insurance europe

Annual Report 2014–2015

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Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. Preliminary 2014 figures show that European insurers generate premium income of almost €1 180bn, employ almost one million people and invest over €9 200bn in the economy.

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Foreword

When embarking on a journey, it is important to have both a clear idea of where you wish to arrive, and of how you intend to get there. The words and actions of the newly formed European Commission are encouraging and have made its intended destination clear. Over the coming years, the Commission wishes to arrive at a stable and prosperous Europe, underpinned by strong economic growth. A common destination shared by the insurers of Europe.

There is now renewed energy and discussion about reducing the amount of red tape on businesses and designing regulation that is smarter and more efficient. A new emphasis has also been put on the need to encourage the private sector to make more long-term investments, such as those in infrastructure projects and SMEs, to stimulate growth in Europe.

Insurance Europe supports the need to fully examine regulations with a view to removing legislative barriers that will hamper this pathway to growth. And there are a number of considerations we would like to suggest to EU and international decision makers on their journey.

In the distribution area, for example, the amount of pre-contractual disclosures — proposed under the last Commission's mandate — that insurers may have to make in the future is set to double. The industry is very supportive of making sure that consumers are protected, however it is also keen to prevent overloading consumers with information that might actually hinder their choice of insurance product. This is a clear example of the need for considering regulation and one which Insurance Europe will continue to highlight, in order to ensure that new regulations have a better outcome for consumers.

It's a similar story with investments. Being the largest institutional investors, insurers are a natural partner to make more long-term investments in our economy through the much discussed EU Investment Plan. However, our industry continues to have concerns that Solvency II will make it unnecessarily more expensive for insurers to invest. It is important to note that this extra expense results not from the actual risk that such investments pose, but from measuring the risks incorrectly.

At the same time, as policymakers search for growth, they also face the challenge of providing for an increasingly large retired population. Given the strain that most public finances are under, more needs to be done in partnership to ensure that people save prudently for their retirements. This would significantly reduce the pressure on state finances at a time when they are already stretched, while also providing premiums that enable insurers to continue making long-term investments, which are so important for growth in the EU.

Of course, even those equipped with a clear route to their destination still need broader support along the way. Solvency II again provides a good example of how regulation can produce a different outcome than for which it was initially designed. Rather than the principle-based approach that was first envisaged, Solvency II has now morphed into a more prescriptive rules-based regime, consisting of over 3 500 pages of text and over 271 reporting templates. This compares to just less than 200 pages and the very little reporting required for Solvency I, and all the other 13 related Directives which Solvency II replaces. While a page based comparison is simplistic, it nevertheless provides an indication about the compliance and implementation challenge that our industry is currently going through. Overly-prescriptive and detailed regulation does not only create unnecessary burdens for the industry, but also regulators and consumers alike.

Globalisation has been a cultural and business trend for some time and global regulation is now also playing an increasing role for our industry. The International Association of Insurance Supervisors (IAIS) has changed from being a forum for supervisors to discuss common issues and share experiences to a body for developing international regulatory standards.

The ComFrame project, for example, is one of the IAIS's major initiatives. Its original focus, to ensure that globally active insurers have a properly structured framework of supervisors, was one that the industry fully supported and indeed encouraged through active engagement with the IAIS. However, the focus has how shifted to developing new International Capital Standards (ICS) and when we look at the ambitious timetable we are worried that the development of these measures will be rushed, not sufficiently tested and may result in more pro-cyclical behaviour.

In insurance, it is important to highlight that a "one-size-fits-all" approach is rarely appropriate, and that it is in everybody's interests for policymakers to recognise the national or even local nuances and characteristics of different member states when enacting legislation. A good example is natural catastrophe risk. Different countries face different natural catastrophes. Therefore, they need to have insurance markets which offer appropriate cover to match the risks that policyholders face. Similarly, while climate change is a global problem, it requires local responses from policymakers, as it affects different countries in different ways.

Motor insurance is another example of where insurers need to take into account their own country's risk specifics, including local accident statistics, vehicle damage values and medical costs.

It is not just legislative initiatives targeted at our industry that we continue to be vocal about. The proposed EU data protection regulation threatens to disrupt insurers' abilities to use data to fight fraud, and even to underwrite policies. There is a continued concern that, if implemented without proper consideration for industry specifics, the envisaged data protection rules will decrease insurers' ability to fight crime and therefore deliver the best value and protection to policyholders.

All of these concerns underline the need for law making to allow enough time for impact assessments in order to prevent any unintended consequences and to ensure that new legislation will have the desired effect. Effective regulation is in everybody's interests, and something that Europe's insurers wholeheartedly support.

Sergio Balbinot

President

Michaela Koller

Director General

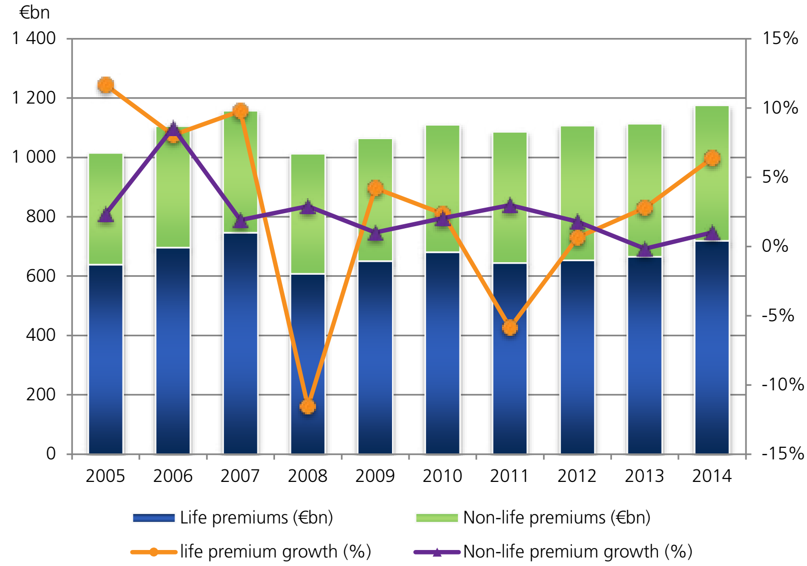
European insurance in figures

Life business leads premium growth

Europe's economy has grown in 2014, following negative or stagnant growth in the last few years, and this trend is expected to continue. Several factors have contributed to this recovery, including a depreciation of the single currency (favourable for European exporters) and falling oil prices, which have further facilitated trade and household consumption.

This gradually improving economic backdrop is reflected in the preliminary figures gathered on gross written premiums in Insurance Europe's member countries, where initial figures show growth of an estimated 4.2%, reaching €1 176bn. Preliminary figures also suggest that life premiums grew by 6.4%, reaching €719bn in 2014.

Total gross written premiums in Europe — 2005–2014 (€bn)



Source: Insurance Europe. 2014 figures are provisional and include 2013 figures for Bulgaria, Denmark, Iceland, Luxembourg, Switzerland and the UK.

There are stark differences in life premiums reported from Insurance Europe's member markets, with ten jurisdictions experiencing significant growth rates. Italy led this pack with an increase of 29.9% in 2014, owing to an extraordinary growth in new life business.

Non-life premiums are estimated to have grown by 1%, totalling €457bn. Sweden was the best performer in this area, with double digit growth of over 12%; important growth rates are also observed in emerging markets, such as Turkey. In contrast, in a number of countries (such as Greece) the difficult economic situation generated a decline in non-life premiums in 2014.

In tune with encouraging premiums results, insurers' investment portfolio is estimated to have grown by 6.8% to €9 230bn in 2014. Both life and non-life investor portfolios contributed to this trend: life insurers' investments grew by an estimated 7.2% totalling €7 552bn, while non-life investments grew by an estimated 5.7% to reach €1 614bn. The largest estimated growth in investments was reported by the Netherlands at 15.5%.

Please note that all these figures are preliminary and are to be confirmed. Final datasets and figures will be available in the autumn.

European insurance key figures and growth — 2012–2014 (€bn)

	2012	2013	2014	Nominal growth (at constant 2014 exchange rates) 2012/13	2013/14
Total gross written premiums	1 104	1 114	1 176	1.9%	4.2%
Life	653	665	719	2.8%	6.4%
Non-life	454	449	457	-0.2%	1.0%
Insurers' investment portfolio	8 353	8 543	9 230	3.2%	6.8%
Life	6 811	6 953	7 552	3.1%	7.2%
Non-life	1 500	1 521	1 614	2.2%	5.7%

Source: Insurance Europe. 2014 figures are provisional and include 2013 figures for Bulgaria, Denmark, Iceland, Luxembourg, Switzerland and the UK.

Long-term investment

Availability and access to assets is key for insurers' role

With €9 230bn of assets under management in 2014 (see opposite page), insurers are Europe's largest institutional investors. By making such significant long-term investments insurers play an important role in stimulating growth and promoting stability in Europe.

Availability of a wide range of assets is important to ensure that insurers can invest and meet their policyholder needs for a well-diversified portfolio which can match the wide range of liability durations and provide attractive yields.

Currently there is a great deal of focus on the need for greater private investment in assets which can have a very immediate and beneficial impact on European growth and employment. These assets include infrastructure, securitisations and SME investments.

There is also a welcome focus on the need to diversify funding for these assets so that institutional investors, including insurers, can increase their role, and help support greater investment and European growth.

These assets currently represent a relatively small part of insurers' investment portfolio — a report by the Organisation for Economic Co-operation and Development (OECD) estimates infrastructure investment at less than 1% of total investments.

Insurance Europe's own survey of large insurers indicated similar low levels on average, but also showed there was significant interest in increasing investment in these assets. Such an increase in investments in these assets would be a real example of a potential win-win situation. For example, Europe needs significant investment in infrastructure to create jobs and growth now and lay the foundations for ongoing growth into the future. The insurance industry needs long-term assets to match their long-term liabilities, provide real returns and diversify their risk. Insurers are one of the few investors who are able and willing to invest in such long-term and illiquid assets.

EU Investment Plan brings welcome focus

In the autumn of 2014 a new European Commission was formed under the leadership of President Jean-Claude Juncker, and quickly announced a €315bn Investment Plan aimed at driving growth in the European economy.

The EU Investment Plan consists of three elements: a pipeline of infrastructure projects to attract private investment, a European Fund for Strategic Investments (EFSI) to support greater private investment, and removal of regulatory barriers that may be holding back greater private investment and growth.

Another major initiative is the intention to develop a Capital Markets Union (CMU) in order to facilitate cross-border capital flows. The CMU works in conjunction with the Investment Plan because a key part of its scope is to consider what regulation is preventing greater non-bank investment into the real economy.

Insurance Europe's overall reaction has been to strongly welcome the EU Investment Plan and CMU initiative. The following key objectives were identified in order to ensure insurers can contribute to their success:

- The pipeline part of the plan should result in a significant increase in the supply of, and efficient access to, attractive and suitable long-term investments, including projects that can be invested in without any support from the EFSI.
- The EFSI should be used to increase further the number of projects by using its capital to make projects which would not otherwise be attractive for insurers, but in particular must avoid crowding-out private investment.
- Regarding regulatory barriers, in the short-term, Solvency II calibrations and/or definitions regarding infrastructure, securitisation and SMEs should be improved as these currently exaggerate the risks and capital needs of these assets and create disincentives for investment. In the medium to long-term, wider improvements to Solvency II are needed as part of the scheduled review process. Other regulatory barriers should also be addressed, such as finalising International Financial Reporting Standards (IFRS) 4 on insurance contracts in an appropriate way.

The Commission launched a number of consultations in order to get feedback including one on the CMU and one on how to develop the securitisation market. The Commission also asked the European Insurance and Occupational Pensions Authority

(EIOPA) for advice on how to define infrastructure as an asset class and how to refine the calibrations for this new asset class to better reflect the risks.

Insurance Europe has worked closely with its members to develop key messages, as well as specific proposals and actions in response to the consultations. It has engaged with all the institutions involved in developing political and technical elements of this project including the Commission, the European Parliament, EIOPA and European Investment Bank (EIB) to explain its positions.

This has included encouraging the Commission to organise workshops for stakeholders, such as insurers, and taking part in the roundtable on infrastructure organised by EIOPA.

Solvency II concerns remain

While Insurance Europe has supported the Solvency II project, it has also been very vocal about areas where it would not work as intended and needed improvements. The most high profile of these is the treatment of long-term investments and the unintended consequences this would have on the European insurance industry's ability to invest in the economy and provide stability. Concerns over this were the main cause for delays in Solvency II.

Omnibus II included some important improvements to better reflect the long-term business model and reduce the artificial volatility created by Solvency II. Insurance Europe welcomed the improvements but pointed that they only partially addressed the issue. Insurance Europe had remained concerned because the measures were overly restrictive but also because they only addressed the balance sheet volatility and not concerns over the calibration of the Solvency Capital Requirements (SCR).

Insurance Europe therefore welcomes the recognition that the current SCR calibrations need to be reviewed, because they can create disincentives for insurers. The Commission has asked EIOPA to give advice on the identification and calibration of infrastructure investment risk in Solvency II, and has asked for input on securitisations and SME investments in public consultations. The Commission has indicated that they may propose a new Delegated Act to reflect changes before the end of 2016.

Concerns regarding both supply and prudential issues

Despite recent political will to address long-term investment challenges, the insurance industry remains concerned that more needs to be done in order to ensure that insurers can continue to provide significant long-term investments in Europe.

The CMU project is, according to Commissioner Hill, about "growing and diversifying the funding of continental Europe", which is seen as one of the key challenges to growth. While it is to some extent linked to the EU Investment Plan, it goes beyond it and raises questions on a number of areas in which the Commission believes that more work on could bring more investment, for example, standardisations and harmonisation.

Insurance Europe welcomed the CMU project and highlighted that when examining ways to foster growth, both the supply and the demand side challenges need to be investigated.

On the supply side, the insurance industry supports and encourages availability of long-term attractive assets. On the demand side, the industry believes that regulation in general and prudential regulation, in particular, need improvements.

Insurance Europe hopes that the follow-up action plan that is expected to be presented by the Commission before the end of 2015 will appropriately reflect insurers' needs and expectations for policy changes, leading to a more positive environment for insurers to invest long-term.

Shareholder's Rights Directive

Another area of activity for Insurance Europe regarding long-term investments has been to raise industry concerns over the Commission's proposal to review the Shareholders' Rights Directive. This proposal came as part of the long-term investment debate and targets the equity holdings and investment strategies of life insurance companies.

In October 2014, Insurance Europe published a position paper to express concerns regarding the Commission's proposal, which was shared with Council of the EU attachés, the Commission and key MEPs. Concerns outlined in the paper included: avoiding commercially sensitive information being made public, ensuring the implementation is practical and does not create unnecessary costs and that there is appropriate interaction between the EU directive and local company law in all member states.

Insurance Europe will continue to monitor developments in this file and support an approach that appropriately reflects how insurers make long-term investment decisions and work together with asset managers on implementing investment strategies.

European Market Infrastructure Regulation (EMIR)

The European Market Infrastructure Regulation (EMIR) was a project triggered by a G-20 agreement following the financial crisis. It introduced additional reporting, collateral requirements and an objective to move most derivatives from "over-the-counter (OTC)", ie bilateral settlement, to being centrally cleared through a central counterparty (CCP).

EMIR is important to insurers because derivatives are often used to mitigate risks, in particular reduce mismatches between assets and liabilities. Insurance Europe has raised concerns about the significant impact that the clearing obligation can have on insurers' investments. The danger is that insurers will have to allocate more to short-term or cash assets, even if they hold plenty of long-term, high-quality collateral and the impact such a change will have on policyholders' returns.

While Insurance Europe continues to raise these high level concerns at European and international level, it also continues to monitor and engage with the European Supervisory Authorities (ESAs) as the details for implementing EMIR are developed.

Rules for collateralisation of OTC derivatives have not been finalised yet, despite an ambitious 2016 implementation target defined by the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commissions (IOSCO). Following-up on global requirements finalised in 2013, the ESAs conducted a public consultation over the summer of 2014 on the draft regulatory technical standards (RTS) on risk mitigation techniques for OTC derivatives.

Insurance Europe stressed that consistency of rules for OTC derivatives across jurisdictions and with other regulations is important to the efficient implementation of the EMIR. It also advocated the elimination of envisaged concentration limits applied to government bonds, to bring the rules in line with the Solvency II approach. Insurance Europe also raised strong concerns regarding the currently foreseen phase-in schedule for EMIR and highlighted the need for delays allowing the central clearing environment to build implementation experience for OTC derivatives.

The final rules for OTC derivatives are expected to be finalised later in 2015 and be applied later than currently envisaged, ie 2016.

In August 2014, Insurance Europe responded to the consultation by the European Securities and Markets Authority (ESMA) on the central clearing obligation under EMIR for interest rate swaps. Here it raised concerns over the frontloading obligation, where counterparties will have to retrospectively clear existing trades once the clearing mandates begin.

Insurance Europe also proposed that ESMA should consider applying a phased approach to frontloading, so companies have enough time to switch derivatives from bilateral to centrally cleared contracts.

Concerns on the clearing obligations appeared to be understood by ESMA and the Commission, and reflected in recent discussions. The clearing obligation for interest rate derivatives will most likely start to apply in the second half of 2016. Rules for central clearing of equity, credit and foreign exchange derivatives still remain to be drafted by ESMA in the coming months.

Prudential regulation

Solvency II approaches: the end of the beginning

Solvency II is at last close to completion; but with its application on 1 January 2016 only months away, some important details are still to be finalised.

Europe's insurers play a vital role in providing protection and long-term savings products for Europe's citizens and businesses. Solvency II can help ensure the European insurance industry remains strong and able to withstand extreme events, as it has over many years.

However, while the industry has been vocal in its support for Solvency II, it has also striven to ensure it is designed and calibrated to achieve its aims and avoid unintended consequences.

The most significant concern arises because Solvency II treats insurers as if they are traders and measures investment risk as if all assets were being traded. With long-term liabilities and long-term investment approach, insurers are very far from traders.

The current approach creates artificial volatility in insurers' balance sheets and exaggerates its capital requirements, putting at risk the industry's long-term business model and ability to invest in long-term assets such as infrastructure. Insurance Europe continues to work towards improvements both in the short- and medium-term.

