Insurance Europe response to EIOPA's consultation on Value for Money (VfM) benchmarks

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General comments to EIOPA Consultation Paper

Insurance Europe welcomes the opportunity to respond to EIOPA's Consultation on its methodology for developing Value for Money (VfM) benchmarks.

Ensuring the VfM of insurance-based investment products (IBIPs) is important for the industry. The design and distribution of insurance products is already subject to a robust regulatory framework, based on the Product Oversight and Governance (POG) requirements established in the EU Insurance Distribution Directive (IDD) and its Delegated Regulation on POG, as well as EIOPA's Supervisory Statement (November 2021) and EIOPA's recent Methodology to assess value for money in the unit-linked market (October 2022). The existing framework is providing a high level of consumer protection, and, most importantly, is already enabling national competent authorities (NCAs) to have adequate powers and tools to intervene where necessary.

Insurance Europe is concerned EIOPA's approach on benchmarks could lead to less product diversity and reduced competition in the market. The increased focus on cost instead of quality and diversity, would make it more difficult for consumers to access products that fully meet their needs, especially in terms of safety and protection. This would not encourage risk-adverse consumers to find the confidence to invest and would therefore not help to address the pension and insurance gap in Europe.

It is all very well for supervisors to wish to develop tools to monitor the market and the application of POG. However, these tools must remain within the sole remit of supervision to avoid any potential negative consequences in the market. This means that, if applied, such tools should not lead to more data collection or more red tape for product manufacturers, nor be made publicly available nor used for product ranking.

It is worrying that EIOPA's approach goes beyond mere supervision of the market since product manufacturers would be expected to integrate the benchmarks in their POG process. EIOPA is already collecting more data from insurance companies as part of a complex "data pilot" on Multi-Option Products (MOPs), while plenty of data are already available through Solvency II reporting, national reporting and PRIIPs Key Information Document (KID). It is also concerning that EIOPA might publish the VfM benchmarks in the future, which could confuse consumers and lead to reputation risks for insurers.

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Besides, this initiative overlaps with discussions on the Retail Investment Strategy (RIS), on which no policy decision has yet been made. This misalignment is creating confusion in the market.

Insurance Europe has provided some inputs to EIOPA's questions below and stands ready to continue the discussion with EIOPA.

HOW BENCHMARKS SHOULD FUNCTION?

Q1. *Stakeholders are invited to provide inputs and views as to how value for money benchmarks should work and their usefulness for product comparability.*

The VfM assessment should consider all the qualitative and quantitative aspects of insurance products and respect manufacturers' freedom to design products. To that end, the POG framework should remain flexible. Recital (8) of the IDD Delegated Regulation on POG clarifies that the POG requirements should not be understood as an interference with the manufacturers' freedom to set premiums or as a price control in any form.

It is understandable that supervisors may want to develop tools to monitor the market. However, this needs to be intended for supervisory purposes only and should not lead to more administrative burdens and reporting for insurers. If applied, benchmarks should not be published, nor used for product ranking.

Introducing VfM benchmarks, especially as part of the POG process of the manufacturer, would lead to unintended market effects that are detrimental to consumer interest, including reduction in consumers' choice. The increased focus on cost instead of quality and diversity, would make it more difficult for consumers to access products that fully meet their needs. This would not encourage risk-adverse consumers to find the confidence to invest and would not help address the pension and insurance gap in Europe.

Moreover, benchmarks are not useful for product comparability. What is important is that the product is consistent with the target market's demands and needs, and can provide value per se, regardless of the comparison with the products sold in the market.

Considering the existing legislation and national initiatives as follow-up to EIOPA's VfM Methodology, EIOPA's proposal on VfM benchmarks comes too early because many NCAs are still assessing how to make use of EIOPA's guidance, and no practical experience has been gained so far. Besides, this initiative is overlapping with the Retail Investment Strategy (RIS) discussions where no political decision has been reached yet. These overlapping processes are creating confusion in the market.

Q2: *Stakeholders are also invited to share whether they agree on what the benchmarks are and are not.*

Insurance Europe welcomes EIOPA's clarification that the VfM work is meant as a supervisory tool for NCAs to help them to identify outliers.

