

Value for Money: EIOPA's Methodology and Its Consequences

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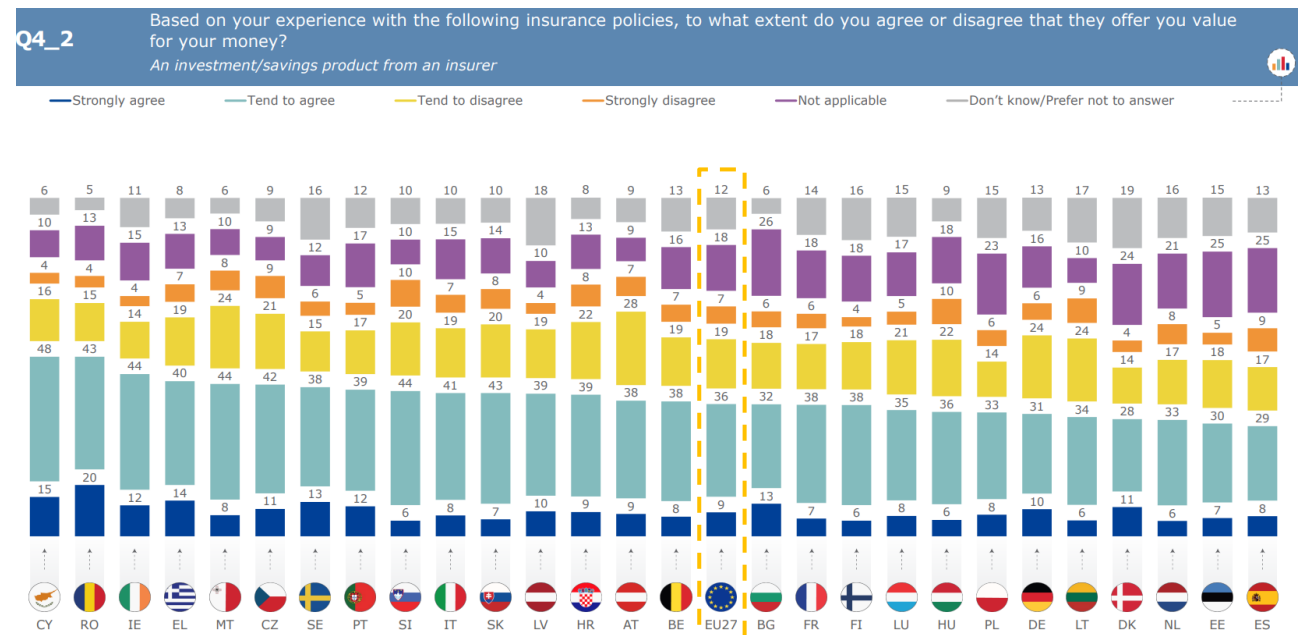
Triple A – Risk Finance

- Qualified Actuary DAV, SAV
- Managing Partner at actuarial consulting firm Triple A – Risk Finance
- Leads the DACH branch covering Germany, Austria, and Switzerland
- Before joining Triple A – Risk Finance, three years at Milliman DACH
- Started my career at Allianz Lebensversicherungs AG in Stuttgart, Germany
- Member of DAV working group *Verbraucherschutz* with focus on Value for Money aspects and *ORSA* respectively.

