



eiopa

European Insurance and
Occupational Pensions Authority

WHERE WE CAN WORK TOGETHER: **SIX KEY POLICY** **AREAS TO** CONSIDER

INSURANCE PROTECTION GAP



DID YOU KNOW?



92% OF EUROPEAN CONSUMERS OWN AT LEAST ONE INSURANCE PRODUCT?

Yet, the protection gap (the difference between total and insured losses) is still wide. A considerable number of consumers do not believe they are able to sustain shocks because they do not have access to products, do not understand the contract, or coverage is limited. This gap is worrying, particularly for potentially systemic risks, such as natural catastrophes (NatCat) and cyber incidents. With an ageing population, we should also increase efforts to address the health protection gap.



ONLY AROUND 1/4 OF CLIMATE-RELATED LOSSES IN EUROPE WERE INSURED IN THE PAST?

Between 1980 and 2022, climate-related losses amounted to estimated EUR 650 billion in the EU; these are even higher if one considers climate events in 2023-2024. And Europe is the continent that is warming up the fastest, with global insured losses estimated to double in the next ten years.



CYBER ATTACKS INCREASED END 2022-BEGINNING 2023

While small and medium size enterprises (SME) embrace technological innovation, they still have very limited awareness of cyber risk.



WHAT IS EIOPA ALREADY DOING TO HELP ADDRESS THE PROTECTION GAP?

- › EIOPA developed a European Economic Area-wide [NatCat dashboard](#) which helps identifying risks and develop measures to decrease society's losses in case of a NatCat event. We also studied the behaviour of policyholders to understand the reasons behind the absence of demand for NatCat insurance products. We worked to increase awareness and improve product design for an easier consumer experience.
- › (Re-)insurers can promote adaptation through "impact underwriting": for instance, requiring anti-flood doors or weather alert systems as part of an insurance contract can reduce exposure and losses, improving insurability and affordability.
- › With NatCat becoming more frequent and severe, EIOPA regularly reviews the parameters for the natural catastrophe risk module of the Solvency II standard formula, used to calculate the amount of capital (re-)insurers are required to hold to cover against potential losses.
- › EIOPA also worked on other protection gaps. We introduced a cyber component in our stress test framework and, together with the other European supervisory authorities, i.e. the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA), we are working on the implementation of the Digital Operational Resilience Act (DORA).



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?

DATA

- › To identify risks, notably those of systemic nature, data availability is essential. Building on the dashboard, EIOPA should be required to collect more loss and exposure data, further developing into a [centre of excellence](#) and promoting the use of open source cat modelling and data.

AWARENESS

- › EIOPA has been working on a blueprint for a tool to improve consumers' understanding of NatCat exposures. Creating standards for simple and easily comparable products would also help the consumers in their journey, and overall uptake of insurance.

EXCHANGE OF CYBER INCIDENTS

- › While the NatCat protection gap will remain a priority, other challenges are emerging, including protection gaps related to cyber and health risks. We should support data exchange of cyber incidents reported under different frameworks, e.g. Network and Information Security Directive (NIS 2), DORA, and promote coverage of cyber risks notably among SMEs.

SHARED RESILIENCE

- › Ultimately, to increase insurability and close gaps, shared resilience solutions for systemic risks should be considered. Following up on the joint EIOPA-European Central Bank (ECB) work, these could include public-private partnerships and a ladder approach with losses shared among layers (private sector, Member States, EU).

PENSIONS GAP AND THE CMU



DID YOU KNOW?

20.2% OF SENIOR CITIZENS
(65+, 18.5 MILLION PERSONS) WERE AT RISK
OF POVERTY IN THE EU IN 2022 AND THE RISK
FOR WOMEN IS 35% HIGHER THAN FOR MEN



ONLY 42%
OF EUROPEANS ARE FINANCIALLY CONFIDENT
IN THEIR RETIREMENT

With an ageing population, the pensions gap is growing in Europe, putting pressure on pillar 1 pensions (statutory/public) and calling for strengthening pillar 2 and 3 pensions (occupational/workplace and personal). Increasing pensions savings will also contribute to

the development of the Capital Markets Union (CMU) through retail investment. To this end, sound supervision is key in order to build trust – this holds especially for defined contributions pensions, where the investment risk is entirely born by policyholders.



