BOTH INSURERS AND SUPERVISORS WILL HAVE TO EVOLVE
INTERVIEW WITH PETRA HIELKEMA, CHAIRPERSON OF EIOPA

ÖSSZEFOGLALÓ

Petra Hielkema az Európai Biztosítás- és Foglalkoztatóinyugdíj-hatóság (European Insurance and Occupational Pensions Authority - EIOPA) elnöki pozícióját 2021. szeptembertől tölti be. Tagsági pozíciót lát el az Európai Rendszerkockázati Testület (European Systemic Risk Board - ESRB) vezetői bizottságában is, valamint a Biztosításfelügyeletek Nemzetközi Szövetsége (International Association of Insurance Supervisors - IAIS) vezető testületében. Ezen kívül az IAIS Fintech Fórum kiemelkedő szereplője. 2022-ben Petra Hielkema tölti be a három európai felügyeleti hatóság (EIOPA, EBA, ESMA) közös bizottságának (Joint Committee) soros elnöki pozícióját. Ezt megelőzően a holland jegybank (DNB) biztosításfelügyeleti igazgatója, valamint az EIOPA legfőbb döntéshozó testületének (Board of Supervisors) helyettes tagja és az EIOPA szakpolitikai bizottságának elnöke volt. Petra Hielkema európai jogi és közgazdasági mesterdiplomával rendelkezik, valamint orosz tanulmányok terén is folytatott mesterképzést. Házas, három gyermek büszke édesanyja.

SUMMARY

Petra Hielkema is the Chairperson of EIOPA and is leading the Authority since September 2021. She is also member of the ESRB Steering Committee and member of the IAIS Executive Committee. Besides that she is the Champion of the IAIS Fintech Forum. In 2022 Petra Hielkema is also chairing the Joint Committee of the three ESA's (EIOPA, EBA and ESMA). Prior to this role she was Division Director Insurance Supervision at De Nederlandsche Bank (DNB, the Dutch Central Bank) and Alternate Member of the EIOPA Board of Supervisors. She was also the Chair of the EIOPA Policy Committee. Petra Hielkema has a European Masters in Law & Economics and a Masters in Russian Studies. She is married and proud mother of three children.

Kulcsszavak: EIOPA, biztosítás, felügyelet
Key words: EIOPA, insurance, supervision

JEL: G22

DOI: 10.18530/BK.2022.1-2.6
http://dx.doi.org/10.18530/BK.2022.1-2.6

BIZTOSÍTÁS ÉS KOCKÁZAT

First of all, we would like to congratulate for your election as a Chairperson of EIOPA. You have started in your new position in last September. May we ask, what are your professional ambitions for the next 5 years in the European supervisory authority?

When talking about EIOPA's aspirations for the insurance and pensions sectors, we have two general areas in mind. On the first level, it is of central importance that we continue to provide a sound and solid base for the sectors we are responsible for. The review of Solvency II, which sets the prudential framework for (re)insurers, is underway and we are pleased that most of our proposals have been taken on by the European Commission. In the same spirit, we are looking forward to reviewing the IORP II framework this year. Making sure that the foundations are right is essential. On top of this, we also need to ensure that current and emerging risks do not go unnoticed and untreated. Topics requiring our attention on this front include sustainable finance, climate change, digitalisation and cybercrime. While posing potential risks, all of these areas also harbour opportunities for the sectors. EIOPA's role here is to strive for a fit-for-purpose regulatory and supervisory environment so that the insurance and pensions sectors can make a difference while duly accounting for risks to keep the consumers of such financial products protected.

Recently EIOPA has organized an increasing number of online public hearing and consultations, which have proved very useful for the industry. Can we expect that this very good practice will become the norm in the future?

EIOPA has always placed a great importance on interactions with stakeholders, be it the industry, consumer representatives or the academia. The dialogues and consultations we have with groups representing different interests have enriched our advice and recommendations as they help us approach the issues at hand from various angles. As you have noticed, we engage proactively with groups impacted by our work in numerous forms such as surveys, consultations, meetings with stakeholder groups or public hearings. Of the latter, we have just had two in rapid succession: one on retail investor protection and another one on the review of PRIIPs regulation, which we organised together with our supervisory partners, the European Banking Authority and the European Securities and Markets Authority. The transparent and proactive attitude we have shown when collecting input and feedback from market participants to end-users is here to stay.

