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Global challenges – Global solutions

With a business model relying heavily on the aggregation and diversification of risks, the insurance sector has naturally developed a strong international dimension. This materialises through a large number of Internationally Active Insurance Groups (IAIGs) operating cross-border, and the importance of international reinsurance markets.

The financial services industry, especially the insurance sector, has grown more interconnected across sectors and geographically. The range of activities of insurers expanded from traditional biometric and casualty coverages to investment and saving products with large impacts to their risk profile. In this environment, international cooperation is crucial to address current challenges.

One area in which this is visible concerns global financial stability. The former entity-based G-SII model, while adequately capturing signals from individual entities, missed the ability to intercept trends or common behaviour in the insurance industry. Working together at the International Association of Insurance Supervisors (IAIS), the global supervisory community developed the Holistic Framework (HF), which aims at addressing such limitations. Building on the three pillars

of the Global Monitoring Exercise (GME), enhanced policy material (ICPs and ComFrame), and Implementation Assessment, the HF establishes a globally consistent supervisory approach to contribute to financial stability.

The shift from the G-SII designation to the HF represents a leap forward, also in terms of complexity. Widening the scope of the assessment and extending the application of standards to a larger number of groups upon supervisors' assessments requires a high level of cooperation, transparency, and consistency in the approaches to grant a robust and homogeneous risk assessment globally. Moving forward, the supervisory community will need to ensure that the HF evolves to capture key trends and risks that might emerge at individual and sector level.

Another global challenge facing the insurance sector concerns the availability and affordability of nat cat insurance coverage, as shown by recent statistics on protection gaps across the globe.¹

The IAIS' call to action highlights the role of insurance supervisors in addressing nat cat protection gaps.²

Supervisors are part of an ecosystem to support the availability of insurance and to advise government and industry on financial inclusion and societal resilience. This involves advising on the design and implementation of public-private partnerships or insurance schemes.

Challenges to the insurance sector don't stop at national borders - Global cooperation is key.

Sound and effective supervisory cooperation can be largely enhanced if the relevant authorities share, to the extent possible, a common language and supervisory approach. This is what the IAIS is pursuing with the development of the Insurance Capital Standard (ICS).

The aim of the ICS is to define a common language for the supervision of internationally active groups. In this regard, the journey and the destination are important. The monitoring period has already been a success, improving mutual understanding and enabling the development of a robust, risk-based standard that was subject to a public consultation last year.

EIOPA has always been fully engaged as a member of the IAIS to promote effective

and consistent global supervision of the insurance sector. We believe the ICS should reflect the key building blocks of Solvency II, which have proven to be effective. We look forward to the finalization of the ICS and its expected adoption as a Prescribed Capital Requirement (PCR) this year, as we believe it will strengthen the resilience of the sector worldwide at a time of global transformation.

Being a minimum standard, jurisdictional implementations of the ICS will be key to determine its effectiveness. In the EU, Solvency II should be the practical implementation of the ICS, as it delivers on all the key elements of the ICS with a sufficient degree of prudence. EIOPA is open to the ongoing IAIS comparability assessment of the Aggregation Method (AM), as the possible solution for implementation of the ICS in the United States. Building on the agreed set of robust IAIS criteria, it is crucial that the assessment remains credible and evidence-based.

The insurance sector faces numerous challenges, many of which cannot be effectively addressed by national supervisors operating individually. EIOPA will keep cooperating closely with its international counterparts for the benefit of policyholders and financial stability, both in the EU and globally.

1. *Record thunderstorm losses and deadly earthquakes: the natural disasters of 2023 | Munich Re.*
2. *IAIS-Report-A-call-to-action-the-role-of-insurance-supervisors-in-addressing-natural-catastrophe-protection-gaps.pdf (iaisweb.org).*