

**Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Nataša Gajski Kovačić, Svijet osiguranja (Croatia)**

**In the best scenario, the beginning of Solvency II implementation should be either in 2015 or 2016, as Mr. Bernardino has recently said. He added that the date depends on the length of the legal and political process. Previously it was announced that full implementation of Solvency II will happen at the beginning of 2014? What is the reason of the delay of Solvency II?**

First of all let me give you an overview of the EU legal process that precedes the implementation of Solvency II. We have a Level 1 text – the Solvency II Directive, which was adopted in 2009, it is a principles-based document. The Level 2 text will contain detailed rules of the Solvency II regime. This document is called Implementing Measures and will be prepared by the European Commission. Finally we have Level 3 - Technical Standards, which concerns purely technical matters and require supervisory expertise rather than strategic decisions or policy choices. The Technical Standards are to be prepared by EIOPA and then adopted by the European Commission.

The EU trilogue parties (the European Commission, the European Parliament and the Council of the EU) still need to decide the scope and the legal basis for the Technical Standards that EIOPA has to draft. This decision will be introduced in the so-called Omnibus II Directive. Only after the finalization of the Omnibus II Directive, the Commission will come up with the Implementing Measures and EIOPA – with Technical Standards.

Last year the trilogue parties agreed that a final decision on the Omnibus II Directive can be taken only after EIOPA conducts the Long-Term Guarantee Assessment (LTGA). EIOPA supports this approach because before moving forward with Solvency II we indeed need to agree on a sound and prudent regime for the valuation of long-term guarantees.

On 28 January 2013 we launched this study and hope to present its findings and our conclusions in June 2013. Afterwards we expect that the Omnibus II Directive will be finalized.

**Some insurance companies complain that the Solvency II scheme favors bigger insurers who have the resources to easily adjust to the new**

**regime. They complain that the cost of preparation are too big already. How do you comment that?**

No, Solvency II is a neutral framework. Already the level 1 text states that the Directive should not be too burdensome for small and medium-sized insurance companies. And one of the means to achieve this objective is the proper application of the proportionality principle. In our work related to the drafting of Technical Standards, we always take into account proportionality aspects that are related to the size, complexity or risk profile of insurance companies.

As regards the costs of preparation, let's ask ourselves: do we want to keep the existing Solvency I regime? No, because Solvency I is not risk sensitive, it contains very few qualitative requirements regarding risk management and governance and does not provide supervisors with adequate information on the undertaking's risks.

Comparing to the current regime, Solvency II has a clear benefit – it is a risk-based regime, it helps companies to better understand and manage their risks. Solvency II is a huge step in terms of transparency as it will bring harmonized reporting framework and reliable disclosure. I am convinced that Solvency II will provide an appropriate basis for increased policyholder protection and will contribute to reinforcing financial stability in general.

The costs of preparation will be higher for the companies that want to use internal models for the calculations of their capital requirement. That will not be the case for the vast majority of companies in the EU.

**Do you think that European insurers are prepared for the transition to Solvency II? Where do you expect the biggest problems to occur?**

We are confident about the preparation level of insurance undertakings. At the same time we want to use the delay in Solvency II implementation for tackling possible problems in a consistent and convergent way and here I would like to mention EIOPA Opinion on interim measures related to Solvency II, which we issued in December last year. In this document we indicated that we see a great necessity in such interim measures because there is a risk that due to the delay of a final agreement on Solvency II, a number of European supervisors may decide to develop national solutions in order to ensure sound risk sensitive supervision. So instead of reaching consistent and convergent supervision in the

EU, different national solutions may emerge to the detriment of a good functioning internal market.

EIOPA will develop Guidelines that are addressed to the national competent authorities and that are related to such stable elements of Solvency II that are unlikely to be influenced by the finalized Omnibus II Directive. These Guidelines will cover the system of governance, including risk management, ORSA, pre-application of internal models, and reporting to supervisors.

I must say that our initiative to develop the Guidelines was approved by EIOPA Board of Supervisors (BoS), which consists of all the national supervisory authorities of the European Economic Area and also received a very positive feedback from the European Commission. In April we hope to have the first draft Guidelines ready. Afterwards we will put them out for a public consultation.

After the public consultation the Guidelines will be finalized and will be tabled to EIOPA Board of Supervisors in Autumn 2013. As of 2014 the Guidelines are supposed to start to be implemented, however we are fully aware that it will not be possible for the supervisors to comply with everything as of 1 January 2014. So here again we take into account the proportionality principle: while preparing the Guidelines we are considering their gradual implementation.

The Guidelines are focused on the preparation for Solvency II. With this step we will ensure a smoother transition to the new regime, both by undertakings and supervisors.

### **Croatia is about to join the EU thus July – what big changes can we expect in insurance world?**

As all the other EU members, Croatia will have to comply with the EU legislation and, thus, for example with EIOPA Guidelines related to the interim measures for the Solvency II implementation or with the Guidelines on complaints-handling by insurance undertakings that we issued in 2012.

I am confident that the membership in the EU will open to Croatian insurance market the possibilities for future growth, while the European System of Financial Supervision will contribute to preserving the financial stability and enhancing consumer protection in the Croatian insurance market.

