## OPENING AND KEYNOTE SPEECH

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# Insurance and Pensions Reloaded: A Game Changer

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

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Ladies and Gentlemen,

I am very pleased to welcome you all to the 7th Annual Conference of EIOPA. In particular, it is my pleasure to welcome our distinguished speakers and panellists. It is a particular privilege to realise that EIOPA's Annual Conference established itself as a reference point for the debate of key important issues in the insurance and pension's world.

I also would like to extend my gratitude to the City of Frankfurt and the State of Hessen for their continuous support. Frankfurt is the hub of European supervision of banks, insurers and occupational pensions in the EU financial system and EIOPA enjoys being part of the City. We are looking forward to further enhancing our cooperation.

This year's conference programme is dedicated to the theme "Insurance and Pensions reloaded". We live in the age of "artificial intelligence" with computer science developing "intelligent agents", meaning devices that perceive its environment and take actions that maximise its chance of success at some goal. So, as humans, we should also be capable to "refresh" our ideas, "rethink" our path and perceive our environment in order to take actions that maximise our chance of building a successful insurance and pensions market for the benefit of our society and our citizens.

To help us "reloading" we have today three fantastic panels, touching on issues that are on the top of our agenda: Supervisory Convergence: Looking back to look ahead; How can the Pan-European Personal Pension Product (PEPP) work best for European citizens?; and How can regulation facilitate innovation? I am sure that we will see interesting debates and a challenging confrontation of ideas.

In my intervention I will touch upon four themes that cross over the main strategic priorities of EIOPA: 1) Maintaining sound regulation in an evolving landscape; 2) Supervisory convergence and the building up of a common European supervisory culture; 3) Reinforcing consumer protection in a digital age and 4) Preserving stability in an uncertain world.

**Maintaining sound regulation in an evolving landscape**

The implementation of Solvency II was a success for the stability of the European Union financial system. In a very difficult macro-economic environment with historically low interest rates and unprecedented quantitative easing by central banks, Solvency II implementation was carried out smoothly due to timely preparation, proportionate approaches and adequate transitional periods. This is of great importance because we are talking about an industry that invests more than 11 trillion euros of assets.

Overall the European Union insurance sector is adequately capitalised. Specific transition periods are used mostly by life insurance companies with long-term guarantees business. Transitional measures are intended to limit procyclicality and facilitate the entry into the new regime by giving companies time to adapt and implement the structural reforms needed in their business. I continue to believe that this "transparent and constrained forbearance" is an appropriate way to balance micro and macro-prudential considerations.

Moreover, the European insurance industry is much stronger with Solvency II: It is stronger because it has its capital better aligned to the risks it runs, because it uses a more realistic basis to assess and mitigate risks and thus can better price them, because it has upgraded its governance models, with a complete different emphasis on the role of the Boards, the setting up of key functions and the implementation of the Own Risk and Solvency Assessment (ORSA). With Solvency II we also have the basis for a more transparent industry, with harmonised templates for supervisory reporting and enhanced public disclosure.

The insurance business is complex: in its scope of risks, in its interaction with financial markets, in the contractual relationship with policyholders. There is no free lunch. Solvency II, as a risk-based regime needs to capture to some degree the underlying complexity of the business and strike the right balance.

Ten years after the emergence of the financial crisis we are now in a different phase of the regulatory cycle naturally influenced by the new political priorities of increasing investment and economic growth. While in my view it makes perfect sense to evaluate and review the recent reforms in order to mitigate any unintended consequences and increase proportionality, I strongly believe that we should not abandon the core values of stability and consumer protection that presided to these reforms. We cannot forget that the post-crisis regulatory agenda was the right response to restore the loss of confidence in the financial sector. To build up sustainable long-term investment and economic growth we need a stable and strong insurance sector that adequately prices risks, applies robust risk management strategies and treats customers fairly.

Despite the fact that we just start to witness the benefits of the Solvency II reforms, we are already reviewing the regime, with a focus on reducing complexity and increasing proportionality.

Recently EIOPA advised the European Commission to adopt simplified calculations of the Solvency Capital Requirement (SCR) standard formula for risks such as lapse and mortality and to reduce over-reliance of insurance undertakings on external credit ratings applying simplified calculations.

In order to finalise the second phase of our advice, scheduled to February 2018, EIOPA recently consulted on other overarching aspects of the SCR standard formula soliciting stakeholder feedback on key sub-modules such as the loss-absorbing capacity of deferred taxes, non-life and life underwriting risks, catastrophe risks, unrated debt and unlisted equity and other topics such as the cost of capital in the calculation of the risk margin.

