insurance europe

Annual Report 2013–2014

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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. European insurers generate premium income of more than €1 100bn, employ almost one million people and invest around €8 600bn in the economy.

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Foreword

The law of unintended consequences is not new. As early as the second half of the 18th century, political economist Adam Smith was writing about actions having unplanned effects. Complexity is often the root cause of unintended consequences. In our increasingly interconnected global economy and society it is hence not surprising that negative unforeseen effects must be guarded against more and more.

We write this report as elections are held for the European Parliament and as the European Commission prepares for its new mandate in November. If we look back over the five years of the last mandate, we can count a staggering 130 or more Commission initiatives on which Insurance Europe has worked because they have direct or indirect implications for Europe's insurers. Given that huge number of initiatives, it is hardly surprising that one of our main roles has been to identify and explain the possible unintended consequences that legislative proposals could have for insurers, consumers or society, despite policymakers' best intentions.

Let's take a few examples.

A sophisticated, risk-based regulatory regime that correctly reflects the financial strength of European insurers is something the industry and its customers can clearly support. Yet if the design or calibrations that underpin that sophisticated regime — Solvency II — are inappropriate, the damage to insurers and the economy could be immense. Insurance Europe has worked hard over the last year to contribute to solutions that ensure the regulation will provide the peace of mind that insurance customers need, while avoiding unnecessary costs for customers and without distorting financial markets and causing damage to fragile economies. Some important improvements were made to the Directive and we hope that the insurance industry's comments are also taken into account in the final version of the delegated acts of the new legislation.

Likewise, it appears laudable to put forward legislative proposals intended to ensure that customers are provided with the information they need to be able to take an informed decision about which policy to buy. That is until all the proposals are put together and the result is buyers facing a bewildering mass of information that actually prevents them from seeing the important elements when choosing their products. Insurance Europe has worked hard to highlight the risk that consumers could be overburdened with information and that inconsistent or overlapping rules could be created. The federation will continue to oppose initiatives that discourage consumers from paying attention to key elements such as coverage, guarantees, exclusions and excesses.

And in the broad reforms being proposed to the EU's legal framework for data protection, we again see laudable aims — in this case harmonising legislation, strengthening individuals' rights and reducing the administrative burden on businesses. Yet the broad reforms have been designed without considering their impact on specific sectors, such as insurers' data-processing activities. Those activities lie at the core of insurance underwriting and risk assessment, so the legislative proposals could adversely affect the availability of insurance cover, to the detriment of consumers.

Elsewhere we have continued to see policymakers turning to proposals to make compulsory certain types of insurance — such as environmental liability cover or insolvency cover for airlines — to guarantee that everyone has insurance cover. Again, at first sight, this can appear to be the right solution, yet if the risks are too difficult to quantify and insure, mandatory cover can lead to a drop in insurance capacity and range, creating the opposite effect to that intended.

Finally, looking beyond the EU to international initiatives, in the ambitious plans of the Financial Stability Board and the International Association of Insurance Supervisors to create a set of international capital standards for insurers, we see a very tight timetable proposed. Here we are concerned that this timetable does not allow sufficient time for comprehensive impact assessments. If we think back to the development of Solvency II in Europe, the creation of that regulation — which was admittedly more detailed — included no less than six impact assessments and took far longer than the timetable set for these international standards. Insurance Europe also believes that something as important as international capital standards needs to be specifically created for the sector and cannot be copied from standards in other financial sectors.

It is clear from these examples, all of which are covered in more detail in this Annual Report, that the unintended consequences that legislative proposals can have on our industry can be due to a lack of information about how insurance works. Perhaps the biggest ongoing challenge faced by Insurance Europe is to increase understanding about the role of insurance, its benefits and how its unique business model works. In particular, we devote significant resources to explaining how that model differs substantially from those of other financial sectors, such as banking or the asset management industry, and why rules created for those other sectors cannot simply be copied and applied to insurance. If they are, unintended consequences are the result.

This is also one of the reasons why Insurance Europe has engaged in the past year in the debates over the review of the European system of financial supervision. We are calling in particular for the current model of separate supervisory authorities for insurance, banking and securities to be maintained, so that the sectors have supervisors that understand and recognise their unique characteristics. At the time of writing, we await the EC's report on this review.

As the incoming MEPs form their committees and the new Commission begins its mandate, we at Insurance Europe look forward to continuing to provide information and expertise on the workings of our distinctive and innovative sector; one that underpins so many vital elements of society and the economy, and that acts as a long-term investor.

Sergio Balbinot

President

Michaela Koller

Director General

European insurance in figures

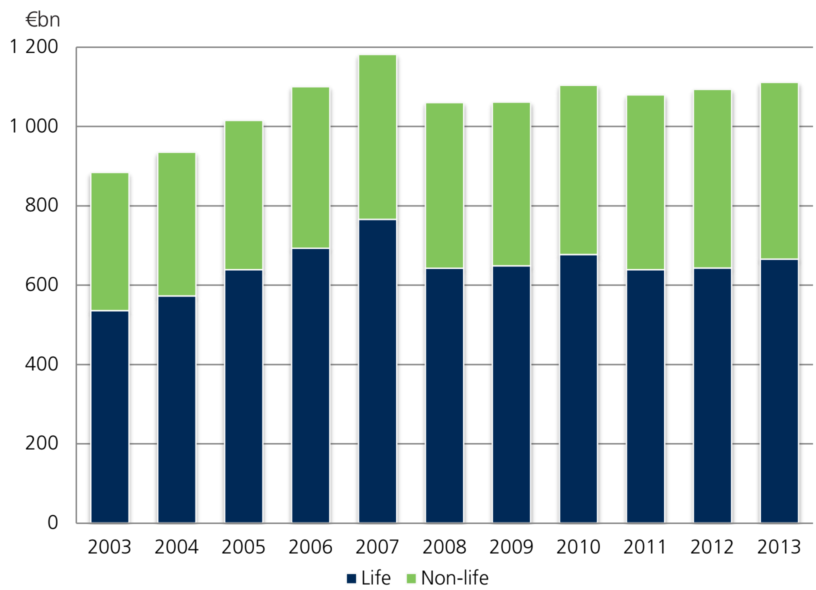
Insurers show resilience in 2013 amid low economic growth

An adverse economic environment persisted in Europe in 2013. Most euro-area economies were struggling to kick-start growth, which translated into a fall in euro-area GDP of 0.4%. Non-euro area EU member states fared better, with modest positive growth, thus lifting the GDP growth of the 28 EU member countries just above zero. Low economic activity in both the goods and services sectors kept unemployment high (11.9% in the euro area, 10.7% overall). Lacklustre economic activity dampened euro-area inflation to below 1% a year towards the end of the year. The environment was therefore challenging for the financial sector.

For investors, however, the conditions were more upbeat. European stock markets experienced strong growth in 2013. In parallel, corporate bond yields inched downward. Moreover, the spreads in government bond yields of the countries on the EU periphery continued to decline, including Greece, where in early 2014 the government successfully returned to the markets. This general equity and bond market stabilisation created a more solid foundation for productive investment.

Despite the testing macroeconomic context, preliminary figures suggest a rather positive picture for the insurance industry. Total premiums in Insurance Europe's member countries grew on average 2.8% at constant exchange rates, reaching an estimated €1 111bn. This growth was driven largely by a strong increase in the life insurance market — 4.7% year-on-year at constant exchange rates — while non-life premiums, on average, remained largely stable.

