OPENING SPEECH

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EIOPA – Reflecting on the achievements and preparing for the new challenges

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Distinguished Guests,

Ladies and Gentlemen,

On behalf of EIOPA, I am delighted to welcome you to our second Annual Conference here in the Frankfurt Congress Center. In particular it is my pleasure to welcome all our panellists and moderators.

I want to thank you all for coming and contributing to make this one of the reference conferences in the insurance and pension's landscape.

I would also like to thank the City of Frankfurt and the State of Hessen, for their welcome and support. EIOPA greatly enjoys being here in a city which is continuously gaining global importance as a focal point for regulation and supervision of the financial system. I look forward to continuing in a spirit of enhanced co-operation in the future.

We are happy to keep this tradition of annual conferences. For us this is a very important way to maintain a constructive dialogue with the insurance and occupational pensions stakeholders – to find out more about your concerns, challenges and of course to answer your questions.

The annual conference also represents a perfect opportunity for EIOPA to update you on our activities, on the achievements and the upcoming challenges. I am pleased to see that many members of the EIOPA Board of Supervisors and Stakeholder Groups are also attending the conference and I am sure that they are going to contribute to all the formal and informal discussions that will take place today. I hope that all together we will make this day interesting and fruitful.

In my opening speech today I will share with you some thoughts about the issues at stake in each of the panel discussions and I will provide a short reflection on the achievements of EIOPA and some of the challenges ahead.

Let me start by the Conference programme, which as usual reflects some of the most relevant issues that EIOPA has been focused on.

Pensions

We will start with pensions because reshaping the European pensions system is one of the most challenging projects in the EU agenda, which is very important for all the EU citizens without exception. The EU Commission has launched this year a white paper called „An agenda for adequate, safe and sustainable pensions“, identifying a number of initiatives to be taken in the coming years.

In this document there is a clear recognition that complementary private retirement savings have to play a greater role in securing the future adequacy of pensions.

This poses on all of us a great challenge and an enormous responsibility. We need to review the European pension’s regulatory framework to improve the safety and affordability of private pensions and provide confidence to consumers.

This should be done by developing a risk-based approach to the regulation of retirement savings, encompassing a number of fundamental elements:

1. A realistic valuation of pension promises

All occupational schemes throughout Europe should have sufficient resources to meet their promises under a reasonable, but realistic and transparent, framework. We have abundant lessons from the consequences of ignoring the economic-based value of assets, liabilities and the inherent risks. That is why we recommended for the IORP Directive review the application of such principles as the market consistent valuations and the inclusion of the actuarial value of all enforceable obligations of the IORP in the valuation.

Taking due account of the diversity of IORPs, we proposed the concept of a “holistic balance sheet” that will enable the consideration of the various adjustment and security mechanisms in an explicit way. This will allow a better understanding of the economic value of assets and liabilities and will give an indication of where the risk is and who bears it. The “holistic balance sheet” should be seen as a prudential supervisory assessment tool rather than a “usual” balance sheet based on generally agreed accounting standards.

2. A robust solvency regulation

The occupational pension's solvency regime should be based on the "holistic balance sheet" and should incorporate appropriate periods for the achievement of the funding targets, taking into account the nature of the promise, the duration of the liabilities and other elements like the sponsor support. It should also be sufficiently flexible to deal with short term volatility and avoid pro-cyclical behaviour, for example by using a corridor approach and allowing appropriate recovering periods.

3. An enhancement of the governance requirements

Good governance is crucial for the members and beneficiaries of the occupational pension schemes. It is essential that those who run IORPs are individuals of competence and integrity, with respective education and work experience. IORPs should also be subject to robust internal and external controls in areas such as risk management, internal control and audit, appointments of a custodian and a depository. The Solvency II principles should be applied, taken into account due proportionality.

The regulatory framework should also give concrete incentives to good risk management. The use of modern risk management tools like diversification strategies in asset allocation according to the duration of the liabilities, lifecycle approaches, hedging techniques and protection against shortfall risks can effectively provide sponsors and members of pension schemes better outcomes under a risk control environment.

4. An increase in transparency

It is crucial to maintain members and beneficiaries of pension funds duly informed about their pension rights and prospectives. Furthermore, the move towards defined contribution (DC) schemes, where the risk is born by the members, poses new challenges in terms of transparency.

That's why EIOPA's advice recommends the introduction in the IORP Directive of a Key Information Document (KID) to be distributed to potential members containing a set of basic elements like risks, costs, charges etc. This will surely improve transparency.

