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EIOPA and Solvency 2

Towards a credible regulation and a
convergent supervision

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EIOPA Chairman

Bergisch Gladbach, 04.05.2011



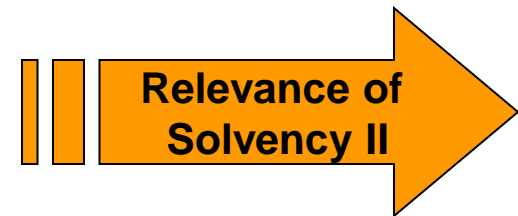
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The new European Supervisory framework

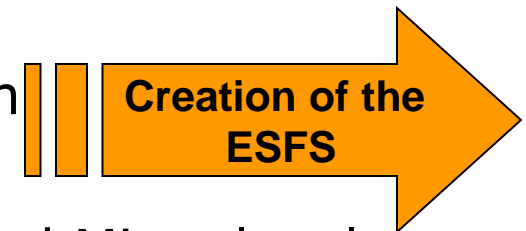
What will change with EIOPA?

Consequences of the financial and economic crisis

- ✓ Need to build a sound system
- ✓ Need to work on right calibrations
- ✓ Need for sound Internal Controls
- ✓ Relevance of quality of capital



- ✓ Insurance is NOT Banking
- ✓ Need for preemptive risk-based supervision
- ✓ Need for *ad hoc* sectoral responses
- ✓ Need for strong links between the Macro and Micro levels
- ✓ Who does what? Need to allocate tasks and responsibilities
- ✓ Need to set a framework that avoids Arbitrage



- ✓ EIOPA shall act within the scope of the **EU legislation applicable** to:
 - Insurance undertakings
 - Reinsurance undertakings
 - Financial conglomerates
 - Institutions for occupational retirement provision (IORP's)
 - Insurance intermediaries

- ✓ **Including** matters of:
 - Corporate governance
 - Auditing
 - Financial reporting

“Protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses”

✓ EIOPA is:

- A **Union body** with legal personality
- An **independent supervisory authority**
- **Accountable** to the **European Parliament** and to the **Council**

- Stable/effective **financial system**
- Sound **regulation/supervision**
- Transparent, efficient and orderly **markets**
- **International** supervisory co-ordination
- No **regulatory arbitrage**
- **Equal conditions of competition**
- Appropriate **regulation/supervision of risks**
- **Enhanced customer protection**

- High-quality **regulatory standards/practices**
- Consistent application of **legally binding acts**
- **Co-operate closely with ESRB**
- **Peer review** analyses
- Monitor and assess **market developments**
- Undertake **economic analyses of markets**
- Foster **protection of policyholders**

- Develop **draft technical standards**
- Issue **guidelines and recommendations**
- In certain cases, **remedy emergency situations**
- **Settle disagreements** in cross-border situations
- Monitor correct **application of EU law**
- Methodologies for **products and distribution**

- **Colleges**
- Expert Groups/Committees
- **Stakeholder Groups**
- Impact Assessment/Consultation
- **Peer Reviews**
- Stress Tests
- **Committee on Financial Innovation**
- Sectoral/Cross-Sectoral Training

- EIOPA and national supervisors = **independent from one another**
- **But closely co-operating!**
- EIOPA governed by Board of Supervisors, integrating national supervisors
- National supervisors = key source of expertise/information
- **National supervisors carry out day-to-day supervision**
- National supervisors keep direct link to industry (e.g. QIS5, stress tests)

- The main decision-making organ of EIOPA is the **Board of Supervisors** which is composed of the **heads of the national supervisors**
- Members of the Board of Supervisors should **act independently and only in the Union's interest**
- This reform is a clear evolution and represents a **major step** towards a more **integrated regulation and supervision** in the EU
- **EIOPA should use its powers**
- EIOPA should act in a **transparent, efficient and consistent** manner
- EIOPA needs **appropriate own resources** but should also continue to use its members knowledge and experience
- EIOPA needs **vision** and **ambition**



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Solvency 2

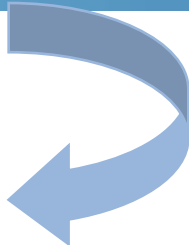
The final countdown

- **Objectives:**
 - Deepen the integration of the internal market (Single Market)
 - Enhance protection of policyholders
 - Improve international competitiveness of EU insurers
 - Achieve “better regulation”

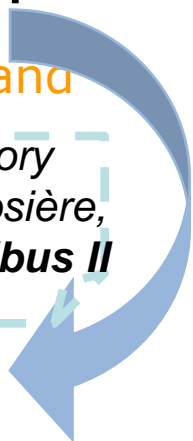
- **Opportunities:**
 - Better match between supervisory framework and internal risk management
 - Harmonised supervision and reporting requirements within the EEA
 - Improved group supervision
 - Convergence of supervision in the EEA

Which steps are needed to get there?

- Directive (**Level 1** text):
 - 25 November 2009, O.J. 335
- Delegated acts / Implementing measures (**Level 2**):
 - Discussions in Commission Solvency Expert Group, Council and Parliament
- Binding technical standards (**Level 3**)
- Non-binding guidelines
- Implementation: 1 January 2013



Experience the Lamfalussy process



*add the new regulatory Framework (de Larosière, Lisbon treaty) **Omnibus II***

Not so far away!

EIOPA Solvency II Medium Term Work Plan: From Regulation to Supervision!

