



## **SPEECH**

**Gabriel Bernardino,  
Chair**

# **The Ambition of EIOPA: making a difference for Europe and its citizens**



Insurance Institute of London  
**London, 27 February 2014**

Ladies and Gentlemen,

It is a great honour for me to deliver again a lecture in the Insurance Institute of London. Back in 2012 I had the privilege to tell you about the first steps of EIOPA. It is a pleasure to come back and share with you EIOPA's vision and ambitions going forward.

In a nutshell we want to contribute to:

- Well informed policy holders and pension scheme members who get a fair deal and can trust that the promises made to them will be fulfilled.
- Financial markets that are stable and resilient to shock.
- A well-functioning internal market which contributes to a strong European economy.

Next to the quality of our deliverables, being very ambitious is the only way we can make a difference for the European Union and its citizens. That's is precisely why we were established, only three years ago, so we have more future than past.

Management guru Peter Drucker said that the only thing we know about the future is that it will look different. And indeed it will. We will witness sound risk based prudential regulation, insurers that adequately deal with consumer needs and expectations, and a more consistent and effective supervision within the EU and globally. But these achievements will not drop down on us like manna from heaven. This leads me to EIOPA's work and plans.

In the nearby future we will gradually shift the focus and the emphasis in our work:

- After finalising the regulatory work on Solvency II, we will put more efforts to supervisory convergence and effectiveness.

- We will reinforce our attention to pensions, both occupational and personal pensions.
- We will further develop our consumer protection agenda.

Let me first touch on Solvency II.

A project that started 13 years ago is now in the phase of finalising. Solvency II is a mission that sometimes resembles running a steeplechase. In spite of all the fences and water we met, we should be proud of the result. It may not be the perfect framework (there are no perfect frameworks), but it is a major step forward.

Following issuing the preparatory guidelines by EIOPA in October 2013 we are now at the beginning of a preparatory phase of two years. Our objective is to allow national supervisors and insurers to get familiar with all the requirements and give them the opportunity to set up the necessary structures and processes. I am very happy that the PRA complies or intends to comply with almost all the preparatory guidelines we issued. Once again the UK market will be in the front row. The better the preparation will be, the more effective the framework will be.

Following the publication of the level 2 delegated acts by the EU Commission in the summer, EIOPA will deliver during 2014 and 2015 the technical standards and guidelines necessary to finalize the regulatory work. And we will do so in a transparent and participative way using proper consultation processes.

When this framework will be put into practice in 2016, it is a moment of great importance. We will see a robust framework that captures the economic reality of the asset-liability position of insurers and that brings capital much closer to the insurers risk profile. Furthermore, and extremely important, Solvency II will promote a strong risk culture and will stimulate insurers to develop strong risk management capabilities. This is good news for undertakings, for consumers, and for society as a whole.

But let's be honest: good regulation is just a first step. A much bigger and more difficult task is to implement all the regulatory requirements in a consistent way and to properly monitor the implementation process across the EU. That is why EIOPA puts a strong emphasis on the promotion of supervisory convergence. In this context we have been using a number of tools: participation in the colleges of supervisors, conducting peer reviews, issuing opinions addressed to NCAs.

EIOPA's experts are actively engaged in the meetings of colleges of supervisors. In October, we published EIOPA's Action Plan 2014-2015 for colleges, which aims to develop consistent risk-based supervision according to Solvency II requirements and in particular, to reach a shared view on the assessment of the risk exposure of groups and solo entities.

During the last year we conducted 4 comprehensive peer reviews that contribute to the development of convergent supervisory standards. As part of our supervisory mandate, EIOPA has participated together with the national supervisors in joint on-site inspections. EIOPA's work on supervisory convergence is also underway through the development of a Supervisory Handbook that will incorporate good supervisory practices. We started with two pilot exercises on risk assessment by supervisors and on the way supervisors will approach Solvency II requirements on boards and board governance.

