INTERVIEW

LOOKING AHEAD

Petra Hielkema took up her five-year term as the Chairperson of the European Insurance and Occupational Pensions Authority (EIOPA) last September. Prior to this, she was director for insurance supervision at the Dutch central bank, where she was responsible for the prudential supervision of the Dutch insurance sector. Now, after six months in the job, she looks to the future and what's needed in the sector.

INTERVIEW BY
JENNIFER BAKER

2022 will be the decisive year for the review of Solvency II. How do you assess the EU Commission's proposal for the review as we have currently on the table?

'Indeed, a very important year for Solvency II, and I think we're off to a good start. Because overall, we at EIOPA like the proposal that the Commission has put on the table. Specifically, we're very happy with the proposal to develop an Insurance Recovery and Resolution Directive. And also to include a macro prudential perspective in Solvency II. It was one of the three ambitions we had, and we're happy to see that back in the proposals of the Commission. Moreover, we're pleased with some of the sustainable finance items that are now introduced in Solvency II. They were already there in the renewed sustainable finance strategy of the Commission, but they will now also find a place in insurance supervision through the Solvency II review which we welcome.

Maybe there are also some concerns in the Solvency II proposal as it stands now, I think in particular we very much miss wording on an IGS - insurance guarantee scheme, which we feel is very important to have. If you allow through passporting, the sale of insurance products through the entirety of Europe to all European consumers, then we would expect that those consumers are protected equally. And in the absence of a minimum harmonised insurance guarantee scheme, that is currently not the case. Finally, in the core role, as prudential supervisors, we do have some concerns with the proposals on pillar one. In general, we feel that indeed, there is room for long-term investment, to look at the possibility to adjust the capital requirements a bit in >

PETRA HIELKEMA

order to also enable those long-term investments and recognise that long-term character. However, the current proposals in scope go way beyond long term, and that is a concern. But we stand ready to discuss that with the political level in the year to come.'

The Actuarial Association of Europe and many national actuarial associations see problems in the new extrapolation method for the yield curve. Why does EIOPA want to make a profound change here?

'That's a good question and it's something we discussed a lot. You have to keep in mind the way the Solvency II framework was developed and all the delays between 2012 and 2014, and then only introduced in 2016. Now in those times the market, the economic environment, was completely different than what we see now. We even see negative interest rates. Even now with a new environment, developing with inflation rates, still, the yields are very low. And what we wanted is a reflection in the framework of that economic environment. So we have proposed a slight adjustment to the extrapolation to actually reflect that these low yields are a reality that, particularly if you have products that are very long term, that are guaranteed, they have become more expensive. Now, the way we do that, I think is not a revolution, it's an evolution. But it is a slight adjustment and overall, I think it's an improvement of the framework that in the end has to provide reliability and robustness.'

You spoke in favour of integrating sustainability risks into Solvency II. How do you envisage this in detail?

'Well, what we see is that in Autumn 2021, in the proposal that was done by the Commission,

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they actually add two things to what we already have. And what we end up with is the ability to ask insurers to include sustainability risks in pillar two. What we now see is two additional changes to the framework proposed. The first one we welcome it's a recalibration, a reassessment, of the natural catastrophe (Nat Cat) risk module every two years. I think that's fair. We are looking into Nat Cat, of course, but I think given the fact that this is very much developing, and we're getting more and more data, it absolutely makes sense to revisit natural catastrophe risk module, look at it and assess if it's still appropriate every two years. So I think that's an important change.

A second important change – and I think, still a challenge for ourselves – is that we've been asked to assess whether or not risk differentials will be appropriate in pillar one. In other words, should there be a green or a brown factor in pillar one? Now in 2018 EIOPA has shown that we can do such an assessment and then conclude that based on the evidence we have, we do not see any appropriate reason to make changes to the framework. We often get the question, will you be doing such an assessment evidence based? Yes, we will. And we will only propose changes if we see the evidence in the data. We will not limit ourselves by doing that assessment only on the asset side, but also look at underwriting, for insurance also has a very important role, I would say in sustainability, as an underwriter of society's risk. I think all in all, it's a good addition to our framework, it reflects the risks that are there. But, let me say it again, it's done in an evidence-based, risk-based manner.'

