5%</td>
<td>-1.5%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>PT</td>
<td>2</td>
<td>-1.7%</td>
<td>-0.4%</td>
<td>-1.5%</td>
<td>n.a.</td>
<td>Long: 4</td>
</tr>
<tr>
<td>RO</td>
<td>3</td>
<td>-1.7%</td>
<td>-0.4%</td>
<td>-1.5%</td>
<td>n.a.</td>
<td>Long: 4</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

---

Figure 14 - Hybrid products weighted net returns by Member States – 2018

Source: Costs and past performance survey
ANALYSIS ON COSTS

As for the analysis on net returns, for the study on costs, outlined in this section, while on average market coverage is high, the results shown are informative to the limit of the data submitted. Hence, the analysis at the Member State level needs to be interpreted jointly with the level of market coverage achieved in each market, Figure 3, together with table 6 to 10. Hence, the markets with coverage achieved below the target of 60% could potentially have a different level of costs than those presented in this section.

As for the analysis on net returns, no information on costs is shown at the Member States level for smaller/highly concentrated market to ensure confidentiality.\(^{39}\)

Additionally, some limitation in analysing costs are due to the lack of harmonization in implementing the costs definition provided by PRIIPs Regulation because of different pricing and internal reporting practices.

It is also important to note that costs for unit-linked products may be underestimated because in most Members States unit-linked products have multiple options, based on different funds. Hence, given the different disclosure requirements (under the UCITS regulation), costs for specific funds are often not disclosed in RY terms.

In preparing this report efforts were made to address these issues, including data quality checks and ‘conversions’ between UCITS disclosures and equivalent RYs. However, it can be noted that:

- In some cases fund costs translated in RY terms are not precisely matching with the RY being expressed as a range (e.g., in FI, FR, SI, SE);
- Costs for different options cannot be used to show product costs because of additional wrapper costs (e.g., AT, LI, IE).

Overall, on average\(^{40}\), profit participation products had lower costs than unit-linked products (1.6% vs. 2.3%), measured in RY at RHP.\(^{41}\)

39 These countries are: LV, LT, EE and MT

40 The costs average is an arithmetical average, because the weighted average on the basis of GwP would have distorted the results due to the presence of very few and cheap products from some Members States, which are outliers.

41 For unit-linked and hybrids products the RY is the one at the option level adjusted with wrapper costs whenever additional costs to those represented at the option level are in place. This for instance is the case when the underlying option of a unit-linked/hybrid product are funds, and therefore have different disclosure requirements (KIID obligation as from UCITS Regulation).

By looking at the cost breakdown, according to the classification of costs in the KID, it can be observed that other ongoing costs are higher for unit-linked products, being the most prominent cost component for these products. On the other hand, entry costs are higher for profit participation products and exit costs represent a small portion of total costs for both product types.

By looking at costs classified by their cause/nature (Figure 16) based on information for 117 unit-linked products and on 36 profit participation products\(^{42}\) for which this breakdown was available, it can be observed that in RY terms the most prominent cost element are administrative costs for both unit-linked (1.0%) and profit participation products (0.7%).

Distribution costs are also high, representing the second most prominent cost element for both product categories and accounting for, in RY terms, 0.8% of total unit-linked costs and for 0.5% profit participation costs. Biometric risk costs are lower and on average equal between unit-linked and profit participation products.

Finally, ‘other costs’, which mainly correspond to investment management costs, are similar for both product categories.

42 This is based on responses provided on a best effort basis by respondent insurance undertakings. Administrative costs and distribution costs have been defined based on working definitions (Annex IV), given that there is not a formalized definition in the PRIIPs Regulation. Biometric risk costs follow the definition given in the PRIIPs Regulation.
Because the PRIIPs categorization of costs is time-oriented (i.e., when a consumer enters in a contract, ongoing costs, and when consumers exit the contract), to better understand the nature of the different costs behind a product and because of the lack of harmonization, for the purpose of this Report and to present a more thorough and complete analysis on the different types of costs, EIOPA carried out a survey. The purpose of this survey was to look at why in different market costs arise and the following causes have been broadly identified, other than well known cost elements such as asset management charges and fees and transaction costs:

- **The administration of the product**: administrative costs;
- **The distribution of the product to consumers**: distribution costs;
- **Biometric risk covers**: costs related to the biometric risk cover provided by the products (already defined in PRIIPs).

Based on the findings costs have been defined as follows, however these definitions are not harmonized across Member States:

- **Distribution costs**: Distribution costs include any form of monetary benefits which an insurance distributor receives, based upon an agreement with the insurance undertaking, in relation to the sale of an insurance product. Distribution costs are generally calculated as a percentage of the premium paid by the customer for insurance coverage but should also include any other type of payment made by the insurance undertaking to an insurance distributor. All types of costs (e.g., paid/received initially based on the conclusion of an insurance contract or paid/received on a recurring basis) have been included.

- **Administrative costs**: Administrative costs related to the expenses incurred by the insurance undertaking during the reporting period, on accrual basis are expenses which are connected with policy administration including expenses in respect of reinsurance contracts and special purpose vehicles. Some administrative expenses relate directly to activity regarding a specific insurance contract (e.g. maintenance cost) such as cost of premium billing, cost of sending regular information to policyholders and cost of handling policy changes (e.g. conversions and reinstatements). Other administrative expenses relate directly to insurance activity but are a result of activities that cover more than one policy such as salaries of staff responsible for policy administration.

---

**Figure 16 - Arithmetical average of RIY of costs according to cost cause/nature – 2018**

![Pie charts showing distribution of costs](image-url)

Source: Costs and past performance survey
For hybrid products, the data granularity achieved is not enough to present specific figures based both on KID classification and on classification by cost cause/nature. This is because of the option-based nature of hybrid products with specific costs for each option. However, an analysis of available disclosures shows that hybrid products costs among Member States are diverse, ranging, on average, between a 1% and 6%, partially explainable by the diversity of underlying options.

**Unit-linked products**

Bearing in mind the sample based nature of the Report, and the heterogeneity in the market coverage achieved amongst different Member States, it is noteworthy that an analysis of costs for unit-linked products shows significant variations across Member States and amongst different products. Unit-linked costs are higher than profit participation in almost all Member States and they range between 0.6% (UK) to 3.3% (PL) (Figure 17).

Entry costs are generally low across all Members States with other ongoing costs representing the most prevalent cost across all Member States. In some Member States transaction costs are also an important cost.

### Table 6 - RIY range of costs according to KID classification by Member States

<table>
<thead>
<tr>
<th>Country</th>
<th>N. of products/options covered by RHP</th>
<th>Min RIY at RHP</th>
<th>Max RIY at RHP</th>
<th>Weighted average RIY at RHP</th>
<th>Risk Category (covered)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>16</td>
<td>0.6%</td>
<td>5.0%</td>
<td>2.3%</td>
<td>1 and 3 to 7</td>
</tr>
<tr>
<td>BE</td>
<td>13</td>
<td>0.0%</td>
<td>3.5%</td>
<td>1.6%</td>
<td>Short: 10</td>
</tr>
<tr>
<td>BG</td>
<td>3</td>
<td>0.0%</td>
<td>2.7%</td>
<td>2.1%</td>
<td>Long: 9, Short: 6</td>
</tr>
<tr>
<td>CZ</td>
<td>6</td>
<td>0.1%</td>
<td>4.3%</td>
<td>2.3%</td>
<td>Short: 3</td>
</tr>
<tr>
<td>DK</td>
<td>10</td>
<td>0.7%</td>
<td>6.1%</td>
<td>2.3%</td>
<td>Short: 5</td>
</tr>
<tr>
<td>ES</td>
<td>24</td>
<td>4.1%</td>
<td>3.1%</td>
<td>2.9%</td>
<td>Short: 4, NA</td>
</tr>
<tr>
<td>FI</td>
<td>19</td>
<td>0.1%</td>
<td>2.8%</td>
<td>1.5%</td>
<td>Short: 19</td>
</tr>
<tr>
<td>GR</td>
<td>3</td>
<td>0.7%</td>
<td>5.3%</td>
<td>2.0%</td>
<td>Short: 1, NA</td>
</tr>
<tr>
<td>HR</td>
<td>10</td>
<td>0.4%</td>
<td>4.4%</td>
<td>2.3%</td>
<td>Short: 7</td>
</tr>
<tr>
<td>HU</td>
<td>13</td>
<td>1.2%</td>
<td>7.0%</td>
<td>2.8%</td>
<td>Short: 15</td>
</tr>
<tr>
<td>IE</td>
<td>23</td>
<td>1.7%</td>
<td>5.9%</td>
<td>3.3%</td>
<td>Short: 15</td>
</tr>
<tr>
<td>IT</td>
<td>3</td>
<td>1.5%</td>
<td>3.0%</td>
<td>1.4%</td>
<td>Short: 6</td>
</tr>
<tr>
<td>LI</td>
<td>3</td>
<td>0.0%</td>
<td>1.0%</td>
<td>0.1%</td>
<td>Short: 6</td>
</tr>
<tr>
<td>LU</td>
<td>8</td>
<td>0.0%</td>
<td>1.5%</td>
<td>0.5%</td>
<td>Short: 8</td>
</tr>
<tr>
<td>PL</td>
<td>24</td>
<td>1.2%</td>
<td>7.0%</td>
<td>2.6%</td>
<td>Short: 19</td>
</tr>
<tr>
<td>RO</td>
<td>15</td>
<td>2.1%</td>
<td>4.4%</td>
<td>2.9%</td>
<td>Short: 15</td>
</tr>
<tr>
<td>SE</td>
<td>19</td>
<td>1.2%</td>
<td>8.6%</td>
<td>3.0%</td>
<td>Short: 7</td>
</tr>
<tr>
<td>SI</td>
<td>21</td>
<td>1.1%</td>
<td>4.1%</td>
<td>3.2%</td>
<td>Short: 15</td>
</tr>
<tr>
<td>UK</td>
<td>35</td>
<td>0.0%</td>
<td>1.0%</td>
<td>0.6%</td>
<td>Short: 15</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

An analysis of the weighted minimum, maximum and average costs in different Member States (Table 6), expressed in RIY at RHP terms shows that:

- UK, IE and PL have the largest gap in terms of maximum and minimum costs for unit linked products;
- The maximum costs for unit-linked products expressed in average terms is high (4.5%) with some Member States having very high maximum costs (e.g., PL 9.8% and SE 8.1%).

