

REPORT

## KEY ACHIEVEMENTS

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eiopa

European Insurance and  
Occupational Pensions Authority

# CONTENTS

<b>About EIOPA</b>	<b>2</b>
<b>WORKING for consumers</b>	<b>3</b>
Conduct of business supervision	3
Consumer trends	5
Understanding costs and performance	7
<b>Achieving supervisory convergence</b>	<b>8</b>
Cooperation platforms	9
Peer reviews	11
<b>Sound regulation of Insurance and Pensions</b>	<b>13</b>
Solvency II	13
Reporting on the implementation of Solvency II	13
Opinion on sustainability in Solvency II	14
2020 review of Solvency II	14
Insurance Distribution directive (IDD)	15
IDD and General Good rules	15
Institutions for Occupational Retirement Provisions – IORP II Directive	16
Provision of transparent, timely and clear information	16
<b>Preserving financial stability</b>	<b>18</b>
2018 insurance stress test	18
Launch of the 2019 occupational pensions stress test	19
Insurance guarantee schemes	19
Withdrawal of the United Kingdom from the European Union	20
<b>Priorities – Looking forward</b>	<b>21</b>
Sustainable finance and Climate change	21
Digitalisation and cyber resilience	21
Completing Capital Markets Union	23
<b>Engaging with Stakeholders</b>	<b>25</b>

## ABOUT EIOPA

The European Insurance and Occupational Pensions Authority (EIOPA) is a decentralised agency of the European Union (EU) with the overarching mission to contribute to the short, medium and long-term stability and effectiveness of the financial system for the benefit of Europe's economy, businesses and citizens. Its main tasks are to enhance supervisory convergence, strengthen consumer protection and preserve financial stability.

Achieving these goals depends on close cooperation with national supervisory authorities, as well as regular consultation with stakeholders, notably consumer organisations and industry representatives, to ensure that the Authority's work meets the need of the people that it serves.

EIOPA's areas of action and annual priorities are established through a rigorous planning process.

The Authority's strategic priorities for 2019 are to:

- ▶ Strengthen the protection of consumers
- ▶ Support the functioning of the EU internal market in the field of pensions and insurance
- ▶ Strengthen the financial stability of the insurance and occupational pensions sectors
- ▶ Be a responsible, competent and professional organisation.

EIOPA is based in Frankfurt am Main, Germany. At the end of 2018, the Authority employed 158 people (full-time equivalents). Its operating budget for 2019 is EUR 29,495,967.

## WORKING FOR CONSUMERS

The main objective of EIOPA is the effective protection of policyholders of insurance products and beneficiaries of pension scheme providers. EIOPA worked on good prudential and conduct of business supervision of insurance undertakings and considered, as major task, to promote sound regulatory framework and consistent supervisory practices to protect consumers. Actions in this field comprised monitoring the implementation of regulation and providing advice to the European Commission to ensure that consumers have access to clear, comprehensive and comparable information.

EIOPA continued its work and moved further from regulation to supervision. In this regards EIOPA has increased its focus on cross-border cases by setting up dedicated platforms for the benefit of consumers. With its early intervention approach, EIOPA contributed to prevent consumer detriment.

Furthermore as the regulatory environment at European level has become increasingly developed, EIOPA is undertaking extensive efforts, towards setting up a risk-based and preventive framework for conduct of business supervision.

### CONDUCT OF BUSINESS SUPERVISION

Conduct of business issues can harm consumers and can have a wider prudential impact on insurance undertakings. Moreover, poor conduct of business, such as product miss-selling, can have a detrimental impact on the market and potentially lead to systemic risks. Therefore detecting linkages and embedding these in high-quality and effective supervision is relevant for all Member States for the objectives of achieving supervisory convergence.

In line with EIOPA's updated conduct of business supervision strategy, EIOPA has strengthened its work in this area, in particular through visits to national conduct authorities. In this way, EIOPA is able to better understand supervisory practices and can bring an external perspective to national authorities, challenging them where necessary. As a result, EIOPA can better identify the main conduct issues in different markets, understand the scope as well as the root of the problems and identify the approaches that work best in addressing these issues. While there are differences to every market, the challenges faced by national authorities are often very similar:

- Life insurance sold with mortgages;

- Unit-linked products;
- Add-on insurance; and
- Claims handling in motor insurance.

Through these country visits, EIOPA is able to facilitate sharing of experience and good practice between national authorities and is fostering supervisory convergence on conduct aspects.

