

**Interview with Manuela Zweimueller, Head of Policy
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with Svijet Osiguranja by Natasa Gajski**

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1. The implementation of Solvency II as well as the new Insurance Distribution Directive (IDD) are expected to bring significant changes to the European insurance industry, reinforcing mostly the consumer's protection. Nearly a year after implementation is this goal achieved?

We are realistic at EIOPA. Given the diversity of supervisory cultures and practices in the European Union, full supervisory convergence at the end of its first year of implementation cannot be expected. It's a journey and we just embarked on this journey. We are confident that EIOPA, with its unique position as a European Authority and working closely together with the National Competent Authorities (NCAs), will provide the required level of consistency of supervisory approaches and practices over time.

With the implementation of Solvency II we have a robust framework and strategy as well as a set of efficient tools to achieve our supervisory objectives.

Solvency II is a huge step forward for policyholder protection and the implementation of a true single market for insurers and reinsurers in the EU.

The Insurance Distribution Directive you are mentioning is another significant milestone. EIOPA is going to provide its Technical Advice for Level 2, which is crucial for implementation of the Directive, to the European Commission in February 2017. This Directive will further strengthen consumer protection in Europe and goes hand in hand with the number one of EIOPA's key strategic objectives.

2. What benefits does the new regulatory regime bring to European insurers? On the other hand, is there some things that aren't so good?

Solvency II is a three-pillar system which complements capital obligations with sound governance and detailed reporting and disclosure requirements.

Solvency II brings a new risk culture, state-of-the-art risk management and enhanced consumer protection into the undertakings. It encourages companies to explicitly identify and establish their own risk appetite and risk profile, and asks Executive Boards to take business decisions recognising their economic capital consequences. Solvency II connects the business and risk strategy and links them with the company's capital management. Thanks to Solvency II we are now on a path towards supervisory convergence and common supervisory practices across the European Union. Undertakings benefit from a level playing field and also from greater transparency within their portfolios which enables them to consciously steer their risk-taking.

No perfect regulatory regimes exist globally. The same applies to Solvency II. But it is an excellent starting point for risk-based regulation and supervision. Especially under circumstances when the European insurance sector is continuously facing major challenges such as the weak macroeconomic environment, protracted low interest rates and increased credit risks. In today's macroeconomic reality the use of the risk-based approach and sound principles of Solvency II is a must and a true game changer.

3. Why is Solvency II needed? Was it really necessary for a well functioning of insurance industry?

Solvency II was built with the clear objective to enhance policy holder protection across the European Union, using the latest international developments in risk-based supervision, actuarial science and risk management. And to contribute to ensure financial stability; in addition to prudential elements, it also contains macro-economic tools.

Solvency II is based on fundamentally sound principles: a total balance sheet approach and an economic market consistent valuation of assets and liabilities in order to have a realistic basis for assessing potential risks.

The previous framework, namely Solvency I, was an outdated and fragmented regulatory and supervisory regime. It was not risk sensitive, contained very few qualitative requirements regarding risk management and governance and did neither provide supervisors nor policyholders with adequate information on the undertakings' risks. Consequently, national authorities have been introducing different add-ons in their regimes in order to cope with market developments.

4. What are the measures EIOPA takes for consumer's protection? What is EIOPA proactively doing to ensure that insurance products deliver fair and reliable outcomes for consumers?

EIOPA is implementing a strategic approach to preventive, risk-based conduct of business supervision. "Risk-based" - because it identifies the depth and scale of issues and focuses on priorities and resources where they matter most in order to build a common European supervisory approach, with constant monitoring and 'dynamic' capacity to respond to innovation and change; and "Preventive" - because it anticipates consumer detriment early, rather than just reacting following the emergence of problems. "Act before you have to", is here the motto.

EIOPA uses a number of tools to implement this framework. For example via its Consumer Trends Reports EIOPA is detecting current trends, executing deep and effective market monitoring, identifying issues for conducting thematic reviews and observing retail risk indicators. This is a staggered approach, firstly a broad observation, then digging deeper in individual subject matters, with the ultimate objective to spot outliers, investigate the root causes and develop supervisory responses.

