BIPAR-on another note

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European Federation of Insurance Intermediaries

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1. Commission replies to second Parliamentary question related to Covid-19 and insurance

As reported in the BIPAR Update of 15 January 2021, some Members of the European Parliament tabled parliamentary questions to the European Commission. The Commission has responded to another parliamentary question with regard to Covid-19 and insurance, namely the question by Italian (ID - Identity and Democracy Group) MEP Angelo Ciocca with regard to lower insurance premiums.

He had asked the Commission: *"In 2020, lockdown has drastically reduced the number of accidents, bringing insurance companies an undeniable economic benefit. In Italy, the number of road accidents fell by 72% in March and 85% in April, while in the latter month Europe recorded an average of 36% fewer road fatalities.*

As a result, the insurers have not had to pay out on large number of expected claims, and also have cash reserves in the form of all the overstated premiums already paid by insured persons. Premiums are calculated on the basis of 12 months' normal use of a car, and take no account of months of lockdown during which vehicles have stood idle.

Although some insurance companies are already offering discounts when policies are renewed, this is certainly not happening industry-wide. Given the economic problems faced by many families in Italy and throughout Europe, and the windfall enjoyed by insurance companies, can the Commission answer the following questions:

1. *What measures will it take to bring about a reduction in insurance premiums?*
2. *How does it intend to verify that premiums are being lowered consistently by all European insurance companies?*

Commissioner for Financial Services, Financial Stability and CMU, Mrs. McGuinness, replied as follows, again referring to the 5 February roundtable in which BIPAR participated and to last summer's best practices:

In May and June 2020, the Commission organised two roundtables with EU-level representatives of financial services, businesses and consumers to identify suitable relief measures that banks, non-bank lenders and insurers could offer to their clients to alleviate the financial hardship caused by the COVID-19 crisis.

On 14 July 2020, roundtable participants agreed on a set of best practices and they committed to encourage financial institutions to follow the measures on a best-effort basis, in accordance with EU legislative requirements, including competition law, and without prejudice to regulatory obligations and supervisory expectations.

In light of the reduced use of cars during 'lockdown', insurers were explicitly encouraged to adjust insurance tariffs to reflect changes in cost and risks as well as claims on insurance during the pandemic, taking into account the overall period of cover and giving due consideration to company and national circumstances.

The Commission held a third roundtable meeting with stakeholders on 5 February 2021 to take stock of how relief measures were applied and to identify further ways of helping consumers and businesses in the context of the ongoing pandemic.

On that occasion, the Commission encouraged insurers to consistently reassess insurance products and tariffs to account for changes in consumer habits and risks that may persist beyond the pandemic, and in the medium term. As a follow up to the roundtable, the Commission will continue to work with stakeholders to assess how further help can be offered to businesses and consumers.

In line with the EU legal framework regulating insurance services, the Commission cannot impose particular requirements on the pricing of risks within insurance contracts.

2. Sustainable Finance - EIOPA Advice on insurers' key performance indicators on sustainability for non-financial reporting

The European Insurance and Occupational Pensions Authority (EIOPA) submitted to the European Commission its Advice on the mandatory sustainability disclosure of insurers' and reinsurers' key performance indicators within the scope of the Non-Financial Reporting Directive.

According to EIOPA, relevant, comparable and reliable information on the taxonomy-alignment of financial market participants is decisive for the promotion of the EU's Green Deal and the allocation of capital to economic activities that foster environmental goals.

EIOPA proposes requiring **two most relevant key performance indicators** on sustainability that depict the extent to which:

- the insurer or reinsurer carries out taxonomy-aligned activities - in terms of **non-life gross premiums written**
- the insurer or reinsurer is funding or financing taxonomy-aligned economic activities - in relation to **total investments**

EIOPA considers that these key performance indicators on sustainability provide relevant information to financial markets, depicting fairly the insurers' and reinsurers' business models, underwriting policies and investments, and allows for comparisons with other financial sectors and non-financial undertakings.

Regarding insurers' and reinsurers' investments, the ability to assess the extent to which those assets are funding or financing economic activities regarded as environmentally sustainable (Article 3 of Taxonomy), EIOPA acknowledges that some risk coverages link to taxonomy-relevant activities. For example, insuring against the losses stemming from natural catastrophes, which may mitigate the effects of climate change and support the adaptation to climate change. Here, one could distinguish between the impact of the climate related risks on the policyholder and the impact of the policyholder's activities on the environment. Regarding the former, the insurer can reduce the losses stemming from climate change related natural catastrophes otherwise borne by the policyholders. Regarding the latter, the insurer could actively mitigate the effects of climate change and support the adaptation to climate change through the pricing and through potentially positively impacting policyholders' behaviour towards environmentally sustainable economic activities.

