OPENING SPEECH

Gabriel Bernardino

EIOPA Chairman

Check Against Delivery

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Es gilt das gesprochene Wort

EIOPA 1st Annual Conference

Frankfurt am Main, 16 November 2011

Introduction

Dear Commissioner,

Distinguished Guests,

Ladies and Gentlemen,

I would like to extend you a very warm welcome to our first Annual Conference as the European Insurance and Occupational Pensions Authority (EIOPA), here in the Frankfurt Congress Center.

We held six such conferences under our predecessor organisation, CEIOPS, and we are delighted to be able to keep this tradition going.

We view these conferences as a key part of EIOPA's policy of transparency and consultation. Transparency, because of the opportunity to tell you about our current news and views; Consultation, because we welcome, and actually seek your feedback on all issues raised.

I am also delighted to be able to stand before you today as the first Chairman of EIOPA. It is indeed a honour and a privilege for me to have been appointed for this position. I can tell you that I aim to be ambitious in my goals for EIOPA.

True, EIOPA has acquired a lot of challenging new tasks and objectives by becoming a European Supervisory Authority and, of course, we have limited resources. But I can stand here today and assure you that we have made significant progress in adapting to these changes.

The political and financial landscape has changed dramatically over the past year and we face extremely challenging economic times at present both domestically, in Europe and on a global basis. Nevertheless, EIOPA is determined to remain true to its core objective of *"protecting the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system".*

These are challenging times for financial supervisors and for the industry and I am sure our speakers today will provide us with stimulating food for thought. It is indeed a privilege to have them with us.

I am also very pleased to say that Members of EIOPA's Board of Supervisors, Management Board and staff are in attendance here today and I would very much encourage you, if you have time, to take the opportunity to meet them in the coffee and lunch breaks. Having such a great team backing me, has been particularly important, given the sheer depth of the changes we have had to embrace.

Finally, I would like to thank the City of Frankfurt for the welcome and support. EIOPA greatly enjoys being here in a city which is continuously gaining global importance with the existence of the European Systemic Risk Board (ESRB) and the European Central Bank (ECB). We make use of the most of Frankfurt's facilities and attractions. So do many our partners and guests. I look forward to continuing in a spirit of enhanced co-operation in the future.

Today, we will provide you with an excellent programme, with an opportunity to hear from some of the most experienced and respected figures in the field of insurance and pensions in Europe.

Insurance

Our first Panel session this morning is on the Solvency II project, the new regulatory regime for insurance, with the enticing title: *"Solvency II – A Different View".* We contributed heavily to this project over many years, even during the times of substantial stress, and I can guarantee you: EIOPA is committed to make Solvency II a success.

We have plans in place for progressing on Solvency II. In May 2012 we plan to start public consultation on technical standards and accompanying guidelines that are essential for the implementation of Solvency II.

This does not mean that we are disregarding the negotiations currently going on at the political level. We await with high interest the outcome of the vote on Mr Balz's report on the Omnibus II

Directive in the ECON and the forthcoming trialogue meetings. However, from our side, we also need to be sure that we will not be pressed for time at the final stage and that we do not run the risk of not delivering.

Regarding this final stage of Solvency II I would like to touch on two substantive issues that are still under discussion.

Firstly, let me mention the area of countercyclical tools. Solvency II already includes various tools to deal with the risk of procyclicality. If properly calibrated and applied, elements like the Pillar I equity dampener, the supervisory ladder of intervention and the Pillar II extension of the recovery period have the potential to mitigate procyclical behaviour.

The discussions have now evolved to the proposal of a Counter Cyclical Premium to add on top of the risk-free interest rate when discounting insurance liabilities in crisis times.

While accepting that it is important to have a range of tools to use in crisis situations, I believe that we should be extremely cautious when designing this new tool. First of all I don’t believe that a complete formulaic approach is desirable or even possible. We should not pretend to play God and believe that we can decide in advance how the next crisis will look like. Nevertheless, on top of a more flexible approach, I would support the definition of a set of clear criteria and indicators that should be constantly monitored by EIOPA and that would lead to a decision on the application of the

Counter Cyclical Premium, by EIOPA on a European basis, when certain defined thresholds would be exceeded.

Secondly, the design of the Counter Cyclical Premium cannot incentivise insurers to invest in higher risky assets and should not be used to maintain unsustainable business models in an on-going situation.

