IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

Activity Report 2018-2020

July 2020

EIOPA-IRSG-20-16

European Insurance and Occupational Pensions Authority

CONTENTS

MESSAGE FROM THE CHAIR

Insurance is unlike banking, goes a popular saying among finance professionals. I would rather contend that insurance is unlike anything else: despite its size worth 5% of EU GDP in annual premiums, its socio-economic importance as employer and institutional investor holding 10 trillion EUR in assets, its wide ramifications for the organisation of national welfare regimes and its role in contemporary global challenges ranging from climate change to digitalization, it often stays – contrary to banks and asset managers – under the radar and scrutiny of public debate.

In this perspective, it is crucial that the voice of different stakeholders – ranging from (re)insurers and intermediaries to trade unions, consumers, professional associations and broader civil society – is present in the governance of insurance supervision and regulation at European level. I believe that the IRSG, through its advisory role to EIOPA, has been instrumental in exactly voicing these different perspectives. I am therefore glad that, over the last two years, we managed to make valuable contributions to a number of regulatory workstreams relevant for the governance of insurance markets in Europe.

This report intends to provide a brief overview of the different opinions the IRSG published under its past mandate. Opinions which, I hope, can also feature as starting points for debates in the upcoming term(s) of the IRSG. Important work has been done here on the prudential front, with numerous opinions dealing with the upcoming review of Solvency II. Next to this, the sustainable finance agenda and the implementation of the PEPP featured heavily on our agenda.

At the same time, this report also represents the outcome of intense cooperation and dialogue between more than 30 experts and EIOPA representatives. Let me start by first thanking all colleagues of the IRSG for their input and dedication, and especially those who held the pen of the different opinions: Tony O'Riordan, Lauri Saraste, Pierpaolo Marano, Xavier Larnaudie-Eiffel, Paul Fox, Marcin Kawinski, Torun Reinhammar and Christian Guelich. Next to this, I would like to extend my thanks to Michaela Koller, whose experience proved very useful as vice-Chair. Our work has also benefited from the engagement of EIOPA representatives: a word of gratitude to both Gabriel Bernardino and Fausto Parente for their openness and to all EIOPA policy experts who have enriched the discussions. Also, our work would not have been possible without the dedication of Kai Kosik and Florian Ouillades in supporting the organisation of the IRSG. Sadly, we also needed to say goodbye to Giampaolo Petri who passed away during this term. His authentic consumer engagement and warm personality will be dearly missed.

In terms of internal governance, I believe that this IRSG term has benefited from lessons and recommendations done in the past. The feedback on our opinions, the presence of EIOPA's BoS Members and the good cooperation with the OPSG – including joint opinions – stand out here. Better engagement with the European Commission remains however an issue.

Finally, a last word on the Covid-19 crisis which has upended the last part of this IRSG. I am grateful to EIOPA who secured the continuity of IRSG work throughout the crisis. Also, I am glad we had the opportunity to discuss with EIOPA staff the early ramifications of Covid-19 on insurance markets and the policy questions it triggered. It served as a good reminder of how societal concerns and the development of insurance markets are intertwined. Sometimes they go in the same direction, sometimes they don't. EIOPA's challenge is to make sure they do. The IRSG should keep on providing balanced advice to that important end.

Greg Van Elsen

Chair of the IRSG

1. ABOUT THE GROUP

ESTABLISHMENT AND OBJECTIVES OF THE IRSG

EIOPA’s stakeholder groups were established by Article 37 of the EIOPA Regulation, in order to facilitate EIOPA's consultation with stakeholders throughout Europe.

The Insurance and Reinsurance Stakeholder Group’s main responsibilities are:

- advising the European Insurance and Occupational Pensions Authority on the actions it takes concerning:
    - Regulatory Technical Standards (RTS);
    - Implementing Technical Standards (ITS);
    - Guidelines;
    - Recommendations;
    - Peer reviews;
    - Practical instruments and convergence tools to promote consistent supervisory approaches and practices,
    - Assessment of market developments.
- assisting the Authority in assessing the potential impact of, and advise on any issue related to all of the above.

ADVICE

The stakeholder groups, including the IRSG, issue advice to EIOPA on relevant topics. Advice includes own initiatives whereby the group can comment on any issue it deems relevant in relation to the tasks of the Authority.

ADJUSTED SELECTION PROCEDURE

Following the ESA Review, Article 37 of the EIOPA Regulation was amended with effect on 1 January 2020. The changes, which relate to the composition, length of mandate, and scope of activities of the Stakeholder Groups, required EIOPA to revise its selection procedure. The updated stakeholder group selection procedure can be found here. See also the annex for further information on the legal framework.

