EIOPA
EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

DINNER SPEECH

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Insurance regulation and supervision – going global

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

3rd Conference on Global Insurance Supervision "Fit for Global Thinking?"
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Ladies and Gentlemen,

It is a great pleasure to welcome you to the dinner of the Conference on Global Insurance Supervision. Since the first year of EIOPA's foundation, we have organised this conference together with the International Center for Insurance Regulation of the Goethe University here in Frankfurt. I would like to thank Professor Helmut Gründl and all the ICIR colleagues for hosting this conference for the 4th year in a row.

I am especially pleased that we are gaining a more global character by getting other co-organisers on board. For the first time in the history of this event, we are organising the conference jointly with the World Bank and the Center for the Study of Insurance Regulation of St. John's University (New York). I hope that this event serves as an inspiring example of cooperation between supervisory authorities and academia. I would like to thank all the colleagues involved for their commitment and for excellent organisation.

Already the first day of our conference has shown us the necessity and the importance of involving all stakeholders in the discussions of global issues: industry, consumers, academics and supervisors. That's one of our major objectives with this event.

I think the best way to demonstrate EIOPA's commitment to a clear communication and fruitful cooperation is by not delaying you for hours from enjoying the dinner. This is why tonight I will do only one thing – I will share with you my view on whether we are fit for global thinking.

The financial turmoil of the recent years demonstrated the urgent need for the development of robust international standards, for close cooperation and information exchange between supervisors as well as consistent supervisory practices.

In the recent decades the insurance business has become more globalized and more interlinked. For example, many European insurance groups have developed a significant presence worldwide, with growing businesses in a number of emerging markets.

At the same time, risks arising from this global exposure are also increasing and in order to identify and mitigate those risks in a timely manner, there is a growing need of risk-based supervision.

It is fundamental to achieve more comparability and a truly level playing field between the main competitors in the world insurance market. This can only be done if we work at the worldwide level in developing more convergent global regulation and supervision.

So, it is with the great satisfaction that I notice that significant progress has been achieved in recent years.

International regulatory cooperation

In the regulatory area several positive steps towards global thinking have been taken.

Worldwide, the evolution in the regulatory standards in insurance has been remarkable. In many countries all over the world, risk-based regulation and supervision is already being enacted, with different nuances, but with lots of commonalities. In each continent, there are some countries which evidence good practices being implemented, including risk-based capital requirements, stronger emphasis on good governance and risk management as well as improvements in public disclosure.

I believe that the development of Solvency II has been a catalyst for the international movement towards risk-based regulation and supervision. The Solvency II equivalence process has been instrumental in this regard.

Already in 2011 EIOPA delivered Solvency II equivalence assessments of the Swiss, Bermudan and Japanese supervisory systems. In the course of last year, we assessed 8 further supervisory regimes - in Australia, Chile, China, Hong Kong, Israel, Mexico, Singapore and South Africa. Recently we have initiated the assessment of Brazil and we are finalizing the basis for the analysis of the Canadian regime.

Furthermore, the EU-US dialogue project has been essential in reinforcing the mutual understanding of the solvency regimes on both sides of the Atlantic, paving the way to more effective supervision.

I want to thank all the colleagues of the different supervisory authorities around the globe for their cooperation in this important exercise. Our knowledge about their regimes has increased exponentially and I am sure that they have become much more familiar with the EU regime, Solvency II.

Furthermore, the work of the International Association of Insurance Supervisors (IAIS) has been instrumental in the progress made.

We have in place a methodology allowing assessment of, and ultimately identification of, global systemically important insurers (G-SIIs). The first nine G-SIIs have already been announced in July 2013. The development of the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which includes criteria for the identification of Internationally Active Insurance Groups (IAIGs), is also well underway.

Under a very challenging timeline the IAIS has begun to develop International Capital Standards, which include a Basic Capital Requirement (BCR), Higher Loss Absorbency (HLA) and Insurance Capital Standard (ICS).

In the history of insurance supervision we can call this work unprecedented, because it is the first time that insurance supervisors are working together to develope more concrete global supervisory standards, including capital requirements. Discussions on this issue are progressing at an increasingly fast pace. EIOPA is very supportive of these developments and sees its role in coordinating the voice of the European Union at the level of the IAIS. I am glad that we achieved good progress so far.

The Basic Capital Requirement (BCR) is heading to an approach based on the principles of simplicity, straightforwardness in its presentation and, therefore, reliance on a factor-based approach, which we support. The BCR ensures a first level of comparability but it is not a minimum capital requirement.

With regard to the Higher Loss Absorbency (HLA), our view is that it should be mainly targeted at the sources of “SIFIness” that lead to the designation of insurance groups as G-SIIs, introducing incentives for a reduction of systemic risks. Considering that the HLA addresses risks which are usually not captured in micro prudential regimes around the World, it is natural to expect that it will ultimately indicate the need for G-

SIIs to hold more regulatory capital than they would be required to hold in the case they were not so designated.

The Insurance Capital Standard (ICS) should provide the basis for the comparability of capital needs at group level for the international Active Insurance Groups.

Going forward, we believe that the ICS should contain fundamental principles such as a total balance sheet approach; clear and transparent target calibration criteria for capital requirements; explicit recognition of risk diversification; and consideration in the capital requirements of all the material risks to which the insurance group is exposed.

The introduction of global capital standards should help prevent regulatory arbitrage, increase financial stability, guarantee a level playing field and strengthen international supervisory coordination, for the benefit of the economy at large, consumers and the insurance industry.

Global capital standards will reinforce the supervisory network by providing competent authorities with a common system. Global capital standards will also facilitate the work of the colleges of supervisors that play an important role in an increasingly globalized market. With global capital standards, supervisory authorities participating in the colleges will obtain a common understanding of qualitative and quantitative requirements for insurance groups, which is fundamental for the college's efficient, effective and consistent functioning.

Enhancing consumer protection

Global thinking can also help in delivering our ultimate goal which is the protection of consumers. Consumer protection has always been identified as a priority of insurance sector regulation and supervision; much more so than other areas of the financial sector. It is our strategy at EIOPA to reinforce this priority and to contribute to a new supervisory focus.

Sharing experiences and practices on conduct of business supervision worldwide is a very important element of this strategy and we are initiating this process in this year's Conference by dedicating a specific panel during tomorrow's session.

For me consumer protection has two dimensions that are of global relevance: firstly it is about ensuring that undertakings are soundly managed and have a robust solvency position in order to fulfil, on an ongoing-basis, all the commitments made to their customers. Secondly it is about making sure that customers receive the information they need on the conditions, costs and risks of the products, that they are treated fairly and that they get value for money.

The insurance industry plays an important role in protecting citizens in their daily life and in helping businesses to develop and expand. A credible and stable insurance industry is one of the pre-conditions for a functioning economy. In order to perform this role and develop sustainable businesses, the insurance industry needs to put consumer protection at the heart of its purpose. This is an evolution that we need to see on a global scale.

In conclusion, I believe that we are taking the right steps to adapt insurance regulation and supervision to the challenges of globalization. We are doing it in a cooperative spirit, building on the commonalities and understanding the differences. We are collectively becoming more and more fit for global thinking. I am proud to be part of this evolution.

To conclude, and respecting the tradition, I just want to share with you a lesson from the actuarial practice:

Two actuaries are duck hunting. They see a duck in the air and they both shoot. The first actuary's shot is 5 meters wide to the left, while the second actuary's shot is 5 meters wide to the right. The actuaries happily give each other high fives, because on average they shot the duck!

So let us remember that international standards need to be actuarially sound but most of all they should not miss the target.

Thank you for your attention. Have a nice evening.