KEYNOTE SPEECH

Gabriel Bernardino,
EIOPA Chairman

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

at the European Pension Funds Congress
Frankfurt, 15 November, 2011

Dear Chairman of the EFRP,

Dear Secretary General of the EFRP,

Ladies and Gentleman,

This is a landmark year for the European Federation for Retirement Provision. You are celebrating your 30th birthday this year. In contrast I represent today an infant who has not even reached its first birthday! Despite its tender age EIOPA has had to learn very quickly to walk and talk.

Let me say a little about what EIOPA stands for: “The objective of the Authority shall be to protect the public interest”. Not therefore any private interest, nor the interests of a particular sector, nor of any particular member state. Its tasks, responsibilities and scope of action are wide-ranging. We seek to be European and ambitious in what we do.

EIOPA shall contribute to improving the functioning of the internal market, including in particular a sound, effective and consistent level of regulation and supervision, ensuring that the taking of risks related to occupational pensions activities is appropriately regulated and supervised, and enhancing customer protection.

Furthermore, EIOPA shall foster supervisory convergence by playing an active role in building a common Union supervisory culture and consistent supervisory practices.

One of the areas where EIOPA has worked hard in its first months of life is the review of the IORP directive.

There are two key messages I would like to give on this review. Firstly, please look at the whole package. Secondly, be open-minded about the gains to a Europe-wide approach.

The review of the IORP directive has many dimensions. I am sure that you have all read the Commission’s call for advice and EIOPA’s 517 page draft response!

Let me set out some of the areas which have not had so much attention but which will contribute to the protection of pension scheme members and the development of an improved internal market in pensions.

The Commission has asked whether some definitions can be made clearer or simpler. What for example is meant by a cross-border scheme? Three definitions are currently used by member states. There are enough challenges to an IORP operating cross-border without one of them being disagreement between two member states as to whether it is cross-border in the first place.

Another area where clarity is sought is what is prudential regulation? A “bright line” distinction between prudential regulation and social and labour law is probably impossible, but EIOPA has in its draft advice provided a list of activities which it recommends be assigned to the home state for the purposes of cross-border supervision.

EIOPA was also asked to provide advice about the very scope of the IORP directive. After a lot of debate we are not recommending significant change. We make very clear however that members of pension schemes should not face different regulatory frameworks because of institutional rather than risk-based reasons. Consequently, I would like to emphasise the EIOPA recommendation that the EU Commission should consider the nature of member protection in pension schemes falling outside the current scope of the IORP Directive, namely the so called Pillar 1-bis schemes and individual pension schemes, and take legislative initiative if it concludes that the protection offered by national/EU frameworks is not adequate.

Attention has of course focussed on what might be asked of IORPs under a revised directive. It is important not to forget that change is being advised for supervisors too. To take some examples:

- The protection of members should be expressly stated as the main objective of supervision in the revised IORP directive
- The potential pro-cyclical impact of decisions should be considered by pensions supervisors. This of course is an area where the coordination of actions at a European level may be particularly effective
- A common set of principles for supervision, with proportionality in their implementation, is being proposed
- Supervisors should be transparent in their conduct and carry out their duties in an accountable manner. The governance structures and processes of supervisors should also be transparent.

I turn now to two areas where I hope there will be more to agree on than to disagree. What should be the regulatory framework for defined contribution schemes, and what standards should apply to the governance of IORPs?

The call for advice noted that today nearly 60 million Europeans rely on a defined contribution scheme for an adequate retirement income. EIOPA's aim is that members should have confidence in their defined contribution scheme regardless of where in the EU it is located. Let me highlight three areas which impact on DC schemes which we are consulting on.

First, what information should be provided to members and beneficiaries? Where members bear the investment risk, information is vital to helping them make appropriate decisions.

EIOPA proposes a Key Information Document which would contain:

- a brief description of the scheme's objectives and investment policies;
- information on performance (either in terms of past performance and/or of performance scenarios);
- costs and charges;
- a risk/reward profile and/or the time horizon adopted for the investment policy;
- contribution arrangements and in particular contribution commitments of the employer and the employee as a percentage of the salary

We are also consulting on whether there should be minimum harmonisation of the content and format of the Key Information Document.

Second, investment rules for DC schemes. One aspect we are seeking views on is how much detailed rules should there be, in addition to the prudent person principle, for investments by DC IORPs. The options in our consultation range from no further rules, which is what incidentally we are advising for defined benefit schemes, to retaining all the rules in the current IORP directive.

Another aspect is what should be the position where the member does not make an active investment choice for example where there is a default fund or there is lifestyling. In these situations the member is particularly dependent on those designing the scheme. Again, at this consultation stage, we are seeking views on a wide variety of options ranging from keeping things as they are to setting minimum requirements regardless of the location of the IORP in the EU.