In April, EIOPA also issued Preparatory Guidelines on Product Oversight and Governance, which also focus on product design and not only to pay attention to the point of sale, thus further minimising the risks of consumer detriment and mis-selling of insurance products. These Guidelines, for example, foresee that distributors receive from the manufacturer all the necessary information, not only about the product, but also about its target market. And that the manufacturer puts himself into the shoes of a consumer when designing a new product, weighing all risk and benefits of a product against each other before selling and marketing it.

This year EIOPA also published a consultation paper on the Insurance Distribution Directive, a significant milestone to promote consumer protection in Europe regarding the distribution of insurance products and will submit its Technical Advice to the European Commission in February 2017. Another consultation carried out in the context was on the so-called, non-life insurance product information document (IPID) which will ensure - in understandable words and at one glance - easier comparability and orientation for consumers,

e.g. on the nature of coverage provided and in which countries, cancellation conditions and duration of the contract.

5. How would you rate the communication among European insurers and supervisors and, of course, with EIOPA?

EIOPA closely cooperates with the National Competent Authorities from all the Member States through different means. The Board of Supervisors is our main decision-making body composed of voting representatives of the relevant supervisory authority of each European Member State. The same counts for other fora with more focus on technical work such as committees, project groups, etc. These national representatives contribute to EIOPA's activities at different levels and stages.

On this occasion, I would like to thank the Croatian Supervisory Authority (HANFA) for all their valuable and active contributions and constructive discussions including during our Board of Supervisors meetings. I had the pleasure to follow HANFA during the year before accession in July 2013 and am glad about the smooth integration into the European Supervisory community and EIOPA's procedures and processes.

EIOPA engages in close dialogues also with representatives of the industry, consumers and academics and other relevant stakeholders. Round tables and public events for industry, associations, consumers or gathering feedback from various stakeholders via public consultations accessible via our website are part of our daily work and dialogue. In this context I must not forget to particularly mention our two Stakeholder Groups representing, amongst others, consumers, industry, academia, which provide valuable input via opinions and advice on different issues related to EIOPA's mission.

6. How did the general financial environment, especially low interest rate environment, affected insurance industry?

Low interest rates environment represents a crucial topic in the current macroeconomic context.

Low yields affect both sides of the balance sheet of insurance companies and occupational pension funds. Despite the fact that government bonds still

represent the biggest part of the investment portfolio, there is a risk of potential reallocation towards more risky assets by both, insurers and pension funds.

In view of these developments the low yield environment has to be addressed at the European Union level and in a consistent manner. Therefore, EIOPA has undertaken a number of regulatory and supervisory steps. Three years ago, in 2013, EIOPA issued an Opinion setting up a coordinated supervisory response that includes recommendations on enhanced supervision and promotion of industry actions to mitigate the low interest rate risk.

In 2014, following its insurance stress test results, EIOPA issued the recommendations to the National Competent Authorities (NCAs), with the aim to ensure that inter alia the low interest rates risk is addressed in a consistent and convergent way across Europe. This year, EIOPA is conducting its third insurance stress test with the particular focus on the prolonged low yield environment as one of the major risks for the European financial market. We also consider that the Solvency II framework despite being primarily a micro-prudential regime it already includes macro-prudential tools that can be taken into account (e.g. the symmetric adjustment of the equity risk module, the long-term guarantee measures, the possibility of the extension of the recovery period). Such challenges also need to be addressed by the companies in their own risk and solvency assessment, the ORSA.

7. Although the basis of the SII system is simple the way it is translated into a regulatory framework is complex. Why is that so and what to do to make things less complex?

From a regulatory perspective, the regulation and our Guidelines will achieve in a reliable manner convergence in the key areas of Solvency II. They represent the next relevant level of regulation within the boundaries of the Solvency II Directive and Implementing Measures.

EIOPA believes that Solvency II would not be properly implemented without ensuring a common understanding of undertakings and supervisors. With our Guidelines, which are subject to comply-or-explain rules, our aim is to ensure consistency of approaches and actions. Essentially these Guidelines will replace a multitude of national sectoral regulations and instructions. Today, undoubtedly it looks like a lot to „digest“, but the benefit will for sure be seen over a longer term perspective.

