UNION-WIDE STRATEGIC SUPERVISORY PRIORITIES 2024-2026

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European Insurance and
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INTRODUCTION

As part of its role on building a common Union supervisory culture and consistent supervisory practices, EIOPA shall, in cooperation with the national competent authorities, considering existing work by the Union institutions and warnings and recommendations published by the ESRB, identify supervisory priorities of Union-wide relevance which shall reflect future developments and trends. These priorities are set every three years and are revised where needed.

Competent authorities shall take these priorities into account when drawing up their work programmes but the Union-wide priorities identified by EIOPA do not prevent competent authorities from applying their best practice and acting on their additional priorities and developments considering national specificities.

EIOPA also took into consideration relevant ESRB warnings and recommendations affecting the timeframe for which priorities are being identified, in particular the general warning on vulnerabilities in the financial system and the likelihood of tail risk scenarios materialising and the warning on vulnerabilities in the commercial real estate sector in the European Economic Area.

Considering the general warning from the ESRB regarding risks to financial stability a further look to EIOPA risk dashboard should also be considered to identify main risks from an insurance sector perspective. In the November risk dashboard the main risks identified were macro risks, market risks and digitalisation and cyber risks. At a lower level but with an increasing outlook credit risks have also been identified.

The financial and solvency position as well as the liquidity of the European insurance market remained overall quite stable in 2023 despite the unfavourable occurrences confronting the global economy, with geopolitical tensions leading to high core inflation and central banks raising interest rates aggressively to bring inflation back to target. However, the current macroeconomic environment remains a key risk.

The possible reduction in economic activity and deterioration in credit conditions, as the impact of tightened monetary policy transmits into the real economy, can lead to potential reduced demand for insurance policies, increased lapses of existing life insurance policies and greater exposure by (re)insurance undertakings to credit and concentration risk. A persistent high inflation can further impact especially the non-life segment where current premium rates and reserves may prove inadequate.

Additionally, an increase in the cost and/or reduction in the availability of reinsurance cover at reasonable prices can result in (re)insurance undertakings retaining more risk and increasing their exposure including to catastrophic loss events. Such a reinsurance environment may also lead to the potential emergence of more complex reinsurance agreements and the increase of counterparty concentration risk.

The current macro-economic trend further also increases value for money concerns. A non-negligible percentage of consumers believe their Insurance-Based Investment Products (IBIPs) do not offer them value for money, indicating that value for money risks persist in the market threatening consumers' overall confidence in the sector and in IBIPs as a saving vehicle. Product complexity, including lack of clarity on cost structures and performance calculations, as well as generally high costs and low performance continue to be a concern in several markets.

Consumers' real disposable income reduces with the increased cost of living, leading some consumers to prioritise other expenses rather than making regular contributions to their pensions or IBIPs, or rather than buying/renewing the coverage they may need. This can increase protection gaps as well as the risk of old-age poverty. Non-life insurance policies might no longer adequately cover consumers as the price of various goods and services have increased, leading to some consumers being under-insured. Gaps can be particularly relevant for vulnerable consumers in relation to catastrophic loss events, as consumers who are more vulnerable already tend to live in areas at higher risk and/or have more difficulties in affording coverage.

At the same time, a customer centric approach is vital to deliver the benefits expected from digital transformation while considering the resulting new risks and challenges such as cyber threats, data privacy concerns and the need to enhance governance and oversight frameworks, including in the context of Artificial Intelligence (AI).

Additionally, (re)insurance undertakings' product development and investment decisions are expected to be significantly impacted by the Environment, Social, and Governance (ESG) principles, while consumer demand for products with sustainability features is rising. The growing market for products with sustainability features has led to an increase in misleading claims about sustainability features and profiles, increasing the risk of greenwashing and eroding consumer trust.

