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Main Conclusions of the CEIOPS Conference 2008

CEIOPS' fourth annual Conference took place in Frankfurt on 19 November 2008. Around 300 delegates from across Europe attended.

They were greeted by CEIOPS' Chair, Thomas Steffen, and by Town Councillor of the City of Frankfurt, Boris Rhein.

The Chair thanked the Town Councillor and opened the main Programme with a perspective on the current financial crisis. He summarised CEIOPS' activities in the light of it, and its ongoing work. He emphasised that while preparation for the Solvency II project's next stages towards the proposed new EU insurance regulatory framework remained CEIOPS' primary task, its other widening activities were increasingly important. They naturally included occupational pensions, cross-border and cross-sector issues, consumer interests, and the future of supervisory architecture. All were high on EU political agendas and CEIOPS' priorities.

The Programme commenced with a Keynote Speech by Sharon Bowles (UK Member of the European Parliament), member of the Parliament's Economic and Monetary Affairs Committee, and Shadow Rapporteur on the Solvency II project.

She described where Solvency II had reached in the EU political process. ECON's agreements were outlined on the topical issue of Group Supervision, covering Group Support, CEIOPS' role, capital add-ons, and winding up. Other EU Parliament positions had been reached on recognition in national mandates of supervisors' roles, supervisors' resource, MCR calculation, and support for supervisory convergence, also for guarantee schemes. Comments on the crisis and easing procyclicality were followed by thoughts on possible implementing measures, mainly the retention and due diligence requirements proposal based on the Capital Requirements Directive. She finished with encouragement to press forward in Solvency II, not move back.

Four Panel discussions followed, with high-level Speakers discussing CEIOPS' top issues.

The **first panel** discussed the Solvency II project's 4th Quantitative Impact Study. Pauline de Chatillon, Director, International Department, Autorité de Contrôle des

Assurances et des Mutuelles, France, and Chair of CEIOPS' Solvency II Financial Requirements Expert Group, introduced experts from the European Commission, CEA, FMA, and Allianz SE, announced the publication of the QIS4 report, and invited participants to take their personal CD Rom from the Conference.

The Commission congratulated CEIOPS on the report and informed on the progress of the EU Level 1 negotiations. Any QIS5 exercise would not be held before 2010. Panellists agreed that the success of the exercise demonstrated industry's commitment to a risk based approach. Participants underlined the relevance of the QIS4 results for further identified work on Level 2 implementing measures. CEIOPS advised the need to interpret average QIS4 results with caution, as the detail of results diverges across risk modules, business lines or countries. However, one of the key indicators, the capital surplus, remained stable across the EEA.

The panel addressed the comparison between internal models and standard formula results under the QIS4 calculations. The comparison was difficult, because results on some risk sub-modules were not statistically significant and the aggregation of modules may be different. It was commented that on average the results of the standard formula were comparable to those of the internal models, which might reduce the incentive to develop an internal model. This was said to be due to a too low calibration of certain standard formula modules.

Group support remained a critical issue in political negotiations. Some need was underlined to include group support in the Solvency II framework. Panellists also addressed further work on Solvency II, resulting from the financial crisis. They agreed that promoting proper risk management was the key response to the crisis. CEIOPS would review lessons from the crisis in its advice on Level 2 implementing measures, to be given end-2009 to the European Commission. Participants concluded that no framework could ever prevent a crisis such as currently experienced. Correlations and diversification effects between risks can change under stressed circumstances. The Commission asked industry to remain realistic in demands, and underlined the need for principle based regulation to remain flexible under changing circumstances.

The discussion which followed included dealing with the differences between IFRS and market consistent valuation of liabilities. The importance of Pillar II requirements regarding the quality of governance was also stressed.

The **second panel**, led by Elemér Terták, European Commission, focused on solvency regimes for occupational pension funds

A panel representing a wide spectrum of views, from sponsoring employers, through insurers, legislators, supervisors and the European Federation for Retirement Provision, considered the extent to which such regimes constituted ‘Strength or stress?’

A majority of panellists agreed that Solvency II regime, tailor-made for insurers, was not appropriate for IORPs. There were significant differences between the two types of entity.

At the same time it was acknowledged that a modern, economic and risk-based approach to solvency for occupational pensions would be beneficial. Any such regime would need to respect the real differences that exist between pension institutions, as well as between national pension systems, national supervisory regimes and national expectations.

The consultation on the harmonization of solvency rules for IORPs, although limited in scope to IORPs subject to Article 17 of the IORP Directive and IORPs operating cross-border, would provide an appropriate basis for a future debate under the New Commission.

However, this debate should not be limited to prudential regulation and supervision alone. With pressures on state pensions increasing, it would also be important to consider effective ways of increasing occupational pensions coverage from the current 50% of the EU working population.

The **third panel**, moderated by Patrick Brady, Head of insurance Supervision, Irish Financial Services Regulatory Authority, Ireland, and Chair of the Interim Working Committee on Financial Conglomerates, examined financial cross-sector issues.

Influential representatives from industry, the European Commission, the Chair of Level 3 Committee of supervisors on banking and the International Association of Insurance Supervisors, discussed the risks arising in the different sectors and firms. The panel identified that at cross-sector level, exposures could be netted. However, the current financial crisis had also shown the real risk for contamination between sectors. Transparency and disclosure of key aspects of business were mentioned to be helpful to decrease possible contamination effects.

Although recognizing existing sector specificities, the panellists recognized the importance of streamlining regulation and convergence in supervisory approaches. As an example, they mentioned convergence in the field of a practical structure of colleges that exchanged information in a timely matter.

Overall, panellists agreed that because different legal structures still existed, supervision of the different sectors was still necessary. Nevertheless significant similarities in terms of approaches to risk management, disclosure and governance were emerging.

The panel also touched on how to avoid taking procyclical measures, while at the same time a risk based system was inherently characterized by some degree of procyclicality.

The **fourth panel**, chaired by Ieke van den Burg, Dutch Member of the European Parliament, addressed consumer topics. Experienced delegates from the Commission, Financial Inclusion Centre, CESR and CEIOPS, presented their sector's consumer work, and joint 3 Level 3 efforts on disclosure for consumers.

They found common ground on the need for transparency, clear disclosure of product information instead of jargon, and best execution. The Commission confirmed the development of two work-streams, on consumer education and collective redress. Guarantee schemes were considered increasingly important, though stressed in crises.

These were to be accompanied by appropriate conduct of practitioners and their avoiding conflicts of interest, without which written clarity and cautions alone were insufficient consumer protections. There were also mixed views on reforming regulation and balancing its competing interests. The requirement for increased consumer experts' input to EU regulatory processes, was supported

The Programme finished with closing remarks by Carlos Montalvo Rebuelta, Secretary General of CEIOPS. He thanked all participants and the organising team, summarised the day's contributions, and concluded with some optimism for the future of EU financial sectors and their supervisory bodies. He announced that CEIOPS planned to hold its next Annual Conference in November 2009.

The full Conference 2008 Programme and available written statements and speeches are published on www.ceiops.eu under 'Press Room / Speeches and Articles' (http://www.ceiops.eu/content/view/27/31/#conf07)

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. 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 Thomas Steffen, 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.