Limitations of the framework to address value for money risk in the European unit-linked market

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Abstract

Savings in the unit-linked products are increasing across the European Union member-states. In environment of low interest rates and increased capital requirements for traditional life insurance products the supply of the unit-linked insurances is rapidly growing. The last year sold unit-linked life insurances in Bulgaria are four times more than five years earlier.

Unit-linked life insurance consists of insurance part and asset management part. The investment result from the insurance is usually born by the insured. The investment performance is related to the performance of the financial markets.

The growing acceptance of unit-linked products are posing questions of adequate information to consumers, the balance between the price and the benefits of the products, the related risks and the proper rights of the insured.

All these specifics raise questions whether the insured are well informed when buying the insurance and whether the client’s needs and preferences are matched with the proposed product. These questions lead to the asking what value is receiving the client for the money spent – value for money effect and risks.

In the European Union there is no common framework on the assessment of the effectiveness of the product. The European Insurance and Occupational Pensions Authority is proposing framework to address value for money risk in the European unit-linked market.

The study finds out that the design of the product is of great importance for the value for money effect for the insured. The life insurance activity in the European Union follows strict and profound regulations both for the life insurance companies and for the life insurance products. That is why additional framework is not the most necessary step. The European Union needs Savings plan that encourages saving in the member states, increases the insurance coverage, increases the accumulated assets and improves the efficiency of the personal savings and investment products.

Keywords: value for money risk, unit-linked life insurance, effectiveness of personal saving product.

Introduction

Unit-linked life insurances increase their role in the personal savings and investments in the European Union (EU). The design of the personal product is of great importance for the success of the saving or investment. The European Insurance and Occupational Pensions Authority (EIOPA) presents annual Consumer Trends Report where it has been highlighting concerns with regard to issues in the European unit-linked market. This market encompasses hybrid products that combine a unit-linked component with a profit participation component and/or a capital guarantee. EIOPA is drawing attention that costs can have a significant impact on returns of all insurance-based investment products. The authority is of the opinion that...
well-designed unit-linked products can provide significant benefit to consumers and unit-linked products which are not designed in a customer-centric manner continue to be a prominent area of concern. The usual issues concerning unit-linked products are reported to be: high complexity, mis-selling, mismatches between actual returns and customers’ expectations. EIOPA stresses that these issues are related to the poor value these products offer.

EIOPA is trying to define the value for money concept. This concept is not explicitly defined in EU legislation. The product oversight and governance (POG) framework clearly highlights that products’ characteristics need to be tested to ensure they are aligned to the target market’s needs, objectives and characteristics. The European authority is of the opinion that “...despite value for money being entrenched in POG, there is a need for more harmonised guidance to implement POG requirements and address consumer detriment arising from products where the costs and charges are not proportionate to the benefits and hence where products do not offer value to the target market”. EIOPA considers that products offer value for money “...where the costs and charges are proportionate to the benefits (i.e., investment performance, guarantees, coverage and services) to the identified target market and reasonable taking into account the expenses born by providers and in comparison, to other comparable retail solutions on the market”.

**Material and methods**

The aims of the research are reached through the following methodology: analysis of the proposed from the EIOPA framework to address value for money risk in the European unit-linked market; discussion on the different opinions on the topic; description of the current situation and trends in the markets of life insurance products; review of EU policies in related markets; exploration of the literature on the topic and discussion of how to improve the efficiency personal insurance products. The research fives focus on the market and issues in Bulgaria.

One of the reasons for the proposed new framework is the customer protection. When customer protection is pointed as a reason the real motive behind it is the lack of trust. Very important for the perception of a personal insurance product are the trust and the supplied information. The lack of sufficient consumer trust is raised as a problem concerning the reasons the EC to develop the PEPP (London School of Economics et al., 2020). 57% is the trust by consumers in financial products and financial institutions according to Edelman Trust Barometer – the lowest among 10 categories.

From the point of view of the saver, efficiency is measured mainly in the form of the expected sum to receive at the end of the saving compared to the contributions invested at the beginning. Tax reliefs help to increase the financial effect from the saving.