The industry also agrees that:

- **Benchmarks should not be used as a consumer disclosure tool** and that *"the nature of the indicators and product clustering process are requiring an in-depth and technical knowledge of the VfM methodology which is not targeted for consumers*". Therefore, benchmarks should not be published.
- **Benchmarks should *"not be seen and used as price regulation or cost-capping"*.** EIOPA recognises that benchmarks cannot capture all products' specificities and consumers' needs as these are varied in nature. For this idea, benchmarks can only be used by supervisors.
- **Products should *"provide value for money in itself, regardless of the comparison with the products sold in the EU market".***

Insurance Europe does not agree that product manufacturers or intermediaries should use the benchmarks in POG. The use of the benchmark could lead to unintended consequences, such as product standardisation and lack of diversity in the market, with reduced competition and innovation.

While EIOPA states that VfM benchmarks are not a "safe harbour", there is a risk that they will be considered as such. The EU market is based on free competition and VfM benchmarks should not be used to rank products, nor to form a barrier to entry of new participants. The experience with pan-European personal pension product (PEPP) shows that over-regulated products, characterised by unrealistic performance expectation and with strict caps on costs, do not work in practice.

Therefore, the POG process should remain focused on all products matching the target market's needs, and not on whether products meet the benchmarks.

It should also be made clearer that the VfM benchmark does not apply to closed book portfolios, as this would be complex and would have an unbalanced impact on existing ones. Instead, only products sold after the introduction of VfM benchmarks should be considered.

Q3. *Do you already have similar tools in your market that would serve the same purpose?*

Yes, some NCAs are testing VfM approaches that best fit their market realities. For instance, the German authority published a guidance that follows a risk-based approach and is meant as a pure supervisory tool tailored to the German products' specificities. In addition, the French authority has required the industry to set up a specific process of cost oversight for unit-linked products; the Italian authority presented its expectations on VfM assessment; the Belgian authority is working on the revision of POG; and many authorities are prioritising POG in their work plan.

The approaches pursued by the NCAs are diverse, due to big differences in the products, distribution and market structures across member states. This shows that a one-size-fits-all solution would not work and that a proper VfM supervision requires flexibility for NCAs.

On top of these national examples, NCAs have the necessary powers to access information and intervene based on the IDD, PRIIPs Regulation and Solvency II Directive.

This means that NCAs are already very active in the POG supervision and there is no need to come up with additional tools at EU level that would create legal confusion and compliance complexity for both product manufacturers and NCAs, especially for smaller entities and countries.

Imposing the use of benchmarks would increase bureaucracy for all companies and drain resources from supervisory authorities. This is not a cost-efficient solution to identify the few outliers in the market.

Besides, EIOPA issued a Supervisory Statement in November 2021 as well as a detailed Methodology to assess products' VfM in October 2022. The Methodology is designed to identify outliers and allow NCAs to address potential VfM issues. The Methodology is new and needs time to bed in and be used by NCAs to identify VfM risks. It is therefore too early to say whether additional work is needed to complement the Methodology.

Q4. *While EIOPA indicated that initially it will not publish the benchmarks, stakeholders are also invited to share views as to whether the benchmarks should be published or not already in the first initial phase.*

EIOPA's VfM benchmarks should not be made published, as they can only be correctly interpreted by experts. If presented to the public, they would expose product manufacturers to reputational and commercial risks should they fail to meet the benchmarks.

This is because the information published could be misused or misinterpreted by competitors, comparison websites, press and journalists, or consumers' organisations and would lead to misleading or simplistic conclusions on what are the "good" or "bad" products on the market. Any publication of benchmarks could ultimately be used as a "*consumer disclosure tool*", contrary to EIOPA's assumption.

From a reputational perspective, companies that deviate from the benchmark published by EIOPA would be automatically perceived as "black sheep" even if their products are perfectly compliant, thus undermining consumers' trust and influencing their preferences in favour of cheaper products. This does not necessarily mean better products for their demands and needs. This would unduly confuse retail investors or potential investors, instead of helping them assess the benefits of insurance products and of encouraging them to participate in the capital markets.

At the same time, the existence of VfM does not always prevent the return from being lower than the costs, unless it is backed by a guarantee. Benchmarks could give customers excessive confidence and a false sense of security, by persuading them that if the product meets the VfM reference benchmark, the product is a 'safe' investment and will not suffer losses.

