

Looking back to move forward : 10 years at the heart of insurance and pensions supervision in Europe

Speech by Gabriel Bernardino, EIOPA Chairman, delivered at the 10th anniversary conference

SPEECH

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Dear Mayor of the City of Frankfurt,

Mr. Peter Feldmann,

Dear Chair of the European Parliament's Committee on Economic and Monetary Affairs, Ms. Irene Tinagli,

Dear Commissioner for financial services, financial stability and Capital Markets Union, Ms. Mairead McGuinness,

Dear colleagues,

Ladies and Gentlemen,

On behalf of EIOPA, I would like to welcome all of you to this virtual Conference celebrating our 10 years of existence. In my intervention today we will “look back in order to move forward”.

EIOPA was created in 2011, during a period of extraordinary turbulence. The global financial crisis had brought into question the credibility and responsibility of the financial sector and led to an increased lack of both confidence and trust, among the public.

The creation of the European Supervisory Authorities was a fundamental change.

It provided a huge opportunity to ensure a convergent approach to regulation and supervision and contribute to the implementation of a true single market.

On the insurance side, EIOPA focused a lot of its energy and resources in the development of Solvency II, a modern risk-based framework that became the worldwide reference in insurance regulation.

Looking back in time, I believe that without EIOPA, Solvency II would have not been a reality. After so many years of preparation and discussions, in 2012 many doubted the possibility of finding a political agreement. EIOPA was instrumental for this as it provided concrete advice on a sound and prudent regime for the valuation of long term guarantees and issued a set of Guidelines on the preparation for Solvency II implementation, to be applied during an interim phase.

Today it is widely recognised that the Solvency II regime has contributed enormously to the stability of the insurance market and the safeguard of policyholders. Due to Solvency II, capital is better aligned to risks; risk management is an integral part of insurers' governance frameworks and transparency towards supervisors and the public allows for better risk-based supervision and market discipline.

I am particularly proud that over the years EIOPA fulfilled its mandate on Solvency II as designed by the co-legislators, even in particularly sensitive situations like the adjustment of the Ultimate Forward Rate, where we used our independent supervisory judgement to ensure that the regime continued to protect policyholders. The continued stability of the insurance sector in the current Covid-19 crisis is largely a result of Solvency II.

The recent advice from EIOPA to the European Commission on the 2020 Solvency II review is aimed at keeping the regime fit for purpose, reflecting the current economic situation, improving proportionality and completing the regulatory toolbox.

The Opinion reflects the need to supplement the current micro-prudential framework with a macro-prudential perspective, including the introduction of a minimum harmonised recovery and resolution framework and a European

network of national Insurance Guarantee Schemes. Furthermore, EIOPA's advice will contribute to the post-COVID recovery by encouraging long term investments in a sound and prudent way.

These adjustments will ensure that Solvency II will continue to be a credible regime, capable of protecting policyholders and contributing to market stability in the next decade.

Within these 10 years, we witnessed the emergence of a prolonged low and then negative interest rate environment. EIOPA identified this new risk reality early on and used Union wide stress tests to assess the vulnerabilities to severe but plausible scenarios and foster the early adoption of appropriate supervisory measures.

Over the years, EIOPA has put a strong emphasis on supervisory convergence. In a single market, supervision is as strong as its weakest link. We used all the tools at our disposal and created innovative approaches to foster a common supervisory culture in the EU. The implementation of Solvency II was the catalyst for a silent structural reform in supervision that is delivering good practical results in a number of areas, such as the supervision of cross-border business.

Following the implementation of the Insurance Distribution Directive, EIOPA focused a lot of attention on building a proper framework for preventive risk-based conduct supervision. Progress is being made to ensure that conduct supervision goes beyond compliance and focuses more on the assessment of fairness, value for money and effective product governance by the market participants.

On the occupational pensions side, the heterogeneity of the pensions' landscape in the different member states created political difficulties in building a more harmonized European approach. EIOPA's advice was more ambitious, both in the context of development of the IORP II Directive and in the Opinion to EU Institutions on a Common Framework for Risk Assessment and Transparency for IORPs.

Nevertheless, clear progress was made on the governance requirements and on transparency towards members and beneficiaries.

A significant milestone was achieved on the personal pensions' side with the development of the Pan-European Personal Pension Product (the PEPP), a simple, transparent, and cost-effective retirement savings product.

The PEPP is what savers and our economies need in this low interest rate environment.

In recent years, EIOPA has been implementing an ambitious strategic plan tackling sustainability, climate change and digitalisation.

As long-term investors, insurers and pension funds have a particular interest in investing in order to mitigate the impact of climate change and facilitate the transition to a more sustainable and resilient economy.

The Covid-19 pandemic accelerated our society's digital transformation. We need to ensure that the use of new technologies brings the promised benefits in terms of cost efficiency and delivers better products and services to consumers, while mitigating the risks related to the ethical use of data and exclusion.

The pandemic also highlighted the protection gaps in our society. The frequency of sudden, far-reaching and potentially systemic shocks is increasing, be it pandemics, natural catastrophes or cyber attacks; and we need to come up with solutions for these as a society. Insurance is not a silver bullet, but it can and should be part of the solution – not part of the problem.

Overall, I am quite proud of EIOPA's impact on consumer protection and financial stability during the past 10 years. However, our ever-changing society demands new focus, new vision and a constant capacity for adaptation. Let me use this opportunity to give my humble contribution on three structural reforms needed for the next decade.

