

SPEECH

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REFORM OF THE INSURANCE PRUDENTIAL REGIME IN THE EUROPEAN UNION



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Good morning ladies and gentlemen,

First of all let me congratulate the Economic Policy Institute of Slovakia for this initiative and express my gratitude to its Chairman Mr. Frantisek Palko for the invitation to be here in Bratislava. It is an enormous pleasure and an excellent opportunity to present you EIOPA, the new European Insurance and Occupational Pensions Authority that I have the pleasure and the honor to lead since the 1st of March of this year.

The mission of EIOPA is to "Protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses".

This is a very important mission if we realize the relevance of insurance and occupational pensions in the daily life of citizens and on the development of the economy. I believe that insurance is one of the economic activities with higher growth potential in the third millennium. In fact, the evolution of the society is creating more and more risks and citizens and businesses will be looking to transfer or mitigate them in an efficient way. This is precisely the role of insurance.

In this context it is essential to reform the insurance prudential regime in the EU, moving towards a better alignment between risk and capital, promoting good risk management practices and fostering transparency. These are some of the objectives of Solvency II.

In preparing this reform we should take due care of the specificities of the insurance business model. Insurers are different from banks and the recent financial crisis has demonstrated that. Insurers have a totally different way of funding themselves; they collect premiums upfront from policyholders and invest them in the financial markets according to the duration of their liabilities. Insurers are not subject to the same level of liquidity risk as banks. Their business is not to transform maturities. Conversely, insurers manage and are subject to much more risks than banks; demographic risks, catastrophe risks, technological risks.

Consequently, while it is fundamental that in the case of similar risks the insurance prudential regime avoids arbitrage opportunities with banking, it is also essential that it recognizes the very different nature of the insurance business model.

This is of the utmost importance if we want that the insurance sector continues to play a stabilizer role in the financial system.

We are living in extraordinary turbulent times. The global financial crisis has questioned the credibility and responsibility of the financial sector and lead to an increased lack of confidence and trust by citizens.

In these stormy times it is the duty of the public authorities to create conditions to reassure citizens and to act with vision and ambition for the future.

In this context, the creation of the European Supervisory Authorities is a fundamental change that provides a huge opportunity for the European Union and its member states to ensure a convergent approach to regulation and supervision and contribute to the implementation of a true single market.

The adoption of a single rule book has an enormous potential to reduce costs and improve competition. The creation of a convergent framework for the supervisory review process will potentiate a more robust supervisory approach at an EU level, diminishing differences and avoiding gaps for the benefit of the single market.

Let me be clear: The existence of a single market in the financial services area shall be accompanied by concrete steps to ensure a convergent level of supervision in the different member states. This is a huge challenge but Solvency II provides a unique opportunity to do it.

EIOPA is a Union body with legal personality and an autonomous budget. It is an independent supervisory authority. Together with independence comes a strong requirement of accountability to the European Parliament and to the European Council. And I welcome that.

At EIOPA we are committed and motivated to contribute to the creation of a truly European supervisory culture: a culture that promotes stability, enhances transparency and fosters consumer protection. A culture based on intelligent and effective regulation which does not stifle innovation.

Independence and objectivity will play a key role in EIOPA's work. We will apply them in our day-to-day operations and in our relations with all stakeholders. Furthermore, EIOPA will be an institution open to the society. Regulation and supervision is a public good and should be dealt with transparency.

In my view the objectives of the new European supervisory authorities, and particularly EIOPA, are extremely relevant:

- Contribute to a stable and effective financial system
- Promote sound regulation and supervision
- Ensure the transparent, efficient and orderly functioning of the markets
- Contribute to international supervisory co-ordination
- Avoid regulatory arbitrage
- Ensure equal conditions of competition
- Implement appropriate regulation and supervision of risks
- Enhanced customer protection

In order to fulfill these objectives EIOPA has important powers. We will develop draft technical standards that will become binding for all companies in the EU and issue guidelines and recommendations that national supervisors will apply on a "comply or explain" basis. We will settle disagreements between national supervisory authorities in cross-border situations and have a coordinating role in crisis situations.

Finally, EIOPA will monitor the correct application of the EU law in the different member states, by using, if necessary, its powers of investigation in local markets. The concrete implementation of these powers calls for the use of different tools.

Let me just mention the colleges of supervisors. In a clear evolution from the past EIOPA has now the possibility to be present in the colleges as a supervisory authority and has a specific role on assuring a convergent and coherent functioning of these important structures of group supervision.

We are building a team of qualified people in order to fulfill these tasks. Our objective is to contribute to the better functioning of colleges and for 2011 we have already defined clear objectives for the college meetings:

- Discussion of the results of QIS5
- Establishment of a working programme on the pre-application of internal models
- Test the crisis infrastructure of the group
- Develop preliminary discussions on the coordination between supervisors for the implementation of Solvency II

EIOPA is keen on ensure that the relevant information about the risks in the insurance groups is properly shared and analysed in the context of the colleges.

EIOPA and national supervisors are independent from one another, but are closely co-operating. EIOPA does not substitute the local authorities. It has its own powers and responsibilities but day to day supervision remains a task of the national authorities.

The key decision organ of EIOPA is the Board of Supervisors, where the heads of the national supervisory authorities are represented. However, it is very important to mention that the EIOPA regulation foresees that the members of the Board of supervisors shall act with independence and with the sole interest of the European Union.

In order to gain credibility EIOPA needs to act independently and to use its powers. Independence should be shown by acting, using its tools in an ambitious way, always by means of transparent, efficient and coherent processes.

EIOPA wants to represent an added-value to the European consumers and to the European supervisory landscape. In order to fulfill its mandate EIOPA needs to build on its own resources but it will also continue to use the knowledge and experience of its members.

This is a very important element. We want to create a truly European supervisory culture. A culture based on best and robust practices.

In order to create this culture I want to bring together all the national supervisory authorities. All of them have an important contribute to give.

In this context I want particularly to congratulate the team of the National Bank of Slovakia working on insurance and pensions issues for the energy and commitment that they dedicate to EIOPA and previously to CEIOPS. Their excellent contribution is an example that smaller countries can have a say in delivering better solutions for Europe. I know by my own experience how difficult is to manage scarce resources in order to be present and contribute to the European discussions. But I want to stress that this is more and more relevant.

Ladies and gentlemen, in my opinion one of the most relevant lessons of the crisis is that when regulation loses its credibility it is very difficult to get it back. EIOPA

will do everything within its competences to ensure that Insurance and Occupational pensions have a credible regulation for the benefit of consumers and the industry. I count with your help to fulfill this objective.