KEYNOTE SPEECH

Gabriel Bernardino
Chairman
European Insurance and Occupational Pensions Authority (EIOPA)

THE FUTURE OF THE EUROPEAN INSURANCE INDUSTRY IN A DIGITAL ERA: TURNING CHALLENGES INTO OPPORTUNITIES

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

Bergisch-Gladbach, 25 January 2017
Sueddeutsche Zeitung Insurance Day 2017

Good afternoon Ladies and Gentlemen,

I am very pleased to be here today to address this distinguished audience with a very topical subject, the future of the European insurance industry in a digital era.

Understanding and adequately confronting the challenges the insurance industry is already facing and will continue to face in the digital future **is crucial**. In an environment where the changes are fast-paced we all, the regulators and supervisors as well as the industry cannot just sit back and wait and see what future will bring. We all **have to act timely and appropriately** and not simply react when being forced.

Our society is confronted with **successive technological innovations and the continued increase in the use of big data.** This **digital revolution** is transforming completely the way we interact and do business.

Today, I want to set out the **implications of this digital revolution on the insurance sector** as well as to highlight our strategic direction of **building a common European supervisory culture**. I will conclude by elaborating on the **expectations from the supervisory side**.

To my first point: Implications of Digitalisation for the Insurance Sector

The insurance world is not an exception and is already confronted with the reality of digitalisation and Big Data. Some will say that we have always been facing changes and that this is just another step. That's true, but **the change coming from and triggered by the digital era is different: in many aspects it is not incremental; it is disruptive.**

The entire insurance value chain will be impacted, from insurers to intermediaries, distributors and service providers. We will see business models being threatened and new entrants implementing business models that will dramatically reduce the traditional frictional costs. The use of Big Data and telematics, comparison websites and automated advice tools will impact the interface with consumers. The increasing amount of personal data available and the power of data analytics will inevitably change insurance underwriting models. There are definitely some potential risks associated with Big Data such as access issues for consumers being classified as undesirable due to abilities to undertake more granular analyses. Furthermore, cyber risks will increase directly in line with the growing amounts of data stored.

But as we all know, **changes bring challenges and risks, but equally opportunities**. The Big Data and the digitalisation will also bring a number of benefits to both insurers and consumers. Better analytics mean companies can profile customers in order to personalise products and services, enhance their own internal processes and improve their fraud detection capabilities. This change has the potential to produce better outcomes for customers and better management of risks or fraud situations.

In December last year EIOPA has launched together with the two other European Supervisory Authorities a **Public Consultation on Big Data** to address this phenomenon and invited all stakeholders to share their views. I herewith invite you all to make use of this consultation and provide your feedback. Existing EU legislation on data protection, competition and consumer protection, which share the common goals of promoting economic growth, innovation and the welfare of individual consumers, are relevant for insurers but are not explicitly addressing Big Data therefore further steps in this area are needed.

This year EIOPA will also organise a series of roundtables dedicated to **"Insurtech".** Our objective is to learn from different stakeholders about the evolutions in this field, the benefits and risks for consumers and the potential obstacles to good innovation practices. In particular, EIOPA wants to evaluate the impact of digital technologies in the insurance value chain, to gain a further insight into Insurtech start-ups, Big Data, consumer analytics and cyber risk. It is of utmost importance to EIOPA that consumers' expectations and behaviour in a digital economy will be adequately captured and their rights fully respected. Ultimately this will contribute to the development of a regulatory framework that promotes the highest standards of consumer protection while not hindering innovation.

EIOPA places consumer protection, both through prudential and conduct of business regulation, at the centre of its strategy. In this context, the **implementation of the Insurance Distribution Directive (IDD)** is a significant step forward. By the end of this month EIOPA will submit its draft technical advice to the European Commission on possible delegated acts on issues like **Product Oversight and Governance**, **Conflicts of Interest**, **Inducements and Assessment of suitability and appropriateness**. Our aim is to ensure that the interests of the customers are taken into consideration throughout the life cycle of a product, that distribution activities are carried out in accordance with the best interests of customers and that customers buy insurance products which are suitable and appropriate for them.

Detrimental impact occurs when an inducement or structure of an inducement scheme provides an incentive to carry out the insurance distribution activities in a way which is **not in accordance with the best interests of the customer**. It is then fundamental to identify criteria to assess if and when inducements are considered to have a high risk of leading to a detrimental impact on the quality of the relevant service to the customer.

Another significant project within the overall work of EIOPA on the IDD is the **Insurance Product Information Document (IPID)**. Its objective is to ensure that the customer has the relevant information about a non-life insurance product to allow him to easily compare between different product offers and to make an informed decision about whether or not to purchase the product. We developed a template for the Insurance Product Information Document (IPID) which is in its final phase.

Going forward, with **the implementation of the IDD**, a **stronger and more effective supervision of intermediation activities is needed throughout the EU**. In Germany, it is my opinion **that Bafin should be granted further supervisory powers on the supervision of the intermediation activities**.

