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## Statement



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**Brussels, 30 September 2013**

Madame Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

Thank you for the invitation and the possibility to have an open exchange of views. I would like to start my introduction with the achievements of the Joint Committee of the three European Supervisory Authorities (ESAs), which I have the honour to chair this year. Then I will focus on EIOPA's work and report about our activities over the last year. I will reflect on some of our challenges and a possible way forward.

### **Joint Committee of the ESAs**

The Joint Committee of the ESAs is well-established as a forum of regular co-operation and information exchange on cross-sectoral issues among the ESAs. Our common work resulted in two cross-sectoral Reports on Risks and Vulnerabilities in the EU Financial System, which provided policy-makers with a wide-ranging picture of the main risks and recommended concrete policy actions. The work on consumer protection has been a key priority of the Joint Committee. We organised the first Joint Consumer Protection Day in June in Paris, which proved to be a very fruitful forum for discussions on different cross-sectoral consumer matters and developed preparatory work on areas such as PRIPs and product governance. Further, the Joint Committee has issued a proposal on principles for benchmark rate-setting processes and submitted the first joint draft Regulatory Technical Standards on the consistent application of the calculation methods described in the Financial Conglomerates Directive. Throughout regular meetings the co-operation between the ESAs was fostered and intensified.

This year the Joint Committee has made very substantive contributions to enhance the consistency of the supervisory approaches at the cross-sectoral level and to the development of a common supervisory culture in the EU, and will continue to further do so in the upcoming years.

### **EIOPA's Achievements**

Turning to EIOPA, our activities have been focused on three main directions:

- Establishment of a European single rule book for insurance and pensions;

- Promotion of supervisory convergence; and
- Enhancing consumer protection.

### ***European single rule book***

EIOPA has been heavily engaged in the process of developing a single rule book for insurance and pensions in the EU. In the absence of international standards – unlike in the banking sector where you have the Basel accord - EIOPA has been responsible for developing the technical regulatory framework of insurance and pensions risk-based supervision, work which encompasses all legislative layers from level 1 to Guidelines.

On Solvency II, we produced the Report on the Long-Term Guarantee Assessment as an input to the trilogue discussions on the Omnibus II Directive. We delivered a set of potential measures aimed at ensuring an appropriate supervisory treatment of long-term guarantee products, under volatile and exceptional market conditions. EIOPA's independent supervisory assessment is prudentially sound and represents a reliable basis for an informed political decision. I am confident that the outcome of the political negotiations will ensure a high degree of policyholder protection and will create the conditions for an effective supervisory process, preserving the risk-based economic framework and the increased transparency that was strongly supported by this Parliament in the 2009 Directive.

Also in the context of Solvency II, EIOPA is analysing whether the calibration and design of capital requirements for investments in certain assets under the envisaged Solvency II regime necessitates any adjustment under the current economic conditions, without jeopardising the prudential nature of the regime.

An agreement on the final shape and on the date of implementation of Solvency II is urgently needed to enhance consumer protection, increase financial stability and avoid market fragmentation. We cannot continue with the current regulatory uncertainty.

Facing the inevitable delay in the application of Solvency II, EIOPA used its power to issue Guidelines. Guidelines on the preparation for Solvency II aim to ensure a consistent and convergent path towards implementation by insurers and supervisors, taking into account due proportionality. After a public consultation process the final

Guidelines have been approved by the Board of Supervisors and were published last week.

In the pensions area EIOPA has continued to work on its advice on the revision of the IORP Directive. In 2013 we delivered the results of the first quantitative impact study in the field of occupational pensions. This was the first truly European assessment that provides a comprehensive and comparable view of the financial situation of occupational pension funds. It shows that the minimum harmonisation approach of the current IORP Directive has resulted in large differences in the protection of members and beneficiaries across Europe and that pension funds dispose of vulnerabilities in different areas: some are very dependent on future payments by the sponsor and in others substantial benefit reductions are expected. EIOPA stands ready to undertake all the necessary work in order to ensure safe, sustainable and adequate pensions for European citizens.

EIOPA is working to improve definitions and methodologies for assessing the holistic balance sheet and will run further assessments. My aim is to present the next Commission with further tested technical proposals for a European risk-based prudential regime that appropriately reflects the specific reality of pension funds.

In order to ensure the above-mentioned, EIOPA has also devoted its attention to personal pensions. We published a Discussion Paper on a possible EU-single market for personal pension products, focusing on potential cross-border frameworks, transparency and disclosure requirements, distribution and selling practices, professional requirements and product regulation.

Personal pension plans should be focused on the long-term nature of their objective (retirement savings), avoiding the traps of the short term horizon. They should be based on a simple framework, allowing for reduced cost structures and be managed using robust and modern risk management tools. They should rely on clear and transparent governance structures and provide full transparency to their members.

### ***Promotion of supervisory convergence***

Regulation and the creation of the single rule book is an important step but it should not be viewed as a panacea. Much more efforts should be invested in implementation of rules and in applying them in a consistent way as part of the response to the

recently identified fragmentation in the financial markets. That is why we put a strong emphasis on the promotion of supervisory convergence in our work. In this context we have been using a number of tools: participation in the colleges of supervisors, conducting peer reviews and issuing opinions addressed to NCAs.

