REPORT

EIOPA’S KEY ACHIEVEMENTS

October 2020 – October 2021

Annual hearing of EIOPA Chairperson before the Economic and Monetary Affairs Committee at the European Parliament

Virtual, 14 October 2021

European Insurance and Occupational Pensions Authority

CONTENTS

ABOUT EIOPA

The European Insurance and Occupational Pensions Authority (EIOPA) is a decentralised agency of the European Union (EU), based in Frankfurt am Main, Germany. Its overarching mission is to contribute to the short, medium and long-term stability and effectiveness of the financial system for the benefit of Europe's economy, businesses and citizens. EIOPA's main tasks are to enhance supervisory convergence, strengthen consumer protection and preserve financial stability. Achieving these goals depends on close cooperation with national supervisory authorities, as well as regular consultation with stakeholders, notably consumer organisations and industry representatives. This ensures that the Authority's work meets the need of the people that it serves.

The Authority's strategic priorities for 2021 are to:

- Strengthen the protection of consumers
- Support the functioning of the EU internal market in the field of pensions and insurance
- Strengthen the financial stability of the insurance and occupational pensions sectors
- Contributing to sustainable finance, including climate change, and digitalisation
- Be a responsible, competent and professional organisation

EIOPA's areas of action and annual priorities are established through a rigorous planning process. In 2021, EIOPA continued to adopt a flexible and responsive approach to its annual and multi-annual planning, in order to continue ensuring financial stability and consumer protection. Furthermore, EIOPA has been working on managing its resources in an agile manner to allow reprioritisation and accelerated decision-making. At the end of 2020, the Authority employed 175 people (full-time equivalents). Its operating budget for 2020 is EUR 33,156,305.

WORKING FOR CONSUMERS

EIOPA continued to implement its comprehensive risk-based and preventive framework for conduct of business supervision, thereby ensuring consistent regulatory and supervisory practices on consumer protection issues, with the objective of further strengthening the protection of policyholders, pension scheme members and beneficiaries.

In June 2021, EIOPA published its (second) conduct of business supervision strategy[1]. EIOPA actively continued its work to address conduct risks for consumers, using EIOPA's new product intervention powers[2] and a range of supervisory and oversight tools – this includes continued consumer trends and market monitoring work, especially of emerging trends, as well as active engagement with and visits to national competent authorities (NCAs) and third-country parties[3]. In addition, EIOPA continued to work on cross-border cases with possible detriment to consumers. In particular, the work on cross-border cases leveraged on the product oversight and governance (POG) framework to address product related risks[4]. Finally, in April 2021, EIOPA launched a consultation[5] on a framework to address value for money risk in the European unit-linked market, as a response to EIOPA's repeated concerns, heightened by the COVID-19 crisis – while unit-linked products can and often do offer important benefits for policyholders, costs for some unit-linked products continue to remain too high, thus providing little value to consumers.

Consumer Trends Report 2020

Every year, EIOPA publishes a consumer trends report with the objective to try to identify risks for consumers arising from trends in the market – defined as those consumer behaviour that are

[1] EIOPA's conduct of business supervision strategy | Eiopa (europa.eu)

[2] Opinion on the proposed product intervention measure of Komisja Nadzoru Finansowego (KNF) of Poland https://www.eiopa.europa.eu/document-library/opinion/opinion-of-european-insurance-and-occupational-pensions-authority-proposed

[3] Please also note Consumer guide: What should you do if you have a life insurance policy or pension from the UK? | Eiopa (europa.eu)

[4] EIOPA's approach to the supervision of product oversight and governance | Eiopa (europa.eu)

[5] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/consultation-paper-framework-to-address-value-for-money.pdf

significant in terms of impact or novelty – which may require specific policy proposals or supervisory action from EIOPA and/or its Member States.

The report[6] focuses on the pandemic – providing an initial and preliminary overview of its impact on the sectors, responses and challenges emerged – and shows that evolutions in consumer behaviours were mostly dictated by external factors. Business continuity in the insurance and pension sectors have been ensured, also on account of digitalisation. Looking ahead, concerns to be adequately addressed and mitigated relate to the shift towards products with no guarantees and/or hybrid products with complex fee structures, digitalisation and contract exclusions.

The report includes also a risk heatmap representing the key Covid-19-related findings[7].

