WELCOME SPEECH

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EIOPA and supervisory convergence – The beginning of a new journey

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

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Ladies and Gentlemen,

On behalf of EIOPA, I am delighted to welcome you to our fifth Annual Conference here in the Frankfurt Congress Centre.

This year´s event occurs just a few days after the horrible terrorist attacks in Paris. My first words are to express mine and EIOPA's management and staff profound sorrow, respect and solidarity to all the victims and their families as well as to all French citizens. This was an attack against all of us and we need to face it together, driven by the French values of liberty, equality and fraternity that inspired the European Union. United we will defeat extremism, terrorism and hate.

Ladies and Gentlemen,

This year's Conference theme is "Managing Change". In today's world we need to be ready to adapt quickly to changes and manage them adequately, and this is reflected in our three panels: "Countdown to Solvency II", "Retirement Savings in the 21st Century" and "Evolving Insurance Business Models". I'm convinced that we will have very interesting discussions and enough food for thought.

In my intervention today I want to address the following three strategic priorities for EIOPA going forward: First, supervisory convergence; Second, reinforcing preventive consumer protection; and Third, preserving financial stability. Finally I would also make a reference to the challenge of the review of Solvency II and the provision of safe and sustainable pensions to EU citizens.

Let me start with EIOPA's strategic objectives:

First, supervisory convergence

At EIOPA we are managing change, namely by moving from regulation to supervision.

The implementation of Solvency II on 1 January 2016 will be a huge step forward for policyholder protection and the insurance single market in the EU. But this day will also mark the beginning of a new journey; a journey to ensure more consistent and convergent supervision in the EU insurance market, which is the duty of EIOPA. Thus, our main strategic focus for the upcoming years is to ensure supervisory convergence.

Why is supervisory convergence so important? Because it is essential to achieve three fundamental objectives:

- Ensure the application of EU regulation;
- Guarantee a level playing field and prevent regulatory arbitrage in the internal market;
- Safeguard a similar level of protection to all policyholders and beneficiaries in the EU.

In the context of current differences of supervisory cultures and practices between Member States, the main focus of EIOPA for the following five years will be to increase convergence towards a European supervisory culture; a risk-based culture that:

- Aims to ensure strong but fair supervision;
- Is based on a forward-looking approach to risks;
- Prioritizes the dialogue with market participants to better understand their business models, strategies and underlying risks;
- Promotes early enough awareness and supervisory action in order to protect policyholders and mitigate possible disruptions in the market.

Convergence is a journey and implies change and moving away from the status quo. I see Solvency II implementation as the opportunity for supervisory convergence and all the National Competent Authorities (NCAs) need to be part of the collective effort to develop a European supervisory culture. As we are in an internal market, the quality of national supervision is no longer solely a national or regional issue; it is a European Union issue. The EU supervisory system will only be as strong as its weakest link. Therefore, a stronger and more coordinated supervision at the EU level is needed.

Solvency II will put higher demands on supervisors. Supervisors need to have the capacity to dialogue with and challenge the industry instead of having a "mechanistic" and "tick the box" approach to supervision. Credible and independent supervision is a key element in building and preserving consumers' and investors' confidence. It is in all stakeholders' interest that EIOPA and the NCAs ensure that a robust and convergent risk-based supervisory process is applied. Failure to achieve that will put the successful implementation of Solvency II at risk.

From the end of 2014, the strategic focus of EIOPA's work on Solvency II has been dedicated to supervisory convergence. As a first step, in the past twelve months, EIOPA delivered the Implementing Technical Standards and Guidelines covering most relevant areas and elements of the Solvency II framework. Some Guidelines concern the basic alignment of supervisory processes while others provide clarity to firms on what are supervisors' expectations and limit the risk of divergent interpretations by national supervisors.

Since February 2015 we have been publishing the relevant risk free interest rate term structures for Solvency II and related components including the volatility adjustment as a preparatory step ahead of the full implementation of Solvency II. The use of harmonised discount rates will ensure the consistent calculation of technical provisions by insurance companies throughout the European Union.