Another important milestone in improving efficiency are the costs. As recognised by EIOPA (EIOPA, 2021) “...where several product components are offered as a single, integrated, product, assigning costs to specific product benefits may be difficult in some cases”. Very important part of the product efficiency is the defining the product target market. EIOPA states that “...to assess whether the insurance component brings value to the target market, manufactures should establish whether this additional element (for example, a substantial death benefit) is reflected in the target market’s needs”. If it is clearly established that the target market for such products also seek relevant insurance protection, it is then important to assess: Whether the products provide the cover that it should be reasonably expected for the target market; Whether the biometric risk premiums/costs clearly reflect the coverage provided; Whether the biometric risk costs vis-à-vis the target market characteristics and the impact they have on the policy benefits – in particular taking into account that for some products biometric risk costs vary depending on the age of the policyholder (EIOPA, 2021).
Insurance Europe is of the opinion (2021) that “...insurance undertakings are best placed to apply the existing POG requirements through measures and procedures that are proportionate to the level of complexity and the risks related to the products as well as the nature, scale and complexity of the relevant business of the manufacturer”.

The tax regime of the saving in unit-linked life insurances could be used to reduce the insurance gap and the income inequality of the elderly. 85% from the people are passive (Chetty et al., 2012). The tax reliefs could be differentiated based on level of income, types of income, the amount of the contribution, the amount of the pension benefit and others. Those problems could be solved with combination of reliefs between absolute values and relative terms.

The tax advantages can be spread out not only to labour income but also to income from real estate (rent and capital gain), income from financial instruments (dividend and capital gain), some kind of social or labour compensations or indemnities. Another milestone is to give possibility to gain the tax advantage for self-employed and for income from non-labour contracts.

Other policy option is to apply family tax reliefs. That means that there is favourable tax treatment in favour of a family member. In economies that has uncertainty in career and uncertainty in the labour income this is regarded as a solution to increase the coverage and to decrease the inequalities in gender and in income.

Another policy option could be to incentivise the annuities as a pay-out form in the end of a unit-linked life insurance contract. Some countries, like Czech Republic and Estonia, apply more favourable tax treatment for annuities as compared to programmed withdrawals. This is a way to incentivise people to annuitize their pension income.

The newly adopted European framework for pan-European Personal Pension Product (PEPP) has direct relation to the unit-linked insurances. Life insurers can be PEPP providers. When delivering PEPP life insurer can use unit-linked insurance product or endowment product. The possible PEPP providers are generally insurers, pension institutions, asset management companies and banks. These groups of providers have different business models. They all need to have at least Basic PEPP.

Essential part of the analysis is whether the savings / investment product is part of national guarantee scheme. It is positive that unit-linked insurance products in Bulgaria are part of such national guarantee scheme. For the saver it is very important whether the related loss is covered by an investor compensation or guarantee scheme. This information is very important for the savers’ choice and behaviour. The saver has to take into account whether some part or the whole amount of the savings is under protection from national guarantee scheme. In some countries life insurances and bank deposits are guaranteed up to certain level under sectoral guarantee schemes. At the same time savings in voluntary pension funds and in mutual funds are not protected under national guarantee scheme. This is the case in Bulgaria.

Prudential rules can be very important factor in defining various policy options in savings / investment personal products. Possible policy option is favourable tax regime to be granted for products which have high level of providers’ prudential rules. For the saver’s security stricter rules are better. Higher capital and governance requirements lead to increased price for the private capital to participate in the market. It is said that life insurers have stricter prudential rules compared to asset managers. This could lead to prudential rules arbitrage.

One of the most important factors for product efficiency is the coverage of savers / insured persons. Improved design of the unit-linked insurances could be a part of the solution for the diminishing the insurance gap. High coverage rate is considered as one of the main factors for success of the personal savings products.

In this context for the success of the policy option it is very important the transparency of the product. Crucial indicator for the transparency is the comparativeness between different savings and investment products as
well as between unit-linked life insurances provided by different insurers. That is why it is needed clear and easy to understand information. User-friendly tools, calculators and others will help for the success of the product.

