REPORT

KEY ACHIEVEMENTS

October 2019 – October 2020

Participation of the EIOPA Chairperson in a hearing before the Economic and Monetary Affairs Committee at the European Parliament on the performance of the Authority

Frankfurt, 12 October 2020

eiopa
European Insurance and
Occupational Pensions Authority

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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. The overarching mission 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 2020 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
- Be a responsible, competent and professional organisation.

EIOPA's areas of action and annual priorities are established through a rigorous planning process. In 2020, EIOPA has adopted a flexible and responsive approach to its annual and multi-annual planning in response to the Covid-19 crisis and the following new priorities, in order to efficiently mitigate direct and indirect knock-on effects on financial stability, markets and consumers. Furthermore, EIOPA has been working on managing its resources in an agile manner to allow reprioritisation and accelerated decision-making. At the end of 2019, the Authority employed 166 people (full-time equivalents). Its operating budget for 2020 is EUR 29,476,398. Due to the Covid-19 situation, and entailing possibilities to reduce expenses on e.g. physical meetings, a budget amendment has been tabled which will reduce EIOPA's budget to EUR 28,386,398.

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. EIOPA used different tools when engaging with the NCAs on how they supervise firm's conduct in terms of relations to their consumers

EIOPA actively continued its work to address conduct risks for consumers. This was done through the use of EIOPA's new product intervention powers and a range of supervisory and oversight tools, including the continued consumer trends and market monitoring work, and visits to national competent authorities (NCAs). Furthermore, EIOPA strengthened its work on supervisory convergence – aimed at guaranteeing a similar level of consumer protection across jurisdictions, and thereby ensuring a level playing field – by drafting the first conduct of business chapter of EIOPA's supervisory handbook and by developing a framework for the so-called mystery shopping[1]. EIOPA further enhanced the soc-alled Retail Risk Indicator methodology, to help guide EIOPA and the NCAs in the selection of future consumer protection activities. With a similar objective, EIOPA has also engaged actively with NCAs on the development of a Conduct Risk-Assessment Framework and Conduct Risk Dashboard. 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[2] to address product related risks.

The COVID-19 crisis highlighted the need to continue monitoring emerging business conduct risks with possible negative impacts on consumers. As a result, EIOPA has since the outbreak of Covid-19 continued its extensive market monitoring activities based on available data and continuous engagement with NCAs and third-country parties.

[1] Mystery shopping supervision is a modern supervisory tool aiming at identifying and documenting conduct misbehavior at the point of sales, through the employment of mystery shoppers mirroring various consumer behaviours. The objective is to mitigate and address conduct risks to ensure good consumers' outcomes.

[2] Commission Delegated Regulation (EU) 2017/2358 on product oversight and governance (POG) requirements for insurance undertakings and insurance distributors: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R2358&from=EN

Consumer Trends Report 2019

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 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[3] highlighted that transparency and disclosure of information to consumers overall improved in 2019 compared to past years. The digitalisation of the insurance sector continued to show potential for improving the consumer experience and bringing new opportunities for insurers, both in terms of production and distribution. Areas that could cause potential consumer detriment continued being reported by NCAs, with possible risks for consumers across the product lifecycle. Particular concerns related to unit-linked products, credit life/credit protection and add-on insurance products as well as claims management in the motor insurance sector.

Costs and Past Performance 2020 Report

The report[4] provides an analysis of costs for 2018 and past performance for the period 2014-2018 of insurance based investment products and personal pension products. The study showed that unit-linked products can offer high returns but also pose risks for consumers during periods of poor market returns. Overall, performance in 2018 was the lowest for five years. The study also found that costs continue to have a significant impact on net returns, confirming a trend observed in the previous edition of the report. On average, profit participation products continue having lower costs than unit-linked products. Ongoing costs continue being the most prominent cost component, representing 80% of total unit-linked costs and 70% of total costs of profit participation products. Higher risk products, have higher variability of net returns but on average they show higher net returns. Similarly average costs increase with the level of riskiness of the product.

[3] https://www.eiopa.europa.eu/sites/default/files/publications/reports/2019.6124-eiopa_consumer-trends-report.pdf published in December 2019.

[4] https://www.eiopa.europa.eu/sites/default/files/publications/cost_and_past_peformance_report_corrigendum.pdf published in April 2020.

COVID-19 measures

In response to the Covid-19 outbreak, which has caused significant disruption to the economy, business and citizens, EIOPA has worked in close cooperation with NCAs to mitigate its impact on the insurance and occupational pensions sectors in Europe, and well as consumers, policy-holders and beneficaries.

