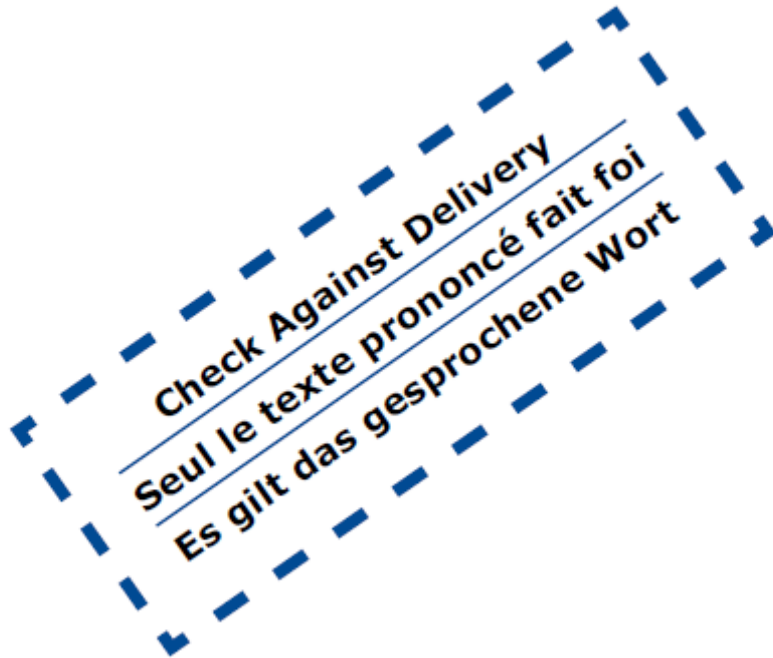




Gabriel Bernardino
Chairman of EIOPA

Statement



Hearing at the Economic and Monetary Affairs (ECON) Committee of the European Parliament
Brussels, 23 September 2014

Honourable Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

As this is my first hearing since the European Parliament's elections 2014, I would like to start by congratulating you for your election and you, Mr Chairman, on your appointment as Chair of the Committee on Economic and Monetary Affairs.

I am happy to be back in front of the ECON Committee for our regular exchange of views. This is a key part of our accountability towards the European Parliament and transparency towards the European Citizens that elected you: to report on how we are delivering on the tasks and responsibilities assigned to us. Furthermore, to be able to discuss with you the challenges that we are facing today as well as those ahead of us.

In the past 12-month period, EIOPA has achieved important milestones in all the areas foreseen by our mandate.

Consumer protection continues to be one of EIOPA's priorities, on the one hand by contributing to ensure that undertakings are soundly managed and have a robust solvency position and on the other hand by making sure that consumers receive the information they need, are treated fairly and get value and service for money. Our agenda in this area is focused on driving a paradigm shift in the direction of transparency towards consumers and on reinforcing fairness in selling practices.

EIOPA undertook several initiatives aimed at product governance, product suitability, appropriate selling practices and better information for consumers. Reducing the challenge for consumers to understand complex products, EIOPA is leading cross-sectorial work to develop a Key Information Document for packaged retail and insurance-based investment products ("PRIIPs"). In order to enhance consumer protection EIOPA has identified potential conflicts of interest in insurance direct and intermediated sales, examined measures for addressing them, and assessed the impact for different stakeholders.

Following our Guidelines on complaints-handling by insurance undertakings, many insurers updated their complaint management systems, which will ultimately help consumers to receive better services and solve problems, should they occur, in a

quicker and a more efficient way. At the end of last year we published similar guidelines that were applicable to insurance intermediaries.

Furthermore, EIOPA continued to work on the creation of 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 started to explore the use of social media monitoring tools for our consumer trends analysis. We also created a Consumer Lounge on EIOPA's website, which provides useful information about different products.

On the regulatory side we have been heavily engaged in the development of the EU single rulebook for insurance, Solvency II. To ensure a consistent and convergent path towards the implementation of the Solvency II regime, avoiding market fragmentation, we issued Guidelines for the preparation of Solvency II. These Guidelines allow supervisors and companies alike to set up structures and get familiar with the new requirements. The Guidelines have been implemented by National Competent Authorities (NCAs) from 1 January 2014 and have been key in our common aim towards consistency.

Following the political agreement on Omnibus II, EIOPA has been developing more than 20 Implementing Technical Standards and over 30 Guidelines that will contribute to the convergent application of Solvency II. Furthermore, we advised the European Commission on the Solvency II delegated acts, namely on the calibration for certain Long-Term Investments, proposing an innovative segmentation of securitizations according to their different risk profile.

At the same time, EIOPA has started to put a stronger emphasis on the consistent implementation of the regulatory framework, by focusing more attention on supervisory practices. In this context we have been using a number of tools: participation in the colleges of supervisors, conducting peer reviews, and issuing opinions addressed to NCAs.

Through our action plan for colleges we focused on reaching a shared view between supervisors on the assessment of the risk exposure of groups and solo entities. We finalised 2 peer reviews and launched 3 new ones 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 incorporates good supervisory practices.

