GIS CONFERENCE 2023

Insurance Supervision In A World In Transformation

Executive Summary

The 8th Conference on Global Insurance Supervision, held on September 6 and 7, 2023, brought together a diverse group of stakeholders from over 30 countries, fostering insightful discussions on the most pressing matters within the insurance industry. The agenda covered a wide array of topics, ranging from the ever-growing concern of cyber threats and the escalating complexities of climate and geopolitical risks to the intricacies of regulatory frameworks. Furthermore, it delved into the evolving role of insurance in the context of a rapidly changing global macroeconomic landscape.

One of the central themes that resonated throughout the conference was the global paradigm shift towards risk-based supervision. This shift reflects the insurance sector's growing recognition of the need for a more adaptable and dynamic approach in response to increasingly intricate and fluid risk environments. It highlighted the importance of supervisory bodies worldwide embracing this approach to ensure the ongoing stability of insurance and financial markets.

The conference also discussed the role of insurance in bridging protection gaps, especially in the face of emerging risks such as climate change. Experts emphasised how the insurance industry can significantly contribute to enhancing societal resilience, highlighting the necessity of collaborative efforts between regulators, insurers, and other stakeholders to effectively close these protection gaps.

In addition, the event explored the impact of innovative business models and new insurance products, which are reshaping the insurance landscape. Discussions encompassed digitalisation, artificial intelligence, and generative AI, among other innovations. The conference revealed the challenges and opportunities these innovations bring, emphasising the importance of regulatory frameworks that can both foster innovation and safeguard consumer protection.

The conference ultimately served as a vital platform for robust dialogue and knowledge exchange among regulators, supervisors, industry leaders, and academics. This collaborative environment underscored the immense value of collective efforts in addressing the multifaceted challenges facing the insurance and financial industries.

***

The conference featured the exceptional work of a graphic recorder who visually captured the key insights and discussions in real-time. This artist's graphical recordings, now available online, provide a dynamic and engaging way to revisit the conference's highlights.

EVENT REPORT

TABLE OF CONTENTS

GIS CONFERENCE 2023 - DAY 1

1 WELCOME & INTRODUCTION: THE GLOBAL SHIFT TO RISK-BASED SUPERVISION

The first day of the GIS Conference 2023 kicked off with a warm welcome and introduction by Petra Hielkema, Chairperson of the European Insurance and Occupational Pensions Authority (EIOPA). Annette Weisbach, the master of ceremony for the 8th conference, set the stage for a day of discussions centred around the role of insurance in closing protection gaps and the impact of innovative business models on the future of insurance and its supervision. The discussions highlighted the need for adaptability, resilience, and collaboration among stakeholders to address the challenges and opportunities presented by this changing environment.

The Role of Insurance in Closing Protection Gaps
One of the key takeaways from the conference was the essential role that insurance plays in enabling businesses to operate without constantly worrying about risks. Insurance not only helps to mitigate risks but also facilitates economic development and growth. It was emphasised that insurance companies should continue to evolve their approaches to meet the ever-changing landscape of risks.

The discussion delved into the idea of transformation, emphasising that it is not inherently positive or negative but rather a constant process which harbours opportunities and risks. Factors such as global warming, technological advancements, geopolitical upheavals, and the macroeconomic climate contribute to the transformation, all of which highlight the importance of ongoing dialogue and cooperation among stakeholders to find common goals. The importance of policyholders not being left behind during this transformation was highlighted, with a focus on maintaining financial stability throughout the process. Flexibility and agility were mentioned as key attributes that insurance supervisors must possess to adapt effectively.

The Impact of Innovative Business Models on the Future of Insurance and Its Supervision
The conference attendees discussed the need to simplify processes and reduce bureaucracy in the insurance industry. This simplification can free up capital that can then be redirected toward investments in green transitions and long-term initiatives.

Companies were encouraged to publish the results of their stress tests to enhance transparency. Regulatory frameworks and capital requirements were also discussed, with a strong emphasis on building resilience and trust in the industry. Stakeholder participation and consultation were deemed crucial in the policymaking process. Moreover, cooperation among insurers, supervisors, regulators, financial markets, and public institutions are necessary for consumer protection and fair business conduct.

In response to the rapidly evolving technological landscape, discussions revolved around process innovation and the cautious adoption of new technologies, including artificial intelligence. An effective regulatory framework that keeps pace with technological developments was deemed essential.

The conference emphasised the importance of exchange and collaboration among supervisors to stay informed and adapt to transformational changes. Recognition was given to the effort of participants from Eastern Europe and a call to stand together in solidarity against challenges such as the Russia-Ukraine conflict.