KEY FINDINGS FROM EUROBAROMETER SURVEY

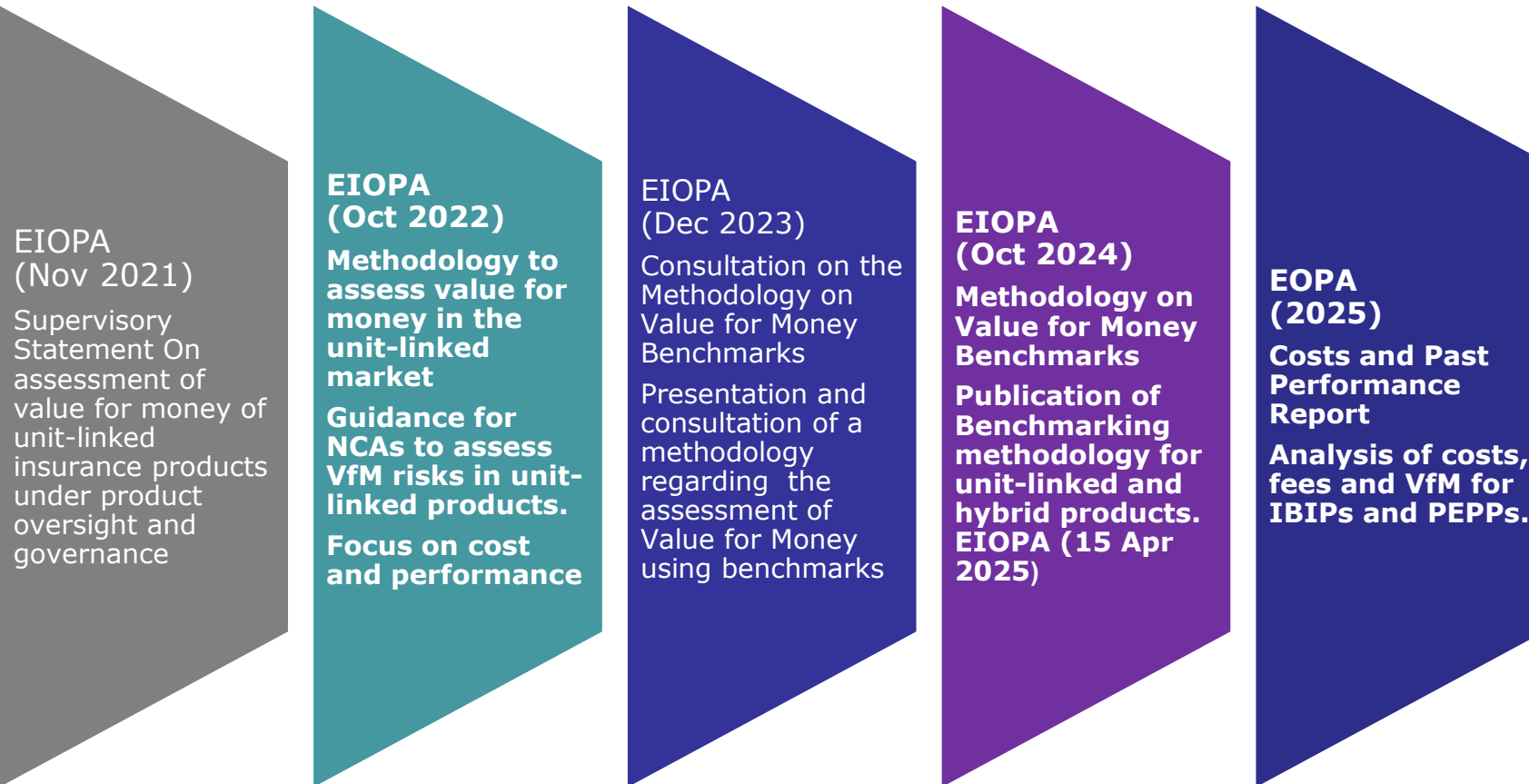
The presence of several products still offering little to no Value for Money (VfM) could undermine overall consumer confidence.

- **Low Value Perception of IBIPs.** Only 45% of EU consumers believe their insurance-based investment products (IBIP) offer good Value for Money.
- **Comparison with Other Insurance.** Compared to other insurance products, IBIPs have the lowest share of consumers believing that they provide VfM.
- **Consumer Concerns and Complaints.** 17% of EU consumers cite high costs and fees as the main reason for not purchasing or renewing an IBIP. Unsurprisingly, life insurance complaints in the EU increased in 2023.
- **Cost and Returns Influence.** Assessing VfM EU consumers prioritize low costs (37%) and attractive returns (34%) as the most important aspects.
- **Renewing IBIPs.** 15% of consumers refrained from renewing IBIPs due to perceived poor VfM



SOURCE: EIOPA - Flash Eurobarometer Consumer trends in insurance and pension services

Overview of EIOPA key publications



A structured approach to ensure proportional costs and fair benefits to consumers, i.e. to ensure that insurance products deliver fair value to consumers

Purpose

- To ensure costs are justified and benefits are proportionate, **enhancing consumer trust**;
- Strengthen product oversight and governance (POG) under the Insurance Distribution Directive (IDD);
- Address risks of high costs, poor returns, and complexity in IBIPs.
- **Guiding National Competent Authorities (NCAs) in identifying products with potential Value for Money (VfM) risks**;
- Benchmarks are not price caps or disclosure tools;
- **Eventually, when data on benchmarks would be shared, intended as a complementary tool for undertakings in performing comparative analyses as part of the Product Oversight and Governance (POG).**

Three-Step methodology for VfM Benchmarks

Defining Product clusters

Group products with similar features based on policyholder needs to enable comparability
Allowing for meaningful comparison across similar products

Defining VfM indicators

Benchmarks are calculated by using eight indicators

Data collection and benchmarking

Use existing data (e.g., Cost and Performance reports) to set and regularly update benchmarks to reflect market changes

- Products are grouped into clusters based on six features, enabling the creation of benchmarks across multiple indicators for costs and performance;
- Benchmarks are calculated for each indicator within every clusters.

