MODERN, COMPETENT AND CREDIBLE EUROPEAN SUPERVISORY AUTHORITY
INTERVIEW WITH GABRIEL BERNARDINO, CHAIRMAN OF EIOPA

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ÖSSZEFOGLALÓ

Gabriel Bernardino az Európai Biztosítás- és Foglalkoztatóinyugdíj-hatóság (EIOPA) elnökeként az intézmény stratégiai irányításáért felel. Feladata továbbá a szervezet képviselete az Európai Unió Tanácsa, az Európai Bizottság, illetve az Európai Parlament felé.

Jelenlegi pozícióját megelőzően az Instituto des Seguros de Portugal, az ISP fejlesztésért és intézményi kapcsolatokért felelős főigazgatójaként tevékenykedett, 1989, az ISP-hez történt csatlakozása előtt számos fontos pozíció betöltése mellett 2009 és 2010 között az EIOPA elődszervezetének, a CEIOPS-nak volt elnöke.

Gabriel Bernardino az EIOPA első elnöke. 2011. január 10-i jelölését követően az Európai Bizottság is, illetve a 2011. február 1-jei nyilvános meghallgatását követően az Európai Parlament is jóváhagyta elnöki kinevezését.

2015. december 16-án az Európai Parlament Gabriel Berdardinót – 2016. március 1-jétől kezdődően – a következő ötéves ciklusra megerősítette a EIOPA elnöki pozíciójában.

SUMMARY

Gabriel Bernardino is Chairman of the European Insurance and Occupational Pensions Authority (EIOPA). He is responsible for the strategic direction of EIOPA and represents the Authority at the Council of the European Union, the European Commission and the European Parliament. Mr. Bernardino prepares the work of EIOPA's Board of Supervisors and also chairs the meetings of the Board of Supervisors and the Management Board.

Mr. Bernardino is the first Chairperson of EIOPA. He was elected by the Board of Supervisors of EIOPA on 10 January, 2011. His nomination followed a pre-selection of the European Commission and was confirmed by the European Parliament after a public hearing held on 1 February, 2011. Mr. Bernardino assumed his responsibilities on 1 March, 2011 for a first five-year term. On 16 December 2015 the European Parliament confirmed the re-appointment of Mr Bernardino for a second five-year term, which started on 1 March 2016.

Prior to his current role, Mr. Bernardino was the Director General of the Directorate for Development and Institutional Relations at the Instituto de Seguros de Portugal (ISP). He has served in several positions of increasing responsibility since he joined the ISP in 1989 and represented EIOPA's preceding organisation, CEIOPS, as Chairman between October 2009 and December 2010.

Kulcsszavak: EIOPA, biztosítás, felügyelet
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First of all, we would like to congratulate for your re-election as a Chairman of EIOPA (European Insurance and Occupational Pensions Authority)!

This spring you have started your second period of your leadership. How can you summarize or evaluate the last five years as the leader of EIOPA? What are you planning for the second period?

From the very beginning at the start of EIOPA in 2011 my main goal has been to build a modern, competent and credible European supervisory authority. In the past five years, EIOPA has grown into an entity with a strong voice and has been a driving force in regulatory convergence. We have been delivering high quality regulation, technical advice and analysis at the European Union level, reinforcing consumer protection and strengthening the European supervisory position in the international arena.

My vision for the next five years is to further develop EIOPA as a credible supervisory authority within the European System of Financial Supervision. In this context my three main strategic priorities are: first, enhancing supervisory convergence, second, reinforcing preventive consumer protection and third, preserving financial stability.

In future I see EIOPA as a European authority having made a significant contribution to the creation of a common European supervisory culture with consistent supervisory practices across the European Union, a culture, which is safeguarding financial stability, enhancing consumer protection and fostering innovation.

Will the implementation process of Solvency-II represent some extra challenges?

The biggest challenge will be the adaptation to a new risk-based culture. This is true for both the insurers and the supervisors.