EIOPA has also set up a Centre of Expertise on Internal Models. The Centre was initiated to achieve a consistent, compliant and efficient implementation of Solvency II Internal Models across the EU. This is progressing by working collaboratively to deliver tools that equip NCAs and by exercising oversight on Internal Model activity. It aims at developing good practices and sound indicators to support a consistent analysis and validation in this critical area of Solvency II implementation.

## **Enhancing consumer protection**

Going forward, consumer protection is one of our major goals. EIOPA will further pursue its leading role in promoting transparency, simplicity and fairness in the market. In this context let me focus on three topics, insurance mediation, knowledge & ability (professional standards) and payment protection insurance.

### *IMD*

As regards insurance mediation, we support the Commission's objectives of making retail insurance markets work better and promoting a more level playing field by, for example, extending the scope of the existing Insurance Mediation Directive to include direct sales. Indeed, preventing regulatory arbitrage and promoting equal conditions of competition are key objectives for EIOPA too. IMD2 seeks to perform a very tricky "balancing act": enhancing the possibilities for cross-border retail trade, but at the same time, raising the bar in terms of adequate safeguards for consumers. From EIOPA's perspective, it is important that the final legislative text creates a regulatory regime in the retail insurance market that can be effectively supervised both from a national and a European perspective, bearing in mind the wide variety of existing structures at national level for supervising insurance distribution. IMD2 also needs to adopt a proportionate approach as regards the objectives to be achieved.

There needs to be proper consideration of existing market specificities such as a very diverse range of distribution channels at national level. We feel that EIOPA can play a pivotal role in bringing about the objectives of IMD2, but we can only do this with adequate tasks and enabling powers; for example, the power to ban or restrict the circulation of products.

You are probably aware that a deal was recently reached on MiFID II which impacts the way insurance investment products are sold. The changes particularly relate to conflicts of interest, where the IMD has been amended to

include a framework for addressing these, including an empowerment for the Commission to set more detailed measures. This will lead to some important work for EIOPA to develop a common approach on the identification, measurement, avoidance and management of conflicts. The goal is to make sure those selling insurance investment products put the consumer's interest first. This is important, vital work, and EIOPA is keen to ensure the specific conflicts that can arise when selling insurance investments products are taken into account. It will also be necessary to take into account the different distribution and sales processes found across the Union, to ensure all consumers receive strong protections.

### *Knowledge & ability*

I know that training and competence is a key issue for you. You might have seen that EIOPA published at the end of last year a Report on knowledge & ability requirements for distributors of insurance products. Let me use this opportunity to thank the Chartered Insurance Institute (CII) for the excellent contribution to our work. The Report sets out some high-level principles which competent authorities would apply to distributors supplemented by indicative examples, thus allowing for flexibility to adopt a proportionate approach at national level. The report promotes the demonstration of ethical and professional conduct at all times and suggests a minimum level of continuous professional development (CPD). You might have seen that the Economic and Monetary Affairs Committee of the European Parliament recently agreed on IMD2 that professional standards should be "controlled, assessed and certified" through independent bodies and that all intermediaries should ensure that their staff undertake a minimum number of hours training (200 hours over a 5-year period). We support this, but it is unfortunate that ECON leaves further work on specifying professional standards expressly in the remit of Member States. We would like to see a more explicit role for EIOPA here to foster more convergence in an area where very diverse national approaches have arisen out of the implementation of the IMD.

### *PPI*

EIOPA acknowledges that significant consumer protection problems have occurred in Payment Protection Insurance (PPI) markets. PPI products, when properly designed and sold, serve legitimate consumer needs, no question about that. But we have observed in certain countries issues of suitability of products and providing misleading information. And we witnessed business models where market power of distributors led to levels of commissions as high as 80% of premiums paid. This and other practices have led to considerable consumer detriment and negatively affecting the reputation of the insurance sector as a whole. Last year we issued an Opinion to obtain a clear picture of the reality in all the EU countries in order to better protect consumers and promote regulatory and supervisory convergence in Europe.

We are in the process of evaluating feedbacks to the EIOPA opinion, and we could see that a number of countries have decided to take action in their national PPI markets. We will review these actions in the first half of this year.