Building up evidence and knowledge towards the 2021 overall review, EIOPA is attentive to the different impacts on the market. The recent investment survey points to a search-for-yield behaviour of insurers which is a natural reaction to the low interest rate environment. The increased exposure to more illiquid investments and to non-traditional asset classes, such as infrastructure, improves asset diversification but also demands new risk management capabilities from insurers and closer supervisory scrutiny. At the same time, in line with our expectations, the first observations from the impact of Solvency II point to an increase in long-term investment and a stable allocation to equity.

Another consequence of the low interest rate environment is the acceleration of the pace of change in business models, especially in life insurance, with the move towards contracts with lower and more flexible guarantees and, in some countries, the significant increase of pure unit-linked products. While this is a natural management reaction to ensure the long-term sustainability of the insurers commitments and optimise capital in a Solvency II environment, it also increases the transfer of risks to policyholders. I believe that this last evolution deserves further reflection from a regulatory perspective.

We should use the development of the PEPP and the 2021 Solvency II review to thoroughly analyse the new evidence available on the risks and characteristics of the long-term life insurance products, especially concerning the illiquidity characteristics of the liabilities and the corresponding ability of insurers to mitigate short-term volatility by holding assets throughout the duration of the commitments, even in times of market stress.

In the coming weeks I will propose to my Board the setup of a specific work stream to analyse these issues and, maintaining the sound market consistent orientation and the principles of policyholder protection of Solvency II, explore the development of a specific regulatory treatment to the spread and equity risk charges associated to long-term assets that back certain types of truly long-term illiquid liabilities. The intention should be to propose a regime that would better recognize the true risks of long-term transparent risk sharing products, for the benefit of consumers and the whole economy.

But regulation is also on the move internationally. I am particularly pleased with the recent progress achieved by the International Association of Insurance Supervisors (IAIS) regarding the development of an Insurance Capital Standard (ICS). We are now a step closer to the emergence of a truly sound and robust global group solvency regime that should be applied by all jurisdictions.

Back to the European financial services agenda, an important project is the development of the Capital Markets Union and, in particular, the proposed regulation on the PEPP. The European Commission proposal builds up on EIOPA’s advice and is a brave step towards the establishment of a European, safe, transparent and cost-effective long-term retirement savings option that will offer young generations of European citizens an entirely new personal pension framework to save for an adequate future retirement income. I am confident that the co-legislators, the European Parliament and Council, will recognise the strategic importance of this initiative for the EU citizens and will contribute to even improve it and deliver a successful product.

I welcome the proposal that EIOPA plays a key role in enabling consistent implementation and EU-wide consistent authorisation requirements to safeguard the proper use of the PEPP label and ensure high-quality PEPPs throughout Europe.

Furthermore, EIOPA's mandate to promote supervisory convergence is of paramount importance for the trust and confidence in the PEPP. In my view, a stronger coordination through the development of supervisory plans for PEPPs is needed to support the initiative of a truly pan-European product. To strengthen the transparency of PEPPs supervision towards EU consumers, I would propose that EIOPA should be mandated to publish an annual report on the PEPP’s supervision activities performed throughout Europe.

For EIOPA, standardised, comparable and relevant information about available PEPPs needs to be easily accessible to consumers to help them make well-informed and conscious decisions about their plans to save for retirement.

The information about PEPPs needs to be relevant. Therefore further development of pension-related consumer-friendly disclosures for the pre-contractual and the regular benefit statements is needed. EIOPA welcomes the initiative by the European Commission to collect, analyse and report on cost and performance indicators of the main long-term investments personal and pension products. Outcomes of this initiative will enhance the proposed disclosure requirements for PEPP.

In light of the current economic environment and the challenges faced by products with long-term obligations, the design of the default investment option will, to a significant extent, determine the success of the PEPP.

Furthermore the much needed conceptual link between the accumulation phase of the PEPP, (the savings phase), and the decumulation phase (phase when retirement income is received) is important. The most relevant outcome that counts is the right result of receiving adequate retirement income for the consumer.

Taking all these elements into account, and in order to ensure that the PEPP is a truly pension product, that there is an adequate protection of savers and that they will benefit from successful long-term investment strategies, it is my personal view that the default option should include a requirement that all paid-in contributions should be guaranteed only at the point of decumulation and specify the default conversion of a significant part of the accumulated amount into programmed withdrawals or annuities, protecting savers against longevity risk.

Finally, I believe that more flexibility is needed to minimize the burden of the mandatory rules on national compartments.