Source: Costs and past performance survey

43 In some cases it would actually be possible to measure the hybrid feature because the manufacturers offer a single option already combined with a unit-linked and guaranteed components. Nevertheless this type of representation is limited (20 products) and therefore not enough to fulfill this level of analysis.

44 Additional information on the costs of hybrids are provided Table 6 and Figure 23.

45 For UK costs data, it is important to highlight that this does not include distribution costs, because following a ban on commissions, a fee-based regime has been implemented with the purpose of ensuring more independent advice and promoting more transparency. Advice-fees are paid directly by consumers and they are not product related costs expressed in RIY terms. While a comparison is not possible, it is worth highlighting that the European average distribution costs (Figure 16) is 0.6% and if this were to be added to the average RIY value for the UK market, the UK would have a total average RIY of 1.4%.

46 For DE, LI, LU and PT the market coverage achieved was low, below 40% and for PL, SE and UK between 40% and 50%.
Looking at the level of costs by risk classes, bearing in mind the sample based nature of the analysis, the correlation between the riskier classes and the level of costs is not straightforward. While as expected, for unit-linked products (Figure 18) risk class 1 has the lowest level of costs (0.9%) and risk class 7 has the highest level of costs (5.7%); the risk classes 2, 3, 4, and 6 show homogeneous costs levels – around 2% – risk category 5 has the highest costs, above 3%.

Exit costs for unit-linked products are a relevant cost item only for products belonging to risk class 7 and entry costs are relevant only for products belonging to risk classes 5 to 7. An analysis of the minimum and maximum costs for different risk classes (Table 7) shows that the dispersion of costs is different across risk classes. Risk class 7 has the highest minimum level of costs (1.6%) and risk class 1 has the lowest level of costs, both in average terms (0.9%) and as maximum (3.4%).

Finally, by looking at costs for different RHPs and premium types a variation of almost 1% in RIY exists for unit-linked costs depending on the RHP. As expected, regular premiums products have higher costs for unit-linked.

### Profit participation products

An analysis at the Member State level, which should be interpreted taking into account different levels of market coverage, shows that while costs differ across Member States, as for net returns, variations for profit participation products are lower than for unit-linked products, even though the delta between the Member State with the highest costs and the one with the lowest costs is rather high — 0.1% in the UK and 2.7% in SI (Figure 20).

As for unit-linked products, UK figures do not include distribution costs because of fee-based model. While a comparison is not possible, adding the European average distribution costs (0.5%) the total RIY would be 0.6%.

An analysis of the minimum, maximum and average for profit participation costs (Table 8) shows that:

- HU and RO reported the largest gap in terms of maximum and minimum;
- PL has the highest maximum costs for both unit-linked and profit participation products.

By looking at risk classes, on average, the level of costs for profit participation products is stable. However, an analysis of the minimum, maximum and the average weighted costs, for different risk classes (Table 9) shows that for profit participation products there is a correspondence between riskier classes and the maximum level of costs. Finally, by looking at cost variations for different RHPs and premium types, it can be observed that profit participation products have similar differences as for unit-linked products presented above: products with a shorter RHP have lower costs and costs are higher for profit participation products with regular premiums.

---

47 The result presented on costs of unit-linked products by RHP and premium frequency are computed using arithmetical averages because of several outliers with very low costs (below 0.5% RIY) and high premiums (above € 20 billion).
Figure 21 - Profit participation weighted RIY costs by risk category profit participation products (on the left) and number of products analysed by risk category (on the right) – 2018

Table 8 - RIY range of costs according to KID classification by Member States

<table>
<thead>
<tr>
<th>Country</th>
<th>N. of products</th>
<th>Min RIY at RHP</th>
<th>Max RIY at RHP</th>
<th>Weighted average RIY at RHP</th>
<th>Risk Category covered</th>
<th>N.products/options covered by RHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>9</td>
<td>0.9%</td>
<td>2.8%</td>
<td>1.6%</td>
<td>1 and 2</td>
<td>Long: 9</td>
</tr>
<tr>
<td>BE</td>
<td>7</td>
<td>0.4%</td>
<td>1.7%</td>
<td>0.5%</td>
<td>1 and 2</td>
<td>Short: 7</td>
</tr>
<tr>
<td>CZ</td>
<td>1</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>2</td>
<td>Short: 1</td>
</tr>
<tr>
<td>DE</td>
<td>5</td>
<td>1.2%</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1 and 2</td>
<td>Long: 4, Short: 1</td>
</tr>
<tr>
<td>ES</td>
<td>1</td>
<td>1.6%</td>
<td>1.6%</td>
<td>1.6%</td>
<td>2</td>
<td>Long: 1</td>
</tr>
<tr>
<td>FI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GR</td>
<td>3</td>
<td>2.0%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>6</td>
<td>Long: 3</td>
</tr>
<tr>
<td>HR</td>
<td>5</td>
<td>0.9%</td>
<td>2.6%</td>
<td>1.8%</td>
<td>2</td>
<td>Long: 3, Short: 2</td>
</tr>
<tr>
<td>HU</td>
<td>8</td>
<td>0.6%</td>
<td>3.0%</td>
<td>1.3%</td>
<td>2 and 3</td>
<td>Long: 5, Short: 3</td>
</tr>
<tr>
<td>IE</td>
<td>1</td>
<td>1.4%</td>
<td>2.5%</td>
<td>2.0%</td>
<td>1 to 3</td>
<td>Long: 4, Short: 12</td>
</tr>
<tr>
<td>LI</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LU</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>2</td>
<td>1.3%</td>
<td>3.6%</td>
<td>1.6%</td>
<td>2</td>
<td>Long: 1, Short: 1</td>
</tr>
<tr>
<td>PT</td>
<td>2</td>
<td>2.1%</td>
<td>2.3%</td>
<td>2.3%</td>
<td>1 and 2</td>
<td>Short: 2</td>
</tr>
<tr>
<td>RO</td>
<td>6</td>
<td>1.1%</td>
<td>4.0%</td>
<td>1.6%</td>
<td>1 to 3</td>
<td>Long: 3, Short: 3</td>
</tr>
<tr>
<td>SE</td>
<td>4</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.4%</td>
<td>2 and 3</td>
<td>Long: 4</td>
</tr>
<tr>
<td>SI</td>
<td>4</td>
<td>1.9%</td>
<td>3.1%</td>
<td>2.7%</td>
<td>1 and 2</td>
<td>Long: 3, Short: 1</td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>2</td>
<td>Short: 2</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

Figure 20 - Profit participation products weighted average RIY costs according to KID classification by Member State – 2018

Table 9 - Number of products submitted and RIY ranges by risk classes

<table>
<thead>
<tr>
<th>Risk category</th>
<th>N. of products</th>
<th>Min RIY at RHP</th>
<th>Max RIY at RHP</th>
<th>Weighted average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22</td>
<td>0.5%</td>
<td>3.1%</td>
<td>1.6%</td>
</tr>
<tr>
<td>2</td>
<td>42</td>
<td>0.1%</td>
<td>3.6%</td>
<td>1.5%</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>0.6%</td>
<td>4.0%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Source: Costs and past performance survey

For DE and PT the market coverage achieved was low, below 40% and for PL, SE and UK between 40% and 50%.
Hybrid products

While an accurate analysis for costs for hybrid products is not possible, an analysis of the RIY ranges shows significant variations across Member States with AT, LU, BE and FR showing high gaps between minimum and maximum costs (Figure 23 and Table 10).

Table 10 - RIY range of costs according to KID classification by Member States

<table>
<thead>
<tr>
<th>Country</th>
<th>N. of products/option</th>
<th>Min RIY at RHP</th>
<th>Max RIY at RHP</th>
<th>Weighted average RIY at RHP</th>
<th>Risk Category covered</th>
<th>N. products/options covered by RHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT</td>
<td>21</td>
<td>1.5%</td>
<td>4.4%</td>
<td>n.a.</td>
<td>Long: 21</td>
<td></td>
</tr>
<tr>
<td>BE</td>
<td>5</td>
<td>0.6%</td>
<td>4.3%</td>
<td>n.a.</td>
<td>Long: 5</td>
<td></td>
</tr>
<tr>
<td>BG</td>
<td>2</td>
<td>1.5%</td>
<td>3.3%</td>
<td>n.a.</td>
<td>Long: 1</td>
<td></td>
</tr>
<tr>
<td>CZ</td>
<td>3</td>
<td>1.9%</td>
<td>3.2%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>DE</td>
<td>3</td>
<td>1.5%</td>
<td>4.4%</td>
<td>n.a.</td>
<td>Long: 1</td>
<td></td>
</tr>
<tr>
<td>ES</td>
<td>3</td>
<td>1.5%</td>
<td>4.4%</td>
<td>n.a.</td>
<td>Short: 1</td>
<td></td>
</tr>
<tr>
<td>FI</td>
<td>2</td>
<td>1.3%</td>
<td>6.0%</td>
<td>n.a.</td>
<td>Long: 24</td>
<td></td>
</tr>
<tr>
<td>FR</td>
<td>3</td>
<td>3.1%</td>
<td>3.1%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>GR</td>
<td>3</td>
<td>1.9%</td>
<td>3.1%</td>
<td>n.a.</td>
<td>Short: 3</td>
<td></td>
</tr>
<tr>
<td>HR</td>
<td>3</td>
<td>1.9%</td>
<td>3.1%</td>
<td>n.a.</td>
<td>Short: 3</td>
<td></td>
</tr>
<tr>
<td>HU</td>
<td>2</td>
<td>2.0%</td>
<td>3.1%</td>
<td>n.a.</td>
<td>Short: 10, Long: 1</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>3</td>
<td>1.6%</td>
<td>4.7%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>LI</td>
<td>3</td>
<td>1.9%</td>
<td>3.0%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>LU</td>
<td>3</td>
<td>2.5%</td>
<td>4.7%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>PL</td>
<td>3</td>
<td>2.5%</td>
<td>4.7%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>PT</td>
<td>3</td>
<td>2.5%</td>
<td>4.7%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>RO</td>
<td>3</td>
<td>2.5%</td>
<td>4.7%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
<tr>
<td>SI</td>
<td>2</td>
<td>1.5%</td>
<td>2.5%</td>
<td>n.a.</td>
<td>Long: 4</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td>4</td>
<td>1.5%</td>
<td>2.5%</td>
<td>n.a.</td>
<td>Long: 4</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>2</td>
<td>1.5%</td>
<td>2.5%</td>
<td>n.a.</td>
<td>Long: 3</td>
<td></td>
</tr>
</tbody>
</table>

For DE and LU the market coverage achieved was low, below 40%.