1. The urgency to deliver adequate and sustainable pensions to EU citizens

Insurance and pensions can play a critical role in delivering adequate, safe and sustainable pensions to EU citizens. In my view, not enough progress has been made in this area.

If we want to have a positive impact on pension's adequacy in Europe we need to walk the extra-mile and create conditions, both at national and European levels, to incentivise the creation of more funded complementary private schemes. While maximum impact could be achieved with the implementation of auto-enrolment mechanisms, the forthcoming review of the IORPII Directive will also be a great opportunity to implement a fresh and more ambitious agenda. Incremental change is not sufficient though. We need a sense of urgency to embark on a true paradigm shift. I would suggest four main elements:

- Adjust the governance and transparency requirements to the digital age, streamlining and applying them in a more proportionate manner;
- Focus the Directive on the protection of members and beneficiaries in the context of defined contribution schemes which are the future market reality;
- Ensure that the prudent person investment principles have a clear focus on Environmental, Social and Governance factors;
- Create an optional pan-European framework for Occupational pensions in order to benefit from economies of scale in the single market.

2. A new approach to consumer disclosures

Disclosure requirements are an important part of consumer protection frameworks in the financial sector. They aim to promote informed and effective decision making by providing consumers with information that is easy-to-read, understandable and comparable.

While progress has been made over the last 10 years, my assessment is that the current disclosures fail to meet their intended aims. They remain too complex, burdensome and are usually not read by consumers. Too much information kills information.

Once more, incremental and partial change is not the answer. Profound re-assessment is needed to replace all existing information requirements stemming from a range of legislative contexts (e.g. Solvency II, IDD, PRIIPs) with a unique set of information that consumers will actually use.

This reflection should ensure:

- A clear separation between market and supervisory information, and information to consumers;
- That the requirements are fit for the digital age, use layering approaches and labelling in order to engage a non-financially literate audience;
- Most importantly, the new requirements should be based on findings from behavioural research.

This new approach should result in radically simpler consumer disclosures and should be accompanied by enhanced conduct supervision and enforcement by supervisors against poor or misleading practices, including the use of product intervention powers, where necessary.

3. The need for centralised insurance supervision

Consistency of supervision is an essential element in a single market; essential for the level playing field between the market participants and for the equal protection of consumers. Good supervisory outcomes depend heavily on the capacity of supervisors to put in place common proactive and intrusive risk assessments, and deliver timely enforcement.

The ability of national supervisors to ensure high quality and effective supervision is largely influenced by their governance framework, their independence vis-a-vis the national political institutions and the industry, and their capacity to recruit and maintain a sufficient number of highly qualified staff. We continue to have fundamental differences and challenges in these areas throughout Europe.

While a lot of progress has been achieved over the years due to the common efforts of EIOPA and national supervisors, my personal assessment is that it is impossible to overcome the remaining challenges without a deeper structural reform.

In reforming the current system, the centralisation of some elements of insurance supervision in the EU is imperative, namely regarding:

- The supervision of the internationally active insurance and reinsurance groups that are present in many member states and worldwide;
- The supervision of the companies exercising cross-border business under the freedom to provide services;
- The supervision of pan-European products like the PEPP.

A single supervisory mechanism for Insurance is needed, and its absence is mostly felt in crises like the one that we are currently living.

Ladies and gentlemen,

This will be one of my last public interventions as EIOPA's Chair.

As you can imagine, it is not possible for me at this occasion to list all the institutions and individuals that highly contributed to EIOPA's success during the last 10 years. Nevertheless, with apologies to the many that I will not refer to, let me mention just a few.

Let me thank:

- all National Competent Authorities, the EIOPA Board members and their staff, for the continuous support and for truly believing in the vision that together, united in diversity, like the European Union motto, we can better deliver our supervisory mandate of consumer protection and financial stability;
- the European Parliament and the European Council, for the strong support they provided EIOPA since day one, ensuring our strong accountability and contributing to strengthen our mandate over the years;
- the European Commission, for the excellent cooperation and support to our role and our independence;
- our Board of Appeal, that was instrumental in the credibility of our governance;
- the City of Frankfurt and the State of Hessen, for their warm welcome and support to be seated in the new financial centre of the European Union.

A special thank you to our colleagues in Financial Supervision:

- Our sister Authorities, EBA and ESMA for the partnership and constant engagement along this common journey;
- the European Systemic Risk Board, for helping us stressing the importance of insurance and pensions to financial stability in a usually banking centric discussion;
- the European Central Bank for the excellent cooperation and joint initiatives along the years;
- the colleagues in the International Association of Insurance Supervisors, for welcoming EIOPA to the international discussions and allowing us to contribute in the building of sound and robust international standards;

A particular thank you to:

- our stakeholder groups, the IRSG and the OPSG, for the inspiring discussions and balanced advice;
- the representatives of consumers, namely BEUC, Better Finance and Finance Watch, for all the support in helping us place Consumers at the heart of our work;
- the Actuarial Association of Europe, for the continuous engagement and independent expert opinions provided;
- the industry stakeholders, Insurance Europe, PEIF, AMICE, Bipar and PensionsEurope, for the

constructive criticism and transparent dialogue.

Your comments and suggestions certainly allowed us to improve our work.

Last but definitely not least, a warm thank you to the ones that are the heart and soul of EIOPA's success, our staff. It has been a privilege and an honour to work with such a group of professional, committed, ambitious and European-minded colleagues.

Thank you for the opportunity to lead such an important project and build a credible and respected supervisory authority to serve the European citizens.