2. MEMBERS

Member’s name	Nationality	Institution	Representing
Baumgärtel, Martina	Germany	Allianz SE	Industry
Beaupérin, Typhaine	Belgium/France	Federation of European Risk Management Associations (FERMA)	Professional associations
Caget, Alexandre	France	A.C. Expertises	SMEs
Calu, Monica	Romania	Consumers United/Consumatorii Uniti	Consumers
Fox, Paul	United Kingdom	Finance Watch	Consumers
Francis, Hugh	United Kingdom	Aviva Plc.	Industry
Grabowski, Krzysztof	Poland	Kozminski University Warsaw	Academics
Gülich, Christian	Germany	German Consumer Association (BdV)	Consumers
Halme, Liisa	Finland	Union of Insurance Employees in Finland	Employees
Hendriks-Muijs, Miranda	Netherlands	Univé Cooperative	Industry - Cooperative/Mutual
Hirner, Liane	Austria	Vienna Insurance Group	Industry
Hugonin, Benoit	France	SCOR Group	Industry - Reinsurance
Iacob, Alin	Romania	Romanian Association of Financial Services Users (AURSF)	Users of (re)insurance services
Kawiński, Marcin	Poland	Warsaw School of Economics	Academic
Koller, Michaela	Germany	Insurance Europe	Industry
Kybartas, Tomas	Lithuania	Alliance of Lithuanian Consumer Organizations	Consumers
Laeven, Roger	Netherlands	University of Amsterdam	Academic
Larnaudie-Eiffel, Xavier	France	CNP Assurances	Industry
Marano, Pierpaolo	Italy	Catholic University of Milan	Academics
Materne, Stefan	Germany	Cologne University of Applied Sciences	Academics
Morton, Stephanie	Netherlands/UK	ClientEarth	Consumers
O'Riordan, Anthony	Ireland	Actuarial Association of Europe (AAE)	Professional associations
Danov, Desislav	Bulgaria	Fintechguardian	Consumers
Plá, Juan-Ramón	Spain	European Federation of Intermediary Associations (BIPAR)	Industry - Intermediaries
Prache, Guillaume	France	Better Finance	Users of (re)insurance services

Member’s name	Nationality	Institution	Representing
Reinhammar, Torun	Sweden	CDP Europe	Professional associations
Rodrigues, Tito	Portugal	DECO Proteste Consumer Association	Consumers
Saraste, Lauri	Finland	Local Tapiola	Industry - Cooperative/Mutual
Scaroni, Bruno	Italy	Generali	Industry
Van Elsen, Greg	Belgium	The European Consumer Organisation (BEUC)	Consumers

3. KEY DISCUSSION AREAS

1. PRUDENTIAL ISSUES

Over the past two years, the IRSG delivered extensive feedback in the prudential area, notably in the context of the ongoing review on the Solvency II framework (SII).

The IRSG provided input on the various areas of the Solvency II review: on the main public consultation and the specific topic of illiquid liabilities, reporting and public disclosures, Insurance Guarantee Schemes (IGS) and resolution funding, Systemic Risk and Macroprudential Policy.

Further, the IRSG gave informal advice on the guidelines on the system of governance.

IRSG advice on Solvency II 2020 Review [link] - 16.12.2019

The IRSG provided its views on EIOPA's Consultation Paper on the Opinion on the 2020 review of Solvency II.

It highlighted that the 2020 review provides a key opportunity to make focused improvements to the Solvency II regime, including to the long-term guarantee measures. In fact, the review should be the occasion to ensure that the LTG measures function appropriately to protect policyholders while preserving long term product provision and long-term investment, which are so important to consumers and the economy.

Further, the IRSG expressed its concerns regarding the large number of significant changes considered by EIOPA within the consultation, that would overall increase the level of capital and reporting requirements for undertakings. At the same time, EIOPA missed the opportunity to consider areas where reductions may be justified.

The IRSG noted the importance of assessing potential changes to SII in a holistic manner. EIOPA should preserve the stability of the SII framework, which works well overall, and the specific identified shortcomings need to be addressed in a targeted manner. Additional complexity should not be introduced unless there are clear associated benefits. In addition, proportionality should be more effectively embedded in the framework.

Key IRSG positions raised included the following:

- Risk Margin: Its level is excessive and its sensitivity to interest rates causes artificial volatility, affecting in particular long-term products. The IRSG urged EIOPA to identify alternative parameters in order to address these shortcomings, specifically by taking into consideration the level of the cost of capital and risk dependence over time for the point in time SCRs.