## Supervisory convergence and the building up of a common European supervisory culture

In the coming three years one of EIOPA's key priorities is to further enhance supervisory convergence with the aim to move towards a common European supervisory culture, a risk-based culture that:

- Aims to ensure strong but fair supervision
- Is based on a forward-looking and proportionate approach to risks
- It takes into account that it is always better to prevent than repair
- Prioritises the dialogue with market participants in order to better understand their business models, strategies and underlying risks
- Applies professional scepticism and a challenging attitude
- Promotes early enough awareness and supervisory action in order to protect policyholders and mitigate possible disruptions in the market.

Today, I am particularly pleased to announce that EIOPA's Board of Supervisors unanimously approved the booklet that you find in first hand in the table in front of you, describing the basis of a common European supervisory culture.

This is the result of a joint and common effort and I would like to thank everyone who has contributed to its development. It outlines the most important elements of high-quality and effective supervision, ranging from the principles that underpin a common European supervisory culture to the basic conditions and tools needed.

This common supervisory culture supports the development of EIOPA's Supervisory Handbook that contains good practices to be followed by the supervisory authorities to achieve pan-European, risk-based, proportionate and preventive supervision. The Handbook addresses the main elements of the

Solvency II framework and provides recommendations, practical examples, case-studies and risk indicators.

A common supervisory culture cannot be built overnight. By working together, step by step, focused and challenging each other along the way, we can build a strong and fair supervisory culture that promotes consumer protection and enhances the stability of the financial system for the benefit of Europe's business, economy and citizens.

Due to the internal market and cross-border activities, the quality of national supervision is no longer solely a national issue, but a European issue. Day-to-day supervision including the responsibility for monitoring and ensuring the proper functioning of insurance companies in the European Union lies with the national supervisory authorities. EIOPA’s supervisory convergence agenda is focused on building common standards and interpretations, on leveraging data for risk assessment and supervisory purposes, on monitoring common standards and on challenging and supporting national competent authorities.

EIOPA is using a number of EU-wide and Cross-Border Tools to detect and mitigate risks. For example, we have access via a central data repository to all individual undertakings and groups’ supervisory reporting. This allows EIOPA to analyse and assess the national insurance markets’ risks from a European perspective but also to add-value and efficiency to national supervision.

As a member of colleges of supervisors, EIOPA also participates in the direct oversight of cross-border groups. The European insurance market is dominated by more than 90 cross-border insurance groups with a head office in the European Economic Area. During the first year of Solvency II implementation EIOPA identified the need for a particular attention to the consistency and quality of the Own Risk and Solvency Assessment reports and internal models, to the practices for enhanced risk assessment and to sub-group supervision.

Different approaches in national supervisory practices can potentially result in significant differences in capital requirements or even cause undertakings to limit the geographical scope of their Group Internal Models. Policyholder protection is at stake in case the internal model allows weak calibration. An important tool to address these inconsistencies and potential threats are the dedicated European Union-wide consistency projects. Through these projects, EIOPA is collecting the required information and thoroughly studying the issues in detail. As a result, EIOPA can take appropriate remediation actions for instance in the form of supervisory opinions.

As an additional tool, EIOPA is using peer reviews to get an insight into how national supervisors apply the proportionality principle, for instance when supervising undertakings’ key functions. These reviews will result in concrete recommendations to address the issues identified and develop best practices.

To address imminent issues, where cross-border risks following branching-out or freedom to provide services are identified, EIOPA has developed the so-called cooperation platforms. Several platforms have been set up during 2017, with noticeable impact on the cooperation between national supervisory authorities and coordinated actions by the home supervisory authority where imminent supervisory concerns were detected.

The increased cooperation has sped up the process of identification and assessment of risks in the market with significant impact on both home and host authorities. For the home authority, some of the firms providing services were operating “below the radar”, smaller firms with no direct impact on their markets. Raising the attention to EU-wide risks and the potential consequences they have for the home authority has in many cases led to a direct intensified supervision and a more proper identification of the risks coming from the host markets.

For host authorities, the cooperation platform has provided the opportunity to raise concerns on the protection of the policyholders in their jurisdictions. Instead of being informed when a license is withdrawn or a company is put into liquidation, the host authority is much earlier and better informed.

This process can only be lead and supported by an authority that takes the interests of the whole EU policyholders into account and that steers its action with this objective in mind. As developments unfold and the need for imminent supervisory actions increase, the pressure within the cooperation platform rises and requires a lot of coordination and communication from EIOPA’s side, together with all the supervisors involved, to steer developments in the right direction. The first results of the cooperation platforms in 2017 have been very encouraging and the tool has been embraced by the supervisory community as a welcome addition in the toolbox of supervisory convergence.

