

EXCLUSIVE INTERVIEW

Gabriel Bernardino Chairman of EIOPA

The Solvency II increases the respect for the private insurance



Interview to
**Lampros
Karageorgos**

► In a few days the implementation of Solvency II across Europe will start. What marks this fact? What are the effects on the insurance industry?

The implementation of Solvency II on 1 January 2016 will be a crucial step forward for policyholder protection and the insurance single market in the European Union. With Solvency II insurance companies will hold capital in line with the risks that they are subject to in their activities, are incentivised to upgrade their governance and risk management systems and increase the transparency of their businesses by enhancing the reporting to supervisors and the public disclosure.

Not only (re)insurance industry but also the national competent authorities (NCAs) will start applying these fundamentally sound principles, on which Solvency II is based, namely:

- A total balance sheet approach and an economic market consistent valuation of assets and liabilities to ensure a realistic basis for assessing risks.
- Two capital requirements - Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR) - assuring a risk based calculation but also an ultimately more robust and simpler supervisory action.
- The possible use of internal models to calculate the SCR, subject to supervisory approval.
- A state-of-the art group supervision approach with the definition of group solvency requirements and clear powers assigned to the group supervisor.
- A robust system of governance, including risk management capabilities and a clear definition of a number of key functions.

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, Mr Gabriel Bernardino Chairman of EIOPA notes in an exclusive interview at "Asfalistiko Nai". In his interview Mr Bernardino also heralds mergers and acquisitions at the insurance field, not only due to the implementation of Solvency II but mostly due to the general financial environment because of the low interest rate environment. Finally, the Chairman of EIOPA does not skip to send an interesting message to the Greek Insurance Market.



- European Union wide harmonised templates for supervisory reporting and enhanced public disclosure.

Furthermore, the implementation of the Own Risk and Solvency Assessment (ORSA) will be a truly game changer. At present the ORSA is considered as the best practice at the international level. The ORSA will reinforce the risk culture within companies. We need to see insurers relying on strong risk management capabilities to deal with the challenges posed by the low interest rate

environment, the financial markets volatility, the slow economic growth, the digital era, etc.

► **Is it expected to close or to merge insurance companies due to Solvency II?**

Not directly. There could be some increased activity of mergers and acquisitions mostly because of the pressure on business models posed by the macroeconomic reality, especially the low interest rate environment. Furthermore, in certain markets, processes of consolidation are certainly needed. This process is to me a natural market development. There will continue to be room for well managed players from all sizes.

► **Many are those who are arguing that these are excessive surveillance requirements in the insurance sector, a sector which has reacted very well in times of crisis. What does the EIOPA respond to those complaints?**

The move towards risk-based requirements in the insurance regulation is a worldwide phenomenon and the EU was lagging behind in relation to international standards. It is worth mention that the current regime does not adequately recognize some risks that are relevant from a prudential perspective, like investment risks. With Solvency II we bring a modern, robust and proportionate approach to insurance regulation.

Let me also emphasize that Solvency II pays a lot of attention to proportionality, in all its pillars, especially for smaller and less risky companies: simplifications have been included in the technical provisions and capital calculations; flexibility on the way to implement the governance requirements; exemptions in the frequency and content of reporting and disclosure.

Furthermore, Solvency II also includes a number of mechanisms

and tools to facilitate the transition from the old regime, like transition periods.

EIOPA will closely monitor the implementation of Solvency II in the different member states. The evidence collected will form the basis for the planned review that is envisaged to occur three years after the implementation date. We will be attentive to possible unintended consequences of the regime, have a close look to the way proportionality is working in practice

to identify and manage consumer risks.

It is important to note that the IDD addresses conflicts of interest that arise when distributors sell insurance products. At the beginning of 2015, we provided initial technical advice to the European Commission on the potential conflicts of interest in the direct and intermediated sale of insurance-based investment products. We believe that distributors should have an effective conflicts of interest policy documented

protection work stream relates to the cross-sectoral regulation of Packaged Retail and Insurance-based Investment Products (the "PRIIPs Regulation"). Together with the other European Supervisory Authorities, EIOPA is currently working on the regulatory technical standards (RTS) that will define the design and content of the so-called Key Information Documents (KID) for PRIIPs. In this context we recently issued a public consultation paper. The focus



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and explore ways to avoid complexity.