### **A FRAMEWORK TO IDENTIFY CONDUCT OF BUSINESS RISKS**

In 2018, EIOPA's Board of Supervisors approved a framework for assessing conduct risk through the product lifecycle (published in February 2019). The framework identifies drivers of conduct risk throughout all stages of the product lifecycle and the implications of these in the emergence of consumer detriment. It establishes a common supervisory language and hence ensures more supervisory convergence.

In particular, the framework is intended to support NCAs identifying conduct and consumer protection risks, both sufficiently early and clearly to allow for effective conduct supervision, further enhancing market monitoring and conduct risk assessment and driving forward practical supervisory convergence. Ultimately, it should facilitate EIOPA and NCAs to become more proactive and intervene earlier, focusing on the drivers of consumer detriment.

The framework covers the following areas of risk:

- ▶ Business model and management risks – risks arising from how insurers structure, drive and manage their business and from relationships with other entities in the value-chain;
- ▶ Manufacturing risks – risks arising from how products are manufactured by insurers before being marketed and how they are targeted to customers;
- ▶ Delivery risks – risks arising from how products are brought to market and from the interaction between customers and insurers or intermediaries at the point of sale;
- ▶ Product management risks – risks arising after the sale of the insurance product relating to how products are managed and how insurers or intermediaries interact with and service customers until all obligations under the contract have ceased.

EIOPA will conduct further work on linking the identified conduct risks with the tools for assessing their impact and supervisory importance, leveraging readily available data as far as possible.

Read the full report here: <https://europa.eu/!WY79Pq>

## CONSUMER TRENDS

EIOPA monitored and investigated trends as a means of identifying emerging risks and areas of potential harm for consumers.

In December 2018, EIOPA published its seventh annual report into trends in the European insurance and pension sectors that affect consumers. The report highlighted the continued increase of technology-led innovations. Such innovations mostly concern the non-life sector, in particular the most common products such as motor, household, accident and health insurance. Innovations in terms of distribution channels and usage of telematics, have been the dominating trends in motor insurance products.

Where EIOPA sees increasing patterns that could result in harm for consumers, EIOPA conducts further investigations using different tools, including thematic reviews.

Read the 2018 Consumer Trends Report here: <https://europa.eu/!WY79Pq>

### **BIG DATA ANALYTICS IN MOTOR AND HEALTH INSURANCE: A THEMATIC REVIEW**

Data processing has historically been at the very core of insurance undertakings' business models, which are strongly rooted in data-led statistical analysis.

Following a cross-sectorial review on the use of Big Data published in March 2018 by the Joint Committee of the European Supervisory Authorities (ESAs), EIOPA launched a call for evidence on the use of big data to complete a thematic review.

The review, published in April 2019, revealed a strong trend towards increasingly data-driven business models throughout the insurance value chain. Traditional data sources such as demographic data or exposure data are increasingly combined with new sources, such as online and telematics data for increasingly tailored products and services and more accurate risk assessments.

The review also found that the increased granularity of risk assessment is not yet causing exclusion for high-risk consumers but the impact of Big Data Analytics is expected to increase in the future. There is also a strong need to address issues with the fairness of the use of Big Data Analytics and with the accuracy and explainability of 'black box' algorithms.

The full report is available here: <https://europa.eu/!up43fW>

## **CONSUMER PROTECTION ISSUES IN TRAVEL INSURANCE: A THEMATIC REVIEW**

Travel insurance is mostly a 'small-ticket' business, but it can be critical for consumers, since the impact of insufficient cover or denied claims – in particular for medical expenses while travelling – can be extensive at the individual level.

Through its thematic review, EIOPA concluded that systematic failings in the travel insurance market as a whole were not identified, and travel insurance products remain valuable for consumers. However some business models carry heightened conduct risks, including remuneration structures based on very high commissions. This leads to consumer detriment.

The review also revealed that:

- ▶ Although the average commissions in travel insurance are around 24% of the gross written premium (GWP), there are insurers that pay extremely high commissions to distributors, in some cases significantly more than 50% of the premium.
- ▶ The average claims ratio is 40% of the GWP and there is limited difference regardless of the distribution channel. However, there are very wide variations in these ratios; some insurers have claims ratios below 20% of the GWP. These are a strong indicator of potential low value for consumers.

As a result of this thematic review on travel insurance, EIOPA issued in October 2019 a warning to insurers and insurance intermediaries to tackle high commissions for travel insurance products.

The full report is available here: <https://europa.eu/!Ny63Dt>

With its approach to thematic reviews, EIOPA is now going further, in view of the need for more preventative supervision, by enhancing market monitoring to identify areas that will require further investigation.