2 CONVERSATION: MACROECONOMIC LANDSCAPE: RISKS AND PERSPECTIVES FOR THE GLOBAL INSURANCE SECTOR

In the next segment of the conference, Alexander Ludwig, Professor of Economics, International Centre for Insurance Regulation (ICIR), Goethe University Frankfurt, and Jay Surti, Division Chief, International Monetary Fund (IMF), engaged in a conversation focusing on the macroeconomic landscape and the associated risks and perspectives for the global insurance sector.

This section of the conference highlighted the intricate relationship between macroeconomic factors, the insurance industry, and the challenges they face in a rapidly changing world. The need for targeted and efficient regulation in response to climate risks and other macroeconomic challenges was a central theme of the discussion.

Global Challenges and Risks for the Global Economy (Jay Surti)
Jay Surti initiated the discussion by sharing his insights into the global economic landscape in 2023. Despite ongoing recovery from the pandemic, several challenges remained. Supply chains had largely rebounded, yet economic growth was sluggish, and there was a global tightening of economic expansion. Real estate markets faced pressures, and financial markets experienced asset repricing.

Several risks were identified, including the high levels of debt and poor market liquidity, both of which posed threats to financial stability. Surti emphasised concerns about abrupt changes in asset prices, particularly in bonds, and the capacity of balance sheets to manage these fluctuations. Effective financial stability requirements were deemed essential.

Surti also touched upon managerial failures and shifts in sentiment within banks, which could lead to higher funding costs and reduced credit availability to the real economy. He advocated for a cautious approach to monetary policy and the restoration of fiscal buffers through prudent fiscal policies. Policymakers were urged to be prepared to employ policies swiftly in response to emerging challenges.

Reliable data and effective supervision were highlighted as crucial for identifying vulnerabilities and ensuring that banks had robust risk management practices in place.

Challenges for the Insurance Industry (Alexander Ludwig)
Alexander Ludwig then highlighted several critical challenges facing the insurance industry:

1. **Geopolitical risks in Europe**, notably the ongoing energy crisis, necessitating peace negotiations.
2. **High inflation** and associated risks with maintaining high-interest rates for an extended period, potentially leading to sudden reversals in trends.
3. The **housing market**, where falling house prices in many areas posed risks to asset balances, affecting the industry’s portfolio.

In addition, he highlighted concerns about credit risks, particularly the potential increase in lower-rated borrowers and the credit cycle, which could stress insurers' balance sheets in the future. Additionally, Ludwig mentioned the possibility of traditional insurance products regaining favor and a significant funding gap in global pensions, which could lead to product innovation and the exploration of new markets.

The discussion also touched upon the challenges posed by a high-interest rate environment. The potential for rising interest rates was seen as a significant challenge for insurance companies, given the uncertainty surrounding future economic directions

Furthermore, Ludwig expressed concerns about the complexity of **regulatory frameworks** and the potential for excessive costs related to regulatory compliance. He called for a cost-benefit analysis of regulatory measures to ensure they support business dynamism without stifling economic growth.

Ludwig discussed **demographic changes** and their profound consequences on economies over the next 20 years. He highlighted that demographic changes, including labor scarcity and low productivity trends, would impact interest rates and the demand for insurance products. Additionally, he drew parallels between demographic changes and climate risk, suggesting that both factors would decrease productivity and have long-term consequences.

3 PANEL I - NEW PARADIGM: THE GLOBAL SHIFT TO RISK-BASED SUPERVISION

The central theme of the discussion revolved around the global transition towards risk-based supervision and the challenges and opportunities it presents. The panelists covered a wide array of topics, including emerging risks, governance, risk management, capital requirements, and the role of supervisory authorities in addressing these challenges. The insights and experiences shared by the panelists provided a rich understanding of the evolving landscape of risk-based supervision in the global insurance industry.

Introduction and Emerging Risks

Suzette Vogelsang from the IMF initiated the conversation by highlighting the importance of acknowledging and addressing emerging risks within the insurance industry. She emphasised that climate change and cyber risks are two of the most critical emerging risks that the industry must grapple with. Vogelsang stressed the complexity of these risks, their unpredictability, and their potential to disrupt not only financial stability but also the traditional insurance business models. These emerging risks demand careful consideration by insurance supervisors.

Jonathan Dixon, Secretary General of the International Association of Insurance Supervisors (IAIS), elaborated on the key emerging risks from a supervisory perspective. He mentioned that interest rate risk was a top concern for supervisors, followed by inflation risk, market risk, cyber risk, and climate change risk. Dixon highlighted that climate risk, in particular, posed a unique set of challenges due to its multifaceted and evolving nature. The discussion underscored the need for insurance supervisors to be vigilant and adaptive in addressing these risks. Hehighlighted the critical role of governance and risk management in understanding and addressing emerging risks. He underscored the need for insurers to assess and manage all material risks, including climate and cyber risks, to ensure long-term sustainability and protect policyholders. Suzette Vogelsang emphasised the supervisory role in ensuring insurers acknowledge and address emerging risks. She noted that if an insurer is unwilling to recognise these risks, supervisors should engage with senior management and the board to persuade them of the potential risks and the necessity for proper risk management.