WHAT IS EIOPA ALREADY DOING TO HELP ADDRESS THE PENSION GAP?



TRACKING AND DASHBOARDS

EIOPA advised on developing pensions tracking systems and pensions dashboards and called for collecting additional data from private pension providers: this would ensure a holistic view across pensions pillars, increase citizens' awareness of their future retirement income and support policy makers to monitor and close the gap.



SAVINGS PRODUCTS

EIOPA also worked on EU long-term savings products, including the implementation of the Pan-European Personal Pensions Product (PEPP), and advised the European Commission on the revision of the IORP (Institutions for Occupational Retirement Provisions) II Directive. Besides, we monitor pensions-related developments in our Consumer Trends Report and provide technical assistance to National Competent Authorities (NCAs) as part of the European Commission DG REFORM Technical Support Instrument.



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?

- › Closing the pensions gap and further developing the CMU requires inter alia an understanding of what kind of EU long-term pensions savings can help broadening participation in capital markets, including of women. The experience with PEPP should inform its possible review and future work to develop any other long-term savings products.
- › Looking ahead, further efforts should be made to develop a European pensions dashboard and pensions tracking systems. Auto-enrolment can incentivize participation in occupational pensions, when compulsory participation is not possible or is already in place. We should also address the reasons behind consumers' inadequate retirement savings, leveraging on digital innovation to facilitate decision-making, promoting financial literacy and ensuring value for money.
- › Finally, we need a convergent EU approach to conduct supervision of personal pensions products, which mostly fall out of the scope of retail legislation like the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-Based Investment Products (PRIIPs) Regulation: extending EIOPA's remit beyond IORP II and PEPP would increase convergence and contribute to gaining consumers' trust.

SUSTAINABLE FINANCE

DID YOU KNOW?



STARTING FROM 2025 EIOPA WILL BE ABLE TO ANALYSE THE FIRST DATA REPORTED BY LARGE INSURERS?

Data reported under the Corporate Sustainability Reporting Directive (CSRD) will pinpoint risks, opportunities and the impact of companies' activities on the environment and people. This additional information will feed into EIOPA's ongoing sustainability work.

WHAT IS EIOPA ALREADY DOING TO PROMOTE SUSTAINABILITY?

- › With the other ESAs, we produced draft Technical Standards on the Sustainable Finance Disclosure Regulation (SFDR) and an Opinion to inform the European Commission's review of the SFDR. We also advised on sustainability claims, and we are working to address the risk of "greenwashing".
- › Besides reporting, EIOPA worked on integrating sustainability in the regulatory and supervisory framework. We are now focusing on the implementation of the recent review of the Solvency II Directive, including work on prudential treatment of sustainability risks and prudential transition plans. Earlier, we set our supervisory expectations on the use of climate change scenarios in (re-)insurers' Own Risk and Solvency Assessment (ORSA).
- › EIOPA runs regular insurance and IORPs stress tests. In 2022, the IORPs exercise focused on climate risk. In addition, EIOPA will run this year a one-off EU wide Fit-for-55 climate stress test, with the other ESAs, the ECB and the European Systemic Risk Board (ESRB).



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?



By further incorporating sustainability risks into both the prudential and conduct frameworks, we can ensure a more resilient and sustainable financial system. EIOPA aims to monitor potential greenwashing risks as well as (re-)insurers and occupational pensions' efforts to mitigate risks and adapt to climate change.

DIGITALIZATION, AI & DATA SHARING



DID YOU KNOW?



INSURERS USE ARTIFICIAL INTELLIGENCE (AI) FOR PRICING, SELLING AND DISTRIBUTING PRODUCTS BUT ALSO FOR CUSTOMER SERVICE AND HANDLING CLAIMS?

According to EIOPA's 2023 market-wide monitoring survey, AI is used by 50% of the respondents in non-life insurance and by 24% in life insurance, and an additional 30% and 39% of respondents expect to use AI in the next three years in non-life and life insurance, respectively.