► **What are the measures EIOPA takes for consumer's protection?**

From "Day One", consumer protection has been an integral part of EIOPA's DNA and continues to guide our priorities. EIOPA is pursuing simultaneous work on a number of issues that are crucial for consumer protection, e.g. increasing transparency of products, avoiding conflicts of interest and conducting clear risk assessment and mitigation.

In order to prepare the future implementation of the new Insurance Distribution Directive (IDD), EIOPA has developed work on product oversight and governance by insurance undertakings and insurance distributors. The relevant preparatory Guidelines have been recently published for public consultation. These Guidelines will allow insurers and intermediaries to prepare for the IDD by implementing proper processes to deal with product design, development and marketing as well as

in writing. Only with following this approach, consumers can be confident that they are offered a fair deal. We also considered the issue of third party payments (or "inducements"), which have the potential to be a key source of conflicts of interest entailing the risk of consumer detriment. We did not say that commission-based distribution models should be eliminated. Instead, such models should demonstrate in a transparent way that inducements are used for the benefit of consumers. In addition, conflicts of interest also arise with regard to internal payments paid by insurers to staff involved in distribution. We think that further analysis is required on how best to coordinate national approaches to the mitigation of these conflicts. We will take into account this initial technical advice we provided to the European Commission in the more detailed work we will carry out on the IDD next year.

Another important consumer

is on more transparent and comparable cost, risk and performance disclosures in the KID. EIOPA made use of consumer testing as an integral part of our work on the RTS: 10,000 consumers from 10 European Union Member States have seen different versions of the KID. We collected their feedback through a questionnaire on their understanding of the KID, its clarity and usefulness of the content, etc. We used this research to see how well the different versions of the KID are able to inform consumers in practice, through some testing questions to see how well specific messages are picked up by the consumers.

► **What is EIOPA proactively doing to ensure that insurance products deliver clear, fair and reliable outcomes for consumers?**

We have seen some examples in Europe when mis-selling on a mass scale leads to serious detriment to individual consumers. As a result, there has been significant reputational damage for



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companies and a material loss of confidence in the financial market on the side of consumers.

To address this issue, EIOPA is developing a framework which tries to anticipate emerging consumer detriment, rather than just reacting to problems after they have occurred. This entails putting in place systematic monitoring to identify conduct risks as these develop and proportionate processes for assessing those situations in which additional supervisory measures should be considered, including the use of thematic reviews, for instance to “deep-dive” into specific market segments. Monitoring should be developed on the basis of appropriate risk-based indicators.

Recently EIOPA published a Report on Consumer Protection Issues arising from the sale of Mobile Phone Insurance (MPI). In this paper we highlighted a number of risks in the selling practices of the insurance products that provide coverage against loss or theft of mobile phones or physical damage to them.

Furthermore, we published key recommendations on how to best enhance the protection of consumers and we are confident that insurance undertakings and intermediaries will seriously consider the recommendations set out in this Report.

We expect a paradigm shift towards a more consumer-centric culture to be implemented by firms. Their boards and senior managers need to take on more responsibility to prevent poor product oversight and misaligned incentives for sales staff.

Last but not least, it is important that companies reinforce financial education for their customers. It is a bilateral process and we expect that consumers also make a step forward and start learning more in order to better understand the products they are buying.

► **What message you would like to send to the insurance corporations, insurance intermediaries and insured in Greece?**

The following years of the European insurance sector will be fundamentally impacted by the implementation of Solvency II and the Insurance Distribution Directive. The new regimes represent an enormous opportunity to improve risk management, to embed a risk culture in the organisations and to develop sustainable business models putting customers at the centre of the companies’ strategy.

I am confident that Greek insurance companies and intermediaries will grasp this as an opportunity to add value to their businesses and increase the trust and confidence of consumers in the insurance sector.

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