Experience with Risk-Based Supervision

Mimoza Kaçi, Deputy Executive Director of the Albanian Financial Supervisory Authority (AFSA), shared valuable insights from a country that implemented risk-based supervision nearly a decade ago. Kaçi emphasised the advantages of a risk-based approach, such as providing flexibility to supervisors, efficient resource allocation, and fostering insurers' improved risk management practices. The risk-based regime had contributed to the resilience of the Albanian insurance sector, helping it withstand various shocks, including earthquakes and the COVID-19 pandemic. Kaçi also proudly mentioned a recent peer assessment, affirming the compliance of Albania's supervisory regime with international standards. This achievement underscored the effectiveness of risk-based supervision in strengthening the insurance sector.

Eric Dunning, Director of the Nebraska Department of Insurance, took the opportunity to elaborate on the historical development of risk-based supervision in his country. He noted that the United States had adopted risk-based supervision as a response to insolvencies in the 1980s. Over the years, a sophisticated regulatory framework had been established, featuring various regulatory tools tailored to different types of risks. He highlighted the effectiveness of the regulatory tools, which led to a remarkable reduction in insurer insolvencies over the last 25 years. In terms of regulatory tools, Dunning mentioned the development and utilisation of Own Risk Solvency Assessments (ORSA), a valuable tool for insurers to assess and manage their own risks. Furthermore, he noted the establishment of supervisor colleges for large insurance groups, which enhanced regulatory cooperation and coordination. This approach has been particularly successful for companies like Berkshire Hathaway, Pacific Light, and Aflac.

Impact of Risk-Based Supervision on IAIS

Jonathan Dixon explained that the International Association of Insurance Supervisors (IAIS) defines risk-based supervision as "it means more supervisory activities and resources are allocated to insurers, lines of business or market practices that pose the greatest risk to policyholders, the insurance sector, or the financial system as a whole"[1]. Moreover, Dixon emphasised the importance of a data-driven risk assessment and macroprudential supervision in the insurance sector.

Dixon further discussed the development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the global insurance capital standard. These initiatives are crucial in achieving consistent and effective supervision of insurance activities on a global scale. He highlighted that the IAIS plays a pivotal role in coordinating and harmonising supervisory efforts across jurisdictions.

Group Supervision

Eric Dunning emphasised the significance of group supervision in the context of risk-based supervision. He noted that group supervision enables effective communication and coordination between regulators across jurisdictions. Face-to-face interactions and continuous improvement in supervisory practices are essential elements of successful group supervision.

Suzette Vogelsang highlighted that supervision approaches may vary across jurisdictions, reflecting the diversity of regulatory frameworks and market conditions. She emphasised that there is room for improvement in interactions and collaboration, particularly among advanced jurisdictions. Effective supervision of insurance groups requires a nuanced understanding of both local and global dynamics.

Coverage of Risks by Supervisory Standards

Eric Dunning acknowledged that while supervisory standards have evolved significantly, not all risks are currently covered by these standards. He mentioned that the United States is continuously evaluating its solvency system to capture significant risks, particularly those related to climate change and wildfire. Efforts to update risk-based capital formulas are underway to ensure that emerging risks are adequately addressed within the regulatory framework.

Capital Requirements and Capital Add-ons

The panelists stressed the importance of allowing capital requirements to evolve over time. However, they emphasised the need for a thoughtful and evidence-based approach to such evolution. Rushing to impose capital requirements before a thorough understanding of the risks is cautioned against.

Eric Dunning discussed the use of capital add-ons in the U.S. context. These add-ons are designed to be specific to individual insurers and tied to their unique risk profiles. They represent a flexible tool for regulators to ensure that capital adequacy matches the risk exposure of each insurer.

[1] IAIS, Introduction and Assessment Methodology**.** Available online: https://www.iaisweb.org/icp-online-tool/13511-introduction-and-assessment-methodology/

Emerging Markets
The need for guidance on transitioning to well-functioning insurance markets, especially in emerging economies, was highlighted. Market liberalisation should be accompanied by robust supervisory frameworks to ensure consumer protection and market stability.

The IAIS Risk-Based Solvency Implementation Forum was introduced as a platform to provide guidance and practical examples to emerging markets transitioning to risk-based solvency regimes. The guidance focuses on project management, the roles of supervisors, and other practical aspects to facilitate a smooth transition.

