EIOPA: Shaping the EU regulatory and supervisory framework

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EIOPA's mission

"Protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses"

✓ EIOPA is:

- A **Union body** with legal personality
- An **independent supervisory authority**
- **Accountable** to the **European Parliament** and to the **European Council**

Main priorities and areas of activity

- **Priorities**: Stability and Consumer Protection in insurance and pension markets
- Main areas of activity:

  ❶ **Regulation**

  ❷ **Supervision**

  ❸ **Consumer protection**

  ❹ **Financial stability**

  ❺ **International relations**

Regulation

- **Advice to EU political institutions**
- **Technical standards**
- **Guidelines**
  - **Insurance**
    - ✓LTGA
    - ✓Guidelines on the preparation for SII
  - **Pensions**
    - ✓Advice on IORP II + 1st Pensions QIS
    - ✓Personal pensions

Supervision

- **Participation in colleges of supervisors**
- **College action plan**
- **Visits to NSA’s**
- **EIOPA’s Opinions towards NSA’s**
- **Peer reviews**

Consumer protection

"Leading role in promoting transparency, simplicity and fairness"

- **Guidelines on complaints handling**
  - ✓ Insurers and intermediaries
- **Report on consumer trends**
  - ✓ PPI
  - ✓ Complex Unit linked
  - ✓ Comparison websites
- **Good practices**
  - ✓ Variable annuities
  - ✓ Information in DC pension schemes

Financial stability

- **Financial stability report**
- **Risk dashboard**
- **Stress tests**
- **Crisis management**
- **EIOPA Opinion** on "*Supervisory Response to a Prolonged Low Interest Rate Environment*"

International relations

- **Solvency II Equivalence**
- **Regulatory and supervisory dialogues**
- **EU/US dialogue**
- **IAIS**
  - ✓ **Comframe**
  - ✓ **GSII's (Systemic important insurers)**

EIOPA and the actuarial community

- **Involvement of actuaries in EIOPA’s stakeholder groups (insurance and pensions)**

- **Regular meetings at top level between EIOPA and Group Consultatif**

- **Group Consultatif is one of the stakeholders involved in informal consultations by EIOPA**

- **Close contacts with EIOPA staff**

Revision of EIOPA’s regulation

- **Strengthen EIOPA’s operational independence**
  - ✓ Financing through an independent EU budget line
- **Reinforce EIOPA’s independent challenging role towards National Competent Authorities**
  - ✓ Extend the current powers of EIOPA to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct
- **Enhance EIOPA’s mandate and powers**
  - ✓ Power to ban or restrict financial activities
  - ✓ Extending EIOPA’s scope of action to personal pensions
  - ✓ Introducing a centralized oversight role for EIOPA in the field of internal models

Solvency II – the way forward

- Risk management
- Internal models
- Enhanced group supervision
- Harmonised reporting framework and reliable disclosure
- Contribute to financial stability
- Increased protection of consumers

All good reasons to implement Solvency II soon

Solvency II – Reasons for delay

- Need to better shape the framework for long term guarantees
  - ✓ Extreme volatility in markets
  - ✓ Relevant risk-free rate?
  - ✓ Sovereign crisis
  - ✓ Basel III and bank funding
  - ✓ Low interest rate environment

Why is worth preparing for Solvency II?

“European supervisors will be forced to develop national solutions in order to ensure sound supervision”

“Undermining EU credibility in international discussions”

“Strong concerns regarding the stagnant OMDII negotiations and their impact on the Solvency II project. The concerns expressed reflect the major worries of the heads of the relevant national competent authorities in Europe”

From the Letter to Michel Barnier, 4 October 2012

Scope of guidelines

- System of governance, including risk management
- Forward looking assessment of the undertaking's own risk (based on the ORSA principles)
- Submission of information to national Supervisors
- Pre-application for internal models

Purpose of guidelines

- Ensure important aspects of the new risk based approach in place from 1/1/2014.