TABLE 1: CLUSTERING FEATURES AND CATEGORIES

CLUSTERING FEATURES	CATEGORIES	
▶ Product category	Unit-linked Hybrid (Type 1) Hybrid (Type 2)	
▶ Premium frequency	Single Regular	
▶ Recommended holding period	Short Medium Long	
▶ Biometric coverage	Significant Other	
▶ Asset class	Equity Asset allocation funds Rest	
▶ Summary risk indicator (SRI)	Equity and asset allocation funds	SRI: 2 - 4 5 - 7
	Rest	SRI: 1 - 2 3 - 4 5 - 7

Allocation between profit-participation and unit-linked parts:

- for **Hybrid Type 1** follows predetermined options
- for **Hybrid Type 2** follows consumer's choice and cannot be predetermined at contract inception

Recommended holding period (RHP):

- **short** – less than 10 years
- **medium** – between 10 and 20 years
- **long** – more than 20 years

Decision on **coverage significance** is based on the ratio coverage vs. premium paid:

- For short RHP significant coverage exceeds 150% of premium paid at RHP
- For medium and long significant coverage exceeds 120% of premium paid at half RHP

Assigned based on Complementary Identification Code (CIC) of the most predominant asset class at the contract inception

Source: EIOPA's Methodology on value for money benchmarks

	INDICATOR	DESCRIPTION	SHORT	MEDIUM AND LONG	
			At RHP	At half RHP	At RHP
1	Entry costs 1	Total entry costs / Total premium	Yes	Yes	Yes
2	Entry costs 2	Total entry costs / Total costs	Yes	Yes	Yes
3	Total costs	Total costs / Total premium	Yes	Yes	Yes
4	Reduction in yield (RIY)	Reduction in yield	Yes	Yes	Yes
5	Surrender	Surrender value / Total premium	Yes	Yes	Yes
6	Internal rate of return (IRR)	Internal rate of return of the investment option	Yes	Yes	Yes
7	Insurance benefit	Insured event scenario / Total premium	Yes	Yes	No
8	Break-even return	<p>Average annual return of the investment needed to break even.</p> <p><i>The return should be net of underlying investment costs and biometric premium.</i></p>	Yes	Yes	No

Indicators are calculated based on the **KID moderate scenario assumptions**.

For all indicators except for the IRR **wrapper and investment option are to be assessed jointly**. For IRR only investment option should be taken into account.

Indicators should be calculated for the **clusters for which they are relevant**, e.g. insurance benefit is to be calculated only for significant biometric coverages

Source: EIOPA's Methodology on value for money benchmarks

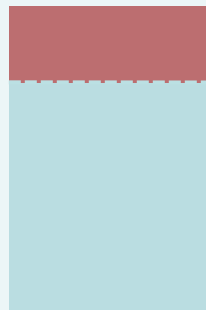
Benchmarks will be determined for each cluster based on the quartiles of the indicators distribution and set at:



the third quartile (Q3)

for the indicators for which higher value is worse for the consumer:

- indicators related to costs
- RIY
- break-even return



The products for which the indicator's value exceeds market's Q3 represent higher value for money risk.



the first quartile (Q1)

for the indicators for which lower value is worse for the consumer:

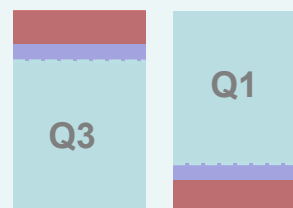
- Surrender
- IRR
- insurance benefit



The products for which the indicator's value is lower than market's Q1 represent higher value for money risk.

Additionally, '**caution area**' based on the standard deviation, allows to:

- incorporate the dispersion of the indicators' values
- indicate products that according to the quartiles assessment are *suspicious* for value for money risk but might need further assessment to confirm it.