WHAT IS EIOPA ALREADY DOING TO REAP THE BENEFITS AND MANAGE THE RISKS OF DIGITAL TRANSFORMATION?

- › Data is the backbone of the digital transition and is key for businesses and supervisors alike. It plays a special role in the insurance and pension sectors as it is critical to identify and predict risks.
- › In the policy sphere, EIOPA has been monitoring and engaging on relevant legislative files, including DORA, AI Act, FiDA (Framework for Financial Data Access), ESAP (European Single Access Point) and MiCA (Market in Crypto Assets).
- › EIOPA supports supervisory convergence, encouraging a smart use of data and developing Supervisory Technology (SupTech) systems to collect, extract, and aggregate information from standardized disclosures (PRIIPs Key Information Documents (KIDs)). Together with the other ESAs, we facilitate exchanges among NCAs in the European Forum for Innovation Facilitators (EFIF) and support up- and re-skilling of NCAs through the EU Supervisory Digital Finance Academy.
- › We promote innovation in the interests of consumers, challenging the market to ensure innovation improves services and products. We look at the implications of digitalization and data availability for (re-)insurers, notably in relation to data ethics, financial inclusion and mutualisation (i.e., the basic concept behind insurance: sharing exposure to losses among policyholders, investors and businesses). We published governance principles for AI to ensure an ethical and trustworthy use of AI in the insurance sector.



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?

INNOVATIVE TECHNOLOGIES

We should ensure a sound development of innovative technologies and digital transformation – including AI, data sharing frameworks between market participants and decentralised finance (DeFi) – through guidance, Technical Standards and good practices, as well as supervisory convergence.

DATA

We need standardized, high-quality and available data, which in turn will contribute to the development of a European data eco-system, with EIOPA acting as hub and assisting NCAs through analysis and assessments.

INCLUSION AND DIGITAL ETHICS

Innovation should not come at the expense of financial inclusion. We should bring further clarity on digital ethics and promote convergence on the role of mutualisation.

SHARE TECHNICAL EXPERTISE

EIOPA stands ready to continue to share technical expertise with the European Commission and the Co-legislators in negotiations, notably on FiDA and Better Data Sharing Regulation, when appropriate.

CONSUMER PROTECTION



DID YOU KNOW?

ACCESS TO INSURANCE DIFFERS ACROSS MEMBER STATES, AS WELL AS COVERAGE AND COSTS STRUCTURES OF PRODUCTS



COST OF PRODUCTS DIFFER AS WELL

Differences in coverage and cost structure across Member States reflect most likely differences in the underwriting and distribution of products in Europe. These differences can often result in some consumers not buying insurance as not available or too costly.

Costs of Unit-Linked products range from an average of 0.8% annually in Sweden to 4.9% in Czech Republic.

Credit protection insurance seems to be a highly profitable business for both insurers and banks; however, for every €1 paid in premiums, consumers get as little as 0-40 cents back in claims.



WHAT IS EIOPA ALREADY DOING TO PROTECT CONSUMERS?

- › EIOPA aims to ensure that policyholders are protected equally, irrespective of where they live or buy products, by ensuring that agreed standards are applied in a consistent way across the EU. The core of our approach is to ensure value for money for consumers.
- › Based on market trends analysis, we perform country visits and assess NCAs' supervisory actions in peer reviews. We also challenge NCAs' views to achieve the best consumer outcome.
- › We assess distribution practices through mystery shopping and ensure consumers understand coverage and exclusions through appropriate product disclosures.
- › EIOPA has also been working on value for money and benchmarks, carrying out both internal analysis and providing technical advice to the European Commission and Co-legislators in the Retail Investment Strategy negotiations, when requested.



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?

- › As more consumers invest in capital markets, supervision becomes essential to secure their trust. Within an enhanced and more data-driven conduct of business supervision, we should continue to improve the governance of conduct risks.
- › EIOPA stands ready to continue engaging with the Co-legislators and the European Commission on RIS as well as other relevant files, to ensure the ability to act in the interest of consumers.
- › EIOPA also aims to ensure that insurance products are simpler, easy to understand, and deliver adequate value for money to consumers. Beyond product design, deficiencies in the sales process should also be addressed.