Figure 22 - Arithmetical average costs by recommended holding period (top) and by premium frequency (below) – 2018

Figure 23 - Weighted minimum and maximum RIY range – 2018

Source: Costs and past performance survey
SUMMARY FINDINGS

The above analysis shows the evolution of net performance and costs for IBIPs in the EEA. Bearing in mind data limitations, an analysis has been presented by Member States, by risk classes and where possible by RHP and premium types.

Unit-linked products, as expected, are significantly more volatile – offering higher returns but also posing higher risks – than profit participation products. Because of the significant drop in 2018, unit-linked products offered on average lower returns than profit participation products for the reporting period. A putative average consumer buying unit-linked products in 2014 would have experienced a flat net return (0%) by 2018. On the other hand, for the same period, a putative average consumer buying a profit participation product would have achieved a positive net return (2%). Of course, some unit-linked products and investments within them also offered significantly higher returns giving the possibility for some consumers to attain higher returns. The actual returns of individual consumers would depend also on their market timing.

Broadly, higher risk classes for both unit-linked and profit participation products have higher variability of net returns but on average for this reporting period they experienced higher net returns, despite also having higher costs. The biggest difference can be observed between risk class 1 and risk class 7 for unit-linked products. However, for the risk classes 2-5 there is not a clear correlation between the level of costs/net return and the riskiness. For profit participation products the net returns are higher for products belonging to the riskiest categories but the costs are stable.

In RIY terms, profit participation products had lower costs in 2018 (1.6%) vs 2.3% for unit-linked products. Based on PRIIPs KID classification, ‘other ongoing costs’ are higher for unit-linked products, and they representing the most prominent cost components, account for 80% of total costs for unit-linked and for 70% of total costs of profit participation.

When analysing costs according to their nature/cause, bearing in mind however the lack of common definitions, administrative costs are the most prominent cost, followed by distribution costs. Investment management costs are lower. However, in the absence of a common definition this data needs to be interpreted cautiously.

An analysis at the Members State level shows significant divergence both in terms of costs and of net returns. In 2018, costs expressed in RIY terms ranged from 0.6% to 3.3% for unit-linked products and from 0.1% to 2.7% for profit participation products. The compounded weighted average net return for the period 2014-2018 ranges between -6% and 6% for unit-linked products and between 1% and 7% for profit participation products.

The Members State level analysis needs to be read jointly with the specific market coverage achieved in each markets, taking into account that for some Member States information may not be representative.

Finally, it is worth highlighting that data granularity for unit-linked products is greater than for profit participation and hybrid products. This highlights that for unit-linked products transparency and comparability of the market is higher; in general unit-linked related data is more reliable.
PERSONAL PENSION PRODUCTS

Market coverage

Based on the information provided by 62 undertakings from 14 Members States over 110 PPPs have been analysed, 76 unit-linked like (PPP-UL) and 36 profit participation like (PPP-PP), accounting for 940,000 contracts and € 48.2 billion in GWP.

The average Member State market coverage in terms of products submitted is 49% while the market coverage for products analysed accounts for about 40% of total life technical provisions of insurance undertakings issuing PPPs products. Figure 24 shows the level of market coverage by Members State.

To simplify the methodology, taking into account proportionality given the need to request additional data from market participants, product categories for PPPs mirror the ones used for IBIPs; however, in some countries the PPPs are not formally IBIPs.

This has been done to be able to compare costs and performance amongst different products, leveraging on the fact that the methodology to calculate costs and returns for IBIPs is already known to market participants and in some Member States PPPs are IBIPs with a KID.

As a result, the analysis presented on PPPs needs to be interpreted cautiously because the differences in national regimes and national PPP markets as well as because of the differences achieved in terms of market coverage. In particular, Member States for which this differences could be stronger are: CZ, EE, IE, IT, MT, RO because none of the products analysed were IBIPs.

Finally, also for PPPs, to ensure confidentiality no data for Member States with small/highly concentrated market is shown.

Figure 24 - Personal pension products market coverage by technical provision

Source: Solvency II database

---

50 The Members States taking part into the exercise on Personal Pension products are: AT, BE, CZ, DE, EE, FR, HU, IE, IT, PL, PT, RO, SI & UK

51 Market coverage for PPP, however, should be interpreted cautiously. Given the lack of a harmonized framework some PPPs might not be sold by insurance undertakings and hence would not be captured by the technical provision via Solvency II QRT reporting. However, given the lack of a centralized database and supervision of these products, Solvency II technical provision has been considered, bearing in mind its shortcomings. Some pension products data, among which also PPPs, are reported by National Competent authorities to EIOPA in the database available at the following link: https://register.eiopa.europa.eu/Pages/Supervision/Database-of-pension-plans-and-products-in-the-EEA.aspx

52 The most relevant caveat are due to the absence of a KID that prevented EIOPA to double check the coherence of the figures submitted and their completeness. Moreover, some costs were submitted to EIOPA as % of GWP so effort were made to translate in RIY terms the values provided.

53 The criteria used to measure the concentration was not to show Member States level data for the markets where 3 or less companies represent at least 80% of the market in terms of life technical provisions. This applies to EE.
Net returns

In terms of net return, trends for PPPs follow IBIPs. PPP-UL show higher volatility then PPP-PP. Because of the higher volatility of PPP-UL, whose average net return dropped from 5.0% in 2017 to -6.2% in 2018, for the reporting period, the compounded average net return for PPP-PP was double the one for PPP-UL products. In fact, given the features of profit participation products, the drops in return was smoothed – from 1.4% in 2017 to 0.9% in 2018 (Figure 25).

As for IBIPs an analysis at the Member State level, which should be interpreted bearing in mind that given the low market coverage for some Member States data may not be representative, shows diverging trends for PPP-PP and PPP-UL:

› In 2018 returns for PPP-UL were negative across all Member States, while for PPP-PP the net return is more positive, showing more stability across the reporting period;
› On average, PPP-UL reported higher returns in UK and DE (Figure 26);
› On average, PPPs-PP reported the highest returns in HU and the UK (Figure 27).

Even though trends need to be interpreted cautiously because of the relative limited number of PPPs analysed for which risk class information is available (Table 11) according to the KID classification, an analysis of net returns for different risk classes shows that:

› For PPP-UL, with the exception of risk class 1, higher risk classes had slightly lower return returns (Figure 28). The decrease is linear with the average net return ranging from 5.4% for risk class 2 to 3% for risk class 5;
› For PPP-PP, net returns are more stable and higher for risk class 3.

Even though trends need to be interpreted cautiously because of the relative limited number of PPPs analysed for which risk class information is available (Table 11) according to the KID classification, an analysis of net returns for different risk classes shows that:

› For PPP-UL, with the exception of risk class 1, higher risk classes had slightly lower return returns (Figure 28). The decrease is linear with the average net return ranging from 5.4% for risk class 2 to 3% for risk class 5.
› For PPP-PP, net returns are more stable and higher for risk class 3.

54 For unit-linked products 24 additional products were not included in the analysis by risk class, because the info on the risk class was not available. Similarly, 12 profit participation products were not included in this specific analysis. Therefore, the product considered for PPP-UL were: 1 for risk class 2, 15 for risk class 3, 16 for risk class 4, 6 for risk class 5. The products considered for PPP-PP were 8 for risk class 1, 14 for risk class 2, 2 for risk class 3.
55 For the risk classes 6 and 7 there were not any products submitted.
For SI only data on 2017 and 2018 were available. Therefore, for this country, the comparisons must be limited to 2017 and 2018.

In addition to the caveat due to the different level of market coverage presented in the Report, in relation to PT results, the only data submitted were 2018 data. Therefore for PT the comparison must be limited to 2018 year.

Source: Costs and past performance survey

Figure 26 - Weighted net returns for PPP-UL by Members States (on the left) and number of products submitted by country (on the right)

Source: Costs and past performance survey

Figure 27 - Weighted net returns for PPP-PP by Members States (on the left) and number of products submitted by country (on the right)

Source: Costs and past performance survey

Figure 28 - Weighted net returns by risk classes for PPP-UL (on the left) and for PPP-PP (on the right)

Source: Costs and past performance survey
Even though, given the limited number of products for some Member States caution in interpreting the data is necessary, an analysis in terms of costs broken-down across Member States shows that:

- PPP-UL have a higher gap between the Member States (Figure 30) than for PPP-PP (Figure 31);
- CZ is the Member State with lower costs for PP-UL and FR is the one with lowest costs for PPP-PP (Figure 31).

Finally, an analysis of costs clustered by risk classes, performed on the products for which a KID was available, shows that (Figure 32):

- For PPP-UL, costs increase with the level of riskiness of the class to which the products belong, ranging from RIY at RHP of 1.2% to 2.1% for the risk class 5;
- For PPP-PP costs for risk classes 1 and 2 are similar but for risk class 3 costs raise up to 2.7%.

---

58 Costs of PPPs are measured in terms of Reduction in Yield (RIY) at Recommended Holding Period (RHP), as for the IBIPs.

