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KEYNOTE SPEECH BY JONATHAN FAULL

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EUROPEAN COMMISSION

It is my pleasure to be able to address you today, at what will be the sixth and final CEIOPS conference. It is now only a matter of weeks before CEIOPS will be transformed into the new Authority, EIOPA.

The significance of this change should not be underestimated. Many new and exciting challenges await the new authority, not least the appointment of a chairperson and executive director, at which point I should mention that the closing date for applications is in fact today at 5pm, so if you still intend to apply you have only got a few hours left.. .

I would like to reflect today on what I think the change from CEIOPS to EIOPA means and the challenges that I see facing the new authority.

Before I do so I would like to take this opportunity to thank CEIOPS for all that they have achieved since they began their work in 2004. CEIOPS' technical contributions have been extremely valuable in shaping the direction of European policy making in the fields of insurance and pensions.

I would like to specifically mention CEIOPS involvement in Solvency II. The Commission has used CEIOPS advice extensively in drafting its level 2 implementing measures and although some changes have been made, the vast majority of the text reflects the advice that CEIOPS provided.

A strong and collaborative working relationship has been forged between my services and the CEIOPS team and I very much hope that this spirit of co-operation and collaboration goes from strength to strength as CEIOPS is transformed into EIOPA.

The new European supervisory landscape

The creation of the three new European Supervisory Authorities and the European Systemic Risk Board (ESRB) is a milestone for Europe. It will contribute to a safer, sounder, more transparent and more responsible financial system, working for the economy and society as a whole.

As one of these Authorities, EIOPA will work alongside the national supervisory authorities to safeguard the financial soundness of insurers and occupational pension providers in order to protect consumers. The new European supervisory landscape will combine nationally-based supervision of firms with strong co-ordination at the European level so as to foster harmonised rules, as well as coherent supervisory practice and enforcement.

Omnibus II

The new powers being given to the authorities necessitate changes to the existing financial services legislation. An agreement has been reached on the Omnibus I Directive, which amended several financial services directives including the Capital Requirements Directive (CRD).

The Commission will shortly be publishing its proposal for the second Omnibus Directive (Omnibus II).

The areas for technical standards in Omnibus II are broad in scope, so as to retain sufficient flexibility pending the finalisation of the Solvency II level 2 implementing measures. The challenge for EIOPA will, therefore, be two-fold – 1) to determine what the standards should look like in each area and 2) to draft these in a legally precise and clear way.

Omnibus II will also introduce the concept of binding mediation; the effective use of which will enable decisions to be taken in a timely manner and ensure a harmonised approach to supervision across Europe.

The Commission intends to use Omnibus II to make a limited number of other changes to the Solvency II Directive.

Firstly, Omnibus II will change the date that Solvency II becomes applicable from 1 November 2012 to 1 January 2013. This is a purely pragmatic change given that more firms have their year-end at the end of December.

Secondly, it will introduce a legal "hook" for a number of transitional measures that are needed to allow a smooth transition to Solvency II.

Finally, it will align the Solvency II Directive with the legislative procedure introduced by the Lisbon Treaty.

Solvency II

The new procedures under Lisbon give us more time to prepare the Solvency II level 2 implementing measures. It means that we can publish our proposal in June 2011 and still have the final implementing measures packaged up and ready in time for next Christmas.

Some people have questioned whether Solvency II is still the right approach. To me, there is no doubt that the current regime is outdated and it does not adequately reflect how undertakings should and do manage their businesses. The financial crisis shows what can be prevented with good risk management and sound governance. Solvency II is an economic risk-based approach that rewards good risk management and enhances policy holder protection.

A first discussion with Member States has now taken place on a consolidated package of implementing measures. The text is not yet perfect and we will continue to refine the implementing measures based on the comments we receive. The Commission will also make changes based on the results of the fifth quantitative impact study (QIS5). CEIOPS will publish its official report on QIS5 in Spring next year.

However, the European Commission will not wait until then to listen to your experiences and to make improvements based on the lessons learnt. One of the early messages is that Solvency II has become too complicated. We have listened to this and will look at ways in which we can simplify the system without jeopardizing the economic risk-based approach, which is at the heart of Solvency II.

We will continue to assess the overall impacts of the implementing measures before coming forward with our proposal. We will shortly publish a consultation paper in order to obtain insights on the wider impacts of a number of policy issues to support the policy decision-making process at level 2.