Further, some insurers offer services and products that are not directly insurance activities, yet may enable taxonomy-relevant activities, through building up knowledge and methodologies to assess climate change risks. Such services, for example consultancy services on preventive measures that may be taken by the policyholders, have been reported by stakeholders to be immaterial at this point in time, yet could be reflected in a disclosure of expenditure in relation to preventive measures, which could complement, on a voluntary basis, the mandatory ratios.

Background

EIOPA had published a consultation on its Advice to the European Commission specifying what information should be presented and how by (re)insurers subject to the Non-Financial Reporting Directive (NFRD), as stipulated in the Taxonomy Regulation (Article 8). Please see also the BIPAR update sent on 7 December 2020.

It should be reminded at this point that the Taxonomy Regulation was published in the Official Journal of the EU on 22 June 2020 and entered into force 20 days later. It will start to apply gradually from January 2022 for the first two environmental objectives. Also, the NFRD covers within its scope large public-interest companies (large- listed issuers, large banks, large insurers) with more than 500 employees and requires them to include a non-financial statement as part of their annual public reporting obligations.

Article 8 of the Taxonomy Regulation requires undertakings covered by the NFRD to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. For this purpose, Article 8(2) of the Taxonomy Regulation requires non-financial undertakings to use three key performance indicators (KPIs), namely the proportion of their turnover, their capital expenditure (CapEx) and their operating expenditure (OpEx) related to environmentally sustainable activities. Article 8 does not specify any KPIs to be used by financial undertakings.

Article 8(4) of the Taxonomy Regulation requires the Commission to adopt a delegated act to supplement the above obligations by specifying the content, presentation and methodology of the information to be disclosed by both financial and non-financial undertakings subject to the NFRD. With its advice, EIOPA responds to a Call for Advice, addressed to the three European Supervisory Authorities to support the European Commission's work on developing such a delegated act.

3. Sustainable Finance - ESMA Advice on asset managers' key performance indicators on sustainability for non-financial reporting

The European Securities and Markets Authority (ESMA) submitted to the European Commission its Advice under Article 8 of the Taxonomy Regulation, which covers the information to be provided by non-financial undertakings and asset managers to comply with their disclosure obligations under the Non-Financial Reporting Directive (NFRD).

ESMA's proposals focus on how to further specify the three Key Performance Indicators (KPIs) set out in Article 8(2) of the Taxonomy Regulation for non-financial undertakings and those provided by asset management companies that fall within scope of the NFRD:

- **Non-financial undertakings** – the proposals set out the definitions that should be used for the calculation of the turnover KPI, the CapEx KPI and the OpEx KPI. These are complemented with the minimum information that should accompany these disclosures and the methodology, including the level of granularity, for the reporting of the three metrics; and
- **Asset managers** – the proposals set out the KPI that asset managers should disclose, the methodology to be applied to that KPI and recommendations for the development of a coefficient methodology to assess Taxonomy-alignment of investments in investee companies that do not report under the NFRD.

ESMA also proposes that non-financial undertakings and asset managers use standardised templates for their reporting under Article 8 of Taxonomy in order to facilitate comparability of these disclosures and enhance their accessibility to investors that will reuse this information.

Background

ESMA had published a consultation on its Advice to the European Commission specifying what information should be presented and how by asset managers subject to the NFRD as stipulated in the Taxonomy Regulation (Article 8). Please see also the BIPAR mail sent on 16 November 2020 and the background above.

4. Sustainable Finance - EBA Advice on credit institutions' and investment firms' key performance indicators on sustainability for non-financial reporting

The European Banking Authority (EBA) submitted to the European Commission its Advice under Article 8 of Taxonomy Regulation, which covers Key Performance Indicators (KPIs) and related methodology for the disclosure by credit institutions and by investment firms of information on how and to what extent their activities qualify as environmentally sustainable, as prescribed under the Non-Financial Reporting Directive (NFRD).

In its advice, the EBA underlines the importance of the green asset ratio (GAR), supported by other KPIs, as a key means to understand how institutions are financing sustainable activities and meeting the Paris agreement targets. The EBA elaborates on the KPIs that institutions should disclose, on the scope and methodology for the calculation of those KPIs, and on the qualitative information they should provide. In addition, the EBA includes some policy recommendations to the Commission to put in place means to facilitate institutions' disclosures and the eventual extension of the KPIs to all relevant assets, including sovereign and central banks' exposures.

