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Chairman

INTRODUCTORY STATEMENT AT THE HEARING OF ECONOMIC AND MONETARY AFFAIRS COMMITTEE OF THE EUROPEAN PARLIAMENT



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Mr Chairman,

Honourable Members of the Economic and Monetary Affairs Committee,

Ladies and Gentlemen,

Thank you for the invitation. It is a pleasure to be back at the European Parliament before your Committee for our annual hearing to share EIOPA's achievements during the past year and the challenges ahead of us. This year, I will focus on supervisory convergence, EIOPA's number one priority, outlining

- *First*, our achievements
- *Second*, our future needs to drive supervisory convergence
- *Third*, preparing for future challenges

I. Achievements

Ten years after the emergence of the financial crisis, we have Solvency II applicable all over Europe. While the post-crisis regulatory agenda was the right response to restore the loss of confidence in the financial sector, we are now in a different phase of the regulatory cycle influenced by new political priorities of increasing long-term investment and economic growth. In this context, EIOPA provided advice to the EU Commission on the review of Solvency II, proposing further simplifications and proportionate approaches, reducing the burden to small and medium size insurers and removing unjustified constraints to financing the economy, namely regarding the investment in unlisted equity and unrated bonds.

To build up sustainable long-term investment and economic growth we need a stable and strong insurance sector that adequately prices risks, applies robust risk management strategies and treats customers fairly.

Effective supervision is essential for the Single Market to run smoothly, so that businesses can compete on a level playing field, and consumers can enjoy a level of protection no matter where they are based.

Achieving supervisory convergence requires close cooperation with national supervisory authorities to develop together a common supervisory culture that

underpins convergence of supervisory practices, including a common interpretation of the laws and regulations.

To support national supervisory authorities to implement high-quality supervision, EIOPA has developed a range of oversight activities, following a three-step process:

First step: Diagnosing and analysing market risks and the effectiveness of national supervisory authorities

Second step: Ongoing monitoring of identified risks

Third step: Preventive and remedial actions

Between October 2017 and September 2018, EIOPA undertook a number of tasks and activities in the field of oversight and supervisory convergence, which include:

- Participating in colleges of supervisors to improve supervision of cross-border groups
- Conducting and concluding peer reviews on the supervisory practices and application of proportionality in assessing key functions, on the propriety of administrative, management or supervisory body members and qualifying shareholders, and on supervisory practices with respect to the application of the prudent person rules for institutions for occupational retirement provision (IORPs)
- Providing tailored support and feedback to national supervisory authorities to ensure consistent application of Solvency II

Let me highlight some concrete tools EIOPA uses to further enhance supervisory convergence:

1. Cross-border cooperation platforms

EIOPA has put in place cross-border cooperation platforms that enhance stronger and more timely cooperation between home and host competent authorities, enabling a quicker identification and assessment of risks in cross-border business. The implementation of these platforms is an example of how EIOPA has been able to better steer cooperation between national supervisors, support their assessment of the impact of cross-border activities and identify preventive measures. To date, EIOPA has coordinated 13

platforms involving national supervisory authorities from several Member States.

For each platform, EIOPA has provided concrete supervisory recommendations to the home supervisor. In some instances, these recommendations were aimed to strongly encourage the home supervisory authority to initiate intrusive interventions towards the firm, such as prohibition of writing new business, in order to limit the risk to prospective consumers.

The business models of the companies subject to a cooperation platform differ significantly, from motor insurance, French construction business, medical malpractice insurance to complex unit-linked products. In general, the focus of the companies is on growth outside the home market and on long-tail business where the risk will only materialize on the medium to long-term. Usually, there are insufficiencies in technical provisions, deficiencies in the data available and complex intermediation structures.

The impact of failure of such companies can cause significant waves in the host markets and severely disrupt public trust in the functioning of the internal market.

2. An Updated Conduct of Business Strategy

EIOPA plays close attention to conduct of business and therefore published in April 2018 its updated conduct of business supervision strategy. The updated strategy maintains existing tools, such as thematic reviews, trend reports, enhanced market monitoring and retail risk indicators. To drive practical supervisory convergence it includes new activities, namely an in-depth programme of country visits to national supervisory authorities on conduct of business including a redoubling of dialogue between EIOPA and the national supervisory authorities to enhance the exchange of information. The regulatory changes – notably the implementation of the Insurance Distribution Directive (IDD) and the Packaged Retail Investment Products Regulation (PRIIPs) – are the right and good starting points.

3. Breach of European Union Law & Mediation

Up to now, EIOPA conducted five investigations (two based on requests received from citizens and three its own initiative) on alleged breach or non-application of European Union law in both, the insurance and pension sectors. The investigations were related to the cross-border activity of institutions for occupational retirement provision, conduct of business of third country insurers in the European Union, motor insurance and the recovery of insurance undertakings.

Most of the cases were closed with action by NCAs as a result of EIOPAs' recommendations.

In this context, I would like to stress that the current two-months-period to conclude an investigation based on an in-depth assessment is too challenging. Therefore, I call on the co-legislators to consider revising the respective provision of the ESA's Founding Regulation and prolong the period from 2 to 6 months.