## UNDERSTANDING COSTS AND PERFORMANCE

In January 2019, EIOPA published its first Report on Costs and Past Performance of insurance and pension products following a request of the European Commission.

The report showed that costs vary depending on the type of product, premium, risk category and jurisdiction. Variations in asset management costs related to different risk categories are a major factor. The report concludes that due to the differences between products, there are significant challenges with comparing performance, for example in view of the values of guarantees, the impact of smoothing mechanisms and terminal bonuses of profit participation products, and the impact of risk and volatility.

This analysis is a pilot exercise. Given data and comparability limitations, a significant portion of the sample could not be used and consequently market coverage is limited. To address these issues, EIOPA will further develop common definitions of costs and common methods for calculation of past performance, especially for profit participation products.

The full report is available here: <https://europa.eu/!Ux93qQ>



## ACHIEVING SUPERVISORY CONVERGENCE

High-quality prudential supervision is a prerequisite for an effective functioning of the internal market, preserving the future economic well-being of EU citizens. EIOPA actively promotes a common supervisory culture and consistent supervisory practices across Europe to ensure high quality and effective supervision, safeguarding a similar level of protection for policyholders and beneficiaries.

Promoting supervisory convergence requires close cooperation with national supervisory authorities to develop a common supervisory culture that underpins convergence of supervisory practices, including a common interpretation of the laws and regulations.

EIOPA addresses supervisory convergence from different perspectives, depending on the issue and risks at stake. In particular, EIOPA uses the following building blocks to underpin its work:

- ▶ Establishing common benchmarks with tools for supervisory practices
- ▶ Reviewing existing practices by NCAs and the market and
- ▶ Making use of EIOPA's own oversight work.

Accordingly, EIOPA developed a set of tools to support supervisory convergence and to build the capacity of national supervisors to conduct effective supervision. This includes a range of training activities for supervisors.

### **SUPERVISORY CONVERGENCE PLAN**

In 2019, EIOPA reported on its supervisory activities in 2018 and set out its priorities for the coming year. The plan focuses on the implementation of Solvency II and conduct of business supervision with three priority areas:

- ▶ Developing common supervisory tools and benchmarks, including the application of proportionality, the supervision of internal models and the supervisory assessment of conduct risks;

- ▶ Enhancing the supervision of cross-border business, focusing on the calculation of technical provisions and their sufficiency, the detection of unsustainable business models and the supervisory assessment of fitness and propriety; and
- ▶ Supervising emerging risks, including the supervisory practices on IT resilience and cyber risks, the usage of Big Data and Brexit.

In the context of EIOPA's oversight work, priorities include:

- ▶ Supporting the supervisory capacity of NCAs
- ▶ Focus on cross-border activities
- ▶ Monitoring the implementation of Brexit opinions and equivalence decisions.

The full report is available here: <https://europa.eu/!pQ88JU>

## COOPERATION PLATFORMS

EIOPA has set up further cross-border cooperation platforms to enhance stronger and more timely cooperation between national competent authorities on concrete cross-border cases, enabling a quicker identification and assessment of risks in cross-border business. To date, EIOPA has facilitated over the last year 11 platforms involving national supervisory authorities from several Member State. For each platform, EIOPA has provided concrete supervisory recommendations to the home supervisor. In some instances, these recommendations were aimed to strongly encourage the home supervisory authority to initiate intrusive interventions towards the firm, such as prohibition of writing new business, in order to limit the risk to prospective consumers

In general, the focus of the companies is on growth outside the home market and on long-tail business where the risk will only materialize on the medium to long-term. Usually, there are insufficiencies in technical provisions, and deficiencies in the data available and complex intermediation structures. The impact of failure of such companies can cause significant waves in the host markets and severely disrupt public trust in the functioning of the internal market.

### **QUDOS INSURANCE PLATFORM**

Qudos Insurance A/S (Qudos) was a Danish-based insurance group operating mainly in Denmark, France, Germany, Greece, Ireland, Italy, Norway and the United Kingdom providing

mostly motor, property, general liability, and income protection policies to approximately 400.000 policyholders.

In December 2018, upon request of the Danish Financial Supervisory Authority (Finanstilsynet), the Danish Maritime and Commercial High Court declared the bankruptcy of Qudos Insurance A/S.

EIOPA has been in close contact with the Finanstilsynet to ensure equal treatment of policyholders throughout Europe. Qudos Insurance A/S operated in Denmark, France, Germany, Greece, Ireland, Italy, Malta, Norway, Sweden and the United Kingdom. Finanstilsynet informed that by this court decision the Danish Guarantee Fund for non-life insurance undertakings will be triggered according to bankruptcy procedure under the existing regulatory framework, which covers all European policyholders.