Total gross written premiums in Europe — 2003–2013 (€bn)



Note: 2013 figures are provisional

Large markets lead life growth

The almost 5% increase in life insurance premiums was the result of strong growth in the Insurance Europe member countries that manage some of the largest life insurance portfolios, such as Sweden, Italy, Switzerland, Germany and France, as well as Finland and Austria. Switzerland experienced strong growth in group contracts. For Germany, 2013 was marked by a vast expansion in single-premium business and stable development in regular annual premium business. French insurers are also recovering, with strong growth after two consecutive years of decline, even though pre-crisis levels of premiums have not yet been reached. In Finland, strong growth in unit-linked insurance was registered. In Portugal, it was savings products that dictated much of the expansion, indicating the value put on these secure products in the current volatile financial environment.

On the downside, in Belgium the announcement of a tax increase for some life products, starting in January 2013, encouraged citizens to make payments in late 2012 and had a massive impact on life premiums (a drop of 25% or €5bn). In Spain demand for savings-related products continued to be weak due to the recession. Likewise in Greece, the full impact of the recession affected both unit-linked life business and traditional life insurance.

While life insurance business grew overall, non-life premiums stagnated. This hides a diverse picture across both countries and business lines. For the aggregate non-life sector, significant premium growth was registered in countries including Sweden, Finland, Austria, Spain, France, Belgium, Germany, the Netherlands and Switzerland.

The positive overall result was dampened by a negative result in the UK, where non-life premiums were down by an estimated €3bn or -4.7% at constant exchange rates. Total non-life premiums in Italy also fell by 4.8% or €1.7bn.

The largest decline in non-life insurance premiums in 2013 was in the motor sector (which accounts for 28% of the non-life total). This line suffered an estimated 4.7% drop in premiums at constant exchange rates. In value terms, the UK and Italy took the largest hit. In Spain motor insurance continued to show a slightly negative evolution, as a consequence of stagnation in the total number of insured vehicles. Greece and Portugal also experienced a drop in motor premiums.

Property premiums also suffered a decline, estimated at -1.4% at constant exchange rates, owing to a substantial fall in premiums in the UK and France compared with the year before. The Spanish property insurance segment remained competitive despite the difficult economic situation, showing an ability to adapt to market conditions. Germany's property and casualty market saw an increase in premiums, partly prompted by the damage caused by natural catastrophes in the course of the year.

In contrast, the health insurance sector had a positive year, as premiums grew by 1.5% at constant exchange rates. Most countries' health premiums increased, with Italy and Sweden being notable exceptions. The negative outcome in Sweden was as a result of AFA Insurance, owned by organisations involved in Sweden's labour market, paying back SEK 11bn (€1.2bn) to policyholders. In Germany, the numbers were positive, but growth has slowed due to a drop in policyholders, as well as lower premium income due to the introduction of a tariff for people in financial difficulty. Surprisingly, in Portugal health insurance grew, despite the adverse economic conditions. Health premiums also proved resilient in Spain.

Continued growth in the investment portfolio

Estimates suggest that in 2013 insurers' total investment portfolio grew by 4.5% at constant exchange rates, reaching €8.6trn, driven by the life portfolio (representing 85% of the total), which is estimated to have expanded by 5.5% at constant exchange rates. The non-life portfolio also grew, albeit at a slower pace of around 2.8%. Here, too, the national picture is mixed. While in Germany and the Netherlands the portfolio decreased, in France, Finland, Austria and Italy it grew.

European insurance key figures and growth — 2011–2013 (€bn)

	2011	2012	2013	Nominal growth (at current exchange rates)		Nominal growth (at constant 2013 exchange rates)	
				2011/12	2012/13	2011/12	2012/13
Total gross written premiums (€bn)	1 079	1 093	1 111	1.3%	1.6%	-0.4%	2.8%
Life	639	643	665	0.7%	3.5%	-1.3%	4.7%
Non-life	441	451	446	2.3%	-1.1%	1.0%	0.0%
Motor	131	134	126	1.9%	-6.2%	0.4%	-4.7%
Health	112	113	114	0.8%	0.8%	0.1%	1.5%
Property	86	89	87	4.2%	-2.9%	2.6%	-1.4%
Other non-life	111	116	119	3.8%	2.9%	1.5%	4.7%
Insurers' investment portolio	7 568	8 352	8 643	10.4%	3.5%	8.4%	4.5%

2013 figures are provisional
Life insurance 2013: includes 2012 figures for Denmark and the UK
Non-life insurance 2013: includes 2012 totals for Denmark and 2012 breakdowns for Austria, Denmark and the Netherlands
Investment portfolio 2013: includes 2012 totals for Cyprus, Denmark, Greece, Hungary, Luxembourg and the UK; 2012 data for the non-life component of Norway; and excludes Slovenia and Romania

Prudential regulation

Solvency II moves from design to implementation

After 13 years of development and discussion, an important milestone in the path towards the EU's new Solvency II risk-based regulatory regime was achieved in November 2013 when the European Parliament, EU Council and the European Commission reached agreement on the Omnibus II Directive. Omnibus II updates Solvency II in important ways and the agreement ended a long period of uncertainty, not just over the final design of Solvency II, but also when it would be adopted.

While the compromise was not the industry's ideal in terms of correctly reflecting insurers' long-term business and low exposure to market volatility, it was a workable base from which to develop the technical details of the new regulatory regime. There is a great deal of pressing work for insurers, supervisors and legislators on those technical details, since the application date for Solvency II is set for 1 January 2016.

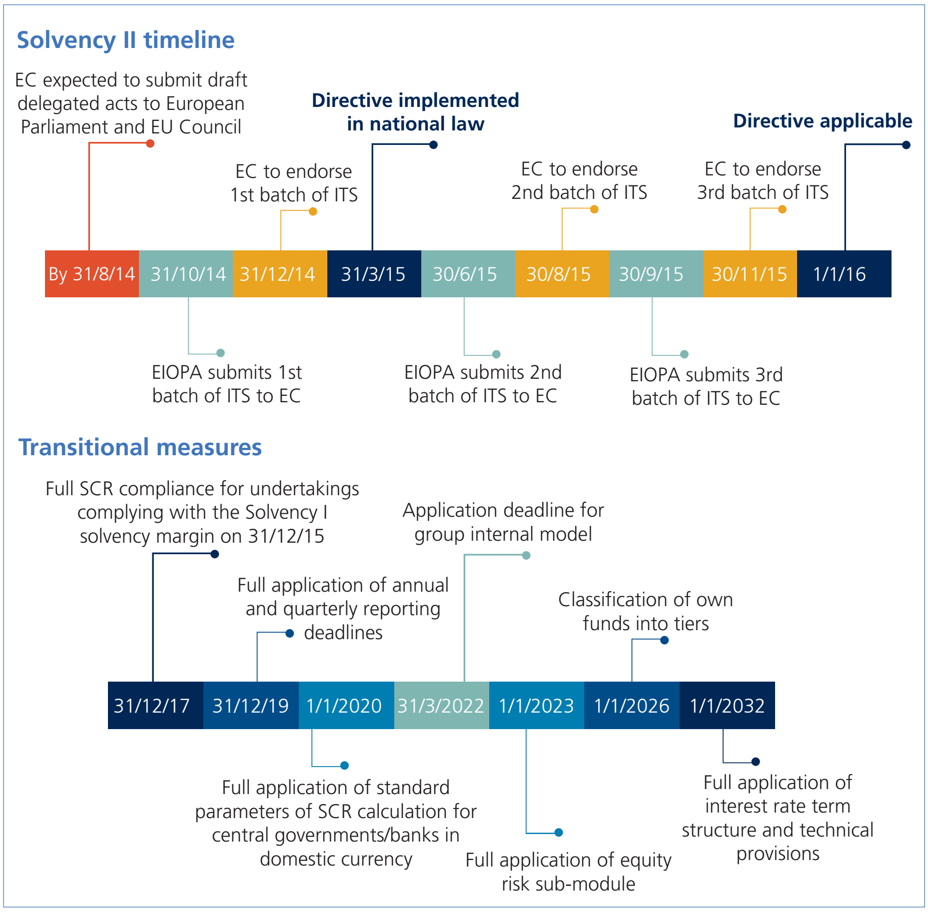
Widespread concern over impact

The importance of addressing this issue was made very strongly by Insurance Europe. It was also widely highlighted by other bodies such as the Bank for International Settlements, the Organisation for Economic Co-operation and Development, the International Monetary Fund and the Group of 30 consultative group on economic and monetary affairs. They voiced concerns that if appropriate solutions were not found, the ability of insurers to continue to offer long-term guarantees and their role as long-term investors and providers of financial stability during volatile markets could be at risk.