In the meantime companies and supervisors are working extremely hard to be ready for Solvency II implementation. As more experience is gained about how Solvency II works in the real world, Insurance Europe expects that other issues to be addressed may be identified. In fact given the scope, ambition and untested nature of many aspects of Solvency II, there will inevitably be a need for an ongoing process of refinements and improvements. Therefore, the current period of finalisation and implementation leading up to 2016 should be seen as the end of the beginning rather than an abrupt end to the development of Solvency II.

Delegated Act finalised but improvements needed

The formal finalisation of the Solvency II Delegated Act was marked by its publication in the Official Journal in January 2015. This was an important and welcome step forward in the implementation of Solvency II. The uncertainty over when and, even if, Solvency II would be implemented caused a great deal of problems and additional costs for the industry.

Given the ambitious timetable for the implementation of Solvency II, a timely adoption of the Delegated Act — while a compromise solution — was indispensable to allow both insurers and supervisors a sound and sensible preparation.

Unfortunately, this has meant that, outside of the elements linked to Omnibus II, the final Delegated Act addressed only a few of the final key design and calibration issues that Insurance Europe had identified and it remains especially concerned about the treatment of long-term business and investment. Insurance Europe welcomed the European Parliament letters on the Delegated Act to the European Commission, which echoed many of its concerns.

Insurance Europe wrote to the Commission to reiterate the need to address these issues in February 2015. It said that, in the short term, a limited and specific set of issues need to be dealt with as quickly as possible, because they constitute part of barriers impacting the success of the EU Investment Plan.

These include calibrations for capital charges on long-term investments, such as infrastructure and securitisations. Insurance Europe indicated that some issues, which include ensuring that the long-term measures are working as intended and issues relating to own funds (including tiering and currency risk) should be addressed by an advanced review process.

It called for planning for the review process, which is likely to be very extensive, to begin soon. However, Insurance Europe stressed that significant unintended consequences and implementation issues should be looked at as they arise and the Commission should consider if and how they could be addressed in the short term.

Insurance Europe welcomes the focus that the EU Investment Plan has now put on addressing Solvency II calibration issues

for infrastructure, securitisation and SME assets and will continue to provide constructive input so that more appropriate calibrations can be proposed before the end of this year (see also p7).

Other implementing measures — ITS, RTS and guidelines

In addition to the Delegated Act, other implementing measures are used to define the total Solvency II framework and help achieve harmonisation across Europe. These are Regulatory Technical Standards (RTS), Implementing Technical Standards (ITS) and guidelines.

The European Insurance and Occupational Pensions Authority (EIOPA) has been working on different elements of these for a number of years, but over the last year has sought to finalise them through a series of major consultations. It began with a first set of ITS in April 2014, then issued a first set of guidelines in June 2014 and the final set covering an RTS, ITS and guidelines was published in December 2014. The final set included a very extensive number of over 271 reporting templates and in total the consultations included many thousands of pages.

ITS and the need for uniform application

In June 2014 Insurance Europe responded to the consultation on the first set of the ITS. This dealt with the processes for approval of the matching adjustment, ancillary own funds, undertaking-specific parameters, internal models and special purpose vehicles, as well as the joint decision process on group internal models.

In its response, Insurance Europe emphasised that the ITS should not go beyond the Delegated Act, and raised concerns over the general lack of consistency across the different ITS. It also requested that the length of time for supervisory approval be shortened in most cases, except for internal models, and that if supervisors do not respond by the end of the approval period, the ITS should be considered approved to avoid legal uncertainty and a never-ending process for companies.

Beyond some Pillar I-related issues (eg currency pegged to the euro, the equity dampener, transitional measures for the calculation of the equity risk sub-module) and also some Pillar II-related issues (eg the capital add-on), the second set of ITS issued by EIOPA for public consultation dealt with very extensive quarterly and annual reporting requirements for Solvency II, including day-one and financial stability reporting.

Insurance Europe highlighted in its response that the reporting templates will only be finalised a few months before the implementation date. This means that companies will have very little time to complete preparations for what is one of

Solvency II: Intended as a principle based regime but now has over 3 500 pages of rules

Insurance Europe has seen a very large shift away from the original principle based approach intended by Solvency II towards a very extensive rule based system.

An analysis carried out by Insurance Europe in December 2014 estimates that the final Solvency II text will consist of over 3 500 pages and include 271 reporting templates. This compares with only 199 pages needed to cover all 13 directives relating to Solvency I that Solvency II replaces.

About 1 100 pages relate to 707 individual guidelines which are almost all included at the own initiative of EIOPA. This is because the Solvency II text indicates that guidelines that could or should be developed relate to around 30 of these guidelines.

A great deal of effort and vigilance will be needed over coming years from regulators and supervisors to ensure Solvency II works as intended and achieves its objectives.

the most expensive and complicated aspects of Solvency II implementation.

Insurance Europe therefore stressed that changes from previous versions of the template issued, and on which companies have based their work to date, should be as limited as possible and that it should be accepted that the preparatory phase and first year of reporting in 2016 reporting will be on a best efforts basis with gaps and simplifications permitted.

Regarding the proposed financial stability reporting timeline and requirements, Insurance Europe made the point that they are not considered realistic and that the need for faster reporting for financial stability purposes should be limited.

In terms of approval procedure, the first set of ITS was published in the Official Journal in March 2015. The second set of ITS are expected to be submitted for final adoption by EIOPA's board of supervisors in June 2015 and following approval, be submitted to the Commisison by 30 June for final adoption.

All ITS and guidelines are expected to finally be published in all official languages in the course of autumn 2015 and will be applicable from 1 January 2016.

Guidelines and the need for consistency

In June 2014 EIOPA began a public consultation on a very extensive first set of guidelines and followed up with a consultation on a second set in December 2014.

The industry recognises the important role that guidelines will play in helping to ensure Solvency II meets the harmonisation objectives set by the Directive.

Insurance Europe therefore understands and appreciates that EIOPA should propose some guidelines under their own initiative. However, of the over 700 guidelines proposed by EIOPA only around 30 were indicated by the legal texts as being needed. Insurance Europe has been very vocal in expressing its view that the number of guidelines are excessive and should have been significantly reduced.

Avoiding inappropriate and excessive guidelines is very important as each guideline creates a cost for supervisors, the industry and for policyholders and adds to an already very challenging implementation timetable.

Costs are generated by the need for translation, for supervisors to carry out the "comply or explain" mechanism, for every company to integrate the guidelines into their policies and practices and subsequently for the ongoing monitoring carried out both by companies and supervisors to assess and ensure compliance.

In addition, overly extensive and prescriptive guidelines will tend to go further than the Level 1 and 2 texts intended, creating additional and unintended constraints which ultimately impact policyholders adversely.

As a general principle Insurance Europe highlighted that the guidelines required at the launch of Solvency II should be limited to material which is essential to ensure appropriate levels of harmonisation across Europe.

As the Commission highlighted in their recent report, the European Supervisory Authorities (ESAs) need to take into consideration the two objectives for issuing guidelines and recommendations set out in Article 16 of the ESAs Regulations, which should be read cumulatively to establish "consistent, efficient and effective supervisory practices" and to ensure the "common, uniform and consistent application of Union law".

Insurance Europe also commented that in drafting the guidelines, it is important to recognise that harmonisation does not mean all companies must do everything using an identical method, but that the range of appropriate methods allowed should be consistent.

There are many instances where the proposed guidelines, in seeking to provide greater clarity, went beyond the legal text by providing overly narrow definitions. Its analysis identified a significant number of guidelines that should be removed. Insurance Europe also provided extensive feedback to improve the wording of the guidelines.

While there were a relatively large amount of positive improvements to the wording of the text, EIOPA did not reduce in any significant way the number of the final guidelines, removing only about 10%.

ECB publishes final regulation on statistical reporting

Insurance Europe continuted to provide constructive input to the European Central Bank (ECB) as it developed its reporting requirements.

This work began in 2011 with the aim of extending and improving reporting from the insurance industry. While the industry understands the need for this, it was concerned at the potentially very signficant costs for insurers.

Following comprehensive discussions and refinements, the ECB has determined that almost all of their information needs can be provided either directly from Solvency II reporting or from proxies estimated from Solvency II data. Some additional information will be required from insurance companies, but this is limited and appears manageable at a reasonable cost.

Insurance Europe also welcomed the ECB's efforts to integrate their reporting needs into the Solvency II reporting process by working with EIOPA. The reporting timetable will also be aligned with Solvency II but will be reviewed in 2020.

The ECB regulation on statistical reporting requirements for insurance corporations was published in December 2014 and the regulation entered into force on 9 January 2015.

The first reporting will begin with quarterly data to be provided by April 2016 and annual data at the end of the same year. The draft templates covering the limited set of ECB add-ons that will be required in addition to the Solvency II reporting were published by the ECB in March 2015, also confirming that additional requirements are in line with Insurance Europe's discussions with the ECB.

Stress tests show industry is broadly resilient

In December 2014, EIOPA released the results of its stress tests, which demonstrated the resilience of the European insurance industry ahead of the implementation of Solvency II in January 2016.

When the consultation was launched earlier that year in May 2014, Insurance Europe raised a number of concerns on technical and calibration aspects but also on how the results of the stress test will be reported. It highlighted that the stresses used were very severe and cover the same risks as Solvency II. Solvency II capital is already determined based on extreme (1 in 200) stress events and therefore the stress testing exercise is a stress on a stress.

The fact that the insurers' capital went down after these kinds of severe events tested is quite normal because that is what the capital is there to deal with. It was very encouraging to see that even after such severe events, generally, companies were still able to meet their full solvency capital requirements (SCR).

However, Insurance Europe pointed out that it would have been more logical and reasonable to focus attention on the capital levels compared to the Minimum Capital Requirement (MCR) as was done in the first stress tests.

Following up on the 2014 stress test exercise, EIOPA asked the industry to provide feedback on the exercise to further improve their process ahead of the next stress test, possibly due in 2016.

Review of the Financial Conglomerates Directive

Another focus for Insurance Europe's work has been the Commission's review of the Financial Conglomerates Directive (FICOD).

In July 2014 the Joint Committee of the ESAs began a public consultation on its RTS on risk concentration and intra-group transactions under FICOD. Insurance Europe responded to this consultation in October 2014, and the final RTS were published two months later in December 2014.

Analysis of the final RTS showed that the Joint Committee had taken on board a number of the points made by Insurance Europe. Insurance Europe will continue to monitor these issues and work towards the deadlines identified.

The supervisory landscape

What changes lie ahead?

There has been an increased focus by policymakers on the supervisory landscape. This led to the establishment of the European financial supervisory authorities (ESAs) in 2011, to compliment the role of national supervisory authorities (NSAs) and identify opportunties for improvement.

Insurance Europe welcomes the European Insurance and Occupational Pensions Authority's (EIOPA) efforts since 2011 towards better convergence of supervisory practices, as well as the forthcoming Solvency II regime. The industry believes opportunities exist for improvements that would help insurers to compete fairly, innovate, and grow, while protecting and safeguarding consumers' interests.

Insurers require sufficient and continued flexibility to develop their product offerings to best meet consumer needs and demands. They also need this to continue their significant investments in the wider economy. To this end, Insurance Europe works with supervisors to enable a supervisory landscape that is fit for purpose.

Learning from the initial years

The Regulation that established EIOPA gave it powers to oversee and react, where necessary, to protect the public interest with the objective of "contributing to the short, medium, and long-term stability and effectiveness of the financial system".

The European supervisory framework makes EIOPA responsible for the coordination of supervision and best practice to ensure the consistent application of legally binding Union acts, while NSAs are responsible for the direct and day-to-day supervision of national undertakings.

Four years after its establishment, Insurance Europe believes there is some room for reflection and potentially action:

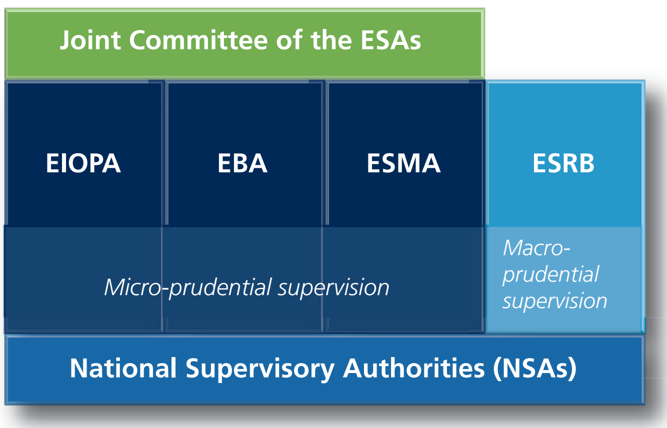
- The powers vested in EIOPA in its founding Regulation may need some further clarification.
- Some detailed and prescriptive rules issued by EIOPA may need further consideration and there are a number of guidelines that may have gone beyond level 1 Regulations. These areas will potentially lead to unintended consequences.
- EIOPA might have focused resources on tasks that were not originally envisaged by the delegating European institutions.
- There are potential governance issues that should be considered by the EU institutions including ensuring that there is sufficient oversight.
- ESAs should allow for a bedding-in period before asking for more powers.
- There is an increased focus by European legislators on shifting funding from the EU and national budgets to direct funding by the insurance industry which may need to be reviewed.

It is hoped that these issues will be addressed in an upcoming review by the European Commission which will take place in 2016/2017.

European System of Financial Supervision overview

In response to perceived regulatory failures of financial supervision during the financial crisis, the Commission established the European System of Financial Supervision (ESFS). The ESFS is composed of the three European Supervisory Authorities (ESAs), encompassing the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and

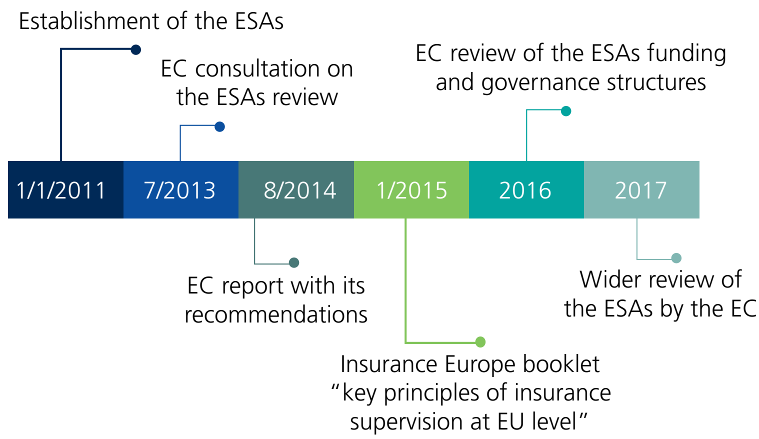
The European System of Financial Supervision (ESFS)



Occupational Pensions Authority (EIOPA) working with a network of NSA's.

Additionally the system comprises the Joint Committee of the ESAs and the European Systemic Risk Board (ESRB). The purpose of the Joint Committee is to strengthen the collaboration between the ESAs so they cooperate regularly and closely together to ensure consistency in their practices.

Timeline for the review of the Regulations of the ESAs



The ESFS was established on 1 January 2011, by the implementation of the founding Regulations of the ESAs and the ESRB. These contribute to a common supervisory culture, ensuring consistent, efficient, and effective application of the Union Acts.

They also confer powers on the ESAs to draft binding technical standards, guidelines, and recommendations and to foster the protection of consumers amongst others. The Regulations require the Commission to conduct a review of the operations of the ESAs every three years.

Consequently, the first review was launched in July 2013 with a high level public consultation. Insurance Europe responded to the consultation, outlining a number of concerns and suggestions in anticipation of the Commission report. Insurance Europe followed up by publishing its "key principles of insurance supervision at EU level" in January 2015.

Key principles of supervision

Insurance Europe's key principles of insurance supervision at EU level outlines, in five key points, the industry's views on the ESFS, with emphasis on the functioning of EIOPA (see p51). The key points are:

- **Maintaining the current supervisory structure**
  Insurance Europe supports and favours the current structure of the ESFS with its three separate supervisory authorities (EIOPA, EBA and ESMA) and a macro-prudential authority (ESRB). This sectorial approach ensures that the diversity of the financial markets and the specifics of each sector are properly considered and accurately assessed.

  Insurance Europe cautions against changing the current model of three sector-specific supervisors to a "twin peak" model where supervision is divided between undertakings and markets. Such a move would risk duplication of supervisory resources, as well as potentially limiting the ability of supervisors to take sector specifics into account in their work.

  There is already a trend of using banking and other financial market regulation as a benchmark for insurance regulation. This may not properly reflect how the insurance market functions.

- **Increasing accountability**
  Insurance Europe points out that accountability of EIOPA towards the EU institutions should be enhanced, as EIOPA seems increasingly involved in supervision. If a healthy and well-functioning supervisory and regulatory framework is to be ensured, this must be balanced by an appropriate system of checks and balances.

  The EU institutions need to embrace their role as policymakers and exercise proper oversight over the ESAs. One example of current accountability is the discharge of the ESAs' budgets by the Committee of

Budgetary Control of the European Parliament. Insurance Europe supports such oversight and accountability.

- **Maintaining subsidiarity**
Direct supervision of national undertakings should remain the responsibility of the NSAs as they know their markets best. They are closer to the companies on a practical level, and know better the needs and expectations of the consumers within their country. In contrast, the ESAs should keep to their current mandate and fulfil their objectives by ensuring consistent interpretation of regulations and promoting convergence in national supervisory practices.

  Insurance Europe supports the coordination role of EIOPA in the colleges of supervisors to ensure a harmonised approach to the supervision of groups with a pan-European reach without prejudice to the role and remit of the lead supervisor. Therefore the ESAs should be focusing on their role as coordinator, rather than becoming a "second supervisor".

- **Improving legal certainty**
It is important to clarify the non-binding nature of guidelines to avoid these amounting to quasi-legislation.

  The ESAs' powers allow them to issue guidelines and recommendations with little or no involvement from other EU policymakers. Unfortunately, there is a tendency for ESAs' guidelines to take the form of detailed, prescriptive rules, which at times constrain and/or contradict the principle-based regulations they are based on.

