

SPEECH

THE SUPERVISORY FRAMEWORK: A EUROPEAN VIEW OF THE INSURANCE MARKET

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CHECK AGAINST DELIVERY

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eiopa

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Ladies and gentlemen

Thank you for inviting me here to the conference today to talk about regulation.

It's the second year now that I am participating virtually, and I very much hope that for next year's event I can join you in person.

Last year, I spoke about some of the immediate actions that we took to make sure that insurance companies were able to focus on their business as the crisis unfolded.

Now, one year later, I would like to share some thoughts about the changes that the insurance market is facing and what this means for supervisors.

FAIRNESS, PRODUCT OVERSIGHT AND GOVERNANCE

Let me start with some of the changes brought on by Coronavirus.

Without doubt, coronavirus changed our insurance habits and needs.

Our insurance needs and the usefulness of some products have also changed.

This is why we have asked companies to reassess their products in the light of the impact of the crisis and to take corrective action if unfair treatment has emerged.

This is a concrete application of product oversight and governance, a requirement recently introduced into the insurance regulatory system, which aims to ensure that consumer interests are taken into account throughout the product's lifecycle, from design to distribution.

Let's recall the objective of the product oversight and governance process: Not bureaucracy but a focus on ensuring good results for consumers.

Above all, insurance should always be of good value for money.

Through our Consumer Trend Report we have observed a number of problems relating to unit-linked (and hybrid) products.

Our report on cost and performance also shows that these products continue to have high costs in several European markets, which have a significant impact on returns for policyholders.

The complexity of products makes it sometimes difficult for consumers to understand benefits, tariffs, costs and risks.

Costs are often not clearly identified and cannot be linked to a specific component of the product, making it difficult to assess the relative value of each component.

Products are often marketed with a mass target market, but their complexity is not always adapted to the needs of mass.

To address these issues, EIOPA is developing a framework for assessing the value for money.

The framework will first provide guidance to companies on the measures to be taken to test products before launch and to verify quality/price ratios, to compare homogeneous products and to obtain an indication of the level of costs, as well as to mitigate the risks associated with the complexity of the product.

THE SHIFT TO DIGITALISATION

There is another broader lesson from the pandemic and concerns technology. We are now all moving to digital.

What does it mean for the insurance sector?

We can certainly expect more digitalisation from product development to claims management. This is a good thing, because it can bring benefits to insurers and consumers, such as lower costs and greater choice.

But there are also disadvantages.

Consumers may be at risk of exclusion, due to faulty algorithms or lack of access to digital technology.

There are also risks associated with the use of data, in particular as regards ethical issues related to the proper use of data.

Last year I spoke about the work of our Expert Advisory Group on Digital Ethics. Earlier this year, we published the Group's report setting out Artificial Intelligence (AI) governance principles for ethical and trustworthy AI in the European insurance sector, building on the principles of:

- ▶ Fairness and non-discrimination

- ▶ Transparency and explainability; and
- ▶ Governance

The development of a robust AI governance framework is therefore essential for a reliable and financially inclusive insurance sector.

In EIOPA, we will use the findings of the Expert Advisory Group to identify possible supervisory initiatives in this area, taking into account ongoing developments at EU level related to digitalisation and AI.

CYBER RISK: A GROWING THREAT

The use of technology and data corresponds to an increasing number of increasingly complex cyber-attacks.

Cyber resilience is essential for any organisation and an effective insurance market that ensures cyber risks is a key component of a robust cyber resilience framework.

The European cyber insurance market is growing. At EIOPA, we are following its evolution, and we have identified the areas we believe need to be strengthened for the development of this market.

- ▶ Overcoming the lack of data, which currently prevents a detailed understanding of the risk and thus the provision of adequate coverage;
- ▶ And clearer and commonly accepted contractual definitions so that policyholders and insurers share the same understanding of contractual terms.

CLIMATE CHANGE AND SUSTAINABLE FINANCE

COVID, digitalisation, cyber – these are all areas where we are facing change and where we – as a society and as a sector – are adapting.

The last one I want to mention today is climate change.

In EIOPA, sustainability has long been at the top of our agenda.

The aim of our work is twofold:

- ▶ To raise awareness of the key role insurers have in mitigating the impact of climate change and in facilitating the transition to a more sustainable and resilient economy.
Insurance companies are managers of most of the company's risks and are important long-term investors.
- ▶ And also to highlight the impact of sustainability risks, in particular climate risks, on the insurance business model.