Significant efforts went into finding solutions and the insurance industry supported a package of measures to address the problems. If implemented correctly, these measures would reflect the way in which insurers manage their long-term business, ensure that the risks to which their

A key step towards the Omnibus II agreement was the publication by EIOPA (the European Insurance and Occupational Pensions Authority) in June 2013 of the results of its long-term guarantee impact assessment and its proposed measures to deal with long-term guarantee issues.

The key concern, which was one of the main reasons for the delay in finalising Solvency II, was that the framework — in its then form — did not correctly assess the available capital or required capital for insurers offering long-term guarantees backed by long-term assets. The long-term perspective of insurance can reduce or eliminate insurers' exposure to short-term market volatility, yet that version of Solvency II incorrectly assumed that insurers are always affected by all market volatility.



balance sheets are exposed are not overstated and avoid unnecessary balance-sheet volatility.

EIOPA's report on the impact assessment provided strong evidence that the industry's concerns were valid and that a package of measures was needed to ensure Solvency II could work as intended. EIOPA also put forward, based on its findings, some specific proposals for a set of improvements to the Solvency II framework.

The proposals differed from the package of measures supported by the industry, but Insurance Europe recognised them as an important step forward and a useful basis for restarting the Omnibus II discussions.

Omnibus II includes important improvements

The Omnibus II agreement included the elements of the package supported by the industry and — while not ideal in terms of calibration and design — they collectively address some of the most significant concerns. The key outcomes included:

- **Extrapolation** The basis for the methodology to extrapolate the risk-free interest rate was finalised, with the extrapolation starting at the "last liquid point" (set at 20 years for the euro) and finishing at the "ultimate forward rate" (set at 60 years for the Euro).
- **Matching adjustment** This measure is an adjustment to the discount rate to shelter insurers from undue short-term market volatility. It will be applied under very strict conditions (eg the portfolios where asset and liability cashflows are very highly matched) to recognise that such portfolios are only exposed to default risk and not movements in spreads. The adjustment is based on the actual assets backing the liabilities.
- **Volatility adjustment** This other long-term measure will be applied where the strict conditions of the matching adjustment are not met. It also recognises that there is a reduction in exposure to spread movements. The adjustment will usually be significantly lower than the matching adjustment and is based on a representative portfolio of assets. In addition, for eurozone countries, limited national adjustments are possible if the outcome based on a national portfolio diverges significantly from the eurozone one.
- **Transitional measures** To ensure a smooth transition from Solvency I to Solvency II, Omnibus II grants insurers up to 16 years (see timeline) to comply with certain elements of the new regime.
- **Provisional equivalence** Groups with subsidiaries in non-EU countries whose regulatory regimes are deemed provisionally equivalent or equivalent to Solvency II are able to use local capital requirements when calculating their total group capital. Provisional equivalence can be granted for a renewable period of 10 years.
- **Reporting and monitoring** Companies are required to report their solvency situation with and without the long-term and transitional measures to ensure complete transparency about their impact. EIOPA is required to carry out annual reviews of their impact until at least 2021.

Focus shifts to implementing measures

A variety of measures will determine how Solvency II is implemented. These include delegated acts prepared by the Commission and regulatory technical standards (RTS), implementing technical standards (ITS) and guidelines prepared by EIOPA (see table on p10).

The delegated acts contain, for example, the design and calibration of the standard formula for calculating capital requirements and Omnibus II specifies where EIOPA is required to provide further detail in the form of ITS. Omnibus II sets a "sunrise clause" whereby, for a maximum of two years after Omnibus II enters into force, RTS will be adopted in the form of delegated acts. Afterwards, EIOPA may submit draft RTS to the Commission to adjust the delegated acts to reflect technical developments in the financial markets.

The guidelines, which are non-binding, are primarily at the discretion of EIOPA and are intended to be used where there is a need to ensure consistency in supervisory practices and in the application of the regime across Europe.

These measures will have a very significant impact and Insurance Europe has stressed that they must remain consistent with the political agreements that were reached by the EU institutions. None of these measures have yet been finalised and insurers will have very little time between their finalisation and the entry into force of Solvency II at the beginning of 2016.

Delegated acts are close to final

At the time of writing, the draft delegated acts are understood to be in close to final form and are expected to be published and sent to the EU Council and the European Parliament in July or August 2014. The Parliament and Council will then have up to six months in which to object to them (see table below).

Insurance Europe identified over 100 concerns (including drafting errors) in the draft delegated acts. However, in light of the extremely tight timeline for the implementation of Solvency II, it highlighted to the Commission only the eight highest priority areas that should be addressed to align the delegated acts with the political agreement that was reached and to avoid unnecessary negative effects on policyholders and the economy. These were:

- implementation of the long-term guarantee package agreed in Omnibus II (volatility adjustment, matching adjustment, credit risk adjustment, extrapolation and interest rate risk)
- calibrations of the standard formula in the market-risk module for long-term investment (in infrastructure, securitisations and SMEs)
- issues of importance to insurance groups, such as equivalence and currency risk
- several own funds issues including eligibility limits (eg only tier 1 own fund items can be used in excess of the solvency capital requirement (SCR) to determine the SCR coverage ratio)

The Commission however, appears to have made only a few changes and there is a risk therefore that these issues will remain unresolved in the final delegated acts. It is understood, however, that early review clauses will be included to allow changes to be made rapidly if monitoring or further evidence reveals them to be necessary.

EIOPA has, in the meantime, already set its timetable for consulting on ITS and guidelines, with the process divided into phases (see timeline on p8). The first set of ITS, relating to approval processes, is currently under analysis by Insurance Europe and its members. Initial areas of concern are over

Solvency II legislative levels

What is it?	What does it include?	Who drafts?	Who decides?
LEVEL 1 Solvency II Framework Directive	Legal act based on principles. Lays down certain results that must be achieved in every member state.	EC	European Parliament, EU Council
LEVEL 2 Delegated acts	Implementing measures to amend or supplement elements of legislative acts.	EC	Parliament and Council have 3 months (extendable by 3 months) to object
LEVEL 2.5 Regulatory technical standards (RTS)	Technical standards for the consistent harmonisation of rules. Must be technical and not imply strategic decisions or policy choices.	EIOPA (after public consultation)	EC has 3 months to endorse. Parliament and Council have 3 months (extendable by 3 months) to object *(1+1 if EC does not amend EIOPA's draft RTS)*
LEVEL 2.5 Implementing technical standards (ITS)	Technical standards for the uniform application of certain provisions. Must be technical and not imply strategic decisions or policy choices.	EIOPA (after public consultation)	EC has 1 month (extendable by 1 month) to endorse
LEVEL 3 Guidelines	Non-binding guidance to establish consistent supervisory practices and ensure common, uniform application of EU law.	EIOPA	EIOPA
LEVEL 4 Enforcement	EC ensures Directive is enforced.	EC	EC

the workload created both for companies and supervisors by the potentially large number of approvals needed and related documentation. A key focus for the industry will be on ensuring these approval processes are as efficient as possible, avoiding significant costs for policyholders and backlogs that create difficulties for insurers in innovating and creating new products.