  Insurance Europe agrees with the Commission as set out in its report (see also "legislative developments") that the criteria for issuing guidelines and recommendations, set out in an article of the founding Regulations, have to be read cumulatively. Hence, the issuance of guidelines should be focused on establishing consistent, efficient, and effective supervisory powers and to ensure a common, uniform, and consistent application of Union law. These criteria should be closely observed and any set of guidelines should be justified accordingly.

- **Enhancing transparency**
Insurance Europe, in its discussions with policymakers, advocates that any ESA decision should be conducted in a transparent manner within reasonable timeframes.

  Safeguarding the transparency of the consultation process within the ESAs is a form of checks and balances. It ensures the broadest consultation of stakeholders is achieved and that the outcomes of consultations better reflect the specifics and needs of insurers and consumers. Although Insurance Europe acknowledges the efforts EIOPA takes to involve relevant stakeholders through such groups, transparency could be further improved by informing them of the outcome of public consultations before adoption.

Legislative developments

In August 2014, the Commission published its report summarising the experience acquired as a result of the operations of EIOPA and the procedures laid down in its founding Regulation.

The report is the outcome of an obligation imposed on the Commission under EIOPA's founding Regulation to review its operation within three years (and again, thereafter, every three years). It sets out the Commission's conclusions and recommendations for possible improvements to the European supervisory framework.

The Commission's medium-term recommendations in its report were:

- Revising the governance of the ESAs.
- Revising the funding arrangements of the ESAs.
- Permit ESAs direct access to data.
- Revising the ESAs' mandate having regard to subsidiarity, costs and benefits.
- Converting the ESAs' intervention powers into a self-standing empowerment.
- Clarifying and enhancing the mandate in the area of

consumer/investor protection and assigning a pivotal role to the Joint Committee.

- Strengthening of the ESAs' dispute settlement powers.
- Revising the number of stakeholder groups per ESA.
- Revising the structure of the ESAs.

During the course of 2015 and 2016, Insurance Europe will engage with the European institutions to explain the position of insurers and ensure that consumers are taken into account in the forthcoming review of the European supervisory framework and to warn against any unforeseen consequences. This will include explaining Insurance Europe's views on what the European supervisory landscape should look like, as illustrated in its "key principles of insurance supervision at EU level" publication.

With a view to assessing and establishing how to review the European supervisory framework, it is expected that the EC will assess ESAs' funding options and governance structures in 2016 and perform a wider ESAs review in 2017.

In anticipation of subsequent legislative changes to apply lessons learnt in the initial years of operation of EIOPA, Insurance Europe continues to highlight to EU policymakers the opportunities that lay ahead.

Funding of the ESAs going forward

Both the European Parliament and the Commission have hinted at changes to the funding arrangements of the ESAs, possibly abolishing EU and national contributions, and moving to partial or full funding from the industry. In his mission letter to Commissioner Johnathan Hill, Commission President Jean-Claude Juncker set as an objective the need to eliminate EU and national budgetary contributions to the ESAs.

Similarly, in its February 2015 opinion on the ESAs budget, the European Parliament's Committee on Economic and Monetary Affairs (ECON) acknowledged the need to "combine additional tasks with additional resources". However the opinion also emphasised the need for EIOPA to stick to its mandate and that any potential increases in resources should be complemented by "adequate rationalisation efforts".

Insurance Europe welcomed these statements in order to ensure that EIOPA is appropriately funded, but also operates as efficiently as possible.

Insurance Europe is apprehensive about funding changes away from the EU's budget, because the current oversight entrusted to the European Parliament through its role approving the ESAs' budget would be weakened. This in turn can impair the external oversight and governance which safeguards the quality and focus of EIOPA activities.

Insurance Europe will therefore continue to convey its concerns over any changes to the way the ESAs are currently funded.

Insurers' view on the supervisory landscape

Insurance Europe continues to raise awareness amongst EU policymakers and NSAs about the current experiences with the European supervisory framework and how these can be further improved. This is done by engaging in the ongoing review of the ESAs by the EU institutions and actively participating in EIOPA consultations on discrete matters.

The aim is for the upcoming review of EIOPA's founding Regulation to improve legal certainty within the Regulation for all relevant stakeholders; be it the supervisory authorities, insurers or consumers.

Insurance Europe continues to identify improvements that could be made to the current governance structure within EIOPA, and to call for proper and appropriate oversight of EIOPA's conduct. In the absence of such checks and balances, there is a risk that legal instruments emanating from EIOPA under the powers vested in them by the EU institutions are not sufficiently scrutinised and challenged before their introduction, nor reflect properly how the market operates.

Insurance Europe remains actively engaged in policy developments. Any change in the funding arrangements of the ESAs needs to be carefully considered and oversight by the EU institutions should be maintained.

Global capital standards

Momentum continues to build

The pace of development of capital standards by the International Association of Insurance Supervisors (IAIS) has not diminished.

Over the past year, the IAIS has finalised the first phase of its work on capital measures to address systemic risk: the basic capital requirement (BCR). This will serve as basis for calculating capital add-ons for global systemically important insurers (G-SIIs). The BCR was endorsed by the Financial Stability Board (FSB) in November 2014, so the IAIS will proceed to develop its higher loss absorbency (HLA) for G-SIIs, which is due for finalisation by the end of 2015.

In parallel, the IAIS began work on a risk-based global insurance capital standard (ICS) that would apply to internationally active insurance groups (IAIGs). The IAIS aims to finish development of the ICS by 2016.

A lesson from Solvency II was that the definition and development of capital standards which work as intended is not easy. If capital standards are not only to be an academic exercise, but actual effective protection mechanisms then analysis, studies, proposals and intense discussions with all the parties involved are needed.

A disappointing BCR

The IAIS was mandated by the FSB to work on measures to be applied to firms that have been designated as G-SIIs. These measures include the BCR, which will be used as a foundation for the HLA requirements, as well as recovery and resolution requirements.

The entire cycle of development for the BCR took place over the course of nine months, and Insurance Europe raised concerns over compromises that were made to sacrifice accuracy for the sake of simplicity and speed of development. The result is a measurement approach that ignores the long-term business model, profit sharing, risk mitigation and diversification. These are fundamental to the insurance business model and for assessing and comparing the levels of risk across companies. Insurance Europe is unsure if such a measure can work in practice and there are concerns that, in its current form, the BCR could create pro-cyclical behaviour. However, the actual impact and success of the measure will depend on the final calibration of the BCR, the design and calibration of the HLA and the consequences of breaching the target levels stipulated by the framework – none of which are known yet.

Targeting NTNI for systemic risk

It's not clear yet how well the HLA will be able to satisfy the FSB objective of capturing non-traditional, non-insurance (NTNI) risks, or if it will inadvertently be targeted at a much wider array of activities including, potentially, traditional insurance which has no bearing on systemic risk.

The IAIS has repeatedly expressed its intention to replace the BCR with the ICS, as the basis for the HLA, but these measures have been formulated to achieve different objectives for a different group of subjects. This raises significant doubts as to whether the ICS will be able to function as the basis for the HLA.

Departing from ComFrame's original aims

The common framework for the supervision of international insurance groups (ComFrame) was largely triggered by the failure of AIG during the financial crisis. Its key aim was to address the weaknesses in the regulation of internationally active groups which allowed such a failure to occur. AIG's near-collapse was caused primarily by a non-insurance subsidiary.

However, AIG's traditional insurance businesses remained viable at all times. Effective risk management by the company, effective regulation and, more specifically, greater supervisory coordination at both sectoral and international level would have prevented AIG from ever gaining a position of systemic relevance in the global swap market and from building up an excessive risk concentration in the mortgage-backed securities market. It can therefore be said that the crisis at AIG was the consequence of a blatant failure to adequately address the build-up of risk by both the management of the firm and its supervisors.

The original focus of ComFrame was, therefore, to ensure

that each internationally active group had a clear lead supervisor, a well functioning supervisory college to help national insurance supervisors cooperate and coordinate efficiently and effectively, and ensure high standards of group level oversight, governance and risk management. These were valuable objectives which were timely and had the support of regulators globally, as well as the support of most of the insurance industry, including Insurance Europe. However, since its inception in 2010, the initial objectives of ComFrame have changed, with much stronger focus on comparability of solvency measurement, along with the announcement of the development of the ICS. This new focus changes the goalposts for ComFrame substantially, making the whole project a lot more ambitious, and it risks distracting the entire ComFrame project and jeopardising the improvements relating to the real problems identified in the aftermath of the crisis.

Focus on comparability

In the publication of its ten principles for the ICS, the IAIS highlighted that the ICS should be a comparable measure. This issue is reflected in many parts of the ICS consultation which was completed in February 2015. Yet there is no clear common understanding of what comparability means or how it is an achievable (or desirable) objective. In fact, the ICS consultation explicitly asks for input on what "comparability" should mean, even though the IAIS is committed to making the ICS "comparable".

This lack of definition of fundamental concepts resonates throughout the ICS proposal. Many decisions are interdependent and contingent on each other, making industry input difficult. A more fundamental concern is that if development goals for an ambitious project like the ICS are not defined and do not add clear value, it is dangerous to skew the development of the project towards them. Insurance Europe hopes that ultimately the IAIS will settle on a definition of comparability that stakeholders can support, and adopts a more realistic step by step approach and timetable.

Global diversity of positions

The explicit intention for the ICS appears to be largely linked to

Critical Functions

In December 2014, Insurance Europe responded to a Financial Stability Board (FSB) consultation on the identification of critical functions and critical shared-services in the context of recovery and resolution planning for systemically important insurers.

Insurance Europe expressed support for the FSB's pursuit of cross-border supervisory co-operation on resolution, as well as for its work to develop a common understanding of critical functions. However, Insurance Europe also highlighted some concerns.

Firstly, critical functions should be identified exclusively according to their potential ability to materially affect the financial system and the real economy. An indicative list provided by the FSB in an annex to the consultation included almost all insurance activities. Secondly, Insurance Europe reiterated that the differences between the insurance and banking business models should be fully taken into account by the proposal. The FSB's proposal focuses — amongst others — on the risk of sudden failure and sudden withdrawal of services by an insurer and on the assumption of high interconnectedness between insurers and reinsurers. Insurance Europe again argued that these two issues are not remotely as significant in insurance as they are in banking.

At European level, Insurance Europe continues to monitor non-bank resolution-related developments and expects a potential proposal from the EC by the end of the year. It is at this time uncertain if insurance will be included in the scope of the proposal and in what way.

the initial objectives of the Basel Accords for banking; namely to have a "measure of capital adequacy" and for "minimum standards to be achieved". The starting point of this work in insurance, however, differs significantly from that in banking.

Discussions on the first Basel Accord in 1980's came at a time when local supervisory authorities had only done a comparatively small amount of work in building up their own regulatory frameworks. Progress was then incremental with jurisdictions implementing changes and rules in parallel over many years, making it more straight forward for an international standard to be adopted by different jurisdictions at the same time.

Work on an international standard for insurance, however, was only announced in 2013. By then some jurisdictions, including major markets like the EU, had already gone through a full revision of their local solvency regimes. Jurisdictions were now faced with high-level, principle-based discussions on how a risk-based capital system should be designed and how comparability across jurisdictions could be achieved. This was despite the fact that they had been developing their own diverse solvency regimes for many years, which would now risk being replaced by a new set of international standards.

Discussions over the past year have highlighted the diversity of positions from which insurers and supervisors globally are beginning the ICS development process. Accounting standards, legal frameworks and market specifics complicate the objective of achieving a globally comparable ICS measure. In Europe, the industry has been through the exercise of harmonising the regulation across widely diverse jurisdictions, and has seen first-hand how challenging the crafting of such multinational frameworks is.

Incremental process

The Solvency II project in Europe has taken more than 13 years to develop. It required effort and engagement from both regulators and industry to design and test a risk-based system that would aim to capture the true risk profile of the insurance business and minimise unintended consequences that could arise from approaches that would focus more on simplicity and less on measurement of real risk. Having the Solvency II experience in mind, Insurance Europe believes that it would be more realistic for the IAIS to acknowledge that such a longer timeline may have a better chance of achieving its goals, and would less likely lead to unintended consequences.

Despite the IAIS' stated objective of having a finalised ICS proposal by the end of 2016 some regulators and indeed the IAIS themselves have expressed that they believe the ICS will in reality be a much longer process of iterative improvements, where small steps would lead supervisors to converge over time. The challenges inherent in solving all the challenges presented to the IAIS may not be solvable in the short term, though some minimum level of commitment might be possible, which may in turn lead to incremental refinements on a longer timeframe.

Implementation is an unsolved problem

Whatever ICS measure the IAIS proposes, ultimately it will become a matter for local jurisdictions to implement. As the IAIS has pointed out to stakeholders, member jurisdictions of the IAIS are expected, as per the IAIS by-laws, to encourage their local authorities to implement the ICS. At this time it is not clear if the IAIS will tailor the ICS to be a compromise solution between existing regimes in order to enhance implementation, or whether the IAIS will concern itself at all with the compatibility of the ICS with existing regimes. Given that there is clearly significant political involvement in the project, this dimension will be a decisive influence on how the implemented ICS will function in practice.

Throughout all Insurance Europe representations towards the IAIS, it has stressed that local regimes which are consistent with the ICS framework should be recognised as a suitable implementation of the ICS framework, and expressed confidence that Solvency II will be considered as an acceptable implementation of the ICS framework. Solvency II is a sophisticated, risk-based regime and represents a fundamental review of the European supervisory framework for insurers. It should, therefore, be possible to treat it as a practical implementation of the global standard.

Trade

Ensuring markets remain open

As well as providing protection and managing the savings of millions of individuals and businesses in the EU, European insurers provide a significant amount of services to policyholders globally, with more than 30% of their business coming from outside of Europe.

It is, therefore, crucial for Insurance Europe to monitor and engage in local insurance market developments in non-EU jurisdictions where European insurers and reinsurers do business.

India: a market access success

A good example of Insurance Europe's recent work focused on a non-EU jurisdiction that is one of the world's largest growing economies: India. Over past years, Insurance Europe has advocated the removal of market barriers for European insurers in India. These barriers included:

- A cap on the volume of investment that foreign companies were able to make in Indian insurance joint ventures.
- A prohibition of foreign reinsurance branches from operating in India.

This file was high on the agenda of Insurance Europe's advocacy for several years, and the federation has raised its concerns several times both with the Indian authorities and the European Commission, often in a joint effort with other organisations, such as the Global Federation of Insurance Associations (GFIA).

As a consequence, the industry was pleased to learn in March 2015 that the Indian Parliament had approved the legislation which address these issues.

Firstly, the cap on investments that can be made by foreign companies in Indian insurance companies has been raised from 26% to 49%. Secondly, the prohibition on the establishment of foreign reinsurance branches in India has been lifted.

OECD trade index in services

At a global level, in 2014 the Organisation for Economic Co-operation and Development (OECD) launched its trade index which evaluates quantitatively how open OECD member countries are to external trade in services. The development of this index is a major step forward as it provides a single and knowledgeable contact point to understand the main barriers that the OECD countries maintain in a specific sector, such as insurance.

Insurance Europe contributed to the OECD work in order to ensure that the index for insurance includes all the trade barriers faced by European (re)insurers and was pleased with the final outcome, which it considers an appropriate reflection of concerns which are of relevance to the industry.

Bilateral and plurilateral negotiations

Insurance Europe also monitors and engages in bilateral and plurilateral trade negotiations, and works closely with the Commission to ensure that the needs and concerns of European insurers are represented appropriately at these talks.

One of Insurance Europe's main areas of focus in this context has been its work to have financial services included in the Transatlantic Trade and Investment Partnership (TTIP).

Recent activities include publishing an updated position paper in December 2014, as well as signing a joint statement with nine other cross-sectoral EU and US organisations, calling for financial services inclusion in January 2015.

Another focus for Insurance Europe in this area has been the Trade in Services Agreement (TISA) negotiations. Based on Insurance Europe and GFIA position papers released in 2013, the secretariat has held regular contact with the Commission in order to ensure that the final TISA agreement includes ambitious commitments on insurance.

Looking ahead, Insurance Europe will continue to monitor and take action when necessary to ensure that the interests of European insurers are well represented in the on-going bilateral (TTIP and EU-Japan) and plurilateral agreements.

Pensions

Awareness at the heart of the pension challenge

Europe faces a major challenge in addressing how to provide for its retired citizens. Traditional pension systems are coming under significant pressure across Europe because the percentage of the population that is retired has increased significantly in recent decades and this trend will continue for years to come.

This happens at a time when public finances are already stretched. Reforms are therefore being introduced in many countries which aim to guarantee the sustainability of state-managed pay-as-you-go schemes and this often translates into lower pension benefits. The challenge is therefore to find ways to implement these reforms while ensuring a certain standard of living for pensioners.

Insurance Europe believes that it is particularly important in this context to make sure that all EU citizens of working age are provided with appropriate information on what their future pension entitlements are likely to be. Such enhanced and timely information will play an important role in encouraging people to save more for their old age and make the arrangements that best meet their particular circumstances. Ensuring the provision of adequate information is primarily the responsibility of member states, but the European Commission also has a role in promoting good practices.

It will also be important to ensure that all member states have strong, mutually reinforcing pension pillars, as occupational and personal supplementary pensions will become increasingly important in securing that Europe's citizens have an adequate retirement income in the coming decades.

A number of specific initiatives on supplementary pensions currently under discussion at EU level are explored in this article.

IORP Directive review is underway

In recent years, the Commission has conducted a review of the Institutions for Occupational Retirement Provision (IORPs) Directive. Since it came into force in 2003, the original IORP Directive has played a key role in introducing fundamental principles in the management of pension funds across Europe. It has supported the creation of a single market for occupational pensions and introduced principle-based prudential requirements for pension funds.

Following this review, in March 2014 the Commission published a proposal for a revised Directive on pension funds ("IORP II"). With this proposal, the Commission aims to enhance governance and transparency requirements for IORPs across the EU.

Insurance Europe welcomes the objectives, as all European workers should enjoy access to quality occupational pensions, managed in a professional and transparent way, irrespective of whether the providers of these products are regulated by the IORP Directive (which applies to most pension funds) or Solvency II (the framework that applies to insurance companies).

