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## **KEYNOTE SPEECH**

# **INSURANCE AND PENSIONS: LEADING THE FUTURE**



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Ladies and Gentlemen

It gives me great pleasure to welcome you here to our ninth annual conference.

I would like to thank all of our speakers and panellists for promising a day of compelling discussion and debate.

We are here in a new venue this year, and so I would also like to thank Professor Stieglitz and the Frankfurt School of Finance and Management for hosting us.

The theme of this year's conference is leading the future. In the course of the day we will touch on some of the most important issues facing our industry, our citizens and our future.

It is therefore fitting that we find ourselves here in a university. After all, today's young people are tomorrow's leaders. But today's students won't necessarily wait until tomorrow for change to happen, they expect it today.

So young people across the world are taking to the streets, urging leaders to act and to act now. Make no mistake – they are appealing to us, here in this room, to take steps and do something to improve their future.

And since our sector and society are subject to such rapid change, leadership has never been so important.

Put simply, if we want to do right for the next generation, we cannot hesitate. Instead we must lead the future.

And I strongly believe that we have it in our power to make a positive difference. By ensuring that the guarantees made in the past to consumers will be delivered despite the low for long interest rate environment; by adjusting and alleviating the burden of the current regulatory regimes to incentivise simpler, more transparent and cost effective products; by embracing innovation and new technologies while preserving a high level of consumer protection.

As Peter Drucker said, management may be about doing things right, but leadership is about doing the right thing. It is about setting the right tone at the top and following through with action. It is about paying attention, asking

the right questions and finding the right answers. And this is true for all of us, regulators, supervisors, industry and consumers.

So every Friday as young people campaign against the climate emergency, we in this room must ask ourselves how can we show leadership? How can we as industry, and we as supervisors, do the right thing?

Well, in the area of climate change, we can do plenty. And we can do it in a way that is aligned with good risk management practices and client's interests. Because these are real risks not only to the stability of insurers and pension funds business models. It is not by accident that in the last World Economic Forum risk report, from the top five biggest risks that society is confronted with, four are environmental risks.

So, insurers and pension funds have a powerful role in mitigating the impact of climate change. As large investors, you are well-placed to incentivise and engage with business to act responsibly and ensure long-term value creation, playing therefore an important role in the gradual transition to a more sustainable and resilient economy.

Along with other institutional investors, you can play a stewardship role in contributing to climate change adaptation and mitigation. This means you must consider the impact of your investment behaviour on the environment.

To increase resilience to climate change, insurers can also consider the impact of underwriting practices on the environment. Risk mitigation and loss prevention can make a significant difference. The development of new insurance products, adjustments in the design and pricing of the products and the engagement with public authorities, all these should be part of your stewardship activity. And this can be done while maintaining the fundamental principles of sound risk-based pricing.

I very much welcome the leadership of a number of EU insurance groups and pension funds in this area, but more needs to be done and more generally to ensure that behavioural change becomes a reality.

Climate change brings with it increased uncertainty about the frequency and severity of natural catastrophes. At EIOPA, we are paying close attention to the widening protection gap in this area. Because the impact of natural catastrophes on households, businesses, the financial system and ultimately on governments cannot be underestimated.

So we must act now and we must act together. Insurance can contribute much more than currently to manage appropriately this truly resilience gap in our societies. Sound and transparent risk management mechanisms can be built

up using insurance, reinsurance, capital markets and ultimately the state to mitigate the economic impact of natural catastrophes.

We have to better understand the underlying causes of the protection gap across Europe. A first step would be to build a European risk dashboard on natural catastrophes to better inform political decisions on the measures to put in place at national and European level. Finally, this resilience gap should be part of the European Semester discussions between the European Commission and Member States.

Climate change and weather do not stop at the borders: only a European approach will enable us to build sufficient resilience to this threat.

Now we may not see young people out on the streets campaigning about the current financial and economic environment but that does not mean that its impact is any less important.

Consumers holding insurance-based investment products or participating in defined contribution pension schemes see their returns severely affected by the persistent low interest rate environment and insurers and pension providers are increasingly shifting risk to consumers.

People are finding it difficult to build up long-term savings solutions and this is particularly hard for people who are relying on such savings for a solid and secure income in retirement.

So again we must ask ourselves, how can we do the right thing? How can we ensure that current retirees, those people who will retire soon and the younger generation have an adequate income in retirement? No one should suffer because we are too complacent to act.

That's why I believe that in the Capital Markets Union, the demand side must be the next focus so that private savers can benefit from capital markets. In a Savings and Investment Union, Occupational Pensions can and should play an important role. EIOPA stands ready to develop a "blue print" for the implementation of robust defined contribution frameworks including sound auto-enrolment solutions.

So, we all should look for solutions and products that encourage long-term savings.

Like the pan-European personal pension product, or PEPP. I believe that PEPP is an important step in giving European citizens an alternative sustainable product to help close the retirement savings gap. A product where through the design and validation of sound and robust life-cycle and smoothing risk

mitigation techniques it will be possible to deliver better long-term returns to savers and change the European citizen's culture of risk aversion.

As a simple, transparent and standardised product, PEPP should appeal to those people who are reluctant to invest in a complex product. As a portable product, PEPP should suit today's workers who will hold many jobs over their lifetime. As a cost-effective product, PEPP should limit the disproportionate weight of distribution and other costs on the final returns delivered to savers. And, as a digital first product, PEPP should be cost effective to deliver and, above all, accessible.

