



Petra Hielkema

Chair, European Insurance and Occupational Pensions Authority

A supervisor's perspective: 10 days in

Ladies and gentlemen,

Thank you for this invitation to speak at Eurofi both to the organisation as well as the Slovenian Presidency. It is a wonderful event and I am happy to participate even though it is via a screen and not in person.

Only last week I started as the new chairperson of EIOPA and having the opportunity to join Eurofi within my first 10 days is a pleasure. Naturally, it's too early for me to present a full vision or strategy for the years to come. Nevertheless, on a higher level, there are already some key topics and issues worth highlighting.

And so I am glad to share with you today some of the most pressing challenges that I see for our agenda and topics that need to be discussed. And when I say 'our' agenda, I mean the challenges not only for EIOPA or for the sector, but also for supervisors and society.

COVID-19 continues to be high on the agenda. Here, we will support the recovery as we also continue monitoring the market, with an eye on new risks that may emerge as the exceptional crisis measures are phased out.

Beyond COVID, the most immediate challenge is climate change. Every day, there is news of yet another climate change related event. In Europe, in recent months, we have seen devastating floods and fires. The impact on individuals, communities and economies is serious.

In Germany alone, the recent floods led to claims of around 5.7 billion euro and the total recovery package is expected to be around 30 billion euro. We cannot ignore these figures.

Change is needed, adaptation required and here the insurance and occupational pension sectors can help.

Both have considerable sums to invest for the long-term and can choose where to invest their assets. In carbon or in wind? In oil or in hydro? Serious choices that need to be taken in a well informed, forward

looking and balanced way. I am happy to see the discussion gathering pace, but I also see that many of the hard calls still have to be made.

The insurance industry can also lead in the transition to a more sustainable and resilient economy.

First of all by incentivising business to operate responsibly. Secondly by engaging with policyholders and the public on taking preventive measures, helping people and society become more resilient to climate change. Indeed let's not underestimate the interest of policyholders this area. It's bigger than we have seen before. Let's engage them with clear information and help them make informed choices.

And there is more. Insurers will have to consider the impact of their own underwriting practices on the environment as well as the impact of climate change on themselves. Indeed, from a supervisory perspective, climate risk clearly has to be a part of the risk management of any insurer or pension fund.

And so recent work by EIOPA includes the Opinion on the ORSA, the paper on integrating climate risk in nat cat underwriting calibration and the report on the impact and integration of climate change-related risk in underwriting and pricing. This is just the start. EIOPA will continue to work on risk differentials, product disclosure and climate stress testing.

If climate change is top of the agenda, cyber security is not far behind.

The pandemic has accelerated the digital transformation. This is a good thing. But cyber threats are also growing. Hacking, phishing, ransomware – these terms are part of our day to day language and we are always on guard.

Also insurers and pension funds need not only to manage cyber and IT risk within the company and the value chain, but they also need to keep pace with new threats and developments. Here operational resilience testing and cooperation can help and as such EIOPA welcomes DORA and other initiatives in this field and stands ready to contribute.

Like with climate, insurers have another role to play in this area. A sound cyber insurance market is an important measure. The challenge is how to insure and help prevent cyber risk. Especially as these risks are growing in sophistication and intensity.

From raising awareness of the risks and losses that can result from cyber attacks to facilitating responses and recovery, a well-developed cyber insurance market can play a valuable role in risk management across the economy in Europe.

The last challenge that I want to mention here, and it comes in many forms, is digitalization. Technological innovation, new business models and different market players bring new and more possibilities to industry and consumer and that is good news as long as risks are well managed and consumer protection is up to standard.

EIOPA will continue to monitor and motivate innovation, while keeping a close eye on new risks that are emerging, as well as on how consumers are served. Considering the cross-border potential of digitalization, the role of EIOPA will be key to ensure convergence and cooperation in order to safeguard stability and protect policy holders.

Indeed consumer protection focussing on good information, effectively targeted and designed products, appropriate advice, as well as inclusivity will become more important in the near future.

More and more, consumers will buy their products on-line, not knowing (and not caring) where in the EU the insurer is licensed. This is a true reflection of our ambition to create a well functioning internal market. However, this means that when there are issues or complaints consumers will expect to be – and should be – provided with the same levels of protection as domestically. Here supervisory cooperation between home and host as well as convergence will be key. Levels of protection need to improve. Above all, whether in the online world or not, we must make sure all consumers are equally protected and included and where we identify areas of detriment, EIOPA must and should be able to act.

