

To: **Executive Committee**

Cc: Economic & Finance Committee
Single Market Committee
Public Affairs Group

Reference: CEA-EC-09-028

Subject: **For information: Principles on remuneration**

Brussels, 13 March 2009

| Action requested

For information

| Background

As part of its response to the financial crisis, the European Commission started working on **new principles on remuneration in the financial services area**. The idea is to build on the draft high-level principles prepared by the Committee of European Banking Supervisors (CEBS) and to extend them to other financial sectors. The Commission announced in its Communication for The Spring European Council Driving European Recovery of 4 March that it intends to revise its 2004 Recommendation on remuneration of directors but in parallel also table a specific Recommendation on remuneration in financial services, both by April.

| Latest developments

Last week, the Insurance Unit, DG MARKT asked the CEA to provide in a very short timeframe its preliminary feedback on 1) whether the CEBS principles were relevant for the insurance sector and 2) whether there was a need or not for additional rules/ measures for the insurance sector (see CEA-EC-09-026). The Insurance Unit intended to use the CEA initial feedback to form its own input to an internal meeting of the Commission and to indicate on a preliminary basis whether the CEBS guidelines would be suitable for the insurance sector.

Further to internal consultation, the CEA submitted its **initial general views on the CEBS draft principles** to the Insurance Unit on 9 March (available in annex 1).

| Next steps

The CEA Secretariat will participate in a stakeholder meeting organised by the Insurance Unit on 13 March. The meeting, to which Amice, Bipar, EFRP and Ceios have also been invited, aims at discussing further the **relevance of the draft CEBS guidelines on remuneration to the insurance** (including insurance intermediaries) and pension funds sector and the scope and content on a **Recommendation on remuneration in financial services**.

In addition a stakeholder Roundtable on directors' remuneration will take place on 23 March (draft programme in annex 2).

You will be kept informed about the outcome of both events.

CEA preliminary views on CEBS draft high-level principles of Remuneration Policies

The CEA would like to thank the European Commission for the opportunity to submit its preliminary views on the very important topic of remuneration policies. The below CEA comments have been gathered on the basis of feedback received from our members, the national insurance associations, within the short timeframe of consultation granted by the Commission.

Question 1: Are the CEBS guidelines relevant for the insurance sector?

The CEA acknowledges the de Larosière Recommendation 11.

The CEA members have mixed views as to whether the CEBS guidelines are relevant for the insurance sector. Some members could consider that, subject to an evidence-based process in line with the Commission's commitment towards better regulation, the CEBS principles could be used as a basis to develop cross-sectoral measures in this field. In contrast, other members question the use of the CEBS guidelines as an appropriate basis for further work:

- CEBS itself has not yet decided whether these principles are reasonable for the banking sector. CEBS started a consultation on the principles on 6 March and will hold a public hearing on it at the end of March. Similarly, the way insurance would be addressed within this process is not clear.
- The CEBS draft high-level principles of Remuneration Policies have been elaborated by banking supervision experts. They focus on banking business (especially investment banking) and are targeted at addressing banking problems.

These CEA members therefore believe that, although it is of a high-level nature, the CEBS approach is not appropriate for the insurance sector. They urge the Commission to refrain from using them as a basis for further work or discussion.

An alternative approach for the Commission would be to set out rules for directors/employees remuneration in **all industry sectors** instead of limiting them to a specific sector. This would help avoiding distortion of competition between the sectors.

This could be done by using the Commission Recommendation of 14 December 2004 on remuneration of directors as a basis for further work. Indeed, we understand from its Communication on European recovery, which includes a clear timeline and scope for further EU-measures in this area, that the Commission plans to do so: *"Strengthen its 2004 Recommendation on remuneration of directors (April 2009) and bring forward a new Recommendation on remuneration in the financial services sector (April 2009) followed by legislative proposals to include remuneration schemes within the scope of prudential oversight (Autumn 2009)"*.

Question 2: Is there a need or not for additional rules/measures for the insurance sector?

- We would like to recall that the financial crisis has not been caused by insurance models or by the remuneration policies within insurance undertakings, but that it originates from the banking sector. The results of the insurance industry are stable as confirmed by market data of 2008. This reflects the sustainable and solid risk management which characterizes the insurance industry. As there is and has been no excessive risk management failure induced by inappropriate remuneration incentives in this sector, there is no need of putting the current remuneration structure in the insurance industry into question.
- In preparation of the implementation of Solvency II a number of new national rules are in place in this field.
- Furthermore, some markets already have provisions aimed to prevent excessive risk taking on all levels of the insurance undertaking. In most of the member states currently there are national debates and proposals on different aspects of the remuneration policy in general (eg in Germany the government agreed on key points last week; in the Netherlands, the prudential supervisor (DNB) presented similar principles to the insurance industry in November 2008). Any potential EU measure should take into account these developments as they are often based on the Commission Recommendation of 2004. Therefore we consider the approach set out in the Communication of 4 March appropriate which as a first step evaluates and then plans to strengthen the existing Recommendation instead of starting a new approach based on specific sector-related principles.
- It should be ensured that the whole exercise is consistent with the work undertaken at international level, ie the review of corporate governance guidance by the OECD as well as the IAIS work on corporate governance.

