SPEECH

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EIOPA – Building a European supervisory culture

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

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Ladies and Gentleman,

First of all let me thank the Insurance Institute of London for the invitation to be here today and the opportunity to speak to you on the experience of EIOPA building a European supervisory culture in the insurance and pension's field.

In my presentation I will start by make a reference to EIOPA's mission, vision and values. I will then talk about EIOPA's early experiences on the different areas under our remit: regulation, oversight, consumer protection, financial stability and international relations. Finally I will focus on the main challenges ahead for EIOPA.

We are living exceptionally challenging times. The current crisis touches fundamental aspects of our economies and many changes are happening or are bound to happen in the years to come.

I am convinced that in a few years the setting up of the European Supervisory Authorities will be recognized as one of the most fundamental reforms in the European financial sector coming from the financial crisis. The potential benefits for the EU internal market coming from the creation of these Authorities are huge, both for the industry and for consumers.

EIOPA's mission is to protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the European Union economy, its citizens and businesses. This mission is pursued by promoting a sound regulatory framework and consistent supervisory practices in order to protect the rights of policyholders, pension scheme members and beneficiaries and contribute to the public confidence in the European Union's insurance and occupational pensions sectors.

EIOPA aims to be a modern, competent and professional organization that acts independently in an effective and efficient way towards the creation of a common European supervisory culture.

We are governed by a set of values that guide our action and the daily relationship with our members and stakeholders: independence, responsibility, integrity, transparency, efficiency and team spirit.

These have been challenging times since the beginning of 2011. We had to establish our structure, recruit staff and build our internal rules, processes and procedures. In spite of this we managed to deliver a very ambitious plan, covering all areas assigned to EIOPA by the European Regulation.

On the **Regulatory** front we launched a number of important public consultations in order to facilitate the preparatory work of insurance undertakings for Solvency II in areas such as the Own Risk and Solvency Assessment (ORSA) and Supervisory Reporting and Public Disclosure, including the Solvency II XBRL Taxonomy.

We continued to work on the Solvency II specifications for example by issuing a joint report on calibration of non-life risk factors in the standard formula.

Furthermore, we delivered EIOPA's advice to the European Commission on the review of the IORP Directive, setting the scene to improve risk-based supervision in the pension funds sector.

On the **Oversight** side we took as a priority our participation in the colleges of supervisors, contributing to a more consistent practice, setting an annual action plan and monitoring its actual implementation. Clear timelines were defined within the colleges for the setting up of an appropriate work plan to deal with the group internal model validation process.

Furthermore, we have initiated visits by EIOPA staff to the NSA's in order to have a better understanding of local markets realities and their respective supervision.

On the **Consumer Protection and financial innovation** areas we put out for public consultation a Good Practices Report analysing the disclosure and sale of Variable Annuities and a set of Guidelines and a Best Practices Report on Complaints-Handling by Insurance Undertakings. Furthermore, we presented a Report on financial literacy and education initiatives by competent authorities.

Reflecting our commitment to this area we have also published an initial overview of **Key Consumer Trends** in the EU, where we identify three key consumer areas that will be subject to further review and analysis: (i) Consumer protection issues around payment protection insurance; (2) Increased focus on unit-linked life insurance products and (3) Increased use of comparison websites by consumers.

Finally we have organized our first **EIOPA Consumer strategy** day where we had the opportunity to discuss several relevant consumer issues with the different stakeholders.

EIOPA was also active in the **Financial Stability** domain by assessing the resilience of the EU insurance sector to major shocks through the EU-wide stress test exercise and by testing different scenarios on the low yield stress test which shows that the insurance industry would be negatively affected if a scenario were to materialize where yields remain low for a prolonged period of time.

Furthermore, EIOPA is contributing to the macro-prudential discussions and risks analysis in the context of the European Systemic Risk Board, supported by the establishment of the EIOPA Risk dashboard.
In the **international** front we provided final advice to the European Commission on the assessment of the Solvency II equivalence of the Swiss, Bermudan and Japanese supervisory systems and we started to contribute to the development of robust international standards by actively participating in the work of the International Association of Insurance Supervisors.

Paramount to our activity was the involvement with the Insurance and Reinsurance Stakeholder Group and the Occupational Pensions Stakeholder Group. The exchange of views and the opinions from the Stakeholder Groups were essential in the development of EIOPA's work.

