

## **Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Dr. Matthias Schoder, WirtschaftsForum (Germany)**

### **1) Mr. Bernardino, how do you personally experience Frankfurt as one of the financial hubs in Europe?**

Personally I enjoy very much Frankfurt. It is a very internationally oriented city and its location in the heart of Europe is perfect for our activity as a financial sector supervisor. I feel at home in Frankfurt even though I would welcome a little bit more of sun!

As EIOPA Chairman, I would like to thank the City of Frankfurt and the State of Hessen, for their welcome and support. EIOPA greatly enjoys being in Frankfurt, which is continuously gaining global importance as a focal point for regulation and supervision of the global financial system. We look forward to continuing in a spirit of enhanced cooperation in the future.

### **2) Looking at EIOPA as a new authority in Frankfurt and Europe, has it already established in the existing financial market structure?**

EIOPA was built in 2011 as part of the new European System of Financial Supervision. In these two years EIOPA established itself as a supervisory authority and I believe it is nowadays recognized by the different stakeholders has an important independent voice in the financial market supervisory structure, both at the European and global levels.

EIOPA is also part of the European Systemic Risk Board and has established a particular important cooperation with the European Central Bank, namely in the area of financial stability. This is of course easier to operationalize due to the fact that the ECB and EIOPA have both their seats in Frankfurt.

I am particularly happy that the recent IMF assessment recognized that while "the new European system of financial supervision has only been operating for two years, achievements have already been obtained" and that "EIOPA's role in the area of consumer protection has been proactive". Furthermore I am particularly happy that the IMF considers that "a high level of transparency characterizes the EIOPA's actions".

**3) Solvency II is one of the top priorities of EIOPA. What must be done in order to move forward Solvency II regulation?**

This year will be a crucial year for Solvency II.

Following the agreement by the EU political institutions, EIOPA launched the long-term guarantee assessment (LTGA) that aims to test various measures that have been discussed in the political negotiations. EIOPA supports this approach because it is essential for policyholder protection and financial stability that Solvency II appropriately reflects the long-term financial position and risk exposure of undertakings carrying out insurance business of a long-term nature. We need a robust framework that would price correctly any options embedded in the contracts and that captures the true economic reality of the asset-liability position of insurers. We need to recognise that guarantees have a price - there is no "free lunch". We are encouraged by the level of participation in the different member states: more than 400 undertakings including big, medium and smaller players will be running the exercise. We plan to present the LTGA findings as well as our conclusions in June.

I am confident that EIOPA's independent supervisory assessment will provide a reliable basis for an informed political decision on the long-term guarantee measures to be included in Solvency II.

On top of the LTGA, EIOPA sees it as of key importance that there will be a consistent and convergent approach with respect to the preparation of Solvency II. So what exactly are we doing? We will issue Guidelines that will ensure that national supervisory authorities will put in place certain important aspects of the new prospective and risk based supervisory approach from the 1<sup>st</sup> of January 2014. These Guidelines will cover a number of fundamental areas for the effective preparation for Solvency II: System of governance, including risk management; Forward looking assessment of the undertaking's own risk; Submission of information to National Supervisors; Pre-application of internal models.

It is up to national supervisors to determine how to comply with EIOPA's Guidelines by incorporating them into their regulatory or supervisory framework in an appropriate manner. Also due proportionality should be applied during the preparation phase and that will be reflected in the guidelines.

It is important to note that we are not anticipating Solvency II, but preparing supervisors and undertakings for the new regime in a consistent way. We are

working in close cooperation with the European Commission and with EIOPA's Insurance and Reinsurance Stakeholder Group. Furthermore, all the interested parties will be able to provide their feedback on the Guidelines during the public consultation that will start in April. We plan to finalize the Guidelines in autumn 2013.

#### **4) Than Solvency II can be understood as "improvement while running"?**

Solvency II was built with the objective of an increased policyholder protection, using the latest international developments in risk-based supervision, actuarial science and risk management.

In the meantime the financial crisis had a number of consequences on the discussions on Solvency II. Some of them were dealt early in the project and resulted in improvements to the regime, some are still creating uncertainties on the final design and calibration of the regime.

The huge market volatility proved to be a challenge in a market-consistent regime, especially for long-term guarantees. The sovereign crisis led to questions on the concept of the risk-free rate. The changes in banking regulation make more important the role of insurers as providers of long-term bank funding. The low interest rate scenario is threatening some insurance business models.

Without diminishing all these challenges, I believe it is time to move on. This reform is important and is needed. In order to keep the momentum and to be consequent with all the financial and human resources already dedicated to this project both by supervisors and the industry we need to move forward.

It is also important to mention that Solvency II has been viewed internationally as a reference in risk-based regulation of insurance and that many countries have considered elements from Solvency II while developing their own regimes.

#### **5) How do you estimate the situation of especially German insurers facing low interest rates and the challenges of Solvency II?**

Persistent low interest rates affect insurers in different ways in different countries. On the liabilities side, they lead to an increase in firms' obligations in today's terms and, consequently, to a deterioration of their financial position. On the assets side, low interest rates have an adverse impact on investment results and increase the reinvestment risk of assets. This problem is even more

pronounced where guaranteed rates of returns have been offered to policyholders.

The accounting methodology used, be it market valuation or historic cost accounting, does not change the underlying challenge, but has an impact on the relative speed at which the impact of a prolonged period of low interest rates would become visible. In a risk-based prudential regime like Solvency II, which uses market values, the impact would be more transparent. This is why it is important that insurers do not store up risks that may crystalize suddenly with the implementation of Solvency II.

Unsustainable business models in particular should face challenge from supervisors at an early stage and it is expected that insurance undertakings should be encouraged to resolve their own problems. National competent authorities should actively engage with insurance undertakings in exploring private sector measures to address the risks raised by a prolonged period of low interest rates. They should take into consideration the maintenance of the stability of firms and policyholder interests in this engagement.

In order to tackle the long-lasting low interest rates EIOPA recently published an Opinion in which we recommend the supervisors to intensify the monitoring and supervision of those insurance companies that have greater exposure to the risks posed by low interest rates and to actively assess the potential scope and scale of the risks arising from low interest rates. EIOPA will coordinate a further exercise to quantify the scale and scope of the risks arising from such an environment.

By coordinating these actions EIOPA is committed to ensure a consistent supervisory approach and a fair and equitable treatment to policyholders. In this regard, it should be stressed that private sector solutions are fundamental but they cannot take advantage of the information asymmetry and must be designed in a way that does not mislead policyholders.