**25.11.2009**

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**CEIOPS 2009 Annual Conference - overview**

CEIOPS organised this year its 5th Annual Conference, a key part of policy of transparency and consultation. **The 2009 CEIOPS Conference provided more than 350 attendants with an excellent programme as well as with the opportunity to hear from some of the most experienced and respected figures in the field of European financial supervision**.

Building on the success of our previous Conferences, this year's event has offered supervisors and stakeholders the opportunity to discuss and exchange views the **latest developments affecting the insurance and pension funds sectors as well as key insight as to the future architecture of financial supervision in Europe.**

CEIOPS Conference was opened by its newly elected Chair and has benefited form the attendance of **2 keynote speakers:**

- Monsieur Jean-Claude Trichet - President of the European Central Bank and member of the Board of Directors of the Bank for International Settlements.
- Monsieur Jacques de Larosière - Chairman of the High-Level Group on Financial Supervision mandated by the European Commission to give advice on the future of European financial regulation and supervision.

Please note that the opening address of CEIOPS' Chair and the Conference keynote speeches are available under **Press Room** /Speeches and Articles at: http://www.ceiops.eu/content/view/27/31/ .

Throughout CEIOPS' event 3 panels have been delivered and comprehensive overviews of the discussions had are available below:

## *Panel no.1: „Solvency II – A winning recipe?"*

**Pauline de Chatillon (Chair of CEIOPS' Solvency II - Financial Requirements Expert Group; Director of International Department ACAM)** chaired the panel devoted to Solvency II. She explained that while the focus of Solvency II was on the insurance undertakings' own responsibility for identifying, measuring and managing risks, the main aim of the new standards was to deepen the integration of the (re)insurance market and to achieve convergence in supervisory approaches. The development of Solvency II was the result of a constructive dialogue and effective teamwork, lead by the European Commission.

**Karel Van Hulle (Head of Unit, Insurance and Pensions, European Commission)** emphasised the need to continue the dialogue in the run-up to the implementation of Solvency II in 2012. The Commission's role in this interactive process would be to listen to all parties involved and to draw the necessary conclusions, taking advantage of the flexibility in the law-making process afforded by the Lamfalussy structure.

The views of the European insurance industry were represented by Alberto Corinti (Deputy Director General and Director Economics and Finance, CEA), Jean-Christophe Menioux (Chief Risk Officer, AXA Group; Vice Chairman, CRO Forum) and Gregor Pozniak (Secretary General, AMICE).

**M. Corinti** reiterated strong industry support for Solvency II - the industry was busy preparing for the challenges of the new regulatory framework. However, he also stated that CEIOPS had been too prescriptive and conservative in its advice on Level 2 implementing measures to the Commission. M. Corinti stressed the importance of adhering to the principle-based and economic approach of the Level 1 text and urged CEIOPS to strike the right balance in defining financial requirements. M. Pozniak outlined the specificities of mutual and cooperative insurance undertakings, which needed to be taken into account in the development of Solvency II. These included the business model specific to mutuals, characterized frequently by only regional operations and restricted possibilities to raise capital or to diversify.

**M. Menioux** commented that the standard formula for solvency capital requirements was very close to an internal model. Therefore, the admissibility requirements for internal models should not be disproportionately higher than those for the standard formula or "the standard model", in order to keep a right incentive to develop internal models.

**Peter Skinner (Rapporteur for Solvency II Directive, European Parliament)**, presented the international perspective on Solvency II. He provided some insight into future Commission decisions on the equivalence of third country solvency regimes, for which CEIOPS was currently drafting criteria. In his view, equivalence assessments could only be undertaken on a country-by-country basis. The US was posing particular challenges in this respect, while the Swiss regime, with its relative comparability to the Solvency II regime, would be less challenging.

Issues raised by the audience included the sustainability of the fair value valuation in Solvency II, the benefits of the equivalence mechanism, the role of regulation, the difference between banks and (re)insurance undertakings as regards capital needs and the impact of Solvency II on the structure of the market.

**Ms. de Chatillon** concluded the panel by reminding the audience that the success of Solvency II was not only about finding the right answers, but also about asking the right questions.

## *Panel no. 2: "Occupational pensions – a year in perspective"*

The pensions panel, chaired by **Tony Hobman**, **the Chief Executive of the Pensions Regulator UK** and the outgoing Chair of CEIOPS Occupational Pensions Committee, looked at developments in funded occupational pensions over the last year or so. All panellists agreed that the single biggest event affecting funded pensions was the financial crisis. Although pension funds have weathered the short terms impact of the crisis well, providing a stabilising effect for the financial markets in the process, the crisis also brought home a number of questions about sustainability and affordability, which will need to be addressed in the long term. A holistic view of pensions is needed, taking into account the social role played by them, including the differing nature of occupational schemes in Member States and the differing degree of reliance placed on these schemes by Member States.

