# Interview[1] with Gabriel Bernardino, Chairman of the European Insurance and Occupational Pensions Authority (EIOPA) conducted by Thijs Rösken, De Financiële Telegraaf 22 February 2019

Insurers struggle with the combination of capital requirements and low interest rates. "Interest rates could remain low for years", thinks Gabriel Bernardino, who is Chairman of EIOPA, their European regulator. Pension funds tend to like EIOPA, because it is less strict on interest rates than the De Nederlandsche Bank.

Bernardino is a cheerful and enthusiastic person, while pensions are under pressure in a number of Member States. In the Netherlands, cuts are coming closer, especially now that the pension reform does not get off the ground and interest rates remain long for a long time. Interest rates that Dutch pension funds have to take into account for the valuation of benefit obligations in the distant future come from De Nederlandsche Bank and are lower than those of the European regulator.

**Pension funds think that they might not have to cut pensions if they can use the UFR rate of EIOPA. Are they right to demand an equal treatment?**

Pension funds aren't treated equally with insurers, but they are also no direct competitors. So, there is no need for a level playing field. The national discount rate (UFR) the pensions funds have to apply is a political decision. This is also true for the alignment of the national rate with the European rate. In general, I have a lot of appreciation for the Dutch pension regime. The rules match the realistic costs of pensions, and encourage that you act before it is too late. Furthermore, you can do two things to keep the system sustainable while the environment changes (low rates, people getting older, etc.), raising the contributions or cutting benefits.

**Or neither, but adjust the discount rate, so that cutting is not necessary. Nobody wants to see pension cuts.**

We have no role in the national debate. However, I would like to emphasise once again that the Netherlands has one of the best supervisory regimes. Other countries can learn from it. Because it ensures timely actions so that pension funds can also provide young people like you with a sustainable pension. As regards the discount rate, of course the discount rate calculated by EIOPA can also be used by Dutch pension funds. But again this is a national and political decision.

[1] Link to the Dutch version of the interview published by De Financiële Telegraaf.

**You said that you admire the Dutch regime. The Dutch pension system was known as the best in the world, but now it is under pressure. What do you think of the system?**

In my view, the problem in the Netherlands is the problem of the rich. Because you already have a good pension system and you have to see how you can keep it sustainable in view of the current developments. Countries that do not have a pension system or an unstainable one are doing worse. I trust that the Netherlands will maintain one of the world's most stable pension systems.

**Solvency II is there for three years now. What do you think about the impact?**

I think the results are very positive. The rules now link capital much better to risks. Solvency II provides a much more realistic picture than its predecessor did. Moreover, one of the biggest advantages is that insurers are now actively working on risk management. That is why European insurers are very strong on capital. Another difference is that with Solvency II you can compare insurers. With the old regime, it was not possible. Most insurers show good solvency rates, while at the same time they have to cope with a low interest rate environment and volatile markets.

**There is a lot of criticism. *"Solvency II makes guarantees far too expensive and with defined benefit products the risk is going to consumers instead of insurers",* said Aegon-CEO Alex Wynaendts a few months ago in our newspaper. He wants to see exceptions to Solvency II.**

Long-term guarantees have their price, especially in a low interest rates environment. With the current level of rates, an insurer cannot realistically offer guarantees with 4 or 5% returns over decades. Risks of such products were not priced correctly in the previous regime. We must not change the rules and deny that guarantees are costly. That guarantees are expensive in a low rate environment is a reality.

**But consumers are not able to buy guaranteed products. In addition, they are barely offered.**

Yes, of course. What guarantees can they offer? Almost nothing. Do you think you will get a good price as a consumer for a guarantee of 3% for twenty or thirty years? Miracles do not really fit the financial sector.

**At EIOPA, you plan adjustment to the Solvency regime. Do guaranteed products become accessible again?**

Solvency II is good, but not perfect. We are fine-tuning the regime including the area of long-term guarantees. We will look at the valuation of illiquid liabilities, i.e. of guarantees where consumers cannot claim their savings continuously but only at the end of the insurance contract. I think and hope that this work will contribute to insurers offering more guarantees again, also in the Netherlands.

**In recent years, a wave of mergers and acquisitions has spilled over the European insurance sector. Is this partly due to Solvency II?**

I think that the increase in the number of consolidations has several reasons, such as the low interest rates environment. I think there are many small insurers in many European countries. Sometimes these are niche players with a viable business model. Occasionally, it does not hurt to increase the scale of insurers in some countries. The Netherlands has already a high level of consolidation.

**How do you look at the trend of private equity funds that are buying closed books of life insurance policies across Europe?**

The fact that closed book deals are being traded has been going on for some time now in the casualty insurance market. Now life insurance is following with traditional insurers taking a step back due to the low interest rates environment. There are many deals and there is a lot of interest, I notice. The fact that there are new players is a positive development because it fosters competition. So, the private equity funds are welcome, but they do need to follow the rules. If they buy such life insurance books, they become insurers and must behave accordingly. It is an interesting subject. The appearance of investment funds, like private equity funds, in the insurance sector is a priority for EIOPA this year.

**What is your focus there? At least five of those funds are interested in (a part of) Vivat.**

We discuss with national regulators how we look at the investment strategy of those private equity funds. Because they buy the closed books to make a profit through investing the premiums. With that, financial engineering can take place. We also look at the customer experience, which should not be negatively affected because of such a deal.

**How long should interest rates be so low, before EIOPA plans to adjust Solvency II to do so?**

**Answer:** I think that interest rates will remain low for a while, maybe for a few years. However, I cannot be sure. You should ask my neighbour Mario Draghi (he points ECB tower office, which he can see from his office, red.). If I would really know for sure, I would have been a millionaire. Fact is that we are not going to change the rules because of interest rates being low for a long time. Solvency requirements must weigh risks in a realistic way. We cannot soften that. Insurers or pension funds, they have to adjust their policy to low interest rates, not the regulator.