Response to the EC roadmap on CMU Action Plan

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Summary
Insurance Europe welcomes the objectives set out by the EC in the roadmap. The insurance industry stresses the importance of taking into account in the design of the EC Action Plan the following priorities and elements identified by the sector:

- Address regulatory barriers to long-term & sustainable investment:
  - **Focused improvements to Solvency II are necessary** to support insurers fulfilling their key role in supporting EU's investment needs. Improving the treatment of long-term business and investment under Solvency II holistically is key. The review of Solvency II needs to be ambitious, yet targeted. This includes improvements to the Risk Margin and the Volatility Adjustment, as well changes to the equity and debt capital charges. It is also important to maintain the existing extrapolation method and parameters.
  - Ensure that the **International Accounting Standards Board (IASB) provides an appropriate solution for the 'recycling issue' under IFRS 9.**
- Increase availability of suitable long-term & sustainable assets:
  - Policymaker action is needed to **stimulate the supply of assets** that meet not only sustainability criteria but also quality and security requirements.
- To improve participation of retail consumers in the CMU, the EC retail strategy should:
  - **Address consumer information shortcomings resulting from EU legislation:** Simple and accurate disclosures allow consumers to make informed investment decisions and facilitate their participation in capital markets. Any legislative reform must be adequately tested and evidence-based to ensure better outcomes for retail investors. Rushed, interim changes to the information provided to consumers would only confuse them and undermine their trust in financial services. In this respect, the industry welcomes the recognition by the HLF on the CMU of the shortcomings of the PRIIPs Regulation.
  - **Ensure legislation is appropriate for all providers & respects different sectors specificities:** Consumer participation in the CMU will be enhanced through regulation that accommodates the specific features of insurance products and distribution systems. Rules on advice and inducements must be workable for all participants including smaller, local distributors who often are the point of access for retail customers.
  - **Ensure technology-neutral legislation that is digital & innovation friendly**, sufficiently future proof and ensures a level playing field among market participants.

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- **Improve consumers' financial literacy** by:
  - encouraging national financial education strategies and incorporation of financial literacy components into school curricula
  - encouraging the creation of national pension tracking tools
  - introducing a European Day of Financial Education and an EU retirement week.
- Promote pensions savings & long-term growth:
  - **Encourage participation in complementary occupational & personal pension schemes:** Further Member State action is needed to promote well-balanced multi-pillar pension systems built on adequate, stable and attractive regulatory frameworks and tax treatment.
  - **Ensure the PEPP is attractive to buyers & sellers:** The success of PEPP will depend on many key issues still need to be addressed by EIOPA and the EC in implementing regulation. Whether PEPP will channel savings into long-term investments will depend on its attractiveness to savers and distributors alike.
- Preserve trust in the existing regulatory framework and in the reliability of the financial sector:
  - Solvency II already contains measures to preserve capital levels, on the basis of a case-by-case assessment. Intervention from NSAs and EIOPA to impose additional measures for the whole sector deviates from the European risk-based regulation, creates distrust and undermines the ambition of a CMU. For example, dividends distribution represents an important element of the investment decision and NSAs are able to prohibit distribution in cases where solvency is an effective and proven concern.
- Promote global competitiveness:
  - Ensure that proposed new actions **consider the competitiveness of the (re)insurance industry** as a global market player.
- Promote cross-border investment facilitation:
  - Improve the efficiency and effectiveness of national insolvency proceedings and withholding tax procedures.

Detailed comments

The insurance industry is Europe's largest institutional investor, investing over €10 200bn in the economy. Through its role both as an investor and provider of protection, the sector is uniquely positioned to contribute to sustainable economic growth, and it can help to finance the transition to a carbon-neutral, resource-efficient and more sustainable economy. In addition, life insurers are also major providers of occupational and personal pensions, encouraging stable and sustainable savings and pension provision.

Beyond their key role in Europe, insurers have significant presence outside the European borders - the European (re)insurance industry is the world's most international (re)insurance sector and a global success story.

Since the launch of the EC Capital Markets Union (CMU) project, the insurance industry has been fully supportive of the project's ambitious aims to boost European growth by strengthening the single European market and stimulating the sustainable development and integration of capital markets in Europe by removing barriers to investment.

Insurance Europe recognises the progress made and the importance of continuing the CMU project. The COVID-19 outbreak has further magnified the challenges Europe is facing, including achieving economic growth and technological innovation, global competitiveness and addressing climate change and the ageing society. The insurance industry strongly believes that recovery efforts should encompass the European Union's strategic priorities: addressing climate change and advancing digitalisation.

When undertaking new action, it is important to assess whether the CMU actions taken so far have had the intended impact. This assessment should be carried out with the objective of taking further steps where the impact is found to have been limited, and learning lessons to ensure the effectiveness of new initiatives.

