Interview by Gabriel Bernardino, Chairman of EIOPA, conducted by Michael Prellberg, Positionen magazine (Germany)

Mr. Bernardino, with the start of the new year, Solvency II will come into effect. Mission completed! Time for you to lay back?

On the contrary. This 1st of January marks the end of a long journey – and the start of a new one.

The real journey is just about to start and the last 15 year were just the warming-up?

It has been a challenge to develop the risk-based regulation for 28 European countries with very different markets. We used the last 15 years to develop a consistent and harmonized regulatory regime and we'll probably need another 10 years to get a consistent implementation. Then we'll have a true internal market.

What are the biggest challenges of this new journey?

The biggest challenge will be for national supervisory authorities (NSAs) to ensure that the regulatory framework is really implemented in day-to-day supervision of the individual companies. EIOPA has the responsibility to make sure NSAs conduct this supervision in a consistent way. We develop a number of standards and guidelines, have been working on the quality and consistency of supervisory processes and put in place our "oversight team", a team of very experienced supervisors that are visiting the national authorities, looking at the way they are implementing risk-based supervision – and giving of course their comments and input.

Is this cooperation or supervision?

Supervision. We bring a real added-value in the supervisory process because we will be in the unique position to see the overall European market; and we will have access to the data for the European market. Our goal is to make the supervisory process more consistent and to build up a European supervisory culture. That cannot be achieved just by issuing standards, but also by working with the national supervisors. It is a process, which starts in 2016.

Isn't that a little late? We hear from insurance companies that the BaFin lacks input from Eiopa. Are they right?

We started this strategic move – from regulation to supervision – since 2014 anticipating that a lot of interaction between companies and supervisors has to be concluded before the 1st of January. To enable this interaction we developed a number of practical tools ...

... and produced a lot of paper .

There exists some criticism about the amount of guidelines we produce but: When supervisors and companies are implementing this new regime they all have questions and they will find quite a lot of answers in the guidelines. Moreover these guidelines

avoid that you miss-implement certain requirements and have to readjust later on. We want to give a clear indicator to the companies: that's the way we expect you to develop. As this is a process, we'll find inconsistencies and will get rid of them as time goes by.

Which means: more paper.

Only if necessary. We don't want consistency and convergence for the sake of consistency and convergence but to ensure that there is a level playing field: the same regulation and the same treatment for all insurers throughout Europe and a similar level of protection to all EU policyholders. Are we there yet? Let's be frank: No.

Will we ever achieve a true internal market?

I'm confident. Solvency II lays the basis for it by aligning and harmonizing the different approaches to regulation. Supervisory convergence is the next challenge.

Not only the approaches to supervision differ throughout Europe but also the business models of insurers. How can one Solvency II suit all?

In a risk-based regime you have a set of basic principles that can be applied to all kind of companies and business models. And don't forget: Solvency II took so long because it had to adapt its principles to the different kinds of companies and their specificities – for instance German life insurers and their long-term guarantees. Our supervision has to be strong but fair.

A certain lack of fairness is presumed by smaller companies who complain about to much bureaucracy and by German life insurers who have to deal with low interest-rates and nevertheless will have to adjust their capital reserves every three months.

We have considered all this and you'll find the results in the Solvency II regulations. It is not a matter of winners and losers. A risk-based regime brings requirements aligned to the nature, scale and complexity of risks with it. And of course the bigger companies have more facilities to deal with that. That's why we put proportionality into Solvency II – from the start. We exempt small and medium-sized companies from certain reporting requirements and developed tools to smoothen their way into the requirements of Solvency II. In the outcome there's a good balance, so yes, Solvency II is fair.

Even though Government-Bonds are considered a super-secure asset while company bonds have been a reason for suspicion? If I look at the market, that doesn't ring true. How deals market-orientated Solvency II with that?

You're right, we know now that risk-free sovereigns don't reflect the reality – that will have to be revisited for the capital standard formula. But with Solvency II we use market values also for sovereigns, so market movements are shown on the balance sheets immediately. If a company uses an internal model and has a material risk in sovereigns, that should be incorporated in some way in its internal modelling. We'll monitor this when Solvency II gets implemented next year.

A few insurers are considered to be "too big to fail", which obliges them to pile an extra demand of capital reserves. Is this legitimate?

The debate on "systemic risks" has just started on the insurance side. During the financial crisis 2008/2009 we learned that an insurer as part of the financial system can propel crucial developments – as we've seen with AIG. That's the reality. Since then we try to capture the elements in the insurance world that are more prone to create systemic consequences. One of our first conclusions: It's not the fact that you are an insurer, it's more a matter of your activities. If you have a lot of derivative exposures to other counterparts in the financial markets *and* if you are a big company, in stress situations your actions can have a huge impact on the financial system. Some insurance companies were identified to be able to have this systemic impact. And if you pose some extra risk to the economy I think it is fair to have an extra element of capital.

What happens if the first insurers goes broke and blames Solvency II and its regulations?

It's not Solvency II or other regulatory regime that makes companies go broke. In the current context there are two things that can kill a company: its business model and the economy with the low interest-rates. Solvency II brings a more realistic valuation of the promises you make – to create this awareness with the customers, the industry and the supervisors can only be helpful.

Where did you find a lack of realism?

There were a number of promises and guarantees which were not sufficiently incorporated in terms of valuation of liabilities. Many options and guarantees were not evaluated in a realistic way. Solvency II brings these kind of problems up – but it doesn't create it.

You'll still be blamed as the culprit.

I don't think so. By now people understand what's going on. Let me be clear on this: We are not blaming the companies for promising guarantees. The fact is that some were not appropriately evaluated. That's why there needs to be a transition into the framework of Solvency II – and transparency afterwards – and that means that some companies will have to look into their business models. As they can't fulfil the kind of promises they used to make, they will run into serious problems. The biggest asset of the insurance industry is to make promises which you can sustain in the future. Solvency II is helping them to fulfil these promises.

Will all insurance companies prosper in this new era?

That depends on the economic situation – the low interest rates – and how you deal with the risk of your investments. Solvency II helps companies to adjust but that doesn't mean there can't be any fatalities. That's why transparency is so important: to take action to preserve the rights of the policyholders. Nothing is more important than trust and confidence in the insurance company by the consumers. That has to be preserved. And Solvency II gives the right incentives.

Not all companies follow you there. Prudential ponders publicly about relocating their Headquarter in Asia. Will Solvency II harm Europe's ability to cope with

international competition?

All over the world there is a trend towards risk-based regulations, so the regulations tend to become more alike – most have more requirements than Solvency II. Solvency II gives proper incentives to good risk management and to build sustainable businesses. That's why I'm not afraid of any competition. On the contrary: Solvency II is a big benefit!

If this chance is used where will the insurance industry stand in ten years?

The insurance sector will show its potential. As a society we have so many uncertainties, so many risks – due to the digitalized world, to the cyber elements, –and insurance is basically about risk management. At the same time the industry has to adapt and to reinvent itself. You cannot sell the same products in the same way when the world around changes so rapidly. People are using their smartphones to buy insurances or for their retirement planning. The insurance industry needs new minds – minds that are adapted to the new customers and the way they interact.

Are the insurers sufficiently ready and willing to move into digital territory?

I believe in the ability of the industry to adapt and to provide added value to the customer – by putting him in the centre of the policy. Clients are the reason why you are there. The insurance industry has proved that it can re-invent itself, and we're in this process once again. And I'm positive it will succeed.