Insurance Europe 6th International Conference Malta
The challenge of change: global insurance trends
12th June 2014
Keynote Speech (15 min)

Honourable Dr Muscat
Dear Mr Balbinot,
Dear Mrs Koller,

It is my pleasure to again be your guest at the Insurance Europe International Conference.

Last year in Rome I promised that I will return next time, when the Omnibus 2 Directive has finally been concluded.

I am glad that I delivered!

The European elections passed only two weeks ago.

The European Parliament is currently in the process to prepare its reconstitution on 2nd of July.

I have heard that Malta again had a high level of voter participation (73%) in the elections.

This is a good sign for Malta, however, unfortunately, not representative for many other Member States, where the turnout of voters reached historically low levels.

Furthermore, the voting results are marked by a considerable increase of anti-European and Eurosceptic parties.

Both developments are a wake-up call, which we cannot ignore.

European politics find themselves again on a test bed.

The new European Parliament will be a place where the majorities are not as flexible and as evident as they have been before.

The quality of the political and legislative content will be more decisive than ever.

The outcome of the elections also has an impact on the working relations with the other European Institutions.

They will face a Parliament that will be even more vocal and critical than before.

Still, the big majority of voters decided in a pro-European way.

During my electoral campaign I had the opportunity to get in touch with many citizens of my constituency.

They had questions, they expressed their concerns and - during those five weeks of intensive campaigning - they

approached me by addressing in particular the following three topics:

- the peace-building role of the European Union, which is of crucial importance in the present Ukrainian crisis;
- the negotiations on the Transatlantic Trade and Investment Partnership, where European interests and consumer standards need to be preserved;
- the stability measures for the eurozone and the regulation of financial markets that both help to foster a financial system where budgetary discipline counts and where financial institutions are set liable for their risk-taking, not taxpayers or consumers.

These examples have one thing in common:

Whether we are able to achieve the best possible result depends on whether we achieve a common and strong European understanding.

One benchmark for the Europeans is their global competitiveness.

The set up of regulation, its coherence and convergence, is a key factor in this regard.

A common European understanding on the future development of the regulatory system for the insurance and reinsurance sector is essential.
This is why I very much welcome today's exchange of views on the challenge of a developing global regulatory environment and on global insurance trends.

Around three weeks ago we have seen that the Omnibus 2 Directive, the amending Directive to Solvency 2, has been published in the Official Journal.
The technical specifications are still in progress.
The Parliament expects the Commission to present the draft delegated acts as soon as possible to ensure that there is sufficient time for scrutiny and for the finalization of the legislation until its implementation end of March next year.

Having the lengthy and difficult European legislative process in mind, it raises concerns that additional capital standards might very soon be created on a worldwide level.

My concern is certainly not based on the fact that there is a dynamic international development in insurance and reinsurance regulation.

The lessons learnt from the financial crisis directly point to the interdependence of markets and their financial players, not only in the European single market, but also on a global perspective.

Capital is fluid and is looking for the best profitable result, non-dependent of geographic borders.

It is therefore necessary that we progress on international convergence in the regulatory provisions and the supervisory practice.

Even though - with Solvency 2 - we will soon have a very sophisticated European legislation in place, I am sure we all agree that systemic risk needs separate consideration.

The timing perspective with 2014 for the development for a basic capital requirement (BCR) on globally systemic important insurers and 2016 for the development of international capital standards for internationally active

insurance groups - this timing perspective, however, seems to be rather ambitious.

We have seen how long the Basel process in banking has taken.

Solvency 2 needs some time to run.

It tackles long-term risk, and any adjustments in the legislation may only be evaluated in a mid-term or long-term perspective.

To give a clear message:

From a European side, there is certainly no appetite for an early review of the rulebook that was just agreed.

It was already a tremendous work to come to solutions with 28 Member States having in mind their national specificities and different structures of long-term products.

How are we supposed to effectively agree and implement on an international level?

Do we then end up with a "minimum solution", a so called least common denominator?

If this is the case: Is there a real added-value to put additional burden on undertakings that try to stand their ground in the international competition?

I know, I deliberately exaggerate at this point.

However, the cost-benefit-analysis raises some questions.

The envisaged framework of home and host supervisors already addresses possibilities for supervisory engagement, if risks are not appropriately addressed.

