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**Committee on Economic and Monetary Affairs (ECON)**
**of the European Parliament**

**Hearing of the Chairpersons of the European Supervisory Authorities**
**Brussels, 26 September 2016**

**Statement of Gabriel Bernardino, Chairman of the**
**European Insurance and Occupational Pensions Authority (EIOPA)**

Dear Chairman,

Honourable Members of the Economic and Monetary Affairs Committee,

In close cooperation with National Competent Authorities (NCAs), **EIOPA promoted the successful implementation of Solvency II**. This was a major step forward to reinforce policyholder protection, especially in a period where insurance companies and pension funds had to cope with challenges triggered by **a difficult economic and financial environment, with persistent low interest rates** questioning their solvency position and the sustainability of their promises and business models. Active, engaged and coordinated supervision was required to cope with this situation in line with EIOPA's main strategic objectives:

- **Supervisory convergence**
- **Reinforcing preventive consumer protection**
- **Preserving financial stability**

## *Supervisory Convergence*

### Better Information and Independent Assessment

Since 1 January 2016, the **Solvency II framework** is applicable and insurance and reinsurance companies are subject to a single risk-based supervisory regime throughout Europe. With the finalisation of the regulatory framework, our **focus has**

**shifted from regulation to supervision.** Building and facilitating a **common European supervisory culture and enhancing supervisory convergence** are now our main focus to ensure:

- A **coherent application of EU legislation** in all Member States
- A **level playing field**, preventing regulatory arbitrage
- A **similar level of protection** to all policyholders and beneficiaries in the European Union

EIOPA has been using a number of **tools** to achieve these objectives, such **as building a comprehensive information system** based on the data collected under Solvency II reporting from all EU Member States. It reinforces the efficiency of both micro- and macro-supervision in the European Union. Other tools, to enhance supervisory practices and to ensure consistent implementation of Solvency II are the **Supervisory Handbook** containing Solvency II risk-based supervisory good practices, the **independent assessment of supervisory practices,** the **risk free interest rate (RFR)** term structures to be applied by all companies in the calculation of their technical provisions, the **symmetric adjustment of the equity capital charge** based on the behaviour of an equity index **the methodology to derive the ultimate forward rate (UFR)** to capture the changes in long-term expectations of interest rates in an objective and transparent way.

Looking forward, EIOPA is working on the future review of the current supervisory framework and we are committed to **evidence-based policymaking**. EIOPA is specifically looking at the appropriateness of the models, assumptions and standard parameters used when calculating the **Solvency Capital Requirement (SCR),** and analysing the impact of the **Long Term Guarantee measures (LTG).**

## *Reinforcing Consumer Protection*

### From Reinforced Regulation to Preventive and Risk-Based Supervision

On the side of the **insurance sector** we are moving to the implementation and **reinforcement of the regulatory framework** to ensure convergent application across the European Union. EIOPA considers the following tools as critical for the successful implementation of the consumer protection agenda:

- The **Key Information Document** (KID) for **Packaged Retail and Insurance-based Investment Products** (PRIIPs)
- The **Preparatory Guidelines** on **Product Oversight and Governance** (POG) arrangements
- **The technical advice** on **Delegated Acts under the IDD,** currently under public consultation
- A standardised pre-sale format for a non-life **Insurance Product Information Document** (IPID)

**Preventive and risk-based supervision** through Consumer Trends Report, Market Monitoring, Thematic Reviews and Retail Risk Indicators is **key** for EIOPA to enhance the consumer-centric culture across Europe.

As regards **digitalisation in insurance services** and the use of **big data EIO**PA believes regulation should promote the highest standards of consumer protection while not hindering innovation.