As for EIOPA, with the Solvency II implementation for us the new - supervisory - journey has begun. Already since two years we have been preparing the shift of our strategic focus from regulation to supervisory convergence.

EIOPA has the responsibility to make sure that NSAs conduct supervision under Solvency II in a consistent way across Europe. I see Solvency II implementation as the opportunity for supervisory convergence. All NSAs need to be part of the collective effort to develop a European supervisory culture. We are in an internal market, and the quality of national supervision is no longer solely a national or regional issue; it is a European issue.

Therefore, the tasks of EIOPA are building a stronger and more coordinated supervision at the European Union level. Credible and independent supervision is a key element in achieving and preserving consumers' and investors' confidence.

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What effects will the Solvency-II have on the European insurance markets?

The implementation of Solvency II is a key 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 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.

The insurance industry and the NSAs are now applying the 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.
- 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.

All in all I strongly believe that with Solvency II the insurance sector will be better prepared to face the upcoming challenges and policyholders will be better protected.

How can you foresee the future of the insurance sector in Europe? Do you forecast some special challenges for the upcoming five years?

The insurance industry is particularly challenged by the low economic growth, the prolonged low interest rate environment and the technological and digital revolution. Certain business models will need to be changed.

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But I believe that at the same time the insurance sector has a huge potential and opportunity to grow. The demand for risk coverage and protection from households and businesses will increase. Private savings for retirement will become more and more needed. Insurers will have to respond to these challenges and demands proactively and with innovation.

Furthermore I would like to see more insurance companies placing consumers in the heart of their business. The concept of what is legitimate or fair in the relationships between insurers, intermediaries and customers is evolving. What was fair some years ago is not seen like that anymore. This calls for a critical look by the insurance companies and intermediaries at current products and practices in order to ascertain what needs to be adjusted. This proactive critical attitude would certainly prevent future misselling cases, help to develop better new products and overall reinforce the confidence of consumers.

I think that with Solvency II ORSA insurance companies got very good incentives to set up a strong risk culture. The ORSA will allow insurers to increasingly rely on robust risk management capabilities to deal with the different challenges posed by the economic slowdown, the low interest rate environment, the financial market volatility and the stress on sovereign debt.

Of course there will be lots of challenges, risks and obstacles and it is natural. And not only insurers, but also national supervisors and EIOPA will be required to think and act independently, globally and long-term. But having the same vision and working together, we will definitely achieve our essential objective to create a stable and innovative insurance market for the ultimate benefit of the European consumers.

The next consumer trend report made by EIOPA will be published in the end of this year. The previous report in 2015 dealt with the insurance market in a fairly rigid way.

Have you experienced any improvements in the areas being objected to at that time like cost transparency, possibility of product comparison or quality of marketing issues?

A number of trends detected by EIOPA in the previous years remain significant:

- Further digitalisation of the insurance sector offers more opportunities, but at the same time may create new consumer protection concerns.
- Consumers do not always receive sufficiently clear and understandable information about their insurance coverage.
- Supply of and demand for unit-linked life insurance products is increasing in the context of the low interest rate environment, but consumers often have difficulties to understand the risks, level of guarantees, costs/charges and other characteristics of these products.
- Issues related to the management of claims, in particular in the motor insurance sector, continue to be a main source of consumer complaints.
- Low levels of consumer financial literacy remain challenging, and the levels vary significantly across Europe.

In addition to these already known trends, we identified the following new and emerging trends:

- Advanced analytics of consumers' characteristics and "Big Data" allow products to be better adapted to the needs of consumers. At the same time, certain privacy concerns and segmentation strategies need to be carefully monitored.
- More efficient management of potential conflicts of interest is needed. This trend is heightened by the increasing complexity of some insurance products.
- Training and professional competence requirements need to improve for insurance intermediaries to protect consumers' interests. The forthcoming Insurance Distribution Directive will introduce important reforms in this respect.