EIOPA is continuing its work on the occupational pension's area by running a Quantitative Impact Study (QIS) exercise. The QIS exercise aims to assess the financial impact on IORPs of valuing assets and liabilities in the holistic balance sheet and introducing a solvency capital requirement (SCR) under various policy options of the EIOPA's Advice. We expect to finalize the report on the QIS findings in spring 2013.

Finally, we should not forget that there is also a need to look at the individual retirement savings in the EU. The current framework applicable to 3rd Pillar products is very much fragmented with a number of different vehicles being subject to different types of EU regulations.

I believe that there are merits in developing an EU-wide framework for the activities and supervision of individual retirement savings, containing both prudential and consumer protection measures. Improving consumer information and protection is necessary to enhance citizens' confidence in financial products for retirement savings.

In this context, I believe that we should explore the development of an "EU retirement savings product". This product could be developed to finance individual or collective DC plans and should clearly differentiate from other types of investment products by being focused on the long-term nature of their objective (retirement savings), avoiding the traps of the short term horizon.

It should be based on a simple framework, allowing for reduced cost structures and be managed using robust and modern risk management tools. It should rely on clear and transparent governance structures and provide full transparency to its members and beneficiaries. It should have access to a European passport allowing for cross-border selling. An EU certification scheme could give to EU citizens a certainty in the quality of all marketed "EU retirement savings products".

In my view these products could also play an important role in the EU economy by assuring a focus on long-term investments and, thus, fostering the sustainable growth.

Insurance Regulation

Our second panel session is dedicated to the insurance regulation. We called it "The Way Ahead" and I am sure that we will have a thoughtful discussion not only on Solvency II but also on international developments.

The European Union is faced today with an outdated and fragmented regulatory and supervisory regime on insurance. The Solvency I regime is not risk sensitive, contains very few qualitative requirements regarding risk management and governance and does not provide supervisors with adequate information on the undertaking's risks. Consequently, national authorities have been introducing different elements on their regimes in order to cope with market developments.

Solvency II was built with the objective of an increased policyholder protection, using the latest international developments in risk-based supervision, actuarial science and risk management.

Coming back to the basics, it is fair to say that Solvency II is based on fundamentally sound principles:

- A total balance sheet approach and a market consistent valuation of assets and liabilities in order to have a realistic basis for assessing risks;
- Two capital requirements, MCR and SCR, assuring a risk-based calculation but also a more robust and simpler floor designed for ultimate supervisory action;
- An overall level of prudence for the calibration of capital requirements;
- The explicit recognition of risk diversification;
- The possibility to use internal models after a process of validation by supervisors that is focused not only on the quality of risk modelling but also on the actual use of the model in the day-to-day business decisions;
- An updated group supervision approach with the definition of a group solvency requirement and clear powers assigned to the group supervisor;
- A robust system of governance, including the definition of a number of key functions;
- An Own Risk and Solvency Assessment (ORSA) that is now considered as the best practice at an international level;
- EU harmonized templates for supervisory reporting;
- Enhanced public disclosure.

In the meantime the financial crisis had a number of consequences on the discussions on Solvency II. Some of them were dealt early in the project, some are still creating uncertainties on the final design and calibration of the regime.

The huge market volatility proved to be a challenge in a market-consistent regime, especially for long-term guarantees. The sovereign crisis led to questions on the concept of the risk-free rate. The changes in banking regulation make more important the role of insurers as providers of long-term bank funding. The low interest rate scenario is threatening some insurance business models.

Without diminishing all these challenges, I believe it is time to move on. This reform is important and is needed. In order to keep the momentum and to be consequent with all the financial and human resources already dedicated to this project both by supervisors and the industry we need to move forward.

So, what steps do we need to take?

In **first** place we need a strong commitment from the EU political institutions towards the implementation of Solvency II. This should prompt the definition of a clear and credible timetable based on a realistic assessment of the expected time needed to deliver the different milestones of the regime.

Secondly, we need to agree on a sound and prudent regime for the valuation of long-term guarantees. A regime that preserves the risk-based economic approach on the valuation and assessment of risk and that adequately captures the characteristics of certain long-term liabilities with sufficiently predictable matchable cash-flows.

This should be viewed as an opportunity to continue to offer long-term guarantees to consumers, but under a robust framework that would price correctly any options embedded in the contracts. The new regime should not work as an incentive to maintain unsustainable practices and products that are already challenged by the economic reality.

We welcome the role that the EU political institutions are willing to attribute to EIOPA on the assessment of the long term guarantee package and we hope to receive a clear mandate within the terms of reference in order to start the assessment as soon as possible.