EIOPA's experts are actively engaged in the college meetings. We have been following a structured approach through the development and execution of Action Plans that include concrete actions to be performed at college level. This ensured an improvement in the exchange of information and a more consistent approach in the college work.

As part of its supervisory mandate, EIOPA has participated together with the national supervisors in joint on-site inspections.

During the last year EIOPA has conducted 4 peer reviews that contribute to the development of convergent supervisory standards. Recently we published the results of our peer review on internal models where we highlight a number of differences in supervisory practices in the pre-application process of internal models and identify best practices and outline recommendations in order to enhance consistency in supervisory practices.

EIOPA's work on supervisory convergence is also underway through the development of a Supervisory Handbook that will incorporate good supervisory practices and by the recently set up Centre of Expertise on Internal Models. The centre was initiated to achieve a consistent, compliant and efficient implementation of Solvency II Internal Models across Member States. This is progressing by working collaboratively to deliver tools that equip NSAs and by exercising oversight on Internal Model activity. It aims at developing good practices and sound indicators to support a consistent analysis and validation in this critical area of Solvency II implementation.

Following our market analysis and risk assessment, EIOPA identified a prolonged period of low interest rates as a potential threat to the stability of the EU insurance sector. A coordinated supervisory response was set out in EIOPA's Opinion that includes recommendations on enhanced supervision and promotion of industry actions to mitigate the underlying risks. We raised awareness about this potential risk at the ESRB level and now this is included in the ESRB overview of systemic risks. EIOPA will run a comprehensive stress test in 2014. It is envisaged that this risk will be a central

part of the test.

EIOPA was very active regarding its responsibility for investigating potential breaches or non-application of EU-law. Where most of the cases were opened on the basis of a complaint, EIOPA on its own initiative also initiated two examinations on the national implementation of relevant EU-law.

We continue technical training for supervisors in order to build up a convergent supervisory culture. We organised around 30 seminars and events per year that are attended by more than 1000 experts.

### ***Consumer protection***

Since the beginning, one of our main priorities is consumer protection. During the period under report we issued our first Guidelines on complaints-handling by insurance undertakings: 32 competent national authorities confirmed their compliance or intention to comply with these Guidelines. Currently, EIOPA is monitoring the compliance plan of the national authorities. We also have consulted on similar guidelines relating to complaints-handling by insurance intermediaries.

Our consumer protection agenda is focused on ensuring a paradigm shift in the direction of transparency towards consumers and on reinforcing fairness in selling practices.

Having identified significant consumer detriment in the Payment Protection Insurance market, including mis-selling practices, market imperfections and disproportionate levels of commissions, we issued an Opinion where we provide a framework for supervisory analysis of the issue, recommend NCAs to use it, and to report back to EIOPA. Based on the information received from NCAs EIOPA will decide if and what kind of further action is needed at an EU level.

Reflecting the relevance that we attach to selling practices we have published Good Practices Reports on Comparison Websites, on Knowledge & Ability of Distributors of Insurance Products, on Industry Training Standards and on the Provision of Information to Members of Defined Contribution Pension Schemes.

Furthermore, EIOPA has been creating the necessary basic conditions to identify

consumer protection issues as they arise. In this context we developed an enhanced methodology for collecting, analysing and reporting on consumer trends from the NCAs and we are exploring the use of social media monitoring tools to inform our consumer trends analysis. Nevertheless, let me highlight that in order to enact EIOPA's power to ban or restrict financial activities, sectorial legislation in insurance and pensions is needed.

### **Challenges and way forward:**

Looking at the current challenges there are three key points where I see a clear need for evolution: to strengthen EIOPA's operational independence, to reinforce our independent challenging role towards National Competent Authorities and to enhance EIOPA's mandate and powers to ensure better coordinated supervision.

**Firstly**, let me stress that the current financing arrangements affect the overall efficiency of the Authority. They are inflexible, inefficient, create administrative burden and are not optimal from an operational independence perspective.

I would like to thank the ECON Committee for their statement calling for a need for independent budget lines and to make the ESAs independent from their national member authorities.

Furthermore it is extremely important to ensure a degree of flexibility in the budgetary framework in order to be possible to attract highly qualified staff, especially in critical areas for our mission going forward like the supervision and validation of internal models and the independent assessment of supervisory practices.

**Secondly**, in order to ensure an adequate and consistent level of supervision, for the benefit of consumer protection and financial stability, it is fundamental to strengthen our independent challenging role towards National Competent Authorities.

The current power of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct, should be extended. This power should not be confined to situations of potential threats to the stability of the financial system but be used more generally to support the independent assessment of supervisory practices.

Furthermore, it is essential to avoid the burdensome case-by-case discussions on EIOPA's access to individual company information. Going forward, EIOPA should obtain access to the information included in the harmonised templates developed for Solvency II in a direct and efficient way.

**Thirdly**, we need to take further steps to ensure better coordinated supervision at Union level. In this context EIOPA should be tasked with a centralized oversight role in the field of internal models and, as part of a step-by-step approach, consideration should be made to assign EIOPA an enhanced supervisory role for the largest important cross-border insurance groups.

The European Union will benefit from stronger and more coordinated supervision at the European level. At EIOPA we are creating the basic conditions and taking the appropriate steps to build a credible and respected supervisory authority. The European Parliament has been instrumental in the progress achieved and I am confident that with your continuous support we will continue to fulfil our mission for the benefit of all European citizens.

Thank you for your attention.