- Matching adjustment (MA): The IRSG supported the proposed improvements for the MA.
- Volatility adjustment (VA): The VA mechanism needs improvements. In particular, its volatility should be addressed, and the EIOPA proposals in the consultation would not achieve this objective.
- Last liquid point (LLP): The LLP should remain at 20 years.
- Best estimate: The impact of any changes to contract boundaries needs to be carefully analysed, and any additional changes further complicating calculations should be avoided, for example regarding expected profits on future premiums.
- Non-proportional reinsurance: Its exclusion from the premium and reserve risk submodule for standard formula users is a technical inconsistency that needs to be addressed in the 2020 review. EIOPA's willingness to further discuss this topic was welcomed.
- Systemic risk: Additional capital requirements are not an appropriate solution to address concerns of systemic risk. Where the risk exists, other mechanisms such as internal controls are well-suited. These mechanisms should be proportionate.
  Interest rate risk: While the IRSG recognises weaknesses in the current standard formula approach and welcomes EIOPA's shifted approach, the proposed calibration of the model is unduly onerous and not suitable for all currencies. The IRSG proposed an alternative framework reflecting a divide of interest rate down risk into two parts: one that can be quantified using historical data; and another that reflects the qualitative drivers of lower rates. To follow up on its proposal in the consultation response, the IRSG has been liaising with EIOPA to provide additional feedback on the development and calibration of the interest rate risk submodule. As a result, this work was approved in June 2020 as an IRSG advice and was published (link).
- Transitional measures: These should remain available to ensure a level playing field, legal certainty and as a tool from a crisis management perspective.
- Long Term Guarantee measures: These should not be questioned once the requirements to use them are met. Furthermore, it is not appropriate to give NSAs the ability to limit or withhold capital distribution especially also in the particular case where an undertaking is using an LTG measure but does not meet the SCR without the application of the LTG measure.
- Proportionality: The proportionality principle needs to be more explicitly embedded in the regulation. It should not be seen as an "exception", but considered as an appropriate, justified and meaningful application of the framework, as intended by regulators.
- Group supervision: There was no support for the many changes proposed. In particular, the proposal to consider EPIFPs and transitionals on technical reserves as unavailable by default for group solvency calculation is not appropriate. Moreover, including intermediate holdings in the minimum consolidated group SCR raised concerns. Further, the proposal to put artificial limits to group leverage is uncalled for.

IRSG Opinion on Methodological Considerations regarding Illiquid Liabilities [link] - 11.12.2018

Following EIOPA's request for feedback on Methodological Considerations regarding Illiquid Liabilities, the IRSG expressed its concerns regarding the lack of sufficient clarity of the purpose of the illiquidity study and requested clarification on how EIOPA envisaged to use the proposed illiquidity indicators in the development of future regulatory changes.

According to the IRSG, the starting point should be whether or not an insurer is exposed to losses due to forced selling, as this changes the nature of the asset risk to which the insurer is exposed.

Key IRSG positions raised included the following:

- Insurers' ability to invest long-term reduces exposure to forced selling at potential losses. Where an insurer can demonstrate it can hold assets over the long-term, the Solvency II framework should reflect this.
- The illiquidity of liabilities is only part of the process for assessing if there is potential for forced-selling. An overall (il)liquidity assessment is performed by overall Asset Liability Management. (ALM).
- The IRSG supports further investigation on:
    - the means of allowing for additional yield on illiquid assets backing illiquid liabilities
    - whether the standard formula SCR calculations treat long-term investments backing illiquid liabilities appropriately
- Neither the duration of liabilities nor the holding period for individual securities can be used as general indicators of illiquidity or potential for forced-selling.

IRSG advice on supervisory reporting and public disclosure [link] - 18.10.2019

The IRSG provided feedback on the public consultation of EIOPA's draft proposals regarding supervisory reporting and public disclosure in the context of the Solvency II 2020 review.

Overall, the IRSG opined that the global result of the current proposals, as set out by EIOPA in the consultation, would not achieve an improvement in the appropriateness of reporting requirements.

Specifically, the following concerns were raised:

- EIOPA proposed significant unnecessary additions to the reporting requirements.
- The proposed removals in reporting requirements are largely over-compensated by these additions.
- The proposals for external audit requirements would lead to significant extra costs for companies, with only limited benefits.

IRSG Response to EIOPA's Discussion Paper on Systemic Risk and Macroprudential Policy [link] - 20.05.2019

The IRSG provided its views on EIOPA's discussion paper on systemic risk and macroprudential policy. The IRSG contribution focused on macro prudential issues covered by the call for advice issued by the European Commission, such as ORSA, systemic/liquidity risk management plan, liquidity reporting and the prudent person principle.

Generally, the concept of an effective macroprudential framework is supported by the IRSG, on the following two conditions:

- clarity on how insurers could generate and transmit systemic risk to the financial system is needed
- the absence of an operational definition of systemic risk needs to be addressed.

