



WELCOME SPEECH

Gabriel Bernardino
Chairman of EIOPA

EIOPA strategic priorities going forward



EIOPA 4th Annual Conference
Frankfurt, 19 November 2014

Ladies and Gentlemen,

I am very pleased to welcome you to the 4th Annual Conference of EIOPA. In particular, it is my pleasure to welcome our distinguished speakers and panellists. It is a particular privilege to realize that EIOPA's Annual Conference established itself as a reference point for the debate of key important issues in the insurance and pension's world.

We consider our conferences as a key part of EIOPA's transparency and consultation policy. It is our hope and expectation that the various discussions today will increase our knowledge and awareness of the key concerns of our stakeholders, which in turn will help us to better deal with the regulatory and supervisory challenges of the upcoming years. That is why I would very much encourage you to ask questions and to make statements during the panel discussions. We organise this conference for the sake of an open and honest dialogue with each one of you.

I also would like to extend my gratitude to the City of Frankfurt and the State of Hessen for their continuous support. Frankfurt is more and more known as the hub of European regulation and supervision of the EU financial system and EIOPA enjoys being part of the City. We are looking forward to further enhancing our cooperation.

The programme of this year's conference is composed around some key challenges that we currently face: How to provide sustainable long-term financing of the economy? Is the current revision of the EU occupational pension's regime the right answer to the pension's issues in the EU? What do supervisors need to consider when implementing the new regulatory framework for insurers (Solvency II)? I am sure that we will see interesting debates and a challenging confrontation of ideas.

In my intervention I will touch upon three of the main strategic priorities of EIOPA going forward and the key challenges that we face dealing with them: 1) Solvency II implementation and an EU supervisory culture; 2) How to deliver adequate, safe and sustainable pensions to EU citizens and 3) The path towards risk-based regulation and supervision of conduct of business.

Solvency II - from regulation to supervision

Since its creation EIOPA has been faced with a major responsibility: to deliver a sound and robust risk-based regime for the insurance sector in the EU. This is an unparalleled challenge especially for a young organisation. I am proud to say today that we are close to finalize this chapter and that EIOPA has been instrumental in the finalization of Solvency II, even when some were already losing faith. We have achieved it because we sincerely believe in the sound fundamental principles of risk-based supervision and because we were able to listen, discuss and evolve in our proposals, remaining faithful to our vision, but using pragmatic and proportionate solutions.

Solvency II is certainly not a perfect regime. But it is a landmark and EIOPA will be always linked to it.

We are now approaching a point in time where the priority is naturally shifting to the implementation of the regime across all the EU Member States. The development of a single rule book of harmonised regulation is a huge step forward for the single market, but let's be honest: good regulation is just a first step. The real challenge will be to ensure that Solvency II is implemented in a consistent way throughout the EU. This requires effective and convergent supervision in all Member States in order to prevent regulatory arbitrage and guarantee a level playing field.

Bearing in mind the aforementioned, EIOPA will put a strong emphasis on the promotion of supervisory convergence by contributing to upgrade the quality and consistency of national supervision and strengthening oversight of cross-border groups. Strong and credible supervision is needed across the EU. Preventive supervision and timely enforcement contribute to healthy market competition and are critical to avoid consumer detriment.

EIOPA will use all the tools at its disposal to deliver on this objective.

First of all we will issue Technical Standards and Guidelines. In the Technical Standards we will be defining forms, templates and procedures for specific areas under Solvency II, while by our Guidelines we will ensure common, uniform and consistent application of the regime and establish consistent, efficient and effective supervisory practices.

Some weeks ago we already submitted to the Commission the first set of the Technical Standards and completed the public consultation on the first set of our Solvency II Guidelines. Next month EIOPA is going to launch public consultations on the second sets of the Technical Standards and Guidelines. Furthermore, in February 2015, EIOPA intends to publish risk free interest rate term structures to be used for the calculation of the technical provisions on which we are currently consulting.

I understand the desire for clarity but also the note of caution on the large number of Guidelines; we are making a big effort to be as clear as possible e.g. by giving examples of supervisory expectations, but also to limit the number of Guidelines. However, Solvency II is a new and complex regime and Guidelines provide some important outcomes: they limit the risk of divergent interpretations by national supervisors and they help undertakings to limit implementation costs because they will know better what supervisors' expectations are.