Very importantly, EIOPA has been creating the necessary basic conditions to identify consumer protection issues as they arise. In this context we developed an enhanced methodology for collecting, analysing and reporting on consumer trends and we are exploring the use of social media monitoring tools for our consumer trends analysis.

### **Conduct and governance**

Going forward, conduct and consumer risks need to be fully taken into account into the overall governance system of insurers.

Product governance, product suitability and appropriate selling practices need to be on top of the agenda of the boards of insurance companies. Board members need to make sure that product characteristics are suitable for the target market, that distribution channels are appropriate for that market

segment that proper incentive structures are in place and that full transparency on costs is provided to consumers.

The insurance market needs to learn the lessons from the miss-selling cases that occurred in the past in the different countries and pay enough attention to the huge reputational and financial consequences stemming from the unacceptable misconduct behaviour of some financial institutions.

We are living in a period of rapid transformation on the consumer side. Consumers are more demanding, more aware of their rights. The “Web generation” demands greater transparency, comparability and flexibility. Consumers demand more integrity and they don’t trust so easily. The perception of poor quality service is rapidly transmitted and exposed through social media networks.

Financial institutions need to provide an adequate answer to this change. They need to develop simpler and more understandable products, devote further attention to the fairness of contractual conditions and they definitely need to review the incentive structures and charges and commissions applied, ensuring that they are not disproportionate.

This needs to be seen in a positive way by insurance companies. Simpler products will reduce cost structures, provide more competitive pricing and reduce the potential for miss-selling. Furthermore, by improving selling practices and avoiding conflicts of interest, insurers will serve their customers better and will be compensated for it.

The consumer angle will certainly be a key element in discussing the future of insurance and pensions.

All in all, financial service providers “should stop doing what is legal and start



to do what is legitimate”.

The concept of what is legitimate or fair in the relationships between insurers, intermediaries and customers is evolving. What was fair some years ago is not seen like that anymore. This calls for a critical look from the insurance companies and intermediaries at current products and practices in order to ascertain what needs to be adjusted. This proactive critical attitude would certainly prevent future mis-selling cases, help to develop better new products and overall reinforce the confidence of consumers. EIOPA is keen on promoting this reflection and analysis.

### **Towards an EU supervisory culture**

In the three years of its existence EIOPA has been instrumental in progressing the EU regulatory agenda in insurance and pensions, has worked hard on supervisory convergence, delivered tangible outcomes for consumers, confronted risks for financial stability and made an important impact at an international level.

Looking at the challenges ahead I think that we need to create the appropriate conditions for EIOPA to perform an independent assessment of the way the regulatory framework is implemented in practice in the different member states. This independent assessment is a key component for the development of consistent supervisory practices in the EU and to ultimately build an EU supervisory culture.

In order to perform this task in an effective and efficient way there are three conditions that need to be addressed:

**Firstly** an appropriate budget framework that will ensure the overall efficiency of the Authority, reinforce its operational independence and ensure the necessary human and financial resources. We need an independent budget line that ensures EIOPA’s financing from the overall EU budget. We also need a

degree of flexibility in the budgetary framework in order to be possible to attract highly qualified staff, especially in critical areas for our mission going forward like the supervision and validation of internal models and the independent assessment of supervisory practices.

**Secondly**, in order to ensure an adequate and consistent level of supervision, for the benefit of consumer protection and financial stability, the current power of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct, should be extended.

This power should not be confined to situations of potential threats to the stability of the financial system but be used more generally to support the independent assessment of supervisory practices.

**Thirdly**, it is essential to avoid the burdensome case-by-case discussions on EIOPA's access to individual company information. Going forward, EIOPA should obtain access to the information included in the harmonised templates developed for Solvency II.

Ladies and gentlemen,

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. A supervisory authority that is open to frank and transparent dialogue with all stakeholders.

It surely was a pleasure to provide you with some thoughts on EIOPA's vision and ambitions. The recent past definitely was not admirable for the financial industry, but it can and should act as a learning and motivating factor. May the words of your own Percy Shelley show us the way: Weep not for the past, nor fear the future.

Thank you for your attention.