Reinsurance and Risk Management
The role of reinsurance companies in managing and transferring risks, particularly in the context of climate change and demographic shifts, was discussed. The panel noted that reinsurers are experienced in risk management but highlighted the need to understand potential accumulations of risks across the sector that individual insurers or reinsurers might miss.

The panel cautioned against carving out reinsurers from market conduct provisions, emphasising the importance of considering the impact of reinsurers' interactions on policyholders. The panel emphasised that the ultimate objective of all risk transfer systems, including reinsurance, should be the protection of policyholders' interests. This principle was highlighted as a guiding factor in risk management.

4 IMPULSE STATEMENT - CHANGING MACROECONOMIC ENVIRONMENT: WILL GUARANTEED PRODUCTS COME BACK?

Johan Hombert's presentation at the conference centred on guaranteed insurance products within the context of an evolving macroeconomic landscape, particularly focusing on the noteworthy influence of rising interest rates. He discussed the potential resurgence of guaranteed products.

Exploring the Core Mechanisms of Guaranteed Products
Hombert commenced his discourse by unravelling the foundational elements of guaranteed insurance products. He pinpointed two pivotal mechanisms that define these products and enable them to manage market risk effectively:

1. **Return Guarantees**: These insurance products are engineered to safeguard investors against market risk by offering a minimum return on their investment. The level of return guarantees varying across countries and time periods.
2. **Return Smoothing**: These products do not merely guarantee returns; they also integrate mechanisms that ensure the returns paid to investors remain relatively stable, even when the returns on the underlying assets experience fluctuations. This stability is achieved through the meticulous management of reserves, a resource that plays a pivotal role in balancing returns against market volatility.

The Impact of Rising Interest Rates
Hombert discussed the impact of changing macroeconomic conditions, particularly rising interest rates, on these mechanisms:

Impact on Return Guarantees
Guaranteed rates tend to vary less than one-for-one with market rates. Higher interest rates make guaranteed products more profitable for insurers, leading to an increase in supply.

Impact on Return Smoothing
Rising interest rates have different effects based on timing:

- On impact (2021 onward), rising interest rates reverse the direction of wealth redistribution, favouring current investors. Reserves are used and replenished later.
- After the impact (starting in 2023), redistribution shifts away from current investors. With reserves depleted during the initial phase, insurers now faced the arduous task of replenishing these resources. Empirical evidence suggests that low reserves lead to lower future contract returns. The implication is that guaranteed products become less attractive for investors, resulting in decreased demand.

Hombert highlighted additional factors such as the role of guaranteed products as hedges against inflation risk and the impact of risk-based regulation, where return guarantees can consume regulatory capital.

5 PANEL II - CATASTROPHE PROTECTION GAPS: THE ROLE OF INSURANCE SUPERVISORS

This panel explored the critical issue of catastrophe protection gaps and the role of insurance supervisors in addressing them. Catastrophe protection gaps refer to the difference between economic losses and insured losses, particularly in the context of natural disasters. Global economic losses due to protection gaps amounted to $275 billion the previous year, with a significant gap in natural disaster protection. The increase in the frequency and severity of natural disasters has led to greater insurance losses, posing an existential threat to insurers.

The panel began by discussing the impact of increasing natural catastrophe (NatCat) events in the future. The audience voted, with 62% favouring the idea that society should take action by either mandating insurance for all or offering public-private partnerships to address the costs of NatCat events.

Supervisor's Role

Participants agreed that supervisors and regulators can play a significant leadership role in providing **credible risk information for the public good**. They can leverage tools and capabilities to inform citizens and governments about risks and exposures. In this line, Jörg Asmussen emphasised the importance of prevention measures and climate adaptation measures. He stressed the need for proactive measures such as building regulations, flood prevention, and increasing public awareness to reduce risk. For example, building houses in a climate adapted way. For this, information is key. For example, houses these days are built in a fire-protective manner and houses usually have fire insurance. This need to happen for climate risks such as heavy rain which can affect all areas, not only risky areas in for example coastal regions which are often flooded.

Challenges in Developing Countries

Emerging markets have a higher frequency of NatCat events. Rym Ayadi focused on emerging countries and their underdeveloped insurance markets. She stressed the importance of risk assessment, data availability, and collaboration with regulators to raise public awareness and transparency. She noted that in developing and emerging markets, supervisors often lack the necessary capabilities and expertise to close protection gaps effectively.

Data and Parametric Insurance

Steven Seitz discussed the availability of granular climate data and its integration with insurance data, highlighting challenges in combining these sources. He mentioned open-source initiatives and efforts by organisations like the IDF (Insurance Development Forum) to address these challenges, noting that such efforts might be more geared toward developing countries. He stressed the need for small steps forward and practical solutions to complex questions. Satoshi Ikeda discussed the role of supervisors in accumulating data and providing added value. He emphasised the need for risk-based pricing and addressing protection gaps through a multidimensional approach.