Turning to my second point: **Creating a common European supervisory culture while preserving regulatory certainty**

In the coming three years one of our key priorities is to further enhance supervisory convergence with the aim to move towards a common European supervisory culture. A risk-based culture that:

- Aims to **ensure strong but fair supervision**
- Is based on a **forward-looking approach to risks**
- It takes into account that it is **always better to prevent than repair**

- Prioritises the **dialogue with market participants** in order to better understand their business models, strategies and underlying risks
- Promotes **early enough awareness and supervisory action** in order to protect policyholders and mitigate possible disruptions in the market.

Supervisory convergence will ensure that European Union **regulation is applied in all Member States.** It will provide **a level playing field** and **prevent regulatory arbitrage** in the internal market. Policyholders and beneficiaries across the European Union should have a **similar level of consumer protection.**

Going forward, **regulatory certainty** is an important value that we all should preserve. The **review of Solvency II** should follow the **structured process envisaged in the legislative texts:** By 2018, the review of the Solvency Capital Requirement (SCR) and by 2021, the overall review of the regime, including the treatment of long-term guarantees.

In December EIOPA issued a discussion paper on the **review of the Solvency Capital Requirement** (SCR) marking the first phase of the Solvency II review process. EIOPA is committed to an **evidence-based policymaking**. In this context during this year through a series of roundtables we will engage with all relevant stakeholders. **Changes must be carefully justified and clearly** necessary. We are particularly interested in concrete proposals to achieve the objective of more simplicity and proportionality whilst reflecting risk-sensitivity of the system and avoiding pro-cyclicality.

To my last point: A successful industry in a challenging macroeconomic environment

A successful industry is key in achieving strategic objectives, namely preserving financial stability and enhancing consumer protection. Even though the current macroeconomic environment continues to pose challenges for insurance companies, it is important to act now. EIOPA expects that insurance companies confront the reality by:

- Promoting a strong risk culture
- Recognising the benefits of Solvency II public disclosure

- Developing a consumer-centric culture

Promotion of a strong risk culture

A crucial element in Solvency II is the risk management requirements. They have the potential to be a truly game changer, helping to promote a strong risk culture in insurance companies. We need to see insurers relying on strong risk management capabilities to deal with the challenges posed by the low interest rate environment, the financial markets volatility, the slow economic growth, the digital era.

To implement an effective risk management system is not an instantaneous move. It takes time, commitment, effort and especially a clear tone from the top. Boards of insurance companies have a fundamental role to play. They need to set, communicate and enforce a risk culture that consistently influences, directs and aligns with the strategy and objectives of the business and thereby supports the embedding of its risk management framework and processes. The time for “box ticking” is over.

Recognising the benefits of Solvency II public disclosure

EIOPA believes that the disclosure requirements under Solvency II are very important and should lead to the disclosure of meaningful and comparable information. Ultimately this is an essential tool that follows the principle of transparency by ensuring market discipline and supporting the objective of preserving financial stability.

This year the essential information on the solvency and financial condition of companies will be made publicly available for the first time. For most parts of the European insurance and reinsurance market this is a novelty and a paradigm shift in terms of communication with the outside world, the customers, stakeholders, observers and the public at large. This new challenge should be turned into the opportunity. Better transparency can facilitate effective cross-border cooperation, will increase comparability, lead to more competition and will improve understanding of Solvency II by those who shape the public and market opinion about companies – financial analysts, researchers and journalists. A collective effort is needed to ensure that the

Solvency II metrics and their sensitivities are properly understood, in particular because they will be more volatile than in the past. The reporting requirements will increase the quality of the data available in the companies, which is a fundamental element to upgrade risk management.

Therefore, we encourage insurance companies to embrace this opportunity and to actively engage in consistent, comparable and high quality communication with the stakeholders on the solvency and financial condition. It is important to be fully transparent on the use and impact of transitionals and the long term guarantee measures.

Development of a consumer-centric culture

The **governance requirements of Solvency II** are a **paradigm shift towards a more consumer-centric culture**. There is a need to better integrate conduct of business concerns in the institutional governance arrangements in order to ensure that companies reliably place the interest of their customers at the heart of their business.

But it is not only about designing and putting in practice appropriate governance structures and controls. It is now time to ensure that they are effective and that they deliver the desired outcomes. We do not want a move to a culture of formal compliance; rather we all need to promote a culture based on strong ethical values.

When putting in practice the fundamental sound governance basis of Solvency II, special attention should be devoted to the companies' processes which need to result in fair products and in building trust in long-term relationships with consumers.

Conclusion

The future of insurance industry depends on all of us: The industry itself, the regulators and supervisors. It depends on what we do today and how we do it.

The insurance industry needs to keep pace with societal and technological developments in order to meet the expectations of consumers and to treat them fairly.

EIOPA remains dedicated to develop principles that provide a sound basis for strong protection for consumers without hindering innovation in a digital environment.

I believe that if both, the insurance market and supervisors remain faithful to the already existing principles of Solvency II we will see positive outcomes for the protection of consumers and for preserving financial stability. It is the right basis and framework for turning the challenges into opportunities.

Thank you for your attention.