Key IRSG positions raised included the following:

- The specific nature of (re)insurer's business models provides a loss absorbing capacity to the real economy and limits largely leverage effects, making (re)insurers less systemic than other financial sectors. Against this background, the macroprudential framework should:
    - ensure insurers' capacity to invest in the real economy and in illiquid assets
    - limit indirect impacts that could affect policyholders
    - be proportionate compared to other financial sectors.
- With Solvency II only three years in place, it is premature to identify shortcomings in that area. EIOPA should thoroughly consider the measures already in place in Solvency II, specifically:
    - The granular data available forms a sound basis and should be made use of.
    - EIOPA already performs stress tests, publishes Financial Stability Reports and Risk Dashboards.
- Before introducing new requirements, a thorough cost benefit analysis should be conducted and the supervisory convergence plan should be further developed.
- Climate change, the transition to a green economy and more broadly sustainability are key priorities potentially requiring significant investments from all sectors of the European economy. It makes sense to assess whether the framework appropriately addresses emerging risks, such as climate change/sustainability. Therefore, the IRSG suggested to:
    - assess whether the microprudential policy needs to explicitly address climate change/sustainability risks in the SII framework (already considered by EIOPA in its advice on Pillar 1 and 2)
    - if any gaps are identified and documented, macroprudential tools could be considered.

IRSG Opinion on Resolution funding and national Insurance Guarantee Schemes [link] -12.10.2018

The IRSG provided feedback to EIOPA's opinion on resolution funding and Insurance Guarantee Schemes (IGS).

In its response, the IRSG argued that since Solvency II was implemented, policyholder protection has significantly improved thanks to governance requirements and quantitative risk measures favouring a risk-based decision-making.

Recovery and resolution frameworks are clearly a possible first step to a higher degree of consumer protection, but their effectiveness will be highly dependent on the nature, scope and quality of such frameworks.

A move towards an even higher degree of consumer protection should be built step-by-step to avoid any unwanted consequences, as new regulation might change market practice and policyholder behaviour, and any further increase in policyholder protection needs to be seen in the context of the SII review.

Key IRSG positions raised included the following:

On resolution funding

- The IRSG generally supported most of EIOPA's proposals, in particular the safeguards for the power to restructure limit or write down insurance liabilities.
- A well-designed arrangement should ensure the effectiveness of the "No Creditor Worse Off than in Liquidation" (NCWOL) principle.
- Policyholders in one country should not be significantly disadvantaged in the protection which is available to them relative to those in other countries.
- There was no consensus on whether an ex ante, ex post or a mix of these would be the best alternative. Whichever the solution, a risk-based approach could provide a more appropriate and sustainable funding mechanism.

On insurance guarantee schemes

- It is not appropriate to consider IGSs as a stand-alone theme, as it is very much intertwined with effective supervision and cooperation between supervisors, use of member state options and consistent implementation and application of SII across member states.
- While some members considered the status quo as the most feasible option, others felt that minimum protection would be required. In any case, there should be some consistency in the level of protection afforded to customers across member states, which might lead to some basic requirements which would apply to resolution and IGS regimes across member states.

- Rather than considering new rules for IGS, steps should be taken to ensure that existing tools and powers are fully used and that resources are adequately assigned towards their proper enforcement.

IRSG advice on the harmonisation of National Insurance Guarantee Schemes [link] - 22.10.2019

The IRSG provided feedback to EIOPA's consultation on the Harmonisation of National Insurance Guarantee Schemes (IGS). This consultation followed from the EC Call for Advice of 11 February 2019 which included insurance guarantee schemes.

The IRSG highlighted that the implementation of Solvency II and its quantitative and governance requirements have fostered significant improvement in policyholder protection. As new regulation might change market practice and policyholder behaviour, improvements should be made step-by-step to avoid any unwanted consequences and should be considered in the broader context of the SII review.

The IRSG had diverging opinions as to the appropriate level of prescription of IGSs:

- Some members preferred maintaining the status quo, arguing that IGS currently in place work well and minimum harmonisation would create significant costs and challenges. Therefore, focus should be on ensuring the appropriate implementation of SII and coordinated supervision of FOS/FOE across Member States.
- Other members supported minimum harmonisation, arguing that the risk of failure for insurers is still existing. As such, a minimum harmonisation for IGSs would increase policyholder protection and would reduce the current inconsistent approach.

Key IRSG positions raised included the following:

- On role and functioning: Legal structures of IGSs should be left to the discretion of Member States. IGSs should act as a mechanism with the primary aim to protect policyholders and should seek to enable the continuation of policies for life and for some long-term non-life insurance policies. Regular reviews of any harmonised principles should be implemented.
- On geographical coverage: Any harmonisation of the geographical coverage of national IGSs should be on the basis of the home-country principle, while enabling practical support from the host country.
- On eligible policies: IRSG challenged the EIOPA proposal that national IGSs should cover natural persons and micro- and small-sized legal entities, and proposes that, alternatively, consideration should be given to minimum harmonisation only including consumers (natural persons).
- On eligible claimants: IRSG challenged the EIOPA proposal that there should be a minimum harmonised coverage level for claimants, on the basis that appropriate minimum levels may differ depending on individual market features.