Costs and Past Performance 2021 Report

The report[8] provides an analysis of costs for the year 2019 and past performance for the period 2015-2019. The products within scope for this iteration of the report are: Insurance-based Investments Products (IBIPs) and Personal Pension Products (PPPs). While the focus is 2019, some general considerations on the impact of COVID-19 on the retail investment market are also presented. Following general financial market trends, 2019 was characterized by good performances for the IBIPs market, and particularly the unit-linked products. In terms of costs, however, profit participation products continue being cheaper than unit-linked and hybrid. Trends in the net return and costs of PPPs are similar to those observed for IBIPs: higher average yearly annual return but also higher volatility for PPP similar to unit-linked in comparison with PPP similar to profit participation.

[6] https://www.eiopa.europa.eu/sites/default/files/publications/reports/consumer-trends-report-2020.pdf

[7] https://www.eiopa.europa.eu/sites/default/files/publications/reports/risk-heatmap-consumer-trends-report-2020.pdf

[8] https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa-cost-past-performance-report-2021.pdf

ACHIEVING SUPERVISORY CONVERGENCE

EIOPA actively promotes a common supervisory culture and consistent supervisory practices across Europe to ensure a high, effective and consistent level of supervision, thereby safeguarding a similar level of protection to all European policyholders and beneficiaries across jurisdictions, regardless of the location of the insurance undertaking's head office. Promoting supervisory convergence requires close cooperation with national supervisory authorities to develop a common supervisory culture, thereby underpinning convergence of supervisory practices, including a common interpretation of the laws and regulations, developing common standards and considering different and innovative tools going forward.

In 2021, EIOPA reported on its supervisory activities in 2020[9], showing that supervisory work focused on (i) implementing the common supervisory culture and further developing supervisory tools; (ii) minimising risks to the internal market and level playing field; (iii) supervising emerging risks, including through the publication of draft Guidelines on ICT security and governance[10]; (iv) performing supervisory convergence activities via its oversight function. As a consequence, the following high-level priorities were set out in the Supervisory Convergence Plan for 2021[11] to strengthen financial supervision in Europe:

- Practical implementation of the key characteristics of the common supervisory culture and further development of supervisory tools
- Risks to the internal market and to the level playing field which may lead to supervisory arbitrage
- Supervision of emerging risks

The high-level priorities identified for 2021 remained the same as in 2020. Yet, within those, three new areas were identified: taking step-by-step measures for integrating the assessment and management of ESG risks into prudential and conduct supervision; addressing pension issues arising from the recent market development of multi-employer IORP providers; analysing issues relating to inconsistent treatment of third country reinsurance in the EU. In addition, following up on the advice on 2020 review of Solvency II, EIOPA continued work on this topic to prepare the development of further regulatory work providing operational guidance for the application of the new framework

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9 https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa_bos-21-097-report-on-supervisory-activities.pdf

10 Guidelines on information and communication technology security and governance | Eiopa (europa.eu)

11 Supervisory Convergence Plan for 2021 | Eiopa (europa.eu)

on Proportionality. Moreover, EIOPA identified business model sustainability and adequate product design as two Union-wide strategic supervisory priorities relevant for the NCAs[12].

EIOPA addresses supervisory convergence from different perspectives, depending on the issue and risks at stake. In particular, EIOPA uses the following building blocks, which have their own specific tools, to support supervisory convergence and build the capacity of national supervisors to conduct effective supervision:

- Building common benchmarks for supervisory practices
  - which is achieved through the work on supervisory guidelines and recommendations; opinions[13]; the Supervisory Handbook; supervisory statements[14]; questions and answers; public best practices; reports; training/networking of supervisors; study visits between supervisors.
- Reviewing existing market and supervisory practices
  - which is achieved through the work on thematic reviews and annual peer reviews[15]. EIOPA conducts peer reviews based on an agreed methodology, with experts from national supervisory authorities acting as reviewers in coordination with EIOPA. The outcomes of peer reviews, including identified best practices, are made public. The names of national competent authorities and the corresponding areas of recommended actions are also disclosed. Where there may be a risk to the stability of the financial system, the Board of Supervisors may decide not to publish certain outcomes. The report on the results of the Peer Review on the Regular Supervisory Report[16] has been published in June 2020.
- Making use of EIOPA's own oversight work and independent assessment, focusing on monitoring and challenging supervisory practices and supporting NCAs
  - which is achieved through bilateral visits; cooperation platforms on undertakings performing cross-border business via freedom of services/establishment; dialogue with group supervisors and participation in colleges of supervisors set up for multinational

[12] Union-wide Strategic Supervisory Priorities | Eiopa (europa.eu)