Against this background, EIOPA identified two strategic objectives that should be monitored in cooperation with the national competent authorities: Financial robustness of insurance undertakings and consumer protection in a disruptive environment. Considering both objectives EIOPA identifies three specific areas to be considered as supervisory priorities. These areas will be revised in each year of this 3-year cycle in order to capture recent developments and trends. Other regular supervisory activities, not explicitly mentioned in this document, will also be carried out in parallel and complement the work on the priorities.

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(Re)insurance undertakings need to adapt to changes that threaten to disrupt business models, while maintaining high standards of governance, risk management, and resilience. It is therefore essential that national competent authorities keep on monitoring and reviewing the adequacy and soundness of the (re)insurance undertakings' provisioning practices, risk management and capital positions.

(Re)insurance undertakings and intermediaries need, under the current environment, to continue ensuring that they treat consumers fairly and that they do not discriminate. In particular, it is important that they adapt their products to ensure they continue offering value but also that they provide adequate and sufficient forbearance for consumers in conditions of vulnerability.

Beyond the current macro-economic environment, (re)insurance undertakings need to make sure trends in their product offerings (i.e., products with sustainability features) continue following a customer-centric approach and that innovations are always considered in view of their capacity to improve offerings for consumers.

As a result, within this three years' cycle, supervisory authorities shall prioritise:

- Financial robustness of insurance undertakings
- Consumer protection in a disruptive environment

The focus for 2024 is presented below. The specific focus to be given in 2025 and 2026 will be identified as part of the yearly revision of these priorities in order to capture recent developments and trends, with an overarching focus during this cycle on the impact of digitalisation on product design and distribution and cyber resilience as well as climate change and sustainability related issues, building on EIOPA's Single Programming Document 2025-2027.

FOCUS FOR 2024

While the 3-year priorities are defined as above, for 2024 EIOPA will focus on:

1) Continuous monitoring of the impact of the macroeconomic environment

(Re)insurance undertakings are expected to properly consider the appropriateness of inflation assumptions in pricing and reserving processes and assess their credit and counterparty credit risk management capabilities in light of widening credit spreads, rating downgrades and defaults. Robust scenario analyses need to be incorporated in the Own Risk and Solvency Assessment (ORSA)s and in other key planning processes including capital and liquidity plans that shall take into account the current uncertain outlook.

National competent authorities will strengthen and intensify their monitoring in this area, which follows last year's work programme.

2) Risk transfers including the capacity and appropriateness of risk transfers.

(Re)insurance undertakings are expected to assess the adequacy of their risk management framework and the compliance with the Solvency II requirements. The latter includes ensuring that the Solvency Capital Requirement (SCR) relief resulting from risk mitigation techniques is commensurate with the risk transfer and properly applying the Prudent Person Principle with respect to the whole portfolio of assets including assets from intragroup reinsurance.

National competent authorities will put an additional focus already in 2024 on the supervision of reinsurance arrangements, to mitigate risks impacting the financial robustness of insurance undertakings. EIOPA is also planning on taking supervisory convergence actions in 2024 as regards the treatment of some reinsurance arrangements for solvency purposes.

3) Value for money including in relation to inflation and current macro-economic trends

Insurance product manufacturers are expected to ensure that they implement customer-centric product design processes which ensure that life and non-life insurance products offer value for money. In particular, as part of the monitoring and review process, insurance product manufacturers are expected to ensure that products continue meeting the target market's needs, objectives and characteristics also in light of the current macro-economic environment. Hence, they should assess the overall value vis-à-vis real returns (where this is relevant) but also the adequateness of coverage vis-à-vis increases in repair material, etc.

Insurance product manufacturers and distributors should ensure that consumers in conditions of vulnerability are fairly treated and that forbearance measures are put in place as relevant to ensure the continued fair treatment.

National competent authorities will gradually monitor how (re)insurance undertakings implement customer-centric product design processes which ensure products offer value for money. While the focus should be on insurance-based investment products, national competent authorities will gradually look at other products, in light of inflation. National competent authorities should also focus on the need that insurance undertakings and intermediaries ensure the fair treatment of consumers, including whether products do not cause them detriment, in the current macro-economic trends.

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