- 01/04/2020: Call to action for insurers and intermediaries to mitigate the impact of Coronavirus/COVID-19 on consumers underlining the importance of access to and continuity of insurance services and outlining recommended actions for insurers and intermediaries to take
- 24/04/2020: CONSUMER GUIDE: Understand your insurance coverage during Coronavirus/COVID-19 Outbreak
- 08/07/2020: Supervisory expectations on Product Oversight and Governance requirements amidst the COVID-19 situation

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 2020, EIOPA reported on its supervisory activities in 2019[5], showing that supervisory work focused on (i) proposing amendments to Solvency II in the context of the 2020 Review of Solvency II, as a result of the identification of inconsistencies in the implementation of some areas of Solvency II; (ii) promoting a common supervisory culture, including through issuing warning to insurers and insurance intermediaries to tackle high commissions for travel insurance products; (iii) minimising risks to the internal market and level playing field, including by taking important steps on the use of product intervention products; (iv) supervising emerging risks (especially in the field of Big Data analytics in motor and health insurance and ICT security and governance). As a consequence, the following high-level priorities were set out in the Supervisory Convergence Plan for 2020[6] 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 priorities identified for 2020 remained mainly the same as in 2019 – considering the need to further develop some of the areas (e.g. promoting a common supervisory culture, minimising risks to the internal market and level playing field, supervising emerging risks). At the same time, within the high-level above-mentioned priorities, three new areas were identified: Supervisory Technology (SupTech), promoting supervisory convergence in IORPs supervision and risks related to cyber,

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[5] https://www.eiopa.europa.eu/sites/default/files/publications/supervisory_activities_2019.pdf

[6] https://www.eiopa.europa.eu/sites/default/files/publications/supervisory-convergence-plan-for-2020.pdf

including cyber security and cyber insurance. In addition, as part of the advice to the European Commission on the Solvency II 2020 review, a number of new areas have also been added (e.g. regarding the development of proportionality framework, revision of reporting requirements for Internal Models, further harmonisation of technical provisions calculations and supervision, further convergence of group supervision, etc.).

Supervisory Technology (SupTech) Strategy

In February 2020, EIOPA defined a Suptech Strategy[7] — with the objective to promote the use of technology by supervisors in order to deliver innovative and efficient supervisory solutions that will support a more effective, flexible and responsive supervisory system. This is achieved by:

- implementing a platform between supervisors for on-going exchange of knowledge and experience to promote a culture of innovation and initiative
- organising and endorsing the analysis of potential development of tools (promoting proof of concepts) choosen from the list identified by supervisors and considering the criteria and objectives described above, and to implement them after a positive decision following the analysis phase.

Under the EIOPA SupTech Strategy EIOPA has issued its first SupTech Program, which includes the revision of the register of insurance undertakings, in particular to solve the inconsistencies identified by some NCAs concerning cross border information.

- Insurance and reinsurance undertakings are allowed to operate cross-border via Freedom of Services (FoS) and Freedom of Establishment (FoE). This situation should be reflected in three different registers of insurance undertakings: the register of the home NCA, the register of the host NCA and EIOPA's register. However, these registers do not always show consistent information due to wrong data and different update status. Some NCAs claim that this situation creates the risk for NCAs of consumers issuing claims due to these inconsistencies.
- A decentralised database would allow to ensure that the information shown in each node (NCA) would always be consistent, since the information in each node would only be updated once there is consensus among (all) nodes. For this purpose, EIOPA and its members are analysing

[7] https://www.eiopa.europa.eu/sites/default/files/publications/supervisory-technology-strategy-february-2020.pdf

the possibility to revise the existing registers and build a decentralised database including blockchain to secure the data.

Cyber Underwriting Strategy

In February 2020, EIOPA adopted a Cyber Underwriting Strategy[8], as part of EIOPA's broader mission to promote sound technological progress for the benefit of the European Union economy and its citizens, while safeguarding financial stability, market integrity and investors' protection. The main objectives of the strategy include:

- Increased focus on reporting and data quality for cyber underwriting
- Further investigation and development of risk management good practices regarding silent covers and accumulation of risk
- Improve understanding of potential systemic cyber risk
- Continued dialogue with other supervisors and the industry at European and global levels

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[9]; the Supervisory Handbook; supervisory statements; questions and answers; public best practices; reports; training/networking of supervisors; study visits between supervisors.

[8] https://www.eiopa.europa.eu/sites/default/files/publications/cyber-underwriting-strategy-february-2020_0.pdf

[9] In April 2020, EIOPA has published an Opinion on the supervision of remuneration principles in the insurance and reinsurance sector, addressing how to ensure consistent practices in the application of the remuneration principles included in Solvency II: https://www.eiopa.europa.eu/content/eiopa-publishes-opinion-supervision-remuneration-principles-insurance-and-reinsurance-sector. While the Solvency II framework provides for provisions of remuneration for sound and prudent management, the remuneration principles defined in the Delegated Regulation are high-level and leave considerable discretion to undertakings and supervisory authorities. This opinion gives guidance to national supervisory authorities on how to challenge the application of certain principles.

- Reviewing existing market and supervisory practices
    - which is achieved through the work on thematic reviews and annual peer reviews. 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[10] 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 cross-border business; dialogue with group supervisors; participation in colleges; breach of European Union law; and a mediation role.

In particular, EIOPA continued its oversight activities with active participation in cross-border colleges, and set up further cross-border cooperation platforms to enhance stronger and more timely cooperation between NCAs on concrete cross-border cases, enabling a quicker identification and assessment of risks in cross-border business. To date, EIOPA has facilitated over the last year seven cooperation platforms involving national supervisory authorities from several Member State. For each platform, EIOPA has provided concrete supervisory recommendations to the home supervisor. In some instances, these recommendations were aimed to strongly encourage 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.