**Willem Handels**, **Consultant on Pension Strategy for Shell Pensioenbureau Nederland BV** in the Netherlands, presented a state specific perspective on the impact of the crisis on occupational pensions. The Netherlands operate a well funded occupational pension system, predominantly of a defined benefit type. There are 700 funds, some very large, governed by extensive legislation which contains a risk oriented solvency framework based on a marked to market valuation of asset and liabilities. Systems of governance are also well developed. However, like everywhere else, the financial crisis brought with it substantial falls in asset values and interest rates, which have resulted in the funding ratio for many pension schemes falling well below the required statutory minimum. Flexibilities built into the regulatory framework were activated by the supervisor: recovery periods were extended, employer contributions increased, indexation cut and strategic asset allocation re-thought. The solvency framework came under scrutiny, with broad discussions on its sustainability and the risks faced initiated at the regulatory, supervisory and industry levels.

**Patricia Plas**, **Senior Vice President, Public Policy & Regulatory Affairs at AEGON NV** in Belgium argued that now was a good time to think about the future of pensions, both occupational and personal. The Lisbon Treaty will be implemented from 1 December 2009 and with it the Lisbon agenda reviewed. There will be a new Commission soon, with CEIOPS having already emerged as a major player. The IORP directive is a starting point, but other ingredients need to be considered as well, such as the new Solvency II framework and what it means for pensions, the employer insolvency directive, the draft portability directive, the flexicurity concept and the open method of coordination initiative. A common language for pensions is needed, and taking a holistic approach, with joined up thinking within the different Directorates of the Commission, is of paramount importance. The social and market disconnect in the approach to pensions needs to be addressed, with the objective of not removing the existing diversity but of managing it. Post crisis pension systems need to be sustainable, adequate and modern. They need to be transparent and comparable, using a common language and the same valuation methodology. The

New Commission and CEIOPS, as well as its successor EIOPA, have an important role to play in developing such systems for the future.

**Angel Martinez-Aldama**, **Chairman of the European Federation for Retirement Provision** and Director General of Inverco, Spain, observed that the crisis taught us an important lesson: a risk free society does not exist. Risks were there for everybody and need to be well understood and managed. Institutions for Occupational Retirement Provision (IORPs) managed their risks well during the crisis, while acting as important market stabilisers in their role as institutional investors. Effective use of flexibilities built into defined benefit regulation and supervision helped protect members' benefits. However, members of defined contribution schemes who were close to retirement when the markets fell suffered detriment. In terms of risk management going forward, a multi pillar approach to pension provision should continue so that risks for the state, the industry and the individual continue to be diversified. Any new funding requirement for defined benefit pensions should carefully balance the needs of members and those of the sponsoring employers. Solvency II capital requirements are not an answer, as the Commission's consultation and their Public Hearing earlier in the year showed. Managing defined contribution risks requires an increased focus on financial education as well as putting in place new risk mitigating hybrid designs and default options.

**Elmer Tertak**, **Director, Internal Market DG** – Financial Institutions, European Commission, reflected on the comments made by the three other panellists. He acknowledged the usefulness of pension funds in weathering the crisis, pointing out that a return to a purely PAYG approach, which some would like to see in the post crisis world, had to be resisted. The levels of state debt on Maastricht criteria has been increasing while dependency ratios continue to decrease. This firmly indicates that a diversified approach to pension provision needs to be maintained. However, funded pensions have to be sustainable, particularly in the context of their growing importance as institutional investors. While recognising that across Europe there is a shift away from defined benefit and towards defined contribution schemes, we should not ignore DB issues entirely. The forthcoming modern and risk oriented solvency framework for insurance companies will become a leading standard globally. While the Commission consultation showed that this was not necessarily the right approach for occupational pensions, an equally modern and risk oriented standard for pension funds is now needed. The Commission will start work soon, as prompted by a recital in Solvency II directive, but making sure to follow a holistic and all encompassing approach to pension systems as a whole, that recognises not only the financial, but also social role of funded occupational pensions and also respecting the diversity across Member States.

## *Panel no: 3: „3L3 Convergence from crisis"*

**David Wright (Deputy Director-General, DG Internal Market)** chaired the panel devoted to "3L3 Convergence from Crisis". He asked the 3L3 Chairs for their views on (i) lessons learned from the crisis (including the option of using contingent capital), (iii) the Commission's legislative proposals regarding the European Supervisory Authorities (ESAs) and (iv) the quality of current 3L3 co-ordination and EU convergence with global initiatives.

Regarding the lessons learned from the crisis, **Eddy Wymeersch (Chairman of CESR)** expressed concern over the risk of a resurgence of nationalism. This was, in his view, being reinforced during the discussions in the Council over the mandate of the new ESAs regarding crisis co-ordination. It was important for national supervisors not to go backwards (by requiring, for example, through the so-called "Icelandic effect", branches to be converted into subsidiaries) as the US was debating at the same time proposals for very strong regulators.