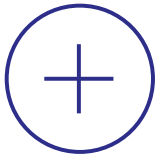
Benchmark	Range of caution area	
	Lower limit	Upper limit
If Q3	Q3	Q3 + standard deviation * 0.5
If Q1	Q1 - standard deviation * 0.5	Q1

From EIOPA's perspective, value-for-money (VfM) benchmarks are not:

- **Not Consumer disclosure Instruments**
 - Benchmarks are not designed for direct communication to consumers. They are complex and technical, making them unsuitable for consumer-facing documents or marketing.
- **Not Cost-capping Tools**
 - Benchmarks do not set maximum prices or fees.
 - They are not intended to regulate pricing, as they cannot account for all product-specific features or consumer needs.
- **Not a Safe harbour**
 - Meeting benchmark values **does not guarantee** compliance with Product Oversight and Governance (POG) requirements.
 - Products must still undergo individual testing to verify they truly offer value for money.
- **Not one indicator only**
 - A narrow focus on costs, therefore, is incomplete and misguided. As opposed to single benchmarks, the joint evaluation of benchmarks for different VfM indicators results in a more comprehensive analysis of the product.

Instead, benchmarks serve as a supervisory tool to support identify products with elevated value for money risks and to promote a more efficient, risk-based approach to oversight.

First full data collection cycle 2025



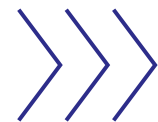
Additional considerations in joint assessment

Additional considerations such as number of early surrenders, exit fees/penalties, claims rejected and/or the materiality of the product should be included.



EIOPA's 2025 benchmarking insights

- Value for money risks are concentrated in a small market segment, indicating no systemic issues.
- Approximately 15% of products raise VfM concerns, with over half of these distributed by fewer than 20 undertakings.
- Certain providers need to strengthen their Product Oversight and Governance (POG) processes



Next steps

EIOPA and its Members are continuing to enhance their benchmarking by analyzing product data and tracking market developments. A second data collection exercise is underway, building on insights from the initial cycle.

Regulatory Initiatives and Supervisory Focus

[BaFin - Guidance Notices - Guidance Notice 01/2023 \(VA\) on Aspects of Conduct of Business ...](#)

Guidance and FAQs

BaFin issued a Guidance Notice on Aspects of Conduct of Business Supervision for Savings Products, followed by FAQs

Risk-based benchmarks

Benchmarks to assess from a risk-based perspective whether it might be necessary to take a closer look at specific case

Customer-Centric Approach

Focus on designing and distributing insurance products that serve consumers' best interests and enhance value for money

Supervision Review

BaFin criticizes return target to be in some cases "unambitious"

Expanding VfM Evaluations

BaFin is exploring extending value for money assessments to other insurance lines like motor and P&C and is discussing how/on taking the annuity phase into account.



ACPR Recommendations and Market Practices

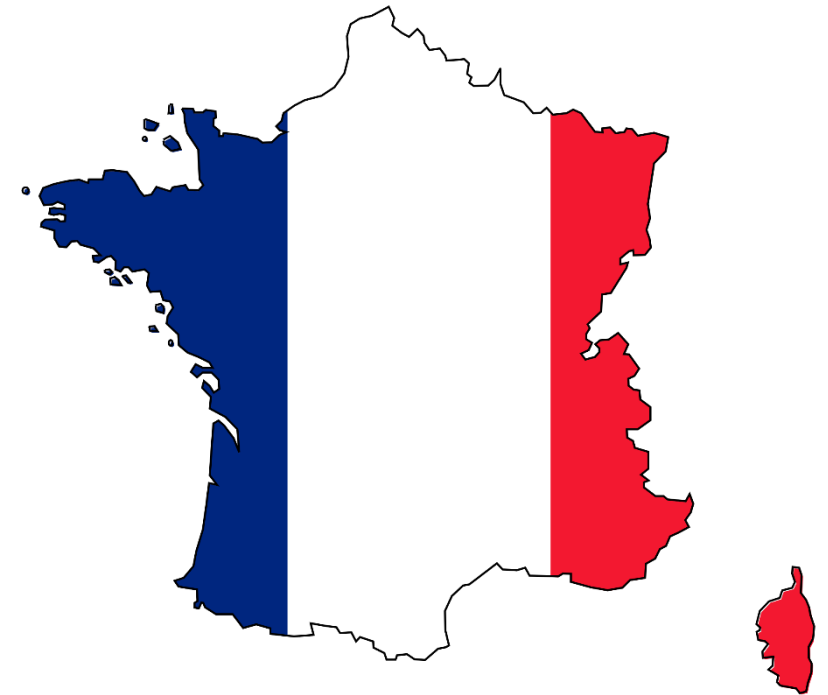
[Our strategy](#) | [Autorité de contrôle prudentiel et de résolution](#)