Besides the EU-wide and cross-border tools, EIOPA actively uses the bilateral engagements with the national supervisory authorities. These are tailored to the national specificities following the diagnosis and analysis of the national markets and relevant cross-border activities. As outcome of these bilateral engagements, EIOPA is updating accordingly its risk assessment on the market and the level of supervision, providing independent and challenging feedback, delivering recommendations for improvements and proposing follow-up measures. Specific follow-ups from these bilateral engagements have for instance been the extensive balance sheet reviews of the insurance sector performed in Romania and Bulgaria.

EIOPA has played an important role in these balance sheet reviews, being an active member of the steering committee of the exercises and focussing on supervisory actions to follow up on the findings. One of the key elements of the common supervisory culture is to be conclusive as supervisors, to take actions and control when issues are surfacing, and EIOPA is taking a leading role in this. The initial first impacts of the reviews, where some immediate effect on firms and market practices are noticeable, have been followed up by further ongoing intensive cooperation with the local supervisory authorities.

The emphasis on achieving supervisory convergence is also reflected in the European Commission proposal for the review of EIOPA's Regulation. We strongly welcome the proposal and believe that EIOPA's stronger mandate to ensure convergence in supervisory practices through the development of Strategic Supervisory Plans and the empowerment to undertake independent assessments of internal models, are clearly steps in the right direction.

Nevertheless, we consider that there are still issues that deserve some fine tuning. Let me just mention two areas:

First, EIOPA's Regulation should be strengthened with a mandate to act more intrusively when it detects signals of risks of cross-border failures. In order to allow EIOPA to act in a preventive manner, national supervisory authorities should be obliged to notify EIOPA early enough in case insurance companies experience deteriorating financial conditions with possible cross-border effects.

Second, EIOPA's role with regards to supervisory independence and conflict of interests should also be strengthened. These fundamental supervisory principles have gained even more relevance under Solvency II, due to the degree of supervisory judgment necessary in the application of a risk-based regime. It is fundamental that national supervisors are operationally independent, and that they are accountable for the exercise of their functions and powers. The operational independence, transparency, and accountability of national supervisors need to be reinforced with the establishment of a strong European framework and a clear role for EIOPA in assessing its implementation.

Finally, we welcome the proposal to include sustainability as well as technological innovation, hence also InsurTech, in EIOPA's mandate. Regulatory and supervisory authorities have a key role to play in making sure that consumers can benefit from innovation, while remaining duly protected.

## Reinforcing consumer protection in a digital age

The conduct of business reforms brought by the Insurance Distribution Directive (IDD) and the PRIIP's Regulation are about to be implemented. Recognizing the difficulties in making progress in a very sensitive area, this is a significant milestone in further promoting a consistent approach towards consumer protection across Europe.

The supervision and enforcement of the IDD requirements is fundamental to ensure that we achieve the intended increase in the protection of consumers. Insurance distribution has different nuances in different member-states with diverse models relying to a different extent on agents, brokers and other intermediaries like banks. Moreover, there are different supervisory approaches and variations on what constitutes a suitable and proportionate mix of off-site and on-site activities.

EIOPA will be particularly interested in understanding how, in practice, the different National Competent Authorities (NCA's) intend to supervise and enforce the IDD requirements, namely the product oversight and governance and the conflict of interest rules. This, combined with the implementation of the PRIIP's Regulation, will require that NCA's put in place effective market monitoring activities to develop a deep understanding of the products sold and access the respective selling practices. A benchmark for conduct of business supervisory practices should emerge in the internal market.

EIOPA maintains a forward-looking perspective to regulation and supervision aiming at the early identification of significant trends that can affect the market and consumers. In this sense, the growing use of new technologies, digitalisation, big data and machine learning have the potential to change significantly the insurance value chain, creating new opportunities to improve customer experience and generate lower costs but also bringing up new risks.

EIOPA takes a strategic approach to Insurtech and, for 2018, our three main priorities will be the use of big data by insurers, where we will run an EU thematic review; the mapping of supervisory approaches to innovation, where we will find out about the sandbox and innovation hubs put in place in different member states and finally cyber risk, both from the angle of insurers cyber security and the insurance sector as an underwriter of cyber risk.

We believe that insurance regulation needs to be technology neutral but at the same time should not create artificial obstacles that will hinder innovation and limit the potential to build better products and services for consumers. Furthermore, if we want to have start-ups growing and scaling up within the internal market, we need to be attentive to the possible proliferation of very different national approaches to innovation.

