EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

WELCOME SPEECH

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EIOPA. Building a credible and respected supervisory authority

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

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Ladies and Gentlemen,

I would like to welcome you to the Third Annual Conference of EIOPA. We are delighted that this year's conference has attracted many distinguished participants from insurance companies and pension funds, professional associations, academia, supervisory authorities, European and international institutions.

Our annual conferences are essential for EIOPA's policy to maintain an interactive dialogue with all our stakeholders and to remain transparent to them. That is why I would like to encourage all of you to speak your mind, to share with us your views. I am confident that your contributions will generate interesting debates and will ensure that this conference provides insightful and thought-provoking discussions on many policy issues of relevance to insurance and pensions.

From our side, we remain committed to engage with you and discuss all the issues which caused your questions, doubts or seemed to be unclear. I believe that only by being open and transparent to our stakeholders, we can fine-tune the practical implementation of EIOPA's mandate to build up a common supervisory culture across Europe.

I also would like to extend my gratitude to the City of Frankfurt and the State of Hessen for their support. Since the establishment of the European Central Bank, Frankfurt has been seen as the "financial capital" of the euro area. With EIOPA, the European Systemic Risk Board (ESRB) and the banking single supervisory mechanism, the city is becoming a centre for regulation and supervision of the EU financial system. In EIOPA we enjoy being part of the city and we are looking forward to further enhancing our cooperation with Frankfurt.

At today's conference, we are going to provide you with a gripping programme for discussions. Our three panels will be dedicated to the following topics:

- Risks and Opportunities for the Future of Life Insurance and Pensions;
- Development of an EU Framework in the pensions area; and last but not least
- Solvency II implementation.

We entitled our third panel “On Your Mark, Get Set, Go” because Solvency II enters into the implementation phase and it is with Solvency II that I would like to start the overview of EIOPA’s key achievements and also share with you some reflections on the way forward.

Solvency II: from vision to reality

Speaking at the EIOPA Annual Conference last year, I named three steps that I found necessary in order to move forward with the Solvency II implementation:

I. The commitment from the political institutions on a clear and credible timetable for the implementation of the new framework;
II. A political agreement on a sound and prudent regime for the valuation of long-term guarantees;
III. The launch of an interim phase for Solvency II implementation, to be coordinated by EIOPA.

One year later, I am happy to state that progress has been made on all three steps.

In October, the European Commission has presented a legislative proposal that sets the new deadline for the application of Solvency II - 1 January 2016.

On 31 October, EIOPA issued its Guidelines on the preparation for Solvency II in all the official languages of the European Union. The Guidelines will be applied during 2014 and 2015.

Finally on 13 November, the trilogue parties (the European Parliament, the Council of the EU and the European Commission) reached a political agreement on the Omnibus II Directive and in particular on the Long-Term Guarantee (LTG) measures.

The clarity over the implementation timetable will remove the uncertainty that both insurance undertakings and supervisors were facing, avoid market fragmentation and ensure that the internal market risk-based framework will be kept. At the same time this new calendar provides us with two additional years to gradually prepare for Solvency II, ensuring that undertakings and supervisors will be fully ready for the 2016 deadline.

I am happy to see that EIOPA has played a central role in these developments, contributing extensively to the creation of the insurance "single rule book" in the EU.

We ran the Long Term Guarantees impact assessment and delivered our independent recommendations to the political institutions. The basic framework proposed by EIOPA was taken as the starting point of the political negotiations and it is my belief that it was instrumental in getting a final agreement. The legitimate political decisions were taken and a compromise obtained. I welcome particularly the preservation of the economic risk-based nature of the liability valuation, the single-market approach on the implementation of the different measures and the recognition that Solvency II is built upon a three pillar approach that gives real importance to Pillar 2 supervisory review processes and Pillar 3 supervisory reporting and public disclosure.

I also welcome the different important roles assigned to EIOPA in the implementation of Solvency II, which are a signal of the trust of the EU political institutions in EIOPA's capacity and independence.

I am sure that insurers will develop new kinds of long-term guarantees within this new solvency regime, better pricing the options and guarantees involved. The reality is that all guarantees have a cost and consumers need to recognize that products that offer simultaneously short and long-term guarantees are by definition extremely costly. So, it is to be expected that in order to get a long-term guarantee within a sustainable and affordable framework, consumers will need to give up short-term security.

In this sense I believe that mechanisms like the matching adjustment capture the right balance. It preserves the risk-based economic approach on the valuation and assessment of risk and adequately captures the characteristics of certain long-term liabilities with sufficiently predictable matchable cash-flows, while avoiding undue volatility.

The matching adjustment allows for offering newly designed and transparent products while applying the core traditional insurance management strategy of matching liabilities with assets. These new products will have a fair and transparent sharing of risks. Consumers will get long term security in exchange for short term illiquidity.

