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Dear Ladies and Gentlemen,
dear President Bernardino,

thank you very much for the invitation.

Meeting EIOPA always feels like coming home. But I have to state that the insurance world nowadays looks a bit too complicated for a simple state secretary. Hence, I simply stick to our common 'principle' that Sovency II is good for you. However let me start with a slightly different - some would argue totally different - subject: Pensions and the IORP-Review, before I will come back to Solvency II and finally to the review of the supervisory architecture in the EU, the ESFS-Review.

<u>Pensions - IORP review</u>: The challenges become quite clear in the COM's white paper entitled "An Agenda for Adequate, Safe and Sustainable Pensions": an ageing population causes a major challenge to pension systems in all Member States. For example, public expenditure for pensions is expected to rise on average from 10% of GDP today to 12% of GDP in 2060.

Also, this highly varies between Member States, already today between 6% and 15%. And this poses a challenge for both public and private pension schemes. Hence, we have to strengthen Pillar 2 (occupational pensions) and Pillar 3 (private retirement savings).

Pillar 2 is a component of capital based pension provisions in the Member States and is a core component of that in the Netherlands, Ireland, Great Britain and Germany which together account for over 90% of IORP liabilities within the EU.

Against that background, what is the right answer from a regulatory point of view? Is it Solvency II? At the time when I was a supervisor in Germany, we were only allowed to whisper the term "Solvency II" in the presence of pension representatives. Obviously, this has changed. The objective of the EU-Commission is to adjust the requirements of Solvency II to the IORP-directive. EIOPA has presented results of its QIS (Quantitative Impact Study) on the IORP-directive on 9th April 2013. I am looking forward to see the Commision's internal findings on the impact assessment.

We should welcome Commissioner Barnier's decision (23 May 2013) for a reform of the IORP-directive focussing on governance, transparency and reporting requirements for occupational pension funds. A transfer of qualitative requirements

such as risk management would be appreciated. Also a transfer of reporting requirements would be acceptable, as long as they would be reduced to a due degree.

On Pillar I, it should be taken into account that Solvency II would not properly reflect specific national safety mechanisms. In Germany this consists of the Sponsor Support and the Pension Protection Scheme. Hence, I believe that there are still good reasons to question the copying of quantitative requirements to pensions.

If I am right the draft COM proposal for the directive was announced for 2013 – so, still some days are left. And I know that DG Markt is quite busy with banking dossiers like the Single Resolution Mechanism at the moment.

<u>On Solvency II</u> we should follow the principle that the proof of the pudding is in the eating.

Unfortunately the completion of the Solvency II regime by the last Trilogue on 13th November 2013, falls into a time of considerable stress: the outlook for 2014 reveals considerable challenges as regards the economic situation and the stability both of the insurance and pension sector in Europe.

These days, we get good and bad news. The good news is: markets are calm in the sovereign bonds area. The bad news is: the ECB has decreased the interest rate again further to 0,25 %. Again this signifies a tightening of the insurers' problem to achieve the guaranteed interest rate for insurance contracts (in Germany 3.2 % on average, in contrast to a current yield of about 1.4 %), since insurers usually invest 80% of their assets in high quality bonds – which German supervisors encouraged for over 100 years. Let´s see whether the situation improves before Solvency II enters into force in early 2016.

Anyway, after more than 10 years of preparatory work, remaining conflicts between the EU Council, the Parliament and the Commission had been sorted out in the Trilogue:

- Compromise for the EP's request as regards the disclosure of information for temporary Committees of Inquiry,
- Extension of the objection period to Regulatory Technical Standards by one additional month,
- Transmission of partial information via national superviors on implementation (correlation tables).

I appreciate the solution with the EP. A quick adoption of Solvency II was and is crucial, also in order to prevail the leading role of Europe as a standard setter in the insurance business. The EP's points have been challenges, but the real challenge was

and is to find appropriate approaches for long-term guarantees in the life insurance sector and finding different tools to deal with the problems in different countries.

Let me recall: Solvency II is not meant to be the panacea for the insurance sector. Neither is CRD IV the only one and best answer for the banking sector. Solvency II reveals and discovers current problems due to its market-consistent and future-oriented approach. Of course, therefore, we had to find a convincing answer. We finally managed to adopt a long-term package which contains different tools to deal with the problems of the current crisis.

