



# ANNUAL REPORT 2017: IN BRIEF

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European Insurance and  
Occupational Pensions Authority

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# INTRODUCTION

Insurance fulfils an important role in society. When it functions well it takes on risk and contributes to economic growth and financial stability, ultimately bringing greater financial security to the public. With assets worth around two thirds of EU gross domestic product (GDP) (70 % in 2017) <sup>(1)</sup>, the EU insurance sector is a significant part of the financial sector. And with liabilities comprising one third of European households' wealth, consumers depend on aspects of the insurance sector for their future income. Equally, occupational pensions are crucial to ensure that older people are protected from the risk of poverty in retirement. With assets worth around 24 % of EU GDP <sup>(2)</sup>, and much more in some countries, pension fund assets are growing rapidly and are increasingly providing a source of investment to financial markets.

EIOPA was set up in January 2011 as a result of reforms of the supervisory structure in the financial sector of the EU. EIOPA is an independent European Union advisory body to the European Parliament, the Council of the European Union and the European Commission. Its core responsibilities are to support the stability of the financial system, ensure the transparency of markets and financial products, and protect policyholders and pension scheme members and beneficiaries.

EIOPA's mission is to protect the public interest by contributing to the short-, medium- and long-term stability and effectiveness of the financial system, for the EU economy, its citizens and businesses. This mission is pursued by promoting a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries and contribute to public confidence in the European Union's insurance and occupational pensions sectors.

EIOPA is one of three European Supervisory Authorities that comprise an important element of the European system of financial supervisors (ESFS), an integrated network of national and European supervisory authorities that provides the necessary links between the macro- and micro prudential levels, leaving day-to-day supervision to the national level.

This annual report details the Authority's primary achievements in 2017 across its main activities.

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<sup>(1)</sup> Source: <https://eiopa.europa.eu/financial-stability-crisis-prevention/financial-stability/statistics>

<sup>(2)</sup> Source: <https://eiopa.europa.eu/financial-stability-crisis-prevention/financial-stability/statistics>

**GABRIEL BERNARDINO**  
Chair



## FOREWORD

The year 2017 marked 10 years since the beginning of the financial crisis. Since its creation in 2011, EIOPA has contributed to the development of the European single rulebook in insurance and pensions both in the prudential and conduct of business areas. The implementation of the new European regulatory frameworks has implied a gradual shift in EIOPA's strategic priorities from regulation to supervision. Strengthening supervisory convergence, enhancing consumer protection and maintaining financial stability were the focus of our activities in 2017.

Our commitment to building a common supervisory culture reached a milestone as we worked with national supervisory authorities (NSAs) to set out the key characteristics of high-quality and effective supervision that should underpin this culture. The development of a pan-European approach to supervision has been at the core of our work since our establishment in 2011 and we will continue this in the coming years to support national supervisors to build their capacity to deliver high-quality supervision.

In the context of the European single market, supervision is very much a European issue, as insurance providers from one country do business in another country, notably under the freedom to provide services (FoS) regime. To address perceived weaknesses in cross-border business supervision, in 2017, we set up platforms to facilitate cooperation between national supervisory authorities, enabling a more timely identification and assessment of risks. These platforms are an example of the added-value that the Authority's pan-European perspective and steering bring to national supervision thereby helping to build trust in the internal market and the overall functioning of the supervisory system.

This year, we also achieved a significant milestone in promoting a consistent approach to consumer protection with the provision of advice to the European Commission related to the Insurance Distribution Directive covering issues such as conflicts of interest in selling practices and technical standards on the insurance product information document.

In 2017, we completed the first part of our first review of the Solvency II regime based on 1 year's implementation experience, advising the European Commission to adopt simplified calculations of the solvency capital requirement (SCR) standard formula. As part of our work in the field of financial stability, we published an Opinion addressed to the European institutions calling for a minimum harmonisation of a recovery and resolution framework for the insurance sector, as well as carrying out a Europe-wide stress test on the occupational pensions sector.

A good supervisor is forward-looking, proactive and preventive. For EIOPA, this means that we must stay alert to the political and economic landscape around us and be ready to take action when needed. For this reason, we give particular focus to issues related to digitalisation and InsurTech, as well as sustainable finance. We will also continue to pay close attention to issues related to the United Kingdom's decision to leave the European Union, so that there is minimum disruption to service and consumers.

