Interview with Dimitris Zafeiris, EIOPA's Head of Risks and Financial Stability Department, conducted by Vasso Aggelou for Insider.gr

1. EIOPA published recently the first paper of a series on systemic risk and macroprudential policy in the insurance sector. What are the lessons learnt from the financial crisis and the banking sector affecting the European insurance sector?

Although the insurance sector differs substantially from the banking sector, some of the lessons learned from the banking experience are also useful for insurance sector. First, it is extremely important to identify the potential sources of systemic risk and to find a balance between the entity-based and activity-based approaches. Insurers in particular should be devoting special attention to the systemic risk arising from certain activities or products.

Secondly, in order to mitigate the sources of systemic risk, a proper macroprudential framework including a comprehensive set of tools should be in place. The macroprudential approach is a necessary supplement and adds value to the microprudential approach, which only focuses on the soundness of individual institutions.

Thirdly, we have to see the systemic risk from a holistic point of view and not necessarily framed within specific jurisdictions or specific sectors of the financial system. This approach requires the coordination across jurisdictions and at the same time calls for a cross-sectoral view of systemic risk to avoid potential regulatory arbitrages.

2. EIOPA published also a new set of Solvency II statistics on the European insurance sector. What's your take on the Greek insurance?

The capitalisation of Greek insurance companies has been steadily increasing over the last year. In the third quarter of 2016, the overall Solvency Capital Requirement ratio stood at 131%, increasing to 181% in the second half of 2017, which is well above the regulatory requirements. The Minimum Capital Requirement ratio follows a similar trend. Despite this positive trend, the overall capitalisation is still below the average ratio across the European Economic Area which was 236% in 2017.

During the last stress test conducted by EIOPA in 2016, Greek participants performed similar to their European counterparts. Greek undertakings do rely quite heavily on the long-term guarantees and transitional measures incorporated in Solvency II.

3. How could a new major crisis in the insurance sector be prevented and what measures are taken on a microprudential basis?

It is important to focus on the lessons learned from the previous financial crisis to avoid similar mistakes. From that point of view, we consider the need to have in place adequate recovery and resolution tools that will enable national authorities to intervene in failing institutions and resolve failures in an effective and orderly manner.

In this regard, in July 2017, EIOPA published an Opinion calling for a minimum degree of harmonisation in the field of recovery and resolution for insurers consisting of four building blocks: preparation and planning, early intervention, resolution and cross-border cooperation and coordination.

We need to have further progress in this field, as well as in other relevant areas, such as macroprudential policy in insurance. This will be fundamental in reducing the likelihood and impact of future crises.

4. Could you elaborate on EIOPA's stress tests? What's the scope so far and what are the benefits?

EIOPA’s stress tests are conducted every two years and aim at assessing the vulnerabilities of the European insurance sector to specific adverse scenarios affecting life and non-life businesses.

This year, EIOPA is running its third European Union-wide insurance sector stress test exercise. The exercise targets globally active European (re)insurance groups selected by EIOPA in cooperation with national competent authorities based on the total assets, gross written premium and technical provisions.

It focuses on the evolution of liquidity and capital positions against a set of scenarios encompassing a wide range of market and insurance specific shocks selected among the risks that are deemed as the most relevant for the insurance sector vis-à-vis the reported Solvency II values as per year-end 2017.

The results are planned to be published at the end of this year.