Considering all the possibilities in the market, we also need to keep an eye on what isn't possible, the gaps.

On the non-life side recent cyber attacks, flooding and the COVID-19 crisis made some protection gaps more visible than before. And on the life side of the insurance business the low yield environment is having an impact on products being offered. Moreover, with more people changing the way they work, for example becoming self-employed, the risk of protection gaps is increasing. Identifying these gaps and raising awareness of the need to find ways to deal with them will be part of the EIOPA agenda.

Let me say a bit more on pensions. On a continent with an ageing population, identifying pension gaps (preferably looking separately at men and women) is essential to ensure the adequacy and sustainability of pension systems. EIOPA's work on pension dashboards

and tracking services will help to raise awareness at a macro level as well as at the individual level.

But that in itself will not be enough and particularly in the consumer protection area more can be done. The low yield environment has resulted in a shift from defined benefit to defined contribution schemes in Member States. This shift requires EIOPA to consider where most value can be added from a convergence perspective. As the shift to DC means that more members and beneficiaries carry the risk, we will need to pay attention to conduct risk, including ensuring transparency of costs and charges.

There is opportunity too: Cross border activity and simple pension products are underdeveloped. I am convinced that the PEPP, the Pan European Personal Pension product will add value and possibilities to consumers wanting to save for their pension. We need more of these types of products.

A priority for the coming years will be to encourage cross-border provision of occupational DC schemes thereby closing gaps. As well as a careful assessment of the implementation of the IORP II Directive on cross-border activity for the review of IORP II, so that the framework remains robust.

Indeed robustness and a good framework are at the heart of a well-functioning market. We can only meet new challenges if we have a stable starting point and we do. It's called Solvency II. And let me underline that I do not regard Solvency II as a challenge, rather as a success and an opportunity.

Solvency II is the steady foundation on which we rely during challenging times. We saw this during the pandemic. However, there is no time to be complacent, as new challenging times will come. We must make sure that the framework remains fit for purpose.

At the end of last year, EIOPA submitted its Opinion on the review of Solvency II, with our proposals reflecting the ongoing low interest rate environment, the need to foster long-term investment and proportionality. You will not be surprised to hear me use the term 'evolution not revolution'. It is the approach EIOPA choose and it is a good approach. As we all know, the framework was developed around 2012-2014 and included new elements of supervision, like proportionality, internal models and group supervision. The framework and these new elements worked well for insurers and supervisors. We can be proud. However, in order to stay proud, an update reflecting the current economic circumstances as well as fine-tuning some parts of the new elements is needed.

Furthermore, we need to use this moment of review to complete the risk management toolbox, introducing new tools that are needed and relevant. A minimum harmonized insurance guarantee scheme is part of that.

It is true that not all, but many member states have their own insurance guarantee schemes. But the lack

of uniformity means that too often policyholders are not treated equally in the event of a failure. This is against our fundamental belief that policyholders can and should expect the same level of protection no matter where they are based or from where they buy their insurance policy.

This is why we believe that there is a strong need for a minimum harmonised recovery and resolution framework and minimum harmonisation in the field of insurance guarantee schemes.

A solid, fit for purpose framework is good for the insurance sector. Solvency II has shown how this is true in Europe and we should strive to achieve this internationally. EIOPA will therefore continue to support the IAIS in its work to set good standards for the insurance sector globally.

With a good basis underpinning the sector, the insurance and pension industry is better placed to meet challenges.

This year, EIOPA celebrated its tenth anniversary. This week, I will mark my 10 days as Chair.

I can say that from these 10 days, I can tell that my agenda – our agenda – is a full one.

We have challenges to face, but we also have opportunities to grow. And if we work together, we can progress in mitigating risk and building resilience and sustainability which can only benefit policyholders and society.

When it comes to opportunity, it's no surprise that the NextGenerationEU recovery plan is built on green and digital transitions. And I believe that the insurance and pension sectors can and will play an important role in making the recovery both strong and sustainable.

So, for far beyond the next 10 days, I am looking forward to working with you – our Board of Supervisor members, colleagues from the EU institutions and our sister European Supervisory Authorities, industry, and of course my colleagues within EIOPA – to take the sector and its supervision forward. If we work together on this, we can be sure that we are building a sustainable future for our society.

Ladies and gentlemen, thank you very much.