



Gabriel Bernardino
Chairman of EIOPA

Statement



Hearing at the Committee on Economic and Monetary Affairs
of the European Parliament
Brussels, 19 September 2012

Madam Chairwoman,

Honorable members of the European Parliament,

In this challenging period we have had to establish our structure, recruit new 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.

Regulation:

In the field of insurance EIOPA has been focused on preparing the final set of regulatory measures for Solvency II, the draft standards and guidelines, and supporting from an independent viewpoint the political discussions in Omnibus II.

According to its mandate EIOPA has concentrated its efforts on fundamental areas for convergence of practices in the Solvency II implementation, namely the development of a harmonized set of reporting requirements, the establishment of supervisors' expectations of the Own Risk and Solvency Assessment (ORSA) to be developed by insurers, and the process of pre-application of internal models. Furthermore we have been working on 55 different standards and guidelines in order to be ready for the launch of Solvency II.

EIOPA has been providing the political institutions with technical analysis and advice on the main subjects being discussed in Omnibus II. EIOPA staff notes clearly showed our independence. In this sequence we very much welcome the role as advisor that the EU political institutions are willing to attribute to EIOPA on the assessment of the long term guarantee package. EIOPA will be ready to run the assessment and provide the results and its recommendations to the EU political institutions.

In the area of occupational pensions, following two extended public consultations, EIOPA responded to the Call for Advice from the European Commission on the review of the IORP Directive, recommending a comprehensive framework for risk-based supervision of IORP's, that considers pension funds specificities, and proposing a reinforcement of transparency towards pension funds members through the establishment of a Key Information Document.

EIOPA is now in the later stages of preparation of a Quantitative Impact Study that will allow us to evaluate the practicability and the effects of the different options considered for the valuation of assets and liabilities and the setting up of the so-called holistic balance sheet.

We will run a seminar for participants in the QIS to help them through the exercise and learning from their expertise and take into account ways of facilitating the participation in the exercise.

Supervision:

EIOPA's tasks go beyond pure regulatory work and include concrete supervisory responsibilities, such as an enhanced role as a member of the colleges of supervisors.

In order to ensure the consistency and convergence of practices in the colleges EIOPA has established an Action Plan with concrete deliverables and timings and has been monitoring its fulfilment. This has clearly increased the consistency of the work of the colleges and improved the exchange of information between supervisors.

EIOPA is also starting to work on a Supervisory Handbook that should work as a guidebook for supervision in Solvency II, setting out best practices in all the relevant areas of supervision. This handbook will foster the implementation of a more consistent framework for the conduct of supervision.

EIOPA has facilitated a coordinated approach by EIOPA Members to dealing with the financial crisis. This has taken the form of a "common approach" to monitoring:

- Insurance sector exposures to sovereign and bank risk;
- Liquidity and cash-flow developments in the insurance sector;
- Interconnection between the insurance and banking sectors, for example through liquidity swap and repo activity; and
- Insurers' contingency plans to deal with significant changes in financial asset values.

EIOPA developed its internal infrastructure to allow it to carry out its crisis prevention and management activities. A group comprising EIOPA Staff and a number of EIOPA Members has been created to examine emerging risks and to develop proposals for EIOPA to act.

Consumer protection and financial innovation:

In line with the emphasis given by the EIOPA Regulation, consumer protection and financial innovation has been set as one of EIOPA's strategic priorities, reflected in the allocation of important resources to a specific consumer protection and financial innovation unit in our organizational structure.

I am particularly proud that EIOPA's first set of Guidelines were developed in the consumer protection area. The Guidelines on complaints handling by insurers fill an important regulatory gap at the EU level and are an important step towards promoting more transparency, simplicity and fairness in the market for consumer financial products and services.

Insurers in the EU are expected to put in place a complaints management policy and a complaints management function that would allow them to investigate complaints in a fair way and to identify and mitigate possible conflicts of interest.

Complaints should be registered, processed in accordance with national timing requirements and some basic information should be reported to the supervisory authorities.

Most importantly, complaints-handling should give insurers management information on how the company deals with consumer issues. Insurers should analyse the causes of complaints, identify root causes that are common and act on them.

Furthermore we have issued a Good Practices Report analysing the disclosure and sale of variable annuities that identifies how consumer interests can be better protected as regards the sales of this type of complex products.

EIOPA has also published a Report on Financial Literacy and Education Initiatives by Competent Authorities and the initial overview of consumer trends in the European insurance and occupational pensions sectors. In this overview 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.

