

European Authorities remain mostly blind when it comes to the Past Performance and Costs of Long-term Savings Products, despite first reports ever released

23 January 2019 - Long-term retail savings are the only EU consumer products for which consumers and Public Supervisors not only don't have a clue as to their future performance, but they don't even know what their past performance has been.

On 10 January 2019, following a 2015 request by BETTER FINANCE¹, the European Supervisory Authorities (ESAs) finally released [reports](#) on costs and past performance of long-term and pension savings products sold or marketed in the EU. BETTER FINANCE welcomes this first step in the right direction and sympathises with some of the challenges encountered by the ESAs concerning data availability. However, the reports fall short of meeting their objective and of fulfilling the European Commission's request. This situation raises questions about the fulfilment of the investor and consumer protection mandate of the European Authorities.

Alarmed by the fact that retail financial services continue to rank as one of the worst consumer markets in the entire European Union according to the European Commission's Consumer Markets Scoreboards, and warned by BETTER FINANCE, the Commission decided ***"to ask the European Supervisory Authorities (ESAs) to work on the transparency of long term retail and pension products and an analysis of the actual net performance and fees, as set out in Article 9 of the ESA Regulations"*** (Capital Markets Union Action Plan, September 2015, page 18).

In October 2017 the EC issued its request to the ESAs to report on the gross, net and real net historical returns, and on costs at product-category level, for:

- Retail UCITS (Undertakings for the Collective Investment in Transferable Securities) and AIFs (Alternative Investment Funds) and Structured Retail Products (SRDs) under the remit of the European Securities and Markets Authority (ESMA);
- Insurance-based Investment Products (IBIPs) and Personal Pension Products (PPPs) in the scope of the European Insurance and Occupational Pensions Authority (EIOPA); and
- Structured Deposits (SDs) covered by the European Banking Authority (EBA).

The data as requested by the EC was supposed to be gathered primarily from the disclosure and reporting requirements pursuant to EU law and to be accompanied by performance information compared to market performance (benchmark indices). The reports are also required to include recommendations for consecutive reporting cycles, including with regard to the usefulness of the various disclosure documents.

Regrettably, the reports recently published by the ESAs only cover a very small fraction of the €20 trillion retail market in the EU, staying limited to:

- A small part of the life insurance and pension products, the number one product category used by EU citizens with 39% of total financial savings:
 - only 21% of life-insurance products ("IBIPs"), and not with the required last 10-year time frame (only 5 years), with mistakes and surprisingly high returns for "profit participation" products;
 - almost nothing on Personal Pension Products ("PPPs");
 - nothing at all on occupational pensions;
- Some investment funds (which all in all represent only 8% of EU households' financial savings): "retail" UCITS funds in just 14 Member States, nothing on AIFs which are widely sold to European individuals;

¹ BETTER FINANCE, CMU Briefing Paper 2015, page 27,

http://betterfinance.eu/fileadmin/user_upload/documents/Research_Reports/en/CMU_Briefing_Paper_-_For_Print.pdf.

- And nothing on bank structured products, and - more importantly - on bank savings accounts, the number two financial savings product for EU households (28% of total). One can argue that those may not be adequate for long-term needs, but they are actually used as such by many citizens.

What's more is that no objective comparisons (against benchmarks) were made.

Moreover, they lack concrete recommendations or next steps, in particular with regards to the utility of the current EU disclosure documents (the PRIIPs KID for example) as requested by the EC. This is all the more unfortunate since the 2017 EC Study on the Distribution of Retail Investment Products already failed to propose a way forward as regards i) identifying ways to improve the policy framework and intermediation channels so that retail investors can access suitable and cost-effective products on fair terms, ii) providing an assessment of how the policy framework needs to evolve to benefit from the new possibilities offered by online-based services and fintech...

The "next steps" part of the reports is also inconsistent with last month's consultation document from the same ESAs (December 2018)² on improving the PRIIPs KID by proposing to reinsert a standardized disclosure of last 10 years performances compared to benchmarks. Such an ESAs' proposal would nevertheless solve many of the obstacles faced by EIOPA for life insurance products.

Even though the ESAs are legally required (article 9(1)(a) of their founding Regulations) to collect, analyse and report on consumer and market trends with the aim of "promoting transparency, simplicity and fairness in the market for consumer financial products or services across the internal market", they have not done so until now.

"EU savers and individual investors *are once again left in the dark*", stresses Guillaume Prache, the Managing Director of BETTER FINANCE. "*How is it possible*", he asks, "*that the pan-EU financial supervisory authorities still do not measure the performances of the consumer markets they are responsible for? One cannot adequately supervise what one cannot measure. BETTER FINANCE asks the ESAs to clearly communicate to the European Commission, Parliament and Council what they need in terms of EU disclosure rules to achieve this core part of their mandate.*"

[A more detailed analysis by BETTER FINANCE will be published early next week.]

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² Consultation paper <https://eiopa.europa.eu/Pages/Consultations/Joint-Consultation-Paper-concerning-amendments-to-the-PRIIPs-Kid.aspx>; BETTER FINANCE response <https://betterfinance.eu/publication/better-finances-response-to-the-joint-consultation-paper-concerning-amendments-to-the-priips-kid/>.