59 For IT, exit costs are included in the total RIY figure, however being a dismissible amount of costs they are not isolated in the chart.

60 The product considered for PPP-UL were: 2 for risk class 1, 15 for risk class 2, 16 for risk class 3, 12 for risk class 4, 6 for risk class 5. The products considered for PPP-PP were 8 for risk class 1, 14 for risk class 2, 2 for risk class 3.
Summary of key findings

Overall, the lack of a harmonized framework for PPPs and lack of common rules concerning transparency (i.e., KID) make an analysis at the European level more difficult. Nonetheless, based on the over 110 products analysed accounting for 940,000 contracts and € 48.2 billion in GWP, some conclusions can be made, even though they should be interpreted with caution.

**Trends in net returns for PPPs are similar to the ones highlighted IBIPs** with PPP-UL have significantly higher volatility than PPP-PP. **PPP-UL, on average, offer a lower return (0.7%) than PPP-PP (1.4%) over the period 2014-2018**, mainly due to the weak performance recorded in 2018.

**PPP-UL have lower net returns and higher costs for higher risk classes while for PPP-PP net returns and costs are higher for products belonging to the riskiest categories.**

**In 2018, in RIY at RHP terms, costs for PPP-PP (1.8%) were lower than costs PPP-UL (2.0%).** Other ongoing costs are the most prominent cost components for both products and the costs structure is aligned with the one observed for IBIPs, even though differences between PPP-UL and PPP-PP are less remarked.

Given the difference in the data sample and data quality for the two iterations of this analysis so far, caution is necessary when comparing the findings from the two Reports. The difference in market coverage is due to the simplification of the methodology which has led to a higher number of insurance undertakings providing meaningful and comparable data, increasing the sample analysed.

Despite the necessary caution it can be observed that:

› On average market coverage has increased from 21% to 57%;

› Profit participation products continue being less expensive than unit-linked, even though the gap in costs appears to be reducing: the weighted average for unit-linked products-related costs decreased from 2.6% to 2.3%, while costs for profit participation products increased from 1.2% to 1.6%.

› Costs composition is similar: other ongoing costs continue being the most prominent cost element, with administrative and distribution costs rather than asset management costs taking the largest slice.

› Unlike for the previous report, on average terms for the reporting period, unit-linked products performed worse than profit participation products: in 2018, returns dropped with the several unit-linked products reporting negative net returns, while profit participation smoothing risks for consumers.

› Challenges in carrying out a comprehensive and comparable analysis persist mostly due to differing market practices and national rules across Member States for profit participation and hybrid products. The analysis presented in the 2019 and 2020 Reports on costs and past performance are based on several working definitions, developed for this specific scope. These are not fully harmonised across markets; further standardisation in costs definitions, leading to more standard and comparable data, is needed.

Finally with regard to PPPs, considering the low coverage in the first edition of the report on PPPs, it is not possible to draw conclusions on market evolutions.

NEXT STEPS AND FUTURE REPORTS

In term of next steps, EIOPA will continue to further develop the methodology, with the aim of addressing challenges encountered for the first and second edition of this Report. In particular, the aim would be to:

› Increase market and product coverage, in particular reflecting diversity across Member States;

› Collect more granular and ‘standardized’ data to carry out more extensive analysis;

› Work on promoting further standardisation in relation to cost definitions, including on administrative and distribution costs, and cost reporting as a necessary element to promote more transparency and comparability.

More specifically with regard to products, EIOPA anticipates:

For IBIPs:

› To continue working with experts to establish a common methodology for a fair and accurate comparisons of profit participation products performance, across Member States;

› To continue working on further standardising reporting for hybrid products including by mapping products across markets and carrying out more extensive analysis of business models.

For PPPs:

› To continue working on costs and net return definitions to enable better availability and comparability of data for personal pensions;

› To focus on ensuring that, once available, PEPP could also be included as a standalone category own category.

For occupational pensions:

› To be included in the scope of the analysis by leveraging on the newly implemented IORP II reporting framework;

› To work on a simplified methodology relying on the sole reporting package.
ANNEX I — METHODOLOGY

The methodology aimed at gathering, from a representative sample of insurance undertakings, data on a product sample taking into account the most sold products and risk categories.

These samples are not randomised. The aim is to reflect the asset allocations of policyholders in practice, while also addressing some of the main different types of product on the markets. The size of GWPs was used for the purpose of weighting of product figures.

While relying on information in provided in KID, or required for the production of the KID, since past net returns cannot be derived solely from the KID information, supplemental data was requested. EIOPA:

Collected product data from a sample of firms and products selected by the NCA for each Member State, according to common principles;

Analysed aggregated and averaged the data (weighted by 2018 GwP).

To ensure consistency across Member States and market representativeness, the sample was targeted to the largest insurance undertakings covering 60% of the market in terms of technical provisions for life business, expressed as a sum of data in Ro600 C0010 and Ro690 C0010 template, S.02.01, Solvency II requirements.

The sample for the 2020 report, as for 2019, focused on products that are sold in the domestic market by domestic market participants 61 taking-up business in the home country. Cross-border activity is excluded for this report. 62 However, for those markets where domestic business represents less than 50% of the total GwP volume, additional data on cross border business has been collected.

EIOPA collected the data with a questionnaire circulated to selected insurance undertakings by NCAs.

Disability and occupational disability products, immediate annuities, certain endowments, and funeral products were all excluded.

The GwP used for weighting results were the values for the variants included in the sample, for the period of 1 January 2018 to 31 December 2018 (that is, the business written during this period). In some markets the products on offer are new every year. In these cases older product generations that are representative could be used for previous years.

IBIPS

The data covered the most sold products in GwP terms and a range of risk categories.

The data was broken down where product features are significantly different – splits created ‘clusters’ of products, classified according to:

Premium frequency: regular, singular or flexible premiums

Recommended holding periods: Long (>15Y) or Short (<15Y)

Risk categories: from 1 to 7 (for Unit Linked and Hybrids) and from 1 to 3 for the Profit Participation Product

In this way, costs and returns were distinguished where they materially vary depending on product features, so as to ensure proper comparisons can be made.

For practical reasons to do with availability of KID information, the selection was limited to only those products that remained available on 31st December 2018, given that KID requirements entered in force in 2018.

EIOPA requested to report data for 3 most relevant product in 2018 GwP terms. Additionally, undertakings were requested to provide data for the most relevant product in 2018 GwP terms by risk class.

The approach for IBIPs consists in gathering extra past performance data, to be adjusted for costs not included in the past performance. Extra data have been requested on both past performance and on costs not reflected in that performance.

The methodology to calculate the performance of the products is specific to the type of product: unit-linked, profit participation and hybrids.

61 In the case of insurance undertakings, domestic market participants are defined as insurance undertakings with primary corporate headquarters located in that Member State, subsidiaries of EU/EEA and non-EU/EEA country insurance undertakings and branches from insurance undertakings of non-EU/EEA countries.

62 Cross-border business is composed of domestic insurance undertakings taking-up business in another Member State under the freedom of establishment or the freedom to provide services.
As for the 2018 report, the 2020 report will focus on net performance in nominal terms. It is proposed to include separate data on inflation.

The report would address however the level of these, and the associated biometric risk cover. The rational is on one hand to gain consistent data with the KID, on the other hand to be able to annihilate the biometric risk cover, since it is does not represent a cost items similar to the other but it represents a cover for a specific risk.

The Roly figures as reported in the KID will be used to compare products in terms of cost levels and risk profiles.

### Unit-linked products

For the iteration of the 2020 report a unique template for both 10.a and 10.b Unit Linked products was used. In particular, data from the largest fund options (in terms of GwP collected in 2018) were collected and analysed.

The net return computations is based on the NaV YoY change adjusted for all the costs not included in the NaV.

#### Calculations – Unit Linked Product

- \( R(j) \): observable annual return of the unit of the fund in year \( j \), i.e. \( R(j) = \frac{NaV_{j}}{NaV_{j-1}} - 1 \)
- RY(j): Reduction in Yield of all the costs components not included in \( R(j) \)
- \( R(j)_n \): net return of the fund for the year \( j \), i.e. \( R(j)_n = R(j) - RY(j) \)
- \( R\_av\_n \): average net return of the fund in the sample period \( (n=5) \), i.e. \( R\_av\_n = ((1+R(1)_n) \times \cdots \times (1+R(n)))^{\frac{1}{n}} - 1 \)

### Profit participation products

EIOPA has worked with the Actuaries Association of Europe ("AAE") to increase understanding of different profit participation methodologies across the European markets, in view of developing a common methodology for reporting net performance for these products. Although an improved methodology was not available in view of this work, additional progress to understand the main differences across markets has been made as summarised in the Annex 3.

To measure the past performance of these products EIOPA has used data on the evolution of the Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or Profit sharing rate. These are broadly understood as a reasonable proxy for overall performance trends.

Undertakings were required to provide the past annual profit participation rates for the last 5 years. All the costs items not already accounted in the provided profit rate were to be shown in terms of Roly on separate basis in order to compute the net return.

#### Calculations – Profit Participation Product

- \( R(j) \): observable annual return of the unit of the fund in year \( j \), i.e. \( R(j) = \text{Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or Profit sharing rate} \)
- RY(j): Reduction in Yield of all the costs components not accounted in \( R(j) \)
- \( R(j)_n \): net return of the product for the year \( j \), i.e. \( R(j)_n = R(j) - RY(j) \)
- \( R\_av\_n \): average net return of the product in the sample period \( (n=5) \), i.e. \( R\_av\_n = ((1+R(1)_n) \times \cdots \times (1+R(n)))^{\frac{1}{n}} - 1 \)

### Hybrid products

Hybrid products are a mix of unit-linked and products with profit participation. For these products, the net return was computed with two alternative approaches:

1. The net return index for hybrid MOPs was composed of the weights based on GwP of the return of the unit-linked largest option and the return of the most relevant profit sharing component of the product (both in 2018 GwP). The approach to compute the return of the two components of the products were the same used for the unit-linked product and the Profit sharing product described above.
2. The net return index for hybrid MOPs was the aggregate return of the combination of the most relevant Unit Linked option and the Profit sharing components of the product.