GEFION INSURANCE A/S

Gefion Insurance A/S was a Danish-based insurance group operating mainly in Denmark, France, Germany, Ireland, Italy, Poland and United Kingdom.

On 24 March 2020, the Danish Financial Supervisory Authority (DFSA) decided not to approve Gefion Insurance's recovery plan, due to insufficient evidence that the company would be able to

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

fulfill the solvency capital requirement within 6 months and hence to be able to adequately protect the interests of current and future policyholders.

Following the company's application for an extension of the recovery period of three months, the DFSA provided a further assessment and decided not to grant that extension. As a result, the DFSA withdrew Gefion Insurance's license as an insurance company.

EIOPA supported the work of the home supervisor by the set-up of a cross-border Platform of Collaboration for Gefion Insurance A/S in 2018 to facilitate and coordinate discussions between and supervisory measures taken by the respective home and host National Supervisory Authorities. Within the platform, the participating members and EIOPA exchanged information, knowledge and expert judgement about materialising risks to support Finanstilsynet in its decision making towards Gefion. Throughout the whole process, EIOPA has been in close contact with the DFSA to ensure equal treatment of policyholders in Europe.

NOVIS

NOVIS is a life insurance undertaking established in 2014 in Slovakia and supervised by the Národná banka Slovenska (NBS), the Slovakian national supervisory authority. Besides its home market, NOVIS pursues life insurance activity through freedom of establishment in Austria, the Czech Republic and Germany and through freedom to provide services in Finland, Hungary, Iceland, Italy, Lithuania, Poland and Sweden.

On 18 September 2020, NBS issued an interim measure banning new business from NOVIS Insurance Company, NOVIS Versicherungsgesellschaft, NOVIS Compagnia di Assicurazioni, NOVIS Poisťovňa a.s. (NOVIS), until specified conditions are fulfilled by NOVIS.

In order to ensure the adequate protection of policyholders throughout the European Economic Area, EIOPA has been working closely with NBS and the other national competent authorities through its cooperation platform to address this issue in the operations of NOVIS, from both prudential and conduct of business perspective.

SOUND REGULATION OF INSURANCE AND PENSIONS

Regulation is only effective for as long as it remains relevant. 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)[11] and the holistic framework on systemic risks[12]. In November 2019, EIOPA welcomed the adoption of the first global frameworks for supervision of internationally active insurance groups, including an Insurance Capital Standard Version 2.0, and for the mitigation of systemic risk in the insurance sector. EIOPA continues to forge close relationships with third countries' supervisors. In this regard, EIOPA is working on defining the most appropriate approaches to ensure a convergent, effective and efficient supervision after Brexit.

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 risk. Insurers have also significantly strengthened their governance models and their risk management capacity putting a number of key functions in place and ensuring 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 months, 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.

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[11] 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.

[12] 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.

EIOPA has recently published a pilot Rulebook for Solvency II[13], an online userfriendly documentation tool providing access to key regulatory and supervisory texts concerning Solvency II within the scope of EIOPA's activity. All users can access the Rulebook, whose objective is also to promote the consistent application of the regulatory framework. The pilot Rulebook for Solvency II is part of a wider project, the Single Rulebook, which aims to provide access to key regulatory and supervisory texts within the scope of EIOPA's activity.

REPORTING ON THE IMPLEMENTATION OF SOLVENCY II

Between October 2019 and October 2020, EIOPA published a number of reports related to different aspects of Solvency II.

- Report[14] on the use of capital add-ons during 2018
- Report[15] on the use of limitations and exemptions from reporting during 2018 and Q1 2019
- Report[16] on long-term guarantees measures and measures on equity risk 2019
- Insurers' asset and liability management in relation to the illiquidity of their liabilities[17]

2020 REVIEW OF SOLVENCY II

EIOPA has decided to provide its technical advice to the European Commission at end December 2020, to take into account the importance of assessing the impact of the current Covid-19 situation on the Solvency II Review. The new timing will allow an update of the holistic impact assessment in view of the impact of the pandemic on the financial markets and insurance business and to take that impact into account in EIOPA's advice. The new timing strikes a balance between the need to use the opportunity of reviewing the Solvency II directive and the need for the advice to reflect recent developments.

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13 https://www.eiopa.europa.eu/rulebook_en

14 https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa_2018_capital_add_ons_report_final.pdf

15 https://www.eiopa.europa.eu/sites/default/files/publications/reports/2020-report-on-the-use-of-limitations-and-exemptions-from-reporting_0.pdf

16 https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa-ltg-report2019.pdf

17 https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa_report_on_insurers_asset_and_liability_management_dec2019.pdf

The European Commission requested in its call for advice to EIOPA 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
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 proposed approach is that of evolution rather than revolution. The fundamentals of Solvency II are not in question. Instead, EIOPA's approach will be both evidence-based and consultative, taking into consideration the financial and economic environment and the insurance market landscape. EIOPA will finalise its view on the advice in particular on the basis of the consultation feedbacks[18] and the impact of data collected.