Parametric insurance, which relies on predefined triggers, was also discussed, with concerns about its complexity and legality in various jurisdictions. Satoshi Ikeda argued that while parametric insurance products can help close protection gaps, they are not sufficient and other insurance products are needed. The panellists highlighted the importance of ensuring the legality of such parametric insurance. They mentioned that legal clarity can be difficult and expensive to obtain, especially for start-ups. Moreover, there are considerable challenges of taxation and capital considerations related to parametric insurance.

Strategic, Tactical, and Operational Aspects
The discussion touched on the need for a strategic approach to addressing the protection gap, involving various stakeholders. Tactical aspects included risk-based underwriting and supervision, while operational aspects emphasised capacity-building and advocacy.

All in all, the panellists emphasised the need for insurers and supervisors to collaborate on risk reduction efforts. Suggestions included mandatory insurance, risk-appropriate insurance premiums, and public-private partnerships. Collaboration between supervisors, insurers, academia, and governments was seen as vital for further innovation.

In the Q&A session, topics such as the legality and cost-effectiveness of parametric insurance were discussed. Questions were raised about the definition of a protection gap and whether it could be considered a market equilibrium.

The panel concluded that protection gaps are a significant concern, especially in the context of increasing climate-related risks. Collaboration among insurers, supervisors, and governments, along with innovative solutions and data sharing, is crucial to address these gaps effectively.

6 KEYNOTE SPEECH - INSURANCE SUPERVISION UNDER EXTREME DISTRESS

Lesia Burbel, Head of the Insurance Methodology Office at the National Bank of Ukraine, delivered a keynote speech on the unique challenges faced by insurance supervision in the midst of extreme distress brought on by the **war in Ukraine**. She began by acknowledging the ongoing war in Ukraine, emphasising that it had been ongoing for more than 1.5 years, constituting a full-scale invasion.

One of the central themes of Lesia Burbel´s speech was the **adaptation of regulatory principles** to address the multifaceted challenges posed by the war. The National Bank of Ukraine (NBU) had to streamline and simplify regulations to accommodate the adverse conditions. The war had caused mass migration, logistical complications, and uncertainty, all of which had to be factored into regulatory decisions.

Additionally, **sanctions and measures** were put in place to stabilise the insurance market. For instance, insurers were prohibited from paying dividends and engaging in certain financial transactions that could lead to solvency and capital adequacy issues. These measures were necessary to ensure the market's resilience during tumultuous times.

Lesia Burbel then discussed the stages through which insurance regulation had evolved in response to the war. The initial shock of the war's outbreak necessitated immediate regulatory changes. As time passed, and the war continued, adjustments were made to maintain market stability. Gradually, as circumstances improved, regulators began to revert to more traditional regulatory approaches.

The macroeconomic impact of the war on Ukraine was also a significant point of discussion. The country's economy had contracted by approximately 30%, and inflation had surged to around 26%. The NBU had responded by implementing a fixed exchange rate and adjusting policy rates to mitigate economic challenges.

Lesia Burbel emphasised the colossal damage inflicted on Ukraine's infrastructure and buildings, exceeding $135 billion. This figure did not even encompass damage sustained after February 2023, including catastrophic events like the explosion of the Kakhovka hydroelectric power plant. The daunting task of reconstruction and recovery loomed, with estimated needs surpassing $411 billion.

The insurance market had not been immune to the war's impact. Financially weaker insurance companies were forced to exit the market, while surviving insurers had to trim administrative expenses to cope with dwindling resources. There was also a noticeable shift towards online insurance products, and insurers often accommodated policyholders by allowing postponements of premium payments.

One exceptional trend in the insurance market was the growth of Green Card insurance due to the closure of Ukrainian airspace at the start of the war. This segment of the market remained robust as Ukrainian vehicles continued to travel to Europe.

The war had also triggered geopolitical ramifications, with the NBU taking a clear stance against the involvement of Russian entities in Ukraine's financial service providers. As a result, insurance companies with Russian roots were compelled to cease operations, significantly impacting the market landscape.

Lesia Burbel concluded her speech by outlining the ongoing and future challenges facing regulators and the insurance industry in Ukraine. These challenges included the impending implementation of a new insurance law in 2024, which would usher in significant changes based on Solvency II and IDD directives. There was also a pressing need to address the issue of protection against the consequences of war and political violence risks, in collaboration with international partners and reinsurance markets.

Furthermore, the gradual increase in maximum insurance indemnities to align with European standards and the abolition of state regulation of insurance prices were in the pipeline. Lesia Burbel emphasised the importance of regulatory efforts to maintain transparency, solvency, and professionalism in the insurance market, especially given the protracted nature of the war.