Secondly, we will continue to reinforce our participation in the colleges of supervisors, conduct peer reviews, and issuing opinions addressed to NCA's.

Our Centre of expertise in internal models will focus on the development and testing of sound on-going appropriateness indicators and benchmarking.

The work on the Supervisory Handbook will continue to deliver good practices on the different supervisory areas of Solvency II.

Our Supervisory Oversight team will continue to engage bilaterally with NCA's gaining experience, gather information and building trustful relations with the aim to provide independent and challenging feedback on supervisory practices. As part of this process and in close cooperation with the national supervisory authority, EIOPA is going to oversee the balance sheet review of the Romanian insurance sector.

This is an impressive programme but every component is essential to avoid market fragmentation and deliver a truly level playing field in the internal market, for the ultimate benefit of EU undertakings and consumers.

But let me repeat a clear message: In order to deliver on these objectives we need to strengthen our operational independence and in particular to find a stable solution for the financing of EIOPA, be it funding through an independent budget line in the

General Budget of the European Union, financing by industry or a combination of the aforementioned. The budget cut and the freezing of the staff numbers, as proposed by the European Commission for 2015, would severely undermine our capacity to continue to deliver on the objectives set out in the EIOPA regulation and the tasks we were given by the legislators.

Going forward, as part of a step-by-step approach, there are a number of refinements that will contribute to ensure more efficient supervision and a stronger EU supervisory culture:

- EIOPA should be tasked with a centralised oversight role in the on-going monitoring of internal models;
- EIOPA's capacity to provide independent and challenging feedback on supervisory practices to the NCA's should be enhanced.
- EIOPA should play a coordinating role on insurance matters towards the Single Supervisory Mechanism in order to ensure a more consistent approach to the supervision of financial conglomerates and avoid supervisory arbitrage.

Finally, in the medium term, consideration should be given to assign to EIOPA an enhanced supervisory role for the largest important cross-border insurance groups.

It will be very interesting to hear from our third panel in the afternoon - what are their views about these challenges.

Solvency II implementation efforts are confronted with a challenging economic and financial background. The current economic environment brings a sense of divergence between market perceptions and fundamental data, which suggests a cautious approach. In this context I would like to highlight the low interest rate environment, and the corresponding "search for yield" behaviour.

The low interest rate environment continues to be at the top of the risks for the insurance sector. The perspectives of maintenance and even reinforcement of the accommodative monetary policy send a clear signal.

Companies seem to have started to adapt to this new reality, both by changing the mix of products and diversifying their investment choices. Portfolio diversification could be good news provided insurers reinforce their capacity to understand and

manage the “new” risks. In fact further investment diversification, in a controlled environment, could minimise the sometimes excessive concentrations in sovereign and banks.

Our monitoring activity suggests that, up to now, there is some evidence of a “search for yield” but there is no evidence of significant changes in the overall portfolio of insurers. The investment choices seem to continue to fall within the risk-bearing capacities.

Nevertheless we observe some trends: increased investments in infrastructure and interest in direct lending, changes in the mix of the bond portfolio between sovereigns and corporates and reinvestment in lower grade bonds, increased exposure to emerging market securities and a marginal increase in equity exposures.

One interesting aspect is that the movements do not seem to reflect herd behaviour. There are different strategies; some going for longer and illiquid investments, others preferring a move to shorten durations. If this really materialises it is good news from a financial stability perspective.

I believe that insurance undertakings can play an important role in fostering sustainable economic growth in the EU. As one of the major institutional investors insurers are well equipped to take different types of risks on the investment side, using assets of longer duration and less liquidity to match their truly illiquid liabilities.

Some consider that the calibration of risk charges for certain asset classes are too prudent. Nevertheless, we should remember that in Solvency II stand-alone risk charges are not the appropriate measure because diversification benefits need to be taken into account. So the marginal capital requirement is of course a more appropriate measure. In fact, if we base our analysis on the marginal return on regulatory capital, investments in high quality securitizations, infrastructure debt and private equity are, at least on a relative basis, quite attractive.

From a prudential perspective we need to emphasise continually that undue incentives to buy any asset class should not be part of a risk-based, prudent regime. In my opinion this is essential to ensure sustainable growth of the EU economy.

