Interview by Carlos Montalvo, Executive Director of EIOPA, conducted by Adrian Ladbury, the Report "Insurance Claims Management, Europe 2013"

Adrian Ladbury: What are you trying to achieve with the MoU with the World Bank?

Carlos Montalvo Rebuelta: We are trying to push in a global framework the risk-based supervision(and not Solvency II as some people interpret it). We are not trying to take the role of the International Association of Insurance Supervisors (IAIS). On the contrary, we are strongly supportive of the need for the IAIS as a key player in the setting up of global standards, but we are convinced that risk-based supervision and regulation is the way forward for insurance. We are also convinced that in our global market, we need to be able to be consistent both in regulation and supervision worldwide.

Adrian: Doing this with the World Bank, what is the significance of that as opposed to doing it with the National Association of Insurance Commissioners (NAIC) for example? How is this going to help your goals?

Carlos: It was never an "instead of", but rather in addition to other initiatives that we are undertaking, Why with the World Bank? Because the World Bank is already embarked on a number of programs of modernisation of regulatory framework, in countries such as Turkey, Argentina, Malaysia. We can provide them with technical expertise when it comes to risk-based supervision because we have been working on risk based supervision for more than 10 years, we know certain things about it, about what to do and what not to do, and we want a global approach towards insurance regulation which is based on risk. We have the expertise so it is about sharing this expertise.

Adrian: You mentioned the IAIS. How does this dovetail with what they are doing because they are obviously attempting to do the same thing, how is it not in competition, how is it a positive thing in that respect.

Carlos: There cannot be competition as of the same minute when we became members of the IAIS, we are strongly pushing the IAIS to lead a global regulatory initiative so as I said it is not instead of, it is in addition to the work we are doing on the IAIS level, that we want to help initiatives that the IAIS is undertaking today so we are not leaving this for tomorrow where a global framework or standard is already up there, but we are starting to work today.

Adrian: How is this collaboration and initiative going to benefit the European insurance industry? How do we benefit from it?

Carlos: Everybody should benefit from it very simply because the market is global. Take Turkey as an example, they are working together with the World Bank, they are an extremely dynamic market these days and big European insurance players are certainly targeting, , that market is an area of expansion because it makes sense. When you are a global player what would you prefer: to have a consistent approach throughout the market in which you are operating, or to have different frameworks? That is where the benefits come.

Adrian: It's providing that consistency so when a European insurer starts writing business in Brazil or Malaysia or Africa, and so on.

Carlos: Or the other way round, where a Brazilian or a Turkish company wants to do business here in Germany, they are already managing their risks in a way which is risk-based. That is beneficial for the solvency of the company and its consumers.

Adrian: Some countries are much further ahead than others, but is there a general will amongst supervisors particularly from emerging countries, to embrace the ideas of risk-based solvency standards such as a Solvency II style approach to risk-based management?

Carlos: If you look at Mexico, for example, although I wouldn't certainly call it an emerging country, they are already implementing a risk-based supervisory framework that has a number of commonalities with Solvency II. With a more simplistic approach towards the calibration of risk, that probably is more fit and accurate for the reality of the market and less complex. It is not Solvency II but it is inspired by the same principles; the same idea of three pillars and the same approach to quantifying risk, setting a capital charge on them on the basis of a given confidence level whatever it is and last but not least, the same approach for setting up incentives for some risk management.

Adrian: Obviously with solvency supervisory systems, even if they are risk-based, they are going to be different all over the world. What are the core elements that you think need to be used by all countries in order for there to be enough commonality for it to work, cross-border?

Carlos: The umbrella that should cover this element is an idea of balance. With regards to the Solvency II pillars, one is in relation to governance and risk management (Pillar II), another one has to do with transparency and disclosure (Pillar III), and the other one has to do with capital requirements and the way you are also quantifying liabilities (Pillar I). They are equally important. You cannot understand the system without any of these three pillars and you cannot say that the first, second or third pillar are the fundamental ones in the whole framework because they are equally important. The first message is the balance between the three pillars; the second one has to do with the importance of transparency and the third one I would say has to do with setting up the right incentives.

Adrian: What about the accounting side, is it possible to have a level playing field from a solvency perspective if insurers within all these different territories are still using national accounting systems which aren't unified?

Carlos: Account reporting and reporting for supervisory purposes serve a different objective so they differ from each other. But at the same time you are totally right saying, that the smaller the difference, the easier the comparability and the easier the consistent approach that we want to bring forward. When we started Solvency II, we wanted to align with IFRS4. We know what happened in terms of timing for IFRS4 and we know what happened in terms of timing for Solvency II. But we wanted to align in order to be as consistent as possible; whilst also understanding very clearly that the objective is different but the more consistent you are, the less risk of misunderstanding, the more comparability and the less burden to companies.

Adrian: It is often said, in a different context, that you can have the world's best supervisory system but if you haven't got the resources and numbers of people and skills to implement it properly then it's not going to work. Is that one of the major challenges that you see?

Carlos: Let me use football as an analogy: with the best coach in the world, an average 3rd division team will never win the championship. We have identified this issue as one of the most important challenges that we are facing, we organise a very strong training program to our members. I'm talking about more than 20 training initiatives for supervisors organised by EIOPA yearly and one of the elements that we have integrated in this operation on MoU with the World Bank is that program countries through the coordination of the World Bank, will have a free of charge access to our trainings. We will reserve this year already three slots for each of the 20 training initiatives that we are doing. Next year it will go up to four. On top of that, in 2012 and also this year we organised with the Association of Latin American Supervisors a training on Pillar I related issues, it was a very complex technical actuarial training.

Adrian: Is another one of the risks the rising nationalism that we are seeing emerging in some countries on an insurance perspective? In some respects, foreign re-insurers in Brazil feel as if they are being forced to make commitments that aren't fair simply because the

business is being re-insured out of the market. Is that going to be a challenge with this as well?

Carlos: I am not entering into a country by country discussion, but I would say that the situation you are describing justifies and calls for the need of a global regulatory standard at the IAIS, i.e. world level.