About the CEA

The CEA is the European insurance and reinsurance federation. Through its 33 member bodies, the national insurance associations, the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA represents undertakings that account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1 110bn, employ over one million people and invest more than €7 200bn in the economy. www.cea.eu

Roundtable on directors' remuneration

23 March 2009

European Commission,
Charlemagne Building, 170 Rue de la Loi, 1040 Brussels

Draft Programme

9:20 – 9:30 Introductory remarks by Mr. Jörgen Holmquist,
Director-General for the Internal Market and Services, European Commission

9:30 – 10:30 Panel 1: socio-economic aspects of Directors' remuneration

Panellists will focus on the socio-economic aspects of directors' remuneration. What is the level of pay of directors in Europe? How does it compare with other key developed economies? Is the public perception of high level pay justified? What should be policy-makers' reaction?

Introduction of key data by Mr. Jean-Nicolas Caprassé (Head of European Corporate Governance Research, RiskMetrics)

Moderator: Mr. Jörgen Holmquist (Director-General for Internal Market and Services, European Commission)

Speakers:

- Ms. Pervenche Berès (Member of the European Parliament)
- Mr. John Monks (Secretary General of ETUC)
- Mr. Philippe de Buck (Director-General of BUSINESSEUROPE)
- Mr. Tomáš Zídek (Deputy Minister of Finance - Czech Republic)

10:30 – 11:00 Comments and Q & A from the Audience

(11.00-11.15 Coffee break)

11:15 – 12:15 Panel 2: Designing a Director's remuneration in practice

Panellists will explain how an executive compensation is designed in practice. Is there a link between level of pay and long term business performance? How is it defined? What are the hurdles and constraints in the process? What could be improved? Are there sectoral specificities (e.g. banking)?

Moderator: Prof. Lars Oxelheim (Professor, Lund University, Sweden)

Speakers:

- Mr Stephen Carhill (Deloitte LLP) (*tbc*)
- Mr. Jim McNally (BT) (*tbc*)
- Mr. Bernhard Dedenbach (Vice-President of Korn/Ferry International)
- Ms. Anne Marion-Bouchacourt (Director of Human Resources, Groupe Société Générale)

12:15 – 12:45 Discussion and Q & A from the Audience

Lunch break

14:15 – 15:15 Panel 3 on possible content for new provisions on directors' remuneration.

Panellists will discuss possible new legal issues/matters on directors' remuneration. Topics such as long term performance criteria, variable pay and choice of appropriate incentives, severance pay, clawback provisions, deferral payment, increased responsibility of executive directors, code of ethics for remuneration consultants and shareholders' (binding) vote on remuneration policy will be addressed by the panellists.

Moderator: Mr. Jaap Winter (Partner De Brauw Blackstone Westbroek; Professor, University of Amsterdam)

Speakers:

- Prof. Guido Ferrarini (Professor, University of Genoa; Vice Chairman and Fellow, European Corporate Governance Institute, Brussels)
- Dr. Reinhold Ernst (Partner Hengeler Mueller)
- Member State (EFC) (*tbc*)
- A representative of the banking industry

15:15 – 15:45 Discussion and Q & A from the Audience

(15.45-16.00 Coffee break)

16:00 – 17:00 Panel 4 on Application and enforcement of provisions on directors' remuneration.

Recent evaluation by the Commission showed that the 2004 Recommendation was poorly implemented in Member States. Panellists will thus address issues linked to the enforcement and application of the current and new provisions on directors' remuneration in order to remedy the situation: Is the 'comply or explain' principle really effective? Are shareholders concerned by executives' remuneration? Should remuneration committees be made more responsible? What kind of supervision/monitoring mechanism could be put into place?

Moderator: Mr. Pierre Delsaux (Director for Free Movement of Capital, Company Law and Corporate Governance, European Commission).

Speakers:

- Mr. Carlos Tavares (Vice-Chairman of CESR, Chair of the Portuguese CMVM)
- Mr. Jean-Martin Folz (President of AFEP)
- Mr. Angel Benito (Director-General of the CNMV (Comisión Nacional del Mercado de Valores))
- Prof. Jean Frijns (Chairman of the Dutch Monitoring Committee on Corporate Governance) (*tbc*)

17:00 – 17:30 Discussion and Q & A from the Audience

17:35 – 17:45 Closing Remarks by Mr. David Wright
Deputy Director-General for Internal Market and Services, European Commission