EIOPA supported the work of the home supervisor by the set-up of a cross-border Platform of Collaboration for Qudos Insurance A/S in 2018 to facilitate and coordinate discussions between and supervisory measures taken by the respective home and host National Supervisory Authorities.

Within the platform, the participating members and EIOPA exchanged information, knowledge and expert judgement about materialising risks to support Finanstilsynet in its decision making towards Qudos. Finanstilsynet's immediate assessment was that there was a substantial risk that Qudos Insurance A/S was unable to fulfil all its obligations.

The full report is available here: <https://europa.eu/!Fb79FN>

## **FRENCH CONSTRUCTION DEFECTS (CD) INSURANCE**

EIOPA published an Opinion on the supervision of non-life cross-border insurance business related to French Construction Defects insurance. The Opinion outlined EIOPA's expectations on the calculation of technical provisions and the governance for non-life long-term cross-border business. The Opinion is to ensure the appropriate application of the legal requirements and consistent supervisory practices with regards to the calculation of technical provisions and quantitative information on non-life long-term business with distinctive features or a high degree of local specificities.

This Opinion highlights the need for all parties involved to be aware of the local specificities when cross-border business is carried-out and outlines EIOPA's expectations to undertakings and recommendations to the NCAs on three aspects:

- ▶ Expectations on technical provisions with the focus on the best estimate calculation
- ▶ Expectations on governance, namely on the key functions and the administrative, management or supervisory body (AMSB)
- ▶ Recommendations on the supervisory review process and the collaboration between home and host National Competent Authorities

Furthermore, the Opinion provided concrete examples and quantitative information on technical provisions for the French construction defect insurance.

The full report is available here: <https://europa.eu/!xp84qN>

EIOPA is currently further undertaking supervisory assessment in the area of the Italian medical malpractice insurance. Medical Malpractice (MedMal) occurs when hospitals, doctors or other health care professionals cause an injury to a patient through a negligent act or omission. The negligence can be the result of errors in diagnosis or treatment. EIOPA aims to ensure also in this area an appropriate application of the legal requirements and consistent supervisory practices.

EIOPA and national authorities will intensify their risk-based supervision and national authorities will, where necessary, exercise their supervisory powers to ultimately intervene and to stop practices that harm consumers.

## PEER REVIEWS

To foster convergence and strengthen consistency in the outcome of supervisory actions, EIOPA conducts peer reviews on specific activities of NCAs, based on an agreed methodology and with experts from NCAs acting as reviewers. The results of the peer reviews are documented and published. For the first time, the names of national competent authorities and the corresponding areas of recommended actions were disclosed.

Between October 2018 and October 2019, EIOPA published the conclusions of three peer reviews:

- ▶ The principle of proportionality when assessing key functions in insurance undertakings

- ▶ The supervisory assessment of propriety of administrative, management and supervisory board members and qualifying shareholders
- ▶ The application of the Prudent Person Rule for the supervision of occupational pension funds.

More information on peer reviews is available here: <https://europa.eu/!NM44NB>

# SOUND REGULATION OF INSURANCE AND PENSIONS

Regulation is only effective for as long as it remains relevant. EIOPA pays close attention to how regulation is applied and how effective it remains, with a view to identify proportionality issues and improving fairness and transparency and with a focus on better and smart regulation.

EIOPA plays also an important role internationally in the context of the International Association of Insurance Supervisors (IAIS), contributing to the development of global standards like the International Capital Standard (ICS) and the holistic framework on systemic risks. It is forging close relationships with third countries' supervisors.

## SOLVENCY II

The introduction of Solvency II in January 2016 was a milestone. The Directive signalled a shift to a more risk-based approach to insurance supervision. Since its implementation, the insurance industry has better aligned its capital to the risks it runs. Insurers use a risk-based approach to assess and mitigate risks, so they can better price risk. Insurers have also significantly strengthened their governance models and their risk management capacity putting a number of key functions in place and ensuring that boards consider risk and capital factors in strategic decision-making. Furthermore, the data reporting under Solvency II provided supervisors and market participant's unprecedented insight into critical market data. Overall EIOPA's assessment is that the Solvency II framework is very effective and worked well.

## REPORTING ON THE IMPLEMENTATION OF SOLVENCY II

Between October 2018 and October 2019, EIOPA published a number of reports related to different aspects of Solvency II.