I will be very interested in listen to our first Panel about the challenges and obstacles to long term investment and how to pursue it in a sustainable way.

How to deliver adequate, safe and sustainable pensions to EU citizens

To ensure that citizens will have a chance to maintain appropriate standards of living in their retirement it is self-evident that we need a comprehensive package of reforms. Changes to ensure the future sustainability of public pay-as-you-go pension systems need to be accompanied by reforms incentivising the creation of funded complementary private schemes be it 2nd pillar occupational pensions or 3rd pillar personal pensions. From a policy perspective this should be the first strategic priority at national and EU level.

I believe that an important strategy to achieve this goal is to provide a robust and proportionate EU regulatory framework capable of regaining the trust and confidence of EU citizens in private complementary pension savings.

To do that this regulatory framework needs to deliver on three fundamental objectives: enhanced sustainability, strong governance and full transparency. These are the fundamental building blocks of EIOPA's pensions' vision.

Enhanced sustainability, because the first step to ensure members and beneficiaries protection is to make sure that any pension scheme disposes of sufficient assets to fulfil its liabilities within a realistic valuation scenario.

Strong governance, because pensions deserve to be governed by fit and proper persons, with the appropriate skills, experience and integrity; because conflicts of interest need to be identified and managed in order to make sure that Board Members act in the sole interest of members and beneficiaries; because strong risk management capabilities and robust internal controls are fundamental to deliver to pensioners the promises made or the expectations created.

Full transparency, because if we want to regain trust of citizens we cannot hide anymore behind "jargon"; we need to provide full disclosure of all costs, be it investment or transaction costs; we need to give members and beneficiaries a full picture of the returns that they get on their pension products.

In all our work we recognise that pensions are different from other areas.

Pensions are different because of their “embeddedness” in social and labour law; because of their social objectives; because of their particular governance, involving employers and social partners; different because of their unique distribution of risks.

But, in spite of these differences, members and beneficiaries are citizens who deserve adequate protection, who have the right to know the sustainability of the promises that are made to them, who need to understand the risks that they are running, the costs that they are paying, who deserve that pension funds are properly governed and that pension schemes have a high degree of quality.

The EU Commission issued a proposal to adjust the IORP Directive covering governance and transparency requirements that we very much welcomed.

We believe that in order to improve IORPs' decision-making much stronger governance is needed: Of course with due proportionality.

Furthermore, IORPs should enhance transparency towards members and beneficiaries. Nevertheless a balance needs to be strike on the amount of information given and on the capacity of members to digest and use appropriately that information. Too much information kills information.

On the solvency side, we all recognised that further work was needed to develop a robust and tested proposal.

Recently EIOPA published a consultation paper on further technical work on the holistic balance sheet to gather input from stakeholders. The paper constitutes a further step in EIOPA's work on a risk-based framework for occupational pension funds. EIOPA is undertaking this work on its own initiative, in its role as independent advisor to the European political institutions.

The consultation paper proposes improved definitions and methodologies to value the holistic balance sheet and, most importantly, consults on different possible uses of the holistic balance sheet within a supervisory framework, ranging from an instrument to establish funding requirements to a risk-management and transparency tool to assess the long-term sustainability of IORPs.

We are not promoting an EU 'one size fits all' approach. A common prudential regime should have built-in flexibility to deal with a wide range of occupational pension schemes in Member States. Any supervisory framework should in my view be sufficiently flexible to also avoid short-term, pro-cyclical investment behaviour of pension funds during adverse market developments.

The further work on the holistic balance sheet has to be tested through a quantitative assessment. EIOPA expects to publish draft technical specifications for such an assessment by early 2015. Our final aim is to deliver robust, tested proposals to the EU political institutions by the end of 2015, beginning of 2016.

EIOPA is now preparing a pensions stress test. We are taking a two-stage approach: preparatory work in 2014 and running the stress test in 2015. Our aim is to develop a stress test framework that is appropriate and suitable for pension funds.

The stress test will assess the resilience and the behaviour of IORP's in adverse market developments, such as a prolonged low interest environment or a sudden material reassessment of risk premia. It will also incorporate stresses in longevity as one of the major risks in pension funds overall financial condition.