- On coverage level: Some IRSG members noted that the scope of products included under any minimum harmonisation should be as limited and focussed as possible.
- On funding: Specific requirements should not be imposed but the robustness and likely effectiveness of chosen funding mechanisms, reflecting the long-term nature of the insurance business model, should be considered. Some members considered that a risk-based approach is likely to provide a more appropriate and sustainable funding mechanism, while others considered that fixed rates are more appropriate. Upper limits to the annual contributions made by an individual insurer, or from the industry as a whole should be considered to mitigate the risk of industry financial stress and/or additional cost to insurance consumers.

IRSG informal advice on Solvency II Guidelines on System of Governance [link] - 09.10.2018

At EIOPA's request, the IRSG provided:

- its views concerning a review of EIOPA Guidelines on system of governance
- initial feedback on which specific guidelines should be amended and in what manner
- areas that could benefit from new guidelines.

Specifically, the IRSG suggested that EIOPA consults NSAs in order **to assess governance guidelines' effectiveness, relevance, coherence and proportionality**. The IRSG further noted that **a review of all guidelines would be welcome**, starting with a thorough assessment of existing guidelines and the extent to which they have brought added value to the regulatory and supervisory landscape.

Regarding the **timing of the review**, the IRSG noted that EIOPA should consider the work of other workstreams as well as potential changes to come in Level 1 and Level 2 texts, in particular for the area of sustainable finance.

Finally, the IRSG stressed that, given the **significant compliance and regulatory costs** attached to the implementation of guidelines, any revision should incorporate an assessment of the actions and approaches adopted by NSAs in relation to the application of proportionality.

2. PEPP

The entry into force of the Pan-European Personal Pension product (PEPP) Regulation has triggered the twelve-month timeframe for EIOPA to develop the Level 2 measures envisaged in the Regulation. EIOPA has been requested to deliver twelve pieces of Delegated Regulation specifying the technical details of the PEPP to the EC by the 15 August 2020.

Against that background, the IRSG and the OPSG joined forces to assist EIOPA in developing the PEPP technical standards.

The dedicated joint sub-group delivered two opinions on the PEPP: a first contribution to EIOPA's targeted questionnaire on 15 November 2019 (here), followed by a response to EIOPA public consultation on the 28 February 2020 (here).

15.11.2019 Joint OPSG-IRSG advice on the Pan-European Personal Pension Product (PEPP) [link]

In their joint opinions, the IRSG and OPSG have provided very detailed and balanced comments on most of the issues in relation to the PEPP, especially with regards to:

- digital information and distribution.
- PEPP KID indicators and disclosures: costs, risk, reward and performance with a specific focus on the impact of inflation and fees.
- structure of PEPP Benefit Statement.
- the 1% "all-inclusive" Basic PEPP fee Cap for the Basic PEPP with a specific focus on the cost of guarantees and advice
- rules applicable to Risk mitigations techniques (guarantees, life-cycling and buffers)

In their opinions, the Groups agreed that PEPP attractiveness to consumers is key to ensure its success, meaning that the PEPP should be:

- simple
- transparent
- trustworthy
- safe
- well-governed
- and last but not least, cost-effective while providing good value for money.

At the same time, the Groups also recognised the importance of ensuring that the regulatory framework enable the PEPP business case and provides sufficient incentives to potential providers to take the decision to offer the PEPP.

28.02.2020 Joint IRSG/OPSG on PEPP - implementing technical standards for supervisory reporting and cooperation for the Pan-European Personal Pension Product [link]

3. CONSUMER PROTECTION

16.11.2018 IRSG Opinion on Travel Insurance [link]

EIOPA identified consumer protection issues in travel insurance, stemming from how the products are designed, distributed and sold within the EU. The IRSG provided advice to EIOPA on its EU-Wide 'Thematic Review on Consumer Protection Issues in Travel Insurance', in particular on increasing customer protection in the travel insurance market.

Key IRSG positions raised included the following:

- The new IDD significantly enhances consumer protection and addresses many of the issues identified by EIOPA, specifically in the areas of product design, sales practices and distribution processes. However, since IDD only applies from 1 October 2018, it needs sufficient time before assessing its impact with regards to travel insurance.
- The distribution of travel insurance products has greatly changed in recent years, and many "distributors" of travel insurance are considered ancillary intermediaries and may therefore be exempted from the IDD under certain conditions, which may exacerbate consumer protection issues. The growing importance of online distribution and, in particular, the large platforms needs to be considered.
- There could be merit in properly defining the word "travel" for the purposes of the IDD to help have a harmonized application of the IDD.