Other elements of the transparency are the compulsory informative documents such as key information documents (KIDs). The lack of sufficient information leads to low comparability between products.

Consumer protection and encouraging the saving in unit-linked life insurances require more active government policy. The active government policy could take the form of detailed regulations, higher capital requirements, sophisticated supervision, medium- and long-term targets, adequate and regular information, appropriate statistics, periodic analyses and others.

Papers that include positions about unit-linked insurance policies risks and advantages are many institutional bodies such as AAE (the Actuarial Association of Europe, 2021), Better Finance (2021), EFAMA (the European Fund and Asset Management Association, 2021), EIOPA (2021), Insurance Europe (2021), OECD (the Organisation of Economic Co-operation and Development, 2021) and others.

Results and discussion

Based on the analysis reached is the conclusion that additional framework addressing value for money risks of unit-linked insurance products is not a necessary step. Such framework can hinder the development of the market of saving and investment products, additionally decrease the insurance coverage in the European Union member-states, decrease the long-term savings in the Europe and decrease the competitiveness of the European economy. What is necessary in the European Union is a Savings plan that consists of a system of measures to increase the insurance and pension coverage, to increase the trust in insurance and retirement products, to promote best practices, to encourage the customer centric approach, to further develop the financial markets, to improve the financial literacy and to adopt holistic approach in insurance and pensions.

There is clear evidence for the increased role of the unit-linked life insurances on the market in Bulgaria. The following table displays information for the gross premiums written by life insurers by classes of insurance in Bulgaria in local currency the BGN and for the period of 2011 – 2021.

Table 1. Gross premiums written by life insurers in Bulgaria in BGN, 2011–2021

| classes of insurance / year | 2011        | 2013        | 2015        | 2016        | 2019        | 2020        | 2021/10     |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Life insurance and annuities | 187 784 843 | 228 996 013 | 282 810 098 | 286 172 871 | 244 784 237 | 210 097 483 | 179 116 643 |
| a) life insurance           | 160 783 297 | 174 410 934 | 215 393 702 | 229 807 777 | 219 458 335 | 189 219 666 | 162 336 671 |
| - endowment assurance       | 142 558 984 | 130 892 023 | 151 393 182 | 155 054 930 | 125 062 255 | 118 340 497 | 91 081 668  |
| - term assurance            | 36 224 313  | 43 518 911  | 64 000 519  | 74 752 847  | 94 396 080  | 70 879 169  | 71 255 003  |
| b) pension insurance or annuities | 27 001 546 | 54 585 079 | 67 416 396 | 56 365 095 | 25 325 902 | 20 877 818 | 16 777 972  |
| 2. Marriage and birth insurance | 7 529 250  | 9 284 683  | 10 526 012 | 10 193 242 | 7 884 284  | 7 221 223  | 5 522 917  |
| 3. Unit linked life insurance | 19 642 817 | 17 844 422 | 27 002 704 | 58 307 158 | 91 324 725 | 108 423 240 | 192 807 043 |
| 4. Capital redemption        | 0           | 0           | 0           | 0           | 0           | 0           | 0           |
| 5. Supplementary insurance   | 14 580 839  | 17 496 001 | 18 837 107 | 18 297 660 | 27 233 881 | 33 721 531 | 27 360 960  |
| 6. Accident insurance        | 19 973 300  | 19 599 904 | 23 428 698 | 18 305 378 | 18 273 460 | 13 836 050 | 13 791 228  |
| 7. Sickness insurance        | 2 193 046   | 12 721 381 | 28 663 556 | 36 809 577 | 109 232 699 | 68 223 737 | 64 357 746  |
| total                       | 251 704 094 | 305 942 403 | 391 268 175 | 428 085 887 | 498 733 287 | 441 523 264 | 482 956 537  |

Source: FSC, www.fsc.bg. BGN 1 = EUR 0.511292
The table above shows that annual premiums for unit-linked life insurance register significant increase – approximately ten times for 11 years. For the 2011 the premiums stand at BGN 19.6 mln. (BGN 1 = EUR 0.511292) and reach BGN 192.8 mln. as at October 2021. The paper is finalized at 28.02.2022 and at that date the last official data for the market is for the October 2021. We can project even bigger increase for the whole 2021 year based on the practice the last two months the premiums to be bigger compared to the monthly average for the rest of the year. In the table is not presented the data for some years which do not change the tendencies in the market.