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The whole word is going through a difficult period because of the Covid-19. In your opinion what key lessons learnt from the pandemic in the insurance business?

Indeed the corona crisis has been a challenging and often bleak period. Without wanting to go into predictions on whether we are nearing the end of the health crisis or not, there are a number of conclusions that we can draw when it comes to insurers. The insurance sector has so far weathered the crisis triggered by the pandemic well. This is in no small part thanks to the Solvency II framework that obliged insurers to build up robust buffers. The insurance stress test EIOPA conducted over the last year showed that this strong level of capitalisation helps insurers absorb severe adverse shocks, including in a prolonged Covid-19 scenario, which was one of the pillars of our exercise. Still, the pandemic also shed light on certain protection gaps in fields like natural catastrophes and large-scale cyberattacks that need to be narrowed or bridged in the future. Exclusion and insurability concerns also came to the surface, for example regarding business interruptions or travel. We will continue our analysis to specify the root causes for these gaps, raise awareness among industry participants and discuss how they can be addressed in a risk-based manner. If we managed to close or at least narrow these gaps and steer away from exclusions, our economies and societies would become more resilient.

EIOPA has recently published a report on the application of the Insurance Distribution Directive. In your opinion to what extend has IDD achieved - so far - the declared aim, a higher level of consumer protection? Financial service providers must disclose more and more information, consequently consumers must understand and evaluate more and more information before concluding a saving contract. In your opinion is it possible to shift the focus from the quantity of the information to the quality?

The Insurance Distribution Directive has been in force since late 2018 and its transposition in some Member States took place only over the past year. This limited time span restricted the amount of evidence we could analyse and presented some challenges in coming to a definitive assessment. In addition, during this period, the Covid-19 pandemic and a strong digitalisation push also had a significant impact on the distribution of insurance products, making it difficult to distinguish which effects are due to IDD. That said, preliminary results indicate that the introduction of IDD has had a generally positive impact on how insurance is distributed. It has improved the protection of consumers by introducing a general duty for insurance distributors to act in the best interests of their customers and enabled customers to make more informed decisions. The new rules on the prevention and management of conflicts of interest and remuneration have provided additional consumer protection safeguards. Nevertheless, problematic practices concerning the sale of unit-linked life insurance products and the quality of the demands-and-needs test continue to exist. The IDD has introduced a robust regulatory framework, but, in some instances, we also see scope for going further in providing additional clarifications to facilitate supervisory convergence and effective compliance by insurance distributors with the provisions. The picture, therefore, is positive, but there is room for improvement.

Concerning information requirements, indeed, the amount of pre-contractual information consumers receive has increased over the past few years and can lead to confusion or information overload. Some of this is due to overlapping EU legislative requirements or resulting from a patchwork of different national rules due to minimum harmonisation at the EU level. Nevertheless, we see a real opportunity for changing the approach for the better in this area. We are soon to provide our proposals for the European Commission's Retail Investment Strategy and have identified disclosures as a clear area to be enhanced. Our suggestion is to move towards simpler, more accessible disclosures that promote sensible decision-making by starting from behavioural principles and leveraging digital techniques such as simple dashboards and layering of information.

In the light of EU Retail Investment Strategy there is an increasing pressure for a horizontal regulation for all retail investment products, including insurance, for both distribution and disclosures, where MiFID is used as a benchmark. What is EIOPA's position on this issue, is this legislative direction justified?

Having a sectoral approach to insurance distribution is by and large beneficial as sectoral regulation can cater for certain specificities of the insurance market. However, as mentioned before, the legislative landscape in the European Union is rather diverse, which means that consumers face more difficulty when making investment decisions than they ideally should. More coherence across sectors could bring added value and we are investigating the ways that would help us achieve this. The legislative proposal for the European Commission's Retail Investment Strategy planned for the end of this year as well as the future review of IDD will be opportunities to address this question.

In December EIOPA issued a supervisory statement to outline how supervisory authorities will monitor manufacturers' and distributors' product oversight and governance processes to tackle value for money issues for unit-linked and hybrid products. Is EIOPA planning further steps, in particular with regard to developing a supervisory tool-kit, including a quantitative framework to assess value for money in unit-linked product?

Unit-linked products have been on EIOPA's radar for some time. When they are well-designed and keep consumers' interests in mind, they can provide significant benefits, allowing policyholders to seek higher returns. A number of issues such as product complexity, mis-selling and mismatches between actual returns and customers' expectations nevertheless required us to look closer into value for money risks and develop a comprehensive framework to redress these.