In this respect, the insurance sector welcomes the targeted objectives set out by the European Commission in the roadmap. The insurance industry stresses the importance of taking into account the following specific priorities and important elements when designing the EC CMU Action Plan:

- The following actions are needed to enable insurers to increase their contribution to sustainable economic growth and support the transition to a low carbon economy:
    - **Address regulatory barriers to insurers' long-term & sustainable investment:** Focused improvements, in line with the recommendations made by the CMU High Expert Forum (HLF), need to be made in the Solvency II Review to support insurers fulfilling their key role in supporting EU's investment needs. Improving the treatment of long-term business and investment under Solvency II is key, including improvements to the Risk Margin and the Volatility Adjustment, maintaining the existing extrapolation method and parameters, as well changes to the equity and debt capital charges.
    - **Increase the availability of suitable long-term & sustainable assets:** Policymaker action is needed to stimulate the supply of assets that meet not only sustainability criteria but also quality and security requirements. Key areas in which the supply of assets needs to be fostered include infrastructure and, more broadly, sustainable assets.
    - **Ensure appropriate financial reporting rules:** This can improve the long-term equity financing of the real economy by expanding the sources of financing beyond traditional channels such as commercial banks. For this purpose and to address the current accounting disadvantage created by the ban on recycling for equity instruments while being available for debt instruments, it is important that the IASB provides an appropriate solution for the 'recycling issue' under IFRS 9.

- To achieve improved participation by retail consumers in the CMU, the EC retail strategy should:
    - **Address consumer information shortcomings resulting from EU legislation:** Simple and accurate disclosures allow consumers to make informed investment decisions and facilitate their participation in capital markets. Any legislative reform in this field must be adequately tested and evidence-based to ensure the better outcomes for retail investors. On the contrary, rushed, interim changes to the information provided to consumers would only confuse them and undermine their trust in financial services. In this respect, the industry welcomes the recognition by the HLF on the CMU of the shortcomings of the PRIIPs Regulation.
    - **Ensure legislation is appropriate for all providers and respects the specificities of different sectors:** Consumer participation in the CMU will only be enhanced through regulation that accommodates the specific features of insurance products and existing insurance distribution systems. Rules on advice and inducements in particular must be workable for smaller, local distributors who provide access to the CMU to retail customers who may otherwise be excluded.
    - **Ensure technology-neutral legislation that is digital and innovation friendly**, sufficiently future proof and ensures a level playing field among all market participants.
    - **Improve consumers' financial literacy** by:
        - encouraging national financial education strategies and incorporation of financial literacy components into school curricula
        - encouraging the creation of national pension tracking tools
        - introducing a European Day of Financial Education and an EU retirement week.

- Further action is needed to meet the dual objective of increasing pension saving and promoting long-term growth:
    - **Encourage participation in complementary occupational & personal pension schemes:** the results of a recent Insurance Europe survey interviewing 10000 citizens across 10 members states indicated that 43% of respondents are not saving for their retirement. Further Member State action is therefore needed to further promote well-

balanced multi-pillar pension systems across Member States built on adequate, stable, and attractive regulatory frameworks and tax treatment. The efficiency and effectiveness of pension regimes should be strengthened, eg through adequate regulatory frameworks, pension products design and auto-enrolment mechanisms, when appropriate depending on already existing national pension systems.
  - **Ensure the PEPP is attractive to buyers & sellers:** It is too early to assess the future success of the pan-European personal pension product (PEPP) and whether it will channel further savings to long-term investments. Many key issues still need to be addressed by EIOPA and the EC in implementing regulation for the PEPP to be attractive to savers and distributors alike.

- The freedom of capital and regulatory certainty are crucial aspects for the success of the CMU:
  - Any policies urging NCAs to diverge from the regulatory provisions endanger the reliability of the EU regulatory framework. Specifically, the recent recommendations prohibiting the provision of dividends and similar payments significantly undermine the existing framework. Solvency II already provides for all necessary powers for NCAs to assess and possibly restrict such payments on a case-by-case basis. Dividends distribution represents an important element of the investment decision, especially for the insurance sector. Moreover, dividends benefit millions of beneficiaries of pension funds – up to one third of pensions funds' investments is allocated to other financial institutions such as the insurance sector - and represent an important additional, passive income for many retail investors. [i]
  - In cases where cross-border intra-group transactions were prohibited, the free movement of capital is ultimately harmed. Any political decision which interferes with the fundamental freedoms and the mandate of EU legislation should require a transparent and timely involvement of co-legislators.

With respect to cross-border investment facilitation, the industry notes the importance of improving the efficiency and effectiveness and harmonising national insolvency proceedings and withholding tax procedures. Retail investors should be motivated by an attractive fiscal treatment of their investments avoiding any financial burden.

The insurance industry also stresses the need to ensure that proposed new actions both:
- reflect EU and Member States' various remits and do not harm the global competitiveness of European business.
- consider the competitiveness of the (re)insurance industry as a global market player.

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[i] Source: European Commission, DG FISMA: Study on the drivers of investments in equity by insurers and pension funds, December 2019, p. 165ff