- ▶ Report on group supervision and capital management
- ▶ Second annual report on the use of capital add-ons under Solvency II
- ▶ Third annual report on the use of limitations and exemptions from reporting under Solvency II
- ▶ Third annual report on the use of impact of long-term guarantee measures and measures on equity risk

The full reports are available here:

- ▶ <https://europa.eu/!Uu89KT>
- ▶ <https://europa.eu/!jC63Nx>
- ▶ <https://europa.eu/!vK79HW>
- ▶ <https://europa.eu/!gV68fN>

## OPINION ON SUSTAINABILITY IN SOLVENCY II

In response to a request from the European Commission, in September 2019, EIOPA published an Opinion on sustainability and Solvency II, addressing the integration of climate-related risks in Solvency II.

While Solvency II is well equipped to accommodate sustainability risks and factors, climate change brings considerable challenges to the valuation of assets and liabilities, underwriting and investment decisions and risk measurement.

In its Opinion, EIOPA called on (re)insurers to implement measures linked with climate change-related risks, especially in view of a substantial impact to their business strategy. Consequently, EIOPA stresses the importance of scenario analysis in the undertakings' risk management.

To increase the European market and citizens' resilience to climate change, (re)insurers should consider the impact of their underwriting practices on the environment. Consistently with sound actuarial practice, where risk mitigation and loss prevention can make a significant difference, the development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities, should be part of the industry's stewardship activity.

EIOPA's overall goal is to secure a resilient industry in a sustainable environment for the benefit of consumers. The stewardship role of (re)insurers in contributing to climate change adaptation and mitigation is more important than ever. The Opinion outlines how (re)insurers can contribute to identifying, measuring and managing risks arising from climate change, through their investment and underwriting activities.

The Opinion is available here: <https://europa.eu/!jp79gC>

## 2020 REVIEW OF SOLVENCY II

The European Commission requested in its call for advice to EIOPA to perform a review of Solvency II across 19 different areas, which can be broadly divided into three parts:

1. Long-term guarantee measures and measures on equity risk
2. The introduction of new regulatory tools to Solvency II on macro prudential issues, recovery and resolution, and insurance guarantee schemes

3. Revisions to the existing Solvency II framework based on the supervisory experience during the first years of its application, in particular to improve on the proportionate and consistent application of its requirements.

EIOPA's proposed approach is that of evolution rather than revolution. The fundamentals of Solvency II are not in question. Instead, EIOPA's approach will be both evidence-based and consultative, taking into consideration the financial and economic environment and the insurance market landscape.

Furthermore, in 2020 EIOPA will collect data in order to assess the quantitative combined impact of the proposals to be included in the advice. EIOPA will finalise its view on the advice in particular on the basis of the consultation feedback and the impact data collected.

EIOPA aims in general for a balanced impact of the review proposals and will issue its advice on the 2020 review in June 2020.

Link to the consultation: <https://europa.eu/!KY96bw>

## INSURANCE DISTRIBUTION DIRECTIVE (IDD)

In December 2019, EIOPA published a report on the evaluation of the Structure of Insurance Intermediaries Market which was the first one of regular evaluation reports providing an overview of the status of the European intermediaries market. The evaluation confirmed that the European insurance intermediaries market is characterised by very wide diversity of local distribution channels and different definitions adopted at the national level. Registration practices and reporting frameworks also vary amongst Member States.

The full report is available here: <https://europa.eu/!FB33BW>

### IDD AND GENERAL GOOD RULES

EIOPA examined different national general good provisions, published by competent authorities both in terms of their level of accessibility in the context of what constitutes "appropriate publication" under the IDD, but also carried out a thematic analysis of the different national rules to assess the extent to which they impact on the proper functioning of the IDD and the internal market.

General good rules are provisions which are part of the legal system of the host Member State. The basic principle underlying the general good in the insurance sector is that an insurance undertaking or an insurance intermediary operating under the respective arrangements laid down by Solvency II or the Insurance Distribution Directive (IDD) is obliged to adapt its activities to the host Member State rules if the measures enforced against it serve the general good, irrespective of whether it



carries on those activities through freedom of establishment (namely, as a branch) or under the freedom to provide services.