Strategic Recommendations by ACPR

ACPR released Recommendations highlighting the importance of comparing costs and performance of investment options and associated insurance contracts to market averages

Taking *appropriate measures*

The ACPR expects undertakings to take “appropriate measures” when circumstances are identified that could have a negative effect on the target market



Italy's Implementation of EIOPA's VfM Framework

[IVASS - Letter to the market of 27 March 2024](#)

Proactive Framework Adoption

Proactive implementation EIOPA's VfM framework & Participation in EIOPA's pilot project and public consultation (Dec 2023–Mar 2024) refining benchmarks for unit-linked and hybrid products

Supervisory Expectations on POG

IVASS developed Supervisory Expectations on POG addressed to manufacturers including and emphasizing VfM aspects

Customer-Side Profit Testing

Customer-side profit tests evaluate expected returns and costs over time, assess the weight of entry costs and break-even points etc. to ensure product value



Belgium – Value for Money Developments

[FSMA publishes annual report and focuses on value for money of financial products | FSMA](#)

Alignment with EIOPA Framework

Belgium actively participated in EIOPA's 2025 data collection to refine insurance product benchmarks

FSMA's Vigilance on Insurance Costs

The FSMA tackles expensive insurance products and that certain insurance products provided insufficient value for money and were therefore too expensive for consumers

Emphasis on Justifying Costs

If insurers could not give any justification – or only one that was insufficiently convincing – for a high RIY or a low claims ratio the FSMA asked them to take the necessary measures to ensure that their products will offer value for money to consumers



Market improvements

KNF Participation

KNF is participating in EIOPA's second data collection cycle (2025) to refine benchmarks

Alignment with the Retail Investment Strategy (RIS)

KNF has not issued separate VfM-specific guidelines yet but is expected to integrate EIOPA's benchmarks into its supervisory approach and to align with the Retail Investment Strategy (RIS) for broader consumer protection

Challenges in Unit-Linked Products

Issues mainly arise in unit-linked products with complex structures and high distribution commissions, especially those cross-sold by banks.



FMA Participation

Participation in EIOPA's second data collection cycle (2025).

Creation of Proposal to consider Value for Money aspects

The FMA is currently developing a proposal to consider value for money aspects and customer-side profit test evaluations



Supervisory Use and Holistic Assessment



Supervisory Use only.

- Benchmarks should strictly remain within the sole remit of supervision and not be integrated into product design or POG processes
- Benchmarks help authorities identify outlier products and assess market practices effectively.

Avoid benchmarks for Marketing Misuse.

- They should not be made public or used for product ranking
- Publicly sharing benchmarks could mislead consumers and harm insurers reputations.

Avoid Cost Overemphasis.

- Focusing too much on cost risks undermine product diversity and reduce competition.

Holistic approach.

- Consider all quantitative and qualitative benefits
- IBIPs offer guarantees, biometric risk coverage, advice, assistance, services, flexibility, sustainability features.

Insurers' freedom and Prevention of Administrative Burden



Respect **diversity of products and markets.**

- National benchmarks are most suitable monitoring product distributed exclusively within a single market reflecting local preferences and regulatory conditions
- EU-level benchmarks could enhance oversight of cross-border business.

Respect **insurers' freedom to design products and set prices.**

- As a necessary condition for competition, innovation and ability to meet consumers' demands and needs.
- Regulatory benchmarks should identify risks and support supervisory discussions without limiting innovation.

Prevent **Additional Administrative Burden.**

- Benchmarks implementation should not add extra administrative workload to insurers, preserving operational efficiency.
- Use data from existing frameworks like Solvency II, PRIIP KIDs to prevent duplication in reporting requirements.
- Minimizing red tape enables insurers to focus on delivering consumer value rather than compliance tasks.

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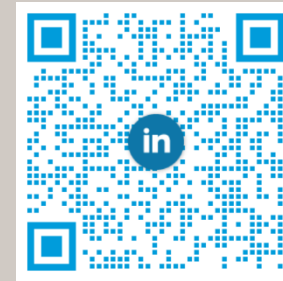
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