The increase in the premiums for the unit-linked life insurances is the biggest increase among all the other classes of insurance except sickness insurance. The increase in the sickness insurance is because of technical reason. From 2013 voluntary health insurance funds have to decide whether to prolong their activity as licensed non-life insurers or to transfer their activity to existing insurance companies. The second option was chosen from five out of ten life insurance companies and the business from voluntary health insurance funds was transferred to these life insurance companies. The other voluntary health insurance funds chose either to license as non-life insurers or to close the activity. Nevertheless, this mechanical transfer in 2013 the sickness insurance registered very rapidly increase namely in 2019 when the premiums tripled than the previous year – up to BGN 109 mln. from BGN 36 mln. There are different reasons for this sharp increase. The main factors were the very aggressive distribution from the life insurers and the insurance intermediaries, the increased demand from the employers to provide additional social benefits to their employees, the shift from the traditional life insurances to other classes of insurance and the ongoing discussion among the policy makers to redirect part of the compulsory health insurance contribution to life insurers as second additional pillar of the health insurance system. The last discussed policy option has not come into reality as most of the stakeholders’ groups were opposed to such health system reform.

The Table 2 presents data of the relative shares of the classes of insurance in premiums for life insurers by year for the period of 2011 – 2021.

Table 2. Market share of classes of insurance in gross premiums written by life insurers in Bulgaria in %, 2011-2021

| classes of insurance / year | 2011 | 2013 | 2015 | 2016 | 2017 | 2019 | 2020 | 2021/10 |
|-----------------------------|------|------|------|------|------|------|------|---------|
| 1. Life insurance and annuities | 74.6% | 74.8% | 72.3% | 66.8% | 61.6% | 49.1% | 47.6% | 37.1% |
| a) life insurance | 63.9% | 57.0% | 55.1% | 53.7% | 53.6% | 44.0% | 42.9% | 33.6% |
| - endowment assurance | 49.5% | 42.8% | 38.7% | 36.2% | 32.5% | 25.1% | 26.8% | 18.9% |
| - term assurance | 14.4% | 14.2% | 16.4% | 17.5% | 21.1% | 18.9% | 16.1% | 14.8% |
| b) pension insurance or annuities | 10.7% | 17.8% | 17.2% | 13.2% | 8.0% | 5.1% | 4.7% | 3.5% |
| 2. Marriage and birth insurance | 3.0% | 3.0% | 2.7% | 2.4% | 2.2% | 1.6% | 1.6% | 1.1% |
| 3. Unit linked life insurance | 7.8% | 5.8% | 6.9% | 13.6% | 16.3% | 18.3% | 24.6% | 39.9% |
| 4. Capital redemption | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 5. Supplementary insurance | 5.8% | 5.7% | 4.8% | 4.3% | 4.9% | 5.5% | 7.6% | 5.7% |
| 6. Accident insurance | 7.9% | 6.4% | 6.0% | 4.3% | 4.4% | 3.7% | 3.1% | 2.9% |
| 7. Sickness insurance | 0.9% | 4.2% | 7.3% | 8.6% | 10.7% | 21.9% | 15.5% | 13.3% |
| total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: FSC, www.fsc.bg
The data in Table 2 shows that unit-linked life insurances stand in first place with 39.9% share among all insurance classes in the life insurance market in Bulgaria as at October 2021 (the last official statistics from the Financial Supervision Commission, FSC). The share of the unit-linked insurance steadily grows from 7.8% in 2011 to 16.3% in 2017 up to 24.6% in 2020 and reaches 39.9% in 2021. In order to draw some conclusions, it is interesting to see the dynamics of the market share of the classes of insurance in gross premiums written by life insurers in Bulgaria in %, for the period of 2011-2021. One of the most significant tendencies is the decline of the relative share of endowment assurances. The decline is more than 2.5 times from 2011 to 2021. The market share of endowment assurances goes from 49.5% to 18.9%. The decline is not only in relative terms but also in absolute sums – from BGN 124 mln. to BGN 118 mln. for period of ten years. The combined analysis in absolute and in relative terms can be executed based on the data in Table 1 and Table 2. We have to take into account that in the product class “endowment assurance” are classified some group contracts. The main factors for this sharp decline in the endowment assurance product class are the low interest rates, the increased capital requirements for guaranteed life insurance products under European Union prudential rules and the shift of the distribution to unit-linked life insurance products and health insurances (registered in sickness insurance product class).