EIOPA is of the view that a number of follow-up actions are needed to ensure that general good rules are published appropriately and applied in a manner that ensures the proper functioning of the IDD and the internal market:

The full report is available here: <https://europa.eu/!FB33BW>

## **INSTITUTIONS FOR OCCUPATIONAL RETIREMENT PROVISIONS – IORP II DIRECTIVE**

### **PROVISION OF TRANSPARENT, TIMELY AND CLEAR INFORMATION**

In the context of the implementation of the IORP II Directive, EIOPA issued two reports related to the provision of transparent, timely and clear information on pensions:

- ▶ Implementation of IORP II: Report on the Pension Benefit Statement: guidance and principles based on current practices
- ▶ Report on other Information to be provided to prospective and current members: Guidance and principles based on current practices

The provision of clear and easy accessible information put in appropriate layers is key for prospective and pre-retirement members to plan and make informed decisions for retirement. Equally important is the right sequence of timing of the provision of information as well as the communication channels including the use of digital communication tools such as on-line tutorials, short videos and on line calculators.

Based on the analyses EIOPA together with the national supervisory authorities (NCAs) determined principles and guidance important for the consistent implementation of the IORP II requirements, which are as follows:

- ▶ The calculation and presentation of past performance in the information to be provided to prospective members
- ▶ The presentation of retirement options in the pre-retirement phase
- ▶ The timing of issuance of documents during the pre-retirement phase

The communication channels used for the provision of information during the pre-retirement and the pay-out phase.

The full reports is available here:

- ▶ <https://europa.eu/!yV33Uw>
- ▶ <https://europa.eu/!MC36Ru>

## IMPLEMENTATION OF THE IORP II DIRECTIVE

In July 2019, EIOPA published four Opinions to assist national competent authorities in the implementation of the Institutions for Occupational Retirement Provisions (IORP) II Directive:

- ▶ Opinion on the use of governance and risk assessment documents in the supervision of Institutions for Occupational Retirement Provisions (IORPs)
- ▶ Opinion on the practical implementation of the common framework for risk assessment and transparency for IORPs
- ▶ Opinion on the supervision of the management of operational risks faced by IORPs
- ▶ Opinion on the supervision of the management of environment, social and governance risks faced by IORPs

These Opinions lay the foundation for the convergence of supervisory practices in the area of pension funds' own risk assessment to ensure sound risk management for the better protection of pension scheme members and beneficiaries and the alignment with society's sustainability goals.

The full report is available here: <https://europa.eu/!yV33Uw>

## PRESERVING FINANCIAL STABILITY

As part of EIOPA's mandate to safeguard financial stability, EIOPA works to identify trends, potential risks and vulnerabilities that could have a negative effect on the pension and insurance sectors across Europe.

EIOPA publishes a risk dashboard on a quarterly basis and a financial stability report twice a year. The most up-to-date risk dashboard (publication date: 25 October 2019) can be found here: <https://europa.eu/!RC37tm>

### EUROPEAN INSURANCE OVERVIEW

EIOPA continuously works to improve the availability and quality of available information and statistics on insurance and pensions.

At the end of 2018, EIOPA published its first annual European Insurance Overview report as extension of its statistical services. Based on annually reported Solvency II information, it ensures that the data has a high coverage in all countries and is reported in a consistent manner across the European Economic Area. The report objective is factual and data driven and does not contain analysis or policy messages. It provides highly-relevant and easily-accessible data at the European level.

### 2018 INSURANCE STRESS TEST

EIOPA concluded its 2018 insurance stress test in December 2018. The exercise assessed the participating insurers' resilience to the three severe but plausible scenarios: a yield curve up shock combined with lapse and provisions deficiency shocks; a yield curve down shock combined with longevity stress; and a series of natural catastrophes.

In total, 42 European (re)insurance groups participated representing a market coverage of around 75 % based on total consolidate assets. EIOPA published for the first time the post-stress estimation of the capital position (Solvency Capital Requirement ratio) of major EU (re)insurance groups.

Overall, the stress test confirmed the significant sensitivity to market shocks combined with specific shocks relevant for the European insurance sector. On aggregate, the sector is adequately capitalised to absorb the prescribed shocks. Participating groups demonstrated a high resilience to

the series of natural catastrophes tested, showing the importance of the risk transfer mechanisms, namely reinsurance, in place.

An additional objective of this exercise, stemming from recommendations from the European Court of Auditors, was to increase transparency in order to reinforce market discipline by requesting the voluntary disclosure of a list of individual stress test indicators by the participating groups. Since EIOPA does not have the power to impose the disclosure of individual results, participating groups were asked for their voluntary consent to the publication of a list of individual stress test indicators. Only four of the 42 participating groups provided such consent.

As a follow up to this exercise, EIOPA published in April 2019 its 2018 Insurance stress test recommendations. The recommendations, addressed to national competent authorities, consider the risks and vulnerabilities identified from the findings of the 2018 insurance stress test.