[13] Consultation on draft Opinion on the supervision of long-term risk assessment by IORPs providing DC schemes | Eiopa (europa.eu); Consultation on draft Opinion on the supervisory reporting of costs and charges of IORPs | Eiopa (europa.eu); Opinion on the use of risk mitigation techniques by insurance undertakings | Eiopa (europa.eu)

[14] Supervisory Statement on ORSA in the context of COVID-19 | Eiopa (europa.eu); Supervisory Statement on supervisory practices and expectations in case of breach of the solvency capital requirement | Eiopa (europa.eu); Supervisory Statement on the sound practices within the registration or authorisation process of IORPs | Eiopa (europa.eu)

[15] Peer Review on EIOPA's Decision on the collaboration of the insurance supervisory authorities | Eiopa (europa.eu); Follow-up report on the Peer review of key functions: Supervisory practices and application in assessing key functions

[16] https://www.eiopa.europa.eu/sites/default/files/publications/peer_review_on_rsr.pdf

groups; participation in national sector wide assessments (Balance Sheet reviews); ongoing technical assistance to national supervisory authorities; equivalence monitoring; participation in joint on-site inspections; breach of European Union law; and a mediation role.

In particular, EIOPA continued its oversight activities with *inter alia* 77 active participations in colleges of supervisors, 4 joint on-site inspections, 1 equivalence monitoring exercise, and the set-up of 9 cross-border cooperation platforms to enhance stronger and timelier cooperation between NCAs on concrete cross-border cases, enabling a quicker identification and assessment of risks in cross-border business.

With regard to the cross-border cooperation platforms, EIOPA provided concrete supervisory recommendations to the home supervisor. In some instances, these recommendations were aimed at strongly encouraging the home supervisory authority to initiate intrusive interventions towards the firm, such as prohibition of writing new business, in order to limit the risk to prospective consumers.

Furthermore, EIOPA is participating in 2020-2021 in a Balance Sheet review (BSR) of the Romanian insurance market, aiming to gain insight into and raise awareness of risks and vulnerabilities of the national insurance sector. This review will strengthen transparency and confidence for customers and policyholders. EIOPA participates in the BSR in a steering role, designing and overseeing the review, and supporting the Romanian supervisory authority in the implementation of follow-up actions.

EIOPA also provides ongoing technical assistance to national supervisory authorities to support and enhance their supervisory capacity, in order to strengthen the Capital Markets Union[17]. In this regard, the following projects have been initiated in 2021: reform of Pillar II Pensions in Greece, enhancing insurance conduct supervision in Greece and Portugal.

[17] Via the European Commission's DG REFORM Technical Support Instrument.

SOUND REGULATION OF INSURANCE AND PENSIONS

EIOPA pays close attention to how regulation is applied and how effective it remains, with a view to identify proportionality issues, improving fairness and transparency, and with a focus on better and smart regulation.

EIOPA plays also an important role internationally in the context of the International Association of Insurance Supervisors (IAIS), contributing to the development of global standards like the Insurance Capital Standard (ICS)[18] and the holistic framework on systemic risks[19]. EIOPA continues to forge close relationships with third countries' supervisors[20]. In this regard, EIOPA is working on defining the most appropriate approaches to ensure a convergent, effective and efficient supervision after Brexit.

Furthermore, in September 2021, EIOPA published the criteria for the independence of supervisory authorities, which is crucial for the legitimacy and credibility of the supervisory process[21]. The criteria provide clarity for supervisory authorities on EIOPA's expectations. Taking on board the relevant articles in the Solvency II and IORP II Directive, international standards and supervisory experiences, they specify further the principles of operational, financial and personal independence as well as transparency and accountability.

SOLVENCY II

The adoption of Solvency II in January 2016 was a milestone. The Directive signalled a shift to a more risk-based approach to insurance supervision. Since its application, the insurance industry has better aligned its capital to the risks it runs. Insurers use a risk-based approach to assess and mitigate risks, so they can better price them. Insurers have also significantly strengthened their governance models and their risk management capacity putting a number of key functions in place and ensuring

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[18] The ICS is a consolidated groupwide standard with a globally comparable risk-based measure of capital adequacy for internationally active insurance groups (IAIGs) and global systemically important insurers.

[19] Consisting of (1) an enhanced set of supervisory policy measures and powers of intervention; (2) an annual global monitoring exercise; and (3) implementation assessment activities aimed at assessing and mitigating the potential build-up of systemic risk in the global insurance sector.

[20] Among other things, please see Exchange of Letters with Japan. Letter of Japan's Financial Services Agency to EIOPA | Eiopa (europa.eu); Letter of EIOPA to Japan's Financial Services Agency | Eiopa (europa.eu).