Third, what is the appropriate balance between the home and the host state? I have already mentioned the possibility of minimum harmonisation in the provision of information. We are also consulting on whether, in cross-border situations, the host state should retain the ability to impose certain investment rules. I should stress at this point that EIOPA fully supports the need for protection of IORP members, all that is at issue is what should be the respective responsibilities of the home and host state in securing this.

Robust governance processes are an essential part of IORPs management. After all they look after their members' money, sometimes for decades at a time. It is vital that those who run pension schemes are individuals of competence and integrity who are subject to a robust set of internal and external controls.

EIOPA is consulting on a set of proposals in areas such as fitness and properness, risk management, internal audits, and custodians and depositories. The starting point is that those who look after pension members' money should do so to the same standards that have been agreed for those who look after insurance policyholders' money. The importance of proportionality in the operational arrangements needs however to be emphasised. Based on our first consultation in July and August on the governance chapters of the call for advice there is a gratifying degree of consensus on this approach to the governance of IORPs.

Let me now turn to capital requirements. Firstly, let me state clearly that EIOPA's starting position is the protection of pension scheme members and beneficiaries. We make no apology for wanting all occupational schemes throughout Europe to have sufficient capital to meet their promises under a reasonable, but realistic and transparent, framework.

On capital requirements, the "holistic balance sheet" approach we propose reflects the different means by which pensions throughout Europe provide security for their members. In some member states the sponsoring employer plays a key role and this is recognised. EIOPA's advice on this is very clear: "EIOPA's position is that sponsor support should be valued as an asset and so have a value on the asset side of the holistic balance sheet of the IORP and can also act as a risk mitigation mechanism reducing capital requirements."

We are looking forward to stakeholders comments on this approach.

Underlying a lot of the concern about a revision of the IORP directive is that the differences between pensions and insurance are not recognised.

As the European authority for both occupational pensions and insurance, EIOPA will indeed, whenever justified, take a consistent approach to both sectors.

But let me be clear that a consistent approach to the two sectors does not mean an identical approach. Three key differences between insurers and IORPs which have had an impact on EIOPA's advice are, firstly, that IORPs have a social and employment context. Social and labour law has a significant impact on IORPs. Employers are involved in the funding and governance of IORPs. Members are frequently on the IORP's governing body. These consequences carry implications which we recognise in areas such as how the requirements for technical knowledge of the governing body of an IORP are implemented.

Secondly, the suppliers of capital to IORPs have more extensive commitments than providers of equity to insurers. In some member states, member contributions and the employer are sources of capital for IORPs. In both cases these parties can be required to provide additional capital in the event of shortfall. Again, as I have already made clear, EIOPA's advice is that this more extensive commitment should be recognised in the valuation of IORP assets and liabilities via the "holistic balance sheet" approach.

Thirdly, there are a greater number of IORPs. According to the call for advice there are around 140,000 IORPs. In contrast, at the end of 2009, there were 4,753 insurers. EIOPA's advice is that a difference of this order of magnitude means that the supervision of IORPs cannot be the same as insurers; the supervisory capacity does not exist in every member state to regulate IORPs with the same intensity as insurers. The application of proportionality is therefore particularly important in the IORP context.

Finally, let me turn to the adoption of a Europe-wide approach. EIOPA believes that there are gains to a European and ambitious approach to pensions. It is surely beyond dispute that there is potential to improve the internal market in a sector which has 140,000 pension schemes of which only 84 are cross-border.

A European approach is even more relevant if we realize that the pressures on the sustainability of public social security systems are reinforcing the need to create sound conditions for the development of the second and third pillars of pension provision. I believe that the development of a modern principles-based framework for private pensions safety within the EU will help to promote efficiency, deepen the single market, and better safeguard members and beneficiaries.

We need a new regulatory framework that enhances consumer confidence by introducing risk sensitive requirements, fostering good risk management and reinforcing transparency. We recognise that occupational pensions are different from other products. But are the differences so extreme that, while a Europe-wide approach has been agreed for insurance, and for other financial products, this is impossible for pensions? I don't think so. Members and employers will both gain from a more European approach.

I should say in conclusion that the review of the IORP directive will be a process not an abrupt outcome. EIOPA's current consultation is an important milestone in that process, and I know that the EFRP and its members will respond to it by the deadline of 2 January. It will not however be the end of the story. We will proceed with an impact study and other steps will follow.

To finish where I began, this round of pensions reform will probably last longer than EIOPA's 30th birthday celebrations!

Thank you.