Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Erik Staschöfsky, Aktuar Aktuell magazine (Germany)

1. **Mr. Bernardino, after more than 13 years of preparation the new Solvency-II-regime has started this year on 1 January 2016. This marks the start of a new era for insurances as well as consumers. How satisfied are you with the current status of work?**

   Indeed, the Solvency II preparation lasted for around 15 years. It required top level and considerable amount of strategic and conceptual thinking, innovative technical developments, a series of impact assessments and public consultations and political and legislative negotiations from the European Parliament, Commission and Council. At the end it reflects the work of a huge number of stakeholders that is now put in practice by insurance and reinsurance undertakings and supervised by the National Competent Authorities (NCAs) in each Member State.

   With Solvency II we make a huge step forward for policyholder protection and for the single European insurance market. Solvency II represents a culmination of a difficult process where all the parties involved demonstrated their commitment to face big challenges and to work hard for the benefit of the European insurance market and consumers. And I am convinced that was and continuous to be the right approach.

   By creating a clear link between risk exposures and capital needs and providing the right incentives to sound risk management, Solvency II brings a paradigm shift in companies' risk cultures. Through the implementation of the Own Risk and Solvency Assessment (ORSA) (re)insurers will need to have their own forward-looking views on risk and capital and this is a truly game changer, considered as best practice at the international level. We need to see insurers relying on strong risk management capabilities to deal with the challenges posed by the low interest rate environment, the financial markets volatility, the slow economic growth, the digital and big data era, etc.

   By fostering good governance and risk management, Solvency II will enhance the protection of insurance products' consumers. Well capitalised insurers will enable the sector to withstand unforeseen shocks. Harmonised reporting and disclosure will provide supervisors with key information and enable their timely action. At the same time, the new regime will not be a burden for smaller companies, thanks to its proportionality principles.

So, overall I believe that Solvency II is a very good regulatory basis for policyholder protection and financial stability. We should focus now on implementation and start to collect evidence on areas where further refinements could be needed. Regulatory frameworks are never perfect.

2. Where do you see remaining challenges?

The biggest challenge will be to ensure that the new regulatory framework is implemented in a consistent way throughout the EU in day-to-day supervision of the insurance and reinsurance companies.

And EIOPA will bring a real added-value to the supervisory process. We have a unique position of a supranational supervisory organisation, which aims to bring different practices and approaches to a more consistent level.

Our goal is to make the supervisory process more and more consistent and to build up a European supervisory culture. This is why EIOPA has shifted its strategic focus and started a new journey towards supervisory convergence.

We have been looking at the quality and consistency of supervisory processes and put in place our "oversight team", a team of experienced supervisors visiting the national authorities, looking at the way the risk-based supervision is implemented and giving feedback.

Building on the new harmonized Solvency II reporting, EIOPA is setting up a comprehensive information system. With this system the European supervision will get a strategic asset, developing the capacity to provide reliable risk analysis and early warning indicators at individual, group and system-wide level. At the same time the analysis EIOPA is going to furnish national supervisors with, will advance their supervisory judgment and allow deriving the place of their national markets on the European scale. This will reinforce the quality of both micro- and macro-supervision in the European Union.

Of course we are realistic and prepared to the fact that our new journey will not be a short one. At the same time is it of utmost important to continue in this direction in order to ensure the consistent application of the European Union law, to guarantee a level playing field, to prevent regulatory arbitrage in the internal market, and to safeguard a similar level of protection to all policyholders and beneficiaries in the European Union.

3. **Let`s have a look at Germany: Due to their specific German business model with its very long guarantees the German life insurers will be able to apply transitional measures over a period of 16 years until they have to fulfil all Solvency-II-regulations for the back book as well. What are your expectations regarding the development of life insurances in Germany?**

   This very good question! Let me stress three points.