[21] Criteria for the independence of supervisory authorities | Eiopa (europa.eu)

that boards consider risk and capital factors in strategic decision-making. Furthermore, the data reporting under Solvency II provided supervisors and market participant's unprecedented insight into critical market data. Overall EIOPA's assessment is that the Solvency II framework is very effective and worked well. During the last years, the Covid-19 outbreak further proved the importance of the Solvency II regulatory framework. The market-consistent and risk based approach assisted insurers to better align capital to risk, increase resilience and enhance their internal risk management practices, while the adjustments included for long-term guarantees allowed insurers to partially mitigate market volatility caused by Covid-19.

REPORTING ON THE IMPLEMENTATION OF SOLVENCY II

Between October 2020 and October 2021, EIOPA published a number of reports related to different aspects of Solvency II.

- Report on the use of limitations and exemptions from reporting during 2019 and Q1 2020[22]
- Report on the use of capital add-ons during 2019[23]
- Report on long-term guarantees measures and measures on equity risk 2020[24]
- Report on European Insurance Overview (solo undertakings)[25]

OPINION ON THE 2020 REVIEW OF SOLVENCY II

In December 2020, EIOPA delivered its technical advice to the European Commission[26] – taking into account the consultation feedbacks[27] and the impact of data collected – following a call to perform a review of Solvency II across 19 different areas, which can be broadly divided into three parts:

1. Long-term guarantee measures and measures on equity risk
2. The introduction of new regulatory tools to Solvency II on macro prudential issues, recovery and resolution, and insurance guarantee schemes

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[22] https://www.eiopa.europa.eu/sites/default/files/publications/reports/report-on-the-use-of-limitations-and-exemption-from-reporting.pdf

[23] https://www.eiopa.europa.eu/sites/default/files/publications/reports/report-on-the-use-of-capital-add-ons-2019.pdf

[24] https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa-bos-20-706-long-term-guarantees-ltg-report-2020.pdf

[25] European Insurance Overview 2020 | Eiopa (europa.eu)

[26] https://www.eiopa.europa.eu/sites/default/files/solvency_ii/eiopa-bos-20-749-opinion-2020-review-solvency-ii.pdf

[27] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-19-465_cp_opinion_2020_review.pdf

3. Revisions to the existing Solvency II framework based on the supervisory experience during the first years of its application, in particular to improve on the proportionate and consistent application of its requirements.

EIOPA's advice on the Solvency II review is rather an evolution than a revolution, with the objective to ensure that the Solvency II regime remains fit for purpose. EIOPA took both an evidence-based and consultative approach, including considering the financial and economic environment and the insurance market landscape. In doing so, EIOPA also made sure that the regime could underpin the economic recovery after the pandemic. In its advice, EIOPA addressed three main areas where improvements are needed:

- Balanced updating of the regulatory framework. EIOPA proposed changes in several areas but with an overall balanced impact on insurers, reflecting the fact that Solvency II is overall working well.
- Recognition of the economic situation. In particular, the persistence of low interest rates. EIOPA recommended proper provisions for the risk of interest rate changes.
- Regulatory toolbox completion. EIOPA recommended better protection of policyholders via macroprudential tools, recovery and resolution measures and insurance guarantee schemes.

INFORMATION REQUESTS ON SOLVENCY II

In December 2020, along with the publication of EIOPA's Opinion on the 2020 review of Solvency II, EIOPA also published the Individual Quantitative Reporting Templates (QRTs) at solo and group level, including Financial Stability Reporting, with the aim to provide stakeholders the full view of the future reporting and disclosure requirements[28].

In July 2021, EIOPA consulted on the amendments of supervisory reporting and public disclosure documents[29]. EIOPA proposed amendments to the reporting requirements, which are mainly based on the above-mentioned report. EIOPA's proposals on the review of the reporting requirements should bring several benefits, which will ultimately lead to a better protection of policyholders: (i) reduction of reporting costs for the majority of insurance undertakings; (ii) Inclusion of information needed for supervisory purposes focusing on emerging risks and new areas for which supervisors identified a number of data gaps; (iii) a more fit-for-purpose reporting, for example reducing and simplifying when possible but also accommodating gaps identified by supervisors.

[28] Reporting and disclosure: quantitative reporting templates | Eiopa (europa.eu)

[29] https://www.eiopa.europa.eu/document-library/consultation/consultation-amendments-of-supervisory-reporting-and-public-disclosure_en

PRESERVING FINANCIAL STABILITY

As part of EIOPA's mandate to safeguard financial stability, EIOPA works to identify trends, potential risks and vulnerabilities that could have a negative effect on the pension and insurance sectors across Europe.