With respect to governance, Insurance Europe is supportive of an approach which is in line with well-established rules for financial service providers. For example, a proportionate and effective risk valuation would encourage pension funds to assess their ability to engage with short and long-term risks, as well as to deliver on their pension promise.

The issue of transparency is also particularly important: all workers should be given adequate information about the risks they bear and the nature of their pension promise.

Employers should also be given adequate information in order for them to make well-informed decisions about the right products and providers for their employees.

Insurance Europe intends to engage, in the coming months, with the European institutions in order to highlight the need that the negotiations result in appropriate governance standards and adequate levels of transparency for all occupational pensions.

One area that the IORP II proposal does not update is quantitative requirements. This means that Europe's pension

funds under IORP II will continue to apply rules set under IORP I.

In Insurance Europe's opinion, the IORP II proposal is thus incomplete, as the omission of risk-based quantitative requirements raises concerns that members and beneficiaries of occupational pension schemes may not consistently benefit from the highest standards of protection.

There is also a concern that providers offering similar products will be subject to different prudential requirements, leading to an uneven playing field. In order to achieve fair competition between providers and similar protection for beneficiaries, Insurance Europe supports the application of the "same risks, same rules" principle, taking into account the economically significant differences between providers.

Insurance Europe therefore looks forward to the future review of the directive, which should consider the introduction of capital requirements. This should build on the results of the stress tests and the second Quantitative Impact Study for IORPs conducted by the European Insurance and Occupational Pensions Authority (EIOPA).

Personal pensions key to re-launch growth

Personal pensions, the so-called "third pillar", also play a key role in today's pension landscape of most European countries and notably in member states where occupational pension systems are not widespread. In the future, this role is likely to become even more important.

With a long track record of tackling demographic challenges, life insurers are major providers of personal pension products (PPPs) equipped with a guarantee (ie a minimum return) that consumers can trust.

Through life insurance products, policyholders can access an array of benefits. For instance, pooling investments provides them with less volatile average long-term returns. They can also access risk premium and higher yields available from long-term and illiquid investments, as well as top grade investment expertise and information services.

The PPP debate

For several years, a debate has been taking place in Europe on whether the creation of a single market for personal pension products could have benefits in terms of increased coverage of third pillar pensions and enhanced workers mobility.

Insurance Europe welcomes this debate given that all avenues to increase the provision of such products have to be explored.

It has to be stressed, however, that Europe's citizens will benefit from such products only if they contain real pension features, primarily aimed at providing a retirement income.

Should the ongoing discussion result in the extension of investment products, rather than an increased offer of pension products, then the opportunity would be missed to respond to Europe's pension challenge.

Increasing pensions provision to kick-start growth

The PPP debate has been given a new impetus with the launch of the Capital Markets Union (CMU) project by the new Commission.

The main goal of the Commission is to boost growth by strengthening and diversifying the financing of the EU economy. In this context, the establishment of a pan-European product is regarded as a potential measure to increase the volume of private pensions sold throughout Europe and to better allocate funds towards long-term investments.

Insurance Europe believes that PPPs could support the Commission's growth agenda by incentivising more consumers to save in the long-term.

Insurance Europe therefore welcomes the opportunity to engage with the Commission and EIOPA to explore the potential of this initiative for citizens and the European economy.

Taxation

Automatic information exchange to tackle tax evasion

In an increasingly interconnected world, cross-border transactions by individuals and companies are common. Consequently, tax authorities face difficulties in enforcing national tax rules, especially when lawbreakers look for alternative means to avoid or evade their tax obligations in other jurisdictions.

Due to the cross-border nature of tax evasion and avoidance, international cooperation in this field is as high on the political agenda as ever. Insurance Europe welcomes initiatives aimed at addressing the problem of tax avoidance and evasion, while noting that they should be targeted and proportionate in nature.

One way that this issue is being addressed is through automatic exchange of financial account information, an area which has seen significant developments recently at global, EU and member state levels. In order for such exchange of data to take place, financial institutions are requested to gather information on income earned in their territory by non-resident individuals and report such data to the national tax authorities. The data is then automatically transferred to the country of residence of the individual so that appropriate tax rules can be applied.

New rules for automatic exchange

The first truly global framework for automatic exchange — the Common Reporting Standard (CRS) — was published by the Organisation for Economic Cooperation and Developments (OECD) in 2014. It came in addition to several reporting schemes already in place across Europe, imposed notably by the EU's Savings Directive, the Directive on Administrative Cooperation, and the US Foreign Account Tax Compliance Act (FATCA) agreements primarily targeted at US citizens.

European insurance companies that have previously been subject to parallel and at times overlapping reporting schemes therefore welcome the global CRS as an opportunity to bring clarity to the complex maze of reporting requirements for financial institutions. In this view, Insurance Europe was pleased about the Council of the EU's agreement at the end of 2014 to align EU automatic exchange rules by implementing the global CRS through an update to the Administrative Cooperation Directive (DAC 2).

In adopting the revised DAC 2 and in order to streamline requirements for automatic exchange, the Council also called on the European Commission to repeal the EU Savings Directive. In March 2015, the Commission issued a proposal to that effect, alongside another proposal on automatic exchange of tax ruling information between member states in an effort for national tax authorities to be better informed of developments in other countries that could potentially also affect their markets. The new Commission considers tackling tax evasion as one of its main priorities over the next five years.

While the insurance sector is pleased with increased clarity on an operational basis, several considerations are key to the insurance sector. Insurance Europe has consistently argued against the inclusion of existing insurance policies in the scope of reporting obligations on the grounds of the huge administrative burden it would create compared to the low risk of tax evasion such products present. Similarly, on the basis of specific features of retirement plans, the insurance sector also advocates for an exemption of retirement products from reporting obligations. It will be very important for these areas to be taken into consideration by member states and EU-policymakers during the forthcoming discussions on the implementation of the DAC 2 in the EU.

Efforts to tackle base erosion and profit shifting continue

Work related to the OECD's initiative to tackle base erosion and profit shifting (BEPS) continues. This project aims to address tax planning strategies which are used to shift profits from high-tax jurisdictions where the actual economic activity takes place, to low-tax jurisdictions where there is little or no economic activity.

Insurance Europe supports the OECD's objective to tackle tax evasion. However, there are a number of concerns on the fact that specifics of the insurance business model are not taken into account in the BEPS process. The potential consequence may be that the normal operation of insurance groups will be affected if some proposed measures are implemented.

One such area relevant to the insurance sector is permanent establishments. The OECD's objective is to prevent situations in which cross-border groups avoid creating a permanent establishment for tax purposes in jurisdictions in which they are actually active, thus artificially reducing their tax burden in such jurisdictions (by not allocating profit to that establishment).

While agreeing with this objective, the insurance sector stresses that the key to determining the attribution of profits to a permanent establishment is where the key entrepreneurial risk-taking functions are undertaken. As recognised by the OECD, these functions are represented in insurance by underwriting, because an insurer assumes the risk from policyholders through the underwriting process. Therefore, Insurance Europe has repeatedly argued that insurers should be required to set up permanent establishments only in jurisdictions in which underwriting takes place and not in jurisdictions in which premiums are collected by dependent agents.

Another area on which the OECD is currently working is interest deductions. The stated objective of this initiative is to prevent the use of deductible payments such as interest in a way which results in double non-taxation. Insurance Europe welcomes the acknowledgement by the OECD that a different approach concerning interest deductions is required for the financial sector in light of its particular circumstances and regulatory/operating environment. In insurance, regulatory capital has a specific role to play, since the accumulation of high-quality capital is not meant to benefit insurers financially but to make sure insurers have sufficient funds to meet claims as they occur. Consequently, Insurance Europe emphasised that the tax deductibility of interest associated to regulatory capital must be safeguarded.

Similar comments were made by Insurance Europe in response to a third OECD BEPS initiative regarding risk transfer. This work aims to prevent BEPS situations created by shifting risks among, or allocating excessive capital to, group members. Insurance Europe re-emphasised that the maintenance of an appropriate level of capital within a jurisdiction is not a business choice, open to flexibility depending on the tax treatment of debt but instead it is regulatory requirement which is critical to an insurer's ability to carry on business. In addition, since the fundamental nature of the insurance industry is to shift risk; insurance and reinsurance transactions between associated enterprises should be recognised under the arm's length principle.

Uncertainty regarding the Financial Transaction Tax

The 11 European countries working under enhanced cooperation towards the implementation of a Financial Transaction Tax (FTT) have failed to achieve significant progress in 2014. However, the political will to advance this project seems to have been renewed in early 2015, when the Finance Ministers of France and Austria signed a joint letter calling for more effort in view of an implementation of the FTT in 2016. The Commission promised its full support for any such initiative.

Insurance Europe continues to believe that taxing financial transactions of all types of instruments, regardless of whether they are conducted for speculative or investment purpose, would significantly increase the cost of policyholder protection.

This is because the price of an insurance policy is affected by investment returns, which would conceivably be diminished by the FTT (especially in the case of long-term retirement products). In an environment of increasing uncertainty and risk, every effort should be made to encourage people to get insurance coverage and to save for their retirement, but the proposal would actually penalise this behaviour. Consequently, Insurance Europe believes that retirement and long-term savings products should be excluded from the scope of the text and that multiple taxation of a single transaction should be avoided by exempting intermediary transactions.

Insurance Europe is also concerned that applying an FTT to all derivatives would have a negative effect on insurers' ability to properly manage their risks. Derivatives are routinely used by insurers in the efficient matching of assets and liabilities, a principle which lies at the core of their business model, and not for speculative purposes.

Financial reporting

Progress made on accounting standards

International Financial Reporting Standards (IFRS), as defined by the International Accounting Standards Board (IASB), prescribe accounting principles for companies to apply management judgement to their financial reporting as opposed to strict rules.

In Europe IFRS has, since 2005, been compulsory for public interest companies (such as insurers) and those that are trading on a regulated exchange market. Beyond Europe, IFRS is compulsory in 114 jurisdictions worldwide for all or most of their publicly accountable companies.

These standards are very important for the insurance industry because they can have a major influence on how investors and other providers of capital view insurance companies and therefore can have a major impact on the cost of capital and management behaviour.

In addition, implementation of new IFRS requirements can be very expensive, making it important that implementation costs and operational complexity are taken into account.

IFRS 4 development edges towards completion

IFRS 4 is one of the most extensive and complex IFRS projects. Once completed it will fundamentally impact financial reporting for many insurers.

The IASB is seeking to finalise this project, which began in 1997, towards the end of 2015, but the effective date for implementation is still uncertain.

The IASB divided the development of IFRS 4 into two key stages — dealing first with simpler liabilities relating to products with no profit sharing features (non-participating contracts) and afterwards with the more complex liabilities relating to profit-sharing products (participating contracts).

The IASB considers the work on non-participating contracts as largely complete. They originally aimed to finalise the participating contracts in 2014. Insurance Europe highlighted the need for more time to reach an appropriate outcome and welcomes the IASB's decision to delay final approval.

Regarding participating contracts, Insurance Europe received further positive indications from the IASB, but that working out the final details remains a challenge for 2015.

Participating contracts in progress

Participating contracts combine elements of insurance coverage and investment returns so that the performance of assets can impact directly the liabilities. This can create significant additional complexity.

There was widespread agreement across the global insurance industry that the proposals put forward by the IASB in the 2013 second Exposure Draft were unworkable.

Over the past two years, Insurance Europe and the CFO Forum have focused on developing an industry solution which could be used as the basis for an alternative solution. The insurance industry's work culminated in early 2014 in an industry technical proposal, developed by the CFO Forum, and supported by Insurance Europe.

The IASB is now considering its proposals and has decided that more time is needed before finalising IFRS 4 Phase II. Consequently the IASB pushed back the target date for final decisions towards the end of 2015.

Next steps

Insurance Europe continues to engage with European Financial Reporting Advisory Group (EFRAG) who advise the European Commission and provide input to IASB on behalf of the European Union. Insurance Europe also interacts directly with IASB Board members and staff.

The focus for the months ahead will be to work together with the IASB regarding a solution for participating contracts and make progress on convincing the IASB on overall areas of outstanding concern including unit of account, measurement of reinsurance contracts and revenue recognition.

IFRS 9

The IASB issued the completed IFRS 9 "Financial Instruments" in July 2014 which imposes a mandatory effective date on 1

January 2018. The EU is currently in the process of deciding whether it should endorse the standard into European Regulation.

Insurance Europe welcomed the Commission's request for advice from EFRAG to investigate all the key concerns raised by Insurance Europe on interaction with IFRS 4.

While further changes to IFRS 9 are no longer expected, Insurance Europe's focus is on achieving an IFRS 4 that interacts appropriately with the final IFRS 9. In addition, Insurance Europe also strongly advocates avoiding a timing gap between implementation of these two interlinked standards for the insurance industry.

The timing issue

Originally the IASB aimed to align the timetable of IFRS 9 with IFRS 4, but now IFRS 9 is due for implementation by 2018 while IFRS 4 will not be finalised before 2016 and will need at least three years for implementation.

This has created a situation where insurers will have a gap of at least one to two years between implementing the two standards. This would cause meaningless financial statements that will confuse users during the gap, as well as significant costs and operation problems.

What's next?

Further changes to IFRS 9 are not realistically possible so Insurance Europe's aim is to advocate that IFRS 4 is finalised in a manner that allows interacting appropriately with IFRS 9.

If a solution can be reached for IFRS 4, it can live with IFRS 9 but there will remain elements to investigate when the IASB will hold its post-implementation review.

However, Insurance Europe is calling for the IASB to delay and align the effective date of IFRS 9 for insurers to allow for joint implementation with IFRS 4 when that standard becomes effective. It also requested that the EU indicate willingness to create a European solution for insurers if the IASB refuses to address the issue.

Other developments

In 2014 the IASB began a reassessment of its Conceptual Framework which sets out the concepts that underpin the preparation and presentation of financial statements and will guide the IASB when developing and revising IFRSs. For insurers it is vital that the framework recognises a number of core elements including the interaction between assets and liabilities and the use of other comprehensive income for presentation purposes.

In November 2014, Insurance Europe supported the efforts by EFRAG to look into how goodwill should be accounted for and disclosed. The topic of goodwill accounting will gain more attention in 2015 as the IASB will discuss the approach as part of its post-implementation review of IFRS 3 "Business combinations".

Insurance Europe provided feedback to the International Organization of Securities Commissions (IOSCO) in December 2014 on its proposed guidance on the presentation of financial measures other than those prescribed by Generally Accepted Accounting Principles (GAAP). Insurance Europe aims to alleviate some of the operational costs the statement might cause.

The IASB has started an initiative to improve disclosures in financial reporting in response to a widespread call from constituents to "cut-the-clutter" and focus on meaningful information. This initiative has resulted in several amendments to IAS 1 "Presentation of financial statements" and will continue to gain focus in 2015 as the IASB aims to define a wider set of base principles.

Insurance Europe has also been involved in the Commission's evaluation of the International Accounting Standard (IAS) Regulation and was nominated to be part of the EU expert group dealing with this subject during the second half of 2014.

The Commission is expected to publish its report during second quarter of 2015 which is likely to reinforce the EU's decision to adopt IFRS, in line with the industry position.

Consumer information and distribution

Empowering consumers through consistent and coherent legislation

Consumer protection has been at the heart of the fundamental overhaul of the regulatory and supervisory framework of the financial sector that was triggered by the financial crisis, both at an EU and international level. Consumer protection remains a key priority for the new European Commission and consequently the European Insurance and Occupational Pensions Authority (EIOPA) is engaging in a wide range of new initiatives in this field. Insurance Europe is in favour of an effective EU consumer protection framework that enables consumers to make informed decisions and protects them from unfair practices.

To effectively protect and empower consumers in Europe, consumer protection policy must be consistent, coherent and well-designed. This is, however, a considerable challenge. Recent proposals have been discussed in isolation, which has led to a complex and confusing legislative architecture. Not enough attention has been paid to the combined effects and potential unintended consequences of these proposals, such as an information overload for consumers, incoherent disclosures and duplicative requirements. An extra complicating factor is the fact that EIOPA has issued guidelines anticipating the future level 1 legislation, increasing the risk of inconsistencies and duplicative rules (see also p14).

Information overload for consumers

Insurance Europe has always been supportive of a high level of transparency. Well-informed consumers are in a better position to compare products and make informed decisions, and they are, therefore, likely to be better protected against potential detrimental events.

However, more information does not mean better information. Insurance Europe believes that pre-contractual information requirements should focus on high quality rather than a high quantity of information in order to have clear and demonstrable benefits for consumers. An EU approach that would lead to information overload would have negative implications, both for consumers and the industry, and must be avoided.

Excessively detailed pre-contractual information would be confusing for consumers, offering them little or no benefit, and would distract them from paying attention to important information such as insurance coverage and exclusions. This was confirmed by a study carried out for the Commission on the review of the Insurance Mediation Directive (IMD 2). For instance, disclosing quantitative elements of remuneration, in particular the variable remuneration of insurers' employees, will not benefit consumers, and only add burden and cost for the industry, and ultimately consumers.