Insurance Europe deems it essential that if benchmarks are developed, they are used for supervisory purposes only and not created as a tool for the wider public. They should therefore remain in the supervisory domain only, and not be made publicly available at any stage of the process, as there is a risk that the VfM benchmarks could be misinterpreted by other stakeholders, including consumers or unfair competitors.

PRODUCT TESTING: ENSURING COMPARABILITY

Q5. *Stakeholders' views on the approach to product clustering are sought.*

The focus of POG should remain on ensuring that the product is consistent with the target market's demands and needs. Benchmarks should not be used as part of the POG process.

EIOPA rightly points out that IBIPs are very diverse across EU markets and a one-size-fits-all approach would not work in practice. For instance, the EIOPA Cost & Past Performance report of December 2023 shows differences in terms of costs and returns from country to country. In this context, any attempt to group IBIPs into European product clusters would fall short as not meaningful for such a heterogeneous market (eg, different market structures, applicable legislation, distribution systems etc.).

EIOPA recognises that the clustering involves a conflict of objectives between having a sufficient and precise differentiation of IBIPs on the one hand, with a manageable number of clusters on the other. In other words, there is an impossible trade-off between the need to capture all relevant quantitative and qualitative characteristics of products and markets, with the risk of ending up with one or very few product(s) per cluster, which would make the work useless despite the additional burden it will trigger – and the need to keep the exercise simple – with the risk of having too many and widely different products in each cluster.

There is also an impossible trade-off between ensuring a stable framework and keeping track of market developments. For example, the level of interest rates has an impact on insurers' product offering and ability to offer products with financial guarantees.
Instead of product clustering, EIOPA should make use of the already existing data as intended in its Methodology of October 2022 (eg, PRIIPs Key Information Document (KID), Solvency II reporting, national reporting requirements). In addition, the European Single Access Point (ESAP) will soon be implemented, and therefore can be used as a central repository for a quicker access to data on IBIPs.

Q6. *Do you agree with the essential and additional criteria for product clustering? Should additional criteria be collected?*

The "additional features" as EIOPA calls them, are in fact capturing very important qualitative properties of IBIPs that bring value to consumers. When assessing the VfM of IBIPs, the presence of biometric risk coverage, the asset type, the presence of the pension benefit option, the guarantee level, the presence of enhanced risk mitigation techniques, the type of distribution channel, as well as the presence of digital tools, ongoing advice services and ESG features must not be neglected and should not be considered as just "additional" but rather "essential" features.

Insurance Europe does not consider the differentiation between essential and additional features to be correct, since both qualitative and quantitative features are important to consumers and they need to be looked at holistically. Failure to take qualitative factors into account could lead to misleading results vis-à-vis the benchmarks, since products will falsely be considered too expensive in relation to the benefits they provide.

At the same time, the consideration of a very long list of product features would lead to an impossible trade-off between taking into account all important elements embedded in IBIPs and keeping the exercise simple for market participants. In fact, EIOPA recognises itself that the product clustering task *"presents the challenge of finding the right balance between the need to have a sufficient number of homogeneous products and sufficiently detailed clusters".*

Insurance Europe is highly concerned that if such additional features are included, this would lead to 30 additional branches or options, meaning 921,600 possible combinations or product clusters – thus increasing complexity.

Product manufacturers are best placed to understand and provide value to their target market. For this idea and if benchmarks are designed, technical work on clustering and indicators could benefit from cooperation with insurers to ensure a close match to the market and product reality.

Q7. *Do you agree with the proposed approach to use the additional criteria to either develop more detailed clusters or to provide qualitative considerations on how to take these elements into account when looking at the benchmarks?*

As per response to question 6), Insurance Europe believes that EIOPA's distinction between "essential" and "additional" features is wrong, since VfM involves a holistic assessment of both quantitative and qualitative elements of the product. Nevertheless, asking for more features and more granular product clusters would ultimately mean more complexity for market participants.

Other criteria should be considered in assessing the VfM of a product, such as:

- The level of initial advice necessary to buy a specific insurance product, depending on the level of complexity of the product as well as the level of knowledge and experience of the target market.
- The assistance, ongoing services, flexibility of payments, in-kind benefits like a second medical opinion.

Insurance Europe sees an impossible trade-off between taking into account all IBIPs' characteristics and keeping the exercise manageable. Again, this shows that IBIP clustering at European level would be too challenging without being necessarily meaningful.

