Contemplating the next big event

A storm (inevitably) brewing
Exploring the implications of the next big US hurricane event

Not if, but when
What could a significant earthquake in California mean for the industry?

Singularly Brazilian
Examining the country’s importance as a growing centre for re/insurance
How is Solvency II compliance faring in Europe and elsewhere? How close is Europe to compliance?

Solvency II implementation is being discussed at the political level in the EU. The major issues under discussion relate to the long-term guarantee products and the adjustments to deal with pro-cyclicality.

In the meantime, many EU countries have been introducing in their national regimes some of the elements of Solvency II. The European Insurance and Occupational Pensions Authority (EIOPA) is encouraging national supervisors to engage in a dialogue with insurance undertakings at the highest level. This dialogue will help supervisors to understand and analyse the implementation plans that companies have in order to enter into Solvency II. At the same time this will give them the opportunity to identify the gaps or the areas where further efforts need to be made.

How significant have the challenges been in dealing with multiple regulators in Europe?

It is certainly challenging to work with the different national regulatory authorities of the European economic area (EEA). In our work we have to take into account differences in development and even the cultural differences of countries. But we don’t want to ignore their positive experience; rather our purpose is to build a European supervisory culture that brings together the best experiences of all the EEA member states. This cannot be built instantaneously but rather through a series of steps towards an enhancement and consistency of regulatory and supervisory practices.

How would you assess Bermuda’s chances of being ahead of Europe in terms of Solvency II compliance?

In October 2011, EIOPA submitted its advice to the European Commission on the equivalence assessment of the Bermudan supervisory system in relation to Articles 172, 227 and 260 of the Solvency II directive. In this advice we stated that Bermuda meets the criteria set out in EIOPA’s methodology for equivalence assessments under Solvency II for insurers of Classes 3A, 3B and 4, but with certain caveats. At that time, EIOPA also noted that these conclusions will apply only when the provisions are fully implemented.
At the time of the EIOPA assessment, the regime applicable to Bermudian insurers of other classes did not meet the criteria.

EIOPA is aware that in the meantime the Bermudan supervisory framework has been further consolidated. We expect that these developments will be assessed once the Level 2 implementing measures of Solvency II are finalised.

From EIOPA’s perspective, what are the major concerns facing the re/insurance industry?

We are living with a crisis of consumer confidence in the financial system. The reputation of financial services providers was undeniably affected by the banking crisis. Of course we know that insurance is different from banking, but we cannot deny that there are also some spillover effects into the insurance sector.

More than ever the insurance sector needs to communicate effectively and demonstrate to customers that it delivers a valuable service.

Every crisis brings enormous challenges but also creates opportunities. I believe that the insurance industry now has a huge opportunity to reinforce its reputation and strengthen the relationship with customers. That may call for a back to basics strategy, looking more closely at the intrinsic value of risk management and the core values that insurance represents to the society and to the economy.

*How do you see the continuing course of global re/insurance regulation? Is further global regulatory oversight inevitable?*

Insurance is more and more a global business. As a consequence, the promotion of sound and stable insurance markets calls for more international cooperation. And the development of global regulatory and supervisory standards is the best way to reinforce financial stability and consumer protection. This will create a level playing field for international players, foster a common language between supervisors and improve international cooperation and information exchange. EIOPA is committed to these objectives.

However, we should not forget that legal frameworks and supervisory practices around the globe are still fairly divergent and the respective public authorities need to make further efforts in this area.

*What discussions is EIOPA having with other global regulators concerning the future course of regulation?*

In terms of development of sound international supervisory standards in the insurance sector, I would like to mention our cooperation with the International Association of Insurance Supervisors (IAIS). In 2010 the association started the development of a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). ComFrame should lay the foundations for a more integrated and international approach towards group-wide supervision.

In my view ComFrame represents a unique opportunity to create a framework that will give supervisors from all over the world a common language on which to build a shared understanding of risks and foster convergence of supervisory practices.

I would like to stress EIOPA’s ongoing involvement and sincere commitment to developing ComFrame with the aim of defining convergent international standards. I am sure that this initiative will advance the efficiency of supervisory practices over time on a global level.

*Is there a view from EIOPA’s perspective on a global regulatory agenda?*

I believe that the global regulatory agenda should deliver appropriate international standards on two main areas: a global risk-based solvency regime for active international players (ComFrame); and a global regime to deal with the identification and treatment of systemic important insurers. Both frameworks are fundamental to preserving a level playing field in the global insurance market and fostering financial stability and consumer protection.