EIOPA publishes a risk dashboard[30] on a quarterly basis and a Financial Stability Report[31] twice a year. The last Financial Stability Report, published in July 2021, provides an overview of the situation of the European insurance sector in the first half of 2020. Furthermore, the report stresses the need to keep the focus on new emerging risks such as cyber and climate risk. Supervisors anticipate a growing importance in the materiality of risks related to digitalisation. On the other hand, the increasing prevalence of cyber security risk across sectors could boost cyber insurance demand. Climate risk remains one of the focal points for the insurance and pension industry, with ESG factors increasingly shaping investment decisions of insurers and pension funds but also affecting the underwriting of the former.

In this regard, EIOPA published a sensitivity analysis of climate-change related transition risks in December 2020[32], i) exploring current holdings of corporate bonds and equity that can be related to key climate-policy relevant sectors, ii) quantifying potential climate-change related transition risks and iii) presents insights into possible impacts on these investments as economies transition away from fossil fuel-dependent energy production and carbon-intensive production. The preliminary results illustrate that losses on equity investments in the high-carbon sector can be high, particularly if driven by investments in fossil fuel extraction (e.g. oil and gas). Yet, the overall impact on the balance sheets of the insurance sector is counter-balanced by the fact that insurers' portfolios are generally well diversified (including with investments in renewable energy).

STRESS TEST

The main risks identified formed a discussion supporting the development of the 2021 stress test exercise[33], which focuses on a prolonged Covid-19 scenario, developed in cooperation with the ESRB, in a "lower for longer" interest rate environment and evaluates its impacts on the capital and liquidity position of the entities in scope. While not being a pass/fail exercise, the 2021 exercise has

30 https://www.eiopa.europa.eu/sites/default/files/financial_stability/risk_dashboard/eiopa-bos-21-345-july-2021-risk-dashboard.pdf

31 https://www.eiopa.europa.eu/sites/default/files/publications/reports/financial-stabiliy-report-july-2021.pdf

32 https://www.eiopa.europa.eu/content/sensitivity-analysis-of-climate-change-related-transition-risks_en

33 Insurance stress test 2021 | Eiopa (europa.eu)

mainly a microprudential approach. It allows EIOPA to make recommendations to the industry and enables supervisors to ask insurance undertakings to take remedial actions, when needed, in order to improve their resilience. The microprudential assessment is complemented by the estimation of potential spill-over from the insurance sector triggered by widespread reactions to the prescribed shocks. The 2021 exercise targets European (re)insurance groups, covering 75% of the EU-wide market based on total assets in the Solvency II[34].

In January 2021, EIOPA published a paper setting out methodological principles that can be used to design bottom-up stress test exercises to assess the vulnerability of insurers to liquidity shocks[35]. The conclusions are based on the current understanding and knowledge of the liquidity risk in the insurance industry. In July 2021, EIOPA published a paper on the impact of EU-wide insurance stress tests on equity prices and systemic risks, the first paper in the literature that investigates the topic for the European insurance sector[36]. Particularly, the paper analyses the impact of the conducted exercises in 2014, 2016 and 2018 on the equity prices of insurance companies. Using an event study framework, EIOPA finds a statistically significant impact for the publication of the 2018 exercise results. Furthermore, the empirical analysis suggests that the final version of technical specifications for the 2014 exercise, the initiation of public consultation, and the published stress test scenario of the 2018 exercise contributed to the decline in systemic risk. EIOPA's empirical results could help improve the communication and design of future stress test exercises.

In June 2021, EIOPA published a methodological framework for stress-testing IORPs setting out theoretical and practical rules, guidance and possible approaches to support future IORP stress test exercises[37]. This conceptual approach is expected to make IORP stress test exercises more efficient, in particular for the IORPs to carry out the stress test and the national competent authorities and EIOPA to validate and analyse the results. The paper introduces a toolbox approach, consisting of relevant analytical tools and approaches that can appropriately capture the characteristics of both Defined Benefit and Defined Contribution IORPs. The deployment of the different tools can be tailored to the specific objective of the stress test.

[34] The list of the undertakings in scope of the 2021 Stress Test exercise is reported in the Technical Specifications.