There are also numerous overlapping and duplicative requirements in the EU legislation that will be applicable to the sales of insurance products and pre-contractual information that should be disclosed. These include:

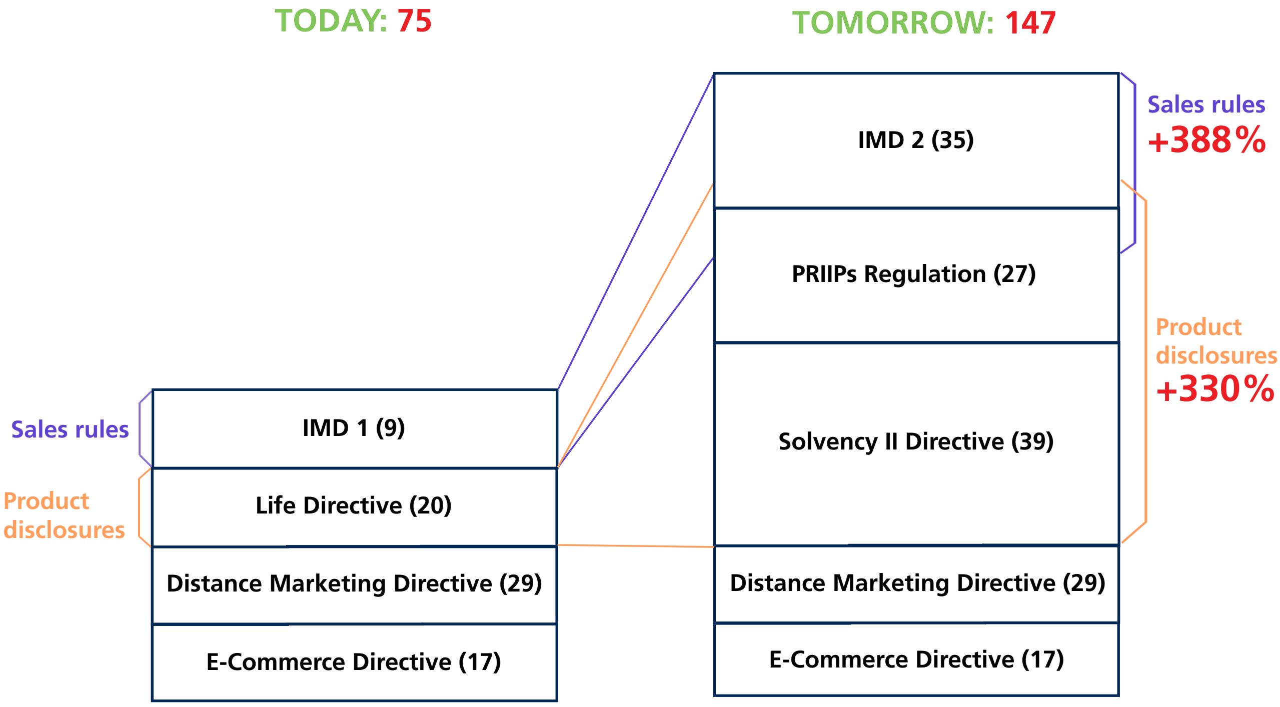
- Duplication between the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Solvency II Directive, with the cumulative disclosure of identical or very similar pre-contractual information.
- Duplication between the PRIIPs Regulation and the IMD 2 PRIIPs chapter, both including information requirements in relation to the disclosure of costs and charges.

Risk of inconsistencies at international level

While there is already considerable overlap and duplication in EU legislation, there is a risk that the discussions at international level could cause even more inconsistencies. Similar topics are being discussed at EU and international level, such as intermediaries, disclosures, conflicts of interest and remuneration. Insurance Europe is therefore actively engaged in debates at both levels.

Ensuring coherent legislation is key to ensuring consumer protection. Insurance Europe therefore calls on the EU institutions to assume responsibility at international level to get the standards right and to ensure that they are consistent with European requirements (see also p18).

Disclosure requirements (including duplications) from EU legislation applicable to the sales of insurance-based investment products



Note: Based on the online sale of an insurance-based investment product by a broker. The IMD 2 disclosure requirements are based on the European Parliament's text.

- Duplication between IMD 1.5 (an amendment to IMD 1 through the revised Markets in Financial Instruments Directive) and IMD 2, both establishing rules on conflicts of interest.
- Duplication between IMD 2 and the IMD 2 PRIIPs chapter, with the suitability and appropriateness tests for insurance-based investment products coming in addition to the demands and needs analysis.

Insurance Europe is concerned about the risk that the level 2 measures, as well as the guidelines that will be issued by EIOPA, will lead to further reinforcing of these negative effects, to the detriment of consumers and the industry in the future.

Cumulative effect in practice

Insurance Europe has always emphasised that pre-contractual information should be useful, relevant and timely. However, when looking at the rules that will be applicable to the sale of insurance-based investment products, it becomes clear that the cumulative effect of the legislation on the disclosure of pre-contractual information and the interaction between all the disclosures (including potential overlaps or duplications) have never been properly assessed by policymakers.

For example, currently, a consumer purchasing an insurance-based investment product online from a broker must be provided with 75 different pieces of pre-contractual information under existing EU legislation. With the new PRIIPs Regulation, the Solvency II Directive and the proposal for the IMD 2, consumers will end up being provided with 147 different pieces of pre-contractual information.

When broken down into its component parts, the number of pre-contractual product disclosures will increase from 20 under the Life Directive, to 66 under the Solvency II Directive and the PRIIPs Regulation, representing a 330% increase, while the disclosure requirements for sales rules would rise from nine under IMD 1 to 35 under IMD 2, representing an increase of 388%.

This illustrates the importance of ensuring coherence in the design and implementation of disclosure requirements and to ensure that information provision actually creates value for consumers to prevent an information overload for consumers.

Insurance Europe therefore continues to convey to EU policymakers that sales rules and pre-contractual information should be tailored to and balanced between the channels concerned, proportionate to the level of complexity of the products being sold, and, crucially, adapted to consumer needs. The focus needs to be on better information, rather than more information.

Looking Forward

The new Commission has designated "smart regulation" as one of its priorities, thereby committing itself to delivering EU policies and laws that bring the greatest possible benefits to people and businesses in the most effective way. Insurance Europe therefore calls on the Commission to consider the cumulative impact of the overload and duplication of requirements and take steps to remove them where they exist.

The PRIIPs Regulation

The PRIIPs Regulation was published in the Official Journal of the EU in December 2014. Since then, the European Supervisory Authorities (ESAs) have been undertaking work on the level 2 measures, notably in respect to the content and presentation of the Key Information Document (KID). Insurance Europe contributed to the ESAs first discussion paper on the topic in February 2015. It underlined that, as established by the PRIIPs Regulation, a KID should contain accurate, fair, clear and not misleading pre-contractual information that is relevant for that specific product. In this context, it was stressed that it is of utmost importance that the specific features of insurance-based investment products are taken into account appropriately when considering the presentation and content of the KID. Unlike other PRIIPs, insurance-based investment products provide for additional benefits and protection. Their KID should, therefore, contain information tailored to the specific features of such a product.

The responses to this consultation will feed into the on-going work of the ESAs on their draft regulatory technical standards for PRIIPs. Additional consultation papers are expected this year on the KID content and presentation and on the KID review and delivery.

IMD 2

IMD 2 aims to strengthen policyholder protection in retail insurance. It regulates selling practices and conduct of business rules for all insurance products, with enhanced standards for those with an investment element. The European Parliament adopted its position on IMD 2 in February 2014 and the Council of the EU in November 2014. IMD 2 has now moved on to the stage of trialogue discussions between the European Parliament, the Council and the Commission.

Insurance Europe maintains that the IMD 2 rules on conflicts of interest and remuneration should be tailored to and balanced between the channels concerned, proportionate to the level of complexity of the products being sold and adapted to consumer needs. It also underlines that professional requirements should be outcome-oriented, rather than defining prescriptive amounts, which is likely to result in additional burden and costs, without bringing any added value for consumers, and lead to a focus on quantity over quality. Moreover, Insurance Europe also firmly believes that the best approach to ensure appropriate consumer protection is to address cross-selling practices in a consistent manner across EU financial services legislation.

Insurance Block Exemption Regulation

Supporting insurer cooperation that benefits consumers

The Insurance Block Exemption Regulation (IBER) is a key legal instrument used at EU level to stimulate competition and innovation in the (re)insurance sector, which in turn ensures that consumers are being offered effective products and services at reasonable prices.

The current IBER, last renewed in March 2010 and due to expire in March 2017, sets out the conditions under which (re)insurance companies can cooperate in the fields of joint calculations and studies as well as (re)insurance pools, without infringing EU competition law.

The European Commission is currently examining whether or not the IBER should be renewed. In response to a Commission consultation in November 2014, Insurance Europe underlined that the current IBER enhances competition in the insurance sector and set out why a full renewal of the current IBER is essential for both (re)insurers and consumers in Europe.

Benefits for the market and consumers

The current IBER enables the industry to cooperate and exchange information to better understand risks, and allow for more accurate measuring and pricing of these risks.

This cooperation will become even more important when Solvency II, the risk-based prudential regime for insurers, enters into force in 2016. Studies and calculations assist companies in their compliance with the Solvency II requirements, while cooperation in (re)insurance pools can be used as an instrument of good risk management.

The current IBER also leads to the opening of markets, in particular to foreign as well as to small and medium-sized insurers by enabling them to access sufficient information and gain the necessary experience to cover risks. This enhances the variety of products and coverage available to consumers.

In fact, the cooperation facilitated by the IBER enables insurers to offer innovative products and services meeting consumers' constantly evolving needs and expectations also due to the fast emergence of new risks.

Negative consequences

If the IBER is not renewed, it would create legal uncertainty for (re)insurers, which in turn would make their internal legal self-assessments to ensure that their activities are in line with EU competition law more burdensome and costly.

This would be particularly detrimental for small and medium-sized companies. Some insurers might even be forced to abandon positive business cooperation for fear that it is challenged afterwards by the competition authorities.

Without the IBER, the competitive environment in which (re)insurers are currently operating would be hindered, to the detriment of consumers.

The non-renewal of the IBER would ultimately lead to less innovation and less variety in products on the market, leading to less consumer choice. Any additional costs incurred by (re) insurers are also likely to be transferred to consumers.

Lastly, the IBER preserves the level regulatory playing field in the single market by ensuring legal certainty and a similar level of consistency and uniformity of anti-trust rules across the EU. Should policymakers decide not to renew the IBER, there is a risk that the various national competition authorities take inconsistent approaches to competition law across member states.

Looking forward

It is essential that the renewal of the current rules in 2017 is done through the IBER instrument. Other alternative instruments such as guidelines would, by their very nature, not be legally binding and would not be tailored to the specifics of the (re)insurance sector.

Insurance Europe has therefore called for the Commission to propose a full renewal of the IBER in its 2016 report to the European Parliament and the Council of the EU as well as in its public consultation in 2016. This would ensure that (re)insurers and consumers can continue to take advantage of the full benefits of a competitive European (re)insurance single market.

Data protection and big data

EU regulation must allow for essential business processes

Insurers collect and process data to analyse the risks that individuals wish to cover, which in turn allows them to tailor products accordingly. Data processing is also an essential part of evaluating and paying policyholders' claims, complying with EU regulations, and in the detection and prevention of fraud. Ultimately, data processing lies at the very heart of insurance.

Insurance Europe has therefore continued to closely follow the discussions on the proposed EU General Data Protection Regulation, voicing its insurance-specific concerns and suggesting solutions. The draft Regulation will apply to all businesses processing data across sectors, both off and online. This broad approach has led to a hugely complex legislative proposal. It is due to this complexity that the EU institutions have been looking into the proposal for three years now, with the European Parliament publishing its report in March 2014, while discussions on the Council of the EU are still ongoing.

Over the past year Insurance Europe has continued to raise awareness about the unintended consequences that the proposed Regulation could introduce for the insurance industry and consumers. If unchanged, the proposed Regulation would restrict the ability of insurers to assess risk properly, reducing the availability and range of insurance products and increasing the cost of cover for consumers.

Risk-based pricing at risk

One concern for the industry is that proposed rules on profiling do not take into consideration the way insurance works. They would not allow insurers to analyse data when measuring the risk that potential policyholders wish to transfer to them. For example, if someone wants to take out a car insurance policy, the insurer will need to know how many years they have been driving and how many car accidents they have had in order to calculate the risk they pose to the insurer and the insurance premium that that person would have to pay.

If insurers are not able to analyse this information, then they won't be able to evaluate risks on an individual basis and tailor the cover to consumers' needs and demands. Any restrictions on profiling could, therefore, translate not only into higher insurance prices and less insurance coverage, but also into an inability to provide consumers with appropriate insurance.

Insurance Europe therefore recommends that the proposed EU Regulation should be amended to allow insurance-related profiling at pre-contractual stage and during the performance of the contract. This significance of profiling for the insurance industry was recognised in the EU Council's compromise text under the Greek EU Presidency and should also be acknowledged by the Latvian EU Presidency.

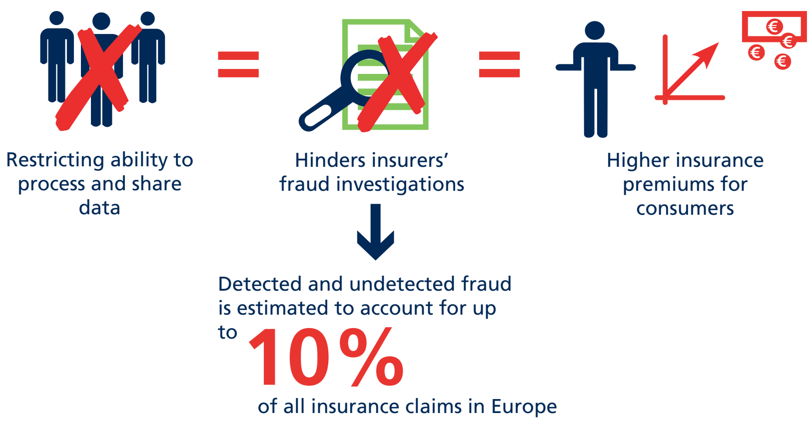
Insurers' legitimate interests for data processing

Another concern is that the proposed Regulation could restrict insurers' ability to share information in order to identify and combat fraud, which is estimated to already represent up to 10% of all claims expenditure in Europe.

One of the ways in which insurers detect suspicious activity is by examining policyholders' previous claims history; for example, to see whether someone has made multiple claims of the same nature. If insurers are not able to share claims history data, their efforts to protect honest policyholders against the consequences of insurance fraud would be hindered.

Insurance Europe reiterated these concerns to the EU institutions and Article 29 Working

EU Data Protection Regulation: combatting fraud



Big data: a new opportunity

It is expected that big data will enable companies of all kinds, including insurance companies, to improve decision making, enhance efficiency, and to create new products and services. This is because big data technologies offer insurers the prospect of both a deeper and better understanding of customers but also, more accurate pricing of the risk.

Ultimately, insurers would need to hold less capital against expected claims and therefore, will be able to write more risk at an overall lower cost. For instance, big data is estimated to have a fundamental impact on predictive models used by life and health insurers. Therefore, the insurance sector has the potential to be transformed by big data in a way that will have positive consequences not only for the insurance industry and its customers but for the global economy.

The European Commission is organising a series of roundtables with stakeholders on the use and impact of big data in 2015, with the first focusing on banks and insurance. Insurance Europe took part in this roundtable, helping the Commission to get a better understanding of the way the insurance sector is making use of big data analytics and to identify potential obstacles to the development of a data-driven financial sector in Europe. The results of this consultation will feed in a more detailed EU Action Plan on the data-driven economy, which is expected to be published in November 2015.

Party, an independent body that advices the EC on data protection issues. Specifically, in its response to a public consultation on Article 29 Working Party opinion on the notion of "legitimate interests" for the processing of personal data, Insurance Europe stressed that the proposed EU Regulation should explicitly recognise the need for companies, including insurers, to process and share information for the purposes of fraud detection and prevention.

European data protection day

Every year European data protection day is held on 28 January to inform and educate consumers about their day-to-day rights with regard to data protection. For that reason, Insurance Europe initiated a small, but successful communication campaign in January 2015. Through traditional and social media, it aimed to promote a better understanding among policymakers and the general public about why it is for insurers to collect and process personal data.

The highlight of the campaign was a live Twitter Q&A on European data protection day, where Insurance Europe experts answered questions from lawyers, the press, like-minded bodies and the general public. Insurance Europe's efforts were also acknowledged by the Council of Europe, which listed Insurance Europe's work in its compilation of data protection day activities as one of only two European associations.

Looking forward

Both the European Parliament's report and the Council of the EU's latest compromise text under the Italian EU Presidency on the proposed EU Regulation included several points to make it more effective. While positive changes were made to the Commission's original proposal, further changes are still needed to ensure that the Regulation allows insurers to continue providing their services to consumers.

In particular, the Regulation should clearly state that the right to be forgotten should not apply where there is a contractual relationship between an organisation and an individual or where a data controller is required to comply with regulatory obligations to retain data or where the data is processed to detect and prevent fraudulent activities. Additionally, the scope of the right to data portability should be narrowed down, to make sure that insurers would not be forced to disclose actuarial information to competitors. Finally, the Regulation should be tailored in a way that encourages the use of big data analytics, by safeguarding consumers' privacy and facilitating innovation and growth.

It is hoped that such vital issues are addressed as the proposal is further analysed by the Council of the EU and then discussed in trialogues by the European Parliament, Council and the Commission during the latter part of 2015.

Motor insurance and technology

Standardising new intelligent technologies

Constant innovation in technology, especially in the field of Intelligent Transport Systems (ITS), is permanently changing the environment in which motor insurers operate. ITS apply information and communication technologies to transport, most notably road transport, with a huge potential to make it safer, cleaner and more efficient.

For insurers, ITS and telematics devices that transmit the data offer both a challenge as they revolutionise road transport, and an opportunity to develop new products and services for consumers.

One important concept in ITS is Co-operative Intelligent Transport Systems (C-ITS) and the connected car. This concept refers more specifically to the new technologies enabling vehicle-to-vehicle communication as well as communication between vehicles and the traffic infrastructure.

By its very nature, this will generate a vast amount of data and, as a result, expand the potential of telematics for insurance. For example, information from these systems can give insurers a better understanding of each driver's risk profile, meaning the pricing of policies can be tailored to individual risk. These so-called "pay as you drive" policies can also result in policyholders being incentivised to adopt safer driving behaviour by the insurers.

In addition, the information provided by telematics on an accident or incident will enable insurers to analyse claims faster, and therefore settle claims more quickly. This technology will provide even better customer service for those with legitimate claims, and can also be an efficient tool in tackling fraudulent insurance claims and vehicle theft.

The final stages of eCall

Deployment of ITS throughout Europe has begun with the adoption of the eCall Regulation which seeks to impose an in-car emergency call system based on the 112 emergency number. eCall uses in-vehicle sensors which automatically trigger a call to the nearest emergency centre in the case of an accident, and send details such as the accident's time and the vehicle's position.

The intention of the eCall system is to speed up the response by emergency services arriving at serious incidents and road accidents. The regulation, which entered into force this year, will apply in its entirety by the end of 2018.