Like very often in Europe a 'one size fits all' approach did not work, because of different legal parameters for the insurance sector (e.g. taxation and civil law) in the different Member States.

As regards the extremely long-term orientation of the business in Germany, a transitional phasing-in opportunity had turned out to be a crucial element. It offers the possibility for life insurance companies to transparently navigate their old contracts (the so-called 'backbook') towards Solvency II in the form of a step-by-step implementation within a period of 16 years. The Solvency I requirements will diminish gradually within this timeframe.

As mentioned in the beginning, I will not comment on complex itmes like the volatility adjuster or the matching adjustment. I rather leave this to the experts.

Having agreed on tools on the European level does not mean that we could lean back on the national level. Maybe some of us – the elder generation – still remember our early talks with Japanese insurance supervisors a couple of years ago. We should learn from the Japanese experience to react early. In Germany, we are aware of the risks posed to the insurance sector by low interest rates. We already took a range of measures in the past:

- we have lowered the guaranteed interest rate for new life insurance contracts to 1.75 % since 1 January 2012, and
- we obliged the life insurers to build up a so-called 'Zinszusatzreserve' (an additional provision to the premium reserve) since 2011.

Further measures will certainly be considered in the next legislative period. I cannot predict the outcome of the ongoing coalition negotiations in my country. But I expect that we are going to assess measures after the establishment of the new government to reach 2 goals: First, ensuring long-term stability of the system and secondly, to ensure distributive fairness for policyholders' participation in the valuation reserves. I am confident that we can submit legislative proposals in the first quarter of 2014.

In my opinion, also other Member States need to take actions in this respect in order to deal with the challenges of the current economic situation. I put my hopes into EIOPA as a sound board for good solutions. Our common goal should be to ensure a stable life insurance sector.

With a 33% share of the global market, the European insurance sector is the largest in the world. A total of € 1100 bn of premiums had been paid in 2012. Life insurance makes up the largest share of European gross written premiums (life premiums of € 651bn = 59%). The European insurance sector has the largest pool of investment funds in the European Union, with almost € 8400bn invested in the global economy in 2012. This is equal to 58% of the GDP of the EU.

Review of the supervisory architecture in the EU – ESFS-Review: Again, the elder generation may recall how the three European Supervisory Agencies (ESAs) had been founded some years ago. And now we are waiting for the forthcoming review on ESAs' work as regards their performance and their contribution to restore confidence in the financial sector. Shall we discuss possible additional powers to ESAs as regards regulatory activities, investigating powers and direct supervisions powers? In this context, we could also raise the question whether we should continue to rely on three ESAs or whether we should shift towards an alternative (Twin Peak) Model in the future?

I favour an evolutionary approach rather than a 'Big Bang'. First of all, we should keep on following to the overall aim to make European supervision as efficient as possible. Proceeding step-by-step would ensure to keep all participants on board.

As for insurance this is quite simple: The better EIOPA proves to be an indispensable factor of European supervision the more European politics will back EIOPA. I have no doubt that EIOPA continues to perform well. I very much welcome that stress tests on group level announced for 2014 will support EIOPA in considering any supervisory actions to ensure financial stability and in developing clear recommendations on the basis of the results.

I further appreciate that even before Solvency II, the work of Supervisory Colleges for cross-border insurance groups has significantly improved thanks to EIOPA's guidance. I am sure that it will even be more valuable once Solvency II will have come into force. I highly emphasise to intensify EIOPA's work in this context.

And, please do not worry because of the Single Supervisory Mechanism (SSM). Currently, Germany favours amending the European primary law to anchor the SSM and possibly the Single Resolution Mechanism (SRM). For instance, up until now, nobody considered to amend Art. 127(6) in order to allow the ECB to supervise the insurance sector. It would make little sense.

A last word on costs: It goes without saying that a sufficient budget for supervisory functions is necessary, but despite the benefits of a centralised European supervision, one should also consider the costs. Market participants already pay for the national authorities, hence, a European budget could lead to double burdens and the pressure to relieve the national level. I hope we can find a balanced solution, ensuring the ESAs'operational independence.

Thank you very much for your attention.