Our intention is that the pension stress test will cover IORP's that provide defined benefit schemes as well as the ones that finance hybrid or defined contribution plans. We will conduct the stress test in parallel with the quantitative assessment on the solvency side in order to avoid the duplication of calculations. This will limit to the extent possible the burden on pension funds and supervisory authorities.

On personal pensions, the EU Commission asked EIOPA to provide technical advice on the prudential regulations and consumer protection measures needed to create a single market in the EU.

Not surprisingly, our analysis revealed that taxation and social law appear to be the most significant hurdles to develop a truly single market for personal pensions. In particular these could result in obstacles to economies of scale and the achievement of critical mass.

I believe a strong case is made regarding the establishment of a 2nd regime for EU personal pensions. This regime should focus on products with an appropriate level of

standardisation generating long-term illiquid liabilities. As always there is a trade-off between product standardisation and product innovation. Nevertheless, a higher level of standardisation will help in achieving the required critical mass to decrease costs. Standardisation will also help in delivering simpler products, with transparent fee structures, avoid conflicts of interest in selling practices and provide ultimately “good value for money” for consumers. Overall, the EU economy could benefit from personal pensions becoming another main driver for sustainable long-term investments, contributing to the Capital Markets Union.

I am sure that these and other subjects will be discussed in our second panel.

Towards risk-based regulation and supervision of conduct of business

Going forward, EIOPA’s absolute strategic priority will continue to be devoted to consumer protection. Protection of policyholders and scheme members is the ultimate goal of every effort done by EIOPA.

For EIOPA, consumer protection has two dimensions:

- Firstly, it is about ensuring that undertakings are soundly managed, have robust governance procedures and have a robust solvency position in order to make sure that they can fulfil all their commitments. This is being tackled by Solvency II.
- Secondly, it is about making sure that customers receive information that they understand on the conditions, costs and risks of the products, that they are treated fairly and that they get value and service for money. In this context PRIIPS and IMD2 are essential tools.

Let me mention 3 areas that I found critical to the success of our consumer protection agenda: The KID on PRIIP’s; The Product Oversight and Governance arrangements and the development of key risk indicators for conduct of business.

We are already working on the **Key Information Document for PRIIP’s**, including calculation methodologies and presentation templates necessary for a summary risk indicator, performance scenarios, and cost disclosures. The measures should be designed to be engaging for retail investors, and to help them better comprehend and compare the many different products. That’s why we will do consumer testing.

Product Oversight and Governance arrangements are essential to make sure that undertakings take their own responsibility when bringing products to the market, minimising possible consumer detriment, avoiding conflicts of interest and ensuring that the interests of the consumer are at the centre of the undertaking's culture and strategy. Actually it is all about good governance, good risk management and good business practices.

Finally, the development of a set of **key risk indicators** would foster preventive and risk-based supervision of conduct of business. EIOPA is working on this. Preventive risk-based supervision in the conduct of business area will be a major tool to mitigate consumer detriment.

To guarantee that requirements are met, the serious approach to the supervision of the conduct of business needs to be coupled with adequate enforcement. This can only work if national authorities have the powers, tools and resources to effectively supervise undertaking's conduct of business. We need also to see progress in this area.

Conclusion

Ladies and gentleman, I believe that in the first 3 years of EIOPA's existence we made a significant input into the European agenda in insurance and pensions and provided tangible results to consumer protection.

Going forward, our strategic priorities will concentrate on ensuring consistency in Solvency II implementation and the building up of an EU supervisory culture; on delivering 2nd and 3rd Pillar EU pension's frameworks with enhanced sustainability, strong governance and full transparency and on building better risk-based regulation and supervision of conduct of business. The European Union will benefit from stronger and more coordinated supervision at European level. At EIOPA we are creating the basic conditions and taking the appropriate steps to build a credible and respected supervisory authority.

I am confident that with the knowledge, experience and dedication of our staff and the experts from the NCA's, with the fruitful dialogue and involvement with our two Stakeholder Groups and the continuous commitment and trust of the members of the Board of Supervisors and Management Board, EIOPA will continue to fulfil its mission

for the benefit of all European citizens.

Rephrasing Jean Monnet, I would like to emphasize that our mission is to promote a common interest that lies behind geographical boundaries and cultural differences. Only by putting this common interest before national priorities, we can achieve a truly European spirit and efficiently work together.

I would like to close now by wishing you all the best for an interesting and productive conference today.

Thank you for your attention.