Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by André de Vos, Omni magazine

Supervisory authority EIOPA submitted recommendations for new European pension regime to the European Commission on 15 February. EIOPA Chairman Gabriel Bernardino understands that the proposed changes make the sector nervous. 'But let's not start panicking; this is only the first step.'

Ice flows in the Main fifty metres below us. The view from Gabriel Bernardino's office is breath-taking, even on a grey February afternoon. The EIOPA's offices are located on the 14th,25th and 26th floors of the green glass Westhafen Tower along the banks of the Main in Frankfurt. As the wind whistles outside the glass panels, EIOPA Chairman Bernardino details the European Insurance and Occupational Pensions Authority recommendations released that same day regarding changes to IORP European pension regime.

Bernardino & Co.'s final recommendations were submitted the same day to the European Commission. The Commission in turn issued its 'white paper' on the pension funds a day later. The 'white paper' contained elements from the EIOPA recommendations which, after all, had been released last October for consultation. The version most recently submitted to the EC incorporates the 170 responses to the recommendations received.

Are you surprised by the number of responses to your recommendations?

'The pension sector takes these recommendations seriously and we've received responses from every possible type of organisation, not just the pension funds, facilitators and insurers, but also government authorities, labour unions, employers and even participants. I'm pleased with the wide diversity of responses. It's nice to have generated so many opinions, although a percentage of the feedback did not pertain directly to our recommendations, but to the content of the tasks assigned to us by the European Commission.'

Recommendations running to more than 500 pages is not exactly easy reading.

'That was a deliberate decision. We're breaking new ground and this is a sensitive discussion. That's why we aim to be completely transparent, to show how we arrived at our decisions, who our sources are, the pros and cons of our position and the steps we'd like to take. That results in a thick document. But the one that I'm satisfied with. And those who only read the blue boxes with the advice itself can still get a clear picture of our intention.'

Did all of those responses lead to changes to your original recommendations?

Some of them do. We now clearly explain in the introduction what our goal is and, of all the options set out in the original recommendations, quite a few have been shelved. The recommendations have been streamlined, but are mostly in line with the consultation advice given in October.'

This will come as a disappointment to many.

'Many people are acting as if everything is already set in stone. But let's not start panicking; this is only the first step. There's still plenty of work to be done before a new European regime is in place.'

Many of the responses to your recommendations, including from the Netherlands, point to the fact that the EIOPA should not be meddling in this area – hands off our pension schemes!

‘That’s understandable. It’s a misconception to think that our goal is to replace the existing schemes. We want to see where improvements can be made. There are always similarities across national pension systems. What they all have in common is that pension promises are being made across Europe. Regardless of the national structure used to fulfil those promises, we believe that clarity is needed at European level regarding the value of those promises. But to do this we must be able to compare, which in turn requires European regulations. This is ultimately in everyone’s best interest, from employees to the funds making the pension promises in the various countries to the pension industry itself, which will be in a better position to operate across borders.’

‘European organisations like EIOPA need to communicate better about the added value of these types of European agreements, certainly at a time when the EU itself is under debate. It is precisely because of the EU current unpopularity we need to move forward in this way. These kinds of recommendations are in keeping with that ambition. They’re good for Europe.’

What is your personal opinion of the most important proposals in the recommendations?

‘We’re putting forward a ‘holistic balance sheet’, a harmonisation on top of the existing balances, which will make it possible to compare pension funds. Clear European rules are needed for the governance of pension funds. And participants in pension funds with a defined contribution plan must be provided with clear and accessible information in a standardised fashion. This is called a ‘Key Information Document’.’

The proposals for the holistic balance sheet require further development.

‘Over the next few months, we’re going to carry out a quantitative impact study on how our proposals would look like in practice. We’re starting in April and will conduct this study in the countries where Defined Benefit Plans are most relevant. (Until now we have 7 countries including the Netherlands). Our primary goal is to develop a uniform and consistent manner to communicate about pensions.’

The pension sector is afraid that the new European pension regime will impose much stricter capital requirements on pension funds, like those in Solvency II.

‘I have no intention of imposing another Solvency II on the pension sector. That is a persistent misconception. But it’s not mentioned in our recommendations. After all, there are essential differences between pension funds and insurers, so you cannot impose capital requirements in the same way. That doesn’t alter the fact that Solvency II contains a number of important provisions in areas like governance and risk management that can also be used for pension funds.’

What kind of changes are needed in the area of governance?