Recognizing the importance of the different stakeholder's views on the implementation of EIOPA's strategy in the area of consumer protection we will organize in December

our 2nd Consumer Strategy Day where we explain how we are delivering our mandate on the consumer area and receive input on the different priorities and strategies.

This initiative is part of our policy of transparency and we will have the pleasure to count with the presence of members of the European Parliament and of the EU Commission, together with consumer and industry representatives.

Financial stability:

EIOPA was also active in the Financial Stability domain. On a quarterly basis we develop EIOPA's risk dashboard, containing a set of quantitative and qualitative indicators that help to identify and measure the evolution of risk in the EU insurance market. The September 2012 EIOPA's Risk Dashboard in Annex, which is based on both supervisory and market data, documents a heightened state of risk for the insurance sector, namely due to the sovereign and banking exposures and the low interest rate environment.

It is worth to mention that EIOPA conducted a harmonized, pan-European low-yield stress test for the insurance sector that showed that the insurance industry would be negatively affected if a scenario were to materialize where yields remain low for a prolonged period of time.

EIOPA has actively participated in the work of the ESRB with the main focus on identifying potential systemically important issues in the sectors of insurance and IORPs.

EIOPA publishes on a semi-annual basis its Financial Stability Report, analysing the economic soundness of the insurance, reinsurance and pension IORPs sectors.

During this crisis EIOPA has been monitoring and assessing market developments on a permanent basis, by using efficiently the public information available and collecting more granular information directly from the national supervisory authorities, both through specific quantitative and qualitative queries and by dedicated visits by EIOPA staff. This allowed us to reinforce the coordination of the EU supervisor's actions, highlight particular risks and activities that need to be further monitored and overall to be better prepared in the case of adverse developments.

International relations:

On the international front EIOPA provided final advice to the European Commission on the assessment of the Solvency II equivalence of the Swiss, Bermudan and Japanese supervisory systems and launched the analyses of the regulatory regimes of 8 further countries that had expressed an interest in being included in a transitional regime.

EIOPA maintains regular regulatory and supervisory dialogues with a number of relevant third country authorities and is heavily involved in a dedicated project aimed to increase mutual understanding and cooperation with a view to identifying the main commonalities and differences of the insurance regulatory and supervisory regimes in the EU and the USA.

I am proud to announce that the day after tomorrow EIOPA, as a supervisory authority, will sign its own first memorandum of understanding with a third country supervisor, namely the Swiss Financial Market Supervisory Authority - FINMA.

We started to contribute to the development of robust international standards by actively participating in the work of the International Association of Insurance Supervisors, prioritizing projects like the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and the identification and treatment of globally systemic important insurers.

Paramount to our activity was the constant involvement with the Insurance and Reinsurance Stakeholder Group and the Occupational Pensions Stakeholder Group which, in the respective time period, had overall fourteen meetings. The exchange of views and the opinions from the Stakeholder Groups were essential in the development of EIOPA's work.

On budget and resources:

On the budget side let me start by expressing my sincere thanks to the European Parliament for all the support on the process of the EIOPA budget for 2013. I hope that it will be possible to maintain, within the limits of reasonableness imposed by the current crisis, a level of funding resources commensurate with the ambition of this project and the tasks and responsibilities assigned to EIOPA.

I believe that it is of the utmost importance that any new tasks or powers attributed to EIOPA will be accompanied by the corresponding human and financial resources. This is the only way to assure our independence and the quality of our work. In fact, the most significant element in EIOPA's success is our staff. It is their knowledge, experience and dedication that allow us to fulfill our mandate and respond to an increasingly demanding environment.

The recruitment of experienced staff represents a particular challenge for EIOPA as was recognized by the internal audit services of the EU Commission. This should call for a more flexible application of the EU Commission rules, within the overall budget agreed. We understand that unfortunately the EU Commission budget services are not currently considering this option, but would welcome a change in this approach. Senior staff in the financial sector is hard to find, yet much needed for us to keep the level of quality and ambition of EIOPA's work.

Finally, as mentioned before, I want to express my clear preference for EIOPA to be financed by an independent line in the EU budget which, in my opinion, would better reflect the necessary independence of this European institution, both from its members as well as from the European Commission, while keeping full accountability as it is already the case of the European Data Protection Supervisor, justified by reasons of ensuring their independence. Don't we also need a budget framework that protects our independence?

Looking forward:

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 stemming from the financial crisis. The potential benefits from the creation of a single rule book are huge, both for the industry and for consumers.

Let me touch on a couple of areas of the current development of the insurance and pensions single rule books:

On insurance and more precisely Solvency II:

The move towards an economic risk-based regime in insurance supervision is a fundamental step to increase policy holder protection. It is also a key element of reputation of the EU insurance market.

