SPEECH

Gabriel Bernardino
Chairman of EIOPA

EIOPA's role in enhancing insurance supervision in the EU

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

General Assembly of the Hellenic Association of Insurance Companies
Athens, 14 February 2014

Ladies and Gentlemen,

Let me begin by thanking the Hellenic Association of Insurance Companies for inviting me to this important meeting attended by so many prominent representatives of the political, economic and social circles of Greece. I am especially happy to be here, in Athens, this year when Greece has embarked in its fifth Presidency in the Council of the European Union.

The theme of this event "Supervision: Guarantor of the insurance market's credibility" is extremely relevant both from an economic and a public policy perspective. A credible and stable insurance industry is one of the basic preconditions for a functioning economy. Appropriate regulation and supervision are fundamental elements to ensure such credibility and stability.

In the aftermath of the financial crisis it is a clear political objective to reinforce the regulation and supervision of the financial sector in order to promote financial stability and strengthen consumer protection, supporting the public confidence and the trust by citizens. That's why among the priorities of the Greek Presidency's work programme is the safeguarding of financial stability and the restoration of confidence in the financial sector.

In the insurance and pensions areas this political commitment is reflected in the evolution of the EU regulatory framework, in particular with Solvency II, and in the responsibilities entrusted to EIOPA as part of the European System of Financial Supervision.

Let me start by the regulatory framework.

There is a large consensus that the move towards an economic risk-based regime in insurance regulation is a fundamental step to increase policyholder protection. To make this move in the current economic environment proved to be a challenging task.

Since the very first year of EIOPA's existence, Solvency II remains one of our major work streams. The project saw crucial developments during the last year and I am happy to witness that EIOPA has played a central role in these developments by contributing extensively to the creation of the insurance "single rule book" in the EU.

Financial turbulences of the last years have demonstrated that Solvency II is even more relevant now than before. It is a modern risk based regime, which will allow insurers to enhance the understanding of the risks they face, to better price those risks and to make better decisions in order to properly manage those risks.

Among the positive effects of Solvency II I would like to especially underline a clear incentive for insurance executives to promote a strong risk culture in their organisations. One of the main consequences of a risk-based regulatory regime is the fact that risk and capital should not be looked at separately. Within Solvency II the Own Risk and Solvency Assessment (ORSA) is the tool of the risk management system that brings together in a comprehensive way risk and capital management. When assessing the "overall solvency needs" as part of the ORSA, insurance companies should consider their risk profile, approved risk tolerance limits and business strategy.

In the absence of international standards – unlike in the banking sector where we have the Basel accord - EIOPA has been responsible for developing the technical regulatory framework of insurance risk-based supervision. This work encompasses all legislative layers from EU Directives (level 1) to EIOPA Guidelines.

Last year, EIOPA ran a long-term guarantee impact assessment and proposed to the EU trilogue parties a number of potential measures that aim to ensure an appropriate supervisory treatment of long-term guarantee products, under volatile and exceptional market conditions. Our work was taken by the EU Commission as the starting point of the political negotiations and I believe it was instrumental in getting a final agreement between the European Parliament and the Council of the EU.

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.

The next step in the road towards Solvency II implementation will be the publication of the Delegated Acts by the European Commission this summer. EIOPA has provided the EU Commission with extensive advice on these measures and recently has also analysed the design and calibration of the capital requirements for certain long-term investments. As a result of the analysis EIOPA proposes an innovative solution in financial markets risk-based regulation: a more granular treatment of securitisations. In order to identify securitisations with a better risk profile EIOPA developed a set of criteria on structure, quality of the underlying assets, underwriting processes and transparency. Given the complexity and poor performance of some securitisations, especially those backed by subprime mortgages, securitisations are sometimes met with a degree of scepticism. However, securitisations meeting the criteria developed by EIOPA have performed well in terms of low default rates. We are convinced that the envisaged capital charges will allow the insurance sector to provide meaningful long-term financing.

Solvency II Interim Phase

In December last year, an EU Directive was adopted that sets up the new deadline for the implementation of Solvency II – 1 January 2016. This means that both national supervisors and insurance companies have two more years in order to prepare for the new regime. EIOPA strongly advocated a common European approach towards the preparation in order to avoid diverging approaches to be taken by Member States. Not only were we calling for this approach, but we also developed a framework that has a practical value for all the parties involved. Last year EIOPA issued its Guidelines on preparing for Solvency II that became applicable as of 1 January 2014.

I am particularly happy to mention that the Greek supervisory authority, the Bank of Greece, reported to EIOPA that they comply with all the four sets of our preparatory Guidelines. These sets cover the 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.

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

In order to ensure the consistent application of the guidelines across the EU, EIOPA has established a dedicated Questions & Answers tool. With this tool we expect 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. The tool can be used not only by supervisors. We encourage insurance undertakings, consultants and all the other stakeholders involved to profit from our Q&A tool. You can find it on EIOPA's homepage.

Way forward after Omnibus II

Looking forward, I will not exaggerate saying that the following two years will be crucial for the success of Solvency II. The Omnibus II Directive defined the concrete areas in which EIOPA will be able to draft technical standards and also clarified our role in ensuring harmonised technical approaches on the calculation of technical provisions and capital requirements.

According to the Omnibus II, EIOPA will have to prepare more than 20 Implementing Technical Standards (ITS). Furthermore, on our own initiative we will deliver more than 30 Guidelines.

The ITS are legally binding and aim to ensure the uniform application of the Solvency II Directive. The Guidelines are necessary to guarantee convergence of the Solvency II implementation as of the first day of its entry into force. We recently communicated the detailed timeline for the delivery of ITS and Guidelines during 2014 and 2015. I just want to highlight that we prioritised all the elements that are needed to ensure the consistency of the approval processes by supervisory authorities.