EIOPA's added value to Solvency II implementation considers the need to strengthen the oversight of cross-border groups and to enhance the quality and consistency of the overall supervisory process in the EU.

Our oversight activities are structured in three main areas: Colleges of Supervisors, the Centre of Expertise in Internal Models and Supervisory Oversight.

Colleges of supervisors across the EU have been fundamental to increase the exchange of information and to move towards a more common analysis and measurement of risks. EIOPA's actions ensured consistent processes at college level and are now focused on more substantial aspects of supervision and supervisory decisions, for instance closely following the discussions around internal model approval. Going forward the focus will shift to discussions on risks and vulnerabilities ensuring a common understanding of the situation of the group between all supervisors.

Being an innovative element in the Solvency II framework, internal models are particularly prone to inconsistent approaches. A special attention is devoted to the on-going monitoring of internal models, an area where material differences can have a huge impact in the level playing field and policyholder protection. EIOPA already issued in 2015 a couple of supervisory Opinions with recommended practices to NCAs and this work will continue by prioritizing the areas where different approaches lead to a material impact. Going forward we will focus on the development and testing of sound on-going appropriateness indicators and benchmarking for internal models. This work will be fundamental to avoid that internal models become a capital optimization tool. A race to the bottom will kill the underlying idea of an internal model.

In 2014, we created a Supervisory Oversight Team to continue building our relations with NCAs on a basis of mutual trust, while providing a chance for independent and challenging feedback on supervisory practices. Since then this team already conducted more than 20 bilateral visits to NCAs.

As part of its oversight role, EIOPA contributed to the balance sheet review and stress test of insurance companies representing more than 80% of the Romanian market. Both exercises were completed in July 2015 with the publication of a report identifying significant adjustments to the balance sheets and corresponding prudential ratios of a number of insurance undertakings, followed by a number of supervisory measures. This exercise proved to be credible and is fundamental to enhance consumer protection and confidence in the Romanian insurance sector. A similar exercise is currently being conducted in Bulgaria.

Finally, EIOPA is developing a Supervisory Handbook with the objective to build an array of good supervisory practices on different areas of Solvency II. We encourage NCAs to adequately implement these practices in their supervisory processes.

Our oversight work is starting to prove its vital importance on improving the quality and consistency of the EU supervision. EIOPA brings a real added value to the overall supervisory process, which guarantees a level playing field in the EU.

I’m coming now to my second strategic priority: reinforcing preventive consumer protection

Conduct of business regulation and supervision are highly fragmented in the EU, and Member States are at different stages of development as regards their approach to consumer protection.

A strengthening of conduct of business supervision is important for consumers, for insurance undertakings and for the market as a whole, as it promotes the orderly functioning of markets resulting in a level playing field, a healthy competitive environment, increased consumer confidence and financial stability. An effective and efficient conduct of business supervisory framework contributes to a credible deterrence of market mis-conduct and allows for pre-emptive and proactive supervision by acting before a developing issue becomes widespread.

There has been significant reputational and financial damage as a result of consumer mis-selling scandals in the EU. Moreover, there has been a material loss in consumer confidence, compounded by existing information asymmetry and lack of financial education from the part of consumers.

There is a clear need for a more consumer-centric culture in firms – senior management needs to take on more responsibility to prevent poor product oversight and misaligned incentives for sales staff.

Traditional approaches to conduct of business regulation & supervision, focused on point of sale (disclosure and selling practices) and a “tick-box” approach, have proved insufficient to prevent mass mis-selling.

In this context, EIOPA is implementing a strategic approach to preventive, risk-based conduct supervision.

“Risk-based” - because it identifies the depth and scale of issues and focuses on priorities and resources where they matter most in order to build a common European supervisory perspective and approach, with constant monitoring and 'dynamic' capacity to respond to innovation and change; and

“Preventive” – because by anticipating consumer detriment early, rather than just reacting following the emergence of problems, it solves the problems of the future, rather than the past.