2010

2011

2012

2013

QIS5

*From CEIOPS
to EIOPA...*

L2 measures

Draft technical standards

L3 guidelines

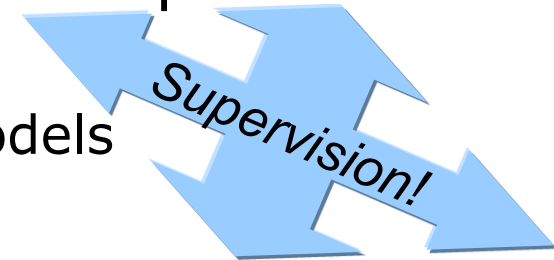
Prepare implementation!

Regulation: Key areas of interest from EORPA

L2 measures, Binding technical standards and Level 3 guidelines

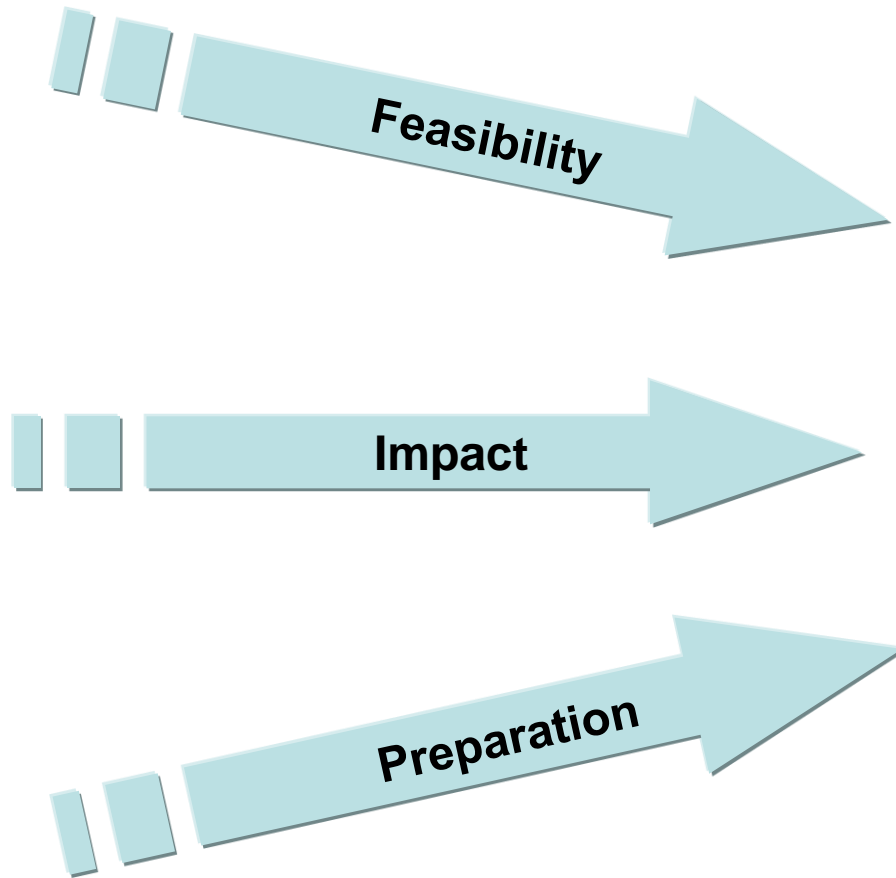
- Development of technical standards (Omnibus 2)
- Provide guidelines that are essential to ensure a convergent implementation of Solvency II
- Ensure consistency in the framework
- For example:
 - o Reporting templates
 - o Simplifications
 - o Consistency of solo and group provisions in specific areas
 - o Risk free rate for discounting

- Ensure a smooth transition through timely preparation, no postponement
 - **Stabilise measures as soon as possible**
- Prepare convergent supervisory review process
 - Pre-application of internal models
 - Approval process for group internal models
 - Transitional measures for equivalence
- Initiatives to prepare implementation
 - EIOPA training
 - Exchange of information
 - EIOPA monitoring



What did we learn from QIS5?

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- **Complexity**
 - o Solvency II is a major overhaul of valuation of balance sheet and calculation of the capital requirements
 - o Simplify where impact is not material
- Need to spend time to understand the requirements and how they will be implemented operationally
 - o Pillar I and Pillar II (ORSA, Governance)
 - o Training, Human resources
 - o IT, Data collection
- **Impact**
 - o Overall financial position remains comfortable
 - o But need for smooth transition – transitional measures
 - Hybrids, Third country equivalence, discount rate

- **KEY challenge:** How to deal with the impact on life long-term guarantee products?
 - ✓ Mitigate the effect of short-term volatility
 - ✓ Preserve transparency of economic approach
 - ✓ Reward long-term ALM strategies
 - ✓ Build counter-cyclical measures
 - ✓ Reinforce level playing field

Working groups with the industry and the EC

- **Calibration of the non-life and health risks**
 - Huge increase of the information available
 - Discussion of the actuarial methodologies to apply
 - Results to be presented shortly
- **Calibration of the Catastrophe risk**
 - Analysis of further information collected during QIS5
- **Expected profits in future premiums and contract boundaries**

- EIOPA is a **member of the supervisory colleges**
 - ✓ EIOPA staff started to participate in College meetings since January 2011
 - ✓ Building a dedicated team of experts - Priority on recruitment
- **Action Plan 2011**
 - ✓ Discussion of the QIS5 results
 - ✓ Working programme for the pre-application of internal models
 - ✓ Test of the infrastructure of the urgency plans
 - ✓ Preliminary discussions on the specific coordination agreements on Solvency II

From regulation to supervision

Technical standards

- Reporting to supervisors
- USP approval process
- Discount rate
- Contract boundaries
- Integration techniques on partial internal models
- ...

Guidelines

- ORSA
- Actuarial guidelines
- Intra-group transactions and risk concentrations
- Functioning of the supervisory colleges
- ...



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Thank you

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