We will continue to support the European Commission's actions in the European financial services agenda, including the Capital Markets Union (CMU). In particular, we look forward to further developments regarding a pan-European personal pension product (PEPP), which has the potential to offer European citizens an entirely new framework to save for retirement. We stand ready to take on new tasks connected to this as well as those connected to the review of the European Supervisory Authorities (ESAs), enabling us to put an even stronger focus on supervisory convergence.

Our capacity to deliver would not have been possible without close cooperation with national competent authorities, the European Supervisory Authorities, European institutions and other stakeholders. I would like to thank all of them, including my fellow Board of Supervisor members and Management Board members, for their constructive engagement and support over the past year.

Ten years ago, we witnessed the damaging effects of weak regulation on the economy and people's lives. To build up sustainable long-term investment and economic growth we need stable and strong insurance and pension sectors that adequately price risks, apply robust risk management strategies and treat policyholders, members and beneficiaries fairly. Our role is to make sure that we collectively reap the benefits of the post-crisis regulatory reforms by ensuring high-quality and consistent supervision throughout the European Union. We will continue to be committed to that goal.

**FAUSTO PARENTE**  
Executive Director



## FOREWORD BY THE EXECUTIVE DIRECTOR

In 2017, as an organisation, EIOPA continued to make effective use of its resources while continuing to execute its mandate to a high standard.

Good execution is the result of good preparation and, as in previous years, EIOPA conducted its tasks against a work programme that was developed through a thorough planning exercise. With a view to longer-term planning of tasks and resources, in 2017, EIOPA took steps to further strengthen its planning and prioritisation activities, including related to change management and risk management.

EIOPA also continued to adapt to its new organisational structure, introduced at the end of the 2016. In this context, the Supervisory Processes Department and the Oversight and Supervisory Convergence Department were established, better reflecting the evolution of EIOPA's work and the focus on more supervision-related tasks.

Also related to the evolution of supervisory tasks, EIOPA undertook significant work to develop competency frameworks. Building the capacity of our staff remains a priority and in February 2017, EIOPA's supervisory competencies were introduced. In setting out competency frameworks for different functions, EIOPA is better able to develop its own staff to meet the evolving needs of the organisation. EIOPA will continue to develop frameworks for different groups of staff, including leadership competencies, as well as continuing to offer staff opportunities for further learning and development.



To become a more efficient organisation remains an ongoing goal for EIOPA. Where possible, rather than developing its own solutions, EIOPA adopts systems and processes already in use by the European Commission or other EU Agencies. In 2017, EIOPA took preparatory steps to adopt existing e-solutions for procurement and human resources. In addition, EIOPA started to make use of the Commission's services for website development and hosting.

An additional project enabling staff to work more effectively has been the introduction of a new document management system. This system has enhanced compliance as well as cooperation between staff.

In terms of management of resources, EIOPA conducts its operations in full compliance with EU regulations, working in an open and transparent manner. The Authority's operating budget for 2017 was EUR 24 million and by the close of the year, EIOPA had achieved an implementation rate for commitments of 99.79 %.

EIOPA is accountable for both the substance of its work and the management of its resources. To that end, EIOPA maintains a constructive and open dialogue with its stakeholders and is always ready to engage so that we can continuously improve.

Looking ahead, EIOPA will continue to focus on the four strategic objectives set out in its work programme while remaining prepared to adapt to changes stemming from external environment: new tasks may arise from the ongoing review of the three European Supervisory Authorities or from the legislative initiative on the pan-European personal pension product (PEPP). New priorities may also come from the United Kingdom's decision to leave the European Union.

In conclusion, it only leaves me to thank EIOPA's staff and those of the Management Board and Board of Supervisors for their commitment and hard work throughout the year. I speak for these colleagues when I say that we are proud to work for Europe and proud of the work that we do so that people and businesses in Europe can benefit from safe and secure financial institutions and systems.

## EXECUTIVE SUMMARY

### CONSUMER PROTECTION

To strengthen the protection of consumers, EIOPA contributes to a smart regulatory framework promoting transparency, simplicity and fairness. In 2017 EIOPA delivered technical advice on possible delegated acts concerning the Insurance Distribution Directive consolidating selling practices for direct sellers and intermediaries and ensuring advice to consumers best suits their needs. EIOPA also completed draft implementing technical standards on the insurance product information document introducing a standardised format providing essential information about insurance products in a clear, concise and accessible manner. To minimise risks arising from mis-selling, EIOPA also provided guidelines on 'execution-only' sales of insurance-based investment products (IBIPs), addressing cases where insurance distributors do not provide advice or check a customer's knowledge of the product or the risks involved.