The two alternative approaches were provided in order to allow the measurement of the return given different practice in the market.

---

63 10.a and 10.b unit-linked product refers to classification identified in the PRIIPs Regulation in the article 10 points a) and b)
Calculations – Hybrid Product

1st approach to compute hybrid net return

UL net return Calculation

\[ R(j)_{\text{UL}} : \text{observable annual return of the unit of the fund in year } j, \text{ i.e. } R(j) = \frac{\text{NaV}_j}{\text{NaV}_{j-1}} - 1 \]

RIY(j)_{\text{UL}}: Reduction in Yield of all the costs components not included in \( R(j) \)

\[ R(j)_{\text{n}}_{\text{UL}}: \text{net return of the fund for the year } j, \text{ i.e } R(j)_{\text{n}}_{\text{UL}} = R(j)_{\text{UL}} - \text{RIY(j)_{UL}} \]

PP net return

\[ R(j)_{\text{PP}} : \text{observable annual return of the product during year } j, \text{ i.e. } R(j)_{\text{PP}} = \text{Total Credit Rate (inclusive of technical interest rate, profit participation rate, allocated declared terminal bonus) or Profit sharing rate} \]

RIY(j)_{PP}: Reduction in Yield of all the costs components not accounted in \( R(j)_{\text{PP}} \)

\[ R(j)_{\text{n}}_{\text{PP}}: \text{net return of the profit sharing component of the product for the year } j, \text{ i.e } R(j)_{\text{n}}_{\text{PP}} = R(j)_{\text{PP}} - \text{RIY(j)_{PP}} \]

Hybrid net return

\[ K: \text{relative weight of UL 2018 GwP on the sum of UL and PP incremental GwP weight, i.e. } \]

\[ K = \frac{\text{UL 2018 GwP + PP 2018 GwP}}{2018 \text{ GwP}} \]

\[ R(j)_{\text{n}}_{\text{HY}}: \text{net return of the Hybrid product, weighted average of the UL and PP net return for the year } j, \text{ i.e } R(j)_{\text{n}}_{\text{HY}} = R(j)_{\text{n}}_{\text{UL}} * K + R(j)_{\text{n}}_{\text{PP}} * (1-k) \]

\[ R_{\text{av.n}}_{\text{HY}}: \text{average net return of the fund in the sample period } (n=5), \text{ i.e. } \]

\[ R_{\text{av.n}}_{\text{HY}} = (1+R(1)_{\text{n}}) * \ldots * (1+R(n))^{(1/n)} - 1 \]

2nd approach to compute hybrid net return

\[ R(j)_{\text{HY}} : \text{observable annual return of the product during year } j, \text{ i.e. } R(j)_{\text{HY}} = \text{Total return computed by the undertaking on an aggregate basis} \]

RIY(j)_{HY}: Reduction in Yield of all the costs components not accounted in \( R(j) \)

\[ R(j)_{\text{n}}_{\text{HY}}: \text{net return of the profit sharing component of the product for the year } j, \text{ i.e } R(j)_{\text{n}}_{\text{HY}} = R(j)_{\text{HY}} - \text{RIY(j)_{HY}} \]

\[ R_{\text{av.n}}_{\text{HY}}: \text{average net return of the product in the sample period } (n=5), \text{ i.e. } \]

\[ R_{\text{av.n}}_{\text{HY}} = (1+R(1)_{\text{n}}) * \ldots * (1+R(n))^{(1/n)} - 1 \]

PERSONAL PENSION PRODUCTS

Given the lack of harmonisation at the European level of what is commonly defined as Personal Pension Product, the categorization is based on national legislation. Therefore, under PPPs category there is a diversity of products. PPPs could be IBIPs with KID, IBIPs without KID and non IBIPs products. Given the diverse framework, EIOPA requested to report data for only the 3 most relevant Personal Pension Product in 2018 GwP terms.

However EIOPA applied the same IBIPs template to collect the data, bearing in mind that the absence of a harmonised framework as PRIIPs implies a lower data granularity and availability.

The calculation followed to compute the net return of personal pension product are those shown above for the unit-linked, profit participation and hybrid products.
ANNEX II — COST MAPPING

Framework on costs model

To improve understanding, identification and standardisation of costs and their classification for IBIPs, and to establish a comprehensive perspective, this Annex sets out costs from a variety of points of view which can be broadly summarized as when, why and how costs are paid.

This annex is part of an ongoing ideas for further work in the next years. So far the understanding of costs is limited to the PRIIPs regulation and due to different pricing and internal reporting practices heterogeneity exists when implementing the PRIIPs regulation.

The framework described here is not the model the current analysis is based upon, but it aims at framing our continuous understanding on the costs structures.

This section look at the costs from different perspectives. Hence, the following questions can provide a useful framework around which costs can be classified.

1. When are costs paid?

Time based costs classification: as presented in the KID, costs are taken into account in view of their timing, i.e. when they occur. In particular the KID costs classification refers to entry costs, exit costs, ongoing costs and incidental costs (if any), as represented in the Figure 33:

![Figure 33 - Costs classification – time based](image)

2. Why do costs arise?

Cause based costs classification: could be represented in relation to their causes, i.e. why they arise, from a more substantial/logic point of view. Product costs are mainly due to:

- The distribution of the product to consumers: distribution costs;
- The administration of the product: administrative costs;
- The investment of the premium: investment management costs; and
- Biometric risk covers: costs related to the biometric risk cover provided by the products, usually this costs is minimal.

Table 12 presents a non-exhaustive list of costs as an example of items that can be identified in the different categories:

<table>
<thead>
<tr>
<th>Example of costs name/categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution costs</td>
</tr>
<tr>
<td>Administrative costs</td>
</tr>
<tr>
<td>Investment management costs</td>
</tr>
<tr>
<td>Biometric costs</td>
</tr>
</tbody>
</table>

3. Who are the actors involved in the payment?

Closely interconnected to the understanding of the causes and reasons of costs to arise there is the focus on the actors of involved in the costs cycle, i.e. to whom the amount of costs paid by policyholders is addressed. In this context it is possible to identify the followings:

- **Product provider:** this is the manufacturer of the product, the undertaking which is designing and structuring the product. Clearly, there are costs which are intrinsic in the product and arise because the manufacturer provides the product
- **Investment management company:** this is the company managing the contribution of the policy holder, where different from the product provider. The investment management company can be external to the product provider, or part of the same group, there are costs which are clearly specific to asset management.
- **Broker/distributor:** in relation to the company/agent/brokers and more generally the actor distributing the product from the manufacturer to the policyholder. These costs can be administrative in nature, or related to a service provided (e.g. advice); a large part of these costs takes the form of commission payments.
Moreover, the actors above mentioned are often interconnected by rebates/monetary incentives depending on the business model. This means that it is not uncommon to observe retrocessions paid by the investment management company to the product provider, as well as retrocessions between the distributor and both the investment company and the product provider. Such financing flows complicate the picture of who/why costs are taken, or their purpose.

As described in EIOPA’s Thematic Review on Monetary Incentives, payments of monetary incentives from asset managers to insurers are very widespread in the industry. 81% of participating insurance undertakings received monetary incentives and remuneration from investment managers; monetary incentives and remuneration received by participating insurance undertakings totalled EUR 3.7bn. The estimate for the entire market is EUR 5.2bn. For those undertakings that engage in these monetary practices, monetary incentives and remuneration received represent a median value of 0.56% of assets under management and 46% of fund management charges; monetary incentives are predominantly recurring in nature.

EIOPA implemented some analysis as follow up on the thematic review on monetary incentives and the updated figures and analysis performed confirm the findings of the 2017 thematic review. In particular, the follow up analysis implemented on the sample and on 2018 data shows:

- An increase in the amount monetary incentives between 2015 and 2018 at a compound annual growth rate of 8.5%.
- No significant change in the amount of monetary incentives and remuneration as a percentage of assets under management; overall, for almost 90% of participants that receive monetary incentives and remuneration, total remuneration is less than 1% of assets under management; and
- No significant change in the distribution of monetary incentives and remuneration as a percentage of fund management charges. Overall, total remuneration is between 25% and 75% of fund management charges.

4. How are costs paid? Type of payment classification: direct vs indirect costs

Another important element when considering costs is related to their direct or indirect forms, including whether they are deducted from premiums before investment or from pooled assets after investment. While some costs are clearly identifiable and correspond to a precise reduction in yield, i.e. direct costs, other costs do not have such a unique correspondence even though ultimately paid by the consumer, i.e. indirect costs.

Usually, the costs arising in the entry phase of the lifecycle of the product are direct. For example the costs part of the biometric risk, some administrative and distribution costs directly impact the amount of premium paid by the consumer so that the amount invested is reduced.

On the other hand, the costs arising in the investment phase can be either direct or indirect. In fact, over the investment phase, in addition to direct costs there can be also indirect costs that reduce the value of the assets invested but are not paid on a separate basis.

The costs items which have a direct or indirect effect depend on the business model in place. However some example of direct costs in the investment phase can be: costs for investment advice, payment to the management company, performance fees. Example of indirect costs can be: hedging costs, financing costs, risk monitoring costs.

---

64 EIOPA, 26-04-2017: Report on Thematic review on monetary incentives and remuneration between providers of asset management services and insurance undertakings
Figure 34, shows a simplification of the costs cycle described so far. The gross contribution (€€€) made by the consumer is immediately decreased by some direct costs. Afterwards, the residual amount of money (€€) is invested. During the investment phase, the value of the contribution invested should be increased by an adequate asset management strategy. On the other hand, the value of the contribution is affected both by direct and indirect costs. This means that some costs are specifically identifiable and born by the consumer because they decrease directly the value of the asset invested, i.e. direct costs. Moreover, other costs, indirect costs, reduce the value of the fund itself without further need to decrease afterwards the value reached by the fund.

