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EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

Annual report 2016

in brief

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Foreword from the Chairman

To ensure sound and effective supervision of the insurance and pensions sectors, EIOPA strongly believes in a holistic and integrated approach towards European prudential and conduct supervision and over the past years, EIOPA has worked hard to fulfil its mandate in the form of high-quality regulation, technical advice and supervision at the European Union level. The year 2016 was no exception and this report provides in-depth information on our activities and achievements during the past year, underlining the authority's commitment to establish a common European supervisory culture with consistent supervisory practices across the European Union.

In 2016, EIOPA developed and deployed tools and projects to enhance supervisory convergence, to safeguard financial stability and to reinforce consumer protection for policyholders and beneficiaries in the European Union. In addition to the extensive tasks associated with Solvency II, such as the secure collection and storage of data, EIOPA initiated the monthly calculation and publication of risk-free rates and, for the first time, published a report on long-term guarantee measures. EIOPA conducted an EU-wide insurance stress test, developed its macro-prudential approach to the low interest rate environment in Solvency II, published its annual report on consumer trends and provided advice to the European Commission on issues including the development of a pan-European personal pension product (PEPP) and, with the Joint Committee, the key information documents for packaged retail and insurance based investment products (PRIIPS).

Regarding occupational pensions, EIOPA's opinion on a common framework for risk assessment and transparency, proposed a way forward to deal with the long-term sustainability of pension promises and encouraged timely adjustments.

The implementation of EIOPA's comprehensive plan towards supervisory convergence was done through further developments on the Handbook of good supervisory practices, working on consistency reports on the treatment of certain material issues in internal models and performing visits to

the national supervisory authorities, providing independent feedback, challenging supervisory practices and supporting improvements in national supervision through exercises such as the conduct of balance sheet reviews. An increased focus was also put on supervisory practices related to cross-border business.

The authority will build on these achievements in 2017 as we consolidate our position as a credible supervisory authority, by prioritising the convergence of supervisory practices and playing a role in advancing the European Commission's agenda in areas such as the Capital Markets Union. EIOPA must remain ready to respond to the evolving political and business environment, in particular increasing digitalisation and the growing use of large data. EIOPA must ensure that it keeps pace with these developments to react effectively to the opportunities and challenges that innovation brings, so consumers benefit but remain protected.

To achieve our goals, we rely on a wide range of partners and stakeholders. I would like to take this opportunity to thank our colleagues from the national supervisory authorities for their continued cooperation and openness over the past year. I would also like to thank EIOPA's Board of Supervisors and Management Board for their strategic commitment. Building a strong European supervisory culture will not happen overnight but, working together, we are committed to bringing positive change for the benefit of European consumers.

Gabriel Bernardino



Foreword from the Executive Director

Looking back on 2016, I am pleased to be able to say that EIOPA achieved its strategic objective of operating as a responsible, competent and professional organisation.

As always, striving to deliver to a high standard is an essential element of the way we work. As an organisation, we are continuously identifying opportunities to increase our efficiency and the quality of output.

In 2016, this included a review of EIOPA's organisational structure to ensure that we were working as effectively as possible and that our resources were best arranged to deliver our work programme. The resulting new structure, which came into effect at the end of 2016, reflected the change in EIOPA's strategy from regulation to supervision and took into consideration practical experience from the previous five years. The changes better aligned staff to organisational priorities and will enable EIOPA to achieve its strategic objectives more effectively, in particular as a result of enhanced coordination and more efficient working within the organisation.

Management of resources, both human and financial, remain a priority for EIOPA. At the end of 2016, 95.7 % of establishment plan posts were filled, against a total of 139 posts. The authority conducted 26 recruitment campaigns throughout the year but attracting and retaining talented staff continues to be a challenge. Looking

to the future, in 2016, EIOPA undertook substantial work in the development of a competency framework, to identify the supervisory competences required that will facilitate the authority's growing focus on supervision.

EIOPA's operating budget for 2016 was EUR 21 762 500 and in its execution, EIOPA applies all principles and standards of sound financial management. I am pleased to say that by the end of 2016, the budget implementation rate was 99.68 % for commitment appropriations.

Looking ahead, the changing political landscape and evolving business environment suggest that EIOPA will need to be ready to actively respond to changing priorities or new tasks. A strong organisational culture will help us to do so, and I am proud to acknowledge the way in which EIOPA staff work according to the authority's six values (efficiency, independence, integrity, responsibility, team spirit, and transparency). Through our shared understanding of these values, we will be able, as an organisation, successfully to respond to future challenges together, so that we can continue to work towards our overall goal of strengthening consumer protection and financial stability for the benefit of Europe's economy, its business and, above all, its citizens.

Fausto Parente



Introduction

Insurance fulfils an important role in the society. When it functions well, it takes on risk and contributes to economic growth and financial stability, ultimately bringing greater financial security to citizens. With assets worth around two thirds of EU gross domestic product (GDP) (73 % in 2015) ⁽¹⁾, the EU insurance sector is a significant part of the financial sector. And with liabilities comprising one third of European households' wealth, consumers depend on aspects of the insurance sector for their future income. Equally, occupational pensions are crucial to ensure that older people are protected from the risk of poverty in retirement. With assets worth around 25 % of EU GDP ⁽²⁾, and much more in some countries, pension fund assets are growing rapidly and are increasingly providing a source of investment to financial markets.

EIOPA was set up in January 2011 as a result of reforms of the supervisory structure in the financial sector of the EU. EIOPA is an independent European Union advisory body to the European Parliament, the Council of the European Union and the European Commission. Its core responsibilities are to support the stability of the financial system, ensure the transparency of markets and financial products, and protect policyholders, and pension scheme members and beneficiaries.