EIOPA also takes a proactive role in identifying and tackling risk of consumer detriment. The thematic review on monetary incentives and remuneration highlighted potential conflicts of interest arising in unit-linked life insurance products sold on the basis of monetary incentives and remuneration paid by asset managers.

EIOPA's Consumer Trends Report highlighted the significant increase in consumer complaints in the insurance sector. Digitalisation, relating to technology-driven innovation in the insurance and pensions sectors, was also identified in the report as a topic of strategic importance for the insurance sector and one that EIOPA continues to follow closely.

### SUPERVISORY CONVERGENCE AND IMPROVING THE FUNCTIONING OF THE INTERNAL MARKET

The Authority's efforts to achieve supervisory convergence and improve the functioning of the internal market are divided into ensuring a sound and prudent regulatory framework, establishing a reporting framework and leading in convergence to consistent and high-quality supervision. In the context of EIOPA's mandate to contribute to the consistent application of regulation, a priority for 2017 was the evaluation and review of the Solvency II regulation based on 1 year of implementation. EIOPA's first set of advice covers key aspects of the standard formula to reduce its complexity while at the same time retaining a proportionate, technically robust, risk-sensitive and consistent supervisory regime.

Day-to-day supervision is the task of NCAs and EIOPA leads supervisory convergence, supporting them in consistent and convergent application of European Union law. Important tools included the provision of tailored support and feedback on the consistent application of Solvency II. In 2017 EIOPA also participated in the insurance balance sheet review and pension funds asset review of the Bulgarian insurance and pensions sector, providing coordination and technical expertise.

The Authority contributes to strengthening supervision of cross-border groups. In 2017 this was enhanced with the new tool of supervisory cross-border platforms. Established by EIOPA in response to identified risks with respect to cross-border business, the platforms ensure stronger and timelier collaboration between insurance supervisory authorities. This enables quicker identification and assessment of risks in the market with a view to gaining agreement on the need for supervisory actions and interventions. EIOPA also actively participates in

the meetings of colleges of supervisors, which oversee cross-border insurance groups. The Authority's contribution provided a clear basis for practical and operational cooperation within colleges. This effort was further strengthened in 2017 with a revision of EIOPA's colleges strategy to further capitalise on the collective effort of NCAs and EIOPA.

The establishment and approval of an internal model follows a principles based approach with extensive requirements on statistical quality, processes and embedding in risk management. This approach should be applied appropriately for each concrete risk profile by undertakings in development and use of the model; and assessed by the NCA during the approval and ongoing supervision. EIOPA provides valuable support to address the risk of inconsistencies between supervisory practices and identifying undertakings where the quality of modelling seems lower than its peers. In 2017 a project was run using EIOPA's available tools to address major inconsistencies in the dynamic volatility adjustment (DVA), which showed that the different approaches in modelling the DVA could lead to significant differences in outcomes, which can hinder the level playing field. A project on the modelling of sovereign risk in internal models concluded it was justified to apply different approaches but, significant differences in the calibration of models were observed, which are currently being followed up by NCAs and by EIOPA.

In 2017, EIOPA published three supervisory opinions including the assessment of internal models including a DVA; supervisory convergence in light of the United Kingdom withdrawing from the EU; and service continuity in light of the withdrawal of the United Kingdom from the EU.