[35] Methodological principles of insurance stress testing - liquidity component | Eiopa (europa.eu)

[36] https://www.eiopa.europa.eu/sites/default/files/financial_stability/thematic-article-impact-of-eu-wide-july-2021.pdf

[37] Discussion paper on the Methodological Framework for Stress-Testing IORPs | Eiopa (europa.eu)

CROSS-CUTTING PRIORITIES

SUSTAINABLE FINANCE AND CLIMATE CHANGE

EIOPA's achievements in the area of sustainable finance support the European Commission's Sustainable Finance Agenda, including the Renewed Sustainable Finance Strategy, in striving for greater protection against climate and environmental risks through insurance coverage, and integrating sustainability risks in the prudential framework for insurers.

EIOPA's recent work addresses key issues of climate change-related risk for the insurance sector and continues to encourage insurers to play their role of enabling climate change mitigation and adaptation. As large investors, insurers and pension funds should be well-placed to engage with business and also play an important stewardship role in a gradual transition to a more sustainable and resilient economy. As managers of risks, insurers have a particular role in identifying and reflecting climate change and other sustainability risks. This includes considering how (re)insurance undertakings, through their investment and underwriting practices, can account for sustainability considerations. In this respect, in July 2021, EIOPA published a report investigating opportunity for (re)insurers, as risk managers and underwriters, to contribute to climate adaptation and mitigation, by supporting the insurability of climate change-related risks[38]. Through risk-based pricing, contractual terms, and underwriting strategy (re)insurers should consider implementing measures for climate change adaptation and/or mitigation. EIOPA aims to incentivise (re)insurers' efforts in taking a forward-looking approach to covering risks arising from climate change.

EIOPA is paying close attention to the insurance protection gap, which measures the difference between what is insured and potential economic losses. The more frequent and more severe natural catastrophes, as a result of climate change, cause a widening of the protection gap for natural catastrophes. The impact of this on households, businesses and the financial system cannot be underestimated. Hence, there is a strong need for concerted action. Insurers, working together with public authorities, can contribute to mitigate and adapt to climate change risks. There is also the need to share information so that commonly available data on natural catastrophes in Europe can be used to inform policy decisions. In sharing data related to exposure, vulnerability and economic loss, there is the potential to develop an open ecosystem to foster innovation in modelling and risk transfer solutions through insurance and capital markets.

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[38] Report on non-life underwriting and pricing in light of climate change

In this regard, in December 2020, EIOPA published its first pilot dashboard depicting the insurance protection gap for natural catastrophes in Europe[39]. The pilot dashboard brings together data on economic and insured losses, vulnerabilities and exposure, as well as insurance coverage across the EU Member States. The data show that only 35% of the total losses caused by extreme weather and climate-related events across Europe are insured. The dashboard will help in identifying regions at risk, the drivers of a climate-related insurance protection gap, as well as defining proactive prevention measures. It should allow for evidence-based decision-making on measures to improve society's resilience against natural catastrophes at a time when losses to properties and businesses are expected to grow due to climate change.

Furthermore, EIOPA proposed methodological steps which support the need to formalise an approach to re-assess and, where needed, recalibrate parameters for the natural catastrophe risk module of the Solvency II standard formula on a regular basis[40]. The regular re-assessment or recalibration would integrate new considerations such as use of models, which explicitly consider climate change, as well as the possibility to include new countries. The paper also identifies the need to enhance the understanding on emerging perils such as wildfire or droughts. The methodology takes into account that the frequency and severity of natural catastrophes is expected to increase due to climate change. The solvency capital requirements for natural catastrophe underwriting risk therefore need to reflect the expected impact of climate change to ensure the financial resilience of (re)insurers covering natural catastrophes.

In July 2021, EIOPA published a thematic article on climate change, catastrophes and the macroeconomic benefits of insurance[41]. This article considers the protective role that insurance can play in mitigating the negative macroeconomic and welfare impact of catastrophes, and the interplay between climate change and insurance coverage. The article first develops a theoretical model of insurance, climate change, catastrophes and the macroeconomy as a basis for the analysis. Predictions from this model are then empirically tested to explore how insurance has mitigated the impact of catastrophes in the past. Finally, EIOPA uses these empirical results to explore the potential future impact of catastrophes using a range of climate-change related scenarios.

In the context of insurance protection gap due to pandemics, EIOPA published a paper on measures to improve the insurability of business interruption risk in light of pandemics, which analyses options relating to prevention measures to reduce losses, capital markets risk transfer, and multi-

[39] The pilot dashboard on insurance protection gap for natural catastrophes | Eiopa (europa.eu)

[40] Methodological paper for integrating climate change in underwriting risk capital charge of the Solvency II standard formula

[41] Climate change, catastrophes and the macroeconomic benefits of insurance | Eiopa (europa.eu)

peril solutions for systemic risk. It also addresses the general challenges related to modelling and triggers for claims in the context of pandemics[42].

