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Hidden risks and new horizons: What's next for supervision

Keynote speech, EIOPA Conference 2023

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Ladies and gentlemen

It is a pleasure to welcome you to this year's EIOPA conference. It is the first time that we have held the conference in person since before the pandemic and I must say that it feels good to have you here.

I would also like to welcome our online audience and extend a very warm welcome to all of our speakers. I am sure that you are going to treat us to a day of great ideas, discussions and conversation.

Our theme this year is 'Hidden risks and new horizons' and I feel that it is one that not only captures the state of our world as we know it today – war, political uncertainty, a changing macroeconomic environment and a major transition that needs to happen – but also the business we are in. Insurers are here to help society manage its risk, just as pension providers are there for helping people safe for retirement – and together insurers and pension providers are the long term investors in the EU.

When I think of new horizons, I think of a path winding its way to the horizon. What's behind there? I'm not sure. But I do know that as far as I can see the picture is bright: there is plenty of opportunity, there is visibility and there is responsibility.

It would have been nice if there were no storm clouds on the horizon obscuring views, but just a clear line of sight to the heart of the issue. In such a sunny picture, all the issues will be good.

The reality is of course a bit different.

We are not in tranquil times. We are confronted almost daily with a new crisis. So much so that we could almost say that we are living in a state of permacrisis.

These are the very opposite of ideal conditions for supervisors. Or anyone, really.

But despite this, we – supervisors and also industry – are riding out the storm. Almost getting used to a crisis mode that is constantly needed, but in itself a risk as well.

Our sectors are resilient, sustainable and competitive.

All this is good, but needs to be better.

We wouldn't be supervisors if we didn't want to know more. If we weren't curious about the future. About what's on the horizon. If we didn't ask 'what's next?'

And that's what I want to talk about now. What's next for supervision? What's next for EIOPA?

And there's a reason that we are talking about this now.

Because we see another change on our radar. In June next year, we will have European elections. So we can foresee changes in the European Parliament and at the Commission.

This is an opportunity.

A moment to take stock of where we are, but more importantly, what's around the corner.

It's a moment to look at what has already been achieved and what is needed for the future to continue on the path of a single market and to ensure the competitiveness of the EU as a player in the new geopolitical context.

We set out our first thinking in our strategy, published one year ago. Today, I want to provide a little more substance to our thinking.

Let me start with the core of our business: supervision.

[Supervision]

Our first panel today looks at the vast amount of horizontal regulation that both the insurance and occupational pensions sectors are faced with and how we implement and supervise these regulations – like the AI Act, DORA and so on.

This is very much a new reality for us in terms of regulation. As you will hear in the panel discussion, the effective development, implementation and supervision of cross-sectoral regulation requires consultation, commitment and cooperation between all stakeholders, so that regulation is effective across all sectors.

But what of the existing sector specific regulatory frameworks that we have in place? We are in, I hope, the last phases of the Solvency II review – an evolution not a revolution resulting in some appropriate easing of requirements for long term investments, while hopefully remaining prudent on the mid and short term and indeed resulting in more long term investments in the green transition.

We also submitted our advice on the IORPII review – aiming to protect the legacy while embracing the future, a future that needs to deal with the pension gap we have in Europe, an ageing continent.

These reviews are valuable opportunities to ensure that regulation remains relevant and fit for purpose and that we deal with the risks at the horizon.

But in both cases, it would be a risk to suppose that the job is done.

First of all because with home host becoming more important so is IDD, so is PRIIPS both still minimum harmonisation regulations.

And besides regulation, supervision is also ever-evolving and this is particularly true in the case of European supervision.

We have long moved past the point of having to justify our role. No-one doubts the need for a common approach to supervision, a role for joint European supervision and the number seeing a need for a European supervisor is growing.

And so, in the same way that we asked whether Solvency II and IORP II were fit for purpose in the 2020's— we now ask is the approach we took to supervision 10 or so years ago still is the right approach?

For me the answer is yes...[pause], but...

Yes, we have an insurance sector that is well-capitalised.