**Giovanni Carosio (Chairman of CEBS)** said winding down some self-standing subsidiaries had some attractions, but could destroy economies of scale. The alternative model was either to bail out a whole group or make it fail. It was important also to focus on burden-sharing. Mr Wright commented regarding burden-sharing that this was the EU's "Achilles heel" as there were currently insufficient legal procedures in place to deal with a major institution in trouble. Mr Wright noted the EC's public consultation, launched on 20th October 2009, on an EU framework for Cross-Border Crisis Management in the Banking Sector. Also the IMF/G20 were currently looking at various options in this area. Mr Carosio referred to the QIS exercise that CEBS was about to undertake to assess the impact of the capital proposals (to complement the existing Basel exercise). With regards to colleges, CEBS were about to publish for consultation its guidelines for the functioning of colleges and also its guidelines for the joint assessment and joint decision process of cross-border groups.

**Gabriel Bernardino (Chairman of CEIOPS)** commented that the insurance sector had, to some extent, weathered the crisis better than the banking sector. Mr Bernardino said that the crisis had emphasised the need for the Solvency II regime, including improved governance and better risk assessment through use of internal models. A consistent approach was needed on the use of contingent capital and there were merits in the G20 approach to the quality of capital. A holistic perspective on risks was needed with a robust system of governance.

**Patrick Brady (Chair of the Joint Committee on Financial Conglomerates)** commented that there has been a resurgence of nationalism due to a lack of colleges/information-sharing. Mr Brady said contingent capital, in the context of bonds being converted to equity in certain circumstances would introduce greater risk assessment by bond holders. The role of institutional investors in the crisis should also be considered as they have a role in relation to board appointments, strategy and remuneration, amongst others.

Mr Wright asked the Chairs specifically for their views on whether, in 10 years time, academics would say that weak governance systems were the main cause of the crisis and whether the crisis had also proved that banking supervision housed within a National Central Bank was a more efficient mechanism, than on a stand-alone basis.

Mr Carosio, Mr Bernardino and Mr Brady were all of the view that there were many causes of the crisis, not just poor governance arrangements and it was impossible to say that one system of supervision ("twin peaks" or otherwise) achieved the required outcomes. Following a question from the audience regarding subsidiarisation (i.e. national governments "footing the bill" due to the failure of colleges), all panellists expressed scepticism about the potential for burden-sharing, arguing that group support simply created moral hazard. Mr Wright commented that the Commission would not accept subsidiarisation as this was contrary to the provisions of the EC Treaty on freedom of establishment.

Regarding the Commission's legislative proposals concerning the new ESAs, Mr Wright asked Chairs for their views, in particular, on the proposal for binding mediation and adoption of individual decisions by ESAs addressed to financial institutions. Mr Bernardino said he was happy with most of the Commission's proposals (e.g. on information exchange and the role of colleges), but it was very important for the new ESAs to have a high degree of independence, with accountability safeguards at the same time. As regards reporting to the ESRB, this should be a two-way process i.e. the ESRB should also provide "early information" to the ESAs as well. On individual decisions, CEIOPS Members had expressed a clear opposition to the Commission taking individual decisions.

Mr Brady said that the introduction of a power for the ESAs to adopt binding technical standards would most likely render the need for binding mediation decisions as superfluous. Regarding independence, Mr Carosio said that it was fine for the Commission to have a power to veto binding technical standards, but not to amend them. In addition, the ESAs should be financed from a separate Community budget line.

Mr Wymeersch said the most problematic issue was enforcement. Experience from IFRS disclosure and the Market Abuse Directive had shown there was inadequate implementation of EU rules by his Members. The current system of Peer Reviews with "comply or explain" was not working. Decisions of the ESAs would have direct effect in the national legal order, but these decisions would have no teeth if they were not accompanied by powers to impose fines or suspend voting rights. The only solution, therefore, was to actually allow ESAs to bring proceedings in national courts to require implementation.

Regarding the quality of current 3L3 co-ordination and EU convergence with global initiatives, Mr Bernardino said that co-ordination was a process and time and experience would allow it to develop. It was inevitable, however, on certain issues that the 3L3 would have separate views. Mr Carosio agreed with this, saying that, in most cases, co-ordination was very much welcomed, but some issues would remain sectoral.

Mr Wymeersch commented, regarding EU convergence with global initiatives that the 3L3 should be allowed to attend the international regulatory dialogues of the Commission; for example, the Commission's discussions with the SEC on credit rating agencies as there were clearly diverging practices between the EU and the US on this.

*Notes:*

*On 5 November 2003, the European Commission adopted the decision, to establish the Committee of European Insurance and Occupational Pensions Supervisors, which entered into force on 24 November 2003. Today this decision is repealed and replaced by Decision 2009/79/EC. The Committee is composed of high level representatives from the insurance and occupational pension funds supervisory authorities from the EU and EEA Member States, chaired by Gabriel Bernardino, who is supported by a Vice Chair and four other members in a Managing Board.*

*CEIOPS fulfils the functions of the Level 3 Committee for the sector of insurance and occupational pensions in application of the Lamfalussy Process. This includes in particular: Providing advice to the European Commission, in particular in its preparation of draft implementing measures in the fields of insurance, reinsurance and occupational pensions, contributing to the consistent implementation of community legislation in the Member States and improving co-operation among Supervisory Authorities, including the exchange of information on supervised institutions.*