The main KPI proposed is the GAR, which identifies the institutions' assets financing activities that are environmentally sustainable according to the EU taxonomy, such as those consistent with the European Green Deal and the Paris agreement goals. Information on the green asset ratio is supplemented by other KPIs that provide information on the taxonomy-alignment of institutions' services other than lending and investing. The EBA has also integrated proportionality measures that should facilitate institutions' disclosures, including transitional periods where disclosures in terms of estimates and proxies are allowed.

Background

EBA had published a consultation on its Advice to the European Commission specifying what information should be presented and how by credit institutions and investment firms subject to the NFRD as stipulated in the Taxonomy Regulation (Article 8). Please see also the background above.

5. Anti-Money Laundering - EBA consults on changes to its Guidelines on Risk-based AML/CFT supervision

The European Banking Authority (EBA) launched a public consultation on changes to its Guidelines on Risk-Based Supervision of credit and financial institutions' compliance with anti-money laundering and countering the financing of terrorism (AML/CFT) obligations. The proposed changes **address the key obstacles to effective AML/CFT supervision** that the EBA has identified during its review of the existing Guidelines, including the effective use of different supervisory tools to meet the supervisory objectives. The Guidelines are central to the EBA's mandate to lead, coordinate and monitor the EU financial sector's fight against money laundering and terrorist financing.

The Guidelines on risk-based AML/CFT supervision were originally published by the European Supervisory Authorities (ESAs) in 2016 and set out steps that competent authorities should take to ensure compliance by credit and financial institutions with their AML/CFT obligations. Since their publication, the EBA has observed that supervisors across the EU were finding the implementation of the risk-based approach to AML/CFT supervision difficult, which meant that AML/CFT supervision was not always as effective as the legal framework set out in Directive (EU) 2015/849 (AMLD) and the ESAs' Guidelines had envisaged.

The EBA proposals aim to include **practical step-by-step approaches to addressing those aspects of AML/CFT supervision that competent authorities have found particularly challenging**. The revised Guidelines will focus on helping the supervisors identify and manage ML/TF risks more effectively, including the risks that may arise from **de-risking practices** in some sectors or Member States by providing **greater detail on ML/TF risk assessments** and by requiring to develop a robust supervisory strategy and plan that are based on those risk assessments.

The Guidelines also set out how supervisors can choose the most effective supervisory tools to support different supervisory needs and objectives and stress the importance of cooperation between different supervisory authorities, and between supervisors and other stakeholders, such as Financial Intelligence Units and financial institutions. In addition, the Guidelines emphasize the importance for supervisors to develop a good understanding of **ML/TF risks associated with tax crimes**, which may involve a cooperation with tax authorities in their Member State.

Once implemented, the original risk-based supervision Guidelines will be repealed and replaced with the revised Guidelines. The deadline for the submission of comments is 17 June 2021.

The EBA will also hold a virtual public hearing on the draft Guidelines on 22 April 2021 to which BIPAR will participate. Please let us know whether you have any comments regarding these EBA draft Guidelines.

6. ESMA's Trends, Risks and Vulnerabilities Report

On 17 March 2021, ESMA published this year's first Trends, Risks and Vulnerabilities Report. The report analyses the impact of COVID-19 on financial markets during the second half of 2020 and highlights the increasing credit risks linked to significant corporate and public debt overhang, as well as the risks linked with investments in non-regulated crypto-assets.

Regarding crypto-assets, ESMA refers to the ESAs' February 2018 joint warning, and to the European Commission' legislative proposal for a regulation on markets in crypto-assets from September 2020, (which is however not yet adopted and therefore does not offer any protection yet for consumers).
In its risk analysis, ESMA provides five in-depth articles:

- **Vulnerabilities in money market funds**
- **Fund portfolio network, a climate risk perspective**
- **Stress simulation in the context of COVID-19**
- **54,000 PRIIPs KIDs - How to read them (all):** European retail investors now receive more information than ever, and it can be challenging both for investors and supervisors to properly exploit and assess all this information.
- **ESG ratings:** this article describes the market for ESG ratings, including types of ratings and key providers, and presents several use cases.

The ESMA report can be accessed here.

