Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Bjarke Smith-Meyer for Politico

On the Solvency Capital Requirements (SCR) consultation, why bring in the negative interest rate risk?

This was an area where we really need adjustments. Because … the current modelling of the risk charge doesn't take into account negative yields, so that's what we're exploring. And this is one of the issues that will be part of the second part of SCR consultation. This is needed in order to bring the reality into the SCR. It's more a technical correction.

The risk margin equation is something else you're looking at, right?

We received from the European Commission a request where we should specifically look at the cost of capital level. So, not all the risk margin calculation and the methodology, which I believe should be part of the review for 2021.

The industry has complained about the six percent threshold that's used for the cost of capital in the equation. They say it's too high.

More important than having the discussion about the figures is that we settle on a methodology, a sound one that everyone knows, that is predictable. That also the market can cater for this and they have projections in a sound way and in a predictable way. As always, we're very happy to consider all the arguments that will come from the industry side, and from others.

But could you lower the percentage rate for the cost of capital?

Again, we want to base any assumptions on evidence and sound methodology.

A big chunk of the SCR will come in February 2018. What can we expect then?

There will be a list of adjustments to certain types of risk charges, including some work that we've done on catastrophic risk. And we will also be consulting on some ideas and some proposals on how to deal in a more granular way with unrated debt and unlisted equity, which was a later request from the European Commission. So, that will be a big part of the work right now. Then in February, we hope to be in a position to issue the final advice to the Commission on this big part of the review.

Is there anything coming in February that you want to warn the industry of?

That we are faithful to the principles of this review, which is to aim at reducing complexity to have more simplification in the number of areas. Secondly, to preserve the balance of proportionality and appropriate risk sensitiveness. And thirdly, to base our proposals on evidence.

There will be a lot of minor adjustments here and there. However, the review of 2018 won't bring big changes to the overall picture in terms of capital. Neither to raise it or lower it. We believe that this won't be the result of this review.

There is a sense from the industry that the Commission doesn't have the time or expertise to scrutinize your work. Is that a fair argument?

Let's be clear. The European Commission is not our supervisor. We are clearly independent from the European Commission, we are an independent body, and we are accountable towards the European Parliament and the Council. That's what's also stated in the regulation.

The European Commission colleagues are observers in the Board of Supervisors meetings but also in our working structures. So, they are involved and engaged at different stages. What is important is that we have a clear understanding of the roles. The role of EIOPA is to advise the European Commission from a technical perspective. If the European

Commission, or the European Parliament, or the Council, want to take other types of decisions, with more political consideration that go beyond the technical evidence, that's their own decision and that's fine.

The Parliament called on the Commission to postpone the IDD rules. Do we have a problem with tight deadlines?

I think that there's a lesson that we collectively need to take in terms of implementation of regulatory changes. What we've seen in MiFID, in PRIIPs, and now in IDD. I think that it will be important for the new regulatory adjustments to make sure that when the dates of implementation are set in the directives, we really look through all the process that needs to be there from the application of the directive, and then to have secondary legislation, standards and guidelines to be developed. And as of then on, we need to count an appropriate timing for implementation. If we look at this from an operational perspective it is important, when changing systems, to take some time to adjust the IT systems and to make sure the changes are deliverable.

What's an appropriate timeframe that IT systems need?

To have a complete revamp of your IT systems, it usually takes 12 months to 18 months. I would recommend for the future that we look at the impact of the directives in terms of operational implementation from an IT perspective, and we should take that basis as a term of reference.

You called on a harmonised approach to recovery and resolution planning without any request to do so from the European Commission. Why?

In our regulation, there's an article mentioning that it's our duty to look at the regulatory framework in the sectors that we cover. If we believe there are areas where we should give opinions to the EU institutions, then we should do it. It's perfectly in line with our mandate to do that. Why have we done it now? There are a couple of reasons. Firstly, because we strongly believe that a recovery and resolution framework should be part of our comprehensive framework in the financial sector.

Secondly, we have a patchwork of different rules right now throughout Europe. There's no common regime. Each national supervisor has its own mandate, its own rules, its own powers, which are completely different. And that creates inconsistencies and also adds costs to the system at the end of the day. Failures can happen. It's natural, it's normal. But we need to have a consistent process to deal with them.

In our opinion we don't propose a copy paste of the banking regime. We don't believe that's an appropriate way to go for the insurance sector. We need to build on the specificities, the tools and the commonalities that we have in the insurance sector and then to bring in a minimum level of harmonisation. Our idea is to have some criteria, and then to leave a certain degree of flexibility for national authorities to see in their local context, if it makes sense to apply it for all the companies. So, proportionality is also embedded in there.

And then of course there are resolution powers [where you find] the biggest differences right now in Europe. In some countries, you have the right to bail in policy holders' rights, but you don't have the right to bail in creditors' rights. This doesn't make sense.

Should there be an EU resolution agency like the Single Resolution Board for the insurance sector?

We didn't enter into that discussion yet. We believe that there should be the indication of resolution authorities at the national level. If there's a need to have a European authority looking at this, that's completely different question and we haven't entered into that.

What did you make of the Commission's review for the European Supervisory Authorities?

It goes into the right direction, putting the emphasis on EIOPA's role in achieving supervisory convergence. There are some areas that we would like to have better touched upon. One of them is in relation to cross-border business and supervision. We strive to have preventive supervision in place and we need to have a specific mandate for the home supervisory countries to alert EIOPA when there is a movement towards a deterioration of the condition of a company that has cross-border effects.

What are you looking at in the space of InsurTech?

In terms of planning, there are three projects that we consider as a priority. Firstly, big data. We will have a thematic review at EU level on how insurers are using big data in their overall processes, underwriting, risk management, etc. We'll try to capture big incumbent and small startups.

Second, we will analyse the supervisory approaches to new start-ups. In some countries, they've set up sandbox approaches. We're going to do an analysis at European level of all the different initiatives. The outcome I hope is to develop a good analysis of what is there, and then to also take some conclusions whether a more European approach is needed in order to have more consistency in the way different countries are approaching innovation.

Third: cyber risk. We are looking at insurers as companies that can be subject to attacks due to the huge volumes of data that they have. This is a concern. So, we will look at how from a supervisory perspective we can have more consistent standards towards the industry in terms of adding best practices in protection.

But there's also the issue of coverage of cyber risk. We've seen a growing up of contracts in this area. There will be a more demand for this type of coverage. So, we want to take a look in terms of a sound framework for the coverage by the insurance sector.

Would you stress tests cyber defenses of insurers?

This is on the top list of the concerns of all the CEOs I have spoken to. So, we'll definitely benefit to have sound standards in practice being applied. That's something we'll move forward with. The other aspect is to look at it from a stability perspective, and it's in our process to include cyber risk as one of the emerging risks that we'll need to include in stress tests. So, for the 2018 stress test of insurance sector we're exploring the possibility of at least having some qualitative elements already included in relation to cyber risk.