Yes, we have an insurance sector that is actively addressing the green and digital transformation.

Yes, we have an insurance sector that is resilient to shocks.

But...

We are also the least integrated sector within the financial industry and we know that.

We talk about competitiveness and long-term investments in the EU, but at the same time we prefer a national perspective in a world that is challenging with geo-political risk on the rise.

And we all know that there are areas where the internal market for insurance isn't working. Areas where it takes too long for supervision to reach.

I am talking, of course, about cross-border business, a normal activity in an EU with an internal market.

More than 10% of gross written premiums stem from cross-border business – a figure that is growing. At a time that the insurance sector is moving away from groups with subsidiaries in several Member States to groups that act on the basis of freedom of services out of one Member State, the absence of insurance guarantee schemes, the malfunctioning of supervisory reach and needs to be addressed.

Malfunctions related to unsustainable business models where the focus is on rapid growth and profit rather than value for money for consumers. Malfunctions where home and host supervisors are poorly coordinated or unable or unwilling to act.

So what should we do?

If we want to champion an insurance sector that is competitive at the international level, where there is a level playing field, where long term investments are increasing, where consumers are protected no matter where they live in the EU or from where they buy insurance products, then I would argue that we need to put the focus on the *European* part of our role.

As a supervisory community, gathered in the Board of EIOPA, we are the European supervisor and as such we need to be able to step in early to resolve issues that cause detriment to consumers and are not solved at the national level.

Up to now, EIOPA has been using the powers that we have to address such cases but too often the outcome is too little and very much too late. We need to change that.

We need to be able to step in when national supervisors cannot or will not stop detriment to consumers. At those moments EIOPA – and with EIOPA I mean my Board consisting of the Heads of 27 national competent authorities and myself - needs to have at least the same powers as national supervisors.

If we want to be a strong competitive industry we need to become more integrated than we currently are.

I know that this change is not something that should or can come overnight. But it is for sure part of the road forward, bringing insurance supervision in our internal market to the next level.

And this is why we will be recommending to the new Commission to ensure that not only the regulatory framework but also supervision itself is and remains fit for purpose for an industry that is responsible for Europe's long term investments at a time that these are crucial for the transition ahead.

[Protection gaps/data]

So let's talk about that transition and about the risks ahead. Allow me to return to the picture I painted earlier, when I said that if all is nice, in the light, all the risks are visible.

In this world, everything is crystal clear for policyholders, for savers, including pension savers--both the coverage they need, and the savings products that offer that coverage.

But we know that in the real world, it is never that clear.

On the one hand, we know from our latest research that 70% of people have some sort of insurance policy or savings product. That should be a reassuring figure, but we know that it is not enough.

Protection gaps still exist. And in Europe they are sizeable.

Only 25% of natural catastrophe losses were insured in the past.

70% of SMEs are not covered for the risk of a cyber attack.

Close to 20% of people are at risk of poverty in old age.

Again, we have to ask ourselves – as we will in today's panel – what can we do to close protection gaps? Are we going to see the grey blob that Sabine just mentioned for what it actually is, a big grey rhino, a real risk.

As you know closing – or narrowing – gaps is a priority for EIOPA.

We have used data to create our natural catastrophe dashboard and inform policy-making, we have investigated issues related to the demand side of insurance, and we have looked at policy options to close gaps for nat cat with the ECB.

But what more should we be considering? Where should we look for solutions?

Without doubt, data is one answer. Data combined with innovation, technology, AI and more. Here lies great potential for our insurance market. Last week the World Economic Forum listed insurance underwriting as the number one profession that will not be taken over by AI but on the contrary augmented by AI.

To bring this further, without increasing the burden of reporting, is the sharing of data between European Supervisory Authorities. This would unlock data that is already available enhancing our ability to combine data, build dashboard and give that back to supervisors and industry.

When it comes to climate change and natural catastrophes, we would also like to be able to collect loss and exposure data and provide open access to data. Indeed, data is vital as EIOPA establishes itself as a centre of excellence for catastrophe modelling.

But while we always advocate evidence-based policymaking, we sometimes have to look beyond the science.