The IRSG further noted areas worth for EIOPA to further consideration and investigation, such as:

  - information and transparency for the customer
  - competition and relevance of the product for the customer.

19.06.2019 IRSG Feedback Statement on EIOPA's questionnaire on Consumer trends [link].

As in previous years, the IRSG provided feedback on the EIOPA consumer trends questionnaire.

The IRSG highlighted various developments including changes in law and research conducted into customer outcomes in select member states. The input illustrated that PPI, travel and mobile insurance were potential sources for poor consumer outcomes. Inevitably, the IRSG members' input captures only a snapshot of certain markets, often reflecting the location of the IRSG members' professional expertise.

IRSG feedback included the following:

- in the life insurance area, members reported poor consumer outcomes due to several factors: low-interest rates, high fees and a lack of transparency on costs. Also, members reported bad practices in the area of payment protection insurance, often involving very high commission levels.

- On insurance digital ecosystems: Although ecosystems could offer personalised product offerings, risks arise to both consumers and established insurers. These include higher premiums, lack of comparability and choice between products and a negative impact on competition.
- On vulnerable consumers: The IRSG members' views reflect the national differences. Initiatives were flagged in respect of accessibility and the customer outcomes for older, ill, disabled or otherwise vulnerable policyholders tied to personal factors, but also for poorer customers, or loyal customers who were not offered 'introductory' offers. Solutions reflect national needs.
- On price comparison websites: Although price comparison websites may offer some customers a lower premium, they also raise risks of poor outcomes for consumers, including:
    - the lack of a full comparison of products available on the market,
    - the risks arising from only comparing price as a relevant factor for the suitability of a product
    - the impact on fair competition due to the secrecy of underlying contracts – meaning the comparisons capture only some providers.

  Furthermore, it appeared that some member states are much more familiar with price comparison websites. The lack of independence of PCW's was also reported.
- On bancassurance: The risk of a lack of availability of a full comparison of products also arises and may favour the offer of in-house products. This distribution channel already existed in many member states and is increasing in some member states.

02.02.2020 IRSG Feedback Statement on EIOPA's questionnaire on Consumer trends LINK!

The consumer trends report of 2020 deals predominantly with consumer issues related to the Covid-19 pandemic.

IRSG feedback included the following:

- With regard to the impacts of the pandemic on consumers first it should be stressed that in those countries in which the fundamental digital infrastructure is less or rather unequally developed (differences between big cities and rural areas), the practical negative consequences for consumers were partly rather high. This was the case for Romania, where the continuity of service provisions could not always be maintained and even offers of fraudulent contracts by criminal persons were spread. At the same time this seemed not be a major problem in Central and Western Europe.

So, unfortunately it must be concluded that the pandemic has reinforced the uneven level of consumer protection in Europe, but this is mainly due to strong inequalities of the communication and information infrastructure of the member states.

- For the industry one of the most important consequences of the pandemic is the inevitable push to accelerated digitalization of the communication with the customers. This will lead to an enhanced competition of the distribution channels in each company and between the companies. It is still too early to assess, if consumers will profit from this stronger competition, for example by the accelerated emergence of insurtechs with possibly reduced costs of distribution.

  There are many examples which show how the insurers have helped consumers by allowing the deferral or exemption of premiums, but there are examples as well which show that insurers have even increased commissions for life-insurances in order to stimulate the distributors during the crisis.

  With regard to the handling of indemnity claims during or caused by the pandemic problems occurred mainly concerning the class of business interruption insurances. But these cases are not relevant for retail customers. Exemplary cases and court decisions of struggling retail customers are given in several comments which are not related to the pandemic (for ex. the decision of European Court of Justice on the right of withdrawal for life insurances of December 2019). Other examples for travel and home insurances or PPI are given in part 2 of the report.

4. SUSTAINABILITY

Over the past year, the IRSG delivered extensive feedback regarding sustainability, providing very comprehensive and balanced comments. The IRSG generally supported EIOPA work on sustainability, and especially related to climate change, while called for proportional and feasible proposals.

Overall, the IRSG noted that measuring and monitoring long-term sustainability risks is highly important, in particular because climate change poses severe risks for our society and ecosystems, but also for our long-term investments, insurance customers and retirement plans.

31.01.2019 - IRSG Opinion on the integration of sustainability risks and factors in the Delegated Acts under Solvency II and IDD (EIOPA's draft Technical Advice) [link]

The IRSG welcomed the European Commission initiative and the EIOPA proposals on integrating sustainability risk and factors set out in EIOPA's draft technical advice.

Overall, the draft technical advice appeared to acknowledge the general principle that undertakings are already required to take into account material sustainability risks – for example windstorm and flood risk – in their operations. The greater part of the proposed amendments seemed to be aimed at clarifying this requirement, rather than introducing new principles.