   First of all, I consider transitional measures very useful. They are part of the Solvency II regime and do not distort the solvency reality: they were introduced in order to ensure the smooth transition from Solvency I to Solvency II and to avoid disruption in the markets allowing a certain period for companies to fully recognize the impact on old books of contracts that have been underwritten in a different regulatory framework. It is now up to the companies and supervisors to make the transitional measures work.

   Second, it is fundamental that insurance companies provide clear and transparent information to the market on the actual use of all the adjustments and transitional measures included in the regime. This will offer an unbiased and objective representation of the financial condition of the undertaking. It is also fundamental that market analysts and investors understand that Solvency II adjustments and transitional measures are a legitimate part of the regime.

   Third and the most important, while using the transitional measures, insurers need to continue to take the necessary steps to restructure their business models and adapt their products to the new economic and financial environment, especially in the context of the low interest rate environment.

   So, it is time for insurers to innovate in terms of products also in the life insurance side, adapting guarantees, fostering the transparency of participation clauses and giving a further look to distribution channels and costs. I am confident that the German life insurance industry will continue to provide a relevant added value to its customers.

4. **Until 2018 key elements of the Solvency-II-policy, e.g. the standard formula or the modelling of long-term-interest guarantees, have to be reviewed. Which questions will be in EIOPA`s focus during this process?**

   EIOPA will contribute to a rigorous, evidence-based and transparent review of Solvency II. Our key guiding principles during this review are simplicity, proportionality and avoidance of pro-cyclicality. EIOPA will assess possible cumulative effects and unintended consequences.

EIOPA's strategic direction is very clear: based on evidence we are going to assess the appropriateness of the methods, assumptions and standard parameters used when calculating the SCR standard formula and provide the relevant advice to the European Commission.

The scope of Long Term Guarantees (LTG) review is exhaustively defined by the Solvency II Directive and covers measures such as the extrapolation of the risk free rate, the matching adjustment, the volatility adjustment and the transitional measures on risk-free interest rates and on technical provisions.

The national supervisory authorities (NSAs) will be submitting to EIOPA their annual reports on the impact of the LTG measures in their national markets. Based on this information from year to year EIOPA will be gradually building its analysis.

We will be retrieving data from the Solvency II supervisory reporting, but will also need to collect additional evidence. It is important that EIOPA gets all the necessary information in order to conduct a solid evidence-based objective review. The support of the NSAs and the industry is crucial for us to get such important facts as for example the availability of the LTG in national insurance markets or the impact of the LTG on the investment behaviour of (re)insurers.

5. The German Actuarial Association and the Actuarial Association of Europe are going to develop standards to support the key functions (e.g. the actuarial function) within the companies. What kind of support is EIOPA expecting in this regard?

In my view the work of actuaries is crucial for a sound implementation of Solvency II. Actuaries are objectively among the ones who know best about key drivers of their companies' risks and whether those risks are reflected and addressed appropriately in the undertaking's underwriting and capital management. So it is fundamental that the actuarial profession develops standards of actuarial practice in order to ensure that their members continue to act based on top professionalism, independence and knowledge.

EIOPA welcomes the joint efforts of the national and European actuarial associations to shape these standards at a high and up-to-date level. We particularly encourage the development of these standards at a European level because they can play an important role in the consistent implementation of Solvency II throughout Europe.

EIOPA has benefited significantly from the discussions and the close engagement with the German Actuarial Association and the Actuarial Association of Europe and we want to continue this fruitful dialogue in order to make sure that supervisors properly understand actuaries concerns and views and that the future standards of actuarial practice are in line with supervisors' expectations.

Finally, let me suggest that actuarial associations should dedicate enough efforts to ensure that actuaries efficiently communicate their analysis and assessments. Calculations' findings need to be "translated" into the common language and risk culture of the company. Therefore it is essential that actuaries actively interact with the executives that run the business and decide on strategies. Actuaries need to enhance their contribution in the product design and product oversight and in the decision-making processes by providing a comprehensive understanding of the insurers' overall risk situation. Only by doing this extra effort actuaries will have a further important role in the strategic decision making processes and can actively contribute to the future sustainability of the business.