The “term assurance” product class preserves its market share of slightly above 14% but it is important to note that the premiums under this product almost double for the analysed period of 11 years - from BGN 36 mln. to BGN 71 mln. (we forecast that it will go above 80 mln. full year 2021). In the group “term assurance” are registered some of the credit life products. The increase in the written premiums for this insurance class is due to the increase of the sales of life insurance products through banks. Banks in Bulgaria stand more active in selling products additional to core bank ones. Due to the bankassurance activity there is increase in “supplementary insurance” product class. The written premiums for this product class are more than doubled for the analysed period (from BGN 14 mln. to more than BGN 30 mln.), no matter that the relative share is almost the same – 5.7% from all premiums.

“Pension insurance or annuities” is the subgroup with in “life insurance and annuities” group classes of insurance with decrease in premiums both in absolute and relative terms. The market share of pension insurance and annuities premiums decline from 10.7% to 3.5% and in absolute sums the decrease is from BGN 27 mln. to BGN 20 mln. for the analysed period of 11 years. Specific reasons for this tendency are the competition of saving in Voluntary pension funds and the decline in some group life contracts which are reported in this class of insurances. The comparison with saving in Voluntary pension funds is not in favour of pension insurance or annuities products in some aspects. One of these aspects is the tax region of the two different savings products – life insurance products and voluntary pension fund products. Second aspect is the low technical interest rate calculated in life insurance products. Since 2018 the regulatory body (the Financial Supervision Commission, FSC) imposes additional limit to the technical interest rate used for the calculation of the insurance sum and the technical reserves of the life insurance products. The maximum technical interest rate is 0.58% for the first quarter of 2022 (the limit is calculated and announced quarterly). Most of the life insurance companies is embracing 0% technical interest rate because of the uncertainty and the expectation for further decrease of the maximum limit of the technical interest rate. It is interesting to see that there are no insurance contracts under the “capital redemption” class of insurance.
Another insurance class that is registering decline both in absolute and relative terms is the “accident insurance”. The market share of this product class decreases from 7.9% to 2.9% and the annual premiums decline from BGN 20 mln. to BGN 14 mln.

The above analysis shows that the market of life insurance during the last 11 years is driven by unit-linked products, bankassurance increased activity, group life products and sickness insurances. The main reasons for this are mentioned above: the low interest rates; the increase capital requirements for traditional life insurance products; the strong presence of banks as a unique selling point and the increased demand for health cover insurance products.

In order to have full picture of the market it is needed to see the market behavior of the life insurance companies in Bulgaria. In Table 3 is presented data for the life insurance portfolio structure as at 31.12.2020 (the last period with official statistics for the whole year).