This can only be done through a forward-looking approach, which concentrates on how to best identify and tackle, in a timely and effective manner, emerging risks for consumers.
EIOPA will use a number of tools to implement this framework: Consumer trends report; deep and effective market monitoring; thematic reviews and retail risk indicators. This will be done in a staggered approach. Ultimately the objective will be to spot outliers, investigate the root causes and develop supervisory responses.

Finally, my third priority: preserving financial stability

In a challenging macro-economic and financial environment, with persistent low interest rates, the solvency position of insurers and pension funds and the sustainability of their promises and business models are clearly questioned.

For already several years, EIOPA has been devoting great attention to this risk with the aim of understanding and monitoring the implications of such an environment. A series of sequential actions have been taken such as the EIOPA Opinion on Supervisory Response to a Prolonged Low interest rate environment (2013) and the inclusion of a low yield module in the Insurance Stress Test in 2014. Clear recommendations were issued to NCAs.

Going forward, from a conceptual perspective, in order to mitigate the likelihood and the impact of a possible systemic crisis we have to pursue three objectives:

- Increase the resilience of the insurance sector;
- Limit risky behaviour as insurers collectively "search for yield"; and
- Avoid procyclicality.

Regarding the first objective, the implementation of Solvency II takes us a step further. Nevertheless, especially for certain business models, resilience could also be improved by cancelling or deferring dividends, reducing the maximum guarantees offered in new contracts and limiting the participation features and the commission levels. Finally, resilience could be enhanced by strengthening the recovery and resolution framework.

Regarding the second objective – limiting risky behaviour as insurers collectively "search for yield" – Solvency II, as a risk sensitive framework, incentivises insurers to invest within their risk bearing capacity and the risk management requirements make sure that insurers only invest in assets which risks they can properly assess and manage.

On the need to avoid procyclicality, Solvency II contains a series of measures such as the transitional periods, the volatility adjustment, the matching adjustment or the extension of recovery period that were designed, among other things, to address this issue.

EIOPA will be very attentive to the consistent application of all these measures and will assess if other instruments will be needed to pursue the three mentioned objectives. In particular, it is fundamental that insurance companies provide clear and transparent information to the market on the actual use of all the adjustments and transitional measures included in the regime. This will offer an unbiased and objective representation of the financial condition of the undertaking. It is also fundamental that market analysts and investors understand that Solvency II adjustments and transitional measures are a legitimate part of the regime. Transitional measures do not distort the solvency reality: they are designed to ensure a smooth transition to the new regime, avoiding disruptions in the market and allowing a certain period for companies to fully recognize the impact on old books of contracts that have been underwritten in a different regulatory framework. Especially within the context of the low interest rate environment, it is important that while using the transitional measures, firms will continue to take the necessary steps to restructure their business models.

EIOPA will continue to run credible stress tests as preventive supervisory tools, identifying the main risks and vulnerabilities and issuing recommendations to deal with them. Our main focus will be the prolonged low interest rate environment and its combination with a sudden and material risk-premia reassessment.

Furthermore, building on the new harmonized Solvency II reporting, we will implement a comprehensive information system and further develop the capacity to provide reliable risk analysis and early warning indicators, both at individual, group and system-wide level. This will reinforce the quality of both micro- and macro-supervision in the EU.

To finalise, and looking ahead to the upcoming years, let me mention two main areas that will test our ability and readiness to embrace change: the review of Solvency II and the provision of safe and sustainable pensions to EU citizens.

The review of Solvency II

As part of our regulatory mandate, EIOPA will ensure a rigorous, evidence-based and transparent review of Solvency II, assessing cumulative effects and unintended consequences and privileging principles like simplicity and proportionality. Areas like the investment behaviour of insurers and the product availability to consumers will receive special attention. On a yearly basis we will assess the consequences of the implementation of the long-term guarantee measures.

Moreover, EIOPA will continue to give the EU a strong voice in international fora and will further strengthen its successful participation in the development of the insurance International Capital Standards. In my opinion, the future review of Solvency II should take into account the progress achieved at an international level.