Finally, once the investment phase is over, there might be additional direct costs for the consumers depending on the product feature. The amount the investor receive (€€?) depend both to the extent of the costs (direct and indirect) and the amount of money earned through an appropriate asset allocation.
ANNEX III — PROFIT SHARING MECHANISMS

Prepared by Actuarial Association of Europe for input to EIOPA 2020 Cost and Past Performance report.

Products with profit participation do not offer a clearly identifiable market value in the same way as unit linked products, which normally have a measurable market value at any point. There are a significant number of issues which impact on value at any time and which lead to expected differences between undertakings within Members States and across borders. Some of these factors include:

1. level of guarantee offered
2. regulatory requirements relating to profit sharing
3. measurement of the profit sources
4. methodologies for adding bonuses, including different approaches to the level of reserves available to enhance and smooth profit participation levels
5. different investment features, reflecting investment philosophy and target asset holding period/investment horizon
6. different approaches to establishing values on surrender
7. costs and charges affecting the Reduction in Yield

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. Some of these features are evident in the analysis below.

1. Guarantee offered

There is a variety of contract types on offer, with differing guarantee mechanisms. Traditional contracts, which represent a significant proportion of business in force, tend to offer fixed, yearly interest rate guarantees, sometimes with a guaranteed minimum annuity, with annual bonus additions which, once added, generally cannot be taken away. Within broad categories, products can have individual features such that there may be more than one representative product for each class, creating many different individual products which can just be roughly assigned to one of the classes.

Regular premiums are most common but most products also allow single premium payments. It is common that additional premium payments are possible at the customer’s request. New business being written today is often in hybrid form, being a combination of unit-linked funds and traditional business with fixed yearly guarantee. Guaranteed maturity values have traditionally exceeded premiums paid, though this has become less common in recent years with falling interest rates.

Germany: traditional profit participation products usually have a guaranteed interest rate and a guaranteed minimum annuity, with guaranteed maturity values typically exceeding premiums paid. Minimum surrender values are usually guaranteed based on the same interest rate. Thus, the guarantees for the annuity phase in most cases are based on the same technical interest rate and the same mortality tables as the guarantees up to maturity.

Other types of guarantees are offered by the “New traditional life insurance product”, which at maturity (end of accumulation phase) guarantees the amount of premiums paid or a given percentage of that. At the start of the annuity phase the level of the annuity is guaranteed for life, based on the outcome of the accumulation phase and the technical interest rate and tables which are applicable at that moment. However, it is usual that a minimum annuity is guaranteed from the moment the policy is taken out. Additionally the annuity can increase due to further profit participation during the annuity phase. At the start of the pension payment, the customer usually can also opt for a lump sum payment instead.

Hybrid products usually have a guarantee mechanism which shifts the assets between unit-linked and traditional elements based on the development of the capital markets (path-dependent). Different approaches to death benefits apply.

Italy: traditional profit participation products (With-profits policies) are contracts connected to a segregated fund, in which the technical provisions are invested, and whose return is shared with the policyholders. In particular, there are two return components: the guarantee element (specified within the contract) and the participating features (the so called profit-sharing mechanism) according to which policyholders receive an extra bonus calculated as a percentage of financial returns obtained from the investments in the year of the related segregated fund.

Generally, with-profits products offer one of the following three types of guarantees: annual guaranteed rate (consolidation of annual benefits year by year), average of an-
nual guaranteed rates calculated at the event (death, maturity or, in few cases, also surrender), periodic payment of minimum investment return during contract lifetime (periodic coupon). Contractual clauses defines precisely what part of the profits should be distributed to the policyholders.

Usually Unit-linked policies and the unit linked component of hybrid products don’t have a guaranteed investment rate or a capital protection.

**France:** most of the French market is composed of hybrid products, they combine traditional guarantees (known as “euro funds”) and units of account under the same contract. These include death benefit (called a “floor benefit”) which ensures that the death benefit paid for unit-linked investments is not less than the premiums paid net of costs (less amounts surrendered) on these investments.

More recently, so-called “euro growth” policies have appeared, which are hybrid between the euro and units of account. They have deferred profit-sharing mechanisms, no guaranteed value at all times and a surrender value based on the net asset value of the underlying fund – these are ring fenced products. Older products composed only of “euro funds” still account for a significant proportion of the outstanding amount.

There are also products composed solely of unit-linked funds, but their proportion is much more marginal.

The basic guarantees consist of a life guarantee and a benefit in the event of death of an amount equal to the mathematical provision.

In practice, even if a term guarantee can be defined (this guarantee can be expressed in euros or in number of shares of units of account depending on the case), the contract guarantee is represented by the surrender value of the contract, which is available at any time. The surrender value is equal to the equivalent value expressed in euros of the mathematical provision for each medium.

Similar approaches to the French approach to death benefit on multi-option products apply in the Czech Republic and Slovakian markets.

**Sweden:** normally contributions to life insurance policy have not a guaranteed amount at the time of death. For single premium contracts the death benefit and repurchase value grows at every new single premium payment. Most undertakings can decide benefit (insurance capital) including bonus value, regularly or monthly. Most common is that bonus can vary, both in mutual principle-based undertakings and for-profit undertakings.

Regular premiums products are preferred but single-series premium (without specific conditions) have become an option in endowment insurance. In Sweden, stipulated insurance benefit at maturity is currently more common than the sum of premiums, but during the past years adjustments have been made to value at maturity.

2. **Regulatory requirements relating to profit sharing and measurement of the profit sources**

**Profit participation**

Profit participation is regulated in a number of countries in Europe, e.g. Austria, Germany and France.

**Germany:** at least 90% of investment yield has to be shared with policyholders as well as at least 90% of the risk result and 50% of the cost result (which covers a number of different items including cost, tax, surrender). With certain restrictions, losses in one area can be covered by gains in another. Valuation reserves have to be shared, covering the gap between prudent valuation of assets according to local GAAP and market consistent valuation. Profit sharing reserves for future participation are created, which creates a smoothing effect both over time and across the collective of policyholders. The gross surplus is inserted into the refund provision for bonuses and rebate. From these reserves the individual profit participation is allocated.

**Austria:** the amount of profit participation is deducted from the overall profit including risk result, cost result and investment result. It is never required to give profit participation, but for conventional business it is market standard. Profit participation has to be “adequate” by law, and regulation clearly defines the yearly minimum amount which is (mostly) allocated to a reserve for profit participation. It is up to the insurer to set profit participation rates in order to smooth the profit participation allocated to the contracts.

**France:** regulations take into account technical and financial results and determine a minimum amount of profit-sharing to be distributed each year to the insurer’s entire portfolio, i.e. 85% of the financial result and 90% of the technical result if it is positive, or 100% of the technical result if it is negative. These constraints apply globally, not individually. The insurer may allocate all or
part of the profit sharing to a collective profit-sharing provision, which is to be redistributed within 8 years. Under this global constraint, the insurer is free to stipulate for each product contractual clauses that may differ from the regulatory rule. These clauses can leave a significant part of discretionary profit-sharing.

Where there is no formal requirement for profit participation, practices vary. For instance, the usual practice in Hungary is for 80% profit sharing of the investment results while, in Finland, a principle of fairness applies, with a “fair share” (possibly 60% to 80% long term observed) of surplus to be paid and customer bonus levels to be kept stable over time. As part of this approach, part of the allocated annual surplus is not allocated immediately to individual contracts but reserved for future years as a smoothing element, allowing reduced bonus level volatility between years.

Italy: the segregated fund is an investment portfolio managed separately from the other assets held by the insurance undertaking, depending on which return the linked contracts are revaluated. In the financial management of the segregated fund an insurance undertaking must ensure equality of treatment among all policyholders. To this end the undertaking must pursue management and investment policies which guarantee that policyholders fairly share the financial performance of the segregated fund over time. The investments are accounted for at the historical costs (the valuation is different from the one used for the accounting financial statements) and the returns of the segregated fund is based on investment incomes (dividends, interests, etc) and the mark-to-market valuations - are not taken into account. The requirements governing the profits sharing mechanism for Italian with-profits policies are foreseen by National Regulation. Since 2018, new rules have been introduced for allocating the realized capital gains to the annual return of the segregated fund: the new mechanism allow to the insurers to smooth the distribution of realized capital gains over eight years on new business, by using a specific fund (classified as mathematical provision) in which put aside realized capital gains across the years (the so-called “fondo utili”). Further mechanisms to stabilize the performance of segregated funds refer to the possibility of intervening on the accounting of realized gain and losses on listed derivative financial instruments used for hedging purpose (e.g. it is possible to account realized gains/losses stemming from the “futures” hold by the insurers for hedging purposes consistently with the accounting of profits and losses arising from underling assets, taking into account the holding period of the hedging strategies).

Sweden: Profit participation is regulated on a limited and general basis. The Principle of Contribution does not mention figures/numbers and can partly be replaced by (non-unfair) terms of agreement (insurance contract terms & conditions).

Measurement of profit sources

Germany: different profit sources are measured separately, with the main sources of profits being risk, cost and investment result.

Czech Republic: rules vary from company to company, and can be on a sub-portfolio basis, at a per product level or at an overall level.

Finland: overall profit for the whole portfolio is the most common approach. The total amount of annual profit for participating business depends on the overall result of the company which may include some profits from unit-linked business. The allocation of this total amount between product sub-portfolios depends on the net result of those sub-portfolios (the “fairness principle” for bonuses). The part of the surplus from unit-linked sub-portfolios may be transferred to with-profit portfolios and losses in one with-profit product portfolio (high guaranteed rate) may be covered by positive results in another (low or nil guaranteed rate). Part of the allocated annual surplus is not allocated immediately to individual contracts but reserved for future years as a smoothing element, allowing lower declared bonus level volatility between consecutive years. The smoothing period is 10 years and Finnish company tax legislation allows this rezerving period, with the reserve being tax deductible for the company.

Austria: different profit sources are measured separately, with the main sources of profits being risk, cost and investment result. Profit participation rates are often split into a rate for investment return (dependent on the guaranteed interest rate) and a rate for biometric and/or cost result.