More information on the 2018 stress test is available here: <https://europa.eu/!Bt96vW>

#### LAUNCH OF THE 2019 OCCUPATIONAL PENSIONS STRESS TEST

EIOPA launched in April 2019 its stress test of the European occupational pension sector. This exercise is expected to provide important and relevant insights into the resilience and potential vulnerabilities of the European occupational pension sector.

For the first time, a European stress test includes an assessment of environmental, social and governance (ESG) exposures. The core assessment refers to the direct impact of a stressed market scenario on the sustainability and funding of Defined Benefit (DB) pension funds and on the projected future retirement income of members of Defined Contribution (DC) pension funds.

The results and conclusions of the stress test are expected to be published by the end of 2019.

More information on the 2019 stress test is available here: <https://europa.eu/!Xm84GR>

#### INSURANCE GUARANTEE SCHEMES

EIOPA is of the view that every Member State should have a national guarantee scheme in place for the protection of policyholders in the event of a failure of an insurer, which should meet a minimum set of harmonised features.

In July 2019 EIOPA launched a consultation on its Advice on the harmonisation of national insurance guarantee schemes across the Member States of the European Union. EIOPA called for the establishment of a European network of national insurance guarantee schemes, which are sufficiently harmonised and adequately funded. At the same time, it is essential to take properly into account the proportionality principle to avoid excessive burdens on insurers. In this context, a flexible approach as regards the legal structure and set-up of the schemes is important.

The public consultation ended on 18 October 2019 and currently EIOPA's advice is being drafted and the final Advice will be included in the 2020 Solvency II Review Opinion.

More information on the consultation is available here: <https://europa.eu/!ft89Ff>

#### WITHDRAWAL OF THE UNITED KINGDOM FROM THE EUROPEAN UNION

Following the publication of several Opinions in early 2018 in view of the United Kingdom leaving the European Union without any withdrawal agreement in place, EIOPA issued in February 2019 another opinion calling upon national supervisory authorities to minimise the detriment to insurance policyholders and beneficiaries. The Recommendations address to National Competent Authorities (NCAs) to provide guidance on the treatment of UK insurance undertakings and distributors with regard to cross-border services in the European Union after the withdrawal of the United Kingdom from the European Union without a withdrawal agreement. The Recommendations will apply as of the date following that on which the European Union's *acquis* ceases to apply to and in the United Kingdom.

The Opinion can be found here:

▶ <https://europa.eu/!Hb74YV>

# PRIORITIES – LOOKING FORWARD

## SUSTAINABLE FINANCE AND CLIMATE CHANGE

For EIOPA, sustainability is an area of significant strategic importance. Consequently, EIOPA strongly supports the European Commission's Sustainable Finance Action Plan including the aim to integrate sustainability considerations into the prudential and conduct framework for insurers, reinsurers and insurance distributors.

Insurers and pension funds have a powerful role in mitigating the impact of climate change. As large investors, insurers and pension funds are also well-placed to engage with business and play an important role in a gradual transition to a more sustainable and resilient economy and it is becoming increasingly clear that insurers and pension fund providers hold one of the keys to solving the climate challenge that we are facing.

Along with other institutional investors, they can play a stewardship role in contributing to climate change adaptation and mitigation. This also means considering the impact of underwriting activities on the environment.

EIOPA is also paying close attention to the protection gap. Given the more frequent and more severe natural catastrophes as a result of climate change, there is a widening protection gap for natural catastrophes. The impact of this on households, businesses and the financial system cannot be underestimated.

There is a strong need for concerted action. Insurers, working together with public authorities, can contribute to mitigate to and adapt to climate change risks. There is also the need to share information so that commonly available data on natural catastrophes in Europe can be used to inform policy decisions. In sharing data related to exposure, vulnerability and economic loss, there is the potential to develop an open ecosystem to foster innovation in modelling and risk transfer solutions through insurance and capital markets.

## DIGITALISATION AND CYBER RESILIENCE

The use of digital technology and Big Data Analytics continues to bring opportunities to consumers, in terms of lower cost products and more tailored products. However, there is a continued risk that the granular approach to data usage or the misuse of data will exclude the most vulnerable consumers.

EIOPA will continue to follow closely the growing use of data and digitalisation to identify ways to better protect consumers without hindering innovation.

## **PRINCIPLES OF DIGITAL RESPONSIBILITY IN INSURANCE**

As a follow-up of its recent thematic review on the use of Big Data Analytics (BDA) in motor and health insurance, EIOPA established in September 2019 a consultative expert group to assist the Authority in the development of digital responsibility principles in insurance.

