



## **DINNER SPEECH**

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4<sup>th</sup> Conference on Global Insurance Supervision "Globally under Pressure?"  
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Ladies and Gentlemen,

It is a pleasure to welcome you to the dinner of the 4<sup>th</sup> Conference on Global Insurance Supervision. This event is a perfect example of cooperation between supervisors and academia. I would like to thank the International Center for Insurance Regulation of the Goethe University, its managing director Professor Helmut Gründl and all the ICIR colleagues for hosting this joint event for the fifth time in succession.

For the second year, we have organised this conference in cooperation with the World Bank and the Center for the Study of Insurance Regulation of St. John's University in New York. I would like to warmly welcome this cooperation as in my view it has enriched the spectrum of views represented at our conference.

This year we chose a title "Globally under pressure?" The lesson we learned from the recent crisis is that it was caused by excesses of finance and insufficient regulation. Now, with the financial recovery still fragile, we all remain under pressure to tame finance and reform international financial regulation in order to prevent future crises. This should be done at the global level due to the increasing interconnectedness of financial markets worldwide.

This year we decided to focus our conference discussions around three important themes: recovery and resolution in insurance; international capital standard; and finally conduct risks.

#### *Recovery and resolution*

Earlier today we already had a very lively discussion about recovery and resolution.

The default course of action for failed insurers in the absence of a resolution regime is to go into normal winding-up proceedings. This can lead to a disorderly failure, with possible risks to financial stability and social costs.

Possible risks to financial stability associated with the winding-up of an insurer can include: Policyholder runs and fire sales; Contagion; Default on derivatives.

Social risks, arising principally from disruption to the continuity of the insurance cover, can include: Critical payments to policyholders, like pensions and medical

expenses; Disruption to businesses which are legally required to get professional insurance.

But insurance is different from banking and so a recovery and resolution framework in insurance needs to consider the specific insurance business model. While there are principles and tools that can be useful to take from the banking approach, a copy paste from banking regulation is definitely not appropriate.

### *International Capital Standard*

Tomorrow we are going to have an even more exciting topic – the development of the International Capital Standard. In the history of insurance supervision we can call this work unprecedented, because it is the first time that insurance supervisors are working together to develop more concrete global supervisory standards, including capital requirements. EIOPA is very supportive of these developments and will continue to work constructively with colleagues from around the globe to deliver on good quality regulation.

In my view, the ultimate goal should be to develop a single international standard based on a common methodology by which we can achieve substantially the same capital requirements across jurisdictions, avoiding regulatory and capital arbitrage and improving the effectiveness of the supervision of internationally active insurance groups.

I believe that this ultimate goal is achievable. All jurisdictions around the globe, coming from more mature markets like the EU and the US, but also from emerging markets in Asia, Latin America and Africa, need to work together to ensure improved convergence over time.

A true global standard must be developed in an inclusive manner, as success will be measured by its subsequent adoption and implementation by the majority of jurisdictions, with a special focus on the largest markets. I am confident that during this journey the current differences will be minimised and more commonality will emerge.

### *Conduct risks*

I am proud that since last year we dedicate one of our panel discussions to the top-priority topic - consumer protection. I really hope it will become a good tradition. This year we are going to discuss failures in business conduct and miss-selling. I think it is a big success that such a discussion is raised at the event that by definition aims to gather industry, public authorities and academia representatives from around the globe. We should all have a common goal – to prevent detriment to consumers; to avoid reputational damage for companies and to increase people’s confidence in the insurance markets.

To achieve this goal, we believe it is paramount to put in place ex-ante corporate, regulatory and supervisory tools, rather than just reacting to emerging problems. That’s why EIOPA is setting out a Strategic Approach to develop a comprehensive risk-based and preventive framework for conduct of business supervision.

There are four main lines of action EIOPA considers paramount:

- To strengthen corporate governance by ensuring that the boards of companies take into account consumers’ interests throughout the product lifecycle.
- To ensure that company processes related to the manufacturing and distribution of products guarantee that the product meets the identified objectives and interests of the target market and that incentives are aligned with these objectives.
- To set up systematic monitoring allowing the identification of possible conduct risks.
- To put in place credible and dissuasive enforcement.

Talking about the right incentives, let me conclude by telling you a nice story, this time, as promised, about lawyers.

NASA was interviewing professionals to be sent to Mars. Only one could go and couldn’t return to Earth.

The first applicant, an engineer, was asked how much he wanted to be paid for going. "A million dollars," he answered, "because I want to donate it to the M.I.T."

The next applicant, a doctor, was asked the same question. He asked for \$2 million. "I want to give a million to my family," he explained, "and leave the other million for the advancement of medical research."

The last applicant was a lawyer. When asked how much money he wanted, he whispered in the interviewer's ear, "Three million dollars." "Why so much more than the others?" asked the interviewer. The lawyer replied: "If you give me \$3 million, I'll give you \$1 million, I'll keep \$1 million, and we'll send the engineer to Mars."

Thank you for your attention. Have a nice evening.