The risk of inappropriate matching needs to be kept under control and insurers should be incentivised to invest in good quality assets to be held until maturity. It will be up to the European insurance market to ensure that the matching adjustment can flourish in all the European countries.

This can be an issue to be considered in our first panel, where we will discuss the strategic views for the future of life insurance and pensions.

Furthermore, it is time to understand that there is no economic risk-based regime in insurance without a certain degree of volatility in capital requirements. Financial markets shouldn't penalise insurers for the remaining volatility in the prudential requirements and instead should value the transparency of economic balance sheets and risk-based regulation. After all, Solvency II certainly represents a tremendous improvement in the EU insurance regulatory framework.

Solvency II interim phase

I am proud that with regard to the Solvency II interim phase, we fully comply with the commitments that we made last year. In the course of 2013, EIOPA put out for public consultation four sets of preparatory Guidelines: system of governance, including risk management; forward looking assessment of the undertaking's own risk (based on the Own Risk and Solvency Assessment (ORSA) principles); submission of information to National Competent Authorities (NCAs); and pre-application for internal models.

In the course of this consultation we received over 4000 comments and I would like to take this opportunity to thank all stakeholders for their remarks and suggestions. By virtue of their participation we were able to refine the Guidelines' content and achieve a better balanced approach to the preparatory phase. So the preparatory phase became possible thanks to our common efforts!

The objective of our Guidelines is to allow supervisors and companies alike to set up structures and get familiar with new requirements, a new system; to start the process of enhanced communication between supervisors and firms, and in general to use this interim period as a warm-up for the Solvency II implementation.

But the Guidelines are just the first step. The most important part will begin next year, when the NCAs will start incorporating the Guidelines into their regulatory and supervisory framework. In order to support them and ensure consistent application of the Guidelines across the EU, EIOPA has established a dedicated Questions & Answers tool.

The tool can be used by supervisors, financial institutions and all the other stakeholders involved. Its purpose is to clarify the intention or meaning of guidelines and to provide, where appropriate, guidance on how the Guidelines should be interpreted within a particular context.

Let me point out: by these measures EIOPA is preparing supervisors and undertakings for the new risk-based supervisory regime in a consistent and convergent way. And the more we work together, the more consistent will be our preparatory work, the more efficient will be the full implementation of Solvency II in 2016.

The following 2 years will be crucial for the success of Solvency II. The regulatory phase will be finalised with the EU Commission delegated acts and EIOPA's technical standards and guidelines. EIOPA will publicly consult on the technical standards and guidelines as soon as possible during 2014, in order to deliver them in time for a good and timely implementation by the industry.

I am sure that our third panel, which is dedicated to the implementation of Solvency II, will provide us with the opportunity to further discuss and exchange views on these issues.

Pension's agenda: sustainability for current and future generations

The second panel of our conference will be dedicated to the discussion of an EU framework for pensions.

Generating an adequate retirement income for each EU citizen is one of the key objectives of the European Union. Occupational and personal pensions are instrumental in delivering this result.

All pension schemes throughout Europe should have sufficient resources in order to meet their promises. To achieve this it is fundamental to strengthen the EU regulatory framework on occupational and personal pensions in order to provide citizens with a high level of protection, trust and confidence in their pension regimes.

In 2013, EIOPA delivered the results of the first quantitative impact study in the field of occupational pensions. This was the first truly European assessment of the financial situation of occupational pension funds. It shows that the minimum harmonisation approach of the current IORP Directive has resulted in large differences in the protection of members and beneficiaries across Europe and that pension funds dispose of vulnerabilities in different areas: some are very dependent on future payments by the sponsor while in others substantial benefit reductions are expected.

We welcome the decision of the European Commission to focus its proposal for the revised IORP Directive on the improvement of governance, reporting requirements and transparency of occupational pension funds. Over 2014 we are going to improve definitions and methodologies for assessing the holistic balance sheet in order to present to the European Commission with a number of further technical proposals for a European risk-based prudential regime that appropriately reflects the specific reality of pension funds.

EIOPA's work on personal pensions

At the last year's conference I also mentioned the need to extend EIOPA's mandate to personal pensions. I am proud that in 2013 we started to work in this area.

This year the Commission requested us to deliver advice on the prudential regulations and consumer protection measures needed to create a single market for personal pensions. In May 2013, upon this request, as a first step we issued the Discussion Paper on a possible EU-single market for personal pension products and organised a public event on personal pensions.

We are currently working on an interim report to the EU Commission that we plan to present in the first quarter of 2014.

It is my profound view that personal pension plans should be focused on the long-term nature of their objective thus avoiding the traps of the short term horizon. These plans should be based on a simple framework, allowing for reduced cost structures and be managed using robust and modern risk management tools. Furthermore, they should rely on clear and transparent governance structures and provide full transparency to their members.

