

# Strengthening society's resilience against global risks

Speech by Gabriel Bernardino at the Marsh McLennan Global Risks Report 2021 event

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## Introduction

Thank you for inviting me today to reflect on this year's Global Risks Report and to share with you some thoughts on how the insurance and pensions sectors can help to mitigate these risks, as well as EIOPA's own work on these issues.

Without doubt, we are living in challenging times, complex times, COVID times.

And so it's no surprise that infectious disease takes the top spot this year in terms of risks by impact. Because it's clear that COVID-19 has caused – and continues to cause – enormous disruption to societies, economies and people across the world.

From the outset of the crisis companies, policymakers, governments set out to minimise the impact of COVID-19. From short-term relief measures to long-term recovery plans, the aim has been to make sure that economy not just rebounds, but also becomes stronger.

This is certainly the case with the European Union's Next Generation EU recovery plan.

And this is what I would like to focus on today: how the insurance and pensions sectors can contribute to a strong and sustainable recovery. A recovery that not only makes us better placed to deal with the threat of pandemics, but also better placed to deal with the other pressing risks that we are facing, be they environmental, societal and technological.

## Fostering a sustainable recovery

Let me start with the green agenda.

At EIOPA, when we placed sustainability for the insurance and pensions sector on our strategic agenda, we wanted to raise awareness on the powerful role that insurers and pension funds have in mitigating the impact of climate change and facilitating the transition to a more sustainable and resilient economy.

We wanted to draw attention to the indisputable fact that risks associated with sustainability – the risks named in this year's global risk report, namely extreme weather, climate action failure, biodiversity loss – these all affect the insurance and pensions sector and put at risk the long-term sustainability of insurance and pension fund business models.

Our work has been driven by two perspectives: the impact of the sector on sustainability factors; and the impact of sustainability risks on insurers and pension funds.

And we have made good progress.

We have set out how the sector should improve on its governance and risk management practices to deal with sustainability risks, starting with climate change.

We have also incorporated climate change-related risks into both our insurance and occupational stress tests, and are establishing methodological principles for climate change stress testing.

We have stepped into the international arena, joining the Sustainable Insurance Forum and the Network for Greening the Financial System.

And, closer to home, our work supports the European Commission in achieving its sustainable finance goals: from contributing to the development of the EU taxonomy, to the European Green Deal and of course helping to make a sustainable recovery.

Now, we have to harness the interest and momentum that is driving the sustainability agenda globally, so that we can move to put policy into practice.

We want to identify how we can ensure the availability and affordability of insurance in light of climate change.

This means looking at how the insurance industry can reflect prevention measures in the design and pricing of products to incentivise policyholders to reduce risks, as well as how undertakings should best apply climate scenarios to assess their exposure to climate change.

There is also work to be done to close protection gaps related to insurance coverage for natural catastrophes. Our pilot dashboard assesses the drivers of the natural catastrophe protection gap, to make sure we have the right tools at hand when deciding on potential measures in light of climate change.

Improving data availability and identifying key performance indicators for insurers' non-financial reporting regarding sustainability are essential to foster sustainable growth and to channel funding in sustainable economic activities.

We are therefore currently consulting on proposals to require the disclosure of key performance indicators on sustainability. We want to have more information on the indicators that depict the extent to which the insurer or reinsurer carries out taxonomy-relevant activities in relation to its total assets.

Common standards for identifying sustainable economic activities are also essential to incentivise responsible investment and prevent greenwashing.

And here we have a powerful ally in the public. Climate change is not a new phenomenon but it is currently attracting a lot of interest.

And we should take advantage of this to engage consumers in how their savings are invested.

We have a duty to make sure consumers – policyholders and pension beneficiaries – are informed about the ESG profile of their investments, so that they can make informed decisions.

We are working with our fellow supervisory authorities – the European Banking Authority and the European Securities and Markets Authority – to develop ESG disclosures under the Sustainable Finance Disclosure Regulation.

Our recent consultation highlighted the challenges involved in achieving a disclosure that is easily understood by consumers and, at the same time, is aligned across financial market participants, who have different needs and regulatory requirements.

But, if we can better engage consumers in how their money is invested, we can foster demand for more sustainable products and investments.

## The opportunities and challenges of the digital agenda

And one way to engage people is by using digital channels.

Because over the past year, we have seen people's relationship with technology evolve. As lockdowns took hold, even the most reluctant people went digital.