Hungary: profits are based primarily on the investment result of the portfolio.

France: contractual profit sharing in France may take into account other components of the result that may be limited to biometric results only (e.g. excess mortality or under-mortality) or that may include all underwriting results (including overheads and acquisition costs). Profit sharing
may be differentiated up to the level of individual policyholders according to the applicable fees or as part of offers to encourage unit-linked investment on the policy. However, the profit-sharing rate is generally the same for all policyholders of the same euro fund.

3. Methodologies for adding bonuses

Germany: minimum annual allocation rates to provide bonuses and rebates are a formal legal requirement, actual allocation rates are in general higher due to competition. For new guaranteed business, the most common guarantee now is a return of premiums, with bonuses added annually and on termination.

France: there are no terminal bonuses in the contracts. A profit sharing is distributed each year on the euro funds. There is no participation in “terminal” profits (although some contracts may provide loyalty guarantees, but these are very marginal products).

Sweden: there is not a regulation per se on the methodologies for adding bonuses and the system allows for flexibility, especially, for undertakings based on mutual principles where bonus capital (and collective capital) is the policyholder share of risk capital and own funds.

Sample annual bonus rates are available, with regular bonus of 1.2% in Finland and 2.35% in Austria in 2017 for instance. As mentioned above, annual bonuses generally cannot be taken away once added while terminal bonus can sometimes be partially removed on surrender.

4. Investment features

Investment portfolios used to support profit participation business can also vary from country to country. For instance, in Hungary and Czech Republic, a portfolio of treasuries is commonly used whereas, in Finland and France and Sweden, a more diversified portfolio of investments is typically held.

Table 13 - High level sample portfolio distribution - Finland/France

<table>
<thead>
<tr>
<th>Investment type</th>
<th>Proportion of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed income</td>
<td>60% or more</td>
</tr>
<tr>
<td>Equity</td>
<td>Up to 20%</td>
</tr>
<tr>
<td>Real estate and other</td>
<td>Up to 20%</td>
</tr>
</tbody>
</table>

This latter strategy is designed to provide returns in excess of fixed income in the long term, with a moderate risk level, safe cash flow and little or no short term trading. These tend to be simple portfolios with no derivatives.

France: the investment strategy for the assets on which the euro funds commitments are backed takes into account both the guarantees given and the death and surrender laws that determine the duration of the liabilities. It is therefore mainly oriented towards bonds (typical average composition: about 80% bonds, 10% equities and 6% real estate and 4% other assets, including monetary assets). The investment strategy is also linked to the Solvency II driven capital charge which reflects the application of market stresses to the various asset types.

5. Methodology on surrender values calculation

Practices also differ across States in relation to the amounts paid to policyholders on surrender of profit participation policies.

Germany: the surrender value is required to be the premium reserve, calculated according to the assumptions also used for the calculation of premiums. Usually minimum surrender values are guaranteed based on the guaranteed interest rate. Surrender penalties may be deducted. These must be appropriate and contractually agreed with the customer.

Hungary: as part of ethical life insurance concept, minimum surrender value is required since 1 January 2017 on the basis of premiums paid decreased by risk premium. In case of all life insurance with saving elements (both unit-linked and traditional insurance policies), the insurance company shall invest respectively at least 20, 50 and 80 per cent of the premiums due and paid for the first, second and third year, minus risk premium. For the premiums due and paid for subsequent years, at least 80 per cent should be invested. If the policyholder exercises his residual rights, settlement shall be based at least on the invoiced value of the minimum investment.

Austria and Czech Republic: surrender values for traditional contracts may be based on mathematical reserve according to premium calculation, usually with a small deduction, e.g. 5%, plus bonus accrued.

France: for multi-support products, surrender value is at all times equal to the value expressed in euros of each of the supports (underlying funds, including euro fund). The features of the product are well known and surrender values are straightforward to calculate based on published profit sharing.
Various other approaches are applied in different States, with differing practices in a number of areas, e.g.

- extent of bonuses applied which is included in surrender values
- surrender penalties, e.g. in Finland, contracts sold after 2000 typically pay only a part of bonuses in case of a surrender with some products having a waiting period of 5 to 10 years for bonuses after which these become fully available to the policyholder on surrender.
- other deductions, e.g. for expenses

**Sweden:** the calculation on surrender value is equivalent with the insurance capital and includes an accumulated bonus, but with rules stipulating the right of withdrawal of the value if the remaining portfolio and interests are severely threatened.

6. **Costs/charges affecting the Reduction in Yield**

**Germany:** total Credit Rate is net of indirect costs like transaction costs or shareholder participation. The direct cost loadings usually differ from policy to policy as they are neither constant nor linear over time. Their impact on the return depends on contract details and differs over time. Thus a part of the costs is taken from each contract individually depending on several parameters.

**France:** the items impacting remuneration are the ongoing fees on the on the mathematical provision specific to the contract and the other costs inherent to the euro fund as indicated in the PRIIPs regulations (transaction costs, mandate fees, management costs of any UCITS present in the euro fund).
## ANNEX IV — ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AM</td>
<td>Active Members</td>
</tr>
<tr>
<td>EBA</td>
<td>European Banking Authority</td>
</tr>
<tr>
<td>EEA</td>
<td>European Economic Area</td>
</tr>
<tr>
<td>EIOPA</td>
<td>European Insurance and Occupational Pensions Authority</td>
</tr>
<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
</tr>
<tr>
<td>ESA</td>
<td>European Supervisory Authority</td>
</tr>
<tr>
<td>IBIPs</td>
<td>Insurance Based Investment Products</td>
</tr>
<tr>
<td>ITS</td>
<td>Implementing Technical Standard</td>
</tr>
<tr>
<td>GWP</td>
<td>Gross Written Premiums</td>
</tr>
<tr>
<td>KID</td>
<td>Key Information Document</td>
</tr>
<tr>
<td>MOP</td>
<td>Multi Option Product</td>
</tr>
<tr>
<td>NAV</td>
<td>Net Asset Value</td>
</tr>
<tr>
<td>NCA</td>
<td>National Competent Authority</td>
</tr>
<tr>
<td>PP</td>
<td>Profit Participation Product</td>
</tr>
<tr>
<td>PPPs</td>
<td>Personal Pension Products</td>
</tr>
<tr>
<td>PRIIPs</td>
<td>Packaged Retail and Insurance-based Investment products</td>
</tr>
<tr>
<td>QRT</td>
<td>Quantitative Reporting Template</td>
</tr>
<tr>
<td>RHP</td>
<td>Recommended Holding Period</td>
</tr>
<tr>
<td>RIY</td>
<td>Reduction In Yield</td>
</tr>
<tr>
<td>UL</td>
<td>Unit-linked</td>
</tr>
</tbody>
</table>
ANNEX V — DEFINITIONS

<table>
<thead>
<tr>
<th>Definitions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Costs (ITS PRIIPs regulation)</td>
<td>The expenses incurred by the group during the reporting period, on accrual basis are expenses which are connected with policy administration including expenses in respect of reinsurance contracts and special purpose vehicles. Some administrative expenses relate directly to activity regarding a specific insurance contract (e.g. maintenance cost) such as cost of premium billing, cost of sending regular information to policyholders and cost of handling policy changes (e.g. conversions and reinstatements). Other administrative expenses relate directly to insurance activity but are a result of activities that cover more than one policy such as salaries of staff responsible for policy administration.</td>
</tr>
<tr>
<td>Carried Interest</td>
<td>To calculate carried interests, the following steps shall be taken:</td>
</tr>
<tr>
<td></td>
<td>(a) compute the fees on the basis of historical data covering the last 5 years. The average annual carried interests shall be computed in percentage terms;</td>
</tr>
<tr>
<td></td>
<td>(b) where a full carried interests history is unavailable because the fund/share class is new or the fund’s terms have changed due to the introduction of carried interests or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:</td>
</tr>
<tr>
<td></td>
<td>(i) take the relevant available history of the carried interests of the fund/share class; — for any years for which data is not available, estimate the return of the fund/share class, — for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer group’s returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class.</td>
</tr>
<tr>
<td></td>
<td>(ii) compute the carried interests from the beginning of the sample period, as required in point (a), until the date of availability of the actual carried interests data of the fund, applying the relevant algorithm to the abovementioned historical series;</td>
</tr>
<tr>
<td></td>
<td>(iii) concatenate both carried interests series to one series over the full sample period as required in point (a)</td>
</tr>
<tr>
<td></td>
<td>(iv) compute the carried interests using the methodology referred to in point (a) (average of annual carried interests).</td>
</tr>
<tr>
<td></td>
<td>If no carried interests are taken throughout the investment, a warning needs to accompany the indication of zero carried interests in the composition of costs table in order to clarify that a payment of x % of the final return shall take place subsequently to the exit of the investment.</td>
</tr>
</tbody>
</table>
Costs part of biometric risk premiums

Biometric risk premiums are those premiums paid directly by the retail investor or deducted from the amounts credited to the mathematical provision or from the participation bonus of the insurance policy, that are intended to cover the statistical risk of benefit payments from insurance coverage.

The fair value of biometric risk premiums is the expected present value, of the future benefit payments from insurance coverage taking into account the following:

(a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual manufacturer;

(b) other payoffs related to insurance cover (rebates on biometric risk premiums paid back to the retail investors, increase of benefit payments, reduction of future premiums, etc.) resulting from profit sharing mechanisms (legal and/or contractual).

Best estimate assumptions on future benefit payments from insurance coverage shall be set in a realistic way

The estimated future benefit payments shall not include prudency margins or costs for the management of the insurance cover

For manufacturers within the scope of Directive 2009/138/EC these best estimate assumptions shall be consistent with the respective assumptions used for the calculation of the technical provisions in the Solvency II balance sheet

The cost part of biometric risk premiums is the difference between biometric risk premiums charged to the retail investor referred to in point 54 of this Annex and the fair value of the biometric risk premiums referred to in point 55 of this Annex.