Our supervisory statement covers key components including the monitoring of the pricing process, proportionality with regard to the complexity of the products marketed, adequate testing and a regular review of unit-linked products on the market. Additionally, we also set out our expectations for the supervisory assessment of these products to ensure that customers receive fair value. We have encouraged national authorities to share good and poor practices with the market and the public, which should act as a deterrent against unit-linked products offering poor value for money. We will have to see how these safeguards perform in the future and evaluate if going beyond them would be necessary.

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Insurers are important and strategic partner in the fight against climate change, through their investments, underwriting, adaptation and initiatives. Our readers would love to hear a few words about the objective of EIOPA's pilot exercise on climate change adaptation in non-life underwriting and pricing.

The threat of climate change has been looming on the horizon and with the recent extreme weather events, wild fires, record temperatures and floods we are really starting to "feel the heat." As risk managers and major long-term investors, insurers have a unique opportunity, and if I may say, a moral responsibility as well, to rise to and mitigate the challenges posed by climate change. In the pilot exercise we launched in December 2021, we are specifically looking at two aspects. First, with the help of volunteering insurers, we want to better understand how insurers can integrate climate-related adaptation measures in their non-life products. Secondly, we want to assess whether the prudential treatment we have in place for such products in terms of technical provisions and solvency capital requirements is appropriate. Simultaneously, we are conducting behavioural analyses on the consumer side to understand why people are reluctant to buy certain climate-risk mitigating products that are already on the market. Getting to the core of this is important as climate adaptation measures can reduce both policyholders' physical risk exposure and the amount of insured losses. As such, they can be a key tool in maintaining the availability and affordability of non-life insurance products in the long run.

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The PEPP Regulation becomes applicable as of March 2022. In March 2021, EIOPA launched a survey asking market players whether they intend to offer PEPP, and, should that not be the case what are the reasons for not offering a PEPP. Can we have some information about the outcome of this survey? It would be especially interesting for us to know how far the different financial service providers (banks, asset managers, insurers) are motivated by this new opportunity. What are your expectations, will this kind of product complete or replace the pension product already existing in the member states?

PEPP was born out of a need to address a phenomenon that is particularly affecting Europeans. The population of our continent is by quite some margin the oldest on the planet, having a median age more than twice as that of Africa and being approximately ten years older than any other continent. Average life expectancy in the EU is now above 80 years, but the prospect of living this long should not mean that people can afford, physically or mentally, to work well into their 70s. For a dignified life in old age, we need to save more and we need simpler savings products. PEPP broadens the circle of such products while offering a unique mobility feature across member states of the EU.

Our survey last year showed that there is interest in PEPP. About a third of the responses we received came from the asset management sector, another third from insurers and the rest was split between IORPs and credit institutions, including banks. One in every five respondents said they were considering offering a PEPP. We recently launched another follow-up survey that will close at the end February. I should add however that the success of PEPP won't be determined by the number of providers offering products on the day the regulation becomes applicable. Instead, we have to think longer-term in the overall context of growing the number of available simpler savings products.

Finally, how can you foresee the future of the insurance sector in Europe? Do you forecast some special challenges for the upcoming five years?

Although I do not have a crystal ball to predict the future, it is possible to identify at least some of the challenges that the insurance sector and supervisors will be dealing with in the years to come. If we look at pressing issues beyond the pandemic, digitalisation and climate change are certainly top of the list. We have seen that the pandemic has accelerated a shift towards digital solutions in all segments of our lives, including in insurance, and this trend will not reverse or tail off anytime soon. In the process of this digital transformation, new insurance products will emerge that will require a broader skillset from insurers and supervisors alike. The use of artificial intelligence, the treatment of cyber risks also through underwriting, the spread of open insurance and the possible of entry of "big tech" into financial services are just some of the elements to consider here. Regarding climate change, which is another interdisciplinary area, the industry needs to get a better grasp of physical and transition risks, integrate these in their assessments and start offering new, affordable products that will enable us to create a more resilient society.

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The fact that these new risks are now part of the various topics to manage is another challenge in itself. In the face of this, both insurers and supervisors will have to evolve. As for our part, we envision a strengthened, more effective and more convergent supervisory framework in Europe.