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**STATEMENT AT THE HEARING OF THE EUROPEAN
PARLIAMENT'S ECONOMIC AND MONETARY
AFFAIRS COMMITTEE**



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Mr Chairman,

Honourable Members of the Economic and Monetary Affairs Committee

Ladies and gentlemen,

Thank you for the invitation and I am very pleased to be back for our annual hearing and sharing with your Committee EIOPA's achievements during the past year and the challenges ahead of us.

As regards the achievements, I will focus on the following topics:

- ✓ First, how we are **enhancing supervisory convergence**
- ✓ Second, how we are reinforcing **better consumer protection**, and
- ✓ Third, how we are helping to maintain **financial stability**.

At the end of my remarks I will touch upon **future trends, challenges and opportunities** and how EIOPA can address them.

Enhancing supervisory convergence

To ensure sound and effective supervision of the insurance and pensions sectors, EIOPA strongly believes in a **holistic and integrated approach** towards European prudential and conduct of business supervision.

On the same occasion last year, I referred to the implementation of **Solvency II** as a milestone. Despite the difficult macroeconomic environment with historically low interest rates, the implementation of Solvency II was carried out smoothly largely thanks to timely preparation and appropriate transitional periods.

Today, I can state that the European insurance industry is benefitting from this **modern, robust regime** and therefore is much stronger.

The development of more coordinated supervision is essential to avoid regulatory arbitrage. During this last year EIOPA further developed its Supervisory Handbook of good practices, build on its Solvency II database of information, and continuously engaged in visits to national supervisory authorities.

In doing so, EIOPA has detected increasing issues in relation to business models making use of the Freedom to provide Services (FoS) regime, which in a few cases has led to failures of insurance companies with detriment to policyholders and unsatisfactory cooperation between the home and host supervisory authorities.

Therefore, EIOPA reinforced supervisory cooperation related to cross-border business, involving information and data exchange facilitated by the set-up of **cross-border supervisory platforms** coordinated by EIOPA.

On this basis, several Platforms have been set up and proven to be successful in triggering supervisory interventions at a much earlier stage and therefore mitigating possible further detriment to all policyholders. However, these platforms are voluntary and subject to mutual agreements between EIOPA, the home supervisor and the host supervisors.

EIOPA's supervisory activities in Romania and Bulgaria, through the coordination of **Balance Sheet Reviews**, highly contributed to ensure that the taking of risks related to insurance activities is more appropriately supervised and that the requirements laid down in the European Union law were applied.

A key element of the Solvency II regime is the application of internal models. Through our participation in colleges of supervisors, visits to competent authorities and deeper technical analysis, EIOPA detected different approaches in national supervisory practices. Such differences can lead undertakings to take arbitrary decisions regarding the geographical scope of their internal models and may result in significant variations in capital requirements. This is an area where more needs to be done in order to ensure supervisory convergence.

Reinforcing consumer protection

Consumer interests are always put first in our work whether on the regulatory or the supervisory side.

We therefore welcome the European Commission's decision to take up the majority of our technical advice regarding Product Oversight and Governance, Conflict of Interest, Inducements, and Assessment of suitability and appropriateness in its draft delegated regulations under the **Insurance**

Distribution Directive (IDD). This is a significant milestone in further promoting a consistent approach towards consumer protection across Europe. However, EIOPA is disappointed to see that third party payments have not been included in the list of typical situations of conflicts of interest.

In order to detect emerging cases of consumer detriment, EIOPA monitors and identifies trends. EIOPA's assessment is published via our **Consumer Trends Reports**. The first European Union-wide in-depth analysis of consumer protection issues in the unit-linked market was published with EIOPA's **Thematic Review** on monetary incentives and remuneration between providers of asset management services and insurance undertakings.

To further strengthen our insight in the pensions market, we have, in coordination with the European Central Bank, recently launched a **public consultation about statistical reporting requirements for pension funds**. This should lead to better, comparable and relevant information regarding occupational pensions in Europe which is necessary for informed decision-making.

In terms of personal pensions, we welcome the European Commission's initiative to introduce, based on our advice, the **Pan-European Personal Pension product (PEPP)**. We believe that our role in its implementation will be essential to ensure its quality and effective supervision. The PEPP also has the potential to create a true single market for personal pensions that can only benefit European citizens. With this in mind, we call upon the Members of the European Parliament to bring this ambitious proposal forward.

Maintaining financial stability

The **European wide stress tests** are an essential tool in the area of financial stability. In December 2016, we published the results of the last insurance stress test, providing a quantified estimation of the insurance sector vulnerabilities to the low interest rate environment and to a pronounced reassessment of risk premia. A set of recommendations were issued and its implementation duly monitored. Our second IORPs stress test is underway and we will publish the results at the end of this year.

We have also seen the impact of Solvency II data reflected in our improved analytical framework used for financial stability analysis and assessments, notably in our **Financial Stability Reports** and **Risk Dashboard**.

While failures are a characteristic of any competitive and well-functioning market, effective supervision should minimise the consequences of any failures. In this regard, we have issued an Opinion addressed to the European Institutions on a minimum harmonisation of a comprehensive **recovery and resolution framework**, covering *preparation and planning, early intervention, resolution*, as well as *cross-border cooperation and coordination measures*. The framework should avoid unnecessary economic costs stemming from uncoordinated decision-making processes between national authorities and have them equipped with the right set of powers to ensure orderly European resolution where necessary.

Furthermore, given the substantial differences in funding, scope, and coverage of existing **Insurance Guarantee Schemes (IGS)** across the Union, EIOPA will explore the possible set-up of a minimum harmonised framework for such schemes at the EU level.

The future: Trends, challenges and opportunities

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.

Going forward bolder steps are needed to further enhance financial integration and the completion of the Capital Markets Union. In this respect EIOPA welcomes the Commission's proposal to reform the EU's supervisory architecture.

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.

Furthermore, we welcomed 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.

Nevertheless, as regards **cross-border activities** an even stronger European approach is needed.

The ability to passport services should imply a sound supervision of such activities throughout the Union. Only strong European responses are able to counter negative developments, and provide the consumer with additional safeguards. Therefore, **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 companies experience deteriorating financial conditions with possible cross-border effects.

Furthermore, 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. Supervisors should have adequate powers with proper resources, so they can perform their functions and independently exercise their powers. The question of supervisory abilities goes beyond the national context, as it also impacts the whole internal market. The operational independence, transparency, and accountability of national supervisors therefore need to be reinforced, by providing a strong European framework with a clear role for EIOPA in assessing compliance with that framework.

Mr Chairman, honourable Members of the European Parliament, I very much welcome the opportunity of this exchange of views. The European Parliament has had a fundamental role in the setting up of the ESAs, ensuring a proper

mandate to safeguard Consumer Protection and Financial Stability in the European Union. I am sure that the European Parliament will use the current review of the EIOPA Regulation to ensure proper independence and accountability of supervisors and reinforce the quality and consistency of insurance and pensions supervision in the European Union with tangible benefits to businesses, economies and, of course, citizens.

Thank you for your attention and I am now at your disposal for questions.