INFORMATION REQUESTS ON SOLVENCY II

In February 2020, EIOPA consulted on the review of technical implementation means for the package on Solvency II Supervisory Reporting and Public Disclosure[19]. The objective of the consultation paper was to improve the efficiency and effectiveness of the reporting and disclosure framework, thereby reducing the costs associated to the processes. In this context, EIOPA proposals in this technical area contributed further to the proportionality and cost efficiency the framework.

Furthermore, in March 2020, EIOPA launched an information request on the impact of the draft advice for the 2020 review of Solvency II[20]. Insurance and reinsurance undertakings were requested to report on the combined impact of those proposals with a material impact on the solvency position of undertakings with reference date 31 December 2019. In July 2020, in view of the Covid-19 pandemic and its impact on financial markets and the insurance business, EIOPA requested a complementary information request on the holistic impact assessment of the Solvency II review[21].

[18] Feedbacks on the EIOPA's Consultation Paper on the Opinion on the 2020 review of Solvency II, available at https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-19-465_cp_opinion_2020_review.pdf

[19] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/consultation-paper-review-technical-implementation-means-for-the-package-onsolvency2.pdf

[20] https://www.eiopa.europa.eu/solvency-ii-review-information-request-national-supervisory-authorities

[21] https://www.eiopa.europa.eu/browse/solvency-ii/2020-solvency-ii-review/complementary-information-request-holistic-impact

COVID-19 measures

- 20/03/2020: Recommendations on supervisory flexibility regarding the deadline of supervisory reporting and public disclosure. Recommendations enable insurers to concentrate efforts on monitoring and assessing impact Coronavirus and are addressed to national competent authorities to help provide a consistent approach to supervision
- Extraordinary publication of Solvency II Relevant Risk Free Interest Rate Term Structures and Symmetric Adjustment to Equity Risk
- 21/07/2020 Supervisory Statement on the Solvency II recognition of schemes based on reinsurance with regard to COVID-19 and credit insurance, which provide EIOPA's view on the exceptional supervisory treatment under Solvency II of national schemes implemented by Member States to support the credit insurance business
- 27/07/2020 EIOPA Statement on Solvency II supervisory reporting in the context of COVID-19

PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP)

The economic and demographic trends in the European Union challenges the Member States to deliver adequate, safe and sustainable pensions to its citizens. In this context the EU acknowledges the need to put in practice appropriate strategies and policies for the benefit of EU citizens. The current macroeconomic environment is further putting a strain on long-term savings solutions, making it difficult for people to save for retirement. Supporting citizens to save for retirement is fundamental to closing the pensions gap. It is imperative therefore that citizens have access to smart, digital-first products that meet the needs of today's consumers.

Following EIOPA's advice on the development of a Pan-European Personal Pension Product (PEPP) in 2016, EIOPA welcomed the publication of the PEPP Regulation in July 2019 and EIOPA's mandate to develop technical standards and advice on delegated acts. Twelve months after the PEPP Regulation entering into force, in August 2020, EIOPA delivered to the European Commission a set of draft Regulatory and Implementing Technical Standards[22] and its advice on Delegated Acts to implement the framework for the design and delivery of the PEPP[23].

EIOPA proposed legal instruments following the objective to unlock the potential of the European personal pension market by setting the right incentives for the creation of future PEPPs, as portable, simple and cost-efficient products. Furthermore, online distribution will be one of the most important opportunities of PEPPs to attract the consumer's interest and to engage with the PEPP saver for the retirement planning. The regulatory provisions include clear and enforceable quality criteria for PEPP to be followed by providers and so to ensure that European consumers will be offered high-quality, safe, transparent and simple PEPPs. At the same time, EIOPA recommends to leave sufficient room for innovation and competition to reach good pension outcomes. Clear criteria for sound and robust investment strategies and risk mitigation techniques will help in delivering better long-term returns to savers and in managing investment risks to match the European citizen's risk appetite.

In this regard, EIOPA developed two mandatory consumer information documents: the PEPP Key Information Document (PEPP KID) and PEPP Benefit Statement. These standardised information documents will provide consumers with relevant information allowing for easier decision-making before entering into a binding contract and monitoring the savings' performance during the life of the contract. The PEPP consumer information documents introduce a holistic approach for the assessment and analysis of the PEPPs' risk-reward profiles, with a 'summary risk indicator' in the PEPP KID that identifies the riskiness of the different PEPP investment options – as well as comparative information to understand the relative risk to the expected future PEPP retirement benefits. Further, projections of future retirement income are key for consumers to understand the characteristics of PEPPs and to enable the consumer to consider whether the product meets the individual retirement objectives.

In developing its proposals, EIOPA built on the expertise of the supervisory community of both the insurance and pension sectors, as well as of the other European Supervisory Authorities, the European Central Bank and the Organisation for Economic Co-operation and Development. At the same time, EIOPA conducted an active dialogue with a wide range of stakeholders, including EIOPA's Expert Practitioner Panel on PEPP and its two stakeholder groups, the Insurance and Reinsurance Stakeholder Group and the Occupational Pensions Stakeholder Group.