To add capital for systemic risks means that we focus on the capital side, where we face different calculation methods across the globe.

This probably leads to additional complexity in the international negotiations.

In the end, it is certainly not in our common interest that undertakings have to fulfill various sets of capital standards that are not even linked in their basic methodology.

Coherence with the Solvency II principles is therefore absolutely necessary.

I hope that the field testing exercises will provide a better clarity in this regard.

I have already called upon the Commission and EIOPA to remain strongly engaged in the regulatory dialogue with our international partners and to further promote the ideas that are set out in the Solvency II legislation.

Coming back to the comparison with the Basel process:
With Basel, the starting point was a different one:
The initiative was primarily driven by the international side.
The Europeans then started to transpose the Basel standards in EU legislation that was more far-reaching than the internationally agreed provisions.
For insurance, the development seems to be reverse.
We will have a very sophisticated piece of legislation in place, before the IAIS and FSB system will be further developed and finalized.
That is why I remain even more cautious.
If we move ahead in the direction of global capital standards for insurance, we should also underline the specific business model of the sector that is not comparable to banking.
If we follow the Basel way, there should also be a transposition to European legislation at a certain point in time.
Speaking very forward-looking, a review of Solvency 2 (and of CRD 4 for banking) might include ideas to address systemic

risks and in particular internationally active and systemically important groups.

This will be one possible way to safeguard the necessary democratic accountability in the process.

I do not want to act as a prophet in this regard.

Solvency 2 has taught me one lesson:

It is wise to be rather cautious with forecasts.

One message though:

Standard-Setting that affects European undertakings and groups has to be developed with an appropriate involvement from the European side.

An appropriate consultation process of the European institutions and stakeholders has to be guaranteed.

As European Parliament we will have a say on the Solvency 2 equivalence decisions for third countries.

This includes an approval procedure on the draft delegated acts that the Commission presents for determining an equivalence status or a temporary equivalence of third countries, as regards reinsurance, consolidation or group supervision.

From Parliament's side there is therefore an even stronger interest of being appropriately involved and regularly informed about the international development and about the convergence towards common regulatory and supervisory approaches.

Further motivation is given by the current negotiations on the Transatlantic Trade and Investment Partnership.

The European Parliament wants to see financial services matters on the negotiation table as well.

At present the question of third countries is tackled by every European directive in a separate way.

The European legislation generally provides for the acknowledgement of equivalence, but the conditions to determine and to achieve equivalence vary to a considerable extent.

The negotiations on TTIP might be an opportunity to clarify basic principles on market access with the Americans, our main partner and counterpart in the financial services domain.

This idea would also account for the insurance and in particular for the reinsurance sector, where questions on collateral are still to be solved.

Ladies and gentlemen, there is movement in the international dialogue.

However, alleviating concerns from the European side will only be feasible with a transparent approach that gives the European Institutions and the stakeholders a comprehensive set of possibilities for a strong involvement.

I doubt that the current framework already provides for such possibilities to an adequate extent.

The dynamics and the rapidness of international regulation are new for the insurance and reinsurance sector and for the institutions involved.

There is a bundle of so far unanswered questions:

- When will the timeline be specified?
- How might the specific responsibilities and tasks be organized?
- Is it possible to agree on appropriate valuation methodologies?

- How will the field-testing be managed?
- What will be the status of the capital and loss absorbency requirements?

  How do they fit into existing legislation?
- How might the governance of an international system look like?
- What might be the steps of supervisory intervention?

There are certainly many more questions...

Some questions might be addressed within the next months.

As Europeans we should take advantage of this ongoing process and underline our understanding of international standards for the insurance and reinsurance sector.

The heading of today's conference is the "challenge of change".

Change has positive and negative attributes.

In order to have a say on how change will develop we need a strong European voice.

It will also help the Commission and EIOPA to have the European Parliament on board.

The European Parliament supports that an international debate on the global interconnectedness and systemic risk in the financial sector has been launched.

The debate will certainly continue on the agenda of new Economic and Monetary Affairs Committee.

In the end, there are European undertakings affected and global competitiveness is at stake.

This is why we need a proactive approach with all European players and stakeholders involved.

Thank you very much for your attention.