Key IRSG positions raised included the following:

- EIOPA's approach to tackle sustainability risks that may result in financial losses (e.g. the financial risks associated with climate change) was welcomed.
- The proposed explicit references to sustainability risks under SII and IDD might help insurers integrate these risks into their risk management function. However, concerns were raised as the isolation of sustainability risks in the regulation might give inappropriate emphasis to sustainability, potentially at the expense of other risks.
- The implementation of the proposed changes could lead to diverging interpretations across jurisdictions, if made before having a clear definition and scope of "sustainability risk"
- The IRSG noted the need to consider the inclusion of a distinction between "financial" risks which have an impact on insurance companies and their customers and broader "non-financial" or societal sustainability risks. This is because SII legislation - as prudential insurance regulation - is not designed to address the wider societal risks and implications.
- Ascertaining the nature of customer preferences can be challenging, particularly relating to sustainability. Therefore, The IRSG pointed out the necessity for caution when requiring actions based on an interpretation of customer preference which may be not fully formed, and which may differ from undertaking to undertaking.

31.07.2019 IRSG response to EIOPA's Consultation Paper on an opinion on sustainability within Solvency II [link]

As already highlighted above, the IRSG generally supports EIOPA work on sustainability, and especially climate change.

In this response, the IRSG elaborated its position regarding the integration of sustainability risks in Solvency II Pillar 1 requirements, including in the valuation of assets and liabilities, and in the investment and underwriting practices. The IRSG noted that this work will encourage insurers to consider sustainability more explicitly in their business.

Key IRSG positions raised included the following:

- In terms of the possibility to change the time horizon for capital requirements in Solvency II, the IRSG highlighted that this change is not required to integrate climate change considerations. Sustainability risks can already be incorporated into the current Solvency framework.
- Regarding the implementation of a forward-looking approach to consider sustainability risks, the IRSG stressed that undertakings should be given sufficient flexibility to reflect their

specific business model and integrate sustainability risks in their relevant processes (like in the ORSA) and policies (like underwriting, investment and risk management).

- With respect to long-term scenario analysis and stress testing, the IRSG members' view was that EIOPA's expectations need to be clarified. While access to a standardised set of quantitative scenarios is helpful, flexibility and proportionality need to be considered in developing a forward-looking approach on sustainability risks.
- Regarding the valuation of assets and liabilities, the general valuation principles of Solvency II already allow for integration of all material risks, including financially material sustainability risks. Accordingly, the IRSG advised that any change in these principles would be a step away from using current market values.
- Relating to the investment and underwriting practices, the IRSG supports stewardship and engagement as important tools in managing sustainability risks in the investment strategy. In addition, it agreed with the EIOPA's Consultation Paper that the consideration of sustainability factors should be part of a general risk/return assessment of investments.

06.07.2019 IRSG and OPSG joint response to the ESAs consultation on sustainability-related disclosures in the financial sector. (Link!)

Both the OPSG and IRSG welcome the purpose and rationale for new ESG related disclosures and its aim to fasten the EU development in different ways to a more sustainable path is critical and very important.

Key positions raised included the following:

- The Commission needs to tie the application of this into the review of the effectiveness of the non-financial reporting directive, as well as the shareholder rights directive and choreograph a longer-term and more phased approach accordingly. The RTS proposal is not consistent with the level of corporate disclosure regarding the sustainability indicators in the adverse impact template, so would need to wait for the NFRD revisions to bed in before becoming meaningful

- The consumer angle is important and should be the main focus of the work. Information provided under SFDR needs to be understandable and as simple as possible. This is important for decisions making when buying new products and for building trust between customers and product manufacturers.

- When setting these new requirements for ESG reporting, it is crucial to have a holistic understanding of the abilities the wide range of companies, communities and investment structures have on reporting any of their activities on ESG related measures.
- The adverse impacts may paint a negative picture when some firms are likely to be prioritising transition and impact. Investing in high emitting companies and using stewardship to encourage them to set meaningful and measurable pathways to net-zero may be one of the most impactful approaches that an asset owner or asset manager can take, but would likely lead to significant negative impacts in the short term. Trajectories and transition plans may be more important than “moment in time” indicators.
- The RTS seem to focus on the disclosure of the indicators, not the policies for identifying, prioritising and mitigating the impacts. The proposed approach focuses on the actions of underlying investee companies, but it does not sufficiently consider the actions of the financial market participants.
- The indicators should be designed to be consistent with the approach of the taxonomy regulation to avoid the risk of a two-tier approach developing.