We should not forget that the eyes of the insurance world are focused on Solvency II. Several third countries have modified their solvency regime for insurance in a way that mirrors Solvency II or plan to do so. This is something which Europe should be justifiably proud of and we should not stop short of delivering a system that meets people's expectations.

Insurance Guarantee Schemes

An important piece of work on our agenda is Insurance Guarantee Schemes. In July this year the Commission launched a consultation on Insurance Guarantee Schemes (IGS) based on a White Paper.

The White Paper set out a coherent framework for EU action on IGS protection of policy holders and beneficiaries. It proposed introducing a directive based on minimum harmonization to ensure that all Member States have at least one IGS in place that meets certain basic criteria. This initiative is inspired by the fact that despite the enhanced prudential regulations and more effective risk management that Solvency II will introduce, the collapse of an insurer cannot be ruled out.

If we want to protect consumers without involving taxpayers' money in the event of insurance failure, IGS should be established, which come into effect, as a last resort, when all other available means are exhausted.

The consultation period on IGS closes at the end of this month. The Commission will evaluate the feedback received and start working on a legislative proposal which will be tabled by the end of 2011. We will undertake further impact assessment work in order to ensure that the future proposal is economically sound.

Insurance Mediation Directive

The revision of the Insurance Mediation Directive is another important project. Here, the Commission's priority is to enhance consumers' rights and facilitate the cross-border provisions of insurance mediation services. The aim is to create a level playing field between the sale of insurance products by insurers and the sale of these products via insurance intermediaries.

The revision of the IMD is part of the Commission's ongoing work on improving investor protection standards for the distribution of Packaged Retail Investment Products (PRIPs) and is also reflected in a planned revision of the MiFID. The revision of the IMD will be coupled with the introduction of MiFID-inspired conduct of business and conflicts of interest rules for the sale of investments packaged as life insurance policies (insurance PRIPs).

The Commission's initiative on PRIPs will touch on the insurance sector in the area of product transparency. The Commission is currently consulting on steps to require short and comprehensible documents to be given to all retail investors when buying retail investment products, including insurance products. Standardisation and comparability of information must be improved, but some tailoring of requirements for specific products or sectors may be needed.

Last week, CEIOPS adopted a report outlining 39 recommendations for revising the IMD. The Commission will rely on these recommendations in developing its legislative proposals.

A public consultation will be launched imminently on the revision of the IMD and a public hearing will be held on 10 December.

Pensions

Now, let me turn to my last point: occupational pensions. The financial crisis has aggravated the long-term challenges of pension systems stemming from a rapid ageing of the population. Increased public debt and a lack of impetus on growth policy are likely to have serious implications for the adequacy and sustainability of our pensions.

There is a clear need for a considered reflection on pensions. The Commission published in July this year a "Green Paper towards adequate, sustainable and safe

European pension systems". The Green Paper asks - what will the pension promise look like in the future? And how will our systems stand up if there were to be another crisis?

The adoption of the Institutions for Occupational Retirement Provision Directive (IORP) established an Internal Market for occupational pensions enabling pension funds to operate across borders. However, few cross-border pension funds have been set up and there is a need to review the IORP Directive.

Financial markets function efficiently when there is confidence and trust. Confidence and trust requires solid prudential rules for financial institutions and occupational pensions should be no exception to this. Safe pensions must be built on skilled risk management, professional governance and effective supervision.

The consultation on the Green Paper closed two days ago. The Commission will now summarise the contributions received and decide on the next steps. As regards the IORP

Directive review, we will soon start the impact assessment work and intend to develop a balanced proposal by the end of next year. The Commission will rely on EIOPA's advice in delivering this work.

The pensions discussions illustrate that the effects of the global financial crisis have been far-reaching. The crisis did not stem initially from the insurance or pensions sector, but it has undoubtedly had an impact and we must learn the lessons of the crisis. The crisis reinforced the need for good risk management and sound governance in the insurance and pensions sectors.

In conclusion, you can see that there is a lot on the horizon for 2011 both in terms of completing existing projects and initiating new ones. The Commission is grateful for the continuing support of CEIOPS and I am confident that EIOPA will hit the ground running on 1 January.

Thank you for your attention.