Q8. *Do stakeholders think that for MOPs Option 1 would suffice or that Option 2, which would be more substantial in terms of reporting but also more precise and granular, should be preferred?*

MOPs are popular in several markets (eg France, Italy, Sweden, Ireland, Germany) and are appreciated by consumers because they give opportunity to invest in different funds, so they can be tailored around consumers' specific objectives. With MOPs, consumers often have the possibility to switch underlying options and adapt the investment to their evolving needs or changing market conditions.

It is difficult to understand how VfM benchmarks would work for MOPs since they can invest in thousands of combinations of funds, that can also be switched over time.

Neither of the 2 options currently proposed by EIOPA would work in all markets:

- **In Option 1:** analysing the most expensive, the cheapest and the average option is i) not representative of the products normally sold to consumers; ii) carrying the risk of focusing on very special funds; iii) is irrelevant as single funds would be compared with fully packaged IBIPs; (iv) not straightforward, as the extreme and average options can be identified based on different criteria (eg, active or passive management).

- **In Option 2:** product manufacturers would need to report a huge set of statistics and the number of clusters would increase exponentially, while the classification still does not catch all the features and benefits of the products. The calculations would also become very complex. For instance, certain dynamic hybrid products that are MOPs can use 80 different contract constructions (eg different recommended holding periods, different level of guarantee), plus many different underlying options; for each option, product manufacturers would need to make 80 different calculations of the combination of the contract and the fund.

The industry is worried that it would become too complex to offer MOPs.

Q9. *For Option 2 do you think the clustering approach should be revised by focusing more on the underlying options and less on some of the other essential product features?*

Insurance Europe believes that neither Option 1 nor Option 2 would work in practice in all markets.

Option 2 would entail a high degree of complexity and increase the number of clusters from 72 to 588, or even more, if the "additional features" are considered. It will also increase the number of calculations that the product manufacturer needs to perform (see response to question 8).

Besides, neither Option 1 nor Option 2 would be meaningful from a consumer perspective: consumers are looking for safety, in the form of a financial guarantee, insurance cover and/or risk mitigation techniques (eg, smoothing and pooling, life-cycling, etc). An IBIP can help them diversify risks, reduce fluctuations and access to special assets classes, such as real estate or infrastructure funds. These objectives can be achieved by investing in a packaged product, while the consultation paper depicts a situation where the client invests in a single fund.

At the same time, looking at all combinations of underlying investment options would not be feasible in all markets. Again, EIOPA should make use of publicly available data (ie PRIIPs KID, Solvency II reporting, national reporting etc.) to identify outliers in the market.

Q10. *For Option 2 do you think that the inclusion of the profit participation investment option in the asset class feature is appropriate for a correct interpretation of hybrid products?*

The distinctive feature of hybrid products is the combination of a unit-linked and a profit participation component. The combination can be set by the manufacturer or customised by the policyholder. Hybrid products can be static, if the split between the components is fixed; or dynamic, meaning that the proportion invested in each component can vary over time, to better adapt to evolving consumers' needs or market conditions.

This means that the client derives value from the overall product construction and from the level of services they receive. Artificially separating the guaranteed component is therefore not a correct interpretation of hybrid products. At the same time, also putting the guaranteed component in the same basket of non-guaranteed funds would not be correct. Again, this shows that the exercise for MOPs will be extremely difficult and not always meaningful.

VALUE FOR MONEY INDICATORS

Q11. *Stakeholders are invited to provide feedback on the use of VfM Methodology Level II indicators, are these a good fit for the benchmarks? Should Level I indicators be used?*

As initially envisaged in EIOPA's Methodology (here), the Layer I indicators (eg, PRIIPs KID data, Solvency II retail risk indicators, product national reporting) are sufficient for performing a first market screening and support NCAs' scrutiny on potential outliers, which might require enhanced supervision. The PRIIPs KID data will be even more accessible through the ESAP repository.

As per question 1), if supervisors see a need to further develop their tools to identify outliers in the market, this is understandable, as long as this does not lead to more administrative burdens and new reporting requirements for product manufacturers.

For this idea, and in line with EIOPA's Methodology, Layer II indicators should only be considered by NCAs for those products that require additional scrutiny following the first market screening based on Layer I indicators.