Table 3. Life Insurance Portfolio Structure in Bulgaria as at 31.12.2020

| №  | Classes of insurance          | Allianz Bulgaria Life | Bulstrad Life VIG | Uniqa Life | Grawe Bulgaria Life Insurance | DZI Life Insurance | Groupama LIC | JZI | LIC Saglasie | CCB Life | Eurosins Life Insurance |
|----|-------------------------------|-----------------------|-------------------|------------|-------------------------------|-------------------|--------------|----|--------------|---------|-------------------------|
| 1. | Life insurance and annuities | 37.1%                 | 46.4%             | 60.0%      | 86.6%                         | 32.3%             | 90.6%        | 32.0% | 74.1%        | 8.1%    | 77.4%                   |
|    | a) life insurance             | 24.9%                 | 38.2%             | 60.0%      | 86.6%                         | 32.3%             | 90.6%        | 32.0% | 74.1%        | 8.1%    | 77.0%                   |
|    | - endowment assurance         | 19.6%                 | 18.8%             | 26.6%      | 86.6%                         | 24.0%             | 3.9%         | 14.2% | 62.4%        | 8.1%    | 14.4%                   |
|    | - term assurance              | 5.2%                  | 19.4%             | 33.4%      | 0%                            | 8.3%              | 86.7%        | 17.8% | 11.7%        | 0.0%    | 62.5%                   |
|    | b) pension insurance or annuities | 12.2%                     | 8.1%               | 0%         | 0%                             | 0%                | 0%           | 0%    | 0%           | 0.0%    | 0.5%                    |
| 2. | Marriage and birth insurance  | 4.0%                  | 0.6%              | 3.2%       | 0.0%                          | 0.2%              | 1.0%         | 0.0%  | 9.2%         | 0.0%    | 0.0%                    |
| 3. | Unit linked life insurance    | 53.7%                 | 6.6%              | 2.6%       | 7.6%                          | 36.8%             | 3.6%         | 0.0%  | 10.5%        | 0.0%    | 0.2%                    |
| 4. | Capital redemption            | 0.0%                  | 0.0%              | 0.0%       | 0.0%                          | 0.0%              | 0.0%         | 0.0%  | 0.0%         | 0.0%    | 0.0%                    |
| 5. | Supplementary insurance       | 0.0%                  | 15.7%             | 0.0%       | 5.2%                          | 10.7%             | 0.0%         | 0.0%  | 4.0%         | 85.9%   | 22.3%                   |
| 6. | Accident insurance            | 0.8%                  | 1.4%              | 5.1%       | 0.0%                          | 6.2%              | 4.8%         | 22.9% | 2.1%         | 0.0%    | 0.0%                    |
| 7. | Sickness insurance            | 4.3%                  | 29.3%             | 29.1%      | 0.6%                          | 13.9%             | 0.0%         | 45.1% | 0.0%         | 5.9%    | 0.0%                    |

Source: FSC, www.fsc.bg

The information from the table shows that we can form four groups of life insurers based on the share of premiums of unit-linked products in the whole company portfolio. Two companies are heavily selling unit-linked insurances: Allianz Bulgaria Life and DZI Life insurance with share of unit-linked premiums 53.7% and 36.8% respectively. The second groups of companies are life insurers with medium level of relative share, ranging from 6.6% to 10.5%: Life insurance company Saglasie, Grawe Bulgaria Life insurance and Bulstrad Life Vienna Insurance Group. The author is Chief executive officer of Life insurance company Saglasie and the conclusions in the study are his personal opinions and do not represent company views. The third groups of companies are with low level of premiums in unit-linked products, ranging from 2.6% to 3.6%: Groupama Life insurance company and Uniqa Life. Three out of ten life insurers are not selling unit-linked product or have premiums close to zero: CCB-Life, JZI and Eurosins life insurance company. It is notable that these three companies are associated with shareholders which are Bulgarian entities. So, we can conclude that the main drivers for the increase of the unit-linked insurance premiums are life insurers with foreign shareholders.