Thirdly, even if a credible timetable will probably point out to an implementation date not earlier than 2016, it should be possible in an interim phase to start to incorporate in the supervisory process some of the key features of Solvency II, namely some elements related to Pillars 2 and 3. EIOPA is exploring this possibility, based on its powers under the EIOPA Regulation. This interim phase should be coordinated by EIOPA in order to ensure a consistent application throughout the EU.

Solvency II has been viewed internationally as a reference in risk-based regulation of insurance. In that sense many countries have considered elements from Solvency II while developing their own regimes. The lack of certainty about Solvency II implementation is challenging the EU credibility in the international discussions.

Financial Stability

Our third panel session will focus on financial stability and on the role of insurers. The crisis prompted a new look at systemic risk, including in the insurance sector. The identification and regulation of Globally Systemically Important Insurers is currently being discussed under the umbrella of the Financial Stability Board and the International Association of Insurance Supervisors (IAIS). EIOPA is keen to contribute to a robust identification process of G-SIIs and to develop appropriate regulatory and supervisory tools to deal with their characteristics.

Traditionally, systemic risk was a banking concept. However, the recent crisis showed us that certain activities developed under the insurance sector can also pose systemic risk. Insurance companies or groups that engage in non-traditional, or non-insurance, activities (for example: CDS, financial guarantees or leveraging assets to enhance investment returns through securities lending) are more vulnerable to financial market developments and, importantly, more likely to amplify, or contribute to systemic risk.

Of course, this assessment may change over time, depending on the innovations and changes in insurance business models, especially in life insurance, as well as in the complex interactions between insurance groups and financial markets. We should be especially attentive to any kind of maturity transformation and leveraging occurring in the insurance sector.

Also extremely relevant are the policy measures under discussion. In line with the FSB recommendations, the IAIS proposed measures on enhanced supervision, effective resolution and higher loss absorbency.

I welcome this approach. We need to be clear and transparent on the objectives of the framework. If insurance groups heavily develop their business into non-traditional or non-insurance activities than they should expect to be treated in relation to those businesses as if they were banks. In this context of stricter regulation of systemic risk being applied in the banking sector, we need to limit any potential incentive for typical banking risks to be transferred to the insurance sector.

As the development of the international approaches to deal with systemic risk in insurance is closer to an end, EIOPA will proceed, according to its regulation, and in consultation with the ESRB, with the development of criteria for the identification and measurement of systemic risk that may be posed by insurance, re-insurance and occupational pension's institutions within the EU context.

EIOPA's achievements and challenges

Let me finalize by sharing with you some of EIOPA´s achievements and highlight a number of challenges ahead.

In spite of the natural constrains on human and financial resources and the huge challenges posed by the crisis, I believe that EIOPA has been quite successful in delivering an ambitious plan covering all areas assigned to us by the European Law.

I've already commented on the huge work developed by EIOPA on the regulatory side both on insurance and on occupational pensions.

Let me now turn to supervision.

EIOPA has an enhanced role as a member of the colleges of supervisors. We developed an Action Plan with concrete deliverables and timings for the Colleges. This has clearly increased the consistency of the work of the colleges and improved the exchange of information between supervisors.

During this crisis EIOPA has been monitoring and assessing market developments on a permanent basis, by using efficiently the public information available and collecting more granular information directly from the national supervisory authorities, both through specific quantitative and qualitative queries and by dedicated visits by EIOPA staff. This allowed us to reinforce the coordination of the EU supervisor's actions, highlight particular risks and activities that need to be further monitored and overall to be better prepared in the case of adverse developments.

On consumer protection, that was identified as one of EIOPA's priorities, I am very proud to mention that our first set of Guidelines was developed in the consumer protection area. The Guidelines on complaints handling by insurers fill an important regulatory gap at the EU level and are an important step towards promoting more transparency, simplicity and fairness in the market for consumer financial products and services.

Furthermore we issued a Good Practices Report analyzing the disclosure and sale of variable annuities that identifies how consumer interests can be better protected as regards the sales of this type of complex products.

We have also published an initial overview of consumer trends in the European insurance and occupational pensions sectors, identifying three key consumer areas that are presently subject to further review and analysis: (1) Consumer protection issues around payment protection insurance; (2) Increased focus on unit-linked life insurance products and (3) Increased use of comparison websites by consumers.

On financial stability, I want to emphasize the development and publication of EIOPA's risk dashboard containing a set of quantitative and qualitative indicators that help to identify and measure the evolution of risk in the EU insurance market.

EIOPA has also run a low-yield stress test for the insurance sector that showed that the insurance industry would be negatively affected if a scenario were to materialize where yields remain low for a prolonged period of time.