EIOPA mission is to ensure that customers are protected, treated fairly and get value for money. We want to have for consumers a similar level of protection in all the member states and a high level of quality in the conduct of supervision.

Regarding the insurance branches (e.g. in the case of Astra) could it cause a problem that the local supervisor complete only consumer defence supervision but not the prudential one?

The prudential supervision of branches is a responsibility of the home country supervisor and that is a key cornerstone of the EU single market. Adequate cooperation needs to be in place between the home and host supervisory authorities. One of EIOPA's priorities for the coming years is to ensure a high level of quality of supervision in all member-states.

Furthermore, strengthening of conduct of business supervision is important for consumers, for insurance undertakings and for the market as a whole, as it promotes the orderly functioning of markets resulting in a level playing field, healthy competitive environment, increased consumer confidence and financial stability. An effective and efficient conduct of business supervisory framework contributes to a credible deterrence of market misconduct and allows for preemptive and proactive supervision by acting before a developing issue becomes widespread.

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There has been significant reputational and financial damage as a result of consumer mis-selling scandals in the European Union. Moreover, there has been a material loss in consumer confidence, compounded by existing information asymmetry and lack of financial education from the part of consumers.

EIOPA sees a clear need for a more consumer-centric culture in firms – senior management needs to take on more responsibility to prevent poor product oversight and misaligned incentives for sales staff.

Traditional approaches to conduct of business regulation & supervision, focused on point of sale (disclosure and selling practices) and a "box-ticking" approach have proved insufficient to prevent mass misselling.

In this context, EIOPA is implementing a strategic approach to preventive, risk-based conduct supervision.

"Risk-based" - because it identifies the depth and scale of issues and focuses on priorities and resources where they matter most in order to build a common European supervisory perspective and approach, with constant monitoring and ‚dynamic' capacity to respond to innovation and change; and

"Preventive" – because by anticipating consumer detriment early, rather than just reacting following the emergence of problems, it solves the problems of the future, rather than the past.

This can only be done through a forward-looking approach, which concentrates on how to best identify and tackle, in a timely and effective manner, emerging risks for consumers.

EIOPA will use a number of tools to implement this framework: for example with the Consumer Trends Report we spoke about earlier; also deep and effective market monitoring; thematic reviews and retail risk indicators. This will be done in a staggered approach. Ultimately the objective will be to spot outliers, investigate the root causes and develop supervisory responses.

Some years after the economic crisis how do you think the insurance sector has been concerned? How did the crisis impact the European insurance market? Was it different from e.g. the American market?

In the insurance sector EIOPA observes a challenging macro-economic and financial environment with persistent low interest rates. Also the "double-hit scenario" remains the key concern as it would lead to a situation where the value of assets decreases whilst the value of liabilities increases causing severe negative implications for the sustainability of the European (re)insurance and pension sectors.

Low yields and a resultant subsequent reinvestment risk (i.e. impossibility to reinvest with the same return) remain the main vulnerability, especially for life insurers. The current low interest rate environment puts pressure on the profitability of companies and forces them into a - "search for yields" - behaviour.

One of the lessons the European Union learned from the crisis is that it needs a convergent financial supervision throughout its Member States. When the EU co-legislators decided to create the European System of Financial Supervision, their ultimate goal was to build a common supervisory culture for the whole financial sector of the European Union. This we see as a fundamental mission of EIOPA and two other European supervisory authorities – European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA).

Why is supervisory convergence so important? Because it is essential to achieve three fundamental objectives: First, to ensure the application of European Union regulation; Second, to guarantee a level playing field and prevent regulatory arbitrage in the internal market; and Third, to safeguard a similar level of protection to all policyholders and beneficiaries in the EU.

I think in the past years the European System of Financial Supervision has made an impressive progress. In the insurance sector we made a first important step towards supervisory convergence by delivering the full regulatory package for Solvency II. Let's not forget that Solvency II discussions and negotiations lasted for 15 years, they started long before the existence of EIOPA.