During the discussions leading to the adoption of the eCall Regulation, Insurance Europe highlighted that the introduction of eCall would eventually contribute to a generalisation of ITS technologies and, consequently, a spread of telematics. It was recommended, therefore, that these technologies must be "open access" to prevent a monopoly by one supplier and result in little or no consumer choice or fair competition in the market.

As the implementation phase of the now-adopted eCall Regulation takes place, Insurance Europe continues to highlight the need for a standardised and open platform which will enable a range of third-party providers (eg insurers, automotive suppliers, car repairers) to have the option to offer their services to consumers.

Insurance Europe is hopeful that this objective can be achieved through the Delegated Acts which the European Commission has to adopt, as part of the eCall Regulation.

For the purpose of the Delegated Acts, the Commission's mandate is to "assess the need of requirements for an interoperable, standardised, secure and open-access platform" and on the basis of wider consultation to "adopt a legislative initiative based on those requirements".

EU action on Co-operative Intelligent Transport Systems

Since 2014 Co-operative Intelligent Transport Systems (C-ITS) have also been addressed through a platform set up by the Commission that focusses on several C-ITS related areas. The C-ITS platform brings together experts from various public and private organisations to encourage and speed up the transition of ITS into an EU-wide reality.

In order to achieve this, the Commission began to gather relevant stakeholder views on these new technologies and their potential. The aim of this work is to feed into a

Commission communication on the EU-wide deployment of C-ITS by the end of 2015.

Insurance Europe is taking part in the C-ITS Platform where it stresses the need for standardised and open access to the eCall system, putting all stakeholders on an equal footing.

The key to this is to ensure consumers have the last word on the data they transfer, to whom it is transferred and for what purposes. These include driver coaching, breakdown services, information on traffic, road or weather conditions as well as real-time location based services such as informing the driver of the nearest repair centre, service station or even hotel.

Alongside stressing the need for a standardised and open platform, Insurance Europe is also working on the potential legal implications of C-ITS and vehicle telematics. C-ITS brings with it a whole range of legal questions including the type of the data transmitted by the vehicle, how the data will be protected and how access to the data would be provided.

In addition, the development of telematics and technology in cars raises new questions about who is liable in the case of an accident, should something have gone wrong with the vehicle technology.

Insurance Europe will continue to work with the Commission and industry as C-ITS develops in these areas.

Premium differential between markets

Motor insurance premiums can differ widely from one member state to another, and this is sometimes interpreted as an anomaly in the EU single market.

Insurance Europe believes that it is important to be careful before concluding that differences in insurance premiums across Europe are the result of shortcomings in the single market given that premiums are determined in function of a wide range of factors which are not related to the way the single market functions. As an example:

- **Motor insurance premiums reflect the cost of claims, which differ between countries.**

  Motor Third-Party Liability (MTPL) insurance premiums are designed around the likelihood that a claim will arise, as well as the likely cost of that claim. The cost of the claim itself depends on a number of factors such as the medical, legal and repair costs, as well as the types of damages recoverable under national law or the compensation amount likely to be awarded in national courts. These factors can vary a lot between countries. For example, claims for bodily injuries still generally warrant significantly higher damages in Western Europe, leading to higher costs for claims and therefore the need for a wider insurance cover.

- **Premiums are also influenced by country-specific features that affect risk.**

  These features include traffic conditions and vehicle density, road safety rules, a country's level of economic development and cultural aspects such as driving behaviour. These aspects have an impact on risk and therefore also on premiums.

- **Different levels of cover are required to accommodate national MTPL requirements.**

  Whilst all EU member states must require MTPL insurance to be compulsory for drivers, the scope of the cover offered under these compulsory policies varies widely. Naturally, this influences the price of the cover. For example, in some member states such as the UK, France or Belgium, the compulsory MTPL cover for personal injury is unlimited whereas in other member states MTPL cover can be offered up to a limit. Similar variations can be found for compulsory MTPL for property damage.

Insurability

Adverse effects of mandatory insurance

Liability insurance remains a key topic for discussion at EU level, particularly in the light of the EU single market and efforts to remove all perceived obstacles to the free movement of people and services.

Focusing on the growth of single market services

The European Commission's ongoing efforts to promote growth and to strengthen the EU single market have stimulated debate over the availability of insurance cover for service providers wishing to conduct cross-border operations.

Specifically, the Commission has suggested that further work may be needed on the implementation of the EU Services Directive to ensure that access to insurance is not an issue for service providers wishing to operate in a different member state.

Insurance Europe supports the Commission's aim to ensure that service providers are able to operate freely and without undue burden across member state borders. In this vein, effective implementation of the EU Services Directive can foster economic growth by requiring the removal of unjustified or disproportionate administrative burdens on the service sector.

With respect to the availability of cross-border insurance, it should be noted that various factors play a role in an insurer's decision to offer cross-border cover and in the design of insurance products.

While Insurance Europe shares the Commission's view that service providers would benefit from simplified procedures at member state level, it maintains that insurance itself is not an obstacle to movement, as each member state presents varying degrees of liability risks requiring different levels of liability insurance cover.

This being said, while there are limits to what insurance can offer, increased awareness about existing cross-border insurance products, as opposed to possible EU legislation,

EU-wide compulsory insurance is not suitable. Example: emerging risks

In an effort to protect the public from emerging risks, policymakers sometimes turn to compulsory insurance approaches. For example, the European Parliament aimed to introduce a compulsory insurance clause into a Commission proposal for a Regulation on the deliberate release into the environment of genetically modified organisms (GMOs). The aim was to ensure financial security for the clean-up of GMO-related pollution. Insurance Europe expressed concerns about this amendment in light of the negative impact it could have for stakeholders such as farmers, feed manufacturers, food distributors and feed traders, as they would be required to obtain insurance cover that might not be available within their markets. Those unable to obtain the statutory cover would inevitably be pushed out of the market.

As regards emerging risks in general, there are limits to what the insurance sector can cover, notably due to: the difficulty in quantifying potential damage, especially when considering long-tail risk exposure; the difficulty in assessing risk frequency; the absence of sufficient verifiable data; and the frequent inability to identify a liable party. Consequently, compulsory insurance at EU level could cause stakeholders to face obligations they may not be able to fulfil due to the lack of an established insurance market.

Insurance Europe was pleased to see that the European Parliament and Council of the EU reached an agreement on the proposal that excluded the compulsory insurance amendment for GMOs. However, as ever-developing technologies continue to introduce new risks, insurers may increasingly become expected to offer cover on a widespread basis, notwithstanding the risk uncertainties. Insurance Europe will continue to advise against EU-wide compulsory insurance for such emerging risks considering the above limits and difficulties that they present for the industry.

Keep insolvency risks separate from environmental liability

Insurance Europe supports the Commission's ongoing efforts to study and enhance the effectiveness and efficiency of the Environmental Liability Directive (ELD). As part of this study, the Commission inquired last year about the possibility to use insurance as a vehicle for remedying environmental pollution caused by insolvent industrial operators.

It is important to keep in mind that insolvency can occur for a number of reasons, but that in any case the profitability of an operator cannot be guaranteed by a liability insurer. For a risk to be insurable, a number of prerequisites must be in place, including that the loss is random and not the consequence of the decision to enter a particular business or invest in a particular asset. As regards an operator's insolvency, these prerequisites are not met.

Insurance Europe therefore clarified that insolvency is not a "liability risk"; rather, an insured's solvency status is a completely separate issue from the insurer's obligation to pay out liability claims falling under the subject policy. In the case of environmental liability, cover is designed to address the insured's risk of public liability for environmental damages caused by its activities, regardless of solvency status. Following Insurance Europe's comments, the Commission has reduced its focus on insolvency within the context of environmental liability.

Insurance Europe will continue to support the Commission's work in this area and looks forward to its upcoming report on member states' experience gained in application of the ELD. In this context, Insurance Europe published a survey last summer that revealed that many different insurance solutions are already available in EU member states to cope with market demand. The survey also demonstrated that a voluntary free market in member states is already functioning, with different products and approaches available and that a "one-size-fits-all-approach" at EU level would not be feasible. On the contrary, the findings suggested that such an approach could impede the current encouraging development of insurance products in the member states.

could better assist in facilitating cross-border services.

Cross-border cover is unique to each insurer

When determining whether to extend cover to a foreign market, insurers must assess whether they have the necessary expertise and resources.

Factors that play a role in this decision include: the necessity to become acquainted with local liability laws; the ability to measure localised risk exposure; the local procedures for handling claims; compliance with local regulatory and licensing requirements; the ability to administer taxation payments; and possible language barriers.

Therefore, insurers must assess whether the demand for a cross-border cover is sufficient to justify their investment in a new market and overcome the practical difficulties encountered with maintaining a cross-border contractual relationship.

The above differences between member states are generally recognised as reasons why insurers decide to operate in certain, but not all, national markets.

A question that remains open however is whether the implementation of the EU Services Directive could be improved to facilitate the provision of insurance on a cross-border basis.

In Insurance Europe's opinion, this is not clear, as there is no evidence that there is a European-wide problem with access to cross-border insurance that can be addressed by regulatory action.

It is understood that the Commission will interview stakeholders on cross-border costs and the practical implementation of the Services Directive, with a report expected at the end of September this year.

Equal treatment

Improving the understanding of insurance fundamentals

Insurance Europe is promoting a better understanding among policymakers and the general public of how private insurance works. It is especially important to explain that differentiating fairly between risks enables premiums to reflect more fairly the underlying risk.

Insurance Europe closely follows the developments on the European Commission's 2008 proposal for an EU Directive on the principle of equal treatment irrespective of religion or belief, disability, age or sexual orientation. This directive continues to be discussed in the Council of the EU. If adopted, the directive may prevent insurers from differentiating between policyholders based on age and disability.

Fundamental risk-rating factors

Insurance companies need to use information about the characteristics of the insured individual or entity to fairly assess the risk and determine premiums, terms and conditions, and product design. This enables insurers to offer products that are tailored to the needs of the individual and competitively priced.

Insurers' use of data and information related to age and disability is key to the risk assessment and pricing of many insurance products, such as term-life insurance, disability insurance, long-term care insurance and private medical insurance. Without insurers' ability to use such factors where relevant there is a risk of adverse selection — with low-risk groups deterred from purchasing insurance while higher risk individuals are attracted — ultimately leading to more expensive products and less choice for many consumers.

Any restrictions or ban on insurers' use of age and disability in risk assessment and pricing could have negative consequences for consumers and society. Some insurance products could become limited in availability and scope and, in more extreme situations, would no longer be available. There is also a risk that average premiums would increase or that cover to consumers would diminish due to the additional costs generated by the higher risks to insurers.

Implications of ECJ ruling

Insurance Europe also raises awareness about the impact of the European Court of Justice (ECJ) ruling in a case brought by Test-Achats, a Belgian consumer organisation, due to which insurers are no longer able to differentiate on the grounds of gender in their pricing. The ruling removed the derogation exemption from the 2004 Directive on the equal treatment between men and women in the access to and supply of goods and services — the so-called "Gender Directive".

In September 2014 Insurance Europe presented its views on the implementation issues raised by the ruling to the European Commission's Gender Forum. The Gender Forum was established by the Commission to monitor the implementation of the Gender Directive and to bring together relevant stakeholders. The input given by stakeholders during this forum will help the Commission to draw up its report on the implementation of the Directive, expected in 2015.

Insurance Europe underlined that the ECJ ruling is a judgment on the structure of the Gender Directive rather than a judgment on the use of gender differentiation in insurance. It also explained that it is difficult to get an accurate picture of the economic impact of the ban on the use of gender in insurance underwriting.

As there are many different concurrent developments that affect the price and coverage of insurance products, such as legal and regulatory changes at EU and national level, new risk factors and new product features, it is very challenging to isolate the effect of the ban and to provide a correct estimation of its sole impact on pricing and benefit design.

Looking forward

The Commission is expected to issue its report on the implementation of the Gender Directive by the first semester of 2015, while the Latvian EU Presidency will publish a progress report on the Council's discussions on the Age and Disability Directive in June 2015.

Insurance Europe will continue its dialogue with policymakers to avoid unforeseen negative consequences of regulation on insurance consumers and industry due to a lack of understanding of what insurance is and how it operates.

Sustainability

A paradigm shift for the insurance industry

Climate change is having an impact on the frequency and severity of natural catastrophes across Europe and this trend is likely to intensify in the coming decades. This state of affairs is of particular concern for insurers whose job is to protect households and businesses against natural catastrophes.

To enhance public resilience to natural catastrophes, Insurance Europe has long campaigned to raise awareness about the need for policymakers to not only take measures to mitigate climate change, but also to focus on the implementation of adaptation measures, mainly through effective prevention planning.

In this respect, it is important that policymakers work closely with insurers at national level by, for example, supporting the development of sophisticated, predictive risk models to better identify vulnerable catastrophe areas.

Insurance Europe believes that these goals are well captured by the EU's approach to climate change. In particular, it supports the European Commission's aim to ensure that effective prevention and preparedness measures are taken throughout all EU member states by 2017, as outlined in the EU Adaptation Strategy adopted by the Commission in 2013.

Adaptation is crucial in tackling climate change effects

The importance of adaptation has been frequently stressed by Insurance Europe, including for instance at its 6th International Insurance Conference in June 2014 (see p48). On that occasion, a session was organised with experts from across the world showing that natural catastrophe risk modelling can help reveal the high-risk areas that would benefit from adaptation measures.

Specifically, the session highlighted, through a case study, how data sharing between national authorities and insurers can contribute to identifying the risks associated to increased flooding. The data-sharing tool estimates the future risk of flooding in specific municipalities. This has helped local planners not only to adapt to the threats of flooding, but also to better allocate resources to the right areas with a view to mitigating risk and prevent flooding.

The value of public-private partnerships

Public-private partnerships, where national administrations work together in partnership, not only with insurers, but also with other private sectors, can also be important to meet the goal of adapting to a changing climate. Examples of public-

Innovation in the market

Insurers are constantly innovating in an effort to adapt their policies to offer an optimal protection against increasing natural catastrophe risks faced by their customers. For instance, more advanced underwriting techniques have been developed in recent years to incentivize policyholders to invest in adaptation and prevention measures for their own households. Other examples of natural catastrophe market innovation include initiatives such as micro-insurance products for the protection of agricultural crops and insurance incentives for users or providers of renewable energy.

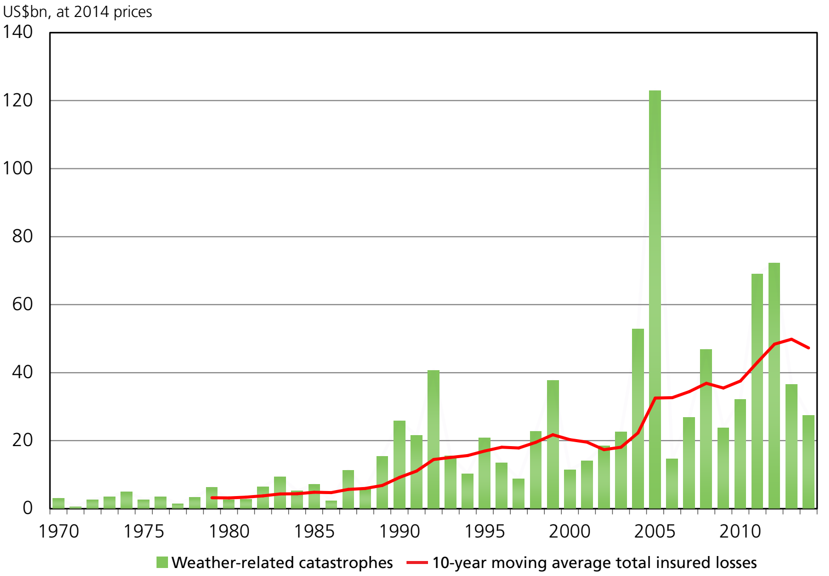
Insurers have also moved from using historical risk assessment methods for natural catastrophes to forward-looking risk models. These predictive methods take into account long-term changes in climate and factor in the shift in the range of natural catastrophes. This, in turn, can assist insurers to develop tailor-made products for consumers with different risk profiles.

Enhanced risk modelling methods, such as the eHORA database in Austria and the ZÜRS Geo in Germany, provide digital hazard maps and online risk assessments through the use of landscape and geographical data. These tools make it easier for insurers to understand the localised risks and to adjust their risk portfolios accordingly. However, the optimisation of such tools relies upon insurers' ability to access individual risk data, which can at times be costly or blocked due to data protection rules. Free and ready access to risk data, at both local and national administration level, is essential for improving natural catastrophe risk adaption, prevention and insurability.

private partnerships involving European insurers include risk awareness initiatives or campaigns, risk mapping and zoning tools to identify high-risk areas, risk modelling to examine the financial cost of localised risks and information-sharing databases on adaptation measures.

These partnerships can also help to make cover more economically feasible for consumers. For instance, the UK's Flood Re is an agreement between UK insurers and the government to develop a not-for-profit insurance fund designed to enable severely high flood risk households to obtain affordably priced flood insurance.

Insured catastrophe losses — 1970–2014



Source: Swiss Re Economic Research & Consulting and Cat Perils

Looking forward

The coming year will be an important one for climate change. The 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) will be held in Paris this December. Insurance Europe hopes that the participants to the Convention will come to an ambitious agreement on climate change. The conference will also be an opportunity to place focus on the need to intensify action to adapt society to a changing climate. This must be undertaken by all stakeholders, particularly government authorities. Here, it is has to be kept in mind that while climate change is a global challenge, solutions implemented at local level can more accurately target its consequences.

Adaption to climate change requires government action

Though insurers provide valuable expertise at all stages of the risk management cycle (risk assessment, risk awareness, risk prevention and risk transfer), they cannot provide the sole solution for catastrophe losses. Government action is also required to successfully combat the challenges brought about by climate change.

Government investment in infrastructure and promotion of research and innovation is important to bolstering the EU's adaptive capacity. By modernising infrastructures, particularly in areas vulnerable to heavy wind storms or regions prone to river or coastal flooding, public authorities can help minimise the growing impact of climate change. Such efforts can take the form of climate-proofing existing buildings or providing incentives (eg through taxation) for climate-resilient development projects.