EIOPA and supervisory convergence

So far I provided you with an overview of EIOPA's achievements in the area of regulation. But let's be honest: good regulation is just a first step. A much bigger and more difficult task is to implement all the regulatory requirements in a consistent way and to properly monitor the implementation process across the EU.

That is why EIOPA puts a strong emphasis on the promotion of supervisory convergence. In this context we have been using a number of tools: participation in the colleges of supervisors, conducting peer reviews, issuing opinions addressed to NCAs.

EIOPA's experts are actively engaged in the meetings of colleges of supervisors. In October, we published EIOPA's Action Plan 2014-2015 for colleges, which aims to develop consistent risk-based supervision according to Solvency II requirements and in particular, to reach a shared view on the assessment of the risk exposure of groups and solo entities. Colleges of supervisors will also discuss and review the progress and consistency of the application of EIOPA preparatory guidelines at both group and solo levels.

During the last year we conducted 4 comprehensive peer reviews that contribute to the development of convergent supervisory standards. As part of its supervisory mandate, EIOPA has participated together with the national supervisors in joint on-site inspections. EIOPA's work on supervisory convergence is also underway through the development of a Supervisory Handbook that will incorporate good supervisory practices.

EIOPA has also set up a Centre of Expertise on Internal Models. The Centre was initiated to achieve a consistent, compliant and efficient implementation of Solvency II Internal Models across the EU. This is progressing by working collaboratively to deliver tools that equip NCAs and by exercising oversight on Internal Model activity. It aims at developing good practices and sound indicators to support a consistent analysis and validation in this critical area of Solvency II implementation.

Following our market analysis and risk assessment, EIOPA identified a prolonged period of low interest rates as a potential threat to the stability of the EU insurance sector and a coordinated supervisory response was set out in an EIOPA Opinion that we issued in February 2013. Our coordinated EU-wide approach promotes enhanced supervision, engagement with firms to take actions to mitigate the risks inherent in certain products and actions to understand the full magnitude of the challenges faced.

We raised awareness about this potential risk at the ESRB level and now this is included in the ESRB overview of systemic risks. In 2014, we plan to run a comprehensive stress test. It is envisaged that the protracted low interest rate environment will be a central part of this test.

As we know, Solvency II will include appropriate transitional mechanisms to deal with the solvency issues of the low interest rate environment. Nevertheless, we cannot wait for 2016 to deal seriously with this issue. The next two years should be used to actively implement measures to avoid the worst case scenarios. We need to continue to see adjustments in product design in order to gradually change the mix of business. And we need to see this change preserving the rights of the policyholders and avoiding any miss-selling cases. The reputation of the insurance industry needs to be preserved. It is a difficult balance but it is crucial to achieve it.

EIOPA’s work for consumers

As consumer protection has been one of EIOPA’s main priorities since the beginning, I would like to provide you with a short overview of our achievements in this area.

The national supervisory authorities have already started to implement EIOPA’s Guidelines on complaints-handling in their frameworks and EIOPA is currently monitoring their compliance plans. Following our Guidelines, many insurers are updating their complaint-management systems. This will help consumers to receive better services and to resolve problems in a quicker and a more efficient way.

This year we also have consulted on similar guidelines relating to complaints-handling by insurance intermediaries and plan to publish them in December.

Our consumer protection agenda is focused on ensuring a paradigm shift in the direction of transparency towards consumers and on reinforcing fairness in selling practices.

Having identified significant consumer detriment in the Payment Protection Insurance market, including miss-selling practices, market imperfections and disproportionate levels of commissions, we issued an Opinion, in which we provide a framework for supervisory analysis of the issue, recommend NCAs to use it, and to report back to EIOPA. Based on the information received from NCAs, EIOPA will decide if and what kind of further action is needed at EU level.

Reflecting the relevance that we attach to selling practices, we have published the Good Practices Report on the Provision of Information to Members of Defined Contribution Pension Schemes and plan to publish Good Practices Reports on Comparison Websites and on Knowledge & Ability of Distributors of Insurance Products.

Furthermore, EIOPA has been creating the necessary basic conditions to identify consumer protection issues as they arise. In this context we developed an enhanced methodology for collecting, analysing and reporting on consumer trends and we are exploring the use of social media monitoring tools for our consumer trends analysis.

In order to continue to make progress in the consumer protection area we need certainty on the EU regulatory framework some evolution. Projects like IMD 2 and PRIPS need to be finalised in order to create a new paradigm for transparency and selling practices in the insurance market at an EU level.

Going forward, conduct and consumer risks need to be fully taken into account into the overall governance system of insurers.

Product governance, product suitability and appropriate selling practices need to be on top of the agenda of the boards of insurance companies. Board members need to make sure that product characteristics are suitable for the target market, that distribution channels are appropriate for that market segment and that full transparency on costs is provided to consumers.