We closely monitor the global developments and see that the evolution in the regulatory standards in insurance has been remarkable not only in the European Union but worldwide. In many countries all over the world, risk-based regulation and supervision is already being enacted, with different nuances, but with lots of commonalities. In all the continents, some countries can be used as examples of good practices being implemented, risk-based capital requirements, stronger emphasis on good governance and risk management and improvements in public disclosure.

As for the US market, in the insurance area we are having the EU-US Insurance Project. Its objectives are to increase mutual understanding and cooperation with a view to identifying the main commonalities and differences of the European and American insurance regulatory and supervisory regimes. EIOPA remains faithful to these objectives. Financial systems in the European Union and the USA still have significant differences and some of these are dictated by culture and legitimate political options. We believe it is the responsibility of public authorities to create conditions to foster consumer protection, facilitate business relationships and enhance the efficiency of supervision.

How can differences in the insurance market of each European nation be displayed in the unified European regulation? Can you see any differences between the developed markets and the markets of later joined countries? If yes, where is it convenient for the regulator to take those differences into consideration, or where not?

Take the example of Solvency II. It is a maximum harmonization regime but it is also, in many areas, a principles-based framework, leaving room for a proportionate implementation that should consider the local circumstances.

To have 28 Member States with different history is a challenge. We are prepared that while achieving supervisory convergence we will be facing different issues: legal, financial, technological, organisational and I would say most of all - cultural.

This is why with the entry of Solvency II into force, a new supervisory journey for EIOPA begun. We are shifting step by step our strategic focus from regulation to supervisory convergence.

In the context of current differences of supervisory cultures and practices between Member States, the main focus of EIOPA for the following five years will be to increase convergence towards a common European supervisory culture; a risk based culture that:

- Aims to ensure strong but fair supervision;
- Is based on a forward-looking approach to risks;
- Prioritizes the dialogue with market participants to better understand their business models, strategies and underlying risks;
- Promotes early enough awareness and supervisory action in order to protect policyholders and mitigate possible disruptions in the market.

It is natural that the level of preparedness for Solvency II in different Member States is not the same. We expected it and this is exactly why I believe that thanks to its unique position of a supranational supervisory organisation EIOPA will perform a play a key role in analysing different practices and approaches and bringing them to a consistent level. I am convinced that in the European supervisory process EIOPA has been and will be instrumental.

The latest laws (PRIIPs, IDD) mean important role for the second and third level legislation, in which EIOPA also gets important tasks. The IDD directive which has already been approved but has not been announced yet expects to pass a brief guide – similar to the KID document - to the client in the case of non-life insurances as well. EIOPA also prepares the form of this IPID document (Insurance Product Information Document). The task is rather complex regarding the diversification of the relevant product range.

EIOPA supports the goals of the Insurance Distribution Directive (IDD), namely ensuring the European retail insurance markets work better and strengthening consumer protection across the European Union. At the same time, we are of the view that the IDD can achieve these goals only if it is effectively supervised and by that contributing to a common supervisory culture across the EU. Harmonized EU rules on insurance distribution are important and the predominance of national solutions should be avoided.

This year, the European Commission requested EIOPA to provide technical advice on the delegated acts envisaged under the IDD. Before submitting the advice to the European Commission, we will seek feedback from all stakeholders. The relevant public consultation will be launched in summer 2016 and the final advice will be provided to the European Commission by 1 February 2017.

The Insurance Product Information Document (IPID) is a significant element within the overall IDD project. It involves development of Implementing Technical Standards (ITS) in the form of a template to be completed by insurance providers that will be presented to customers prior to the sale of a non-life insurance product. The content of the IPID is already determined by the IDD Directive and EIOPA is mandated to propose a template for the presentation of this content. EIOPA's aim is to develop a template that is both attractive – so it will be easier picked up and read by a consumer – and will help in highlighting the key features of the product: so the consumer can understand which risks are covered (and which not!) and what obligations he or she will face when entering into the contract.