Interim reporting prepared

In light of the delays to Solvency II, in November 2013 EIOPA finalised guidelines for interim measures, with the aim of maintaining momentum, encouraging readiness for the actual implementation of the new regulatory regime and achieving a harmonised approach to its introduction across jurisdictions.

Although these are non-binding guidelines with which national authorities are asked either to comply or to explain why they cannot, they are expected to be adopted and implemented without changes by most member states. They will introduce into local regulatory frameworks, in advance of Solvency II, some of its elements in the following areas:

- system of governance
- forward-looking assessment of an undertaking's own risks based on ORSA (own risk and solvency assessment) principles
- pre-application for internal models
- submission of information to national authorities

Under these interim measures, companies are required to report year-end 2014 information and quarterly information for the third quarter of 2015. The insurance industry supported the introduction of high-level, principles-based guidelines on the qualitative (pillar 2) Solvency II requirements and the efforts to improve consistency in the pre-application of internal models. However, it raised concerns about the workload entailed in requiring pillar 1 reporting and welcomed the fact that EIOPA made some reductions to the reporting burden in its final guidelines. Insurance Europe stressed that the interim reporting should not be used as an early adoption of Solvency II and should only be used to help companies and supervisors to prepare for implementation in 2016.

Stress testing underway

EIOPA also consulted on the technical specifications for its annual stress-testing of insurers (which will be used for interim reporting in 2015). The stress-test exercise runs from May to July 2014 and is based on the Solvency II valuation framework. It includes the effect on undertakings' balance sheets of specific market stresses, major natural and man-made catastrophes and prolonged low interest rate scenarios. The results will be published by EIOPA in November 2014.

Insurance Europe highlighted that the deadline for completing the stress tests was too short and that the level of detail required was too great, so it welcomed some improvements in these regards in the final specifications. The industry has also emphasised that it is important that the stress tests recognise that Solvency II capital requirements are calibrated on extreme (1-in-200-year) scenarios and so are already a kind of multiple stress test. Care must therefore be taken in how the results are presented to avoid the double counting of risks by placing stress tests upon stress tests.

Discussions on ECB reporting

The European Central Bank (ECB) launched a project in 2011 to improve and extend reporting by the insurance industry. While the industry understood the need for this, it was concerned at potentially enormous additional costs for insurers because the ECB initially defined significant reporting information requirements over and above the already very extensive Solvency II requirements and it set reporting deadlines that were earlier than the challenging Solvency II timetable.

Insurance Europe has therefore been working with its members to provide the ECB with constructive input as it develops its requirements and assesses the costs and benefits of additional requirements. The benefits of full alignment with Solvency II reporting have also been highlighted and the ECB has been receptive to the goal of creating a single reporting process that satisfies both Solvency II and ECB needs. Further work is required, but it now appears possible that the ECB will be able to meet its reporting needs by integrating with Solvency II reporting, at a reasonable cost to the industry.

Investment issues

European and global growth agendas recognise insurers' role as long-term investors

Supporting long-term investment and growth remains at the centre of the European and international political agendas. With an estimated €8.6trn of assets under management in Europe in 2013, the insurance industry is Europe's largest institutional investor and Insurance Europe therefore follows developments in this area very closely. As a holder of long-term illiquid liabilities, the insurance industry has the ability to invest in long-term and illiquid assets, such as the infrastructure or small and medium-sized enterprises that are vital for economic growth.

A debate was launched in Europe back in March 2013, when the European Commission released a Green Paper on the long-term financing of the European economy. Insurance Europe responded to the Green Paper in June 2013, welcoming its recognition that changes to prudential regulation, accounting requirements or tax law, for example, could hinder insurers' ability to continue providing long-term funding to the economy. Insurance Europe also stressed that the impact of regulatory initiatives should be assessed by cumulative impact studies within and across sectors.

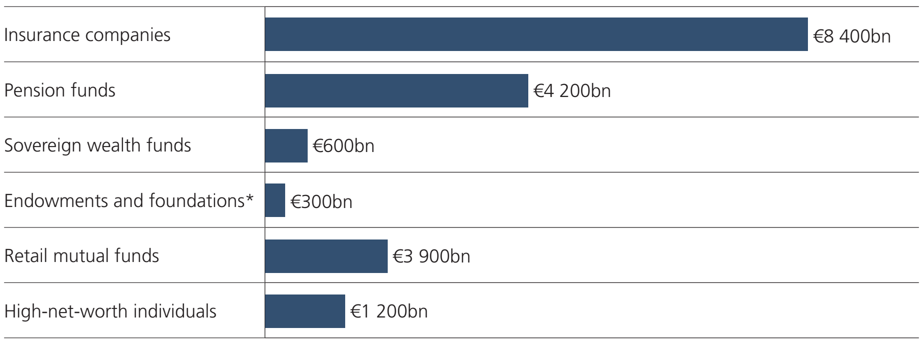
Insurance Europe's response to the Green Paper was complemented by a more extensive report, "Funding the future", published in June 2013 (see p44). In addition to explaining how insurers invest and the extent to which insurers' investments help to fund governments, corporates and individuals, the report also pointed out the significant interactions between regulatory developments — such as Solvency II (see p8), the European Market Infrastructure Regulation (EMIR) — and insurers' investment decisions. During the discussions over the changes to be introduced into Solvency II by the Omnibus II Directive, the report helped to explain why changes were needed to the treatment of long-term guarantees by highlighting the benefits insurers' investments bring to long-term economic growth, as well as the potential challenges that insurers' long-term investments would face without appropriate measures for long-term insurance business.

Insurance Europe also welcomed a report in February 2014 by the European Parliament's Economic and Monetary Affairs (ECON) Committee on long-term investments. The federation supported the report's call for a consistent regulatory framework, for impact assessments of regulatory effects on long-term financing and for greater international convergence on long-term finance initiatives. Insurance Europe highlighted the significant effect of capital charges on insurers' investment decision-making and, consequently, the importance of appropriately calibrating the Solvency II framework, which should reflect the real risks to which insurers are exposed.

Insurers at centre of global debates

In February 2013 the G-20 set up a study group on financing for investment to outline potential regulatory challenges faced by long-term investors. The global debate focuses on two main areas: firstly, the need to assess the potential impact of regulation on the provision of long-term finance and, secondly, policy actions to foster long-term investments and economic growth. The Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD) play key roles in the G-20 work on long-term investments. Insurance Europe had the opportunity to contribute to the FSB's work on identifying the effects of existing and emerging regulation on the provision of long-term financing.

European assets under management — 31 December 2012



Sources: Insurance Europe, OECD, EFAMA, SWF Institute, Forbes
**2011 data, Oliver Wyman analysis*

Insurers' investments in the economy

- 21% of all European corporate bonds
- 11% of all euro-area bank debt
- 24% of European government debt
- 18% of total European public equity

Source: "Funding the future: insurers' role as institutional investors", Insurance Europe and Oliver Wyman, June 2013

Specifically, Insurance Europe highlighted concrete examples of regulatory developments (Solvency II, EMIR and changes to International Financial Reporting Standards 4 and 9) that can have a significant impact if they are not appropriately designed and calibrated. Insurance Europe's comments were included in the FSB report to the G-20 in August 2013.

Similar concerns were raised by Insurance Europe in relation to work by the OECD on institutional investors and the development of OECD High-Level Principles on long-term financing. Insurance Europe also attended and gave presentations at various OECD workshops and roundtables on institutional investors and long-term investors.

In April 2014 the OECD launched a questionnaire on the regulation of insurers' investments, which aims to gather information from OECD member states on areas such as the valuation of assets and liabilities, the measurement and calibration of any capital requirements associated with investments, and the existence of any quantitative limits to insurers' asset allocation. Insurance Europe believes this exercise will also provide useful insights for international projects, such as the international capital standards and the regulatory framework for international groups (ComFrame) that are being developed by the International Association of Insurance Supervisors (see p15). The FSB and the OECD are expected to report regularly to the G-20 on the conclusions emerging from their work.