Well, I know that you have in the past expressed concerns about the sustainability of the European pension system because of the demographic change. Tell me a little bit more about your pension dashboards and tracking services and how they will address this?

'Yes, so in the second half of last year, we actually came out with two pieces of very well written advice to the Commission on a pension tracking system and a dashboard. These are both tools that can help member states to assess where and whether they have a gap in the savings for pensions for their population. The first one, the pension tracking system is actually an individual tool. The idea is that every citizen can go online to the tool, and then gets an overview of what he or she has saved so far. And what that means for the future in all three pillars of pension – so in the public pensions, in the pillar two - occupational pensions, but possibly also independent free pensions saved through insurance products. And with that we hold that people get inside in possible gaps they have and take action going forward.

The same holds for the dashboard, which is actually for the member state. It gives an overview at the national level of where the member state itself is with its saving for later. We feel both tools are very much needed. And we look forward to hearing from the Commission on how to go further now that they have received our advice. Because the numbers show that one in five European citizens is currently not saving enough for retirement. And that indeed is a concern to us.'

Another element is the Pan European Personal Pension Product (PEPP), which has so far met with little response. According to your analyses, what is the reason for this and how can the situation be improved?

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developed, and in spring it will come to life. What we have done is we have asked asset managers, insurance undertakings, banks, institutions that provide occupational pensions, if they are planning to actually offer a PEPP? We received 167 responses from 19 countries, and one third of the respondents came from asset management, one third came from insurance, and 10% came from banks and according to this survey, 18% – 30 respondents – said they would offer a PEPP. 31 respondents were still considering it, and 51 said they were not planning to offer a PEPP.

Now, that survey is two years old, so we're currently doing another survey to see where we are, but I think it's too early to have any conclusions on whether or not it will be a success. Having said that, I do hope it will be a success because I think it adds to the choice for consumers on how they want to save for their pension. It's a product that, if offered, helps people to save for later in addition to what they already do. So it could fill a gap, but it also enables people if they work in several member states to bring their pension with them. And it is open to anyone: people who are self-employed or people who change job quite often. This product will just be a stable product that they constantly save into whichever job they have, whichever member state they work in. As such, I do hope it's a new feature in the market for saving for later. And I very much hope it will be picked up because I do think it adds value.'

Well, finally, EIOPA recently presented its seven sustainability objectives. What contribution can the insurance industry make to achieve the EU's 'Fit for 55' target?

'The Fit for 55 has this target of at least 55% emission reduction by 2030. It's very ambitious. But moreover, it is very necessary. And I think we are working at EIOPA, but I do see also in industry, working very hard to support it. That's the first point. I also think we need to be conscious of our own operations, insurers have to be conscious of their own operations and how sustainably they operate in a world that really needs companies to think about that. What is the impact of the decisions an insurer and pension fund makes on the environment? And at the same time, what does climate change do from a risk perspective with their own balance sheets, and in the case of insurers, also with their liabilities?
Now, particularly for insurers on the liability side, there is an even bigger opportunity to support this transition. When offering insurance, recommendations or even conditions could be made that will facilitate or incentivise a transition to more sustainable ways of operating a business that wants insurance or behaviour of consumers. How EIOPA is in practice supporting this is that, for example, we are now conducting a pilot exercise with a lot of insurers volunteering, and assessing how difficult or not difficult it actually is to underwrite these risks, particularly in the field of climate change. For example, with the disastrous flooding in Germany, Luxembourg, Belgium, Netherlands, we saw that only 30% – a little bit less even – of consumers in Germany had taken out cover, and that was available to deal with the damages of this flooding. So why did they not do that? Are other products needed? And how can insurers underwrite these risks? We're assessing all this, on one hand with the insurers, but also on the other hand, in a behavioural study with consumers. We hope to present the results before summer. And we hope that all this will feed into the discussion on how, through incentivising through adaptations, we can actually make the transition to a more sustainable economy.'