On the **pensions'** sector two important achievements have to be highlighted:

- The **Opinion** to the European Parliament, Council and Commission on a "**Common Framework for Risk Assessment and Transparency for IORPs**". EIOPA recommends strengthening the European regulation applicable to IORPs with a **standardised Pillar II risk assessment** based on common, pre-defined stress scenarios on a market-consistent basis. EIOPA stresses the need to be **transparent towards plan members**, **sponsors and other interested parties**
- The advice to the European Commission on the development of a simple, standardized and fully transparent **Pan-European Personal Pension product (PEPP)** contributing **to the implementation of the European Union Capital Markets Union.**

## *Preserving Financial Stability*

### Building resilience and avoid pro-cyclicality

In a challenging macro-economic and financial environment, with persistent low interest rates, EIOPA is making use of **stress tests** to **assess the resilience of financial institutions to adverse market developments and identify**

**system-wide risks and vulnerabilities in order to develop common and coordinated responses**.

Early this year EIOPA published the results of the **first EU-wide stress test for IORPs**, the first exercise of its kind at the European Union level. The outcome showed that a prolonged period of low interest rates will pose significant future challenges to the resilience of Defined Benefit IORPs. Looking forward to 2017, EIOPA will launch its second Pensions stress test to analyse the effect of prolonged adverse market conditions on sponsors' behaviour and the possible negative consequences for financial stability and the real economy.

EIOPA launched the **Insurance Stress Test 2016**, focusing on the prolonged low yield environment and a "double-hit" scenario to better identify critical vulnerabilities in the life long-term guaranteed business. The results and recommendations will be published by the end of this year.

Furthermore, **Solvency II review** is the opportunity to explore possible macro-prudential tools and their application in a consistent and complementary manner to the existing framework, avoiding potential overlaps. **Solvency II is a micro-supervisory regime**, but contains also elements **to limit pro-cyclicality** and **to deal with system-wide risks**.

In the context of financial stability I have the honour to speak to you also as **one of the current Vice-Chairs of the General Board of the European Systemic Risk Board (ESRB)**. The focus on the consequences of the low interest rate environment has also been present in the work of the ESRB. Following its earlier flagship report on "*Operationalising Macroprudential Policy on the Banking Sector*" the ESRB developed a Strategy Paper on "*Macroprudential Policy beyond Banking*". The paper provided a horizontal perspective on systemic risks across sectors and developed and developed a strategic perspective on medium to long-term policies beyond the banking sector. In its report on *"Macroprudential Policy Issues Arising from Low Interest Rates and Structural Changes in the EU Financial System"* the ESRB addressed the sources of implications and potential vulnerabilities related to the low interest rate environment and ongoing structural changes in the financial system. Furthermore, in an effort to strengthen financial stability and to mitigate systemic risks in this particular environment, the ESRB proposed a holistic macroprudential policy approach that would explore possible tools to both, the banking and the non-banking sector.

To properly cope with the challenges ahead of us, let me recall the initial aim of the co-legislators when creating the European System of Financial Supervision (ESFS):

- To create a risk-based single rule book
- To increase convergence towards a European supervisory culture
- To promote consumer protection and financial stability

The current governance structure of EIOPA has been fit for purpose to fulfil the **regulatory mandate**. However, a refinement of this structure is necessary to enable EIOPA to also fulfil its **supervisory convergence mandate**. As part of an evolutionary approach, EIOPA's Regulation should be strengthened with a clearer mandate to ensure common supervisory culture and practices. Some governance adjustments are necessary to provide the required independence and checks and balances to further reinforce this process.

Integrated supervision of the European Union across all financial services sectors is key to achieve the aim convergence towards a European supervisory culture and convergence in the interest of the European citizens.

We have come a long way to implement **Solvency II.** It will equally take time and effort to build a European supervisory culture. EIOPA is fully committed to continue leading this important journey together with National Competent Authorities to foster its mandate given by the European Council and by you, the European Parliament.

Thank you very much for the continued constructive dialogue with the European Parliament, which decisive for EIOPA meeting its obligation of accountability towards the European consumers.

Thank you for your attention.