In January 2021, EIOPA consulted on the draft Opinion on the supervision of the use of climate change scenarios in Own Risk and Solvency Assessment (ORSA). The consultation is a follow-up to the last year's Opinion on Sustainability within Solvency II[43], which recommended that (re)insurers consider climate risks beyond the one-year time horizon through the system of governance, risk-management system and the ORSA.[44] In April 2021, EIOPA published an opinion on the supervision of the use of climate change risk scenarios in ORSA, setting out expectations on the supervision of the integration of climate change risk scenarios by insurers in their ORSA[45].

Finally, in February 2021, EIOPA submitted to the European Commission its technical advice on key performance indicators under Article 8 of the Taxonomy Regulation[46]. EIOPA suggested requiring two most relevant key performance indicators (KPIs) on sustainability that depict the extent to which:

- the insurer or reinsurer is funding or financing taxonomy-related economic activities in relation to total investments (KPI: proportion of the insurer's or reinsurer's ' 'investments' – in relation to 'total investments' – that are directed at funding, or are associated with, economic activities that qualify as environmentally sustainable).
- the insurer or reinsurer carries out taxonomy-relevant economic activities – in relation to non-life gross premiums written (KPI: proportion of the non-life 'gross premiums written' - in relation to total non-life gross premiums written - corresponding to insurance activities identified as environmentally sustainable in the EU taxonomy).

DIGITALISATION

The use of digital technology and Big Data Analytics continues to bring opportunities to consumers and insurance undertakings, for instance in terms of lower operational costs and more tailored products. However, if not used responsibly, these new technologies could potentially result in negative outcomes, including the risk that the granular approach to data usage or the misuse of data could lead to the unfair treatment of consumers or exclude the most vulnerable ones. EIOPA continues to follow closely the growing use of data and digitalisation to identify ways to better

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[42] EIOPA staff paper on measures to improve the insurability of business interruption risk in light of pandemics | Eiopa (europa.eu)

[43] https://www.eiopa.europa.eu/content/eiopa-issues-opinion-sustainability-within-solvency-ii_en

[44] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/resolutions-table-cp-climate-scenarios-orsa.pdf

[45] https://www.eiopa.europa.eu/sites/default/files/publications/opinions/opinion-on-climate-change-risk-scenarios-in-orsa.pdf

[46] EIOPA's technical advice on key performance indicators under Article 8 of the Taxonomy Regulation

protect consumers without hindering innovation, including by continued engagement with the consultative Expert Group on Digital Ethics in insurance[47]. Leveraging on the cross-sectorial AI Ethical and Trustworthy guidelines developed by the Commission's High Level Expert Group on AI[48], the Expert Group provided further guidance to stakeholders from the insurance sector on the responsible use of digital technologies in June 2021[49].

Furthermore, EIOPA has started a broader discussion with different stakeholders on possible balanced, forward-looking and secure approaches to open insurance and its risks and benefits to the insurance industry, consumers and supervisors. This work is currently on-going, but EIOPA considers that there might be potential for the consumers (e.g. easier for consumers to compare offerings and switch providers), sector (increased efficiency) and its supervision (RegTech and SupTech; more effective and responsive oversight capabilities) if handled right. This also links to questions of interoperability and data availability. In this respect, in April 2021, EIOPA published a discussion paper exploring the benefits and risks arising from the use of blockchain and smart contracts for (re-)insurance undertakings and consumers, including assessing possible regulatory barriers preventing the deployment of this innovation[50].

In addition, EIOPA adopted Guidelines on information and communication technology (ICT) security and governance, which have been implemented as of 1 July 2021[51]. The objective of these Guidelines is to (i) provide clarification and transparency to market participants on the minimum expected information and cyber security capabilities; (ii) avoid potential regulatory arbitrage; (iii) foster supervisory convergence regarding the expectations and processes applicable in relation to ICT security and governance.