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[22] https://www.eiopa.europa.eu/content/consultation-concerning-technical-advice-implementing-and-regulatory-technical-standards-pan and https://www.eiopa.europa.eu/content/public-consultation-implementing-technical-standards-supervisory-reporting-and-cooperation

[23] https://www.eiopa.europa.eu/browse/pensions/pan-european-personal-pension-product-pepp/eiopa-role-pepp_en

COVID-19 measures

- 17/04/2020: Statement on principles to mitigate the impact of coronavirus/COVID-19 on the occupational pensions sector

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[24] on a quarterly basis and a Financial Stability Report[25] twice a year. The last Financial Stability Report, published in July 2020, showed that as of year-end 2019 the insurance sector had a solid and comfortable capital buffer (median SCR ratio of 213%), which helped insurers to withstand the initial severe market shocks experienced with the Covid-19 crisis. However, a high level of uncertainty on the magnitude of economic disruption increased downside risks going forward, including the preexisiting challenges posed by the prolonged low yield environment. Moreover, the shock has also increased credit risk and corporate sector profitability, resulting in rating downgrades, increased defaults and unemployment. In addition, confinement measures resulted in working from home arrangements, which in turn increased cyber risk and further highlighted the importance of a reliable cyber risk insurance market. Finally, with regard to the pension sector, the report showed that Institutions for Occupational Retirement Provision may be subject to funding and liquidity concerns due to suspended or lowered contributions from sponsors and members.

The main risks identified formed a discussion to further follow up and test resilience of the insurance sector affected by the Covid-19 crisis. The adverse unwinding of the COVID -19 crisis such as a slower than planned recovery of the economy or double dip evolutions is a scenario to be considered for the Insurance Stress Test 2021. The final narrative and shocks will be developed in cooperation with the ESRB taking into account the latest macroeconomic and market developments. The discussion on the scenario at ESRB level assumes to keep the same narrative for both EIOPA and EBA stress test in 2021. This would allow to assess both sectors jointly and reveal possible broader implaications for the European financial sector.

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[24] https://www.eiopa.europa.eu/sites/default/files/financial_stability/risk_dashboard/eiopa-bos-20-516_july_2020_risk_dashboard.pdf published on 17 August 2020. This Risk Dashboard refers to Q1 2020 Solvency II data, based on financial stability and prudential reporting collected from 81 insurance groups and 2488 solo insurance undertakings.

[25] https://www.eiopa.europa.eu/sites/default/files/financial_stability/eiopa-financial-stability-report-july-2020.pdf published on 30 July 2020.

Moreover, based on the recent experience with the Covid-19 outbreak, EIOPA initiated a liquidity monitoring exercise based on the new data submissions recommended also by ESRB. Finally, liquidity risk is considered to be included in the Insurance Stress Test 2021.

Impact of ultra low yields on the insurance sector, including first effects of COVID-19 crisis[26]

The ultra-low interest rate environment remains a key concern for the insurance market, especially in light of the Covid-19 crisis and the increased likelihood of a "low for long" scenario. While European insurers were on average well capitalised at the end of 2019, ultra-low interest rates affect the sector through the balance sheet channel both on the assets and liabilities side, but also through the income channel. Considering that market yields are at very low levels, this might have an impact on insurers' profitability in the medium to long-term horizon. In addition, the combined impact of lower yields and increased market uncertainty due to the Covid-19 crisis has led supervisory authorities across Europe to take measures, allowing for flexibility and unburdening of the industry, at the same time providing guidance and calling for prudence.

The results of this study confirm EIOPA's position published on 2 April 2020 regarding prudence on all discretionary dividend distributions and share buy backs. EIOPA will keep monitoring market developments and the level of uncertainty regarding the pace of economic recovery, market performance, credit outlook as well as a possible increase in claims and, in cooperation with other European supervisory authorities, may issue further communication, if and when, a change in the level of risk is identified.

2019 IORP STRESS TEST

In 2019, EIOPA carried out a stress test on the Institutions for Occupational Retirement Provision (IORPs) and published the corresponding report in December 2019[27]. The IORP stress test assessed the resilience and potential vulnerabilities of the European Defined Benefit (DB) and Defined Contribution (DC) pension sector and was tailored to the specificities of the diverse European pension sector - and its potential impact on financial stability. For the first time, this European stress test exercise covered the analysis of Environmental, Social and Governance (ESG) factors for IORPs.

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[26] https://www.eiopa.europa.eu/sites/default/files/financial_stability/impact-of-ultra-low-yields-on-the-insurance-sector-including-first-effects-of-covid-19.pdf published on 17 July 2020.

[27] https://www.eiopa.europa.eu/sites/default/files/financial_stability/insurance_stress_test/eiopa_2019_iorp_stress_test_report.pdf.