In March 2014 a Global Federation of Insurance Associations (GFIA) delegation, including representatives from Insurance Europe, met representatives of the G-20 Australian presidency (see p54). Strategies to stimulate growth and attract private infrastructure investment have been identified as key priorities by the presidency. The GFIA delegation was able to raise awareness of the insurance industry's long-term investment role and of its concerns over possible negative consequences if regulatory initiatives do not factor in the implications for insurers' investment strategies.

EU initiatives

Back in Europe, at the end of June 2013, the EC's first proactive initiative on long-term investments was its proposal on European long-term investment funds (ELTIF), an investment framework designed for investors who want to put money into companies and projects for the long-term. Insurance Europe broadly welcomed the proposal in the context of the EC's wider initiative to create new long-term assets that insurers can use to match long-term liabilities and to diversify their portfolios. In its November 2013 position paper Insurance Europe did, however, raise concerns over the treatment of ELTIF under Solvency II and argued that the unnecessarily high capital charges in the solvency capital requirement and the volatility generated in insurers' own funds could limit insurers' investment in such funds.

A more extensive list of actions aimed at fostering long-term investment in Europe was published by the EC in March 2014, as a follow-up to its Green Paper. These include better transparency of and data on infrastructure investments, improving the EU environment for covered bonds and private placements, and improving the corporate governance regime for long-term financing.

Slow progress on G-20 derivatives reform

On other investment-related issues, an important milestone in the reform of over-the-counter (OTC) derivatives was reached in September 2013, when the International Organization of Securities Commissions (IOSCO) finalised requirements to address risks in the non-central clearing environment.

Insurance Europe welcomed the outcome of IOSCO's work, especially features intended to manage the liquidity impact of (initial and variation) margin requirements on long-term investors such as insurers, who mainly buy derivatives to hedge long-term risks. For example, the introduction of a universal initial margin threshold requirement of €50m, below which a firm would have the option of not collecting an initial margin, should significantly limit the extent to which insurance companies will incur initial margin calls. In addition, IOSCO defined a broad array of assets as eligible for variation margin calls. This is welcomed by the insurance industry as it will continue to be possible, at least in the OTC environment, to make use of long-term assets to cover margin needs.

The next step before full implementation of the OTC rules — expected in 2015 — is the transposition of the global IOSCO rules into the EU's EMIR technical standards, published by the European supervisory authorities in April for public consultation. Insurance Europe will respond to the consultation, stressing how important it is that the European rules follow the IOSCO guidelines, particularly for the eligibility of collateral assets and the initial margin threshold.

With respect to the central clearing environment, later than intended authorisation of central counterparties by the European Securities and Markets Authority (ESMA) in March 2014 has significantly delayed implementation of the EMIR central clearing rules. In responding to ESMA's September 2013 discussion paper on the EMIR clearing obligation, Insurance Europe highlighted the need for a better assessment from ESMA of differences in the level of preparedness for the clearing of financial counterparties. Insurance Europe encouraged ESMA to define a workable phase-in schedule that would be clear and appropriate for large and small clearing or non-clearing members. In addition, Insurance Europe encouraged ESMA to minimise as much as possible the frontloading obligations (ie obligations imposed on existing derivatives, traded before the central obligation was in place) that will be imposed, especially where the challenges and costs of frontloading might outweigh the potential benefits of phased implementation.

A number of technical details remain to be defined, so the central clearing obligation will probably not be in place before 2015. Insurance Europe will continue to voice concerns about the significant impact that the clearing obligation will have on insurers' investments and about the danger 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 despite the impact such a change will have on policyholders' returns. These concerns were already expressed by Insurance Europe at European level and also to the OECD and in the context of the FSB work on regulatory developments with a potential to affect the provision of long-term investment financing.

Good direction in implementation of rating agency reform

In accordance with the EU's new Credit Rating Agencies Regulation of May 2013, the three European financial services supervisory authorities launched a review in September 2013 of all existing EU guidelines and recommendations to identify — and where appropriate remove — references that could trigger sole or mechanistic reliance on external credit ratings. In December 2013 Insurance Europe contributed to the review. While expressing support in principle for less reliance by financial markets on credit ratings, it emphasised that in practice it would not be feasible to fully refrain from using them. Insurers' investment decisions are not solely (and often not at all) based on the credit rating of a product, so Insurance Europe is opposed to any obligation to carry out own credit risk assessments for every entity or financial instrument, as this would go against the provisions of the Solvency II Directive and would be costly and burdensome.

The final report by the supervisory authorities in February 2014 recognises that the references in the Solvency II framework, namely in the calculation of capital requirements, cannot be regarded as a mechanistic reliance on external credit ratings. However, insurers will have to assess external credit assessments. A procedure for this will be defined by EIOPA (the European Insurance and Occupational Pensions Authority) in the implementing technical standards for Solvency II.

Global capital standards

Ambitious plans must be prepared with care

Over the last year the insurance sector has moved from having no global capital standard to having three new standards set to apply in under five years. Insurance Europe is convinced that the potential impact on the international insurance industry is huge, even in jurisdictions with sophisticated, risk-based regulatory regimes, such as Europe with Solvency II.

Developments started with the announcement by the Financial Stability Board (FSB) in July 2013 that "as a foundation for the higher loss absorbency (HLA) requirements for global systemically important insurers (G-SIIs) the International Association of Insurance Supervisors (IAIS) will as a first step develop straightforward backstop capital requirements". These were later renamed "basic" capital requirements (BCR). The announcement was followed in October 2013 by the IAIS advising that it would develop an insurance capital standard (ICS) as part of its common framework for group supervision (ComFrame, see box on p16).

The timetable set by the FSB is ambitious. The BCR is due to be finalised by September 2014 in time for its formal adoption at the G-20 summit two months later. The FSB then expects the details of how the HLA requirements will be implemented to be developed by the end of 2015, with the IAIS intending to finalise the ICS by the end of 2016. All three capital requirements are then due to be implemented in 2019.

Questions on the BCR

Despite only just over three months until the BCR's finalisation, important questions on its scope and objectives still remain. Is it a minimum or a target capital measure? Is it temporary or permanent? Is it intended to apply only to G-SIIs or will it have a broader application?

Insurance Europe originally hoped that the BCR consultation issued in December 2013, or the subsequent field-testing exercise between March and May 2014, would have answered these questions, but this has not been the case. Instead, both highlighted the significant work still to be done for the September deadline to be met. Indeed, the field-testing exercise proved to be little more than a data-collection exercise, rather than the impact assessment that was required.

To prioritise its resources and meet the first of its deadlines, the IAIS has focused its work in 2014 on the BCR and developing a common valuation basis on which entities can be assessed and compared. Insurance Europe has closely followed these discussions and responded to IAIS consultations on valuation and the BCR in January and February respectively.

On the BCR, Insurance Europe stresses the need for the right balance between risk-sensitivity and complexity. Based on the assumptions that the BCR will be temporary and that it will be calibrated at a "basic" level, ie below the level set by the solvency capital requirement (SCR) in Solvency II, Insurance Europe argues that the required capital should be calculated using a factor-based approach, which segments different risk categories and applies risk factors to each segment. The BCR measurement system must correctly recognise the long-term nature of insurance liabilities and insurers' long-term investments so that it does not encourage insurers to depart from their counter-cyclical, long-term investment behaviour, which has such a stabilising effect on the economy.