EIOPA's Centre of Expertise on Internal Models has been heavily engaged in the development of good practices and sound indicators to support a consistent analysis and validation in this critical area of Solvency II implementation. EIOPA's newly created Supervisory Oversight Team started to engage with NCAs to better understand their supervisory and regulatory framework and provide feedback to enhance convergence. As part of this process EIOPA, in close cooperation with the European Commission and the local supervisory authority, is going to oversee the balance sheet review of the Romanian insurance sector.

The global dimension of insurance and the interconnectedness of markets call for delivery of robust international standards and increased cooperation between supervisors on a global basis. EIOPA continued to provide technical advice regarding 3rd countries supervisory regimes, in the context of the Solvency II equivalence decisions. Furthermore, we successfully coordinated the positions of EU insurance supervisors in the context of the development of a Basic Capital Requirement by the International Association of Insurance Supervisors (IAIS).

Our work on pension issues recognizes that both occupational and personal pensions can play an important role for retirement savings in a more integrated Europe. The development of a truly internal market for pensions can increase member protection, transparency and be the catalyst for better outcomes for citizens, through economies of scale, and for the EU economy, through more stable long-term funding. In this context EIOPA provided extensive advice on the review of the Directive on Institutions for Occupational Retirement Provision (IORPII), strengthening the current Directive in removing barriers to cross border business, a prerequisite for a real Single Market; enhancing governance, defining necessary instruments and powers for supervisors, and improving disclosure arrangements through a pensions benefit statement. EIOPA's work on a common European measurement of the solvency position of pension funds shows that pension funds have vulnerabilities in different areas, and that such vulnerabilities can and should be addressed. This has reinforced the need to continue working towards a risk based European regulatory regime that reflects economic reality and better protects members and beneficiaries. Simultaneously, upon

the request of the EU Commission, EIOPA started to examine the potential development of a European internal market for personal pensions.

Preventive supervision is based on anticipating risks and ensuring action is taken in advance to mitigate or eliminate them. EIOPA continually monitors and assesses risks and vulnerabilities to the stability of the insurance and occupational pensions sectors, and broader financial stability with a view to facilitate or coordinate supervisory action. EIOPA's Financial Stability Report provides comprehensive economic analysis of risks and vulnerabilities and its Risk Dashboard monitors a common set of qualitative and quantitative indicators to identify and measure systemic risks.

Stress tests are a tool for both undertakings and supervisors, providing a formal assessment of the resilience of financial institutions to adverse market developments using a consistent methodology. This year we launched an EU-wide stress test for insurance undertakings based on the upcoming Solvency II regime and testing a range of credible adverse market scenarios, developed in conjunction with the ESRB, complemented by a set of independent insurance-specific shocks covering mortality, longevity, insufficient reserves and catastrophe shocks. An additional stress test module addressed the impact of a low yield environment, as this has been identified as a key risk for insurers. The results will be published in November.

Furthermore, this year we started to prepare the stress test for the occupational pension funds, which we will launch in 2015.

Challenges ahead

Let me now turn to the challenges that we will face in the years to come.

Going forward I believe that we need to focus ourselves on delivering smart regulation:

- Regulation that delivers what is expected;
- Regulation that is proportionate by reflecting the evidence of what works and what does not;
- Regulation that is driven from the consumer perspective;
- Regulation that looks forward, trying to anticipate problems, rather than to address only the problems of the past;

- Regulation that is reviewed and revised if needed, that is checked against reality of implementation.

At EIOPA our aim is to contribute to smart regulation. We will do this by continuing to engage with all stakeholders in a transparent and constructive dialogue.

In the last three years EIOPA has been instrumental in the finalization of Solvency II, delivering a sound and robust risk-based regime for the insurance sector in the EU. We are now approaching a point in time where the priority is naturally shifting to the implementation of this regime across all the EU Member States.

The development of a single rule book of harmonised regulation 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 prevent regulatory arbitrage and guarantee a level playing field in the internal market.

Bearing in mind the aforementioned, EIOPA will put a strong emphasis on the promotion of supervisory convergence by upgrading the quality and consistency of national supervision and strengthening oversight of cross-border groups.

Strong and credible supervision is needed across the EU. Pre-emptive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

In order to ensure that EIOPA will be capable to deliver on these objectives we need some enhancements to our Founding Regulation:

- Strengthen our operational independence and in particular to find a stable solution for the financing of EIOPA;
- Task EIOPA with a centralised oversight role in the field of internal models; and
- Enhance our capacity to provide independent and challenging feedback on supervisory practices to the NCA's.

Furthermore, considering the developments of the banking union, EIOPA should be tasked with a coordinating role on insurance matters towards the Single Supervisory

Mechanism. This would ensure a more coordinated approach to the supervision of financial conglomerates.

Finally, as part of a step-by-step approach, consideration should be given to assign to EIOPA an enhanced supervisory role for the largest important cross-border insurance groups.

I welcome the reports on the review of the European System of Financial Supervision produced by the European Parliament and the European Commission and I am happy to see that some of the aforementioned proposals are already included. I am looking forward to work with the EU political institutions to find the appropriate improvements in our Regulation that will allow us to reinforce our contribution to financial stability and consumer protection for the benefit of EU citizens and the EU economy.

I am now looking forward to answering your questions.