It should be crystal clear that the Counter Cyclical Premium is a crisis tool and that it will not be used to diminish the level of protection of policyholders.

The second substantive issue is reporting to supervisors. EIOPA has been working hard on a set of harmonized templates that will substitute the 27 different reporting systems in the EU. This will be a huge achievement and will generate enormous benefits for the industry and for supervisors.

While the concrete application of proportionality both on the frequency and on the nature of the information is still under discussion, let me reiterate that any limitations at the level of the reporting of the detailed lists of assets and on the access to basic quarterly information will have severe consequences on the effectiveness of the preventive micro and macro supervision at the EU level and would limit drastically the capacity of EIOPA and the ESRB to perform their roles. I am sure that the different EU political bodies will recognize the relevance of this point and will decide according to the best interest of consumer protection and financial stability.

Still on the insurance area, I would like to highlight some of our important recent achievements:

For example, we have recently launched a number of important public consultations in order to facilitate the preparatory work of insurers and reinsurers undertakings for Solvency II in areas such as the Own Risk and Solvency Assessment (ORSA) and Supervisory Reporting and Public Disclosure. Your input on these is crucial in shaping our future work. I would, therefore, strongly urge you to feed your views into these consultations.

We have also recently provided final advice to the Commission on the assessment of the Solvency II equivalence of the Swiss, Bermudan and Japanese supervisory systems. This was a huge exercise involving off-site analysis and on-site visits in those countries and I must say that I was delighted by the excellent co-operation that EIOPA had with the third country authorities involved in these assessments.

Of course, Solvency II is not the only important policy area in the field of EU insurance supervision. Next year, we can also expect other important legislative initiatives from the European Commission, such as a revised Insurance Mediation Directive and proposals for regulating the disclosure of Packaged Retail Investment Products (so-called "PRIPs"). These are essential initiatives and we are looking forward to contribute to their implementation.

Occupational Pensions

Our second panel session covers Occupational Pensions and the key issue of the future of Occupational Pensions regulation (*"Occupational Pensions – Looking Ahead"*).

It has been an exceedingly busy year for EIOPA in the field of occupational pensions.

Both the Call for Advice and the timeline have been very challenging but I am pleased to say that we have hit all our deadlines. The first consultation, a limited one, took place over the summer. A second, more thorough consultation went out at the end of October. We have sought input from our stakeholder groups at every stage of the way.

I would really like to stress the importance of the issue of occupational pensions to EIOPA today. Firstly let me state clearly that EIOPA's starting position is the protection of pension scheme members and beneficiaries. We make no apology for wanting all occupational schemes throughout Europe to have sufficient capital to meet their promises under a reasonable, but realistic and transparent framework. We are of the view that a "holistic balance sheet" which allows recording and measuring on a consistent basis the obligations and resources (including both assets and security mechanisms) of an IORP, is the right way forward in ensuring a future harmonised and risk based supervisory and regulatory framework for IORPs.

Furthermore, the call for advice noted that today nearly 60 million Europeans rely on a defined contribution (DC) scheme for an adequate retirement income. EIOPA's aim is that members should have confidence in their defined contribution scheme regardless of where in the EU it is located. Let me highlight just one area which impact on DC schemes which we are consulting on.

What information should be provided to members and beneficiaries? Where members bear the investment risk, information is vital to helping them make appropriate decisions.

EIOPA proposes a Key Information Document which would contain:

- a brief description of the scheme's objectives and investment policies;
- information on performance;
- costs and charges;
- a risk/reward profile and the time horizon adopted for the investment policy;

- contribution arrangements and in particular contribution commitments of the employer and the employee as a percentage of the salary.

I am convinced that the Key Information Document will be a huge step towards more transparency and confidence in the occupational pensions field.

Consumer Protection

Last but not least in our programme today is a panel covering a very important area – Consumer Protection.

I cannot recount the amount of times during my appointment hearing at the European Parliament in March that I was asked what I would be doing to enhance consumer protection. And they were right to ask me because, at the end of the day, EIOPA's success will primarily be judged by the users of insurance products and pensions. They will provide the "acid test" of whether EIOPA has achieved its objectives.

If you read through our empowering legislation, there are numerous references to consumer protection throughout; not least in Article 9, which requires us to take a **"leading role"** in promoting transparency, simplicity and fairness in the market for consumer financial products or services in the internal market.