Because this is what people – and especially young people – expect today. Products that are easily researched and purchased online and services that are available through the touch of a smartphone screen.

Without question, digital technology is rapidly transforming the industry, bringing with it opportunities for providers and consumers alike. We all need to embrace innovation.

But we are also seeing issues linked to fairness and consumers at risk of bias or exclusion.

So at EIOPA we have taken the lead and we have set up a consultative expert group on digital ethics in insurance. This group will assist us in the development of principles of digital responsibility in insurance. We want these principles to have European values at their core: values such as privacy, transparency and non-discrimination. We want to build trust of consumers in innovation. Because digitalisation and digital innovation must not be at the expense of good consumer outcomes.

But our love affair with technology is also leaving us vulnerable to an increasing number of ever more sophisticated cyber-attacks.

So we have to set the standard and develop a sound cyber resilience framework. And this involves a common European approach. An approach that should include cyber insurance as an enabler of the digital single market.

First and foremost, we need to develop a standardised cyber incident reporting framework to allow the sharing of aggregated data, anonymised of course, so that insurers and reinsurers can develop adequate pricing and risk management models.

Furthermore, I believe that we need a European solution to address extreme and systemic cyber risks. And this solution could be thought to include other extreme events like natural catastrophes and terrorism.

Ladies and gentlemen, I said earlier that leadership is about setting the right example. This is especially true for supervisors and even more so for EIOPA.

That's why in EIOPA's supervisory convergence agenda we are assigning a special priority to conduct of business supervision. This is an area where strong leadership is needed. Leadership from the Boards of insurance companies to implement proper product oversight and governance to ensure that certain current practices are eliminated. But also leadership from the Boards of supervisory authorities, making sure that appropriate attention and priority is given to conduct supervision, including to market monitoring, conduct risk assessment and, eventually, product intervention.

We set high standards, because we believe that consumers warrant high standards. But we must also be ready to adapt to change – the types of change that we are talking about today: climate change, the macro economic environment, new technology.

And this is what we are doing with our 2020 review of Solvency II.

Since its implementation, Solvency II has proved an effective framework, so our review will not question the fundamentals. Instead the outcome of this review will be evolution rather than revolution. Beyond the necessary adjustment of the interest rate risk calibration, that was not taken on board by the European Commission in the 2018 review, EIOPA aims for a balanced impact of its proposals.

Last month we launched our public consultation on an Opinion to set out technical advice for the 2020 review of Solvency II. The call for advice covers issues like the review of long-term guarantee measures; the potential introduction of new regulatory tools in the Solvency II Directive, notably on macro-prudential issues, recovery and resolution and insurance guarantee schemes; and revisions to the existing Solvency II framework including in relation to freedom of services and establishment, reporting and disclosure, and the solvency capital requirement.

Through the review, we will also address proportionality, and EIOPA has put forward proposals aiming at a substantial reduction of reporting requirements for undertakings with a low risk profile.

Furthermore, it is my objective to ensure that the review will deliver a more appropriate recognition of illiquidity, both on the valuation of insurance liabilities and on the calibration of asset risks, improving risk-sensitivity, facilitating the design of long-term savings with terminal guarantees and incentivising long-term investments.

But adaptation to change is also what we need in areas like disclosure requirements. The consumer journey with insurance and pension products needs to be adapted to the digital age. A fresh and "out-of-the-box" view to consumers-centric digital distribution and disclosures is needed, focusing in addition to "what" information is provided, also more on "how" information is provided, including how the content is being perceived and used by consumers via their smartphone.

Ladies and gentleman these are big issues that we are facing. They affect not just our industry, but they also affect livelihoods. And not just our livelihoods, but those of the next generation.

These issues therefore demand big responses. And if we want to lead the future, we cannot leave finding the right responses to chance.

Instead we must work together. We must create European responses that rise to the challenge of the issues we are facing.

Responses that protect and responses that empower. Responses that underpin a European economy that works for the people.

The threats that we face do not pay attention to borders. They are indiscriminate in their reach and they are too great to be tackled individually by people, single companies or even individual Member States. We must share our knowledge and pool our expertise to make the risk bearable and to make our response stronger.

So I believe that a strong European approach is the right approach. And, working together, we can also lead the way globally.

That's why EIOPA welcomes last week's adoption of the first global frameworks for supervision of internationally active insurance groups, including a holistic framework for the mitigation of systemic risk and an Insurance Capital Standard.

These developments represent a major step in ensuring an effective supervision of the insurance sector globally, providing a common language and

minimising regulatory arbitrage. EIOPA will continue to play an active role in the implementation of these reforms.

Because if we cannot work together and lead by example, how can we maintain the trust of our policyholders or pension scheme members and beneficiaries. And how can we expect to earn the trust of the next generation.

So I call on all of us today to work together, to think about the legacy we wish to leave behind and to act with the European spirit in mind.

Because I believe that our legacy should be a society that reflects the values upon which Europe is founded. An inclusive society, a prosperous society and a sustainable society. For this generation and the next.

Ladies and gentlemen, to lead the future we need to be courageous enough to adjust our course. Like John Maxwell said: "The pessimist complains about the wind. The optimist expects it to change. The leader adjusts the sails".

Thank you for your time. I trust that you will have an enjoyable day.