The thematic review concluded that there are many opportunities arising from BDA and digitalisation more broadly, but also some risks that need to be further addressed. For this reason, digital responsibility principles will address the use of new business models, technologies and data sources in insurance from the perspective of fairness and taking into account ethical considerations. While the expert group is expected to cover different areas of the insurance value chain, specific focus will be given to pricing and underwriting, given their specific importance in the insurance sector.

The expert group is acting as a sounding board for EIOPA in other related policy initiatives in the area of InsurTech, for instance by supporting EIOPA in promoting a sound governance framework around the use of BDA tools such as artificial intelligence and machine learning.

The increasing frequency and sophistication of cyber attacks, the fast digital transformation and the increased use of big data and cloud computing make insurers increasingly susceptible to cyber threats, in particular considering the amount of confidential policyholder information insurers are possessing. This calls for a sound cyber resilience framework for insurers.

In its recent report on Cyber risks for insurers, EIOPA found that the digital economy and the advance of technology offer opportunities to cyber underwriters. Appropriate cyber insurance coverages can make a valuable contribution to manage cyber risk faced by businesses and clients. A well-developed cyber insurance market can play a key role in enabling the transformation to the digital economy.

The report findings confirm the need for a sound cyber resilience framework for insurers and identified the key challenges faced by the cyber underwriters. In particular, clear, comprehensive and common requirements on the governance of cybersecurity as part of operational resilience would help ensure the safe provision of insurance services. This would include a consistent set of definitions and terminology on cyber risks to enable a more structured and focused dialogue between the industry, supervisors and policymakers, which could further enhance the cyber resilience of the insurance sector. Ultimately, further actions to strengthen the resilience of the

insurance sector against cyber vulnerabilities are essential, in particular considering the dynamic nature of cyber threats.

More information on the expert group can be found here: <https://europa.eu/!Cv98GX>

## COMPLETING CAPITAL MARKETS UNION

EIOPA will continue to support the completion of the Capital Markets Union. In this context, EIOPA is working on identifying adequate measures for insurers' ability to invest over the long-term, taking into account the degree of illiquidity of liabilities.

EIOPA will support frameworks for the development of pension's savings products or insurance products that are digital based. Furthermore, EIOPA believes that the Capital Markets Union will benefit from further reflection where new European Union 'digital first' regimes will help overcome the existing fragmented nature of national legislation, lead to harmonised consumer and investor protection rules in Europe, avoid regulatory arbitrage risks and will allow the scaling up of innovative services and products to be distributed cross-border by firms.

### **PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP)**

The economic and demographic trends in the European Union challenges the Member State to deliver adequate, safe and sustainable pensions to its citizens. In this context the EU acknowledges the need to put in practice appropriate strategies and policies for the benefit of EU citizens. The current macroeconomic environment is further putting a strain on long-term savings solutions, making it difficult for people to save for retirement.

EIOPA welcomed the political agreement reached in February 2019 by the European Parliament and the Members States on the proposal for a Pan-European Personal Pension Product, the PEPP. The agreement is a key milestone in providing sustainable pensions and addressing the ever growing pensions gap in Europe.

EIOPA has been empowered by the Commission to develop according to the PEPP Regulation a number of specific PEPP technical deliverables in particular on:

- ▶ the content of the PEPP KID, the PEPP Benefit Statement specifying rules to determine the assumptions on pension benefit projections;
- ▶ the information specifying the details of the presentation of the information in the PEPP KID as well as



- ▶ the Basic PEPP specifying the types of costs and fees,
- ▶ Risk-mitigation techniques specifying the minimum criteria that the risk- mitigation techniques have to satisfy.

The comprehensive EIOPA advice will need to be delivered by August 2019.

As a simple, transparent and standardised product, PEPP will be well-suited to a digital environment and we will use this experience to build more 'digital first' regimes for other simple but scalable products.

More information on PEPP is available here: <https://europa.eu/!FT94yC>

## ENGAGING WITH STAKEHOLDERS

EIOPA relies on a constructive and continuous engagement with stakeholders, in particular consumer organisations and industry representatives. In line with its mandate, EIOPA solicits its two stakeholder groups (insurance and reinsurance, and occupational pensions) for consultation on initiatives concerning technical standards and their implementation, as well as guidelines and recommendations. Members of stakeholder groups may also submit opinions and advice to EIOPA on any issue related to its tasks.

To better engage with stakeholders on a particular subject, EIOPA regularly organises roundtable events.

In addition, EIOPA regularly engages with consumer groups, industry, students and academics through speaking engagements and visits. A record of visitors and meetings is published on the Authority's website.

More information on stakeholder groups is available here: <https://europa.eu/!yR66CT>

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