‘Pension promises in Europe need to be guaranteed in the same way across Europe. This means that governance also needs to be organised in a comparable manner. Regardless of national pension system structures, the administrators responsible for investments need to understand what they are investing in. The knowledge level of pension administrators is a pan-European theme; agreements in this area also need to be made at European level. But it should still be possible to distinguish between large and small funds, DB and DC schemes.’

Pension funds are afraid that larger buffers will lead to lower pensions.

‘We need a pension regime with a good balance between certainty and affordability. That’s where buffers come in. If you want 100% long-term security , there will be no funds left for pensions. And if you only consider the affordability of the system, too much risk is taken. We want to supply instruments that make it possible to view risks across Europe in the same way. We want a consistent approach to risk across Europe. This can also entail certain minimum requirements for buffers. But that is ultimately a political decision and does not concern us. We simply aim to provide a clear framework that facilitates risk and return determination.'

All pension funds are to be based on market value from now on.

'Our standpoint is that, if you want to effectively compare pension funds, the market value of assets and obligations should form the basis. That is the holistic balance sheet approach. If everyone uses the same reporting format, pension agreements can be easily compared. But this still means pension funds can continue to consider their national specificities. Not only that, but it provides the possibility of incorporating assurances as buffers on the national level. Our aim is to achieve comparability of the various national systems with as little impact on those systems as possible.'

The Dutch believe that the Netherlands has the best pension system. Should we be concerned that it could be undermined by European regulations?

'The Netherlands must also be integrated into the European system, which, after all, is the whole point of the EU, i.e. that we all observe the same rules. But I don't anticipate any dramatic changes to the Dutch pension system. Our recommendations contain numerous measures that were introduced in the Netherlands long ago.'

Like the market valuations that are seriously damaging our coverage ratios and that we would prefer to get rid of once and for all.

'A few years ago, the Netherlands made a brave decision when it chose the market valuation of both assets and obligations. That this might now possibly result in cutbacks in pension rights is evidence of the risk run by pension funds. You can't solve that problem but suddenly using a different interest rate. In the quantitative studies, we will be testing how a holistic balance sheet with market values would work in practice.'

What about the key information document?

'There are needs for a clear format for information presentation to participants regarding DC schemes. Right now this information is often insufficient. How much have people built up and what risks do they run? We are using the current best practices in Europe to define this document.'

There's no guarantee that more or better information will help if the system itself remains complicated.

'It's true that people don't always read the small print. That remains a dilemma. But if you use that as an argument for simpler pension systems, you could run into trouble. Take, for instance, the discussion on default options in DC systems. This makes it easier for people who do not fully understand the system to make choices. Five years ago, a risk-free default consisted primarily of government bonds. Nowadays, this could be seen as a risky portfolio. It is absolutely possible to create simpler DC systems, but good information remains essential.'

EIOPA has been around for more than a year now. How does it differ from CEIOPS, which you also headed?

'They're incomparable. We're living in a different world, a different era.'

You mean that much has changed in just one year?

'It seems like much longer ago. Our approach has changed dramatically. We're no longer a committee of supervisors, we're an authority. We don't need absolute unanimity. At CEIOPS decisions were taken by consensus, now if we don't all agree, we put it to a vote. The discussions run deeper as a result. Whereas, in the past, a supervisor could say, 'I don't agree', and that would be the end of it. It would simply be put on the record.

How seriously do people take EIOPA?

'Our authority is acknowledged. I'm ambitious. We aim to be a well-informed, transparent supervisory authority. But we need to operate carefully and inspire confidence among all parties. We need to avoid simply imposing measures and to introduce changes step by step.'

Important European pension documents are being released right in the middle of the euro crisis. Is the European pension framework in danger of being overlooked?

'Our job is to make sure that doesn't happen. The EIOPA is also on the European Systemic Risk Board. We're jointly responsible for financial stability. Pension funds and insurers play an important role in that. It is understandable that all attention is now being directed towards the bank sector, but this should not be at the expense of everything else. A low long-term interest rate is very good for banks, but not so good for the pension sector. We're making sure that this is also on the agenda for discussion.'

'We view the crisis as an opportunity for change. The message of the crisis is that we can ignore neither financial nor demographic risks. We need to accept and analyse those risks. It's not about capital, but about risk.'

What happens now with your recommendations?

'We're going to start working on the quantitative impact studies, which should be finished by September. The results will be submitted to the European Commission, who plans to present its proposal by the end of this year.