In the international relations area, EIOPA has been quite active, performing Solvency II full equivalence assessments of the Swiss, Bermudan and Japanese supervisory systems and running gap-analyses of the regulatory regimes of 8 further countries that had expressed an interest in being included in a transitional regime.

Furthermore, EIOPA has dedicated a special effort to a project with the US federal and state insurance authorities aimed to increase mutual understanding and cooperation with a view to promote business opportunities, consumer protection and efficient supervision.

The public report that identifyies in a factual way the main similarities and differences of the insurance regulatory and supervisory regimes in the EU and in the US is a very important step forward.

As you can see EIOPA has already made a significant impact in the EU regulatory and supervisory landscape.

This was only possible because of the dedication of our staff and the excellent contribution from experts coming from the National Supervisory Authorities. It is their knowledge, experience and dedication that allow us to fulfil our mandate and respond to an increasingly demanding environment.

Furthermore, the continuous commitment and cooperation of the members of the Board of Supervisors and Management Board was of the utmost importance in fulfilling our mission and vision.

Paramount to our activity was also the constant involvement with the Insurance and Reinsurance Stakeholder Group and the Occupational Pensions Stakeholder Group. The exchange of views and the opinions from the Stakeholder Groups were essential in the development of EIOPA’s work.

Looking forward, I am convinced that in a few years the setting up of the European Supervisory Authorities will be recognized as one of the most fundamental reforms in the European financial sector coming from the financial crisis. The potential benefits from the creation of a single rule book are huge, both for stability and consumer protection within the internal market.

Nevertheless, EIOPA is confronted with a number of important challenges. Let me mention three relevant ones:

1. How to assure the consistency of supervisory practices?

I firmly believe that the consistency of supervisory practices is as important as the single rule book. Only by assuring that day-to-day supervision of financial institutions is done within a consistent framework, we can effectively contribute to an increased level of protection of policyholders and beneficiaries in the European Union. The single market requires it and EIOPA is committed to deliver it.

A first step should be the development of a Supervisory Handbook that would work as a guidebook for supervision in Solvency II, setting out good practices in all the relevant areas of supervision. This handbook will foster the implementation of a more consistent framework for the conduct of supervision. EIOPA is starting to work in this area.

On the institutional side we observe the evolution in the banking area with the proposals to create a single supervisory mechanism for the Euro area banks. As a truly convicted European I welcome this step.

I also recognize that the insurance sector is in a different situation. Insurance is not banking. There are indeed fundamental differences on the risks and on the business models. Nevertheless, I believe that it is fundamental to rely on the experience of what has been already achieved by EIOPA under the current Regulation and to start a reflection on further tasks, powers and resources needed to deliver a truly consistent supervisory process and, in particular, to assure a more consistent oversight of cross-border insurance groups.

In the short term EIOPA should be ready to play its challenging oversight role according to the Regulation, by conducting inquiries into a particular type of financial institution, or type of product, or type of conduct in order to assess potential threats to the stability of the financial system and make appropriate recommendations for action to the competent authorities concerned.

In order to perform this independent assessment in a transparent, efficient and risk-based way, EIOPA needs to reinforce its human resources, should have access to the relevant individual information available to the national supervisors and also have direct access to the individual institutions.

In the medium term the evolution to a more European focused supervision for the EU cross-border insurance groups should also be discussed, namely in face of the potencial arbitrage opportunities coming from the new supervisory reality in the banking sector.

2. The power to ban or restrict financial activities

On the Consumer protection area I want to highlight the urgent need to include provisions in the insurance and pension Directives allowing EIOPA to ban or restrict financial activities as established in Article 9 of the EIOPA Regulation.

This will assure an effective way to deal, for example, with situations of flawed product design or governance that could lead to severe consumer detriment.

Without these provisions EIOPA cannot fulfill its mandate as described in the Regulation.

3. Competence on 3rd Pillar pensions

In the pensions area EIOPA's mandate only covers occupational pensions, the so called 2nd pillar. However, I believe that the implementation of the EU agenda for adequate, safe and sustainable pensions calls for a sufficient level of regulation and supervision of personal pensions, the so called 3rd pillar. Consequently, EIOPA's mandate should be extended to all 3rd pillar pensions. This is also recommended by EIOPA's Occupational Pensions Stakeholder Group in their comment to the Commission's White paper on Pensions.

Ladies and gentleman,

My vision is to build up EIOPA as a modern, competent and professional organization that acts independently in an effective and efficient way towards the creation of a common European supervisory culture.

We are living extraordinary times and we should feel privileged to be part of this process.

As Bob Dylan so nicely singed: The times they are a-changin'.

Thank you.