Additionally, national policies for building or zoning plans should avoid development in high-risk areas or otherwise offer the persons residing in these areas more suitable protection against natural catastrophes. For example, requests to build on floodplains should be denied, while flood defences for existing vulnerable areas should be adequately maintained and reinforced as necessary. The absence of a proper planning policy directly leads to increased risk, thereby weakening the effectiveness of natural catastrophe insurance and making it more difficult for insurers to offer cover in the future.

Securing the best insurance workforce

European social partners address telework

Information and communication technology provides a wide range of opportunities for organising work in a more mobile and flexible way, and the continuous technological developments make teleworking increasingly relevant for the insurance sector. The ability to engage in telework could make the insurance sector a better place to work, attract and retain talent and increase productivity in the sector.

Joint declaration on telework

Recognising the opportunities for the sector, Insurance Europe and the other European social partners in the Insurance Sectoral Social Dialogue Committee (ISSDC) prepared a joint declaration on telework which was signed in February 2015. The ISSDC is the only forum at EU level in which insurance employer and employee representatives can discuss topics of common interest with the support of the European Commission.

As chair of the ISSDC in 2014, Insurance Europe played a leading role in the development of this joint declaration, which builds on the last cross-sectoral Framework Agreement on Telework signed in 2002. Its objective is to draw attention to the relevant factors to be considered in individual or collective telework agreements at national or company level.

Telework has many advantages for both employers and employees. Employers can benefit from increased productivity from satisfied and better motivated staff, while employees gain greater flexibility in working hours and savings in time, money and stress due to reduced commutes. In turn, this has a positive effect on the environment due to less people commuting to work. Telework is, of course, voluntary for both employers and employees, and there are some jobs where it is not suitable. Unsurprisingly, telework places a high level of individual responsibility on employees.

The joint declaration recognises the importance of ensuring a good work-life balance and therefore covers the interest of employees to have a good work-life balance on the one hand, and the interest of employers to have a motivated and flexible workforce on the other.

Tackling demographic change

The European insurance and reinsurance sector is facing a significant challenge as its workforce is getting older and many employees are approaching retirement age. The European social partners will therefore turn their focus again to the demographic challenge in the insurance sector in their next project. This project is funded by the European Union and will last until 2016.

The project will build on the work of the previous project on the demographic challenge which was led by Insurance Europe in 2011-2012. Part of this successful project, was a booklet published by Insurance Europe and its ISSDC partners in May 2012 presenting a sample of the many original "good practices" already introduced in the insurance industry.

It is the intention to update this booklet with new positive, innovative and effective examples in the field of work-life balance, qualifications and life-long learning as well as health and safety at work. Following on from the joint declaration on telework, the new booklet will also address this issue. To ensure the dissemination of the good practices, the project will also include a conference and a seminar.

The signing of the joint declaration on telework by the European social partners in the insurance sector

Sebastian Hopfner Chairman of the Social Dialogue Platform, Insurance Europe

Edgardo Iozia President, UNI Europa Finance

Gregor Pozniak Secretary General, AMICE

Elke Maes Social Dialogue Insurance Coordinator, UNI Europa Finance

Didier Pissoort Chairman of the Social Affairs Committee, BIPAR

Insurance Europe

- Member associations
- Events
- Publications
- Executive Committee
- Strategic Board
- Committees, working groups and platforms

Member associations

Austria	Verband der Versicherungsunternehmen Österreichs (VVO) President: Günter Geyer www.vvo.at tel: +43 171 15 62 00
Belgium	Assuralia President: Hans Verstraete www.assuralia.be tel: +32 2 547 56 11
Bulgaria	Association of Bulgarian Insurers (ABZ) Chairman: Dancho Danchev www.abz.bg tel: +359 29 80 51 24
Croatia	Hrvatski ured za osiguranje President: Damir Zorić www.huo.hr tel: +385 14 69 66 00
Cyprus	Insurance Association of Cyprus Chairman: Artemis Pantelidou www.iac.org.cy tel: +357 22 45 29 90
Czech Republic	Česká asociace pojišťoven (ČAP) President: Martin Diviš www.cap.cz tel: +420 222 35 01 50
Denmark	Forsikring & Pension (F&P) President: Christian Sagild www.forsikringogpension.dk tel: +45 41 91 91 91
Estonia	Eesti Kindlustusseltside Liit President: Artur Praun www.eksl.ee tel: +372 667 18 00
Finland	Finanssialan Keskusliitto Chairman: Reijo Karhinen www.fkl.fi tel: +358 207 93 42 00
France	Fédération Française des Sociétés d’Assurances (FFSA) President: Bernard Spitz www.ffsa.fr tel: +33 142 47 90 00
Germany	Gesamtverband der Deutschen Versicherungswirtschaft (GDV) President: Alexander Erdland www.gdv.de tel: +49 302 020 50 00

Greece	Hellenic Association of Insurance Companies President: Alexandros Sarrigeorgiou www.eaee.gr tel: +30 2103 33 41 00
Hungary	Magyar Biztosítók Szövetsége (MABISZ) President: Anett Pandurics www.mabisz.hu tel: +36 1318 34 73
Iceland	Samtök Fjármálafyrirtækja (SFF) President: Sigrún Ragna Ólafsdóttir www.sff.is tel: +354 591 04 00
Ireland	Insurance Ireland President: Ciaran McGettrick www.insuranceireland.eu tel: +353 1676 18 20
Italy	Associazione Nazionale fra le Imprese Assicuratrici (ANIA) President: Aldo Minucci www.ania.it tel: +39 06 32 68 81
Latvia	Latvijas Apdrošinātāju asociācija (LAA) President: Jānis Abāšins www.laa.lv tel: +371 67 36 08 98
Liechtenstein	Liechtensteinischer Versicherungsverband President: Caroline Voigt Jelenik www.versicherungsverband.li tel: +423 237 47 77
Luxembourg	Association des Compagnies d'Assurances et de Réassurances du Grand-Duché de Luxembourg (ACA) President: Marc Lauer www.aca.lu tel: +352 44214 41
Malta	Malta Insurance Association (MIA) President: Lino Ferris www.maltainsurance.org tel: +356 21 232 640
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Norway	Finance Norway Chairman: Finn Haugan www.fno.no tel: +47 23 28 42 00
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Sweden	Svensk Försäkring President: Bengt-Åke Fagerman www.svenskforsakring.se tel: +46 85 22 78 500
Switzerland	Schweizerischer Versicherungsverband (ASA/SVV) President: Urs Berger www.svv.ch tel: +41 442 08 28 28
Turkey	Türkiye Sigorta, Reasürans ve Emeklilik Şirketleri Birliği President: Ramazan Ülger www.tsb.org.tr tel: +90 212 32 41 950

United Kingdom	The British Insurers' European Committee (BIEC), comprising:	
		Association of British Insurers (ABI) Chairman: Paul Evans www.abi.org.uk tel: +44 207 600 3333
		International Underwriting Association of London (IUA) Chairman: Malcolm Newman www.iua.co.uk tel: +44 207 617 4444
		Lloyd's Chairman: John Nelson www.lloyds.com tel: +44 207 327 1000

Associate members

San Marino	Associazione Sammarinese Imprese di Assicurazione (ASIA) President: Camillo Soave www.asiarsm.sm tel: +378 054 990 56 80
Serbia	Udruženje Osiguravaca Srbije Secretary general: Vladan Manic www.uos.rs tel: +381 112 92 79 00

Partner

Russia	All Russian Insurance Association (ARIA) President: Igor Yurgens www.ins-union.ru tel: +7 495 232 12 24

6th International Conference, Malta

Approximately 400 insurers, policymakers and regulators gathered in Malta on 12 June 2014 for Insurance Europe's 6th International Insurance Conference, The Challenge of change: global insurance trends.

The world's top insurers, regulators and supervisors tackled issues such as the low interest rate environment, the increase of insurance regulation, retirement provision, and keeping pace with technology.

Highlighting the "tsunami" of regulatory initiatives that have been introduced from national, regional and international bodies, Insurance Europe's president Sergio Balbinot opened the event. He was followed by the Maltese Prime Minister, Joseph Muscat, who discussed the importance of the insurance industry to the Maltese economy.

From Europe, Michel Barnier, the then European Commissioner for the internal market and services outlined the importance of the European insurance industry as a long-term investor. Burkhard Balz, Member of the European Parliament (MEP), shared his views on the development of a European and global regulatory environment for insurers. He emphasised the need for international convergence in regulatory provisions and supervisor practice.

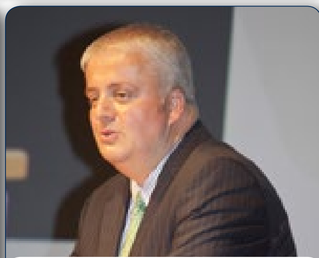
The international perspective was further explored by Svein Andresen, secretary general of the Financial Stability Board (FSB), who focused on the efforts by the FSB to reduce systemic risk in the insurance industry. Peter Braumüller, the then chairman of the International Association of Insurance Supervisors tackled global insurance trends that will affect the industry over the years to come.

New for 2014 were interactive break-out sessions covering key issues:

- Laurent Clamagirand, group chief investment & ALM officer Axa, discussed how to improve insurer's investment environment.
- Robert Tremblay, director research, Insurance Bureau of Canada, explained how to integrate future climate data into modelling.
- Jacques Amselem, CEO Allianz Telematics, explained

Hon. Dr. Joseph Muscat, Prime Minister of Malta, speaks about the importance of the insurance industry


Svein Andresen, secretary general of the FSB


Burkhard Balz MEP


Peter Braumüller of the IAIS


Insurance Europe president Sergio Balbinot


Discussing global insurance trends: (L to R) Fernando Solís of the Grupo Financiero Banorte, EIOPA's Gabriel Bernardino, Swiss Re's Jean-Jacques Henchoz and Professor Karel Van Hulle

A packed hall of approximately 400 delegates watches a video address by Michel Barnier, European Commissioner for Internal Market & Services

Debating global standards: (L to R) the EC's Klaus Wiedner, Thomas Wilson of Allianz, Nippon Life's Makoto Okubo, Pennsylvania Insurance Commissioner Michael Consedine and Professor Karel Van Hulle

how telematics in cars can be used to fight fraud and customisation.

- Torbjörn Magnusson, vice-president of Insurance Europe, discussed how the insurance industry is responding to technological change.
- Nick Sherry, senior advisor Citi Australia, discussed pensions issues and demographic challenges.

Highlights from the conference were tweeted live throughout the day via @InsuranceEurope and the hashtag #InsConf14, including photos, video links, comments from attendees and much more. The conference video footage is available via Insurance Europe's YouTube channel.

Working together to create growth and economic stability in the EU

On 6 October 2014, Insurance Europe held a parliamentarian evening in the Members' Salon of the European Parliament. At the event, both first vice-chair of the Committee on Economic and Monetary Affairs, Markus Ferber MEP and Insurance Europe's president Sergio Balbinot gave short speeches. Both spoke about the opportunities and challenges over the coming parliament.

Markus Ferber MEP talks about the opportunities and challenges for the new European Parliament

(L to R) Torbjörn Magnusson, vice-president of Insurance Europe, Markus Ferber MEP, Insurance Europe director general Michaela Koller and Sergio Balbinot, Insurance Europe president

Insurance Europe also launched two new publications on how insurance stimulates growth and highlighting the impact of regulations on consumers and the role of insurers in stimulating economic growth.

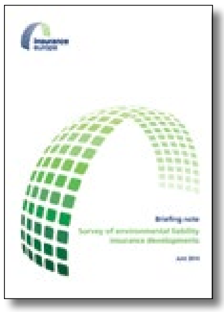
The evening was an opportunity to explain specific insurance industry issues and positions to interested new and re-elected MEPs and their assistants.

Publications

These Insurance Europe publications, and more, are available free to download at www.insuranceeurope.eu

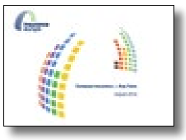
Annual Report 2013–2014
(June 2014)

Review of Insurance Europe's key activities between June 2013 and June 2014, together with details of Insurance Europe's structure and organisation.



Survey of environmental liability insurance developments
(June 2014)

Survey undertaken across EU markets to identify the development of environmental liability insurance, the results of which suggest that there is no need to introduce EU-wide mandatory cover.



European Insurance — Key Facts
(September 2014)

Key preliminary data for 2013, including information on European insurers' role in the economy, their premiums and their investments.

How insurance stimulates growth
(October 2014)

Describes the important role which insurers play in promoting stability and growth in Europe. Examines the role that policymakers can play in allowing insurers to continue playing this important role.

Why insurers differ from banks
(November 2014)

Study explaining the key differences between the business models of insurers and banks, and why it is important for policymakers to recognise such differences.

European Insurance in Figures
(January 2015)

Detailed 2013 statistics showing European insurers' life and non-life premiums, benefits paid and portfolios, as well as market structure information.

Key principles of insurance supervision at EU level
(January 2015)

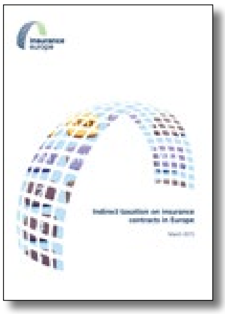
Outlines the industry's views on the European System of Financial Supervision, with emphasis on the functioning of EIOPA.

Insight Briefing: Data processing is key for insurers and consumers
(January 2015)

Explains why aspects of the proposed EU Data Protection Regulation would not be workable for insurers, and points out the unintended consequences that the Regulation could result in.

The Benefits of Insurance
(March 2015)

Provides an overview of the wide range of benefits that insurers provide to the European economy, as well as insight into how policymakers influence insurers' abilities to continue making such contributions.



Indirect taxation on insurance contracts in Europe
(March 2015)

A full survey of rules, tariffs and regulations in European markets. It provides an overview of the taxes applicable to insurance premiums, as well as the various declaration and payment procedures in most European states.

Insight Briefing: Ensuring consumers are appropriately informed
(April 2015)

Summarises why consumers should receive a high quality, not just a high quantity, of information when choosing insurance products.

Executive Committee

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Louis Norman-Audenhove
Director general
Verband der Versicherungsunternehmen Österreichs (VVO)

Belgium
René Dhondt
Managing director
Assuralia
Insurance Europe treasurer

Bulgaria
Dancho Danchev
Chairman
Association of Bulgarian Insurers (ABZ)

Croatia
Hrvoje Pauković
Manager
Hrvatski ured za osiguranje

Cyprus
Stephie Dracos
Director general
Insurance Association of Cyprus

Czech Republic
Tomáš Sikora
CEO
Česká asociace pojišťoven (ČAP)

Denmark
Per Bremer Rasmussen
Director general
Forsikring & Pension (F&P)

Estonia
Mart Jesse
Chairman
Eesti Kindlustusseltside Liit

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Deputy managing director
Finanssialan Keskusliitto

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Fédération Française des Sociétés d'Assurances (FFSA)

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Chairman
Gesamtverband der Deutschen Versicherungswirtschaft (GDV)

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Margarita Antonaki
General director
Hellenic Association of Insurance Companies

Hungary
Dániel Molnos
Secretary general
Magyar Biztosítók Szövetsége (MABISZ)

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Managing director
Samtök Fjármálafyrirtækja (SFF)

Ireland
Kevin Thompson
CEO
Insurance Ireland

Italy
Dario Focarelli
Director general
Associazione Nazionale fra le Imprese Assicuratrici (ANIA)

Latvia
Jānis Abāšins
President
Latvijas Apdrošinātāju asociācija (LAA)

Liechtenstein
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Director
Liechtensteinischer Versicherungsverband (LVV)

Luxembourg
Marc Hengen
General manager
Association des Compagnies d'Assurances et de Réassurances du Grand-Duché de Luxembourg (ACA)

Malta
Adrian J. Galea
Director general
Malta Insurance Association (MIA)

Netherlands
Richard Weurding
General manager
Verbond van Verzekeraars

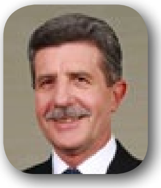
Norway
Idar Kreutzer
CEO
Finance Norway

Poland
Jan Grzegorz Prądzyński
President
Polska Izba Ubezpieczeń (PIU)

Portugal
Alexandra Queiroz
General manager
Associação Portuguesa de Seguradores (APS)

Romania
Florentina Almajanu
Director general
Uniunea Națională a Societăților de Asigurare şi Reasigurare din Romania (UNSAR)

Slovakia
Jozefína Žáková
Director general
Slovenská asociácia poisťovní (SLASPO)



Slovenia
Drago Cotar
Director
Slovensko Zavarovalno Združenje (SZZ)

Spain
Mirenchu del Valle Schaan
Secretary general
Unión Española de Entidades Aseguradoras y Reaseguradoras (UNESPA)

Sweden
Christina Lindenius
Managing director
Svensk Försäkring

Switzerland
Lucius Dürr
CEO
Schweizerischer Versicherungs-verband (ASA/SVV)

Turkey
Mehmet Akif Eroğlu
Secretary general
Türkiye Sigorta, Reasürans ve Emeklilik Şirketleri Birliği

United Kingdom
Huw Evans
Director general
Association of British Insurers (ABI)

Insurance Europe
Michaela Koller
Director general

Strategic Board

President

Sergio Balbinot
Member of the board of management
Allianz, Germany

Vice-president

Torbjörn Magnusson
President & CEO
If P&C Insurance, Sweden

Representatives of like-minded bodies on the Strategic Board

Renzo Avesani
Chairman
CRO Forum
CRO
Unipol Gruppo Finanziario, Italy

Nic Nicandrou
Chairman
CFO Forum
CFO
Prudential, UK

Inga Beale
Chairman
Reinsurance Advisory Board (RAB)
CEO
Lloyd's, UK

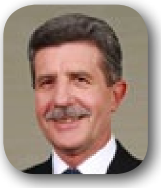
Hilde Vernaillen
President
Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE)
CEO
P&V Assurances, Belgium

Oliver Baete
Chairman
Pan European Insurance Forum (PEIF)
CEO
Allianz, Germany

National association representatives on the Strategic Board

Carlo Acutis
Vice-president
ANIA, Italy
Vice-president
Vittoria Assicurazioni, Italy