**Are you familiar with the work of insurers in Croatia? How do you cooperate with our national supervisory authority Hanfa?**

Yes, the information exchange among competent supervisors and EIOPA is one of the purposes for which the European System of Financial Supervision (ESFS) was created. As regards the cooperation, EIOPA started to prepare the ground for welcoming the Croatian Financial Services Supervisory Agency (HANFA) to our Board of Supervisors already in 2011. In 2012 HANFA became an observer of the BoS and started the preparatory work in order to comply with all the necessary requirements. The members of the HANFA Board and its staff members already actively participate in EIOPA activities such as the meetings of EIOPA Board of Supervisors, various committees and working groups and EIOPA trainings and seminars.

Soon the HANFA will become a voting member of EIOPA Board of Supervisors. The tasks of our BoS are wide ranging. The BoS is the main decision-making body of EIOPA, it adopts all the opinions, recommendations and decisions issued by our Authority; approves our budget, annual and multi-annual work programmes and annual reports. So National Supervisory Authorities closely participate in the work of EIOPA and are aware of all our initiatives and achievements.

**Is there some kind of special treatment towards new members in EIOPA, do they have some period of adjustment?**

No, the preparation started well in advance and no special transition period for the CFSSA will be needed.

**When Croatia becomes part of the EU, what will your authorities in insurance politics in Croatia be?**

EIOPA is responsible to develop technical standards, that will become mandatory and guidelines that HANFA will need to comply or explain. So the regulatory framework will be influenced by EIOPA.

Furthermore, EIOPA has the power to investigate possible breaches of the EU Legislation in EIOPA's scope of activities. If EIOPA makes a conclusion that the Breach of the EU indeed took place, the Authority will issue a recommendation addressed to the respective national supervisor.

In some limited cases EIOPA action can be applied to the individual companies. But this might happen only in case the national authority does not comply with actions recommended by EIOPA or the European Commission. In this case the Chairman of EIOPA has a right to propose to the Board of Supervisors an individual decision addressed to a financial institution in which requiring the necessary action to comply with its obligations under the Union law. Such a decision may require the cessation of any practice.

**Many insurers operate on the European and global level so they are sometimes confronted with different supervisory regimes or practices - how can that be resolved?**

The first step is to build up a harmonized prudential framework in the EU. That is the purpose of the Solvency II.

Secondly we need to assure that day-to-day supervision of financial institutions is done within a consistent framework. EIOPA will develop a Supervisory Handbook that would work as a guidebook for supervision in Solvency II, setting out good practices in all the relevant areas of supervision. This handbook will foster the implementation of a more consistent framework for the conduct of supervision.

Furthermore, there is a strong role for the colleges of supervisors. In the end of 2012, 91 insurance groups with cross-border activity were identified in the European Economic Area (EEA).

Colleges represent a very important tool of group supervision because they provide necessary platform for the gathering and dissemination of information especially in case of concerns or emergency situations that occur. Colleges help to develop a common understanding of the risk profile of the groups, to achieve coordination of supervisory review and risk assessment at a group level as well as to establish supervisory plans for the mitigation of risks at a Group level.

The Regulation establishing EIOPA empowered our Authority to participate in the colleges with a view to streamlining the functioning and the information exchange within colleges. The strategic goal of our college work is to set up consistent, coherent and effective EEA-wide supervision of cross-border insurance groups for the benefit of both group and solo supervision. Every year we set a yearly action plan for colleges and also publish our annual reports on the functioning of colleges.

In the course of 2012, EIOPA attended almost all college meetings for 75 insurance groups. We contributed to the work of colleges by developing a catalogue for regular information exchange and by providing specific presentations in colleges about EIOPA's regular assessment of risks faced by the EEA insurance industry.

### **How will Solvency II apply to pension funds? What can pension funds expect out of Solvency II?**

Right now - nothing. The review of the IORP Directive is a different process and is in a different stage. We believe that occupational pension funds also need to have a much more risk based regulation. As part of the process to advise the European Commission on the review of the IORP Directive,, we conducted the first Quantitative Impact Study for occupational pensions. But sufficient time needs to be taken to get the right approach.

At the moment we have three main conclusions. First, is that the requirements and principles that we have in Solvency II on the governance side should also be applied to occupational pension funds. The principles, especially the requirements about risk management, are very much relevant for occupational pension funds, too. But of course they should be applied using a proportionality principle.

The second conclusion is about transparency. Solvency II improves information not only for supervisors but also for all the external parties. We recommended the Commission for example that in case of defined contribution schemes a key information document should be given to the potential and already existing members of the pension plan. This document should outline costs, charges, commissions and risks.

The third conclusion is that also in the occupational pension funds you should have an economic valuation of assets and liabilities. We need to prevent the situation when a problem is faced, but it is too late to solve it.

At the same time I used to repeat that we are very much against a copy-paste exercise from Solvency II to IORP Directive. We do realize the differences between insurance companies and IORPs and these differences should necessarily be taken into account.

**Your opinion on the role that insurance companies dealing with life insurance have in providing for wellbeing of elderly people?**

Insurance companies can and do play a particularly relevant role in prioritizing security and long term savings. Life insurers are experts in risk management, they are used to deal with demographic, biometric and investment risks. They are very well placed to offer good solutions for retirement savings.

Due to this important role, regulation and supervision are much relevant to ensure that insurance undertakings have robust solvency and that they provide policyholders with transparent information about the products and their risks.