Recognition of business model required

Given the key role of the FSB and the G-20 in the final adoption of any capital standards, it is important that these bodies fully appreciate the characteristics of the insurance business model that make it different to other financial sectors. Insurance Europe has highlighted to the FSB and IAIS — as well as to the Australian G-20 Presidency during meetings as part of a delegation of the Global Federation of Insurance Associations (see p54) — the lessons learned during the development of Solvency II in the EU about the importance of insurers' long-term liability-driven approach to investment and the resulting need for any capital measures not to damage that approach by introducing artificial volatility into insurers' balance sheets. It stressed the value of the numerous quantitative impact studies that were conducted during Solvency II's development, and thus the need for proper impact assessments and cost/benefit analyses to be carried out during the development of global capital standards.

Insurance Europe and other European industry representatives, such as the Pan European Insurance Forum, the CFO Forum,

Concerns remain over ComFrame

A consultation launched in October 2013 signified the end of the third and final year of the development phase of the project by the International Association of Insurance Supervisors (IAIS) to develop a common framework for supervising international groups (ComFrame). This is now due to be followed by a two-year field-testing period in which all elements of ComFrame — both qualitative and quantitative — will be tested. The IAIS is then scheduled to formally adopt ComFrame in 2018, with its members expected to begin implementing it thereafter.

The ComFrame consultation at the end of 2013 was therefore an important one. Although the text in many areas was in a fairly final form and addressed some of Insurance Europe's concerns, it was noteworthy that many of the more controversial aspects were missing from the draft. In particular, the draft was largely silent on how the final insurance capital standard (ICS), including its valuation component, will look, as well as what recovery and resolution measures will be required of both international groups and supervisors. The development of the ICS is now part of a separate project that aims to develop capital standards by 2016 (see main text). Once developed, they will be integrated into Comframe.

In its response to the consultation, Insurance Europe expressed support for the ComFrame initiative but raised concern about how it will interact with local supervisory regimes, given the prescriptive nature of many of its requirements.

Insurance Europe also requested that the new, risk-based ICS that the IAIS intends to incorporate into ComFrame should not delay improvements to supervisory cooperation and coordination and should be compatible with the EU's new Solvency II framework. In particular, Insurance Europe highlighted its concerns with the prescriptive definition of capital resources, while at the same time acknowledging the difficulties in commenting definitively on this without knowing the valuation basis against which capital resources will be assessed.

With respect to the ComFrame supervisory colleges, Insurance Europe expressed its desire for the colleges to have more power and the need for them to have mechanisms to oversee groups in normal market conditions and in stress scenarios. It proposed the inclusion of a clear decision-making process, a "comply or explain" mechanism and a non-binding mediation process. Insurance Europe hopes that these mechanisms will help to reinforce the role of a strong group supervisor, while at the same time providing other supervisors involved in the college with an opportunity to voice any concerns. This is important to make supervisory colleges more effective and efficient, which will be of benefit to both insurance groups and their supervisors.

The first of a number of annual ComFrame field-testing exercises took place as planned in the second quarter of 2014. However, following the announcements on new global capital standards, the exercise arguably had a much greater emphasis on helping the IAIS meet its September deadline for its basic capital requirements (BCR) than testing ComFrame. Until the results of the field-testing exercise have been assessed, it is impossible to know whether key concerns raised with the consultation draft will be addressed.

Since decisions on ComFrame are taking place in an international context, in its work in this area Insurance Europe has engaged with other international insurance bodies from around the world, both through the Global Federation of Insurance Associations and bilaterally. It believes it is important to continue this dialogue and work together to seek an internationally agreed industry position.

the CRO Forum and the G-SIIs themselves, are coordinating closely to achieve a united voice on the work on global capital standards.

It is important that all the European institutions likewise engage fully in the discussions to ensure that the proposals being made by European policymakers get the scrutiny they deserve and that the potential impact, not just on the European insurance industry but on the wider economy, is properly taken into account. Insurance Europe has stressed that — given the political nature of the discussions — oversight by the European Commission and the EU Council might be appropriate.

Standards must be compatible with Solvency II ...

Insurance Europe has highlighted to the Commission how critically important it is for the European insurance industry that the outcome of the work on international capital standards is compatible with Solvency II. Insurance Europe has drawn attention to the significant investment of resources over a number of years into Solvency II. A sophisticated risk-based regime of this nature should meet the required international standard and, as such, should be treated as a practical implementation of it, without the need for further amendment.

At the same time, Insurance Europe has supported the goal of a high standard of policyholder protection being required globally. However, it has made clear that this can be achieved in different ways. Insurance Europe believes this would be a pragmatic solution, given the robust risk-based regimes that already exist in Europe and other jurisdictions today.

... and avoid excessive capital requirements

Insurance Europe has highlighted the risks of the IAIS's decision to develop an ICS as part of ComFrame. In addition to the need for the ICS to be compatible with Solvency II and the need to avoid unnecessary limitations on the important macro-economic role played by the insurance sector, Insurance Europe has also cautioned against unduly high levels of regulatory capital, highlighting the detrimental effects of additional capital lying idle on insurance balance sheets.

Resolution regimes

In October 2013 Insurance Europe responded to a consultation by the Financial Stability Board (FSB) on the key attributes of resolution regimes for insurers. It stressed that applying a banking-inspired resolution framework to insurers would be detrimental to financial stability and policyholders, as it would fail to take account of the fact that an orderly resolution, over a long period of time, is usually possible in insurance. A final version of the FSB guidance is awaited, which is expected to strongly influence the International Association of Insurance Supervisors' work on resolution. A European Commission initiative is also possible.

Insurance Europe has likewise emphasised the importance of maintaining the global competitiveness of the European insurance industry. It is critically important that European insurers do not find themselves at a competitive disadvantage as a result of inconsistent implementation, both when trading in Europe and when trading overseas.

While acknowledging the robust dialogue that has taken place between the IAIS, local supervisors and the industry so far in developing the BCR, Insurance Europe has sought to ensure that input for the ICS will likewise be sought from the full range of stakeholders, given that this standard will apply to a much larger group of insurers.

Insurance Europe has called on European policymakers to bring greater political accountability and transparency to the discussions at international level. The next few months, in the build-up to the September BCR deadline, look set to be critical, as important decisions need to be made. The intense activity on international capital that has been seen in the first half of 2014 will continue, if not further intensify, as the year progresses. The IAIS is expected to launch a second consultation on the BCR in July, which, it is hoped, will bring answers to many of the outstanding questions concerning its aims and objectives, not least its ultimate relationship with the ICS, in particular with respect to the valuation basis used.

Pensions

Towards safe retirement savings

Can Europe afford to retire? Millions of European "baby boomers" will reach their retirement age over the next decade. The ratio of retired people to those in work will shift significantly and affect the level of pension states can provide. As life expectancy rises in most countries, people will also spend longer in retirement. Recent studies point to an increasing risk of future retirees exhausting their savings before they die because of increasing longevity and insufficient saving. More than ever before, individuals need to take responsibility for their own financial security in retirement and save in supplementary pensions on top of state provision.

Insurers, as a major provider of both occupational and personal pensions, can make a significant contribution to ensuring that Europe's citizens have an adequate retirement income. Insurers' pension products have features that go beyond the provision of savings, as they can typically provide:

- protection by means of annuities against the risk of citizens outliving their savings
- protection to dependants in the event of a relative's death
- solutions tailored to the needs of individuals or groups (eg occupational pensions)
- guaranteed interest rates to protect savings against interest-rate risk

Encouraging people to save more for their retirement should be a primary objective of policymakers, both at EU and national level. Member states in particular have a responsibility to ensure that individuals have the right information about their future pension entitlements, including public pensions. Providing such information would raise awareness of the importance of saving, especially among younger generations, and help citizens to make informed decisions about their saving for retirement.

