

EIOPA Annual Conference, 18 November 2015

Speech by Olivier Guersent

Introduction

I am very happy to be here for the fifth annual conference of EIOPA. I congratulate EIOPA for its many achievements in a relatively short time.

These are challenging times – global instability, climate change, economic recession. But it is in challenging times that the insurance sector shows its added value.

The insurance and reinsurance sector has almost 10 trillion euros of assets. It thus has great potential to contribute to growth, which is our absolute priority. Insurers must take up this responsibility, and regulators and supervisors must help them to do so.

In this low interest-rate environment, there is undeniably a need for yield. The Commission tries to make it easier for insurers to find yield in socially useful investments, while discouraging reckless behaviour.

CMU, infrastructure, securitisation

The Commission's key initiatives for growth and investment in the financial sector go under the heading of Capital Markets Union (CMU).

On 30 September, we adopted a package of measures for CMU, centred around an Action Plan. The package also contained a proposed Regulation on Simple Transparent and Standardised (STS) Securitisation ; a consultation on covered bonds ; and a wide-ranging call for evidence on the cumulative impact of financial regulation. A revision to the Prospectus Directive will follow soon.

But from the point of view of insurers and EIOPA, the main item in the package of 30 September will be the amendment to the Solvency II Delegated Act. This makes a number of significant changes:

- Most importantly, it introduces a new asset category, that of qualifying infrastructure investments, with specific adapted risk calibrations. These are lower than those for most debt and equity categories – up to 40%

lower. I would like to thank EIOPA for its sterling work, leading to the advice on which the infrastructure initiative is based. This was a significant achievement in a short time.

- It also extends the application of the so-called "equity transitional period" to unlisted equities, and clarifies how the equity transitional period applies to managed equity funds. This measure phases in Solvency II equity calibrations over seven years and is also positive for growth, as it will prevent selling off of unlisted equities. Unlisted equities can be SME equities or infrastructure equities, for example. It would have been incoherent with the objectives of CMU not to allow such equities to benefit from the transitional period. There will also shortly be a technical standard on the detailed application of this measure.

Regarding securitisation, the Commission intends to look again at non-senior tranches of STS – high-quality - securitisations in Solvency II. At the moment, only senior tranches have an adapted calibration in Solvency II. There is no rationale for not doing the same for other tranches. But that will be at some point during 2016, as we must wait for Parliament and Council to do their work on the Regulation first, to ensure consistency with that.

Solvency II implementation

We are now in the implementation phase for Solvency II, a phase which some sceptics thought would not arrive. There are less than 2 months to go until Solvency II is applied from the first of January.

I salute the work which has been done by EIOPA, by national supervisors and by the insurance sector to prepare for this long-awaited day.

The Commission is playing its part. Last week, we adopted a package of 7 technical standards, prepared by EIOPA.

In a couple of weeks, we will adopt and put on our website in every EU language three more technical standards, those on reporting, disclosure and transparency. The reporting templates must be used by insurers for their 2016 opening reporting. Even if they are only published in the Official Journal after

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the beginning of January, the application date will be set at 1 January 2016. So there will be no excuse for not using them.

Regarding the mapping of ratings by rating agencies – so-called ECAs – the situation is more complex. The three ESAs submitted a draft technical standard on this at the end of October, for which I thank them. However, the draft includes a change in the mapping that is due to come into effect in three years' time. This would be to the detriment of smaller rating agencies, and this the Commission cannot accept. We therefore intend to use our right to modify the draft standard in this respect.

Consumer issues

I wish to say a word about consumer protection and retail financial services, a subject close to the heart of Commissioner Hill.

In a few days the Insurance Distribution Directive will be adopted in the European Parliament plenary, and shortly thereafter published in the Official Journal of the EU. The IDD is a huge step forward, improving transparency for sellers and protection for purchasers of insurance, including a Key Information Document for non-life insurance. I want to thank all those who worked on this important Directive, including of course in EIOPA.

There is still a lot of work to do on IDD implementation and level 2 measures. The Directive contains four empowerments for Commission Delegated regulations, on product oversight and governance, conflicts of interest, inducements and suitability and appropriateness. We will shortly send a Call for Advice to EIOPA on those subjects, and the Delegated Regulations should be adopted in 2017.

Before the end of this year, the Commission will adopt a Green Paper on retail financial services, and insurance is an important feature of it.

Despite the known barriers, we must work to create a genuine single market for insurance and pensions, with more cross-border sales, and better portability of products.

