# Interview by Gabriel Bernardino, Chairman of EIOPA, conducted by Jan Cigánik, Insurance Horizon magazine (Czech Republic)

**I'd like to thank you for joining me for this interview. Let's begin with general questions – what do you think about the situation on the insurance market in the context of the slowly subsiding global economic crisis?**

Overall, the financial position of the EU insurance sector remains resilient despite the challenging environment. Nevertheless, risks in the insurance sector are at high levels, namely stemming from exposures to sovereign and banking debt as well as the macroeconomic outlook. Furthermore, enduring low interest rates are causing particular strain on the insurance sector.

**How can you describe the lesson which insurance sector learned from this crisis? And do you think that any regulation can reduce the risk to a minimum?**

The main lesson that we learned from the financial crisis is that we must not bring risk into the financial system without pricing it well. It is not the role of regulation to abolish or reduce risk. However, regulation can provide the appropriate incentives for the risk to be adequately managed and rightly priced. This is one of the purposes of the Solvency II Directive.

**Will the current turbulence in the financial markets impact the eventual shape of Solvency II, or the way it is implemented?**

Solvency II will certainly consider some lessons from the crisis and specially will incorporate innovative tools to deal with crisis situations and mitigate pro cyclical consequences.

**European's Insurers are at very different stages of the Solvency II process – how confident are you that everyone will be ready on time?**

We are confident about the industry's level of preparation. Of course companies have different sizes and in different countries the preparation levels are also different, which we see from QIS exercises. But precisely because of that it is now fundamental that all the companies around Europe take seriously the Solvency II implementation timeline of 2014. And in this regard EIOPA is encouraging national supervisors to engage in a dialogue with the companies at the highest level, at the level of executive boards. This dialogue will help supervisors to understand and analyse the implementation plans that companies

have in order to enter into Solvency II. And at the same time this will give them the opportunity to identify the gaps or the areas where further efforts need to be done.

**What happens if an insurance company falls below the solvency capital requirement?**

The solvency capital requirement (SCR) is a regulatory tool of monitoring financial soundness of the undertakings. The supervisor will have a possibility to interpret the breach of the SCR as sometimes the difficult situation of the company is not due to a fundamental unsoundness, but can also be caused by markets being exceptionally volatile. It is important to understand that the breach in the SCR doesn't mean that the company is insolvent.

In case of a breach in the SCR the supervisor will enter into a dialogue with the company and, if appropriate, the company will have to present a recovery plan.

The idea of the SCR aims at providing supervisors with a so called "supervisory ladder of intervention" that ensures that the supervisory response is tailored to the specific situation of the entity. The supervisory authority will take the breach of the SRC as an indication that the financial soundness of the undertaking is deteriorating, and take appropriate action according to that situation. This approach is a cornerstone on a risk based framework that focuses on pre-emption.

**How does SII framework deal with small and medium-sized insurers?**

One of the fundamental principles in Solvency II is proportionality. This concept is applied on the quantitative requirements, through the possible use of simplifications, on the qualitative requirements and also on the reporting, disclosure and supervisory process. Smaller or less complex undertakings will have less to report due to their size or less complex risk profile. Furthermore, smaller and less complex undertakings will be exempted from quarterly reporting.

**If you had to choose just one, what do you think the biggest Solvency II challenge facing insurers is at the moment and why do you think so?**

I would say the big challenge for insurance companies is to introduce a new risk management culture in their business activity. Of course the changes in the calculation of technical provisions and solvency requirements are challenging but insurance undertakings are used to work with models. The implementation of the

Own Risk and Solvency Assessment (ORSA) will help in linking the quantitative analysis and the business plans, enhancing risk management.

**What do you think is the key to minimizing the impact of Solvency II on normal day-to-day operations?**

I believe that Solvency II will bring benefits to the day-to-day operations of companies. The key to manage the transition is to start as early as possible with all the necessary preparations and look at Solvency II as a way to improve the management of the business rather than just a solvency regime.

**What effects you believe Omnibus II will have on the insurance industry's preparation for Solvency II and can you in this context describe the timeline of future evolution? What do you think are the most significant impacting issues there?**

It is early to talk about the possible impact of the Omnibus II Directive (OMD II). The overall effects will depend on the outcome of the trialogue between the European Parliament, the Council of the EU and the European Commission. Of particular relevance in OMD II are the tools to deal with the long-term guarantees in life insurance business and the transitional measures.

The vote in the European Parliament on the OMD II is currently scheduled for September 2012. The implementation of Solvency II is scheduled to 1 January 2014.

**Solvency II is going to have a big impact on long-term guarantee products – what do you think life insurers can do to respond to that?**

The long-term guarantee products are under pressure relating their sustainability. The low interest rate scenario creates further challenges for this type of products. Solvency II will make these challenges more transparent, while hopefully recognizing the illiquid characteristics of certain long-term liabilities.

Life insurers need to adapt their products to the new economic environment and reinforce their matching and hedging strategies for the benefit of policyholders.

**What does Solvency II mean for the management of insurers and what would be your advice to insurers looking to make the most of a Solvency II compliant world?**

Under Solvency II insurers will have to apply sound and robust practices of risk management comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous

basis, the risks to which they are or could be exposed. So my advice here would be to take these provisions as a way to improve the management of the business and not only as a regulatory requirement.

**Insurance premiums will no longer be dictated based on gender after a ruling by the European Court of Justice (ECJ). What is your opinion about this decision?**

This is a legitimate political decision that should not be challenged. I believe it is more important to monitor the way this decision will be implemented by insurance undertakings.

As you know the European Commission adopted guidelines to help the insurance industry implement unisex pricing. These guidelines cover a series of issues which emerged from in-depth consultations with Member States and stakeholders. For example, they clarify that the ruling applies only to new contracts, in particular to contracts concluded as from 21 December 2012. In addition, the guidelines provide examples of gender-related insurance practices which are compatible with the principle of unisex premiums and benefits, and therefore will not change because of the Test-Achats ruling.

We are confident that those guidelines will help the industry to ensure timely and full compliance with the judgment of the Court of Justice. This will be beneficial for both the industry and policyholders.

**Critics warn it could cause the costs of insurance products to rise and negatively impact pension reform....**

We cannot ignore the fact that a transition towards unisex pricing might have consequences on premiums and/or benefits at the individual level for men and women. Depending on the product concerned, premiums might increase or decrease for certain categories of consumers. But the insurance industry is competitive and innovative. It should be in a position to make these adjustments and offer attractive unisex products to consumers without unjustified impact on the overall price level.

**The other major aspect of the ruling involves car insurance. In countries that don't require premium calculations be gender-neutral, women pay less based on statistics that show they are generally less reckless drivers. What are your thoughts on this issue?**

In its communication about the Test-Achats ruling the Commission points out that this ruling does not mean that women will always pay the same car

insurance premiums as men. At the moment, a careful young male driver pays more for auto insurance just because he is a man. Under the ruling, insurers can no longer use gender as a determining risk factor to justify differences in individuals' premiums. But the premiums paid by careful drivers – male and female – will continue to be based on their individual driving behaviour. The ruling does not affect the use of other legitimate risk-rating factors and price should continue to reflect risk.