In closing, Lesia Burbel expressed hope that the experiences of Ukraine would provide valuable insights for others facing extreme distress and underscored the importance of regulatory adaptations in safeguarding the insurance market's stability during challenging times. Her speech served as a testament to the resilience and adaptability of the insurance industry and regulatory authorities in the face of adversity.

7 KEYNOTE SPEECH - DIGITAL TRANSFORMATION AND ITS EUROPEAN REGULATION

Martin Merlin, Director at DG FISMA (Financial Services and Capital Markets Union) of the European Commission, delivered a keynote speech on digital transformation and its regulation in the European Union.

Martin Merlin began by highlighting the ongoing EU legislative cycle and stressed the transformative impact of digitalisation on financial services. The European Commission's objectives are twofold: To ensure that the EU financial sector actively drives digitalisation, and that digital finance is accessible to all consumers and businesses.

Digitalisation presents several opportunities, including fostering innovation, expanding access, and creating new avenues for funding European companies, particularly in areas like the Green Deal and industrial strategy, while also promoting market integration across borders. In this line, he referenced the European Commission's 2020 digital strategy, which aims to encourage digitalisation and innovation while considering associated risks.

Merlin further argued that addressing cyber risks takes precedence, with financial sector entities expected to implement strategies and measures to safeguard against cybercrime. Harmonised approaches will encompass all financial sectors. Collective monitoring at the EU level is deemed necessary, with new responsibilities assigned to European Supervisory Authorities (ESAs), and the implementation phase for the Digital Operational Resilience Act (DORA) is underway. Ensuring overall digital resilience is vital, encompassing risks faced by customers, prudential and consumer risks, supply chain technology, and managing new opportunities and challenges effectively.

Dealing with the entry of technology firms into finance is complex, as supervisors may struggle to understand and address risks in commercial and financial activities, especially given the rapid changes in online advertising and market structures. The Digital Markets Act aims to address market power imbalances by gatekeepers, especially on online platforms. Financial institutions must adapt to customers' use of these platforms, with the act also covering marketing, including over social media, and applying to all insurance products.

The financial sector relies heavily on data. Ensuring high-quality financial services and adopting a customer-centric data approach are crucial. An enabling framework for firms to offer innovative products based on customer data, such as personalised tools and dashboards, is currently in development. From an industry perspective, the financial sector will play a significant role in data product design, underwriting, and contract execution. It's not about data free riding; data holders should be incentivised to share high-quality data and should receive compensation. Merlin argued that a new category of regulated entities, financial information providers, is needed.

In conclusion, Martin Merlin emphasised the importance of digital transformation in the financial sector and the need for forward-looking regulation to ensure the benefits of digitalisation while effectively managing its associated risks. Europe aims to take a leading role in addressing emerging risks effectively, with collaboration with the insurance sector seen as vital in achieving this goal.

8 PANEL III: INNOVATIVE BUSINESS MODELS: THE FUTURE OF INSURANCE AND ITS SUPERVISION

The panel explored various facets of the transforming insurance industry, including digitalisation, AI integration, regulatory adaptations, and the changing roles of insurers and supervisors. The panelists agreed that the industry is currently undergoing evolution rather than revolution. While new technologies like AI are being integrated into traditional insurance processes, the core focus remains on effective risk management and equitable treatment of consumers.

Legacy Systems and Digitalisation
The panel began by addressing the persistent challenge posed by legacy IT systems within the insurance sector. Rachel Davison, First Deputy Director Commissioner of the Massachusetts Division of Insurance, highlighted how these outdated systems complicate the digital transformation process. Companies must navigate the complexities of transitioning from older technologies. Thomas Jakimavicius, Director of European Government Affairs for Microsoft, argued that while legacy systems are indeed obstacles, they are progressively being replaced and modernised through digitalisation efforts.

Customer Diversity and Expectations
The conversation then shifted to the crucial importance of accommodating the diverse needs and expectations of insurance customers, spanning different generations. Santa Purgaile, Deputy Governor of Latvijas Banka, emphasised the necessity for insurers to strike a balance between meeting the preferences of older and younger customers. Geeke Feiter, Managing Director of the Dutch Association of Insurers, highlighted that the Gen Z demographic expects transparency, simplicity, and trustworthiness from insurers. The panel acknowledged the complexity of managing this diversity, as the industry serves both traditional and tech-savvy clients. Moreover, while understanding younger generations expectations is essential for the future, it is the older generations who account for most profit today.