The full analysis of the unit-linked insurance products requires to see the claims paid by life insurers in Bulgaria. Table 4 presents such information as at 31.12.2020.
Table 4. Claims paid by life insurers in Bulgaria as at 31.12.2020

| №  | Classes of insurance                           | Allianz Bulgaria Life | DZI Life Insurance | Bulstrad Life VIG | Uniqa Life | Gravus Bulgaria Life Insurance | Groupama LIC | LIC | Euroins Life Insurance | CCB Life | total |
|----|-----------------------------------------------|-----------------------|--------------------|-------------------|------------|-------------------------------|--------------|-----|------------------------|-----------|-------|
| 1. | Life insurance and annuities                 | 35 336 102            | 32 498 930         | 20 480 076        | 11 735 266 | 13 764 179                    | 6 054 973    | 3 059 989 | 787 314                | 946 436   | 137 541 | 124 800 806 |
| a) | life insurance                               | 20 537 455            | 32 427 419         | 13 009 066        | 11 731 423 | 13 764 179                    | 6 054 973    | 3 056 367 | 787 314                | 926 920   | 137 541 | 102 432 659 |
| -  | - endowment assurance                         | 18 924 308            | 29 276 045         | 10 916 430        | 8 628 498  | 13 764 179                    | 620 337      | 2 611 420 | 426 664                | 456 090   | 137 541 | 85 761 513  |
|   | - term assurance                              | 1 613 146             | 3 151 374          | 2 092 635         | 3 102 927  | 5 434 636                     | 444 947      | 360 650   | 470 830                | 0         | 16 671 146 |
| b) | pension insurance or annuities               | 14 798 647            | 71 511             | 7 471 010         | 3 841      | 3 622                         | 0            | 19 516    | 0                      | 22 368 147 |
| 2. | Marriage and birth insurance                 | 3 359 815             | 530 871            | 230 322           | 586 872    | 212 373                       | 286 940      | 0         | 0                      | 5 207 192 |
| 3. | Unit linked life insurance                   | 25 585 111            | 1 511 409          | 279 845           | 287 070    | 943 283                       | 263 658      | 544 409    | 0                      | 29 414 785 |
| 4. | Capital redemption                           | 0                     | 2 611 419          | 3 012 570         | 0         | 93 936                        | 13 995       | 0         | 134 176                | 243 166   | 6 109 262 |
| 5. | Supplementary insurance                      | 0                     | 2 611 419          | 3 012 570         | 0         | 93 936                        | 13 995       | 0         | 134 176                | 243 166   | 6 109 262 |
| 6. | Accident insurance                           | 291 009               | 331 466            | 569 264           | 787 904    | 0                             | 87 540       | 426 625    | 0                      | 2 493 808 |
| 7. | Sickness insurance                           | 2 482 923             | 6 609 166          | 12 614 913        | 5 198 700  | 35 649                        | 0            | 1 273 505 | 135 707                | 28 446 214 |
| total |                                         | 67 054 959            | 44 153 262         | 37 186 990       | 18 595 813 | 14 837 046                    | 6 566 653    | 3 992 873 | 2 487 444              | 1 080 612 | 516 415 | 196 472 066 |

Source: FSC, www.fsc.bg

The table above shows some very interesting information. The highest share of the paid claims is for the endowment assurance – approximately 44% (BN 85 mln. out of BGN 196 mln.) with only 26% of the written premiums. Unit-linked insurances come second in paid sums with relative share of 15%. The third place in paid claims holds the sickness insurance. Pension insurance or annuities class of insurance comes fourth with 11.4%. In the “pension insurance or annuities” some life insurers are reporting premiums in group contracts.

The data about the number of insured persons and insured contracts sheds additional light in the analysis of the role and the development of the unit-linked products among the other life insurance products in the country. Such information is presented in the Table 5 below.

Table 5. Number of insurance contracts and insured persons in Bulgaria as at 31.12.2020