In its 2019 exercise, EIOPA applied an adverse market scenario[28], characterised by a sudden reassessment of risk premia and shocks to interest rates on short maturities, resulting in increased yields and widening of credit spreads. The results show that – on average - the EEA pension sector is better funded in the baseline compared to previous exercises[29]. The majority of IORPs in the sample have taken appropriate steps to integrate ESG considerations in their risk-management and investment allocations, while their preparedness is widely dispersed and seems correlated to how advanced national frameworks were. At the same time, further work will be needed to implement the ambitious objectives of the IORP II Directive and other legislative initiatives. Furthermore, EIOPA employed an extended cash flow analysis, which provided important insights into the stress effects in terms of timing: IORPs' financial situation would be heavily affected in the short term, leading to substantial strains on sponsoring undertakings within a few years after the shock and resulting in potential long-term effects on the retirement income of members and beneficiaries over decades (should the short-term effects become permanent).

Assessing the potential conjoint investment behaviours of IORPs after the stress event, EIOPA observed an expected tendency to re-balance to pre-stress investment allocations within 12 months after the shock. That may indicate counter-cyclical aspects of the expected investment behaviour, yet would also come at a risk.

EIOPA will follow-up on the findings and analyse in more depth the investment behaviour of IORPs, in particular in the persistently ultra-low and negative interest rate environment. To do so, EIOPA will make use of the significantly improved pension reporting from 2020. Going forward, EIOPA wants to further improve its analytical tool set for stress testing IORPs, extending the horizontal approach and with that assessing the common exposures and vulnerabilities of the DB and DC sectors together.

INSURANCE STRESS TEST METHODOLOGY

In 2019 EIOPA initiated a process of enhancing its methodology for bottom-up supervisory stress testing which resulted in the first Methodological Paper setting out the methodological principles of insurance stress testing[30]. Based on a constructive dialogue and feedback received from stakeholders in the preparation of the first Methodological Paper, EIOPA followed the same

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[28] That adverse market scenario was applied to the end-2018 'baseline' balance sheet of a representative sample of European Economic Area (EEA) IORPs. In total, 19 countries participated in the exercise, covering more than 60% of the national DB and 50% of the national DC sectors in terms of assets – in most countries. In total 176 IORPs participated, thereof 99 DB IORPs and 77 DC IORPs.

[29] That is to some extent resulting from the absence of the UK sector from the exercise, which has been facing significant challenges in recent years, and which - due to its sheer size - had dominated previous EIOPA pension stress tests.

[30] https://www.eiopa.europa.eu/content/methodological-principles-insurance-stress-testing_en

approach and published in June 2020 the Second Discussion Paper on Methodological Principles of Insurance Stress Testing[31], with a view of further enriching the stress test toolbox with additional elements to be potentially applied in future exercises. This Discussion Paper is part of a broader process to enhance EIOPA's stress testing framework. In this context, EIOPA will work on specific stress testing related topics such as the assessment of liquidity positions under adverse scenarios, assessment of the vulnerabilities towards climate-related risks and potential approaches to multi-period stress tests.

COVID-19 measures

- 17/03/2020: Statement on actions to mitigate the impact of Coronavirus/COVID-19 on the EU insurance sector covering issues related to business continuity and solvency and capital position
- 02/04/2020: Statement on dividends distribution and remuneration practices recommending (re)insurers to temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders.

[31] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-bos-20-341_second-discussion_paper-methodological-principles-for-stress-testing.pdf

PRIORITIES – LOOKING FORWARD

SUSTAINABLE FINANCE AND CLIMATE CHANGE

EIOPA supports the European Commission's Sustainable Finance Action Plan including the aim to integrate sustainability considerations into the prudential and conduct framework for insurers, reinsurers and insurance distributors[32].

Insurers and pension funds have an important role in mitigating the impact of climate change. 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.

The EU sustainable finance taxonomy from the perspective of the insurance and reinsurance sector[33]

EIOPA has investigated how much investment held by insurers may be eligible to the EU sustainable finance taxonomy. To this aim, Solvency II item-by-item investment data is employed. As part of the Green Deal, the Commission presented the European Green Deal Investment Plan, which will mobilize at least €1 trillion of sustainable investments over the next decade.

Our results suggest that currently only a small portion of the insurer's investments are made in economic activities which might be eligible to the EU sustainable finance taxonomy as the insurer's exposures are mainly concentrating toward financial activities.

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[32] EIOPA welcomed the European Commission's consultation on a Renewed Sustainable Finance Strategy as part of its European Green Deal. EIOPA's response to the European Commission's consultation on the renewed sustainable finance strategy is available at: https://www.eiopa.europa.eu/sites/default/files/publications/consultations/eiopa-20-399_eiopa_answers_to_com_sufi_strategy.pdf

[33] https://www.eiopa.europa.eu/sites/default/files/financial_stability/20203310_thematic-article-eu-sustainable-finance-taxonomy.pdf published on 31 July 2020.

On one hand, this can be interpreted as an indicator of limited exposure to transition risk for the insurance sector but on the other hand also indicates that insurers have the possibility to contribute more significantly to transitioning to a lower carbon society in the future. As major long-term investors, insurers could play a key role in the transition towards more sustainable society. In this respect, the taxonomy can help insurers by providing clarity in identifying sustainable economic activities and avoiding reputational risks.

