Interview with Carlos Montalvo, Executive Director EIOPA, conducted by the National Association of Insurance Companies Officials (Italy)

1. **Financial crisis affected every economic field. How much did it weight on the European insurance market?**

Being not originated by insurers, the crisis has affected insurance sector as well. On the assets' side the markets constantly went down and despite some improvement as of spring 2012, the situation for insurance companies still remains fragile. On the liabilities' side, the crisis affected life insurance companies, which in my view should trigger the revision of the business models that some life insurers are currently following.

EIOPA is closely monitoring the financial stability situation. A current "snapshot" on the financial markets can be characterized by the still weak macro-economic outlook; the protracted low-interest rate environment; the EU financial sector fragmentation; as well as reduced confidence in balance sheet valuations and risk disclosures. In the insurance sector, we see that uncertainty about the future is still high while market growth remains subdued because slow economic performance puts pressure on the sale of insurance policies.

But such picture does not mean that we should passively blame the financial turmoil for all our problems. Important in this situation is to move forward and to learn the lessons from the crisis. One of such lessons is that insurers should be able to quickly identify, efficiently manage and mitigate, the risks they are facing. They should correctly price any options embedded in the contracts while capturing the true economic reality of their asset-liability position. This approach is foreseen in the new regulatory framework for insurance – Solvency II. The implementation of this framework is a very important step in order to learn our lessons from the crisis, and the winners of the process will be those that enhance their understanding and response to risks.

2. **Do you think insurance market has been able to react to the crisis and use it for going forward and improving services and proposals?**

Knowing better your customer and offering those services and products that are needed and demanded certainly will be a competitive advantage. A lot of work still needs to be done in this area, yet the crisis should have been a wake up call.

In our view, there is a strong need for a paradigm shift on transparency and fairness towards consumers: insurance companies need to develop more simple and understandable products, devote further attention to the fairness of contractual conditions and to review the charges and commissions applied, ensuring that they are not disproportionate. Furthermore, companies should have a new approach towards conflicts of interest because “bad behaviour" in this area will not continue to be tolerated.

Only like this we can re-gain trust and confidence of consumers and we are committed to make sure that consumers receive the appropriate degree of protection and that their benefits outweigh any related costs. This is relevant for every insurance company.

3. **Which are the most demanding challenges European insurance companies must face today? Are there any structural reform Italian insurance market should deal with in order to win tomorrow’s challanges?**

The most demanding challenge for insurance companies is twofold: they should adopt their business models to the market conditions and the existing demands, while at the same time implementing in their business the regulatory changes foreseen by the new framework Solvency II.

The European Commission has recently set up a deadline for the full implementation of Solvency II – 1 January 2016. However, the relevant preparation is going to start already now: EIOPA used its power to issue Guidelines on preparing for Solvency II. Earlier this year we publicly consulted on these Guidelines and in September finalized them. The issue of the Guidelines in all the official EU languages is planned for 31 October 2013 with the application date of 1 January 2014.

The Guidelines aim to ensure that insurance companies will consistently prepare for the Solvency II in such fundamental areas as system of governance, including risk management; forward looking assessment of the undertaking’s own risk (based on the Own Risk and Solvency Assessment (ORSA) principles); submission of information to National Competent Authorities (NCA’s); pre-application for internal models.

We have now around 2 years for preparation. And we in EIOPA are convinced that both supervisors and insurance undertakings should benefit from this 2-year time and make every effort in order to comply with all the Solvency II requirements, once the framework is applicable. A bit of personal advice: don’t let time go thinking that you can leave things for tomorrow, but get on and prepare today.

And it is exactly Solvency II that will help us to overcome possible future challenges: only with a strong risk-based supervision we have a good chance to preserve financial stability and enhance consumer protection in the EU.

4. **Excluding Motor LoBs, Italian non life insurance market penetration falls under 1%. The growth potential is interesting. Which could be a good strategy for a better penetration in the market?**

Aren't the figures provided clear evidence that there is a very significant potential of growth in the non-life insurance sector in Italy? The response is positive, therefore the good strategy for companies would be to come up with those products that are attractive for consumers and that meet their needs. By so doing, we will see growth.

5. **Bank represent the most significant distribution channel in the life insurance market in Italy. This characteristic permitted to deeply exploit this specific market, but on the other side sales' levels depend more on banking partners decision and strategies than insurance players. Do you think a different balance is necessary?**

Having access to different distribution channels makes sense and avoids over-reliance. If you are overexposed to one single channel, whatever it is, you may face a risk. The last years we have seen examples of a potential conflict of interest between banks and insurance. Where the bank needed liquidity, it would normally offer to the customer to open a bank deposit rather than to invest in an annuity contract. That makes full sense from the bank point of view, but at the same time shows why insurance companies should make sure that there are alternative distribution channels for their products. An over-reliance on single distributors may put their business models at risk. And this is another excellent lesson from the crisis – don't put all the eggs in the same basket.

6. **According to SNFIA's data, Italian managers feel their value and their potentiality underestimated. This feeling seems to depend on lack of communication with the top management, especially about the companies' vision, on high level burocracy, and on a unequal organisation of work. How do you think it could be possible to intervene for resolving this situation and for capitalize on officials proficiency?**

First of all, let's agree that we distinguish governance from corporate culture.

An effective system of governance is essential for the adequate management. The Solvency II framework contains provisions, built on the basis of currently existing best practices, regarding the risk-management, compliance, internal audit and actuarial function as parts of the system of governance. Under Solvency II companies will be required to enhance communication, internal control environment, improve monitoring and reporting mechanisms.

Other issues, such as communicaion of the company's values, transparency of decision-makers, efficient internal procedures are related to the corporate culture. And honestly I do not think that the supervisory authorities should intervene here, as deep in ourselves we all know what is right and what is wrong. The role of the supervisors is not to force companies to manage their business in one way or another, otherwise, we can face a risk of over-regulation.

The appropriate communication line and the strong corporate culture would allow every company without exception to take a maximum benefit from the expertise of its managers. Let's all live up to the values we preach, and let's preach by example.

7. **Managers' expertise could be a key factor in insurance market. Did Eiopa organize special education programs for managers in a long life learning point of view?**

Of course qualification and expertise of managers is crucial for companies, nobody can conduct business without the relevant staff! And from EIOPA side we can only encourage all the initiatives that are related to the improvement of management skills. I don't think that it is the role of supervisors to educate people how to manage their companies: many universities, high schools and different business programmes are already successfully doing so.

The added value that EIOPA brings with this regard, is in our Reports on good practices where we analyse the behaviour of different companies and indicate those examples that can be taken into account by all the other undertakings. Last year for example we published the Report on good Practices for Disclosure and Selling of Variable Annuities. And this year, following the public consultation, we are finalizing Good Practices Reports on Comparison Websites and Knowledge & Ability of Distributors of Insurance Products. Furthermore, we organise different public events, to which industry representatives are largely invited: EIOPA Annual Conferences, Conferences on Global Insurance Supervision, ad hoc workshops when we launch an initiative such as a QIS or a stress test, Consumer Protection Days et c.