Interview with

Gabriel Bernardino, Chairman of EIOPA – European Insurance and Occupational Pensions Authority

and Het Financieele Dagblad conducted by Giel ten Bosch

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Q: Insurance companies and pension funds complain that the UFR is too low; regulators feel it's too high. Which is it?

Now, you will always have stakeholders saying the rate is too high and others saying it's too low. We are talking about projections here. If you ask a number of economists about the projections on interest rates in 40 years' time I guarantee you that you will get as many answers as the number of economists.

Fact is, if you have a methodology in place you can either agree or disagree with it. But a methodology is needed; a crystal bowl cannot be used in this case.

Q What do you say to Dutch pension funds that are in dire straits?

For pension funds with defined benefits in this current economic environment it is very challenging to fulfil the promises that were made. But the risks don't disappear if you don't talk about them. Therefore the discussions to tackle these challenges are needed.

Q What should they do?

There are two possibilities. Either you increase the contributions, or you reduce the benefits. There are no miracles. It's important to have good information and good analysis. And that's why we think we need a common framework on risk assessment and transparency in pension funds. That will make these calculations more realistic in order to force the dialogue and the recognition of the issues.

If we don't talk about it we will have intergenerational issues, privileging some generations in relation to others. This can be done during some time but not all the time. I am aware that in the Netherlands this debate is an important one. You're in the front line, confronting the reality, which is positive.

Q So one of the main messages is that the low interest rate regime is here to stay?

Indeed. If you don't confront this fact, it doesn't disappear. You better have good analysis and good risk management, and then take the decision by balancing the effects. If the burden is concentrated on only one generation and another generation needs to pay, this cannot survive very long and will not be accepted by the beneficiaries and the society as a whole.

Q Is this the major problem with pensions in Europe?

I was in the Netherlands the other day and told an audience you're discussing the problems of the privileged. Other countries don't even have private pensions. You have a regime that you built up during the past years. The regime is confronted with some sustainability issues now but there are many other countries where there are people who don't have private pensions. That is why we are working on a Pan European Pension Product (PEPP). There is a big pension gap in Europe.

Q That sounds like a long term thing …

The problem with long term is that if you don't address them at short term they will become more and more short term problems. So we have to act now. Even if you do it step by step you pave the way and you need to ensure consumer's confidence. If you want to tackle a long term problem you have to start now. That's the message.

Q Is it possible to offer guaranteed results for life policies in this low rate environment?

How can you sell a guarantee of 40, 50 years of certain interest rates in the current environment? That's costly for consumers. It's not impossible but in my view it's not appealing enough for consumers. That does not at all mean life insurance products cannot exist. There are still products that can give an added value to consumers. EIOPA has been advising the industry for a number of years to adjust their business models and come up with products having guarantees for shorter term or products where a part is guaranteed and another part you get benefits from evolutions in the market. There is a lot of potential for innovation and to provide good products for consumers. Therefore, I am positive about the future of life insurance.

Q Insurance companies can complain about the amount of regulation that applies to them, are there too many rules?

Let’s be realistic. After the crisis it was clear there was the necessity to review a number of areas in regulation. Now with Solvency II and Insurance Distribution Directive we are coming to an end of more regulation and I think that the coming years there won’t be more regulation like these. Now I want to see how these regulations are implemented. If they are delivering the benefits that we want to achieve. Proportionality is important here. But, a change was needed for the protection of consumers at the end of the day and to have a more stable market.