Even though pension provision is primarily the responsibility of member states, the EU also has a role to play. A number of regulatory and non-regulatory EU initiatives (see boxes) will influence the provision of pensions at national level. It is vital to ensure that EU initiatives, whether related to occupational or personal pensions, pursue the following goals:

- ensuring the safety of pensions through appropriate risk-based regulation
- allowing providers of pension products to act as long-term investors in the economy by encouraging, rather than curtailing, providers' long-term investment role
- guaranteeing a level regulatory playing field between providers

IORP review is incomplete

The European Commission's review of the Institutions for Occupational Retirement Provisions (IORP) Directive (see box below) aims to ensure that all of Europe's pension scheme members are adequately protected. To achieve this, the proposal relies on a combination of qualitative and reporting requirements applicable to providers, but does not include new, risk-based quantitative requirements. Insurance Europe believes this makes the proposal incomplete.

Insurers, which are — like pension funds — important providers of occupational pensions in many countries, will

Background: occupational pensions

A proposal for a review of the Institutions for Occupational Retirement Provision (IORP) Directive was published in March 2014, aiming to facilitate the development of occupational retirement savings and create safer and more efficient occupational pensions. It also aims to reinforce the role of IORPs as institutional investors in the EU's real economy and to enhance the channelling of long-term savings to growth-enhancing investment. In addition, four specific objectives have been put forward: removing remaining prudential barriers to cross-border IORPs; ensuring good governance and risk management of IORPs; providing clear and relevant information to members and beneficiaries; and ensuring that supervisors have the necessary tools to effectively supervise IORPs. The proposal includes sections on investments, governance and transparency, but does not review quantitative capital requirements.

Background: personal pensions

In February 2014 EIOPA (the European Insurance and Occupational Pensions Authority) published a preliminary report on the development of an "EU single market for personal pensions". The report followed a consultation and a discussion paper on personal pension plans (PPPs) of May 2013. It concluded that, despite obstacles created by national taxation, social law and contract law, as well as the diversity of products, a single market for PPPs would be advantageous for consumers, providers and the broader EU economy. EIOPA outlined two possible ways to create this single market:

- A Directive of common EU consumer protection rules for all existing and future personal pensions covering transparency and information disclosure, distribution practices, professional requirements and product governance.
- Introducing a 2nd regime — EU rules that are an optional alternative to member states' national legal regimes — in the form of a Regulation, which would accommodate identified obstacles to a single market for PPPs. EIOPA notes that this would result in a new, highly standardised product.

be subject to the new Solvency II risk-based regulation from 2016, which will ensure a high level of consumer protection. With the capital requirements of the IORP Directive maintained at the same level, beneficiaries of IORPs will be less well protected than those of group insurance contracts.

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 to all financial institutions providing occupational pension products, taking into account the economically significant differences between the providers. It therefore calls on EU policymakers to set out a clear timeline for the EC to develop appropriate quantitative requirements for IORPs.

As regards the new governance requirements in the Commission's IORP proposal, the newly introduced risk evaluation for pensions should be an opportunity for IORPs to assess the real risks of their business.

It will be important that this risk evaluation truly captures the effectiveness of pension funds' security mechanisms to reflect the short- and long-term risks to which they are exposed and their ability to fulfil the benefits promised. The new Directive's transparency requirements should lead to members of occupational schemes being properly informed of any differences between pension products and different types of providers.

Development of personal pension plans

In addition to occupational pensions, the Commission is showing an increasing interest in devising European solutions in the field of personal pensions (see box above). Insurance Europe generally welcomes the debate and responded to an EC consultation in August 2013 and represented the insurance industry at an open hearing on the topic in April 2014.

Important questions remain as to how a single market for personal pensions would look. Many characteristics of personal pensions differ between states, since these products are constructed around national taxation and social and labour laws and aim to complement national public pension systems. In addition, these products are subject to both EU (eg Solvency II and the Insurance Mediation Directive) and national regulation.

It is important to clarify the advantages and disadvantages before introducing any "one-size-fits-all" EU initiative that might not increase the size of the personal pension market, could harm well-functioning markets and could overlap with or duplicate existing legislation. Insurance Europe is concerned that a new standardised investment product could be created that does not have the characteristics of a pension product, ie limited and often sanctioned access to the accumulated savings and the possibility to cover longevity risk. Disregarding these characteristics would fail to ensure that the savings provide a retirement income.

Taxation

Pursuing a uniform global standard for exchanging information

As the world becomes increasingly economically integrated and cross-border activities become the norm, a growing number of taxpayers operate in various jurisdictions. This can create problems for national tax authorities as their enforcement powers remain confined to their national borders. In response to this development, governments have focused on improving international cooperation between national tax administrations. Insurance Europe recognises the need for measures aimed at combatting cross-border tax evasion, provided the rules that are introduced are targeted and proportionate.

Automatic exchange is key

A key aspect of international cooperation is automatic exchange of information. This seeks to ensure that national tax authorities can assess and collect the taxes they are due on income and capital that their residents have abroad. Under this system, financial institutions are required to collect data on income earned in their territory by non-resident individuals and report it to their national tax authorities. The collected data is then automatically transmitted to the authority in which individuals reside, so that they can be taxed in line with the rules of the country of residence.

Over the past few years, significant developments in this field have taken place in the EU, the US and globally, under the auspices of the Organisation for Economic Co-operation and Development (OECD). The first major development was the adoption in March 2010 by the US of its own standard on information exchange — the Foreign Account Tax Compliance Act (FATCA). Subsequently, the EU Council adopted in March 2014 a revised version of the EU Savings Taxation Directive, which is the European standard of information exchange. The OECD is also currently working on a common reporting standard (CRS), with which it intends to introduce a global standard for the automatic exchange of information.

Companies, including insurers, are increasingly concerned that they could become subject to a range of parallel reporting regimes as a result of these various initiatives. This would place a significant additional administrative burden on them. Europe's insurance companies therefore fully support initiatives that aim to create a single, globally recognised reporting regime which is proportionate to the risks of tax evasion that have been identified.

Logical to follow FATCA

Given that FATCA was the first regime to enter into force and that insurers have already started to adopt FATCA procedures, it seems appropriate that other regimes pursuing a similar objective are consistent with FATCA's reporting obligations. With this in mind, Insurance Europe was pleased to observe that the draft CRS released by the OECD in February 2014 closely follows the FATCA model. There are, however, a number of areas in which alignment is not achieved, and which therefore should be revised.

Specifically, Insurance Europe is concerned that — unlike FATCA — the CRS does not exclude existing policies and retirement products from its scope. Insurance Europe has consistently argued against the inclusion of existing policies on the grounds of the huge administrative burden it would create compared to the low risk of tax evasion such policies present. In relation to retirement products, Europe's insurance sector upholds that all European retirement plans exempted under FATCA should also be excluded from the CRS. These two issues are being discussed during the development of the commentary that will accompany the CRS. The commentary is expected to be finalised in time for adoption at the September 2014 meeting of G-20 finance ministers.

Insurance Europe welcomes the EU Council's announcement that it intends to align the recently adopted amended Savings Taxation Directive with the OECD CRS standard. The European Commission expects the amended Directive to be aligned with the CRS by the end of 2014.

Tackling profit shifting

An OECD initiative on base erosion and profit shifting (BEPS) seeks to address tax planning strategies that are used to shift profits from high-tax jurisdictions, where actual economic activity takes place, to low-tax jurisdictions, where there is

Financial transaction tax developments

In February 2013, taking note of a divergence of views among EU member states about imposing a financial transaction tax (FTT) throughout the EU, the EU Council allowed its introduction on the basis of "enhanced cooperation". This enabled the 11 states that expressed an interest in introducing a tax to begin discussing a proposal for a Council Directive.