AI and Ethical Data Use
The discussion explored the integration of AI within the insurance sector and the ethical considerations surrounding its use. Rachel Davison stressed the importance of explaining AI-driven decisions to both customers and regulators. Santa Purgaile emphasised the pivotal role of regulators in ensuring the ethical and transparent use of AI, particularly when it influences policyholders' decisions. Thomas Jakimavicius underscored the need for a regulatory framework that promotes responsible AI use while fostering innovation.
The conversation delved into the AI Act, which is designed to safeguard fundamental rights. This act has significant implications for the insurance sector, where AI is now deeply embedded in various processes. The panelists emphasised that while insurance companies must comply with AI regulations, they must also broaden their focus to encompass broader consumer rights.

Role of Supervisors and Boards
The discussion then turned to the evolving roles of insurance supervisors and boards in overseeing digital transformations. The panelists agreed that supervisors face several challenges, including the integration of cutting-edge technologies into their existing processes, understanding and addressing

emerging risks, and ensuring transparency, informed consumer decisions, trust, fairness, and ethical business conduct. Rachel Davison mentioned the shift toward risk-based supervision, which necessitates different skill sets among staff, including the recruitment of data scientists. Santa Purgaile emphasised the human aspect of supervision, highlighting the need for a balance between technology and human interaction. Geeke Feiter encouraged supervisors to develop strategic technical foresight and advocated for diversity within insurance companies to effectively address the challenges of digital transformation. The speakers agreed that supervisors' roles involve encouraging innovation while ensuring that associated risks are adequately addressed. Collaboration among supervisors, regulators, and industry players is essential for a smooth transition.

Regulatory Framework
The final segment of the discussion centered on the regulatory framework. Regulatory approaches must remain flexible to keep pace with rapidly evolving technology. Striking the right balance between promoting digitalisation and ensuring safety, transparency, and fairness is an ongoing challenge but a crucial one. Santa Purgaile acknowledged the challenges of addressing the dual roles of regulators in promoting innovation while maintaining oversight.
Thomas Jakimavicius stressed the importance of harmonised regulatory frameworks to facilitate global expansion and ensure a level playing field for insurers. Rachel Davison discussed the rise of supervisory technology (SupTech) tools for monitoring and regulating the insurance industry.

In summary, the panel discussion underscored the dynamic nature of the insurance industry, which is being reshaped by technological innovation, regulatory adjustments, and a growing emphasis on ethical and consumer-centric practices. Collaboration between insurance companies and regulatory bodies remains vital as they navigate the challenges and seize the abundant opportunities presented by this evolving landscape.

9 IMPULSE STATEMENT: CYBER – THREAT AND OPPORTUNITY

In this impulse statement, Jürgen Reinhart, Chief Underwriter for Cyber at Munich Re, addresses the audience, discussing the ever-growing importance of cyber risks and opportunities within the insurance industry. Reinhart, who has a diverse background in mathematics and aerospace engineering, candidly admits that he is not a cyber specialist. Nevertheless, he suggests that this perspective can be advantageous in asking critical questions and fostering innovation.

Cyber attacks are not just about financial losses for businesses and other entities; they can have severe consequences for the average citizen. According to a Hiscox report, approximately 20% of affected companies reported that their solvency was threatened due to cyber incidents. Reinhart goes on to mention that these attacks can have devastating cascading effects, as evidenced by the Colonial Pipeline incident. Even a country like Costa Rica declared a national emergency in response to a ransomware attack. Ultimately, the average citizen emerges as the real victim of this growing trend, as critical industries like energy, healthcare, and manufacturing face increasing ransomware attacks.

The Insurance Industry‘s Response to Cyber

Jürgen Reinhart emphasised that while cyber poses a substantial threat, it also presents opportunities for the insurance industry to develop innovative solutions. Reinhart stressed the strategic risk involved in the insurance industry's response to cyber threats. If the industry fails to address this adequately, companies may seek their own solutions outside of traditional insurance channels. He further argues that if companies can find solutions outside of insurance for their most substantial risks, they are likely to do the same for less significant risks. Munich Re's foray into cyber insurance has paid off, with premiums growing more than tenfold since 2015, primarily in the US market. While the US remains dominant, Asia's highly digitalised markets, surprisingly, have not yet played a significant role, with only Japan and Australia having meaningful cyber insurance markets. Nevertheless, the global cyber insurance market is expected to grow significantly, with premiums increasing from around $12 billion in 2022 to approximately $33 billion by 2027.

Relevance of Cyber Insurance

Reinhart draws attention to the fact that while natural disasters in 2022 caused $270 billion in losses, with $120 billion insured (44% of losses), cyber insurance is estimated to have $11 trillion in potential losses. Therefore, Reinhart argues that the insurance industry needs to generate additional capacity, especially as the risk continues to grow. He emphasises the importance of creating confidence in the industry's ability to control cyber risks.