The coming years should also be used to further analyse the calibration of different asset classes under Solvency II, including sovereign bonds. The recent financial crisis has demonstrated to all of us that sovereign bonds are not always risk-free. So, a risk-based regulatory framework should take this into account.

EIOPA issued in April 2015 an Opinion on the preparation for Internal Model applications where we expressed the view that risks related to sovereign exposures should be appropriately taken into account in internal models. Going forward, we will monitor the practical implementation of this Opinion by the EU insurance market.

The subject of a possible consideration of sovereign risk in the Pillar 1 standard formula is a more complex one. In my opinion, in order to avoid regulatory arbitrage, it is particularly important that we work on an approach towards sovereign risks that is consistent for the entire financial sector, covering banking and insurance. Moreover, from a prudential perspective, I believe that the regulatory treatment should focus on building appropriate incentives to avoid excessive concentration on a specific sovereign.

This work should be part of a comprehensive process that includes public consultation, a rigorous impact assessment and the definition of appropriate transition measures to avoid unintended consequences.

The provision of safe and sustainable pensions

Within a context of subdued growth, macro-economic uncertainties and demographic change, one of the main challenges for the EU countries will certainly continue to be the provision of safe and sustainable pensions to EU citizens. I am truly convinced that both occupational and personal pensions can play an important role in diversifying the sources of retirement income.
In this sense, more should be done to create the appropriate incentives for the establishment of occupational and personal pensions, both at national and EU levels.

Let me start with occupational pensions.
At an EU level, while recognizing the high sensitivity around pensions' discussions, I believe that a further important step would be to design a simple and transparent EU framework for defined contribution occupational schemes. This framework should be capable to take full advantage of the potential of the EU internal market, by providing a cross-border platform that would reduce costs, support long term funding of the EU economy and ultimately deliver better pension outcomes.
Concerning the defined benefit pension schemes, which unfortunately become more and more a legacy issue, I believe that there is a need to build appropriate incentives for a proper dialogue between employers and employees on their long-term sustainability – "clarity before solvency" as the Actuarial Association of Europe called it. However, this important dialogue should not be based on valuations and risk assessments that deny economic reality: It will not contribute to a better risk management, will fail to reflect the true risks that the different stakeholders are running and will help to preserve schemes that are clearly unsustainable, postponing the taking up of measures in due time. The inevitable consequences in the short to medium term will be a sudden lowering in the value of pensions for the members and beneficiaries, higher concentration of costs for employers and ultimately intergenerational conflicts.

Regarding personal pensions, EIOPA will continue to participate in the development of the Capital Markets Union (CMU), namely advising on the development of a simple, standardized and fully transparent pan-European Personal Pension Product, the PEPP. The creation of a truly single market for personal pensions in the EU will reduce costs and provide better returns to consumers by increasing economies of scale, while helping the provision of long-term stable funding to the EU economy. It is crucial to ensure that the interest of EU citizens is prioritized to national interests. Furthermore, robust supervisory arrangements have to be put in place within the CMU initiatives to build and preserve trust and confidence of EU citizens.

Ladies and gentlemen,

Looking back at the almost five years of EIOPA's life I am proud that we have been capable of delivering an impressive amount of high quality regulatory and supervisory work, covering both consumer protection and financial stability, insurance and pensions and fulfilling the tasks given and the expectations placed on us by the EU legislators.

This was only possible due to the knowledge, experience and dedication of our staff and the experts from the NCAs, the fruitful dialogue and involvement with our two Stakeholder Groups and the continuous commitment and trust of the members of EIOPA's Board of Supervisors and Management Board.

If confirmed by the European Parliament, I am very much looking forward to continue to master successfully together with EIOPA's management team and staff the challenges ahead of us in the next five years having always in mind working in the interest of the EU citizens.

As John F. Kennedy said: "Change is the law of life and those who look only to the past or present are certain to miss the future". You may be sure that EIOPA will not miss its future. We are actually building it together.

Thank you for your attention. I am looking forward to today's lively discussions.