8. It was much said about how will reporting requirements under Solvency II be a burden for smaller insurers. Is this true?

The Solvency II framework was designed not only for big insurance groups but also for small and medium sized undertakings (SMEs). While developing our preparatory Guidelines we already took a close look at the proportionality issue. When developing the Implementing Technical Standard on Reporting, EIOPA reflected in the regulation a proportionate approach. Proportionality is achieved through the exemptions foreseen in the Directive (20% of the market may have the quarterly reporting and the annual quantitative reporting based on an asset by asset basis exempted), the risk-based proportionate thresholds applicable to the entire market EIOPA has proposed in the Implementing Technical Standard in relation to the granular information requested by Lines of Business, by country or by currency, and finally with the simplifications that are allowed in the quarterly reporting of the balance-sheet and technical provisions. EIOPA will continue to focus on the proper application of the proportionality principles in the insurance regulation and supervision.

In order to support the SMEs, EIOPA created the Tool for Undertakings (T4U) related to XBRL reporting under Solvency II. An updated tool was released in October this year. The aim of this final update is to support the first cycle of Solvency II reporting during the complete year 2016 and to give companies time to move to market solutions.

With this tool we aim to assist SMEs in creating, editing and validating XBRL documents. The T4U will help undertakings without knowledge and resources to implement Solvency II harmonised quantitative reporting in XBRL.

9. What do you expect from stress test you conducted in May this year among insurers? Were the results from the previous stress tests you conducted as you expected?

This exercise assesses insurers' vulnerabilities and should not be interpreted as a „pass-or-fail“ test or capital exercise. It is designed to assess the resilience of the European insurance sector to severe adverse market developments based on a common analytical framework. Furthermore, this stress test will examine the potential increase of systemic risks in situations of stress. The Stress Test 2016 focuses on two major market risks:

- The prolonged low yield environment

- The so-called “double-hit”, i.e. a negative market shock to asset prices combined with a low risk free rate

The results of the stress test will provide a high resolution picture of the European insurance sector and its most critical vulnerabilities. We need to see the issues requiring particular supervisory attention and response to the potential built-up of systemic risks at the European level.

10. European insurers are the largest institutional investors in Europe’s financial markets. What does Solvency II do to stimulate long-term investment by insurers?

In recent years, infrastructure investments have been increasingly at the centre of discussions regarding growth promoting initiatives at a global, European and national level. Insurers could be an important source of funds for infrastructure investments as the long-term nature of their liabilities may mean that such investments are suitable for their risk profile, can decrease their asset liability matching gap and enhance portfolio diversification.

In June, EIOPA published the Technical Advice to the European Commission on the identification and calibration of infrastructure corporates. This Advice was developed upon the request of the European Commission to further elaborate on the Advice of 29 September 2015 where EIOPA proposed a new asset class under Solvency II for investments in infrastructure projects. In its latest advice EIOPA recommended to extend this asset class in two ways:

- First, to allow certain infrastructure corporates to qualify for the treatment for infrastructure projects provided that there is an equivalent level of risk.
- Second, to create a separate differentiated treatment for equity investments in high-quality infrastructure corporates.

Main goals of the work stream on infrastructure corporates are to identify criteria to define a class of safer debt and equity investments in infrastructure corporates, to develop a rigorous framework for insurers performing due diligence on such investments and analyse the appropriate calibration of such investments.

It needs to be emphasised that EIOPA's work is strictly based on evidence, and of technical nature. As infrastructure investments can be complex they require prudentially sound treatment and specific risk management expertise.

11. Do you have a data about implementation process of Solvency II in Croatia? What is your opinion about process of liberalization of motor insurance in Croatia?

There is a clear division of responsibilities between EIOPA and the National Competent Authorities. EIOPA analyses the process across the European Union and provides recommendation if needed on a bi-lateral or European level.

And liberalisation of motor insurance in Croatia is the responsibility of the national authority and a clear signal of a mature market and competent supervisor.