Challenges and Solutions

Reinhart discusses three critical challenges facing the cyber insurance industry. First, he addresses the issue of data. He argues that the true value of data lies *not* in its volume but in its combination with the ability to analyse it effectively. To address the scarcity of cyber risk data, Reinhart advocates pooling information, acknowledging past failures in this regard.

Next, he highlights the challenge of insuring against cyber warfare, noting that war is typically considered uninsurable. Reinhart stresses the need for political leadership to help mitigate this risk and create a structured emergency process.

Lastly, Reinhart tackles the economics of cybercrime, noting that ransomware has become a highly profitable criminal enterprise. He highlights the low risk and high reward for ransomware actors. In fact, ransomware attacks have become more profitable than cocaine trafficking, highlighting the alarming growth of cybercrime. Global cyberattacks across all sectors increased by 38% in 2022 compared to the previous year. Approximately 339,000 new malware variants are created daily, with 92% delivered via email and it is estimated that almost 1.2% of all emails are malicious.

Adapting to the Changing Landscape

Reinhart concludes by recognising that cyber insurance is a response to societal changes brought about by digitalisation. He emphasises the need for companies, including smaller businesses like lawyers, doctors, and bakeries, to accept that part of their business model is digital and must adapt accordingly. Reinhart's recipe for dealing with cyber insurance is patience, finding the right balance between guidance and trust, and maintaining strict boundaries when necessary.

10 CLOSING REMARKS

In his closing remarks, Florian Martin Heider, the Scientific Director of the Leibniz Institute for Financial Research SAFE, summarised the key points and takeaways from the conference.

The event, spanning two days, brought together a diverse group of experts, including regulators, industry leaders, academics, and supervisors, to discuss a wide range of critical topics within the insurance sector. The event provided valuable insights into the challenges and opportunities facing the industry in an ever-changing global landscape. One of the standout features of the conference was its diverse participation. With over 100 attendees from more than 30 countries, it successfully united various communities within the financial sector. This diversity was seen as a positive aspect of the event, fostering collaboration and dialogue among stakeholders who might not typically interact.

Key Takeaways

1. Climate Change and Biodiversity Risk
While climate change has been a central concern, there was a notable emphasis on the interconnected issue of biodiversity risk. The Senkenberg Museum of Natural History provided a report which shows the alarming rate of species extinction. Biodiversity is essential for agriculture and other sectors. However, the challenge here is the lack of a measurable metric, which is essential for the development of insurance solutions. Addressing biodiversity risk requires innovative approaches to measurement and risk modeling.

2. Digitalisation's Realities
The initial hype surrounding digital currencies like Bitcoin has given way to a more sober assessment of new technology. Digital investments, once hyped, are now viewed as niche opportunities, with less enthusiasm in the market. Moreover, the value of big data in predicting future outcomes has been acknowledged, but it's also clear that being able to predict the future is distinct from influencing or shaping it. As a result, the industry is recalibrating its expectations and strategies related to digitalisation.

3. The Insurance Sector's Growing Role
Non-bank financial institutions, including insurers, have seen substantial growth in financial intermediation since the 2008 financial crisis. In the euro area, insurers now account for approximately 25% of the banking sector's assets. Notably, insurers are playing a significant role in the corporate bond sector, holding about a third of corporate bonds issued. The sector's profitability has been boosted by rising interest rates, which enable it to cover payouts on insurance claims more easily.

4. Economic Outlook
The economic outlook discussed at the conference included concerns about persistent inflation and doubts about a soft economic landing. While the United States is experiencing a renaissance driven by aggressive industrial policies, China and Europe are facing economic challenges. Upcoming European elections and the potential exploitation of cost-of-living crises by right-wing parties add uncertainty to the European landscape. These economic conditions have implications for the insurance sector, as they can impact demand for insurance products and investment strategies.

5. Challenges and Collaboration

A recurring theme throughout the conference was the importance of collaboration and dialogue among different actors in the financial sector. With the insurance sector becoming a key player in European financial markets, there is a need for close cooperation to address the complex challenges ahead. As the banking sector retrenches, insurers have remained resilient and profitable, reinforcing their significance in the financial ecosystem.

Conclusion

The Conference on Global Insurance Supervision provided valuable insights into the multifaceted challenges and opportunities facing the insurance sector. It highlighted the importance of addressing biodiversity risk, reevaluating digitalisation strategies, recognising the sector's growing role in financial intermediation, and navigating an uncertain economic landscape. Collaboration and adaptability were emphasised as crucial factors in addressing these challenges and ensuring the continued success of the insurance industry in an evolving global environment. The conference's diverse participation fostered rich discussions and cross-sector knowledge exchange, further enhancing the industry's ability to navigate future risks and opportunities.