If necessary, EIOPA could provide guidance on the minimum qualitative/quantitative elements/characteristics to be considered by NCAs when developing their tools (eg methodology, product features, type of data, indicators, criteria, etc.). If benchmarks are being used, authorities should seek manufacturers' input on defining these elements, to ensure they match the market reality.

Q12. *Stakeholders' views on the proposed indicators are sought, including on the intervals at which the indicators need to be assessed.*

Insurance Europe believes that the VfM of insurance products should be assessed only at the end of the RHP and not at intermediate time periods (eg after 5 years or half RHP).

IBIPs holding period is defined *ex ante* and covers a medium to long term time horizon. They are not intended to be bought often or switched regularly. Consumers only realise the benefits of the product they have chosen

if they hold it until maturity. Thus, consumers are advised to stay until the end of the contract to reap the full benefits of the investment and are duly informed about the negative consequences of early surrenders. Artificially optimising the products for early contract termination from the outset would automatically be at the expense of long-term provision.

Moreover, to ensure fair comparisons between similar insurance products, EIOPA proposes to group products on the basis of key features such as the product type, the risk class and the RHP. However, the proposed indicators, like the surrender value and total costs paid, change significantly over time. This could therefore be misleading when comparing products with different RHP, even within the same group.

Q13. *Stakeholders are invited to also provide feedback as to which indicators works best for which cluster/product features.*

EIOPA's Methodology Layer I indicators like the PRIIPs KID data and Solvency II reporting, should be used for a first market screening to identify potentially problematic products. This means that EIOPA's Methodology Layer II indicators should only be considered by NCAs for products that require further scrutiny as a result of Layer I market screening.

Q14. *Do you believe additional indicators should be measured?*

No, there is no need to include additional indicators. As per responses above, EIOPA's Methodology Layer I indicators like the PRIIPs KID data and Solvency II reporting could be used for a first market screening to identify potentially problematic products. This means that EIOPA's Methodology Layer II indicators should only be considered by NCAs for products that require further scrutiny as a result of Layer I market screening.

Q15. *In case option 2 for MOP is chosen, do you think that more appropriate indicators applicable only to the single investment options should be identified?*

Insurance Europe sees significant limits with both Option 1 and Option 2 for MOPs, as they would not work in all markets. This would make the offering of MOPs more complicated.

As per responses above, EIOPA's Methodology Layer I indicators like the PRIIPs KID data and Solvency II reporting, could be used for a first market screening to identify potentially problematic products. This means that EIOPA's Methodology Layer II indicators should only be considered by NCAs for products that require further scrutiny as a result of Layer I market screening.

Q16. *Do you agree with the proposal of using PRIIPs KID assumptions for the moderate scenario for the calculations of the indicators? Should and additional scenario (point in time) being included to evaluate the current performance of the product?*

In its Methodology, EIOPA differentiates between Layer I indicators that are used for the market-wide assessment, Layer II indicators for products under scrutiny and Layer III indicators when there are concerns in Layer I or Layer II. The industry believes this is a proportionate approach that already allows for a robust market screening to identify possible problematic products that would require further investigation.

However, in the current Consultation paper, EIOPA applies both Layer I and Layer II indicators on the entire European market. This does not seem a cost-effective nor proportionate solution to identify a few outliers in the market.

BENCHMARKS SETTINGS

Q17. *Do stakeholders agree to use percentiles to define benchmarks?*

In line with to the POG rules, what matters is that all the products offered by insurers meet the demand and needs of the target market. As part of the POG process it is therefore irrelevant whether or not the products belong to certain percentiles, as this would divert the attention of the POG procedure from the demands and needs of consumers.

Besides, Insurance Europe sees some limitations with the use of percentiles as they would not work in practice, for example if all products are around the average value. Percentiles would automatically capture products that were not necessarily intended to be captured as they are perfectly compliant. Percentiles would only work in a situation where products significantly deviate from the average value. And still, if a product significantly deviate from the benchmark, it does not necessarily mean that it is not offering VfM.

Another challenge with the use of percentiles is that, if the outlier products exit from the market, the average value would decrease, therefore potentially squeezing the market without any limit.

This shows that benchmarks, if introduced in the market, can only be used as supervisory tools as they are not a promise of reliability and accuracy. They should be applied by supervisory authorities only, and not be incorporated into POG requirements.