EU SUPERVISION & CONVERGENCE



DID YOU KNOW?



AN INSURER ONLY NEEDS A LICENCE IN ONE MEMBER STATE TO OPERATE ACROSS THE WHOLE EUROPE?

In the insurance sector, companies can operate across borders through freedom of providing services or freedom of establishment. In these cases, the home supervisor (where the insurance company is located) is in general responsible for the prudential supervision of the business performed in the whole Single Market. Out of all the insurance premia written or sold in the European Economic Area, 10.9% is through cross-border services.



IN CASE OF BANKRUPTCY OF AN EU CROSS-BORDER INSURER, CONSUMERS RECEIVE DIFFERENT LEVELS OF PROTECTION ACROSS MEMBER STATES?

If the company fails, depending on the country from where the insurance policy originates and on where the policyholder lives, consumers receive different levels of protection, as Insurance Guarantee Schemes (IGS) are not harmonised in Europe, and are even absent in some Members States. There have been cases (such as Gefion Insurance A/S) where insurance guarantee funds only provided coverage to policyholders residing in their country, leaving policyholders in other countries unprotected. The current unharmonized system results in unjustified unequal treatment of consumers across Member States.



WHAT IS EIOPA ALREADY DOING TO ENSURE SOUND SUPERVISION AND PROMOTE CONVERGENCE FOLLOWING A PROPORTIONATE APPROACH?



SUPERVISORY CONVERGENCE

EIOPA ensures that supervisory standards are applied consistently across the EU, through the implementation of convergence tools – including oversight activities and the use of all supervisory powers available. While progress has been made in supervising cross-border business, heterogeneous approaches still persist. Recent experience showed that, in cross-border cases, the [existing legal powers](#) at EIOPA's disposal are not sufficient to address risks and minimise consumer detriment in an effective and timely manner.



PROPORTIONALITY

Sound supervision should go hand in hand with proportionality. Reporting requirements should be risk-based and minimise burden for the industry, when possible. EIOPA supports the European Commission's objective to reduce the burden of reporting by 25%. We have already contributed to this effort: in the last revision of the Solvency II Implementing Technical Standards, we simplified quarterly reporting for all undertakings, reducing the burden for small and medium size ones, leading to a reduction of around 1000 data points for undertakings without internal models.



WHERE COULD WE WORK TOGETHER IN THE NEXT FIVE YEARS?

- › We should aim to improve the supervision of insurers operating across borders to better safeguard consumer protection and ensure trust in the Single Market. When home NCAs fail to act and policyholder protection is at risk, there should be effective last resort measures in place to protect policyholders. The EU supervisory community via EIOPA's Board of Supervisors should be able to take directly binding decisions to stop consumer detriment immediately.
- › Supervision of large insurance groups should also be enhanced. The market size of groups using internal models is around 53% of gross written premia in the EEA. Establishing Joint Supervisory Teams for large internal model users would reduce fragmentation of supervisory approaches, ensure consistency and promote competitiveness in Europe.
- › A minimum harmonisation of IGSs would help ensure adequate and consistent consumer protection across the EU Single Market.

These ideas will further contribute to the policy dialogue at the EU level and beyond. As an independent authority, EIOPA is prepared to support the Co-legislators (the European Parliament and the Council of the EU) and the European Commission with technical advice in line with its mandate, as appropriate.

Should you need more info, please visit our website or reach out to us.

LEARN MORE



Visit the dedicated webpage:
<https://www.eiopa.europa.eu>

CONTACT US

Westhafenplatz 1,
60327 Frankfurt am Main Germany
info@eiopa.europa.eu

© EIOPA, 2024

Reproduction is authorised provided the source is acknowledged. For any use or reproduction of photos or other material that is not under the copyright of EIOPA, permission must be sought directly from the copyright holders. Photo credits: @AdobeStock.

Neither the European Insurance and Occupational Pensions Authority (EIOPA) nor any person acting on behalf of the EIOPA is responsible for the use that might be made of the information herein.