In view of these objectives, we are working on a range of activities ranging from how we define what is a sustainable asset, to how relevant information is provided to the consumer, to how insurance companies can better protect themselves against their risks.

Together with the European Banking Authority and the European Markets Authority, we are working to ensure that investors are informed about the sustainable profile of their investments so that consumers can make informed decisions.

A starting point is the taxonomy: This is a common language and a clear definition of what is "sustainable".

One urgent aspect of sustainable finance relates to natural disasters linked to climate change (and related economic losses). They are increasing. Floods, storms, earthquakes, droughts and forest fires are among the most devastating types of natural disasters.

In Europe, 65% of climate losses were not covered by insurance.

Let's call this protection gap. To close this insurance gap EIOPA has developed a dashboard for natural disasters.

The dashboard simplifies the monitoring of risks related to the insurance gap in Europe.

The dashboard helps you:

- ▶ Identify risk regions and identify the risk factors of the underlying insurance gap.
- ▶ Develop proactive preventive measures.
- ▶ Identify the potential for cooperation at European level to improve protection against natural disasters across borders.

Sustainability, such as digitalisation, will remain a priority for EIOPA in the years to come.

The European Union's Next Generation Plan is based on green and digital transitions.

A key objective of EIOPA's work this year and in the coming years is of course to support the recovery and to support the insurance sector in playing a key role in the recovery.

WHAT DOES THIS MEAN FOR SUPERVISORS?

It means that good supervision is more important than ever.

As the sector evolves, not only because of the changes I have mentioned here, but also because of the increasing amount of cross-border activities we are witnessing and which we expect to continue to increase in part because of digital innovation, it is all the more important that EIOPA — and national supervisors — maintain a forward-looking approach to identify significant trends in time that can influence the market and consumers and trigger initiatives in a timely manner.

Where necessary, as EIOPA we can use several tools that are part of our supervisory toolkit.

For example, we can issue Regulatory and Implementing Technical Standards (binding in EU law that can be developed on the basis of an explicit mandate in legislation) or Guidelines and Recommendations (where we have more discretion and are subject to the comply or explain mechanism).

On market conduct supervision, a new tool was recently included in EIOPA's toolkit: Coordination of mystery shopping. This makes it possible, on the one hand, to monitor on the spot the behaviour of distributors during the sale of an insurance policy and, on the other hand, to check not only compliance but whether the objective laid down in the regulations has been achieved.

Mystery shopping offers a different supervisory perspective from traditional supervisory instruments, as information on distributors' behaviour during the sale of products can be gathered and the real effectiveness of regulations and recommendations to be assessed.

EIOPA has worked with IVASS under the auspices of the European Commission to develop a 'mystery shopping manual'. The project also foresaw a number of mystery shopping visits based on different scenarios, which gave interesting results to identify the application of market conduct regulation on the ground.

The supervisory toolkit has therefore been enriched with a new support tool. Each of the instruments we use is based on the same approach:

- ▶ Identifying a problem through supervisory activities,
- ▶ Carrying out an in-depth analysis,
- ▶ Involving national authorities; and
- ▶ Engaging with stakeholders

This is to say that the basis of every initiative is therefore always well supervised, effective, so that we can get to the root of a problem and understand what does not work and why.

And in order to maintain the quality of supervision, we also need to adapt, as firms and intermediaries.

We need to make sure that we keep pace with the changes that we see in the market – that we understand – or are ready to learn about – new technology. And we must keep learning.

This learning and adaptability is fundamental for good supervision and this means that it is fundamental for good consumer protection.

CONCLUSION

To conclude, new developments in technology have resulted in new business models, new ways of doing business and new types of insurance. At the same time, changes in the financial and economic environment, coupled with environmental changes are all having an impact on the role of insurance and insurers in society.

Arguably, the insurance sector will change more in the coming 10 years than it has in the past 50 years and all these changes represent both challenges and opportunities for insurers.

This means that supervision must also evolve.

But, the role – or the purpose – of supervision will not change. Nor will the role of EIOPA.

We are here to protect policyholders – to make sure that they are treated fairly and their needs remain at the centre of the product lifecycle.

And this is my overarching message today: In the face of change, it is important that neither insurance companies nor supervisors lose sight of their policyholders' interests.

Change brings both opportunities and challenges. In both cases, positive consumer outcomes will always be the most fundamental measure of success.

Ladies and gentlemen, thank you very much.