If percentiles are used, the distance from the average, so-called "dispersion", must also be taken into account when determining whether an observation is an outlier. If all the observations are 'close' to the mean, there are no outliers. This consideration would not be possible with the use of percentiles only, which would always include at least one of the products in the outlier set, even if this observation is not much more scattered from the mean than the rest of the products.

Q18. *Do stakeholders agree that percentiles should be defined once the data is available and that such percentiles should be adjusted as relevant?*

Percentiles cannot be defined without data. However, there is already plenty of data available as part of Layer I indicators, and the industry does not see a need to increase the reporting burden for the use of percentiles.

Insurance Europe believes that the use of percentiles might not be the right solution for identifying outliers, as highlighted in the response to question 17). In addition, requiring adjusting the percentiles regularly would not be appropriate for long-term contracts.

If implemented anyway, a better approach might entail applying percentiles in combination with dispersion and other tools, in order to reduce the number of non-outliers captured by the percentiles.

Q19. *In stakeholders' views are there some minimum/maximum percentiles which should be used?*

As per responses to questions 17) and 18), Insurance Europe does not agree with the proposed approach of using percentiles, as it considers it ineffective for consumer protection and not always accurate to identify outliers.

If supervisors consider the use of percentiles necessary for monitoring the market, then percentiles should focus solely on those products, if any, that are outliers in the market. For achieving this result, percentiles could be applied in combination with the dispersion.

At any rate, percentiles should be used for supervision reasons only and should not increase the reporting burden on product manufacturers.

DATA COLLECTION

Q20. *Do stakeholders think that the data collection should be expanded?*

No, Insurance Europe does not agree that the data collection should be expanded to design VfM benchmarks.

Insurance Europe strongly believes that the data already available to EIOPA should be used for this exercise, in order not to increase the reporting burden on market participants. Authorities already have sufficient data to monitor the market and identify outliers. For example, data can be extrapolated from the PRIIPs KIDs, product national reporting, and Solvency II reporting as per Layer I indicators; and some authorities are already making use of technology to extract and aggregate such data in an efficient way, such as IVASS in Italy.

Furthermore, there is an EU decision to establish and implement the ESAP, meaning a platform for sharing product data including PRIIPs KID. The use of the ESAP could be sufficient for EIOPA to monitor the market and should be considered as an alternative to the collection of further data from manufacturers.

It is worrying that EIOPA intends to use existing data under the Cost & Past Performance report while the questionnaire will be "refined and adjusted", potentially meaning that different and more granular data will be requested from insurers. EIOPA indicates that it will also collect "information on additional features" for the product clustering as well as more reporting of "sets of statistics" for the data needed for MOPs.
This would ultimately increase the reporting burden on companies and would run against European Commission President Ursula von der Leyen's commitment to reduce the reporting requirements by 25% and to make it easier for SMEs to do business. Should any benchmarking exercise be developed for supervisory purposes, it should be based on the existing data.

In addition, Insurance Europe is concerned that EIOPA already exposes solutions in the "Looking forward" section on reporting requirements if EIOPA has the RIS mandate, while the political negotiations are ongoing on that matter.

Q21. If yes, which data collection principles should be used?

See response above.

Q22. *Do stakeholders foresee a significant impact in the data collection in terms of resources and time in comparison to the current Cost and Past Performance data collection?*

Yes, Insurance Europe is concerned that both resources and time allocated will increase, should the scope of the new data collection for the Costs & Past Performance report is broadened and requires different and more granular data.

This is because any changes to the data collection would ultimately lead to significant adjustments in the reporting processes already in place, a reassessment of regulatory compliance systems, as well as considerable time for companies to familiarise themselves with the new questionnaire. Too regular revisions and adjustments could undermine the stability of the legislative framework and the market.

Q23: *How would you assess the impact that the benchmarks methodology would have in your organisation? Please consider both the data collection and the use of the benchmarks when they will be available.*

It is difficult to assess the impact the EIOPA's benchmarks would have on insurance companies since the work is not yet known. The most proportionate and cost-effective solution would be to make use of existing data, for instance the ESAP will soon make the KID data even more accessible.

However, the industry is highly concerned that EIOPA's approach would lead to an additional reporting burden, increased compliance complexity and more red tape for market participants.

