Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Jade GRANDIN DE L'EPREVIER for L'Agefi

Which aspects of Solvency II do you plan on reviewing?

First of all, right now we are working on the first phase of the Solvency II review which is focused on the review of the Solvency II capital requirements. The European Commission asked us to review a list of elements and we want to simplify the models and increase proportionality. We will publish our advice to the European Commission today. In a second phase, we are working on the calibration of certain risks, such as longevity, mortality, or catastrophic risks. The first calibration was made from 2008 to 2010, but we have better data now and adjustments need to be made. For example, the standard formula for interest rates risks module didn't take into account the negative yields. We will launch a consultation in the end of the week to get input from stakeholders and do an impact assessment to produce our final advice in February 2018.

Another part of the review is made annually, on the implementation and consequences of long-term guarantees measures. The reports EIOPA is producing will be a basis for a more complete review of the regime, for which we will give our advice in 2020 to the European Commission who will proceed with the review in 2021. It is important to have such reviews to see if the regime is still fit but on the other side we also think it's important to have a certain stability of the regime and not to change it too often.

How do you respond to the criticism about your stress tests on insurers, that the scenarios were unlikely and that the results were anonymous?

The stress tests are tools to look at vulnerability in an extreme but plausible scenario. We want to look beyond what is the capital regime in Solvency II, which already has some stresses. The tests are not made to second-guess about capital requirements. In that sense, our stress tests are different from those of the banking sector, which were made to repair existing vulnerabilities.

Our scenarios change from exercise to exercise depending on the risks. In 2016, we tested a prolonged low-interest environment and an added shock of sudden reassessment of risk premiums in the market, and actually we have seen some of it happening. And we focused on life insurers here because of the long-term nature of their business. In 2018, we will continue with low interest environment but might want to check also what happens if interest rates suddenly go up. We don't only ask insurers for ratio calculations, but also ask them to tell us what they will do in each scenario.

On the disclosure aspect, I want to underline that for every stress test, we published more information than in the previous one. In 2016, we didn't want to publish any individual results because Solvency II was not there yet and we wanted insurers to publish their numbers on Solvency II first, which happened this year. For the next publication in 2018, we are exploring the possibility to publish individual results. We will probably also cover non-life insurers, as we did in 2014, and we hope to include some qualitative elements on cyber risks.

How is advancing the creation of a pan-European pension product (PEPP)?

We started working on the subject in 2012 after a call for advice from the Commissioner Michel Barnier. We gave our final advice to the European Commission in 2016 and they took a good part of it. They put forward a proposal in June so the concrete regulation is being discussed as we speak. We hope a political agreement can be found in the coming months. The PEPP is not a substitute in any way to social security or Pillar II in the retirement schemes; it aims to complement national products. Consumers should benefit from the trust given with the European stamp. EIOPA will play an important role by centralising information on its website and coordinating the supervision in a consistent way throughout Europe. This product will show that capital markets and the financial world can have an added value for the citizens.

What is your approach to Insurtech?

With digitalisation, there is an opportunity to have better services and products but at the same time there are risks concerning the ethical use of data, the potential discrimination and exclusion from products, and cyber risks. We started having round tables last year with insurers, start-ups, consumers, national regulators, to first understand what was is happening on the market. Now, this is one of our strategic priorities because it will be a fundamental area going forward. We want to be technologically neutral, and we want to make sure innovation delivers better outcomes. Now we are in a position to set a plan.

We have set up a specific task force on InsurTech and established three priorities. First, we will launch a thematic review in 2018 about the usage of big data, both by insurers and start-ups, in all European countries. We want to understand how it is used, with which ethical standards, what effects it has on price, on writing…. Secondly, we will look at the supervisory approach towards InsurTech in every country and start building best practices in 2018. If the national standards are too different, there will be very different types of protection for consumers, and the start-ups will have troubles growing internationally. Thirdly, we started to work on cyber risks with the market and with our American colleagues from the supervisory side as this is a global phenomenon. As regards cyber risks, insurers can be both potential victims and vehicles of protection and we hope to publish some guidance in form of standards on this topic in 2018 or 2019.