And as we have seen that the digital first approach is what consumers want today, we should build on the accelerated adoption of digital technology to develop more simple but scalable products that make it easy for people to save for the long-term.

Products like the Pan European Personal Pension Product, or PEPP.

And I mention PEPP here, because I have also seen in this year's Global Risk Report that the young have suffered particularly through this pandemic: their education has been disrupted and they will enter a changed employment landscape, a landscape of gig working and self employment.

And these are the people who will benefit from the PEPP. A digital-first product that has been designed with today's consumer in mind. A savings product that is portable, transparent and cost effective.

So we have to take advantage of this accelerated digital transformation – and young people's appetite for it – and engage today's savers in planning for their future.

But we cannot overlook the risks associated with digitalisation. Risks like those outlined in this year's Global Risk Report – digital inequality, exclusion and cyber risk.

The benefits of better pricing and personalisation and usually driven by data. This

is what makes consumers so ready to share their data.

But what happens when data is not used ethically? When people find themselves excluded from insurance? Or when the holders of the data do not act responsibly?

At EIOPA, we believe that data needs to be respected. It must be used fairly and organisations holding data must act responsibly.

Because of this, we established a consultative expert group on digital ethics in insurance to help us develop principles of digital responsibility in insurance.

In particular we are paying attention to:

- Fairness and non-discrimination – including data biases and the fairness around the use of price optimisation practices;
- Transparency and explainability – being clear on how data is used and any trade-offs with accuracy;
- Governance – touching on accountability, security and resilience.

Security of data is perhaps the most important thing here.

Especially as companies become more at risk of cyber attacks.

So cyber resilience is essential for any organisation and an effective cyber insurance market is a core component of a sound cyber resilience framework.

A sound cyber insurance market is an enabler of the digital economy.

From raising awareness of the risks and losses that can result from cyber attacks to facilitating responses and recovery, a well-developed cyber insurance market can play a valuable role in risk management.

And the European cyber insurance market is growing rapidly. This is in part due to the overall increase in written contracts offered by insurers, and also because of the growing number of insurers providing cyber insurance.

And we expect the market to continue to grow. The increasing frequency of cyber attacks, coupled with stricter regulation regarding cyber security as well as continued technological developments are all expected to increase demand for cyber insurance in the near future.

A strong cyber insurance market is in everyone's interest.

## Closing protection gaps through shared resilience solutions

COVID-19 has highlighted why we need to be able to protect people and businesses against extreme and unexpected events, whether these are health-related, such as this pandemic, stem from climate-related natural catastrophes or large-scale sophisticated cyber attacks.

The wide-ranging systemic nature of pandemics means traditional insurance risk transfer mechanisms are not always appropriate, making them too great a burden to be shouldered by insurance companies alone. Instead, solutions involving both the public and private sector are needed. In short, we need to develop shared resilience solutions.

Last year, we set out different approaches to shared resilience, following discussions with representatives from the insurance industry, as well as commercial insurance buyers.

An effective shared resilience solution will need to encompass proper risk assessments, investment in prevention measures, appropriate product design, and residual risk transfer.

There is however no silver bullet. Our paper outlined a number of possible options addressing how to assess and manage risk, improve coverage and share risk. And more recently, we have published a paper addressing measures to improve the insurability of business interruption risk in light of pandemics.

At its heart, a shared resilience solution requires joint cooperation. While public and private actors are the most obvious partners, there is also a role for the European Union in mitigating and sharing some of the risk. This type of involvement could range from encouraging or promoting risk prevention, and incentivising and coordinating national measures, to providing financial support

for recovery.

## In conclusion

In conclusion, it is clear that the threats we face today do not stop at borders. They are indiscriminate in their reach and they are too great to be tackled individually by people, single companies or even individual Member States.

While insurance companies cannot be expected to cover pandemic or other major risks in their entirety, they should have skin in the game. Insurance companies play an important role in Europe's financial services industry and economy and the strength of Europe's economy is underpinned by our ability to insure against the costs of future pandemics.

It is in everyone's interest to have a strong economy and a resilient society. A society that creates new and exciting opportunities for the young generations and reduces inequality. To achieve this, we need solidarity and shared responsibility across all sectors of society: governments, public institutions, industry and civil society. And this is one of our learnings from this crisis: Working together, with a common purpose, we can find solutions and implement them.

And while there continues to be much uncertainty about how COVID-19 will evolve, we can be sure of two things: We will always have risks to deal with and for a resilient society, insurance must be part of the solution, not part of the problem.

Thank you very much.