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Insurance and pensions: challenges and opportunities for deepening the Single Market

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Ladies and Gentlemen,

First of all I should like to thank EIOPA and its Chairperson, Gabriel Bernardino, for organising this first annual conference under the EIOPA banner.

As you know, EIOPA, the successor to the former CEIOPS Committee, came into being on 1 January this year. I have fond memories of the inaugural conference organised by the City of Frankfurt a few months ago. And I am taking this opportunity to thank Gabriel [Bernardino], the Executive Director Carlos Montalvo, and the whole EIOPA team for their dedicated and efficient work which has enabled EIOPA to take off fast.

I wish to thank all of you for being here today.

Your conference focuses on three key issues – Solvency II, occupational pensions institutions, and consumer protection. I will come back to those in a moment.

What I am here to talk about are the challenges and opportunities facing the insurance sector in the Single Market. In the current economic climate it may seem much easier to talk about the challenges facing EIOPA, the insurance and pensions sector, and Europe as a whole.

But I believe that we should not sink into pessimism. When Jean Monnet was asked whether he was an optimist or a pessimist, he usually replied "I am neither. I am merely determined". I think that, if we want to be ready to seize the opportunities that will emerge from this series of crises, the time is ripe for a new determination.

But to get back to our challenges for a moment: the most pressing challenge is to stabilise the European economy — in other words, to address the sovereign debt crisis and restore calm and rationality to the financial markets. The agreement reached by the European Council and the Eurozone Summit on 26 October is a significant step forward.

For the first time we decided to respond to every challenge of the crisis: the future of Greece, of course, but also the challenges of sovereign debt, the banking situation, compliance with the common Eurozone rules, and lastly – perhaps the most crucial issue in the eyes of Europeans – the challenge of a return to growth.

This ambition explains why the decision was a difficult one. It must only strengthen our determination to put the decision into practice. And in every component of this plan, a partial approach would quite simply be ineffective.

We must deal with the emergency. This will require a collective effort by the Commission and by every Member State of the European Union.

Ladies and Gentlemen,

Let us now return to the key topic of your conference. As I have just mentioned, the founding of EIOPA almost a year ago was a crucial step taken in the insurance sector.

In its first year of operation EIOPA too has faced many challenges. I will mention three of them:

- the operational challenges of setting up a new authority – here I am referring mainly to human resources and adjustment to new procedures;

- the challenge of a new mindset, which is necessary if the transition from a committee of supervisors to an authority acting in the interests of the entire EU, with powers of enforcement, is to succeed;

- the challenge of an ambitious work programme. This year, the top two priorities were to prepare to implement Solvency II and the request for an opinion sent to EIOPA on the revision of the IORP [Ai:O:R:P] Directive on institutions for occupational retirement provision. I shall return to these two important initiatives by also saying something about the current discussions in global terms. And I shall end with the revision of the Insurance Mediation Directive, which is a key issue for consumers.

I – First initiative: Solvency and the international context

With Solvency II, our aim is to introduce, in all the Member States, a modern, economy-driven solvency regime based on the risks to European insurers and reinsurers. As you know, the Framework Directive was adopted in 2009.

This is an ambitious proposal which we are putting forward in close cooperation with the co-legislators and with EIOPA. I should like to remind you of three points.

<u>1. First point</u>: the timetable. During the discussions on the Omnibus II Directive, Parliament and the Council proposed that the Solvency II Directive be applied gradually.

The Commission supports this smooth transition: the Member States should transpose the Directive before 1 January 2013, but the new regime would not be fully applicable to businesses until 1 January 2014.

The details of this transition are still to be finalised, but it is clear that it is a plus point enabling insurers, national supervisors and EIOPA to prepare better for the new regime's entry into force.

<u>2. Second point</u>: calibrating the Solvency II measures. After more than two years of discussions with the Member States, EIOPA and the industry, the Commission is finalising the preparation of the "level 2" implementing measures.

Our aim is to ensure that Solvency II does not penalise insurance products of high economic and social value, such as retirement savings schemes, civil-liability insurance and medical insurance.

To do this we have examined the results of the fifth Quantitative Impact Study (QIS5) and prepared a set of new proposals aimed at ensuring the viability of long-term guarantee products, eliminating artificial volatility, avoiding pro-cyclical effects and reducing complexity.

<u>3. Third point</u>: equivalence in third countries. For Europe, Solvency II is an opportunity to encourage third countries to adopt a solvency regime based on the risks to insurers.