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One of the central ideas in the Green Paper will be a 29th regime for life insurance, inspired by the work currently under way for a 29th regime for personal European pension plans, or PEPPs.

Pensions

This leads me into the area of pensions. I look forward to the final advice from EIOPA on PEPPs early in the new year. Personal pensions can play an important role in Member States that choose not to develop their occupational pension sector. It is clear to me that social security pensions will come under increasing pressure, and in my view all Member States will need to establish either occupational pensions or personal pensions or both.

Let me also say, I do not share the scepticism of some stakeholders about 29th regimes. Look at the success of UCITS in Europe. We need to plant a seed and allow it to grow. A 29th regime, for personal pensions or life insurance, is not only for cross-border sales. In those Member States that do not have a well-developed private pension or life insurance sector, it can also form a basis for domestic products.

Occupational pension funds -IORPs- are also very important for consumers. They have the potential to be part of the solution of the EU's longevity issues and could help fill its investment gap. Pension funds are also huge institutional investors, and thus contribute to growth. We want to promote more funded occupational pension schemes across the EU, and better cross-border provision. We must act to promote funded pension schemes in the EU, especially in those countries where they are not well developed. I am sure that IORPs will become important outside the group of seven or eight Member States where they currently play a major role in retirement provision.

Of course, there is a proposal on occupational pensions on the table of the European Parliament and Council, known as IORP2. We are looking forward to progress on that, with the adoption of a Parliamentary report in December.

The IORP2 directive is intended to form a basis for common governance and transparency standards for occupational pensions across Europe. It should stand as a model for those Member States that would like to launch an occupational pensions sector domestically. It also aims to boost the currently

very modest level of cross-border provision. But the question of solvency rules is recognised as being for Member States and not for harmonisation.

International

The international aspect of insurance regulation is becoming more and more prominent, with the IAIS and FSB working on standards, firstly for globally systemically important insurers -G-SIIs-, and in a later timescale, for all internationally active insurance groups.

For the G-SIIs, the G20 has just adopted the IAIS/FSB proposal on Higher Loss Absorbency for G-SIIs. This is not due to be applied before 2019, and by that time it will have been revised at least once. We will assess how best to approach the application of this proposal in the EU. We will do so in the review of the Solvency II standard formula, which is due by 2018 at the latest.

The IAIS is also reviewing how it designates firms as G-SIIs. We think that more careful thought is needed on what constitutes systemic risk in the insurance sector, especially global systemic risk. There is not yet consensus on this. I hope that will come before 2019. I welcome contributions by the European Systemic Risk Board and others on this question. We cannot impose extra capital requirements on certain insurers unless we have a very robust empirical basis ; there is consensus about why we are doing it ; and we are clear on why this set of insurers is chosen.

Designating non-EU countries as equivalent is another important international aspect of Solvency II. The Commission is in the process of adopting two more equivalence decisions, concerning Bermuda and Japan, to add to those adopted in June. The June decisions focused on the group capital requirement of EU groups active in Australia, Bermuda, Brazil, Canada, Mexico and the USA. They will be published in the EU's Official Journal in December, following the end of the scrutiny period of the European Parliament and the Council. The two decisions just adopted will be published following the end of scrutiny, in a few months.

I don't think that national supervisors should actively treat non-EU countries as non-equivalent, if there is a positive Commission equivalence decision pending in EP and Council scrutiny. They should exercise forbearance in this respect, in

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the Commission's view. Otherwise they might take actions that could have to be reversed shortly afterwards.

Finally, in the international sphere, I must say that I am disappointed at the delays to the start of formal discussions with the USA concerning a bilateral agreement on reinsurance.

Conclusion

Ladies and gentlemen,

As you have seen, insurance and pensions are and will remain an important and high-profile area, central to the Commission's growth agenda. For this reason, EIOPA's importance can only grow.

Against that background, the funding of EIOPA and the other two ESAs should be placed on a more secure basis. We are also working on that, and will produce a White Paper in 2016.

There will inevitably be issues and minor hiccups in the first weeks of application of Solvency II. We count on EIOPA to help smooth this process. This is the key task of EIOPA, one of its main *raison d'être*. I call on all insurers and supervisors to work together in this important transitional period to Solvency II. It is in the interest of all of us to make Solvency II work in reality, not just on paper.

I finish with growth, as I started. I am confident that we can return the European economy to solid growth, if all stakeholders play their part.

Thank you.