I would like to use this opportunity to encourage all of you to profit from EIOPA's public consultations, to share with us your views. Only with your input we can ensure a balanced approach towards the implementation of the risk-based supervisory regime. I would like to assure you: EIOPA is committed to deliver high quality regulatory documents and to deliver them in due course for a good and timely implementation by the market.

But the current EU insurance regulatory agenda goes beyond Solvency II. In fact, at the agenda of the Greek Presidency there are other issues that EIOPA will keep a close eye on. In particular, the discussion of the EU political institutions on the regulation of packaged retail investment products (PRIPs) is a key element for consumer protection and I wish the Greek Presidency every success with achieving this objective. This work has been long delayed, so it is vital now to seize the opportunity to reach an agreement. We all know the challenges consumers face understanding investments, particularly when information provided is overly lengthy, legalistic and full of jargon: regulators must take this chance to do better to protect them in this area. This means simplifying information as far as possible. But this is a challenge that should not be underestimated; as Mark Twain so memorably put it "I didn't have time to write a short letter, so I wrote a long one instead." For its part EIOPA and the other ESAs are already working together to prepare for detailed practical work on implementing measures to help address these challenges.

The EU insurance regulatory framework is under a period of profound transformation and it is important to keep a sense of balance and purpose. Is insurance regulation becoming an obstacle? It should not. Regulation is often reactive but sometimes can also be a catalyst for change. I believe that the new EU regulatory framework in insurance will incentivise the development of sustainable products and foster full transparency towards customers.

Let me know turn to the second topic of my speech: EIOPA's role in enhancing supervision in the EU.

The development of a single rule book like Solvency II is a huge step forward for the single market but let's be honest: good regulation is just a first step. The real challenge will be to ensure that Solvency II is implemented in a consistent way throughout the EU. This requires effective and convergent supervision in all member states in order to ensure strong supervision throughout Europe and to prevent regulatory arbitrage and guarantee a level playing field in the internal market.

That's the reason why EIOPA puts a strong emphasis on the promotion of supervisory convergence and the establishment of a common supervisory culture.

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 work on supervisory convergence is also underway through the development of a Supervisory Handbook that will incorporate good supervisory practices and the setting up of a Centre of Expertise on Internal Models that will lead the development of sound indicators to support a consistent analysis and validation in this critical area of Solvency II implementation.

This year we will make use of another regular supervisory tool – the stress test for the insurance sector. The aim of the exercise in 2014 will be to test the resilience of insurers regarding market risk under a combination of historical and hypothetical scenarios. Additionally, insurance risk will be tested and, as a follow-up to its Opinion on Supervisory Response to a Prolonged Low Interest Rate Environment, EIOPA will also include a low yield element in the exercise. The exercise will be launched on 30 April and in November we intend to release its results.

But more needs to be done. 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. EIOPA will move in this direction, using its powers within the current EU Regulation.

Nevertheless, I believe that in the review of the European System of Financial Supervision that is going to take place this year, the EU co-legislators should consider to extend the current power of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct, in order to support the independent assessment of supervisory practices.

Furthermore, EIOPA should obtain access to the individual company information included in the harmonised templates developed for Solvency II in an efficient way.

It is also necessary to enhance the mandate of EIOPA: our power to ban or restrict financial activities needs to be brought to life. It would also be of added value to grant EIOPA a centralised oversight role in the field of internal models. In the medium term, as part of a step-by-step approach, consideration should be made to assign EIOPA an enhanced supervisory role for the largest important cross-border insurance groups.

We will of course closely observe all the developments related to the ESFS review and will hope that the European Union decides to benefit from stronger and more coordinated supervision at European level.

Ladies and Gentlemen,

I believe that insurance is one of the economic activities with higher growth potential in the third millennium. In fact, the evolution of the society is creating more and more risks and citizens and businesses will be looking to transfer or mitigate them in an efficient way. This is precisely the role of insurance.

Furthermore, we will face increased demand for retirement savings products. Budget sustainability is inevitably reducing the generosity of social security systems, creating higher demand for 2nd and 3rd Pillar private savings solutions. With the improvement in longevity there is also a growing awareness that the costs of longer life expectancy will increasingly fall on households – we will need to save more in order to maintain sustainable levels of living after retirement.

By moving towards a better alignment between risk and capital, promoting good risk management practices, fostering transparency and reinforcing supervision, the new insurance prudential regime in the EU will provide citizens with a high level of protection, trust and confidence in the sector, ultimately creating conditions to develop a sound,credible and sustainable business.

I am encouraged to see the progress made in the latest years in the supervision of the insurance market in Greece. The role of the Bank of Greece has been instrumental in raising the quality of supervision and that is a key asset for consumers and for the credibility of the insurance industry. Preventive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

The euro-area crisis has been a catalyst for needed economic reforms in many countries. From an insurance perspective I think the crisis should also be used as an opportunity to restructure the insurance market and to strengthen its transparency and efficiency. I am confident that the Greek authorities will continue to take concrete steps in this direction in the coming years. Following the consolidation process in the banking sector, there is also a need to restructure the insurance sector in order to have strong and viable institutions for the benefit of consumers.

Going forward, strong and efficient supervision of the insurance and pension markets will avoid regulatory arbitrage, create a level-playing field and enhance the long-term potential of the market.

The motto of the Greek presidency states «Europe is our common quest and journey – united we sail further». The creation of a supervisory culture for Europe is a boat on which we can sail through future financial turmoil. Let us sail further united!

Thank you for your attention.