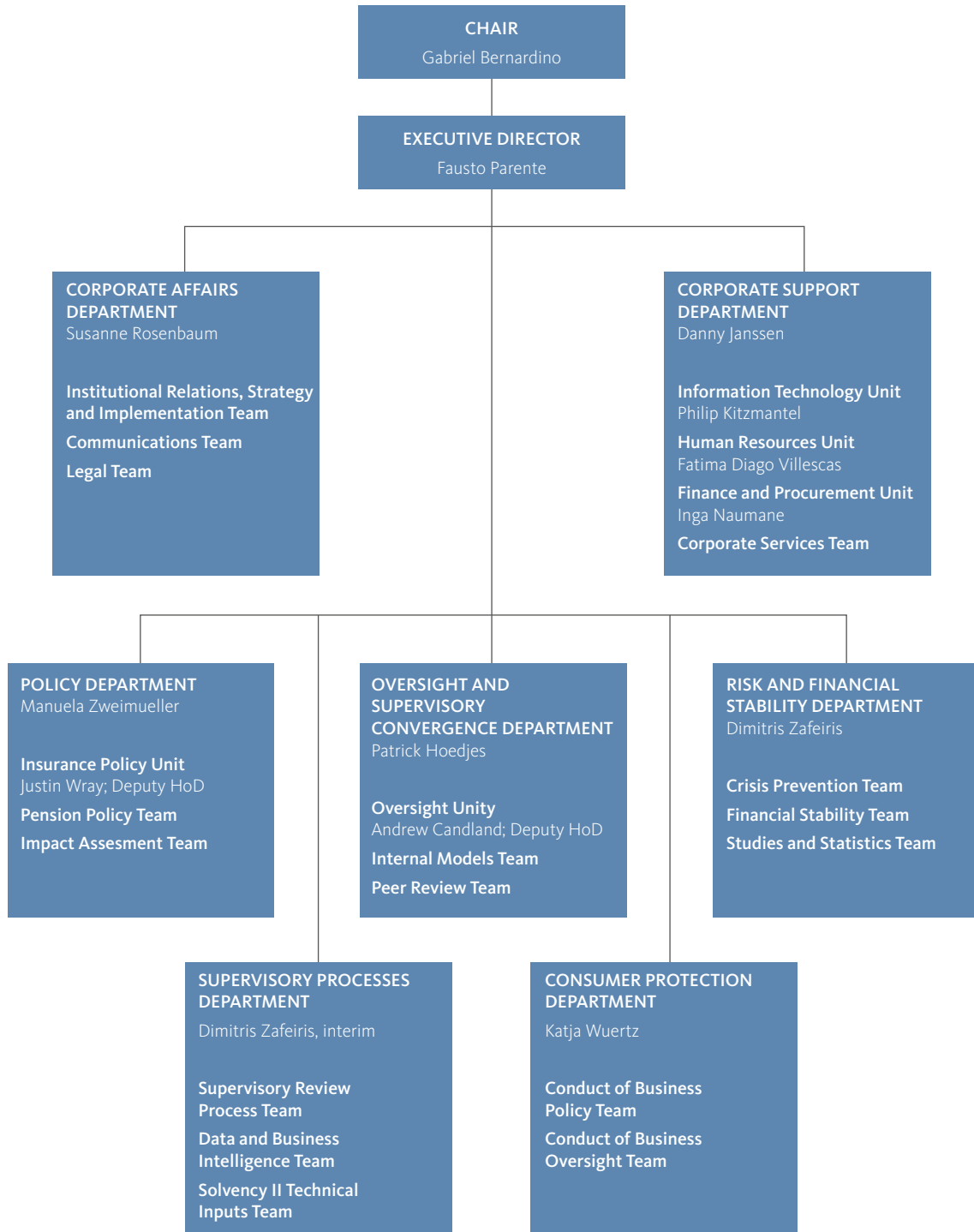
Accurate and effective reporting relies on a common framework, as well as the capacity to collect and analyse data. With these elements in place, EIOPA is able to calculate key information, including its monthly production of risk free rates and symmetric adjustment of the equity capital risk. EIOPA is also mandated to calculate the UFR and the methodology set out in 2017 ensures that the UFR moves gradually and in a predictable manner, allowing insurers to adjust to changes in the interest-rate environment and ensuring policyholder protection. EIOPA also undertook work to ensure the continued development of its systems for secure data collection, management, analysis and dissemination including the release of the Solvency II insurance taxonomy 2.2.o.

To increase global convergence and consistent supervisory practices worldwide, EIOPA continued its cooperation on important initiatives such as the international capital standard version 2.0 and implemented a number of new agreements, such as memorandum of understanding (MoU), with non-EU countries ('third countries') and international organisations. In the field of pensions data, EIOPA launched a consultation with the aim of increasing efficiency and further strengthening the monitoring and analysis of the European occupational pensions sector through a single framework for EIOPA's regular information requests for the provision of occupational pensions information.

## FINANCIAL STABILITY

By assessing and monitoring the financial system, the Authority is able to identify threats to the financial stability of the European insurance and pensions sectors and mitigate risks accordingly. In 2017, EIOPA conducted its occupational pensions stress test providing a robust assessment of the resilience of IORPs. The exercise identified sponsors of over a quarter of IORPs might face challenges meeting their obligations. Furthermore, pension obligations may exert substantial pressure on the solvency and future profitability of companies with a potential spill-over to the real economy. The provision of Solvency II reporting data has also allowed EIOPA to enhance a number of its existing products such as the quarterly risk dashboard and financial stability reports and allowed the publishing of new information such as Solvency II statistics on the European insurance sector. Under its crisis prevention mandate, EIOPA has issued an opinion on harmonisation of recovery and resolution frameworks and continued its work on a framework for macroprudential policy in insurance.

# ORGANISATIONAL CHART 2017



As at 31 December 2016

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