| Classes of insurance | number of insurance contracts | number of insured persons |
|----------------------|-------------------------------|--------------------------|
|                      | effective contracts at the beginning of 2020 | newly-signed contracts in the reported year | contracts with failed terms in the reported year | previously terminated contracts in the reported year | effective contracts at the end of 2020 | under effective contracts at the end of the year | under newly-signed contracts during the year |
| 1. Life insurance and annuities | 433 542 | 115 283 | 111 883 | 40 026 | 385 646 | 1 411 945 | 459 412 |
| a) life insurance | 422 193 | 115 057 | 109 861 | 39 460 | 375 289 | 1 372 244 | 436 436 |
| - endowment assurance | 146 469 | 8 602 | 7 477 | 8 780 | 138 635 | 150 956 | 27 071 |
| - term assurance | 275 724 | 106 455 | 102 384 | 30 680 | 236 654 | 1 221 288 | 409 365 |
| b) pension insurance or annuities | 11 349 | 226 | 2 022 | 566 | 10 357 | 39 701 | 22 976 |
| 2. Marriage and birth insurance | 24 228 | 157 | 3 008 | 469 | 19 990 | 19 896 | 157 |
The unit-linked products hold the second place in newly concluded contracts in relative terms after the term assurances. In absolute values there are 11 420 newly-signed contracts in unit-linked life insurances for the 2020. The highest number in absolute terms are the newly-signed contracts under the term assurances – 106 455 numbers. Supplementary insurances come third with 19 086 newly-signed contracts. Most of the credit life insurances are reported in “term assurance” and in “supplementary insurance” classes of insurance. It is notable that only in the group unit-linked life insurance among all the other classes of insurance there is increase in the number of effective contracts as of the end of the year compared to the beginning of the year.

The data about the number of insured shows totally insured 2 039 091 people. Close to 30% of them are under newly-signed contracts during 2020. This figure shows very dynamic market with high number of newly-signed insurance contract for one year. Again, the highest number of insured persons are under classes of insurance related to bankassurance – term assurance and supplementary insurance. The numbers of insured persons are 1 221 288 and 569 170 persons respectively for term assurance and supplementary insurance.

When talking about the bankassurance it is useful to see the division of premiums for unit-linked life insurances by distribution channels. Such information for 2020 is presented in the following figure.

![Figure 1. Premiums for UL life insurances by distribution channels for 2020](Source: FSC, www.fsc.bg)

The figure above shows that agents are the most active, with 86% share, in selling unit-linked life insurances. Second channel in distribution are direct sales – with 11% share. Brokers come third with only 3% share from the total sales of unit-linked life insurances. These results have very logical explanation. The banks are selling unit-linked life products predominantly as agent of a life insurance company. So, as a result of our analysis we can conclude that it is good to differentiate banks as separate channel of life insurance distribution. This needs changes in the legislation concerning insurance distribution and changes of the gathered data by the Financial Supervision Commission from the life insurance companies. Forming bankassurance as a separate channel will serve in the interests of the insured persons and will increase the insurance coverage in the country.

In order to further analyse the customer preferences and behaviour it is valuable to see the periodicity of the premiums in the unit-linked life insurance. Such information for 2020 is displayed in the following figure.
The information from the Figure 2 shows that one-off premiums are more than half of the paid premiums for unit-linked life insurances for 2020. Periodical premiums are 29% from the total. The lack of more details about the type of premiums makes it difficult to draw any conclusions. More information about the annual premiums, the size of the premiums by type, the categorization by risk profile of the investment fund to which is connected the life insurance could lead to better understanding the behaviour and the preferences of the insured persons in unit-linked life insurances.

Conclusions

Unit-linked life insurances are very important part of the insurance protection, saving and asset management industry in the European Union. The low interest rates and increased capital requirements for traditional life insurance products are drivers that foster the increase of the supply of the unit-linked life insurances. Some issues with the selling and customer understanding of the unit-linked insurance products lead to regulatory action measures.

The research shows that there is no need for additional framework addressing the value for money risks in the European unit-linked market. The existing product oversight and governance rules are well-written and there are relatively new. These rules have to be well implemented in the national competent authorities’ supervision and in the business activities of the insurance undertakings.

The European Union needs of Saving plan. This plan has to be a roadmap for increase of insurance and pension coverage in the member-states. This a step to increase the overall long-term savings and investments, with focus on personal insurance and retirement savings. Regulators have to be active on both side – the supply and the demand side of the market. It needs to be implemented holistic approach. Bankassurance channel of distribution has to be separated from the others. Customer centric approach needs to be encouraged as well as transparency, efficiency and thorough target market analysis in the unit-linked insurance products.

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