



KEYNOTE SPEECH

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EIOPA: The journey towards supervisory convergence begins



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Good morning, Ladies and Gentlemen,

I am particularly glad that with the help of modern video technologies I can join all of you in Milan. I am also grateful to Professor Pierpaolo Marano, who is also a member of EIOPA's Stakeholder Group, and the Catholic University of Sacred Heart for giving me the opportunity to speak about the topic, which becomes increasingly important for EIOPA – our cooperation with the national competent authorities (NCAs).

First of all, I would like to share with you my vision of EIOPA's place in the European System of Financial Supervision (ESFS) and of the mission of EIOPA as a European Supervisory Authority. Afterwards I will focus on our cooperation and interconnection with the national supervisors.

The role of EIOPA in the ESFS

When the EU co-legislators decided to create the ESFS, their ultimate goal was to build a common supervisory culture for the whole financial sector of the European Union. This we see as a mission of EIOPA and two other European supervisory authorities – EBA and ESMA.

However, in the beginning of its existence, EIOPA needed to focus on its regulatory rather than supervisory tasks. This was related to the shaping up of the Solvency II framework and to the technical advice that EIOPA was asked to provide at all the legislative levels. Furthermore, EIOPA delivered the legislative package related to the Solvency II Preparatory Phase in 2014-2015.

In 35 days, the new supervisory framework Solvency II will become applicable, which we consider a regulatory milestone for EIOPA. But good regulation is just a first step. The second step (and actually even a more crucial one) is its implementation.

And here I see the role of EIOPA as key because only a European supervisory authority would be capable to ensure the consistent and convergent implementation of the new regulatory framework across the EU.

As of 1 January 2016, the first – regulatory – journey of EIOPA will be practically completed. But the new, more challenging supervisory journey will only begin.

That is why since already two years we have preparing for the shift of our strategic focus from regulation to supervisory convergence.

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

- First, to ensure the application of EU regulation;
- Second, to guarantee a level playing field and prevent regulatory arbitrage in the internal market;
- Third, to 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 - we all know it - 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 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.

Therefore, I see the duty of EIOPA in building a stronger and more coordinated supervision at the EU level. Credible and independent supervision is a key element in achieving and preserving consumers' and investors' confidence.

In EIOPA we want to be critical and, thus, will measure the EU supervisory system also by its vulnerabilities. The European supervisory system will only be as strong as its weakest link – this will be the motto of EIOPA's work in the next 5 years.

Interaction with national supervisors

Before I turn to our cooperation with NCAs, I would like to make it clear that EIOPA neither substitutes national supervisors, nor intends to directly intervene in their work.

EIOPA and NCAs have different roles in achieving convergent supervision. NCAs are responsible for the day-to-day oversight and for the daily supervision of cross-border insurance groups, which is done through the colleges of supervisors. It is NCAs that are engaged in regular dialogues and discussions with companies. Furthermore, when EIOPA conducts its EU-wide stress tests for insurance or pensions, it is the NCAs that identify and contact prospective participants in the tests and afterwards collect information from them. EIOPA does not directly approach companies although we may have direct discussions with firms about supervisory and general market developments.

Finally, let us not forget that the main decision-making body of EIOPA – the Board of Supervisors – consists of NCAs and all our working groups include experts from national authorities.

The role of EIOPA is defined by our unique position of a supranational supervisory organisation, which aims to analyse different practices and approaches and bring them to a consistent level.

I am convinced that in the European supervisory process EIOPA has been and will be instrumental.

EIOPA being an added value to NCAs

EIOPA provides an added value to the national authorities. First of all, building on the new harmonized Solvency II reporting, EIOPA is going to set up a comprehensive information system. With this system the European supervision will receive a strategic asset, allowing to further developing the capacity to provide reliable risk analysis and early warning indicators, both at individual, group and system-wide level. The work will certainly improve the supervisory understanding of cross border groups. At the same time the analysis EIOPA is going to furnish national supervisors with, will advance their supervisory judgment and allow deriving the place of their national markets on the European scale. This will reinforce the quality of both micro- and macro-supervision in the EU.

Secondly, EIOPA is developing a Supervisory Handbook with the objective to build an array of good supervisory practices on different areas of Solvency II. In the Handbook we have already covered areas like risk assessments; how to supervise board responsibility within the Solvency II governance system; business model analysis; supervision of non-life technical provisions; proportionality in the key functions of the system of governance; as well as prudent person principle in investment policies. And we encourage NCAs to adequately implement these good practices in their supervisory processes.