[Protection gaps/understanding]

And here I am thinking specifically about how we reach more people and raise their awareness of the need to protect against risk.

We need to focus on understanding: not just of the product but also of the need.

Financial literacy is one route – and here I would like to thank all our national supervisors for their work on enhancing consumer education. Besides literacy, it would also help if governments are clear on what they can support when it comes to damages and where they expect consumers to find solutions in the private market thereby enhancing the capacity available to deal with damages. And it is important that insurers not only sell their products but also incentivize adaptation and mitigation.

But first, we need to see the gaps. Dashboards and tracking systems are two very powerful tools in raising awareness. The natcat dashboard is proving to be very informing.

And EIOPA also stands by its advice on pension dashboards. And no matter how difficult it might seem to governments, to policy makers, to collect the relevant data, we cannot close the pension gap without accurately measuring it – and for that we need the data in one dashboard. That may take some brave steps of combining social and labour data with ours, but let's be brave and do it. We need the information.

In the same way, we fully support the development of pension tracking systems to provide consumers with an overview of expected income in retirement and to help them make more informed decisions.

And we see merit in looking further at enrolment policies for occupational pensions. We know from Member States that have such enrolment policies that they play an important role in building pension pots.

Finally, we still see merit in PEPP, the Pan European Pension Product. Another example of an EU ambition that will only fly if we really make it European, for example by providing it with the same tax treatment as other pension products in all EU Member States.

When you consider that only 43% of people are confident that they will have enough money for a comfortable retirement, if you consider that in a few decades we only have 1.5 persons working for 1 pensioner, you will understand why we will be recommending further action on all three of these topics to the incoming Commission next year.

So we will take steps to help people understand their needs.

I have just talked about savings and pensions. It is clear that we need to promote the development and uptake of simpler, safer and more accessible products, and we see much potential for this within the Retail Investment Strategy.

In our view, the route is Value for money and benchmarks will contribute to this because – and I will be frank here – having close to one third of consumers believing that their product does not offer them value for money is simply not good enough.

EIOPA is already working on value for money benchmarks for a while, so that we are ready if and when these requirements come into force and will have proposals based on empirical evidence and practical experience.

More retail investors will ensure more capital that is so much needed for the transition. It is through this angle that the insurance and pensions industry can support the EU economy. It is through this angle that also for our industry the realisation of the Capital Markets Union in the near future is essential.

[Conclusion]

Ladies and gentlemen

As you all know, the insurance and pensions sectors play an extremely important role in Europe's economy, as well as having a societal value. Not to mention protection and security they provide to Europe's citizens.

And this is why at EIOPA we are focused both on the risks and the new horizons.

None of what I have outlined today can be done without the support of our Board members or our institutional partners, nor without consultation with our stakeholders.

And none of what I have outlined will happen overnight.

And this is what I believe is a fundamental strength of EIOPA, our ability to put forward the pan-European perspective, having heard all and translating that into an independent advice for the benefit of all policyholders and beneficiaries.

It is not always an easy job, but one that we relish. Because we firmly believe in European solidarity and the mutual support and cooperation among Member States and people that comes with that.

Indeed, our unity is our strength, just as our diversity is our strength.

And so you can be sure that we will continue to strengthen the resilience and sustainability of Europe's insurance and occupational pensions sectors, while also ensuring strong and consistent consumer protection.

Now, that that is what we do, is clear to all in this room, but talking about simplicity and clarity that at EIOPA we always advocate, we must be honest. And in all honesty, I often struggle to explain what we do in plain language. We provide great technical advice, but it is often just that – technical. And it is not only that our advice is very technical, but just explaining what EIOPA does can be a challenge.

But challenges are there to be taken on, for also EIOPA needs to walk to talk. And so we have decided to try to remedy the fact that our kids, our parents, our friends, but also all consumers we work for find it hard to understand what it is we do. Let's improve here!

And so I am pleased to present our new communication explaining just what we do.

It's short, it's simple – and I hope that you like it.

Ladies and gentlemen – thank you very much.