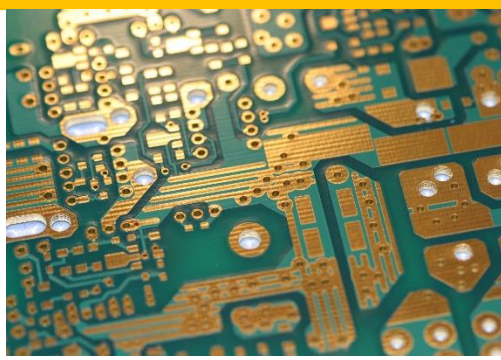
7. EU Digital compass

On 9th March, the European Commission published a Communication on its *"vision, targets and avenues for a successful digital transformation of Europe by 2030".* This Communication builds on the Commission's digital strategy of February 2020. The Commission proposes a **Digital Compass** to translate the EU's digital ambitions for 2030 into concrete terms. They evolve around **four cardinal points:**

1. **Digitally skilled citizens and highly skilled digital professionals**
   By 2030, at least 80% of all adults should have basic digital skills, and there should be 20 million employed ICT specialists in the EU – while more women should take up such jobs.

2. **Secure, performant and sustainable digital infrastructures**
   By 2030, all EU households should have gigabit connectivity and all populated areas should be covered by 5G; the production of cutting-edge and sustainable semiconductors in Europe should be 20% of world production; 10,000 climate neutral highly secure edge nodes should be deployed in the EU; and Europe should have its first quantum computer.

   The Quantum revolution in the next decade will be a game changer in the emergence and use of digital technologies. Examples of possible applications include:
   a. **Health:** Quantum computers will enable faster and efficient development of medicines such as simulating a human body ("digital twin") to conduct virtual drug trials, develop personalised cancer treatments; much faster genome sequencing etc.
   b. **Increase security of communication and data transfers**: Quantum secured communication systems can safeguard sensitive communications, online voting systems, and financial transactions, ensure the long-term storage of sensitive health and national security-related data, and keep critical communication infrastructure safe.



3. **Digital transformation of businesses**
   By 2030, three out of four companies should use cloud computing services, big data and Artificial Intelligence; more than 90% SMEs should reach at least basic level of digital intensity; and the number of EU unicorns should double.

4. **Digitalisation of public services**
   By 2030, all key public services should be available online; all citizens will have access to their e-medical records; and 80% citizens should use an eID solution.

The Digital Compass sets out a robust joint governance structure with Member States based on a monitoring system with annual reporting in the form of traffic lights. The targets will be enshrined in a Policy Programme to be agreed with the European Parliament and the Council.

Multi-country projects
To better address gaps in the EU's critical capacities, the Commission will facilitate the rapid launch of **multi-country projects**, combining investments from the EU budget, Member States and industry, building on the Recovery and Resilience Facility and other EU funding. Possible multi-country projects include a pan-European interconnected data processing infrastructure; the design and deployment of the next generation of low power trusted processors.

Digital Rights and Principles for Europeans
The Commission proposes to develop **a framework of digital principles**, such as access to high quality connectivity, to sufficient digital skills, to public services, to fair and non-discriminatory online services – and more generally, to ensure that the same rights that apply offline can be fully exercised online. These principles could be enshrined in a **solemn, inter-institutional declaration** between the European Parliament, the Council, and the Commission.

The adoption of the Communication will be followed by structured consultation on the targets and compass and by an open consultation on digital principles. Building on this wide consultation, the Commission aims to achieve decisive progress with the other institutions on a Declaration of Digital Principles by the end of 2021 and propose a Digital Policy Programme operationalising the Digital Compass in the third quarter of 2021. Finally, the Commission intends to carry out an annual Eurobarometer exercise specifically dedicated to monitoring the perception of Europeans regarding the respect of their rights, values and aspirations online.

8. ESMA selects candidate for Executive Director position

On 12 March 2021, ESMA, the EU's securities markets' regulator, announced it selected **Mrs. Natasha** Cazenave as its candidate for the position of ESMA Executive Director. The ESMA Board of Supervisors will appoint the candidate following confirmation by the European Parliament, with the confirmation process expected to take place in the coming weeks.

Mrs. Cazenave is currently Deputy Secretary General and Head of the Policy and International Affairs Directorate at the French financial regulator, *Autorité des Marchés Financiers* (AMF).

Once confirmed, she will replace Mrs. Verena Ross, who has now served the maximum term allowed under the ESMA Regulation and who steps down on 29 May 2021. As a reminder, Mrs. Ross is one of the shortlisted candidates for the position of ESMA Chair, with the current ESMA chair, Steven Maijoor, set to step down on 31 March 2021.

The incoming Executive Director will be appointed to serve a five-year term, renewable once.