Looking ahead, I would like to give you my perception about some key challenges we face:

First – **Take the adequate lessons from the crisis**.

The crisis clearly showed us how fundamental is to the sustainability of the financial system that financial institutions use robust and realistic risk assessment and pricing.

On the insurance side, Solvency II was designed to take into account market information for solvency purposes. Of course, being grounded on an economic based valuation of all asset and liabilities and on a total balance sheet approach to financial resources and risks, Solvency II will bring some level of volatility to the own-funds.

Especially for long-term illiquid liabilities (like annuities and pensions) this volatility could be mitigated, for example by adjusting the relevant "risk free" rate used to discount these liabilities.

If we want to reinforce consumer protection it is fundamental to preserve the basis of Solvency II as a sound framework for risk-based supervision, giving the appropriate incentives to better risk management and enhancing transparency.

Naturally, appropriate consideration needs to be given to the necessary transition periods to deal with the business already written.

On the pension's side, while we need to find the adequate balance between different objectives like security and affordability, I believe that continuing to use liability valuations and risk assessments that deny market reality is not an answer. This will not contribute to a better management of the risks, it fails to reflect the true risks that the different stakeholders are running and helps to preserve schemes that are clearly unsustainable, postponing the taking up of measures in due time about the nature of the pension promise.

Within this picture, the inevitable consequences in the short to medium term will be a sudden lowering in the value of pensions for the members and beneficiaries, higher concentration of costs for employers and ultimately intergenerational conflicts.

The holistic balance sheet concept recommended by EIOPA has the potential to be a relevant instrument in the direction of further transparency on the analysis of the solvency situation of pension funds. But we need to test it.

Another lesson is that in regulation one size does not fit all. We need to have a constant effort to look at proportionality and we should not cede to the temptation to treat equally what is different. In fact different sectors have different business models and consequently different risks. For example, this is the case of systemic risk.

Second – **A new paradigm on consumer protection**.

First of all, we need to take a new look at **conflicts of interest**. Unfair practices leading to consumer detriment in the insurance and pensions market are often due to situations of conflicts of interest. Insurance is an industry where agency incentives can be the main driver of the kind of product to be sold. Sometimes these results in the sale of products which are not suitable for the consumers concerned.

Ensuring advice to consumer’s best suits their profile and their needs, taking into account the complexity of the contract and the risks involved is a key element of consumer protection. **This necessarily entails that selling practices, whether through intermediaries or direct writers, should meet certain high standards.**

Secondly, we need to **reinforce the standardization and comparability of the information** to be provided to consumers, helping them to take informed decisions. However, information should not be used to shift responsibility from the providers to consumers.

Thirdly, we need to pay further attention to **product suitability**. I believe we should explore the merits of labeling products based on common risk features. Furthermore, we should develop a **framework for early detection of unfair products, clauses or practices**. I believe that this can usefully include the request of an independent opinion on the product design and characteristics by the internal governance functions of the insurer.

Fourthly, we should **strengthen conduct of business supervision**. Supervisory authorities should have the authority, capabilities, tools and resources to effectively and efficiently regulate and supervise the conduct of business of undertakings and intermediaries.

Third – **The convergence of supervisory practices in the EU**.

I believe that the convergence of supervisory practices is **as important as the single rule book**. By assuring that day-to-day supervisory oversight of financial institutions is done within a consistent framework we can effectively contribute to an increased level of protection of policyholders and beneficiaries in the European Union. **The single market requires it and EIOPA is committed to deliver it**.

Convergence does not mean harmonization. The process of convergence should encompass the issuance of guidelines and recommendations on the common framework for the supervisory review process and the development of **best practices** in the different supervisory areas. Importantly this should leave sufficient flexibility to judgment by national supervisors.

Nevertheless, especially regarding the **major EU cross-border groups**, it is much **relevant to assure a high level of consistency in the supervisory approaches**. It is a question of preserving a level playing field within the internal market and also a question of overall consumer protection.

EIOPA will continue to pursuit its objectives in a pragmatic way with a clear vision and strategy for the future. We will create a truly European supervisory culture that promotes stability, enhances transparency and fosters consumer protection. A culture based on intelligent and effective regulation that adds credibility and promotes good practices. We will do it in constant dialogue with all stakeholders.

Thank you for your attention.