4. OTHER WORK CONDUCTED

16.11.2019 Joint (IRSG/OPSG/SMSG/BSG) letter on the ESAs Review [link]

In a Joint Position Paper, the Banking Stakeholder Group, the Insurance and Reinsurance Stakeholder Group, the Occupational Pension Schemes Stakeholder Group and the Securities and Markets Stakeholder Group shared views on the change of the composition of the Stakeholder Groups.

The four Stakeholder Groups regretted the reduction of the number of academics; and the fact that such important changes have been decided upon without prior formal consultation of the stakeholder groups on this point - even though not legally required. The SGs further regretted the lack of a transition period to implement the new Regulation, entered into force on 1 January 2020.

Other topics of discussion

The IRSG has been a platform of exchange and opportunities were offered by EIOPA for dialogue and also for individual submission by IRSG members.

Other topics of discussion included areas such as:

- impact of the COVID-19 virus on the insurance market and on consumers
- Brexit
- PRIIPs
- EIOPA supervisory convergence activities and plan
- evaluation of cyber risks and exposures, cloud computing, regulatory barriers to InsurTech
- information documents to policy holders and beneficiaries including IDD
- best practices on the handling of consumer complaints
- supervision of remuneration principles in the insurance and reinsurance sector
- guidelines on information and communication technology (ICT) security and governance
- Example of a scenario based liquidity risk assessment to find and measure the possible liquidity risk for an insurer.

ANNEX

LEGAL FRAMEWORK

Article 37 of the EIOPA regulation states that The IRSG - "(…) *IRSG shall be composed of 30 members, 13 members representing in balanced proportions insurance and reinsurance undertakings and insurance intermediaries operating in the Union and three of whom shall represent cooperative and mutual insurers or reinsurers, 13 members their employees' representatives, as well as consumers, users of insurance and reinsurance services, representatives of SMEs and representatives of relevant professional associations and four of its members shall be independent top-ranking academics. .*" (Art. 37 (2))

GENERAL CONSIDERATIONS

Members of the Stakeholder Groups represent different interests in accordance with the requirements of Article 37 of the EIOPA Regulation. To guarantee unbiased judgement, each member of the stakeholder group must only represent one interest (stakeholder category) and not be in a situation of conflict of interest with another category in the Stakeholder Group.

EIOPA will consider the final composition of the Stakeholder Groups in relation to the applications received. In addition, the EIOPA Regulation Article 37(4) refers to three criteria: "*In making its decision, the Board of Supervisors shall, to the extent possible, ensure an appropriate reflection of diversity of the insurance, reinsurance and occupational pensions sectors, geographical and gender balance and representation of stakeholders across the Union.*"

The requirement of "representation of stakeholders across the Union" in Article 37 is specified as follows: EIOPA will aim at ensuring a wide representation of differing regulatory approaches and market structures and an adequate representation of stakeholders in the (re)insurance or pensions sector across the Union. An over-representation of regions or areas or certain categories of stakeholders representing only particular regions, areas or cultures should be avoided. The intention is to ensure that different regulatory and supervisory systems and policies, types of businesses including cross-border activities, and market structures are taken into account in order for the Stakeholder Groups to provide EIOPA with the best advice and opinion possible.

DESCRIPTION OF IRSG MEMBER CATEGORIES

When selecting the members in the different categories as described in Article 37(2), EIOPA will consider the following descriptions:

a. Insurance and reinsurance undertakings and insurance intermediaries ("industry"): includes individuals representing insurance and reinsurance undertakings and intermediaries operating in the Union, representatives of cooperative and mutual insurers or reinsurers, as well as representatives of associations acting on behalf of such undertakings, intermediaries, cooperatives or mutuals;

b. Employees: includes individuals, representatives of associations, bodies, or others who represent the interests of employees and trade unions in the (re)insurance sector and who may be paid by their employer.

c. Consumers and users of insurance and reinsurance services: includes representatives of consumer associations or any individual with a proven expertise record in the area of consumer protection in financial services. Users include individuals and/or associations delivering services and advice to consumers/policyholders, including other retail users of financial institutions.

d. Small and medium-sized enterprises (SMEs) : includes individuals employed by a SME relevant to the insurance and reinsurance sector (with focus on client/buyer-side SMEs), or associations that defend the interests of SMEs.

e. Relevant professional associations: includes representatives of associations of professionals that are relevant to the sector of (re)insurance: including but not limited to actuaries, lawyers, accountants, auditors and others. Representatives of (re)insurance and intermediaries (industry) associations fall under the industry category, see above a).

f. Independent top-ranking academics: includes individuals preferably with a Ph.D. in finance, economics, law or other field relevant to (re)insurance, or equivalent qualifications and a solid academic experience in a university or institute of higher education (e.g. professorship). They should have strong publication record in the field of finance, economics, law, preferably with a focus on insurance or reinsurance and participate in international conferences and workshops.