SPEECH

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Supervisory convergence: challenges for groups and the way forward

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

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Good evening ladies and gentlemen,

Dear colleagues,

On behalf of EIOPA I would like to express my gratitude to the U.S. National Association of Insurance Commissioners (NAIC) and The International Center for Insurance Regulation (ICIR) for their great collaboration in jointly organising this conference.

I would also like to congratulate Prof. Helmut Gründl for nearly one year of excellent work at the interface of science, industry and regulation/supervision.

In October last year, the ICIR at Goethe University in Frankfurt was inaugurated and the Chair of Insurance, Supervision and Regulation took up his duties in November.

His impressive track record includes a substantial amount of master students, several scientific publications as well as many presentations and seminars on insurance regulation. The ICIR is the first scientific institution worldwide which focusses on the regulation of insurance companies and provides a unique international platform for information exchange between regulators/supervisors, scientists and industry representatives.

It is a special privilege to meet here at today's conference pursuing the objective to foster transatlantic dialogue between supervisors and leading professionals of the insurance industry.

Throughout the afternoon, both, supervisors and insurance company executives had the opportunity to exchange views on supervisory frameworks and practice, similarities and differences arising from operating in different jurisdictions, group supervision and convergence approaches. The break-out sessions provided a particular opportunity to come to a practical and operational solution in intense and fruitful discussions.

I would like to emphasise the importance of this transatlantic dialogue as, together, the U.S. and the EU oversee more than 70 per cent of the global insurance market.

Following the financial crisis of 2008/2009, we are again living in turbulent times and the credibility and responsibility of supervisors is once more of utmost importance for confidence and trust by the public.

The last crisis already brought some significant changes to the global financial systems: Financial services regulation/supervision on both sides of the Atlantic were strengthened, by, for example, establishing the U.S. Federal Insurance Office (FIO) and the European Supervisory Authorities (ESAs) as well as the European Systemic Risks Board (ESRB).

I would like to point out some of these initiatives in more detail and, in particular, share with you some ideas about the developments in ComFrame, the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs).

Let me start with the NAIC's Solvency Modernization Initiative (SMI) which has been around since June 2008. The SMI is a critical self-examination of the United States' insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. The SMI focuses on five key solvency areas: capital requirements, international accounting, insurance valuation, reinsurance, and group regulatory issues.

Secondly, in addition to the state-based insurance regulations and supervision in the U.S., a federal-level national office was proposed in 2009 in the Dodd-Frank Act. The FIO has been established in March this year and is housed under the U.S. Treasury Department. It does not have regulatory authority, but it monitors the industry and coordinates industry policy. The FIO's initial goals are to expand federal level knowledge of state-related insurance regulation issues and challenges for state regulators when representing the U.S. in multinational legal affairs.

Thirdly, in Europe, the creation of the ESAs is a fundamental change which provides a huge opportunity for the European Union and its Member States to ensure a convergent approach to regulation and supervision.

EIOPA was established on the 1st of January this year as an independent supervisory authority with objectives such as: contributing to a stable and effective financial system; promoting sound regulation and supervision; ensuring the transparent, efficient and orderly functioning of the markets; contributing to international supervisory co-ordination and enhancing customer protection.

In order to fulfil these objectives, EIOPA has important powers. We will develop draft technical standards that will become binding for all financial institutions 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.

At EIOPA, we are committed and motivated to contributing 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.

Last but not least, with the development of ComFrame, the IAIS started an important initiative last year which will have an impact on a global level. ComFrame focuses in particular on:

- developing methods for group-wide supervision of Internationally Active Insurance Groups (IAIGs) in order to make group-wide supervision more effective and more reflective of actual business practices;
- establishing a comprehensive framework for supervisors to address group-wide activities and risks; and
- fostering global convergence of regulatory and supervisory measures and approaches.

In a nutshell, ComFrame lays the ground for on effective group-wise supervision, ensuring better supervisory cooperation in order to allow for a more integrated and international approach.

