INTERVIEW

# Defending the members

**After being confirmed as EIOPA chair for a further five years last December,** Gabriel Bernardino **tells** Natalie Tuck **about his achievements so far and why pension regulation is all about defending pension scheme members**

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**You have introduced many things in your first five years as EIOPA chair, such as the pension stress test, Solvency II, and holistic balance sheet proposals. What has been your proudest achievement?**

During the past five years there have been a number of important milestones, both in the pensions and insurance area, addressing financial stability and consumer protection issues. I'm very proud what EIOPA has achieved so far. And indeed there was a very important point in time, back in 2013, when we had to cope with a lot of uncertainty about Solvency II, whether the new risk-based regime would be implemented or not. EIOPA's role was crucial by issuing guidelines on the preparatory phase and reassuring that Solvency II will be implemented.

**Solvency II has recently been introduced and it has been said annuities may be less attractive under these new rules. There have also been fears that it could affect the pension de-risking market. What is your response to this?**

Solvency II brings market-consistent economic valuations of assets and liabilities and importantly it brings a pricing of risk in a more realistic way, especially when we're talking about long-term commitments like annuities. It's very important that the pricing of these products is closer

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to reality. This is the only way to preserve the solvency of the companies and to ensure that they are meeting the commitments they have made to their policyholders. Solvency II brings a closer alignment of risk and capital. This could have some impact in terms of the pricing, but at the same time it is a sound element for the regime. Pretending that the risk is lower than it is in reality does not make life easier, in particular not for the stability of insurance companies and the policyholders.

**Currently pension funds are not subject to Solvency II, but you have proposed a Holistic Balance Sheet, which has been met with criticism. Why is there a need for it?**

Let me start by stressing one important point as regards the application of Solvency II and the Holistic Balance Sheet (HBS); we never said that we were in favour of applying Solvency II to pension funds. What we always indicated is the need for pension funds to have a more realistic valuation of their assets and liabilities and a proper analysis of their risks.

From a point of view of preserving and defending the rights of the members of the pension funds, we need to be realistic on the assessment of the assets and the liabilities and use a market-consistent approach. The HBS is precisely based on this idea. It prices the risks in the different assets that you have in the portfolios, capturing the riskiness of these assets but also incorporates all the adjustment mechanisms present in the regimes of the different countries, like the sponsor support, the pension protection funds and the reduction in benefits. It is not Solvency II.

We will only be comfortable to present a proposal to the European institutions on solvency matters after having done proper analysis and assessments. We are fine with the European Commission proposing IORP II without changes to the solvency requirements. It would have been premature to go beyond that at that point in time. We conducted a public consultation on a number of proposals on how to integrate the HBS in a supervisory regime. We also ran a quantitative assessment back to back with the stress test. We are now in the final stage of our analysis. We intend to present an opinion to the European institutions at the beginning of April on how the concept of the HBS can be integrated into the overall supervisory regime. This has nothing to do with implementing Solvency II for pension funds.

### What was your reaction to the results of the first pensions' stress test?

This was the very first exercise at European level on pension funds. I am satisfied with the results and the level of engagement from all the European supervisors and the pension fund industry around Europe. These types of exercises are always an extra burden on top of the day-to-day management responsibilities. But these exercises are a very important tool, both from a risk management and supervisory perspective.

The results of the stress test have brought the numbers to the perceptions we already had. For example, the numbers confirm that one of the major vulnerabilities of pension funds is the prolonged period of low interest rates: that brings liabilities higher and at the same time the low returns are harmful on the asset side of your pension fund. The stress test also allows us to understand the potentially risky behaviour of pension funds when they 'search for yield' in this environment. It is now important to conduct an analysis of the mechanisms in place in the different member states to absorb the shocks and to deal with these vulnerabilities. As the approach is not harmonised across the countries there are a lot of different tools and mechanisms at disposal to absorb vulnerabilities. That is something we will continue to look upon. In the future we want to look at the impact these vulnerabilities have on the behaviour of sponsors and, thus on the economy at large.

### You have said there are three fundamentals for improving pension provision in Europe; strong governance, enhanced sustainability and full trans-parency. What work are you currently doing to try and achieve these?

These three objectives are fundamental in the area of pensions in all our work, in advising the European Commission, in our policy work and our supervisory work. In terms of strong governance, we are very happy with the way IORP II is ongoing. We gave a detailed advice to the European Commission on the governance elements of pension funds. We are happy that our advice has been taken on board in IORP II, because it is very important to ensure reinforced and proper governance and risk management in pension funds, while ensuring due proportionality.

The stress test is very much a part of enhanced sustainability. It is also about understanding the vulnerabilities and knowing what actions can be taken in order to protect the future promises as well as transparency and clarity surrounding the pensions' contract. The element of realistic valuation rules is very important. In April we will present our opinion on solvency to the European institutions, and enhanced sustainability will be the central point.

Full transparency is in the DNA of EIOPA, on the insurance and pension side. I'm a big fan of transparency. For me this is the way modern societies need to live up to, especially in the financial sector. We need to make sure that transparency works to the benefit of all consumers, such as pension fund members or policyholders. The only way to achieve this principle is providing information as simple as possible, easily accessible and understandable. To me full transparency doesn't mean to give you as a member of a pension fund a 2,000-page disclosure, where you will see on page 147 what is really fundamental for your pension; that is not transparency.

### Finally, ESMA chair Steven Maijoor has previously criticised the EU for the low budget the ESAs have to work with based on the requirements they have to meet. Are you satisfied with EIOPA's budget?

We are in the same situation. In 2015, it was very difficult because we had a reduction of more than 9 per cent in comparison to 2014, we had to prioritise and drop a number of activities. It is a similar situation for 2016; our budget is made up of contributions from the European Commission and from the EU Member States. It is always challenging to get a budget that is commensurate with the proper performance of the required tasks. Our concern is that the European legislators are entrusting us with tasks and responsibilities for insurance and pensions but we don't have the required resources to properly perform and complete them. All we can do is to highlight the issues, problems and the difficulties. We had a number of projects for 2016 in the area of consumer protection and training we had to postpone because we don't have the required resources. At our end we will continue to contribute to the discussions on the funding of the authorities. This is a structural issue and cannot just be solved on an annual basis. And we are expecting the European Commission to come up with a proposal. ■