**Interview with Gabriel Bernardino, Chairman of EIOPA, conducted by Fabrizio Aurilia, the Insurance Review (Italy)**

1. **Since EIOPA was established, how has the role of European supervision of the insurance industry developed?**

   Since its foundation, EIOPA has been heavily engaged in the process of developing a single rule book for insurance in the EU. In the absence of international standards – unlike in the banking sector where you have the Basle accord - EIOPA has been responsible for developing the technical regulatory framework of insurance risk-based supervision. This work encompasses all legislative layers from EU Directives to Guidelines.

   As our input to the discussions on the Omnibus II Directive (Level 1), we produced the Report on the Long-Term Guarantee Assessment.
   As a contribution to the Solvency II Implementing Measures (Level 2) to be published by the European Commission, EIOPA analysed the capital requirements for investments in certain assets. As a result of this study we proposed to distinguish between different types of securitisation. It is the first time that such approach is suggested by a supervisory authority.

   In order to ensure a convergent path towards implementation by insurers and supervisors of the new framework, EIOPA issued its Guidelines on preparing for Solvency II. The Guidelines became applicable as of 1 January 2014.

   Let's not forget that a much bigger and more difficult task is to implement all the regulatory requirements in a consistent way and to properly monitor the implementation process across the EU. That is why EIOPA puts a strong emphasis on the promotion of supervisory convergence. In this context we have been using a number of tools: participation in the colleges of supervisors, conducting peer reviews, issuing opinions addressed to NCAs.

   In order to perform its supervisory role more efficiently, we need the extension of EIOPA's current power to conduct an inquiry into a particular type of financial institution, type of product, or type of conduct. This power should not be confined to situations of potential threats to the stability of the financial system but be used more generally to support the independent assessment of supervisory practices.

And of course it is essential to avoid the burdensome case-by-case discussions on EIOPA's access to individual company information. EIOPA should obtain access to the information included in the harmonised templates developed for Solvency II in a direct and efficient way.

I am confident that such measures will help to ensure an adequate and consistent level of supervision, for the benefit of consumer protection and financial stability in the European Union.

**2. In 2014, EIOPA plans to run a comprehensive stress test. What are the key risks that may impact the insurance sector?**

According to the observations that we have done in EIOPA's recent Financial Stability Report, economic conditions in European countries are still fragile and the three main prominent risks that insurance sector continues to face are a prolonged low yield environment, a weak macroeconomic climate and a possible contagion risk arising from exposure to sovereigns and financial institutions.

**3. In EIOPA's second half-year financial stability report 2013 we read that the interconnections of the insurance sector with the rest of the financial system is one of the topics that you will study in deep in 2014. What are the possible developments of these interconnections?**

On the investment side, exposure to sovereigns and financial institutions poses a varied challenge for entities that ranges from those experiencing very low yields on the sovereign holdings to others facing the risks of spread reversals on their higher yielding sovereign and bank exposures. As part of its continuous monitoring of the insurance market, EIOPA is looking at concentrations in sovereigns and financials, trying to better understand the "search for yield" behaviour, assess the "liquidity swap" activity of undertakings and look at some recent value in force monetisation where we see life companies exchanging future potential cash-flows for value today. All of this work is contributing to our understanding of the interconnectedness of the insurance sector with the rest of the financial system. This is a theme that we will be pursuing in greater detail in 2014.

In order to properly monitor the developments and timely identify the risks and vulnerabilities occuring in the insurance sector, EIOPA is building an analytical framework. We are confident that this will help policymakers and national supervisors to identify and quantify possible risks for undertakings. But we need to be realistic: the efficiency of this framework will strongly depend on the availability of data provided to EIOPA by national supervisors!

**4. At what stage IMD2 and Solvency II dossiers are? What are the next steps? And what will be the role of EIOPA?**

Let me start with the Solvency II, because here we have a lot of work lying ahead of EIOPA in the next two years.

First of all, the Omnibus II Directive will be voted by the European Parliament and in the course of 2014, the European Commission will publish the Level 2 Implementing Measures.

The role of EIOPA is to ensure the Solvency II implementation at the technical level in a convergent way. This will be done through the key legal activity of EIOPA, which is assigned to us by the EU law – preparation of Implementing Technical Standards (ITS) and Guidelines. The ITS will cover such areas as uniform reporting templates, harmonised technical input to the standard formula; harmonised procedures and templates for cooperation, the exchange of information between supervisors. The ITS will be adopted by the European Commission and since then will become legally binding for all the EU Member States.

The Guidelines are necessary to guarantee convergence of the Solvency II implementation as of the first day of its entry into force. After the issue of the Guidelines in all the official EU languages, national supervisors will be reporting to EIOPA about their compliance or intention to comply within 2 months.

We intend to launch public consultations on each ITS and Guideline as soon as possible in the course of 2014-2015. All in all, EIOPA is going to issue over 50 ITS and Guidelines.