Climate risk assessment of the sovereign bond portfolio of European insurers[34]

In the first collaboration between climate economists, climate financial risk modellers and financial regulators, we apply the CLIMAFIN framework described in Battiston at al. (2019) to provide a forward-looking climate transition risk assessment of the sovereign bonds' portfolios of solo insurance companies in Europe. We consider a scenario of a disorderly introduction of climate policies that cannot be fully anticipated and priced in by investors. First, we analyse the shock on the market share and profitability of carbon-intensive and low-carbon activities under climate transition risk scenarios. Second, we define the climate risk management strategy under uncertainty for a risk averse investor that aims to minimise her largest losses. Third, we price the climate policies scenarios in the probability of default of the individual sovereign bonds and in the bonds' climate spread. Finally, we estimate the largest gains/losses on the insurance companies' portfolios conditioned to the climate scenarios. We find that the potential impact of a disorderly transition to low-carbon economy on insurers portfolios of sovereign bonds is moderate in terms of its magnitude. However, it is non-negligible in several scenarios. Thus, it should be regularly monitored and assessed given the importance of sovereign bonds in insurers' investment portfolios.

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

[34] https://www.eiopa.europa.eu/sites/default/files/publications/reports/eiopa_dec2019_financial-stability-report-thematic_review_climate_risk.pdf

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.

Issues Paper on resilience solutions for pandemics[35]

Traditional insurance risk transfer mechanisms rely on risk pooling. This does not always work appropriately in the case of events of overwhelming proportion and when risks are highly interconnected, making losses too great a burden to be shouldered by insurance companies alone. In July 2020, EIOPA launched a public consultation on an issue paper presenting a possible approach for improving societal resilience against pandemic (and possibly other catastrophic events) through the development of shared resilience solutions, based on private and public layers. The paper recognises that private insurance solutions alone will not be sufficient to protect society against the financial consequences of future pandemics. Solutions will require both public and private sector involvement, and build on the following four key elements: (1) Proper risk assessment; (2) Risk prevention and adaptation measures; (3) Appropriate product design; (4) Risk transfer.

In June 2020, EIOPA responded to the European Commission's consultation on the revision of the Non-Financial Reporting Directive (NFRD).[36] EIOPA welcomes the initiative to revise the NFRD. The integration of ESG factors can contribute to the long-term sustainability of the investments. To empower sustainable investment opportunities and to enable an effective integration of ESG factors, high quality non-financial reporting is needed. Corresponding non-financial reporting standards shall ensure consistency with the important Disclosure and Taxonomy Regulations and be based on the European Supervisory Authorities' experience to develop technical standards in that area.

[35] https://www.eiopa.europa.eu/sites/default/files/publications/shared-resilience-issues-paper-27july2020_0.pdf

[36] https://www.eiopa.europa.eu/content/eiopa-contribution-public-consultation-revision-nonfinancial-reporting-directive_en

FINANCIAL INNOVATION

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 protect consumers without hindering innovation, including by continued engagement with the consultative Expert Group on Digital Ethics in insurance[37]. Leveraging on the cross-sectorial AI Ethical and Trustworthy guidelines developed by the Commission's High Level Expert Group on AI[38], the Expert Group is expected to provide further guidance to stakeholders from the insurance sector on the responsible use of digital technologies by the end of 2020.

In may 2020, EIOPA took over chairmanship of the European Forum for Innovation Facilitators (EFIF)[39] from the EBA. To date, the 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. Besides thematic discussions about various topics in the broad field of digitalisation (for example on 'Platformisation' or 'RegTech'), EIOPA is in the process of enhancing the visibility of the EFIF within the EU and worldwide, including by reaching out to third countries' authorities. Key to EIOPA is also improving the quality of the discussions within the EFIF by involving data protection authorities.

EU-US Insurance Dialogue Project Big Data working group

EIOPA actively engaged in the EU-US Insurance Dialogue Project's Big Data Working Group (WG)[40], which has been focusing on aspects of the relationship between innovation, technology, and insurance, specifically: (1) the increased use of large data sets (Big Data) by insurers; and (2) the use of data analytics in the insurance sector. The penetration of data-driven technologies is seen in almost every segment of the insurance value chain. New technology that relies on the collection

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

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

[39] 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.

[40] https://www.eiopa.europa.eu/sites/default/files/publications/eu-us-big-data-wg-feb-2020.pdf

and analysis of Big Data is allowing for innovation in the insurance sector in a variety of contexts, including rating, underwriting, marketing, and claim settlement.

Discussion paper on (re)insurance value chain and new business models arising from digitalisation[41]

Technology continues to evolve, bringing new opportunities, social change and new expectations for consumers. In response, insurance undertakings and intermediaries continue to develop and revise their business models, often in increased co-operation with third parties (e.g. BigTech companies, start-ups and insurance platforms and ecosystems), bringing both beneficial innovation and a new set of emerging risks that have to be taken into account.