EIOPA's mission is to protect the public interest by contributing to the short,

medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses. This mission is pursued by promoting a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries and contribute to the public confidence in the European Union's insurance and occupational pensions sectors.

EIOPA is one of three European supervisory authorities that comprise an important element of the European system of financial supervisors (ESFS), an integrated network of national and European supervisory authorities that provides the necessary links between the macro and micro-prudential levels, leaving day-to-day supervision to the national level.

This annual report details the authority's main achievements in 2016 across its main activities:

- to strengthen the protection of consumers;
- to improve the functioning of the EU internal market in the field of pensions and insurance;
- to strengthen the financial stability of the insurance and occupational pensions sectors; and
- EIOPA to be a responsible, competent and professional organisation.

⁽¹⁾ Source: Eurostat and EIOPA EU/EEA (re)insurance statistics – <https://eiopa.europa.eu/financial-stability-crisis-prevention/financial-stability/statistics>

⁽²⁾ Source: <https://eiopa.europa.eu/financial-stability-crisis-prevention/financial-stability/statistics>

INFORMATION BOX: Top achievements in 2016

Key information documents (KIDs)

The regulatory technical standards (RTS) on the KID for packaged retail and insurance-based investment products (PRIIPs) is a milestone in improving the transparency of investment products through simple and comparable information across the banking, insurance and securities sectors. Now, for the first time, consumers can easily compare different products and make informed investment decisions fitting their particular needs.

Launch of an EU-wide thematic review of market conduct among insurance companies operating in the unit-linked life insurance market

Thematic reviews are a key tool in EIOPA's strategy for conduct of business supervision, targeting specific financial activities or products where initial evidence suggests potential consumer detriment might be occurring. The review launched in 2016 focused on identifying potential sources of consumer detriment stemming from the relationships between insurers and providers of asset management services. This thematic review marks an important step in the effective roll-out and implementation of EIOPA's strategy towards a comprehensive risk-based and preventive framework for the conduct of business supervision.

Advice on the identification and calibration of infrastructure investments risk categories

Investments in infrastructure could be very important for the insurance business. However, infrastructure projects can be complex and require specific risk management expertise. EIOPA therefore suggested a more granular approach and the creation of a separate asset class under the Solvency II standard formula for investments in infrastructure projects. The proposed approach meaningfully reduces risk charges for qualifying infrastructure project investments in equity and debt.

Advice on the development of an EU single market for personal pension products (PPP)

EIOPA's advice in response to a request from the European Commission, provided important input into the debate on how personal pensions can contribute to meeting the needs for the provision of adequate retirement incomes and to foster increased long-term investment for providers of such products. Due to the highly divergent market for personal pension products in the European economic area (EEA), only a prudentially sound, second regime product that is demonstrably trustworthy, transparent and cost effective can successfully overcome hurdles and inefficiencies of cross-border business and offerings.

EIOPA's readiness for Solvency II reporting

The Solvency II directive sets out reporting requirements and a role for EIOPA in securely collecting and managing this data. In 2016, EIOPA received the first set of full reporting data, a major milestone in the Solvency II project. To achieve this, EIOPA created common reporting templates and tools to support undertakings in fulfilling their reporting obligations. EIOPA also established a fully functioning central repository of insurance data, which will become the most comprehensive and authoritative database on insurance undertakings. This data will be analysed and reported on to feedback to national competent authorities (NCAs) and provide added value.

Monthly production of risk-free rates and symmetric adjustment of the equity capital risk

Key components of the Solvency II framework will now be calculated consistently across the European Union (EU) and are replicable for (re)insurance companies with EIOPA's monthly publication of this information.

First annual report on long-term guarantees measures (LTG) and measures on equity risk

For the first time, EIOPA presented a report on the use and impact of long-term guarantees measures and the measures on equity risks on the financial position of European insurers. The results of this stocktaking exercise confirmed a significant impact of these measures on the financial position of insurers whilst indicating that the measures work as intended, including on financial stability as demonstrated by the EIOPA 2016 insurance stress test.

Launch of the asset quality review and balance sheet review of pensions and insurance business in Bulgaria

EIOPA's role was fundamental in launching a comprehensive assessment of the resilience of both sectors in Bulgaria, resulting in enhanced credibility and consumer confidence. Providing in-depth sector expertise and knowledge, EIOPA co-chaired the steering committee and steered the technical elements of the work including taking a lead on the development of the methodology for the exercise.

EIOPA insurance stress test 2016

EIOPA conducted its EU-wide stress test to assess insurers' vulnerabilities and resilience to severe adverse market developments based on a common analytical framework. The results confirmed the significant challenges for the European insurance sector triggered by the current macroeconomic environment. Conducted after the implementation of Solvency II, a 'high-resolution' picture of the vulnerabilities of the sector requiring particular supervisory attention was provided. EIOPA will closely monitor the implementation of the recommendations by the national competent authorities in order to ensure a coordinated response to situations that may pose a threat to the viability of the supervised entity and, collectively, to the system as a whole.

Discussion paper on potential harmonisation of recovery and resolution frameworks for insurers

EIOPA provided a snapshot of the current fragmented landscape, paving the way for a harmonised recovery and resolution framework by proposing the essential building blocks. This framework could be an important step and a key milestone towards a more robust and stable insurance market for the benefit of policyholders.

Opinion to EU institutions on a common framework for risk assessment and transparency for institutions for occupational retirement provision (IORP)

This opinion presents a major step forward towards realistic, risk-sensitive information on the financial situation of pension funds. EIOPA's recommendations to modernise the European regulation of pension funds aim at supporting the occupational pensions sector to meet its current and future challenges.



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