EIOPA chaired the European Forum for Innovation Facilitators (EFIF)[52] until summer 2021. Under EIOPA's chairmanship, EFIF members have *inter alia* shared updates on developments in the field of innovation hubs and regulatory sandboxes, discussed perceptions around the role of FinTech in responding to the Covid-19 crisis and impact of the crisis on the FinTech industry. Furthermore, thematic discussions about various topics in the broad field of digitalisation have been organised by EIOPA (for example on 'Platformisation', 'RegTech' and 'Blockchain'). In order to enhance the

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[47] https://www.eiopa.europa.eu/content/eiopa-establishes-consultative-expert-group-digital-ethics-insurance_en

[48] https://ec.europa.eu/digital-single-market/en/news/ethics-guidelines-trustworthy-ai

[49] EIOPA publishes report on artificial intelligence governance principles | Eiopa (europa.eu)

[50] Discussion paper on blockchain and smart contracts in insurance | Eiopa (europa.eu)

[51] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/eiopa-bos-20-600-guidelines-ict-security-and-governance.pdf

[52] The EFIF provides a platform for European supervisors to meet regularly to share experiences from engagement with firms through innovation facilitators (regulatory sandboxes and innovation hubs), to share technological expertise, and to reach common views on the regulatory treatment of innovative products, services and business models.

visibility of the EFIF internationally and to benefit from experiences gathered worldwide, EIOPA engaged with the Monetary Authority of Singapore, the Australian Securities and Investments Commission and the UK Financial Conduct Authority. In close cooperation with the other two European Supervisory Authorities and the European Commission, EIOPA led the EFIF work on the development of a procedural framework for cross-border testing in the EU. As next steps, parts of the framework are expected to be integrated in the EU Digital Finance Platform, following a cross-border testing in the EU.

COMPLETING CAPITAL MARKETS UNION

EIOPA will continue to support the completion of the Capital Markets Union (CMU). Increasing the coverage of Pillar 2 and Pillar 3 pensions would foster a higher degree of adequacy and sustainability of national pension systems. Enhanced take-up of capital-funded pensions would strengthen the demand-side of the CMU by bringing considerably more assets to be invested in the European economy. In this respect, in July 2021, EIOPA consulted on a Pension Dashboard[53] and Pension Tracking services[54], with the objective to collect stakeholders' feedback and consider them into the final technical advice to be submitted to the European Commission on 1 December 2021.

Furthermore, the creation of the PEPP is a key milestone to offer European citizen a valuable proposition to their personal pension savings – as well as providing access to capital markets in a safe way. There is a great potential of the PEPP to be an important driver to support the CMU, the Green Deal, as well as the economic recovery from the Covid-19. With the finalisation of the legal framework for the PEPP, EIOPA focusses on the implementation of the legal requirements into the processes of EIOPA and NCAs, including an efficient IT infrastructure and the development of a supervisory framework for the PEPP (prioritising the registration process). In this respect, in June 2021, EIOPA published Guidelines on PEPP supervisory reporting[55]. The Guidelines ensure the common, uniform and consistent application to the PEPP supervisory reporting regarding the details of the nature, scope and format of the information to be submitted by the PEPP providers to the competent authorities at predefined intervals and upon occurrence of predefined events. Furthermore, in August 2021, EIOPA published a Decision on the reporting of the pan-European Personal Pension Product key information document[56].

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[53] Consultation on technical advice on the development of pension dashboards and the collection of pensions data | Eiopa (europa.eu)

[54] Consultation on technical advice on pension tracking services | Eiopa (europa.eu)

[55] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/pepp-revised-guidelines-on-supervisory-reporting-en.pdf

[56] Decision of the Board of Supervisors on the reporting of the pan-European Personal Pension Product key information document | Eiopa (europa.eu)

ENGAGING WITH EU INSTITUTIONS AND STAKEHOLDERS

EIOPA acts as an independent advisory authority and has a strong accountability framework in place, being accountable to the European Parliament and the Council. Moreover, EIOPA maintains strong relations with other European institutions such as the European Commission, ECB, ESRB, SSM, SRM, as well as EBA and ESMA.

EIOPA relies on a constructive and continuous engagement with stakeholders, in particular consumer organisations and industry representatives. In line with its mandate, EIOPA solicits its two stakeholder groups[57] – the Insurance and Reinsurance Stakeholder Group (IRSG) and the Occupational Pensions Stakeholder Group (OPSG) – for consultation on initiatives concerning: technical standards and their implementation, guidelines, recommendations, peer reviews, convergence tools, or assessments of market developments. Members of stakeholder groups may also submit opinions and advice to EIOPA on any issue related to its tasks. The IRSG and OPSG have each 30 members, which were renewed in 2020.

To ensure active and comprehensive engagement with stakeholders on a particular subject, EIOPA organises roundtable events, seminar or similar outreach activities. In addition, EIOPA engages with consumer groups, industry, academics and students through speaking engagements and visits. A record of visitors and meetings is published on the Authority's website[58].

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[57] https://www.eiopa.europa.eu/about/working-stakeholders_en

[58] https://www.eiopa.europa.eu/about/accountability-and-transparency/record-of-meetings_en