A PRIIP manufacturer may include the full biometric risk premiums in the calculation of one-off costs or recurring costs in the place of the cost part of those premiums.

Distribution Costs

Distribution costs should include any form of monetary benefits which an insurance distributor receives, based upon an agreement with the insurance undertaking, in relation to the sale of an insurance product.

Distribution costs are generally calculated as a percentage of the premium paid by the customer for insurance coverage but should also include any other type of payment made by the insurance undertaking to an insurance distributor.
<table>
<thead>
<tr>
<th>Incidental Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>To calculate performance related fees, the following steps shall be taken:</td>
</tr>
<tr>
<td>(a) compute the fees on the basis of historical data covering the last 5 years. The average annual performance fees shall be computed in percentage terms,</td>
</tr>
<tr>
<td>(b) where a full performance fees history is not available because the fund/share class is new or the fund's terms have changed due to the introduction of the performance fee or the change of one of its parameters, the abovementioned method shall be adjusted according to the following steps:</td>
</tr>
<tr>
<td>(i) take the relevant available history of the performance fees of the fund/share class;</td>
</tr>
<tr>
<td>(ii) for any years for which data is not available, estimate the return of the fund/share class and, in case of a relative performance fee model, take into account the historical series of the benchmark/hurdle rate; for new funds, their return shall be estimated using the return of a comparable fund or of a peer group. The estimated return shall be gross of all the costs charged to the new fund. Therefore peer groups' returns need to be adjusted by adding the average relevant costs charged according to the rules of the new fund. For instance, in case of a new class with a different fee structure, the returns of this new class shall be adjusted taking into account the costs of the existing class;</td>
</tr>
<tr>
<td>(iii) compute the fees from the beginning of the sample period, as required in point (a), until the date of availability of the actual performance fee data of the fund, applying the relevant algorithm to the abovementioned historical series;</td>
</tr>
<tr>
<td>(iv) concatenate both performance fee series to one series over the full sample period as required in point (a);</td>
</tr>
<tr>
<td>(v) compute the performance fees using the methodology referred to in point (a) (average of annual performance fees).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>One-Off costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A one-off cost is an entry and exit cost which includes initial charges, commissions or any other amount paid directly by the retail investor or deducted from the first payment or from a limited number of payments due to the retail investor or from a payment upon redemption or termination of the product.</td>
</tr>
<tr>
<td>One-off costs are borne by an insurance-based investment product, whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.</td>
</tr>
<tr>
<td>One-off costs include, but are not limited to, the following types of entry costs and charges that shall be taken into account in the amount to be disclosed for insurance-based investment products:</td>
</tr>
<tr>
<td>(a) structuring or marketing costs;</td>
</tr>
<tr>
<td>(b) acquisition, distribution, sales costs;</td>
</tr>
<tr>
<td>(c) processing/operating costs (including costs for the management of the insurance cover);</td>
</tr>
<tr>
<td>(d) cost part of biometric risk premiums;</td>
</tr>
<tr>
<td>(e) costs of holding required capital (up front part to be disclosed insofar as they are charged).</td>
</tr>
<tr>
<td>Ongoing Costs</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>The recurring costs include all types of costs borne by an insurance-based investment product whether they represent expenses necessarily incurred in its operation, or the remuneration of any party connected with it or providing services to it.</td>
</tr>
<tr>
<td>The following list is indicative but not exhaustive of the types of recurring charge that shall be taken into account in the amount of the ‘Other ongoing costs’ in table 2 of Annex VII: (a) structuring or marketing costs;</td>
</tr>
<tr>
<td>(b) acquisition, distribution, sales costs;</td>
</tr>
<tr>
<td>(c) processing/operating costs (including costs for the management of insurance cover);</td>
</tr>
<tr>
<td>(d) cost part of biometric risk premiums referred to in point 59 of this Annex; (e) other administrative costs;</td>
</tr>
<tr>
<td>(f) costs of holding capital (recurring part to be disclosed insofar as they are charged);</td>
</tr>
<tr>
<td>(g) any amount implicitly charged on the amount invested such as the costs incurred or the management of the investments of the insurance company (deposit fees, costs for new investments, etc.);</td>
</tr>
<tr>
<td>(h) payments to third parties to meet costs necessarily incurred in connection with the acquisition or disposal of any asset owned by the insurance-based investment product (including transaction costs as referred to in points 7 to 23 of this Annex).</td>
</tr>
</tbody>
</table>

Where an insurance-based investment product invests a part of its assets in UCITS or AIFs, in a PRIIP other than UCITS or AIFs or in an investment product other than a PRIIP, points 5(l), 5(m) and 5(n) of this Annex shall be applied respectively.
## ANNEX VI — LIST OF NATIONAL COMPETENT AUTHORITIES

<table>
<thead>
<tr>
<th>Country</th>
<th>Code</th>
<th>Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>AT</td>
<td>Financial Markets Authority (FMA)</td>
</tr>
<tr>
<td>Belgium</td>
<td>BE</td>
<td>Financial Services and Markets Authority (FSMA)</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>BG</td>
<td>Financial Supervision Commission</td>
</tr>
<tr>
<td>Croatia</td>
<td>HR</td>
<td>Croatian Financial Services Supervisory Authority (HANFA)</td>
</tr>
<tr>
<td>Cyprus</td>
<td>CY</td>
<td>Ministry of Finance Insurance Companies Control Service (ICCS)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ministry of Labour, Welfare and Social Insurance; Registrar of Occupational Retirement Benefit Funds</td>
</tr>
<tr>
<td>Czechia</td>
<td>CZ</td>
<td>Czech National Bank</td>
</tr>
<tr>
<td>Denmark</td>
<td>DK</td>
<td>Financial Supervisory Authority (Danish FSA)</td>
</tr>
<tr>
<td>Estonia</td>
<td>EE</td>
<td>Finantsinspeksioon (Estonian FSA)</td>
</tr>
<tr>
<td>Finland</td>
<td>FI</td>
<td>Finnish Financial Supervisory Authority (FIN-FSA)</td>
</tr>
<tr>
<td>France</td>
<td>FR</td>
<td>Autorité de Contrôle Prudentiel et Resolution (ACPR)</td>
</tr>
<tr>
<td>Germany</td>
<td>DE</td>
<td>Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)</td>
</tr>
<tr>
<td>Greece</td>
<td>EL</td>
<td>Bank of Greece</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hellenic Ministry of Labour, Social Security and Social Solidarity</td>
</tr>
<tr>
<td>Hungary</td>
<td>HU</td>
<td>Central Bank of Hungary</td>
</tr>
<tr>
<td>Iceland</td>
<td>IS</td>
<td>Financial Supervisory Authority (FME)</td>
</tr>
<tr>
<td>Ireland</td>
<td>IE</td>
<td>Central Bank of Ireland, Pensions Authority</td>
</tr>
<tr>
<td>Italy</td>
<td>IT</td>
<td>Istituto per la Vigilanza sulle Assicurazioni (IVASS)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Commissione di Vigilanza sui Fondi Pensione (COVIP)</td>
</tr>
<tr>
<td>Latvia</td>
<td>LV</td>
<td>Financial Capital Market Commission</td>
</tr>
<tr>
<td>Liechtenstein</td>
<td>LI</td>
<td>Financial Market Authority (FMA)</td>
</tr>
<tr>
<td>Lithuania</td>
<td>LT</td>
<td>Bank of Lithuania</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>LU</td>
<td>Commissariat aux Assurances</td>
</tr>
<tr>
<td>Malta</td>
<td>MT</td>
<td>Malta Financial Services Authority</td>
</tr>
<tr>
<td>Netherlands</td>
<td>NL</td>
<td>Financial Supervisory Authority (AFM)</td>
</tr>
<tr>
<td>Norway</td>
<td>NO</td>
<td>Financial Supervisory Authority of Norway</td>
</tr>
<tr>
<td>Poland</td>
<td>PL</td>
<td>Financial Supervision Authority (KNF)</td>
</tr>
<tr>
<td>Portugal</td>
<td>PT</td>
<td>Insurance and Pension Funds Supervisory Authority (ASF)</td>
</tr>
<tr>
<td>Romania</td>
<td>RO</td>
<td>Financial Supervisory Authority (ASF)</td>
</tr>
<tr>
<td>Slovakia</td>
<td>SK</td>
<td>National Bank of Slovakia</td>
</tr>
<tr>
<td>Slovenia</td>
<td>SI</td>
<td>Insurance Supervision Agency</td>
</tr>
<tr>
<td>Spain</td>
<td>ES</td>
<td>Ministry of Economy - Directorate-General of Insurance and Pension Funds</td>
</tr>
<tr>
<td>Sweden</td>
<td>SE</td>
<td>Finansinspektionen (FI)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>UK</td>
<td>Financial Conduct Authority (FCA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Pensions Regulator</td>
</tr>
</tbody>
</table>
GETTING IN TOUCH WITH THE EU

In person
All over the European Union there are hundreds of Europe Direct information centres. You can find the address of the centre nearest you at: https://europa.eu/european-union/contact_en

On the phone or by email
Europe Direct is a service that answers your questions about the European Union. You can contact this service:
- by freephone: 00 800 6 7 8 9 10 11 (certain operators may charge for these calls),
- at the following standard number: +32 2299696 or
- by email via: https://europa.eu/european-union/contact_en

FINDING INFORMATION ABOUT THE EU

Online
Information about the European Union in all the official languages of the EU is available on the Europa website at: https://europa.eu/european-union/index_en

EU publications
You can download or order free and priced EU publications at: https://op.europa.eu/en/publications. Multiple copies of free publications may be obtained by contacting Europe Direct or your local information centre (see https://europa.eu/european-union/contact_en).

EU law and related documents
For access to legal information from the EU, including all EU law since 1952 in all the official language versions, go to EUR-Lex at: http://eur-lex.europa.eu

Open data from the EU
The EU Open Data Portal (http://data.europa.eu/euodp/en) provides access to datasets from the EU. Data can be downloaded and reused for free, for both commercial and non-commercial purposes.