- Up to national supervisors to determine how to comply with EIOPA's Guidelines by incorporating them into their regulatory or supervisory framework

- Not anticipating Solvency II, but preparing supervisors and undertakings for the new regime in a consistent way

Long term guarantee assessment (LTGA)

- How to deal with the impact of Solvency II on long-term guaranteed products?
  - ✓ Mitigate the effect of short-term volatility
  - ✓ Preserve transparency of economic approach
  - ✓ Reward long-term ALM and hedging strategies
  - ✓ Build counter-cyclical measures
  - ✓ Reinforce level playing field

Principles for the LTG package

- Alignment with the Solvency II framework and the economic balance sheet concept
- Full consistency and comparability in order to enhance the single market
- Efficient linking of all the three pillars (quantitative basis, qualitative requirements and enhanced reporting and disclosure)
- Proportionality and simplicity
- Adequate treatment of transitional issues

EIOPA Advice on LTG measures – CCP

- Replace the CCP with a predictable volatility adjustment mechanism (“Volatility Balancer”)
- Highlights of the Volatility Balancer:
  - ✓ Permanent (subject to regulatory review in line with entire LTG package)
  - ✓ Based on representative asset portfolio of (re)insurers
  - ✓ Currency specific with national top-up in exceptional market circumstances
  - ✓ Applicable to all insurance obligations apart from unit-linked
  - ✓ Might turn negative under certain conditions (similar to MA)
  - ✓ Pure Own Funds adjustment (no impact on capital requirements or technical provisions)

EIOPA Advice on LTG measures –
Extrapolation

- Select a convergence period that is significantly longer than 10 years (e.g. 40 years) for the Euro

- For other currencies, the characteristics of the local bond and swap markets must be taken into account

- Dedicated pillar 2 measures such as sensitivity analysis

EIOPA Advice on LTG measures –
Matching adjustment

Classical MA:

- Include the strict criteria relating to the credit quality of investments
- Implement some amendments:
  - ✓ inclusion of immaterial mortality risk;
  - ✓ ability to manage the credit quality of portfolios in case of downgrade risk;
  - ✓ maximum levels of MA for CQS 3 investment to be provided by EIOPA;
  - ✓ appropriate criteria and conditions via guidelines to deal with “cliff effect situations” to be provided by EIOPA

Extended MA:

- Exclude it from the LTG package

EIOPA Advice on LTG measures –
Other issues

- Implement transitional not grandfathering
- Accompany tested Transitional with another measure that can address different issues
- Keep the extension of the recovery period, but extend it to provide possible pillar 2 solutions for other sort of crisis situations - 7 years extension should be a maximum
- Introduce full transparency (i.e. public disclosure) of the impact of the LTG measures
- No link of LTG measures to Member State options and no exclusion of cross-border business
- Principle of substance over form

IORP II – EIOPA Advice

- Need for a risk-based framework
  - ✓ Assets and liabilities valued on a market-consistent basis
  - ✓ All security and adjustment mechanisms included (HBS)
- Reinforce IORP governance
  - ✓ Risk management (including ORSA)
  - ✓ Fit and proper of management
  - ✓ Internal controls
- Enhanced transparency
  - ✓ KID for DC schemes
  - ✓ DB schemes to provide assess to realistic information on the “financial health” of the fund by employers and employees

Outcomes QIS on IORPs

- Holistic balance sheet approach as the potential to be a considerable improvement in comparability and transparency
- QIS results range from surpluses in some member states to substantial shortfalls in others (different levels of protection)
- QIS exercise identified a number of areas in the technical specifications that need further work:
  - ✓ Sponsor support
  - ✓ Discretionary benefits
  - ✓ Benefit adjustment mechanisms

Did we learn the lessons?

- **How to increase long term stability and regain consumer confidence?**

  - Encourage realistic risk assessment and pricing
  - Promote a responsible business conduct
  - Increase transparency towards markets and consumers
  - Reinforce preventive supervision and timely enforcement

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

THANK YOU!