Urs Berger
President
ASA/SVV, Switzerland
Chairman
Schweizer Mobiliar, Switzerland



Drago Cotar
Director
Slovensko Zavarovalno Združenje (SZZ)

Bart De Smet
CEO
Ageas, Belgium

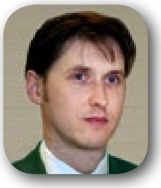
Willem van Duin
Chairman
Achmea, Netherlands

Odd Arild Grefstad
CEO
Storebrand, Norway

Olli Lehtilä
Executive vice-president, non-life insurance
OP Financial Group, Finland

Jan Grzegorz Prądzyński
President
PIU, Poland

Norbert Rollinger
CEO
R+V Allgemeine Versicherung, Germany



Guðjón Rúnarsson
Managing director
Samtök Fjármálafyrirtækja (SFF)

Bernard Spitz
President
FFSA, France

Committees, working groups and platforms

Conduct of Business Committee

Chair: Alastair Evans
Head of government policy affairs
Lloyd's, UK

Vice-chair: Alfonso Bujanda
General counsel
Aviva, Spain

Vice-chair: Gianfranco Vecchiet
Head of group EU & international affairs
Generali, Italy

Economics & Finance Committee

Chair: Dieter Wemmer
Group CFO
Allianz, Germany

Vice-chair: Renzo Avesani
CRO
Unipol Gruppo Finanziario, Italy

Vice-chair: Edgar Koning
CFO
Aegon, The Netherlands

Financial Reporting Working Group

Chair: Isabella Pfaller
Head of group reporting
Munich Re, Germany

Vice-chair: Hugh Francis
Director of external reporting developments
Aviva, UK

International Affairs & Reinsurance Working Group

Chair: Benoît Hugonin
Director of prudential affairs
SCOR, France

Vice-chair: David Matcham
CEO
International Underwriting Association of London, UK

Solvency II Working Group

Chair: Renzo Avesani
CRO
Unipol Gruppo Finanziario, Italy

Vice-chair: Jérôme Berset
Head of risk governance and reporting
Zurich Insurance Group, Switzerland

Taxation Working Group

Chair: Emmanuel Gorlier
Paris hub tax manager
Unipol Gruppo Finanziario, Italy

General Insurance Committee

Chair: Franco Urlini
Head of group reinsurance
Munich Re, Germany

Vice-chair: Philippe Derieux
Deputy CEO
Axa Global P&C, Greece

Vice-chair: Thomas Hlatky
Head of property insurance
Grazer Wechselseitige Versicherung, Austria

Insurance Crime Platform

Chair: Per Norström
Deputy CEO
Larmtjänst, Sweden

Liability/Insurability Working Group

Chair: Phil Bell
Group casualty director
RSA, UK

Vice-chair: Helmut Hecker
Head of liability for commercial customers
Gothaer Allgemeine Versicherung, Germany

Motor Working Group

Chair: Monika Sebold-Bender
Board member P&C
Generali Versicherungen, Germany

Vice-chair: Ernesto Gallarato
Corporate executive, motor insurance
UnipolSai, Italy

Road Safety Platform

Chair: Siegfried Brockmann
Head of Insurance Accident Research
Gesamtverband der Deutschen Versicherungswirtschaft (GDV), Germany

Sustainability Working Group

Chair: Thomas Hlatky
Head of property insurance
Grazer Wechselseitige Versicherung, Austria

Vice-chair: Roland Nussbaum
CEO
Mission des Sociétés d'assurance pour la connaissance et la prévention des risques naturels (MRN), France

Personal Insurance Committee

Chair: Xavier Larnaudie-Eiffel
Deputy general manager
CNP Assurances, France

Vice-chair: Juan Fernandez Palacios
CEO
Mapfre, Spain

Vice-chair: Rochus Gassman
General counsel
Zurich Insurance Group, Switzerland

Public Affairs & Communications Committee

Chair: Michaela Koller
Director general
Insurance Europe

Communications & PR Platform

Chair: Anette Grundstrom
Head of communications
Insurance Sweden, Sweden

Health Platform (reports to the Executive Committee)

Chair: George Veliotes
General manager, life & health
Interamerican Group, Greece

Social Dialogue Platform (reports to the Executive Committee)

Chair: Sebastian Hopfner
Deputy CEO
Arbeitgeberverband der Versicherungsunternehmen, Germany

Statistics Working Group (reports to the Executive Committee)

Chair: Lorenzo Savorelli
Head of research & development
Generali, Italy

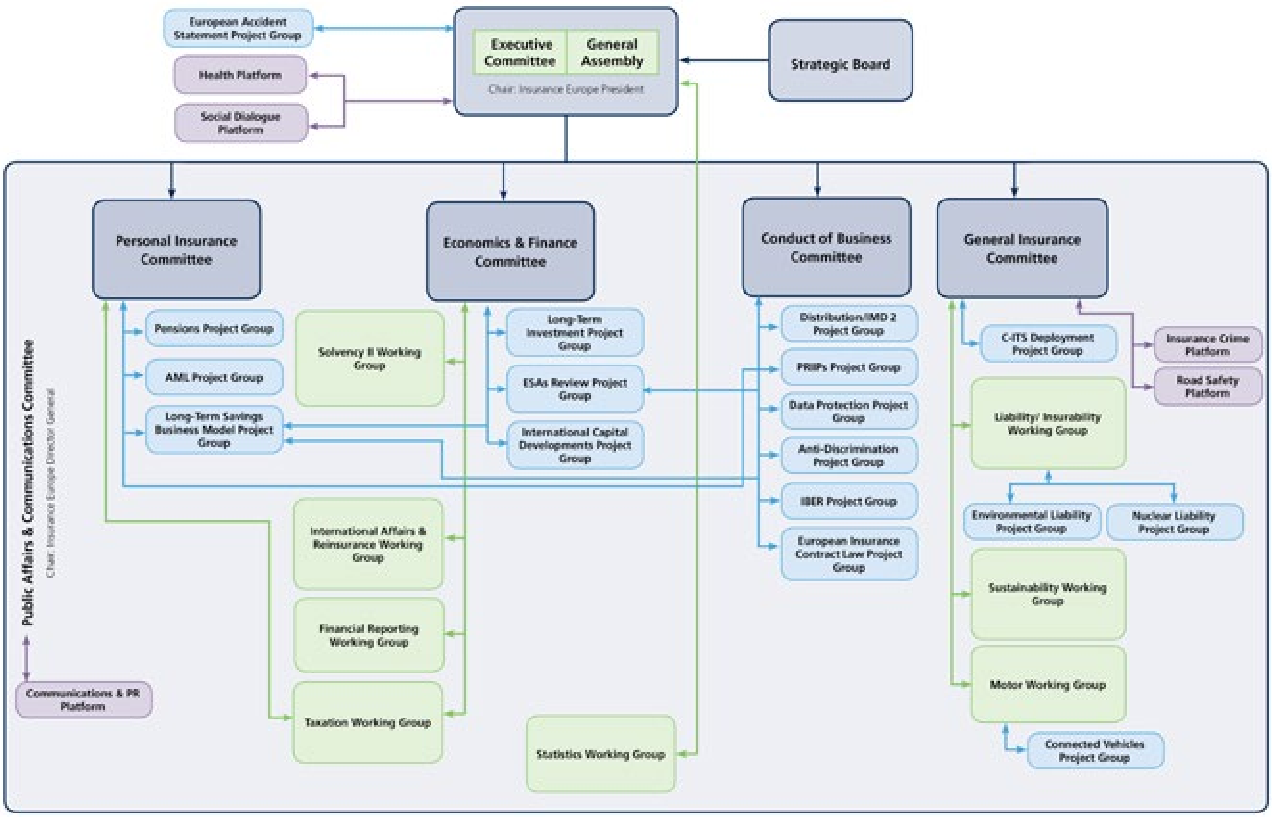
Vice-chair: Delphine Maisonneuve
Retail P&C Director
Axa, France

Secretariat services

- Insurance Europe governance
- Reinsurance Advisory Board
- Global Federation of Insurance Associations

Insurance Europe governance

Insurance Europe's statutory and working bodies



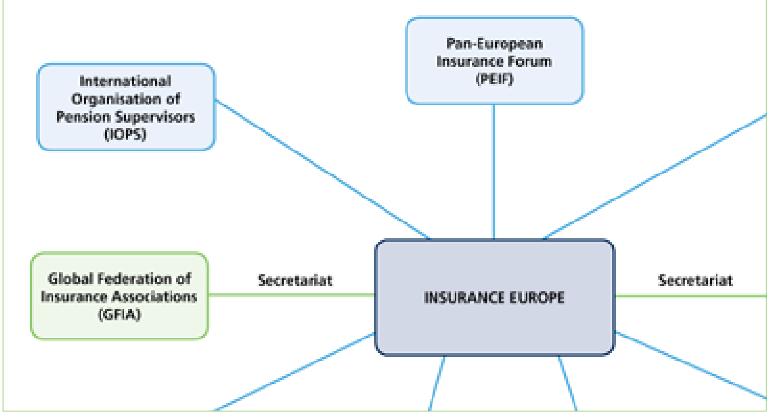
The Insurance Europe secretariat in Brussels works closely with its members to bring together the views of European insurers and to form the representative voice of the European industry.

It runs five committees and a number of working groups and project groups (see above), in which experts nominated by the Insurance Europe's member associations analyse and debate issues and proposed legislation — both European and international — that are relevant to insurance.

Their aim is to reach a common view on the likely impact of any developments on the insurance industry and to decide on industry positions and actions at European level. Insurance Europe then facilitates these actions and promotes these positions to all the key European and international institutions and in the media.

Insurance Europe also runs the secretariat for the Global Federation of Insurance Associations (GFIA) and the Reinsurance Advisory Board (RAB), and liaises with a number of other like-minded organisations (see below).

Like-minded bodies



Reinsurance Advisory Board

The Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at Chief Executive Officer (CEO) level by seven major reinsurers: Gen Re, Hannover Re, Lloyd's of London, Munich Re, Partner Re, SCOR and Swiss Re, with Insurance Europe providing the secretariat.

One of the key objectives of the RAB is to stimulate and maintain a stable, innovative and competitive reinsurance market environment.

It aims to achieve this by promoting a regulatory framework that facilitates global risk transfer through reinsurance and other insurance-linked capital solutions.

An important focus for the RAB over the past year has been promoting freedom of reinsurance in order to counter the recent trend of restrictions on reinsurance, emerging particularly in Latin America and Asia-Pacific, and to improve market access in the United States.

The continuous threat of protectionism

Global reinsurers' business models are based on the widest possible distribution of risks and the utilisation of diversification effects, such as geographical diversification.

Writing a large number of diversified risks, in as many markets as possible, enables reinsurers to benefit from economies of scale and scope.

In recent years local authorities, particularly in Latin American and Asia-Pacific, have put forward proposals that would limit the access of foreign reinsurers to their markets or would discriminate them against local companies.

These authorities believe that, by restricting or increasing the cost for foreign reinsurers to access their markets, they will be able to drive business towards, in many cases state-owned, local reinsurers.

In reality, these kinds of protectionist measures are short-sighted, because they can lead to a concentration of risk within one country, which could — in the event of a major loss — put the local reinsurance market, and potentially the country's wider national economy, in dire straits.

For this reason, the RAB has helped to identify potential restrictions around the globe and has worked closely with Insurance Europe and the Global Federation of Insurance Associations (GFIA) in order to reach policymakers in the affected markets.

In addition, the RAB follows closely the negotiations of international trade agreements in order to ensure that reinsurance commitments are appropriately included.

The problem of reinsurance collateral in the US

Of similar concern for European reinsurers are the discriminatory collateral requirements for foreign reinsurers operating in the United States.

These are a significant problem because they create an artificial competitive disadvantage for European reinsurers, in the form of additional costs from allocating significant amounts of capital as collateral.

The RAB and Insurance Europe have worked together in order to identify these collateral requirements as a trade barrier in the recent research work by the Organisation for Economic Co-operation and Development (OECD) on the "Services in Trade Restrictiveness Index".

The RAB and Insurance Europe have been supportive of the conclusion of a "covered agreement" between the EU and the US which would hopefully lead to the total removal of collateral requirements for EU reinsurers.

The RAB will continue to monitor and potentially engage in developments in key foreign markets, working both proactively and reactively to minimise barriers to trade.

In doing so, the RAB will also work to alert the European Commission and the respective EU Delegations in countries outside the EU of relevant trade barriers, and invite it to take action when needed in support of the interests of the European reinsurance market.

Global Federation of Insurance Associations

Global standards gain momentum

The IAIS has continued its development of a risk-based global insurance capital standard (ICS) with the finalisation of the basic capital requirement (BCR) in 2014, and with proposals for the ICS already published for public consultation.

The global capital standards developed by the IAIS are reminiscent of the Basel III project in terms of scope and ambition. However, crucially, these two projects begin from vastly different starting points. Whereas the Basel framework emanated from a very long period of gradual development, the IAIS capital standards are being formulated to first capture global systemic risk, and then apply downwards over the majority of insurers. This difference in starting point raises a host of challenges to its development.

Work that has happened in the GFIA capital working group has demonstrated that the overall objectives and key features of an ICS are broadly supported across the industry, although it has also made it clear that there is no straightforward way to achieve consensus on some sensitive issues, such as valuation. The working group has responded formally to capital-related consultations, but has also been instrumental in exchanging views between consultations, providing GFIA's members with more context for building their own positions on these issues.

The GFIA's role in a changed IAIS

Starting from January 2015, the IAIS fundamentally changed the way it interacts with the industry and other observers. By dissolving the observership status, the IAIS now interacts with stakeholders through revised procedures which describe the new stakeholder interaction with the IAIS. Stakeholders will no longer attend meetings as before, and the IAIS annual conference will be closed to non-members.

Simultaneously, the IAIS has committed to involving stakeholders in the drafting process through calls for information and through public consultations. They will also organise stakeholder meetings to ensure that frequent dialogue with stakeholders continues to be part of the process. As these new procedures are relatively new for both the IAIS and for stakeholders, time will tell if these revisions succeed in capturing the added value that external voices can provide.

When the IAIS published these new governance proposals, GFIA responded with concerns that the decision to close all meetings by default and to exclude stakeholders from the IAIS annual conference would lead to a lack of face-to-face communication between the IAIS and stakeholders.

GFIA stressed that this could harm stakeholders' understanding of the IAIS' ongoing work and may also negatively impact the ability of stakeholders to provide valuable input as measures affecting the industry are developed.

Regarding the closure of the IAIS annual conference, GFIA is making efforts to avoid permanently losing the value that such a regular exchange of views offers. The opportunity to meet in person, and the frank discussions that have always accompanied the IAIS annual conference, have become an valuable tool in ensuring clear communication and understanding between standard setters, supervisors and the industry.

To this end, GFIA is organising an exchange of views between industry and policymakers in an event parallel to — but separate from — the IAIS meetings in Marrakesh on 11 November 2015.

Maintaining comprehensive advocacy efforts

Since GFIA's inception there has been a steady stream of important and varied advocacy efforts emanating from GFIA's ten working groups, and this past year has been no exception.

The IAIS' application paper on conduct of business supervision was the focus of attention for the market conduct working group, and the systemic risk working group responded to the FSB consultation on critical functions. The taxation working group has been focusing primarily on OECD consultations, specifically the consultation on permanent establishment, and the transfer pricing discussion.

The GFIA trade working group has worked tirelessly to advocate for free trade and the combating of additional trade restrictive measures. It has done so in a series of letters to the governments of India, Ecuador, Indonesia and China, respectfully asking leaders to consider the unintended consequences of limits to foreign investments and the potential social and economic value of increased insurance coverage.

G-20 and B-20 involvement

As the G-20 remains the originator of the highest level of international regulation, GFIA sees it as a priority to meet with representatives of the G-20 yearly, to exchange views and to underscore the importance of appropriate regulation that matches the realities of the insurance industry.

In April 2015, GFIA sent a delegation to meet with the Turkish representatives of the G-20 Presidency, and stressed the role the insurance sector can play in enabling long-term sustainable growth and in serving a social role in the economy.

It also highlighted how in order to fulfil its role, the insurance industry is reliant on appropriate regulation and open markets without trade barriers.

In 2013-2014 it was clear that the Australian G-20 Presidency relied heavily on the policy recommendations of the B-20 to formulate its business agenda. During this term GFIA provided track changes and comments to the B-20 papers on Infrastructure, Investment and Financing Growth, which were discussed and finalised at the B-20 Summit in Australia.

Given the potentially significant role that the B-20 might play in the Turkish G-20 presidency, GFIA has ensured it has adequate representations on those B-20 work streams in 2014-2015 that could potentially influence the insurance regulatory landscape.

New executive leadership

GFIA's general assembly meeting in October marked its second anniversary, which coincides with the renewal of the executive committee members' terms. The GFIA general assembly thanked the inaugural chair of GFIA, Frank Swedlove, as he stepped down as chair and was succeeded by Governor Dirk Kempthorne, President of the American Council of Life Insurers (ACLI). Leigh Ann Pusey stepped down as Membership Executive and was succeeded by Rob Whelan of the Insurance Council of Australia (ICA), and Frank Swedlove joined the Executive Committee as Past Chair.

More information on GFIA

For more information on GFIA activity and members, please see the October 2014 annual report which is available on GFIA's website.

GFIA executives

Chair
Governor Dirk Kempthorne
President & CEO
American Council of Life Insurers (ACLI)

Vice-chair
Recaredo Arias
General secretary
Association of Mexican Insurance Companies (AMIS)

Secretary
Michaela Koller
Director general
Insurance Europe

Treasurer
Shizuharu Kubono
Vice-chairman
Life Insurance Association of Japan (LIAJ)

Membership
Robert Whelan
Director & CEO
Insurance Council of Australia

Past chair
Frank Swedlove
President
Canadian Life & Health Insurance Association (CLHIA)

Insurance Europe's Annual Report 2014–2015 is available on the Insurance Europe website: www.insuranceeurope.eu

Brussels, May 2015

Design: Insurance Europe

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