The insurance market needs to learn the lessons from the miss-selling cases that occurred in the past in the different countries and pay enough attention to the huge reputational and financial consequences stemming from the unacceptable misconduct behaviour of some financial institutions.

We are living in a period of rapid transformation on the consumer side. Consumers are more demanding, more aware of their rights. The “Web generation” demands greater transparency, comparability and flexibility. Consumers demand more integrity and they don't trust so easily. The perception of poor quality service is rapidly transmitted and exposed through social media networks.

Financial institutions need to provide an adequate answer to this change. They need to develop simpler and more understandable products, devote further attention to the fairness of contractual conditions and they definitely need to review the charges and commissions applied, ensuring that they are not disproportionate.

This needs to be seen in a positive way by insurance companies. Simpler products will reduce cost structures, provide more competitive pricing and reduce the potential for miss-selling. Furthermore, by improving selling practices and avoiding conflicts of interest, insurers will serve their customers better and will be compensated for it.

The consumer angle will certainly be a key in discussing the future of life insurance and pensions.

All in all, financial service providers "should stop doing what is legal and start to do what is legitimate".

The concept of what is legitimate or fair in the relationships between insurers, intermediaries and customers is evolving. What was fair some years ago is not seen like that anymore. This calls for a critical look from the insurance companies and intermediaries at current products and practices in order to ascertain what needs to be adjusted. This proactive critical attitude would certainly prevent future mis-selling cases, help to develop better new products and overall reinforce the confidence of consumers.

A new era for global supervision

And the last topic I would like to reflect on is the development of global insurance supervisory standards. In view of the globalisation and high integration of financial markets, global supervision evolves from fairy tale to reality.

I have been clear in the past defending the necessity of including a quantitative capital framework within Comframe. Therefore, I welcome the commitment of the International Association of Insurance Supervisors (IAIS), following the request from the Financial Stability Board, to develop an international capital standard in the insurance area.

This standard, to be applied by the internationally active insurance groups, will foster the consistency and effectiveness of supervision and represents a basic requirement to globally reinforce consumer protection and financial stability in the insurance markets. Furthermore, it is a fundamental step to achieve a truly level playing field between the main competitors in the world insurance market.

I am confident that by negotiating and coordinating a joint EU-position on ComFrame and on the future Insurance Capital Standard, we will significantly influence the international debate with regard to the development of a risk-based supervisory framework.The basic sound principles of Solvency II can definitely be applied internationally.

The objective should be to have Solvency II as a practical implementation of the international standard. Nevertheless, we should be open to make adjustments to our system if that is needed. Companies should be subject to only one capital standard.

The IAIS needs to embrace this new era and reform its governance arrangements to deliver high quality standards in the challenging timeframe ahead.

Towards an EU supervisory culture

In the almost three years of its existence EIOPA has been instrumental in progressing the EU regulatory agenda in insurance and pensions, has worked hard on supervisory convergence, delivered tangible outcomes for consumers, confronted risks for financial stability and made an important impact at an international level.

Looking at the challenges ahead I think that we need to create the appropriate conditions for EIOPA to perform an independent assessment of the way the regulatory framework is implemented in practice in the different member states. This independent assessment is a key component for the development of consistent supervisory practices in the EU and to ultimately build an EU supervisory culture.

In order to perform this task in an effective and efficient way there are three conditions that need to be addressed:

Firstly an appropriate budget framework that will ensure the overall efficiency of the Authority, reinforce its operational independence and ensure the necessary human and financial resources.

We need an independent budget line that ensures EIOPA's financing from the overall EU budget. We also need a degree of flexibility in the budgetary framework in order to be possible to attract highly qualified staff, especially in critical areas for our mission going forward like the supervision and validation of internal models and the independent assessment of supervisory practices.

Secondly, in order to ensure an adequate and consistent level of supervision, for the benefit of consumer protection and financial stability, the current power of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct, should be extended.

This power should not be confined to situations of potential threats to the stability of the financial system but should be used more generally to support the independent assessment of supervisory practices.

Thirdly, it is essential to avoid the burdensome case-by-case discussions on EIOPA's access to individual company information. Going forward, EIOPA should obtain access to the information included in the harmonised templates developed for Solvency II in a direct and efficient way.

Ladies and gentleman, the European Union will benefit from stronger and more coordinated supervision at European level. At EIOPA we are creating the basic conditions and taking the appropriate steps to build a credible and respected supervisory authority.

I am confident that with the knowledge, experience and dedication of our staff and the experts from the NCA's, with the fruitful dialogue and involvement with our two Stakeholder Groups and the continuous commitment and cooperation of the members of the Board of Supervisors and Management Board, EIOPA will continue to fulfil its mission for the benefit of all European citizens.

Thank you for your attention.