As part of our oversight work we also perform "Peer Reviews". Their purpose is to compare and assess the practices of supervisors and contribute to the creation of convergent supervisory standards. EIOPA has developed methods allowing for the objective assessment and comparison between the authorities reviewed. On the basis of the Peer reviews, EIOPA identifies the outcomes achieved; best practices and makes concrete recommendations for improvement.

Two years ago EIOPA created a Centre of Expertise in Internal Models, which proved to be very useful in developing new tools and practices in such an innovative area as internal models. In December 2014, we published the Common Application Package, which supported insurers in understanding the granularity of documentation and evidence that is required for the formal internal model application process. Currently this Centre focuses on the development and testing of sound on-going appropriateness indicators and on benchmarking.

The Solvency II Implementing Technical Standards and Guidelines delivered by EIOPA in the last twelve months, also represent an important step towards convergence. Some Guidelines concern the basic alignment of supervisory processes while others provide clarity to firms on what supervisors' expectations are and limit the risk of divergent interpretations by national supervisors. I am convinced that without Solvency II Guidelines, undertakings would have faced hundreds of pages with different national solutions and it would have been much more complicated for EIOPA to achieve the supervisory convergence.

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 to challenge the national supervisors

But also EIOPA is there to challenge the national supervisors. Besides providing information and input to the NCAs EIOPA has been giving them an independent feedback, which I think is very important for “enlarging supervisory horizons”.

In 2014, we created a Supervisory Oversight Team to continue building our relations with NCAs on a basis of mutual trust. Since then this team that currently consists of four very experienced supervisors already conducted more than 20 bilateral visits to NCAs.

Giving feedback to NCAs is central to EIOPA’s Oversight work. The feedback could be about:

- the way EU regulations are interpreted and implemented in practice by NCAs in their supervisory processes and day-to-day supervision.
- the way supervisors cooperate with one another.
- the process and particular outcomes of the risk analysis by the NCAs.
- the actions or non-actions of the NCA in response to particular events.
- the outputs of benchmarking across NCAs.
- the results of analysis of firms’ data at the European level.

Our oversight team has also 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 it was fundamental to enhance consumer protection and confidence in the Romanian insurance sector.

A similar exercise is currently being conducted in Bulgaria where EIOPA experts were also asked to provide technical support and co-chair the exercise together with their colleagues from the Bulgarian supervisory authority.

Issuing Supervisory Opinions addressed to NCAs is also a very powerful tool for convergence. In 2013, EIOPA issued an Opinion in which we called for a coordinated supervisory response to a prolonged low interest rate environment. In 2014, we published the Opinion on sound principles for crisis prevention, management and resolution preparedness of NCAs. In April 2015, EIOPA issued the Opinion on Internal Models covering some key areas where we found inconsistencies in approaches, for example the risks related to Sovereign Exposures and absence of formal decisions on equivalence and finally in September we published an Opinion on the group solvency calculation in the context of equivalence, recommending the third-country capital requirement to be taken into account in the group solvency calculation and criteria for the assessment of the availability of eligible own funds at group level.

In all our Opinions we provide the relevant guidance to NCAs and later on engage with them in a follow-up exercise to our Opinions. This also raises the consistency level because EIOPA Opinions cannot be ignored.

EIOPA intends to reinforce its participation in the colleges of supervisors. Colleges across the EU have been fundamental in increasing the exchange of information between supervisors and in the processes of internal model approval. Colleges represent a crucial supervisory tool, which should be strongly used to ensure a more common analysis and measurement of risks. EIOPA staff will keep on working closely, in both informal and formal way, with group and individual supervisory authorities to improve the status and quality of the colleges' work.

Conclusion

So based on the picture I have just outlined, one can conclude that the co-existence of EIOPA and NCAs can be compared with the ground and the roof of the same building. We are two absolutely different architectural elements, but without one of us the building sooner or later will turn into ruins.

At the same time I see the mission of EIOPA's as twofold: on one hand to be of added value for national supervisors and to their supervisory processes and on the other hand – to challenge their approaches and practices.

The challenges we will be facing while achieving convergence will be diverse: legal, financial, technological, organisational and I would say most of all - cultural. But we

can overcome those challenges if we all have the same vision and work for the same goal: to create a truly level playing field in the internal market for the ultimate benefit of consumers and the financial stability in the EU. We need to work together on this goal and we will.

Thank you for your attention.