

Interview with Gabriel Bernardino with Pensioner & Förmåner and Dagens Industri

Gabriel Bernardino: "Solvency II is a success"

He has been called "Insurance tsar". The 53-year Portuguese Gabriel Bernardino has led the European supervisory authority for insurance and occupational pensions, EIOPA, since its creation in 2011. Prior to that, he was Chairman of the predecessor Committee of European Insurance and Occupational Pensions Supervisors, CEIOPS. Bernardino has led the coordination of Solvency II from the start and he doesn't hesitate to call the implementation of this regulation a success.

–Solvency II is a comprehensive and necessary framework for the prudential supervision of insurers, that has introduced the principle of risk-based valuation of assets and liabilities. The implementation of Solvency II in 2016 went smoothly and was a success.

Do you think we can expect Solvency III?

–I don't think that will be necessary. In Solvency II there are stipulated recurring revisions. In 2018, EIOPA has done one such revision of the capital requirements, addressed to the European Commission. It concerned a calibration of the requirements, since we have better risk data today. We have also considered a number of simplifications for small- and medium-sized companies. A second and more comprehensive revision is due in 2020-21. In that revision, we will look at the whole regime and among other things, review long-term liabilities.

EIOPA has its head office in Frankfurt. Bernardino believes it's a good base since the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) also are based in Frankfurt. Recently, EIOPA coordinated the project to have the aligned basis for the provision of pensions data with the ECB.

Gabriel Bernardino is the visible front figure of EIOPA and he travels extensively to meet with all kinds of stakeholders including supervisory authorities in the member countries.

EIOPA has the ambition to create a more consistent supervision among the member countries. How is that work progressing and is it feasible?

–We don't talk about a more harmonised supervision, but about a more consistent supervision that will lead to more convergence and enhance the quality of supervision. However, there will be always national differences. I'm happy with how supervisory convergence with Solvency II is developing in collaboration with the national supervisors. Currently, we are implementing our supervisory convergence plan. Our focus is on the implementation of different tools such internal models, the conduct of business supervision, distribution. Another priority is cross-border business, where we discovered some bad

practices and we launched and are using so-called cooperation platforms to understand how the risks and provisioning should be done. Finally, we are also looking at the emerging risks such as cyber and Big Data.

In your opinion, how good is the supervision of the insurance and occupational pensions?

–There are areas where the supervision does not live up to our standards. One example is the supervision of cross-border activities, which are important for the single market. However, we also need to look into new areas of risks such as cybercrime, Big Data, Fintech and Brexit. The main mandate of EIOPA is to protect consumers and to maintain financial stability within our area of competence. The first mission is the most important one and, when it comes to cross-sectoral issues, we cooperate with the two other European supervisory authorities – the European Securities and Markets Authority and the European Banking Authority.

The European Commission proposed earlier that these three authorities should merge into one institution – what happened to that proposal?

–It didn't fly, since there wasn't enough support. After all these years European Supervisory Authorities developed differently and each supervisory authority has a different role and scope of activity. However, all models are possible; there is no bulletproof model.

Has EIOPA been disappointed over the fact that IORP II didn't get any new capital requirements and do you think that will emerge in IORP III?

–It is no secret that EIOPA wanted to have a more risk-based valuation of assets and liabilities in Pillar II. However, IORP II did not enter into these details. Now, we are concentrating on how the regulation is implemented in different member countries. With IORP II, we also got a risk-based model. In addition, in the implementation of the regulation there are possibilities for member countries to go further with a more realistic risk valuation, which Sweden has opted for.

Do you agree with Con Keating and other critics who argue that the use of a discounting rate like the Ultimate Forward Rate for valuation of long-term liabilities is counterproductive and harmful? They also argue that this valuation model killed the use of Defined Benefit plans. What do you say to these critics?

–It wasn't Ultimate Forward Rate that killed Defined Benefit plans. It was the changing economic reality. There is no free lunch. Business had to adapt to this new reality. If not, there will be too much unfairness between generations. And we have to have this discussion sooner or later to avoid intergenerational conflict. EIOPA has finalised the latest methodology of the Ultimate Forward Rate for the European Commission last year. My opinion is that Ultimate Forward Rate rests on a solid and sound method that is both, predictable and transparent for the business.

One of EIOPA's larger projects in recent years is the creation of a framework for a Pan-European Pension Product, PEPP. What is the status of PEPP at present?

–The proposal for the regulation is now being discussed in the European Parliament. In this proposal fundamental characteristics of PEPP are defined, also the role of EIOPA in authorising such products. We realised early that the harmonisation on a European scale will not be a short-term solution. Instead, we proposed a parallel European framework that member countries can introduce as a separate or additional solution. This is a courageous step and one example of how Europe can show its added value. Looking also at other areas not only pensions, I find it important for Europe to provide the European citizens with such solutions. PEPP is a good example of that.

Gabriel Bernardino is an actuary. He thinks it's too easy to be a populist today. One way of fighting the growing populism would be for him to convince and get more and more people to indeed realise what the added value of the European project is for all of us, he argues. There are no PEPP-products in the market yet, but Bernardino calls upon member countries not to discriminate against them when they appear.

You have been called insurance tsar – do you feel like one?

–No, far from it. I'm a humble person that takes my job and mission seriously. My mandate as Chairman is expiring in spring 2021, and I can't be re-elected. Then it will be time for someone else to take over this important and fascinating job.