EIOPA fully supports the development of a robust ComFrame that goes beyond the international standards that currently exist. This is a unique opportunity to create a framework that will give supervisors around the globe a common language on which to build a shared understanding of risks and foster convergence of supervisory practices.

ComFrame should encompass both qualitative and quantitative requirements in order to achieve an adequate level of consumer protection on a global scale. We need to be ambitious in this project and while being aware of the different perspectives and developments in the various jurisdictions worldwide it is my belief that the success of ComFrame will be judged by the level of convergence that we ultimately will achieve.

Let me be clear: We should not start from the premise that achieving an international agreement on the level of regulatory capital requirements for IAIGs is an impossible task. It was achieved in the banking sector so it should also be possible to achieve it in the insurance sector.

Having mentioned several important developments, some already started before the financial crisis and strengthened by it, others recently on the agenda, I would like to emphasise that an increasingly interconnected world, a world of global industry and services, and thus the globalisation of insurance business activities surely requires globalisation of insurance supervision, in particular group supervision.

In a globally integrated market economy, where concerns about a level playing field and protectionist pressures are real, it is vital to develop and implement strong international standards leading to better supervisory coordination and cooperation in the oversight of the most important global financial firms.

For many companies, globalization is the key to growth, currently focusing on emerging markets. However, it also brings diversification and may thus attribute more resilience in case of failure in one market. In addition, issues such as contagion and systemic risks and the resilience of the (re)insurance industry facing increasingly more and more intense catastrophic events, thinking, for example, of this year’s floods in

Australia, the earthquake in Japan and the tornados in the U.S., calls for a consistent, efficient and effective approach from the supervisor's side.

The need for increasing supervisory convergence certainly triggers a need for greater levels of cooperation between regulators and supervisors who are already undertaking – as already mentioned – broadly convergent initiatives to secure such quality of supervision as well as the mitigation of systemic risk.

In my view, group supervision will remain one of the most challenging fields of regulations and most prominent agenda topics for industry and supervisors alike – at least for the next decade.

We welcome and fully support the tendency to enhanced group supervision. We strongly believe that cooperation between supervisors in colleges is the right way forward for the proper supervisory approach to IAIGs. Information sharing and supervisory cooperation under conditions of professional secrecy is a key, determinative element of effective supervision of colleges.

We can proudly say that, for major issues arising out of national supervision when confronted with cross-border activities of the largest companies, adequate solutions have already been implemented. The challenges on a regional or even a global level seem to be even bigger when looking at the number of countries, which need to be involved. There will be a need to invest a lot of time and resources to explore the details of other's supervisory system. In addition, it is not sufficient to do this only on a factual basis: For a mutual understanding – and this is key for a joint way forward – the different cultures must be considered and also the development and history of a specific country's supervisory system.

Saying so, why should we take upon us the burden of – let me dare to say so – a nearly global supervisory convergence? Who will benefit from such convergence of supervision and in particular of group supervision?

Of course, first, it is industry as it will facilitate cross-border operations and a level playing field. On the other side, it is also supervisors as this enables them to act on mutually acknowledged supervisory standards. However, at the very end it will be to the customer's benefit as he/she will enjoy similar protection in different jurisdictions or even on a global scale.

I would like to conclude by stating that, in the latest years, a lot has been achieved on a global scale, be it on the European level with convergence through Solvency II, be it in the U.S. with the NAIC Accreditation Program or at a global level with the IAIS initiatives namely the Insurance Core Principles (ICPs).

However, there is much that still can be done. The G-20 has expressed the fundamental high-level political support for the development of global standards in the financial system. This can only be achieved with vision and ambition from the supervisors' side and support and commitment from the industry and other stakeholders. This calls for a framework of constructive and effective dialogue.

In this sense, I would like to congratulate all of you for this afternoon's valuable work and fascinating discussions in a unique environment of supervisors, scientists and industry representatives. I am convinced that working together and jointly exploring key questions of supervision has substantially contributed to mutual understanding and this will be a key element in the international policy development that is underway.

Let's us jointly continue to follow this road. I wish you a pleasant evening.