Let's not forget that the current regime does not capture risks in a robust way. To make this move in the current economic environment is, of course, a challenging task.

We need to build a sound and prudent regime for long-term guarantees under Solvency II. A regime that preserves the risk-based economic approach on the valuation and assessment of risk and that adequately captures the characteristics of certain long-term liabilities with sufficiently predictable cash-flows that can be matched.

This should be viewed as an opportunity to continue to offer long-term guarantees to consumers, but under a robust framework that would price correctly any options embedded in the contracts. Promises given today have to be valid for the future. Policyholders need to be able to rely on promises that are essential for their retirement situation.

The new regime should not work as an incentive to maintain unsustainable practices and products that are already challenged by the economic reality.

But Solvency II needs to be implemented without disruption of the markets. A transition period will be needed for blocks of old contracts that were developed in a different regulatory context. This transition should provide a soft landing of the new regime and could include a parallel run. It should be simple, progressive, transparent and easy to supervise.

On the IORPs side:

In EIOPA's Final Advice to the European Commission on the entire occupational pensions legislative framework we state that the governance, risk management and transparency principles of risk-based supervision should be applied to IORPs, taken into account due proportionality. On the Defined Contribution (DC) schemes, where the risk is borne by the members, we advise the introduction of a Key Information Document (KID) containing a set of basic elements like risks, costs, charges etc. This will surely improve transparency.

On the solvency side, taking due account of the diversity of IORPs, we propose the concept of a Holistic Balance Sheet that will enable the consideration of the various adjustment and security mechanisms in an explicit way. This will allow a better understanding of the economic value of assets and liabilities and will give an indication of where the risk is and who bears it.

Occupational pension schemes are a fundamental element in the overall retirement protection of the EU citizens. They should play a crucial role in the future.

But they also need to be subject to a reality test. We cannot continue to ignore "reality" (the economic and longevity reality). If we fail to do that, we have no incentive to improve the management of risks, to challenge the sustainability of the pension promises and we will just "kick the can down the road".

We need 2nd Pillar pension regimes to provide for safer and affordable pensions. We need to increase savings. This in turn will contribute to the rise of long term investments and foster economic growth.

But growth cannot come at any price. We need sustainable growth. We need to learn the appropriate lessons from the crisis.

Beyond the single rule book:

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.

Like Jean Monnet said one day "Co-operation between nations, while essential, cannot alone meet our problem. What must be sought is a fusion of the interests of the European peoples and not merely another effort to maintain an equilibrium of those interests".

My vision is to build up EIOPA as a modern, competent and professional organization that acts independently in an effective and efficient way towards the creation of a common European supervisory culture.

I recognize that in the banking area there is an urgent need of creation of a single supervisory mechanism for the Euro area. As a convicted European I welcome steps in the direction of more European consistency in financial supervision. I also recognize that the insurance sector is in a different situation mainly because the links between sovereigns and insurers have a distinct nature and different consequences than the ones between sovereigns and banks.

Insurance is not banking. There are indeed fundamental differences in the risks and in the business models. Nevertheless, I believe that it is fundamental to build on the experience of what has been achieved by EIOPA under the current Regulation and start a reflection on the further steps (tasks and powers) needed for EIOPA to deliver a truly consistent supervisory process in the EU and, in particular, to assure the consistent oversight of cross-border insurance groups.

Final remarks:

On the Consumer protection area I want to highlight the urgent need to include provisions in the insurance and pension Directives allowing EIOPA to ban or restrict financial activities as established in Article 9 of the EIOPA Regulation, assuring an effective way to deal, for example, with situations of flawed product design or governance that could lead to severe consumer detriment. Without these provisions EIOPA cannot fulfill its mandate as described in the Regulation.

Furthermore, in the pensions area EIOPA's mandate only covers occupational pensions, the so called 2nd pillar. However, I believe that the implementation of the EU agenda for adequate, safe and sustainable pensions calls for a sufficient level of regulation and supervision of personal pensions, the so called 3rd pillar. Consequently, EIOPA's mandate should be extended to all 3rd pillar pensions. This is also recommended by EIOPA's Occupational Pensions Stakeholder Group in their comment to the Commission's White paper on Pensions.

The challenges posed to us are immense but at EIOPA we are committed and motivated to contribute to the creation of a truly European supervisory culture: a culture that promotes stability, enhances transparency and fosters consumer protection. We want to do this within a framework of strong independence and accountability. I am sure that the EU Parliament will continue to support us on this objective.