In this context, a possible fragmentation of the insurance value chain could occur, including, most pertinently, a potential for a reduced regulatory and supervisory 'grip' on the relevant activities in the value chain, or ways in which the 'lengthening' of the value chain 'stresses' existing regulatory and supervisory oversight. EIOPA has conducted public consultation over summer 2020 to get a better picture on possible fragmentation of the European Union's insurance value chain and supervisory challenges related to that. EIOPA is currently analysing the feedback of this exercise in order to plan for next steps.

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 responcive oversight capabilities) if handled right. This also links to questions of interoperability and data availability. In addition, EIOPA is currently 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.

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[41] https://www.eiopa.europa.eu/sites/default/files/publications/consultations/discussion-paper-on-insurance-value-chain-and-new-business-models-arising-from-digitalisation.pdf published in April 2020.

In the context of the analysis performed to answer the European Commission FinTech Action plan and following discussions and exchanges with stakeholders, EIOPA identified the need to develop specific guidance on outsourcing to cloud service providers, which aim to (i) provide clarification and transparency to market participants avoiding potential regulatory arbitrages; (ii) foster supervisory convergence regarding the expectations and processes applicable in relation to cloud outsourcing. This final report[42] sets out the final text of the EIOPA Guidelines on outsourcing to cloud service providers[43], including the feedback statement to the public consultation, the final impact assessment and the resolution of non-confidential comments provided by the stakeholders during the Consultation on the proposal for Guidelines on outsourcing to cloud service providers .

Finally, EIOPA's Board of Supervisors adopted Guidelines on information and communication technology (ICT) security and governance[44], which will be published in October 2020 and implemented as of 1 July 2021. 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.

COMPLETING CAPITAL MARKETS UNION

EIOPA will continue to support the completion of the Capital Markets Union. Increasing coverage of pensions in pillar 2 and pillar 3 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 and hence increase the benefits of the CMU by stimulating investment demand. EIOPA sees benefit in pensions and insurance products that are digitally based. 'Digital first' regimes, or socalled 28th regimes, can help overcome the existing fragmented nature of legislation, lead to harmonised consumer and investor protection rules in Europe, avoid regulatory arbitrage risks and will allow the scaling up of innovative services and products to be distributed cross-border by firms. Furthermore, as part of the Solvency II Review EIOPA assessing measures for insurers' ability to invest over the long-term, taking into account the degree of illiquidity of liabilities.

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42 https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/final_report_on_public_consultation_19-270-on-guidelines_on_outsourcing_to_cloud_service_providers.pdf

43 https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/guidelines_on_outsourcing_to_cloud_service_providers_en.pdf

44 https://www.eiopa.europa.eu/sites/default/files/publications/consultations/guidelines_ict_security_and_governance_12122019_for_consultation.pdf published in December 2019.

ENGAGING WITH STAKEHOLDERS

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[45] – 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, students and academics through speaking engagements and visits. A record of visitors and meetings is published on the Authority's website.

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

COOPERATION AT EUROPEAN LEVEL

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 ECB, ESRB, SMM, SRM, the EBA and ESMA.

European Parliament

EIOPA is for the large part financed by the NCAs (60%) and for the remaining 40% of the total budget by the EU budget. EIOPA is asked to deliver information to the European Parliament, namely to the Committee for Budget (BUDG) and the Committee on Budgetary Control (CONT). EIOPA's Chair holds regular annual hearings, and possible ad-hoc ones, before the Committee on Economic and Monetary Affairs (ECON).

Council of the European Union

EIOPA participates in the Financial Services Committee (FSC) and the Financial Stability Table in the Economic and Financial Committee (EFC-FST) as an observer, and contributes to debates on the assessment of risk in the European financial system and on the state of European financial market integration.

Joint Committee

The Joint Committee is a forum with the objective of strengthening cooperation between the three European Supervisory Authorities (ESAs). Through the Joint Committee, the three ESAs regularly and closely coordinate their supervisory activities to ensure cross-sectoral consistency, in particular regarding: (i) financial conglomerates and, where required by Union law, prudential consolidation, (ii) accounting and auditing, (iii) micro-prudential analyses of cross-sectoral developments, risks and vulnerabilities for financial stability, (iv) retail investment products, (v) cybersecurity, (vi) retail financial services and consumer and investor protection issues.

The ESAs, within the Joint Committee, explore and monitor potential emerging risks for participants in financial markets and the financial system as a whole. The Joint Committee also plays an important role in exchanging information with the European Systemic Risk Board and in developing the relationship between the Board and the ESAs.

European Systemic Risk Board

Cooperation between the ESRB and the ESAs takes place on a:

- Macro-prudential level (interactions among financial institutions): as oversight is not meaningful unless it affects supervision and regulation at the micro-prudential level.
- Micro-prudential level (within individual financial institutions): as supervision and regulation cannot effectively safeguard financial stability without taking account of macro-prudential developments.

One of the ESRB's main objectives is to collect information to identify systemic risks. When fulfilling their tasks of market monitoring, the ESAs must provide the ESRB with all the information necessary for it to fulfil its tasks. The ESRB is also closely involved in the design of the scenarios for the EIOPA stress tests.

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