In July this year, EIOPA issued a mediation opinion regarding the determination of the correct insurance class for statutory risks in France. Both national supervisory authorities involved agreed with the conclusions of EIOPA's Mediation Panel.

4. A Supervisory Convergence Plan

In 2018, EIOPA set out its supervisory convergence plan for the next two years. The plan focusses on the implementation of Solvency II and the conduct of business supervision with three priority areas:

- *Development of common supervisory tools and benchmarks*
 - Application of proportionality
 - Common benchmarks for supervision of internal models
 - Supervisory assessment of conduct risks
- *Supervision of cross-border business*
 - Detection of unsustainable business models
 - Sufficiency of technical provisions in cross-border business

- Fit and proper analysis
- *Supervision of emerging risks*
 - Supervisory practices on IT resilience and cyber risks
 - Usage of big data
 - Brexit

II. Future needs to drive supervisory convergence

Since its inception, EIOPA has worked hard to ensure sound and robust regulation of the insurance and pension sectors as well as high-quality and consistent supervision, ensuring better protection of consumers. In this context, EIOPA has welcomed the review of the European Supervisory Authorities.

We believe that the EIOPA Regulation should be strengthened with a mandate to perform independent evaluations of national supervisory practices and act more intrusively when it detects early signs of cross-border risks. We also believe that an effective oversight of the application of equivalence decisions should be considered.

Allow me to highlight a few concrete examples:

- **Cross-Border Cooperation platforms**

In order to further progress supervisory convergence cross-border cooperation platforms need a clear legal basis to reinforce the commitment of its members. EIOPA should i) equally be notified by the home supervisor on cross-border activities, ii) create and maintain a database to provide transparency about the complexity and specificity of products on the market, and iii) provide recommendations to NCA's to steer convergence on how to counter risks.

- **Independent assessment of Internal Models**

As unjustified differences in national supervisory practices may result in significant differences in capital requirements or even cause undertakings to limit the geographical scope of their Group Internal Models, EIOPA should have access to all the relevant information and be able to perform independent evaluations and issue recommendations to NCA's.

- **Enhanced Consumer Protection**

Again access to data and systematic exchange of information needs to be improved and reinforced, particularly for more pre-emptive data and early warning signal including the use of mystery shopping and thematic reviews. EIOPA should have the legal power to request national supervisory authorities to promptly investigate and address specific risks to consumer detriment.

- **Transparency of stress tests**

Lastly, I would like to emphasise the importance of stress testing as regular supervisory tools to assess the resilience of the insurance and pensions sector to possible adverse developments. The increased transparency of these exercises should be ensured with the publication of the respective individual results as it is already the case in the banking sector.

III. Preparing for future challenges

Sustainable finance raises both opportunities and challenges for insurers and pension providers. Of all parts of the financial sector, insurance and pensions have the longest time horizons and therefore the greatest stake in sustainability. In particular regarding insurers, sustainable finance affects both sides of their balance-sheet: the asset side via their investments and the liability side, for instance via their exposure to climate change risk. EIOPA's sustainable finance action plan addresses the need for a cross-pillar approach to sustainable finance encompassing reflections on capital, governance and reporting and disclosure requirements. Both sectors can be instrumental in facilitating a gradual transition to a low-carbon economy.

Increasing digitalisation coupled with a growing number of cyber incidents has made **cyber risk** a major concern for institutions, individuals and financial markets, leading to a growing demand for cyber insurance.

To enhance understanding of cyber risk underwriting in the European insurance market, EIOPA undertook a structured dialogue with insurance

companies across Europe. The findings, published in the report 'Understanding Cyber Insurance' highlights the need for a deeper understanding of cyber risk as a core challenge for the European insurance industry. A questionnaire on cyber risk has been included in the 2018 stress test exercise and the subject will be a growing area of focus for EIOPA, becoming a cross cutting activity in the Authority's 2019 work programme.

On **Brexit**, it is fair to say that the decision of the United Kingdom to leave the European Union has significant implications for insurers and pension providers, supervisors and, of course, consumers. Immediately following the results of the referendum in June 2016, EIOPA started to assess the steps to be taken to minimise risk to business and to consumers. Between October 2017 and September 2018, EIOPA has issued three Opinions to insurers and national supervisory authorities on steps to take to avoid interruptions to service and to minimise risk. EIOPA is and will continue to monitor the progress in this areas.

To conclude I need to refer to the latest developments on the Pan-European Personal Pension Product – **PEPP** and I want to thank the European Parliament for the great progress achieved.

PEPP provides European citizens an entirely new personal pension framework in the form of a safe, portable, long-term retirement savings product. However, PEPP will only be successful if it is trusted. For this, consumers need clear and comprehensive information, an understanding of costs and an assurance of quality. As a European supervisory authority, EIOPA can ensure consistent high standards throughout Europe. In this regard, a central authorization hub and a key contact point for accessing information on PEPP is crucial for its success.

The European Parliament has a key role to play that Europe is well prepared for future risks and challenges. Ensuring strong and long-term economic performance requires a strong regulatory framework. But also demands high-quality and consistent supervision throughout the European Union.

EIOPA stands ready to take on additional tasks to continue supporting the development of high-quality and effective supervision for the benefit of Europe's economy, businesses and citizens.

Thank you for your attention and I am now at your disposal for questions.