Closely linked to this is the notion of "financial innovation" where we are required to monitor new existing and financial activities, to issue warnings or in certain cases, prohibit products. We have also created a specialist Committee on Consumer Protection and Financial Innovation (CCPFI).

I would like to assure you that I want to be ambitious in this area. For example, so far this year we have produced a Good Practices Report analysing the disclosure and sale of Variable Annuities, Guidelines and a Best Practices Report on Complaints-Handling by Insurance Undertakings and a Report on financial literacy and education initiatives by competent authorities. We are also in the process of finalising a Report analysing consumer trends in the EU.

What is noticeable about these outputs is that, although some are explicit legal requirements, others are pieces of work we have carried out on our own initiative. Why? Because we firmly believe in the importance of enhancing supervisory convergence in this area. We also have some ambitious plans for 2012 as well and we will, of course, be following up on the proposals from the Commission on the IMD and PRIPs. Further work on a cross-sectoral basis with our sister Authorities under the Joint Committee will also be essential to ensure cross-sectoral consistency.

Transparency is also crucial in this area. We want to receive your input. Therefore, not only have we put our Good Practices Reports and Guidelines out to public consultation, but we are also holding a special Consumer Strategy Day on 6th December where we plan to go into these issues in further detail. I am delighted to say that we have received an overwhelming amount of interest in this event both from industry and consumer representatives. If successful, this could prove to be a flagship event for EIOPA for years to come.

In conclusion, I can assure you that we will approach the issue of consumer protection with exactly the same enthusiasm in the years to come as we consider this to be of crucial importance.

To finalize my intervention I would like to share with you some ideas about the overall lessons that we need to take from the crisis. There is wide agreement on the diagnosis of what has failed and needs to be fixed. However, the real challenge begins when trying to implement the appropriate changes from a regulatory policy perspective. The challenge is huge because we need to touch on sensitive areas and question the usual thinking. However, I am sure that this is what our citizens expect from us.

As a personal contribute to the overall reflection I let you four thoughts on how to increase long term stability and regain consumer confidence in the financial system.

First - Encourage realistic risk assessment and pricing

The sustainability of the financial system depends heavily on a robust assessment of risks under the underwriting and investment activities. This is essentially a responsibility of market participants but the regulatory framework should not give contradictory signals and wrong incentives. In this sense I believe that in the future we need to explore ways to deal more properly with the risks of sovereign exposures and find a suitable way to integrate them in the overall risk-based framework.

Second – Promote a responsible business conduct by market participants

One of the consequences of the global financial crisis was the increased level of scrutiny on corporate ethics.

Market participants certainly recognize good conduct of business as an essential element to regain trust and confidence of consumers. After all, ethical practices make good business sense.

However, self-regulation proved not to be sufficient. There are areas where obvious conflicts of interest have the potential to create problems and put in question the credibility of business operations.

In this line I would certainly favour a serious and courageous approach to the conflicts of interest in the intermediation chain in the financial system.

Third – Increase the quality of information provided to markets and consumers

There is a wide agreement that in order to operate in a more efficient way markets need to have access to good and timely information.

Isn’t the market volatility that we observed today also a consequence of the lack of transparency on the risks of some activities?

More focused and normalized information disclosed by issuers should improve the accuracy of the risk analysis performed by investors, including insurers and pension funds.

In the same vein we need to reinforce the standardization and comparability of the information to be provided to consumers, helping them to take informed decisions. This is also true for insurance and pensions.

Fourth – Reinforce preventive risk-based supervision and timely enforcement

Supervisors need to have the powers and the independence to act when bubbles are being created.

However, preventive risk-based supervision depends heavily on the access to sufficient human and technological resources and to appropriate and timely information. We cannot runway from this reality.

Going forward, I believe that the European Supervisory Authorities can provide a way to better allocate highly specialized and qualified resources in the supervisory community and foster convergence of supervisory practices. This would for example be extremely helpful in the internal model validation processes.

Conclusion

Almost one year in, we have nearly completed the “first chapter” of this exciting “story” of a new European approach to financial services supervision. But this is just the first of many chapters to come. We must continue to seize the opportunity presented to us by our political leaders in order to ensure the stability of the financial system as well as the protection of insurance policyholders, pension scheme members and their beneficiaries. I’m sure there will be plenty of interesting things to read about EIOPA in the years to come.

“Life can often become challenging, but challenges are what we live for”

Thank you.