EIOPA has just completed its assessment of the solvency regimes applicable in Switzerland, Japan and Bermuda. Our aim is not to have third countries adopt a regime identical to Solvency II. But equivalence is in the mutual interest of the EU and third countries, since it will streamline cross-border activities by insurance and reinsurance companies and alleviate the burden on groups which operate internationally.

The Omnibus II Directive is intended to introduce a transitional regime for equivalence with Solvency II. Many third countries have already taken measures to adopt a risk-based regime without yet being able to meet the equivalence criteria. The Commission is determined to work with them.

Over and above our discussions with certain third countries on equivalence with Solvency II, Europe is continuing to play its part in the international insurance agenda.

For example, the Commission is giving support to the development of a common framework for supervising internationally active insurance groups under the umbrella of the International Association of Insurance Supervisors [IAIS].

I know some people feel that this project should be limited to improving coordination and cooperation between supervisors. I, on the other hand, am convinced that this common framework gives us a chance to introduce global minimum solvency standards for groups.

These minimum solvency standards are essential for ensuring that the discussions on the systemic risks in the insurance sector take place on a level playing field worldwide.

Still in the global context, I can see that the G20 discussions on global systemically important financial institutions, or G-SIFIs, need to take into account the special characteristics of the insurance sector.

It is possible that certain criteria used to determine whether a bank is systemically important are not suitable for insurers. For example, the "size" of an insurer is generally a positive factor, since it means better risk diversification and hence more financial stability.

One thing is certain: we will not be able to address the systemic risks in the insurance sector without a more effective form of group supervision. Supervisors ought to be able to identify the risks arising from the group as a whole. Capital requirements will never replace the need for robust group supervision.

This is why the Commission feels that the discussions on financial institutions presenting a global systemic risk cannot be separated from the discussions on the common framework for the supervision of insurance groups operating internationally.

II – Second initiative: the revision of the Directive on Institutions for Occupational Retirement Provision

The financial crisis has made the situation worse for pension systems, which were already faced with the long-term challenge of the ageing population.

We must launch a general discussion on pensions to ensure that our retirement systems are adequate and sustainable. To this end we are about to publish, with Commissioners Andor and Rehn, a White Paper based on the many suggestions gathered by the consultation following the Green Paper on pensions.

The Directive on Institutions for Occupational Retirement Provision, adopted in 2003, laid the foundations for a single market for occupational pensions by allowing pension funds to offer their services beyond national borders.

Despite this, there are still very few cross-border pension funds. We therefore intend to revise the Directive to enable employers to reap the full benefits of the single market.

Now is the time to build a modern and innovative system founded on risk management, corporate governance and effective supervision, inspired by the Solvency II Directive and taking into account the special characteristics of institutions for occupational retirement provision.

The Commission proposal, to be submitted at the end of 2012, will have the advantage of a technical opinion from EIOPA, which is expected in mid-February.

I should also like to take this opportunity to pay tribute to EIOPA's work, which produces contributions of very high quality, sometimes with very tight deadlines.

III – Third major initiative: the revision of the Insurance Mediation Directive

Despite the single passport for insurers and intermediaries, we face the challenge of a highly fragmented European insurance market.

We must strengthen and harmonise the rules on consumer protection. The revision of the Insurance Mediation Directive, which we expect to submit in early 2012, should facilitate cross-border trade, enhance consumer confidence and improve the stability of the financial markets.

The revision of this Directive will level the playing field between the various sellers of insurance products: not only insurance companies, but also banks, brokers, car hire firms and travel agents. The Directive will also give a European passport to those providing specific services linked to insurance, such as claims assessments.

The new Directive will also bring significant improvements to consumer protection standards, particularly where sales of life assurance products combined with packaged retail investment products (PRIPs) are concerned. On this subject, the provisions of the new Directive will reflect the rules we have just introduced with the revision of the MIFID Directive.

Ladies and Gentlemen,

With our proposals on Solvency II, on insurance intermediaries and on institutions for occupational retirement provision, 2012 promises to be at least as challenging as 2011.

Yet these three initiatives also give us a chance to deepen the Single Market by harmonising still further the requirements to be met by the European insurance and pensions sector.

This greater harmonisation will offer opportunities to businesses, which will be able to market their products all over Europe. It will give supervisors better means of comparison. And it will benefit consumers, who will be offered more choice and better protection.

Thank you for your attention.