In our work we have foreseen two phases of consumer testing (when consumers will be asked whether a number of very differently designed templates is comprehensive and comfortable to read), active discussions with the national supervisory authorities and the public consultation. The ITS needs to be submitted to the European Commission by 23 February 2017.

Can the coordination of the guarantee funds paying in the case of insurance winding-up be justified?

The lack of a minimum EU harmonized regime of insurance guarantee schemes is a clear concern from a consumer protection perspective. In this context, EIOPA has been supporting concrete cooperation and coordination activities between the existing national regimes.

In view of the Capital Markets Union creation and a further deepening of the internal market, the protection of policyholders and consumers should not be neglected. Not only because there is increased cross-border offer and supply of products but also because the money institutional investors such as insurance companies invest is meant to ensure that they can fulfil their commitments under the insurance contracts.

In this context EIOPA believes that it is important to resume the discussions on how to develop a harmonised system of Insurance Guarantee Schemes throughout Europe. EIOPA supports the development of a harmonised framework for Insurance Guarantee Schemes, which allows for a consistent level of policyholder protection throughout Europe, irrespective of where policyholders and insurers are located.

Such a step would ensure that within an internal market and a Capital Markets Union also consumers and policyholders receive adequate protection.

Recently the deadline of answering to the consultation related to the European pension insurance products (PEPP) standardized by EIOPA has expired. This kind of product has got significant challenges against development, tax system or labour law of the member state markets. What are the legislators' expectations about it? Does this group of products complete or replace the pension products existing in the member state markets?

From a regulatory perspective, we believe that a Pan-European Personal Pension Product (PEPP) can be designed to be attractive to distributors and consumers alike. The availability of a simple, transparent, trustworthy product such as the PEPP would be central to building a basis for consumer trust. Personal pensions could enable adequate replacement rates in the future, but it would be possible only if those savings are safe, cost-effective, transparent and sufficiently flexible to accommodate the current economic and labour market environment.After having analysed the possible PEPP from a regulatory perspective, EIOPA concluded that such a product would need to exhibit standardised features, such as "information provision based on the proposal of a Key Information Document (KID) within the Product Retial Insurance and Investment Product (PRIIPs) framework", "limited investment choices including default investment options", "regulated flexible, biometric and financial guarantees", "regulated, flexible caps on cost and charges" and "regulated flexible switches and transfer of funds".

Further work should be done to build up concrete "product pilots" and the respective prudential regulatory framework. In order to allow for long-term investment strategies and for consumers to benefit from a certain degree of security and more stable returns, appropriate limitations to short term liquidity will need to be considered.

The PEPP should be implemented through a 2nd regime, so it will complement the local products but not substitute them.

We are very happy that the Hungarian colleagues are actively participating in EIOPA's working structures at a senior level.

How can you evaluate the negotiations with the national supervisory authorities, especially the Hungarian authorities?

First of all, we need to remember: EIOPA does not substitute national supervisors. We have different tasks.

NSAs are responsible for the day-to-day oversight and for the daily supervision of cross-border insurance groups, whilst EIOPA strives for supervisory convergence and consistency of practices across Europe.

The main decision-making body of EIOPA – the Board of Supervisors – consists of NSAs (in case of Hungary it is the Central Bank of Hungary). EIOPA works in a very constructive and collaborative way with the Hungarian supervisory authority.

We are very happy that the Hungarian colleagues are actively participating in EIOPA's working structures and also, at a senior level, in the development of EIOPA's supervisory handbook, a handbook of good supervisory practices.

I am confident that the Hungarian supervisory authority will continue to adapt its supervision to the risk-based Solvency II regime and maintain a high level of both prudential and conduct of business supervision.