IMPACT ASSESSMENT

Q24: *Do stakeholders agree with benefits of the proposed approach?*

Insurance Europe finds it regrettable that there is no impact assessment for this benchmarking exercise. As explained above, Insurance Europe is highly concerned that such reference benchmarks would lead to price control and product standardisation reducing consumers' choice if integrated in the POG process of the manufacturers. For this idea, Insurance Europe does not agree with EIOPA's assessment that there would be no cost for implementing the VfM benchmark system. The impact of EIOPA's benchmarks on innovation, competition, product availability as well as cost and burden involved for market participants must be properly assessed before such a tool is introduced in the market.

The experience with PEPPs has shown that over-regulated products, characterised by unrealistic performance expectation and with strict caps on costs, do not work in practice. It has been possible to register PEPPs since 22 March 2022, following the publication of the PEPP Regulation in the Official Journal of the EU. However, to date, only a single provider is offering a PEPP in the EU.

The industry is concerned that EIOPA's proposal for VfM benchmarks goes beyond mere supervisory tools and would not only increase further the already very heavy administrative burdens on market participants by adding new reporting requirements, but would also have severe negative – although unintended – market impacts.

Moreover, too regular revisions and adjustments could undermine the stability of the legislative framework and the market.

Q25: *Are there additional benefits in stakeholders' views?*

Insurance Europe foresees certain risks associated with the introduction of EU VfM benchmarks:

1) **Increase the reporting burden for insurers**, as product manufacturers would need to report more granular data and carry out new assessments;
2) **Expose insurers to reputational and commercial risks** if the benchmarks are published on EIOPA's website;
3) **Increase red tape for insurers,** as they would need to make use of EIOPA's product categorisation, perform additional calculations and justify deviations from the benchmarks. The example of MOPs shows that the proposed options would be too complex and produce a lot of unnecessary data;
4) **Lead to product and price standardisation, reducing competition and innovation,** as product manufacturers will be forced to ensure that their products meet the benchmarks;
5) **Create an impediment to the CMU and hinder access to investment,** since lower attention will be given to product diversity tailored by insurers to best meet consumers' demands and needs.

Moreover, benchmarks may also work as a barrier for new market entrants that are not able to meet these benchmarks due to the lack of economies of scale. This would infringe the fundamental freedom to provide services in Article 56 of the Treaty on the Functioning of the European Union (TFEU). Besides, already established providers might decide to leave the market segment of retail investments which would further increase market concentration.

It is also premature to say whether any follow-up measures to both the EIOPA Statement and Methodology are needed or useful, given that many NCAs are still assessing how to make use of them.

On top of that, co-legislators have just started discussing the opportunity of introducing EU benchmarks as part of the RIS proposals and many policymakers in both the EP and Council have strong concerns regarding this approach. The overlap of initiatives creates confusion in the market and could lead to a misalignment.

Q26: *What could be the costs of implementing Option 2?*

Insurance Europe is not in the position and does not have sufficient elements to calculate the costs of implementing Option 2 for MOPs. Costs will ultimately depend on a number of factors (eg the features included in the clusters, the level of granularity of the indicators, the specification of reporting).

Option 2 will increase reporting significantly, and EIOPA should conduct a proper impact assessment to evaluate its cost implications. The example of the MOPs "data pilot" already shows the complexity and reporting burden that the exercise would imply.

For example, the European Commission impact assessment (link) on the RIS proposals on VfM benchmarks highlights that *"one would need to be able to quantify the time required to validate the data for submission to authorities and their actual transmission, the labour costs of the persons involved, IT costs to automate the submission and the number of financial products covered. Such information will only be known once the reporting obligation is in place."* (p. 322).

The RIS impact assessment also admits that "since central parameters for an estimate of compliance costs are unknown and depend on the specification of reporting, there can only be a rough illustration that uses different assumptions. Scenario analysis suggests that supervisory reporting costs, which are the key component targeted by VfM and at the same time amount to 3% of PRIIPS compliance costs, could be at around EUR 60 million or

in a range EUR 13 to 252 million for one-off costs. Ongoing costs could be in a range of EUR 2.3 to 22.6 million per annum".

These estimates do not seem to consider all the steps that product manufacturers would need to implement, but only focus on the reporting of VfM data. Still, the figures are very high, and the ranges are broad, which shows the uncertainty these estimates are subject to.

As per response to question 8), Insurance Europe believes that neither of the two options for MOPs would work in all member states.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.