Going forward, let me mention a couple of questions that should deserve our prospective attention and debate:

- Is there a need to move towards an activities-based regulation to ensure that all kind of players, be it risk carriers or intermediaries, are captured by the regulatory framework and that the requirements on the provision of information to consumers are technology neutral?
- Is it time to start to be concerned with ethical issues surrounding the use of sophisticated algorithms for insurance pricing?
- Shouldn’t we devote more attention to the emergence of new possible sources of systemic risk, like cyber incidents amplified through the exponential interlinkages between big technological providers and the financial sector, as it is the case of the usage of the clouds?
- Is the future of insurance to be mostly transformed in a service oriented tool designed to prevent risk more than pay claims? Will we end up with

only a small number of truly risk carriers with huge balance sheets to cover tail risks?

In an ever-changing landscape, one thing is certain: What worked in the past, does not necessarily work in the future.

As insurance providers adapt to changing environments, it is always important to remember the needs of consumers and to make sure that their rights are always respected and their needs always addressed. This is as relevant today as it was 70 years ago and I am certain that this will still be relevant in 70 years' time.

**Preserving stability in an uncertain world**

One of the lessons learned from the recent financial crisis is the need to have in place adequate recovery and resolution tools which will enable national authorities to intervene in failing institutions and resolve failures in an effective and orderly manner.

At present, there is no harmonised recovery and resolution approach for insurers in the European Union and the emergence of national specific solutions will increase fragmentation in the internal market and create additional difficulties when dealing with cross-border cases. To reduce this risk, to avoid unnecessary economic cost stemming from uncoordinated decision-making processes between national authorities and to ensure orderly resolution, European action is required. Therefore, in July EIOPA published an Opinion calling for a minimum degree of harmonisation in the field of recovery and resolution for insurers consisting of four building blocks: Preparation and planning, early intervention, resolution and cross-border cooperation and coordination. Furthermore, this framework should be aligned with Solvency II and be applied in a proportionate manner.

Although the introduction of Solvency II and, in particular, the adoption of risk-based capital requirements and forward-looking supervision should contribute to reduce the likelihood of insurance failures, it is important to realise that Solvency II is not a zero-failure regime and eventually failures will continue to occur. Beyond recovery and resolution regimes, insurance guarantee schemes can contribute to increase the overall protection of policyholders and beneficiaries. However, in the European Union this area is still significantly fragmented, with the existing schemes differing quite substantially in terms of financing, functions, mandate and coverage. This fragmentation creates particular problems in the presence of failures involving cross-border business.

I believe that in the medium-term it is fundamental, both for consumer protection and the proper function of the internal market, to build a minimum harmonized approach to national insurance guarantee schemes in the European Union. As indicated in its Regulation, EIOPA will start to assess the need of such a framework and intends to issue a discussion paper during 2018.

To assess the resilience of (re)insurance and pension fund sectors to adverse market developments, EIOPA will continue to initiate and coordinate regular European Union-wide stress tests. Before the end of the year EIOPA will publish the results of the 2017 Occupational Pensions stress test.

A stable financial system relies on us staying alert to emerging developments. For instance, regarding the UK's decision to withdraw from the EU, EIOPA published an Opinion to support national supervisory authorities to secure sound and convergent practices linked to the relocation of UK-based undertakings in the EU27. Sound supervision demands appropriate location of management and key functions and empty shells or letter boxes should not be acceptable. EIOPA will monitor the implementation of those principles by NCA's in concrete authorisation processes.
Assuming a Solvency II forward-looking perspective, I believe that it is now more than crucial that all insurance groups properly assess the risks of a "cliff edge" scenario to their business and consider all possible solutions to mitigate them under the available regulatory framework. NCA's should encourage appropriate contingency planning by groups and be prepared to review them and take decisions.

**To conclude,**

The post-crisis regulatory reforms were designed to build more stable and fair and transparent financial markets along with stronger and better governed players. It is now time to benefit from those reforms and ensure that financial institutions have a role to play in solving emerging societal gaps such as the long-term savings and the natural catastrophe protection gaps.

It is imperative the development of intelligent solutions for these gaps and we all need to give our contribution. As a famous futurist recently said: "*What we should be more concerned about is not necessarily the exponential change in artificial intelligence or robotics, but about the stagnant response in human intelligence*."

At EIOPA we will continue to promote the common public interest that lies behind geographical boundaries and cultural differences, strengthening supervisory convergence in order to fulfil our mandate of policyholder protection and financial stability in the European Union.

Thank you for your attention.