As for the recast version of the Insurance Mediation Directive (IMD2), the Commission adopted a proposal for its revision on 3 July 2012. The goal of the Commission's proposal is to upgrade consumer protection in the insurance sector by creating common standards across insurance sales and ensuring proper advice. Before the new rules can come into force, the proposal must first be adopted by the European Parliament and the Council. The IMD2 is currently awaiting a vote in the Economic and Monetary Affairs Committee (ECON) of the European Parliament. Once that vote has taken place, there will be a plenary vote in the Parliament. Negotiations in the Council of the EU are on-going and we hope that substantive progress can be made under the Greek Presidency of the EU, with the impending elections in the European Parliament in May 2014.

Work on subsequent technical measures to give effect to a number of provisions in IMD2 would start soon after final adoption. However, EIOPA is keen to play a central role in the elaboration of IMD2, but the precise scope of its role will only become clear once the negotiations in the Council and Parliament are close to finalisation.

5. **What will be the impact of Solvency II on insurers life and non-life and intermediaries in Italy?**

Not only in Italy, but across the whole EU, Solvency II is going to be beneficial for all the market participants. For undertakings, the new framework will bring market valuation principles and, thus, much higher risk sensitivity. I am sure that within the new solvency regime, insurers will develop new kinds of long-term guarantees, better pricing the options and guarantees involved. One of the most innovative changes introduced by Solvency II is the requirement for undertakings to develop an own risk and solvency assessment (ORSA) as a tool of their overall risk management system. ORSA will require undertakings to properly assess their own short and long term risks as well as the amount of own funds necessary to cover them to ensure on-going compliance with capital requirements.

From the supervisory perspective, the harmonised reporting framework and reliable disclosure that are foreseen by Solvency II, will provide national competent authorities with adequate information and will allow them to take timely action. Solvency II enhances preventive supervision.

Last but not least, Solvency II will result in an enhanced protection of policy holders. With Solvency II consumers will stay assured that insurers are properly identifying , measuring and managing the risks that they run and that they have capital levels appropriate to those risks.

6. **What about IMD2?**

It is difficult to assess the impact of IMD2 on life and non-life intermediaries and insurers until we have a clearer idea of what the final text will look like.

However, obviously, the extension of the existing directive to cover direct sales will be of particular interest to insurers in Italy. In addition, one of the hottest topics is, without doubt, transparency of remuneration. I am aware that mandatory disclosure of remuneration (commissions) by intermediaries exists already in Italy, in relation to motor insurance. The Commission originally proposed an "on request" remuneration disclosure regime for a transitional period of 5 years, followed by mandatory disclosure. "On request" means the intermediary provides the full amount of their remuneration at the request of the policyholder and the policyholder is informed of his right to request this. EIOPA has been in favour of an "on request" disclosure regime for all insurance products without an investment element, but with a flexible system whereby Member States can still have the option to impose stricter rules, such as mandatory disclosure, if they wish to do so. As mentioned, we will need to see where the text finally comes out on this point.

As regards the sale of life insurance policies with an investment element, we welcome a lot the fact that IMD2 aims at introducing a more stringent regime. Thus, the customer buying such a product will obtain information about the product's insurance coverage as well as the investment risks related to it.

We would also advocate more transparency about remuneration as regards these type of products to address the risk of conflicts of interest. But disclosure alone is not enough. There also need for be adequate systems and controls within an intermediary or an insurer to identify and mitigate conflicts of interest. I also support the general "duty of care" envisaged in IMD2 for the intermediary or the staff of insurers carrying out insurance medation, to "act honestly, fairly and professionally in accordance with the best interests of their customers". One of the key issues going forward will be the extent to which cross-sectoral consistency can be ensured with regard to the rules applying to the sale of equivalent products in the banking and securities sectors. We think it is important to have consistent rules to enhance consumer protection, but we also think the specificities of the insurance sector need to be taken into account.

7. **How do you value the role of Italian national supervisor, Ivass? How the role of European national supervisor evolved in the next years?**

In my view the creation of the European System of Financial Supervision (EFSF) has significantly increased the activity of national supervisors with regard to cooperation and contacts with the authorities from other countries. The globalisation and high level of integration of financial markets have already shown us that hardly can supervisors consider themselves competent if they are not aware of what is happening outside their country and if they don't work together with their counterparts worldwide.

The EU law has assigned to EIOPA and other European Supervisory Authorities the task to create and maintain an integrated network of supervisory authorities, to ensure sufficient cooperation and information exchange between national supervisors and to ensure consistency and convergence in the supervisory practices.

As for IVASS, it is 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.

The members of the IVASS Board and its staff members actively participate in EIOPA activities bringing knowledge and expertise to the discussions.

**8. Do you think that Italian insurance industry need any structural reform in order to win tomorrow's challenges?**

It is exactly Solvency II that will help us to overcome the challenges ahead: only with a strong risk-based supervision we have a good chance to preserve financial stability and enhance consumer protection in the EU.

Both insurers and supervisors have now around 2 years for preparation.  We all should benefit from this 2-year time and make every effort in order to comply with all the Solvency II requirements, once the framework is applicable.

It is particularly important for the insurance industry to adopt to the new governance requirements. That is much more than technical calculations: that is about company's culture.

Let's not leave things for tomorrow. The preparation should start today.