The proposal covers insurance and reinsurance undertakings so — although it excludes the conclusion of insurance contracts — Insurance Europe remains concerned that it could have a significant adverse impact on insurance companies and their customers. Taxing transactions in all types of financial instruments, irrespective of whether they are conducted for a speculative or investment purpose, would significantly increase the cost of policyholder protection, since the price of an insurance policy is affected by investment returns and would inevitably reduce the return offered on long-term retirement products. Insurance Europe believes retirement and long-term savings products should have been excluded from the proposal and that multiple taxation of a single transaction should have been avoided by exempting intermediary transactions.

In particular, Insurance Europe is concerned that the taxation of derivatives, calculated on the notional value underlying the contract, could significantly increase their cost and threaten the liquidity of the derivatives market. Insurance Europe is concerned that this treatment will affect insurers' ability to properly manage their risks, given the importance of the use of derivative instruments in the efficient matching of assets and liabilities.

In early May 2014, 10 of the 11 states (not Slovenia) agreed in a broad declaration to implement the project in phases, starting no later than 1 January 2016. During the initial phase only transactions on shares and certain derivatives would be taxed.

little or no real activity. Given the ambitious objectives of the BEPS project, the OECD is looking into a wide range of tax issues, including transfer pricing and the definitions of permanent establishment or hybrid instruments.

Insurance Europe supports the aim of tackling tax evasion. Nevertheless, there is a concern that, unless the specificities of the insurance business model are fully understood and taken into account in the BEPS process, the normal operation of insurance groups may inadvertently be affected by some of the measures that result from it.

One area relevant to the insurance sector is transfer-pricing documentation and country-by-country reporting. The objective of the OECD proposal is to provide national tax authorities with sufficient information to conduct an informed transfer-pricing risk assessment of multinational entities. Insurance Europe supports the OECD's efforts to enhance tax transparency, but it is concerned that the proposed level of detail goes beyond what is needed for effective risk assessment and may significantly increase the compliance burden on insurance companies. Furthermore, Insurance Europe is concerned that the OECD proposal does not provide for any special treatment for small and medium-sized groups on issues such as materiality thresholds, given that preparing transfer-pricing documentation is time-consuming and expensive.

Another area on which the OECD is currently working is hybrid mismatch arrangements. It intends to limit the use of hybrid instruments, which it considers can lead to the erosion of tax bases.

Insurance Europe recognises that some hybrid instruments can be used for tax evasion. However, the envisaged measures must not impose an undue administrative burden on hybrid instruments that are not tax-abusive, such as those used to increase a financial company's regulatory capital base. Insurers routinely issue hybrid instruments to meet their regulatory solvency and capital adequacy requirements, such as those in the EU's forthcoming Solvency II regulation (see p8).

Financial reporting

Major changes both agreed and under way

Listed companies in 122 countries, including those of the EU, are required to comply with International Financial Reporting Standards (IFRS). Those requirements, determined by an independent International Accounting Standards Board (IASB), have been undergoing major changes that will reshape how insurers measure and present their financial assets and insurance liabilities. The projects are intended to lead to financial reports being more consistent, transparent and useful for investors in understanding and monitoring the financial performance of insurance companies.

Financial reporting has a major impact on a company's share price, on the ease and cost of raising capital, and on the confidence of customers and other stakeholders. Insurance Europe therefore considers it extremely important that the IFRS developments result in a system that allows insurers to continue to explain their financial performance in a meaningful manner and, in particular, ensures that the financial reporting captures the long-term nature of their business. The reporting process involves significant resources and extensive IT requirements. Insurance Europe therefore also urges EU policymakers to take into account costs alongside potential benefits when considering changes to reporting and auditing requirements.

IASB makes progress

After many years of trying to meet the goal of convergence between US and IFRS accounting standard-setters, the Financial Accounting Standards Board (FASB), which sets the US accounting standards, decided to abandon joint decisions with the IASB on the important IFRS 9 and IFRS 4 projects. While this has now allowed those IFRS projects to accelerate (see below), Insurance Europe is disappointed that convergence will not be achieved. European insurers operating in the US will have to continue to apply multiple and diverse sets of reporting requirements.

Without the constraint of convergence, however, the IASB has made significant progress on its major projects, notably revenue recognition (IFRS 15), financial instruments (IFRS 9), insurance contracts (IFRS 4) and leases (IAS 17). The former two have been effectively completed, while the latter two are due to be finalised by 2015. At European level, there has been a similar push to complete many reporting-related projects, such as a Regulation on audit reforms, a Directive on non-financial disclosure requirements, review of the 4th and 7th Accounting Directives and reform of the European Financial Reporting Advisory Group (see box).

Finalisation of IFRS 9

IFRS 9 determines how financial assets should be valued in the balance sheet and how changes in value should be reported in the profit and loss account. In February 2014 the IASB finalised its deliberations and implementation is due in January 2018.

Financial assets are an enormously important part of the insurance business model and Insurance Europe has highlighted throughout the consultations how important it is that the measurement of assets recognises how both the long-term nature of the business and asset-liability matching can reduce insurers' exposure to short-term changes in market values. It was therefore pleased by the IASB decision to introduce a "fair value through other comprehensive income" (FVOCI) measurement category. The aim is to achieve transparency about market movements, while allowing more meaningful profit reporting by avoiding unnecessary and confusing volatility in the profit and loss account.

However, IFRS 9 allows FVOCI treatment for only a limited set of assets and excludes, for example, derivatives and investment property. This creates problems because the assets that are excluded can be bought to match liabilities that may be measured differently under IFRS 4. Insurance Europe has argued strongly that only by allowing appropriate and consistent treatment for both assets and liabilities can the inherent link between them be recognised and the financial reporting correctly reflect insurers' business model and performance.

IFRS 4 moves towards completion

The IASB has made substantial progress in addressing some of Insurance Europe's key concerns over "non-participating" products, in which there is no sharing of asset returns with policyholders. For example, important decisions were to allow the unlocking of the contractual service margin (CSM), which represents the future unearned profits from insurance

contracts, the optional use of OCI for the presentation of discount rate changes, and retrospective transition.

Ensuring that the accounting principles work for participating products is vital to the success of the IFRS 4 project and is the main outstanding issue. Appropriate solutions for participating products have been proposed by the insurance industry and are under discussion. It is challenging because — for these products — policyholders' returns, and therefore liabilities, are linked to the return on the assets. These contracts make up a large part of many insurers' life business and — because they provide options and guarantees embedded in insurance contracts — they are important to policyholders. In addition, because they create long-term liabilities, they play a crucial role in allowing insurers to invest long-term and provide stable financing to support European growth. The inherent link between the measurement of assets and liabilities means that constraints created by IFRS 9 make it more difficult to find simple solutions in IFRS 4.

Other developments

The IASB has started a review of its Conceptual Framework, which is its underlying foundation and reference point when developing and improving an IFRS. For Insurance Europe it is important that the role of the business model and the concept of OCI are incorporated into the Framework, so that IFRS 9 and IFRS 4 will fit into it and any pressure to change these soon after they are finalised is avoided. The development of the Conceptual Framework will not be completed until 2015, with another formal draft due in the fourth quarter of 2014.

Meanwhile, the European Parliament and EU Council have finalised audit reforms, setting tougher requirements for public interest entities, which include insurers. The greatest impact will be the cap on the maximum duration of auditor engagements, which has been set at 10 years, although there are some exemptions that can extend this to 24. Member states are, however, allowed to set their own maximum, which could lead to a very complex situation for groups operating in several countries, as they may face requirements to change auditors anything from every one to every 24 years. Insurance Europe is therefore seeking EU-wide, harmonised implementation before mandatory implementation in 2016.

Insurance Europe has also commented on how burdensome proposals to require country-by-country reporting on tax payments to governments would be. Proposals to extend the existing scope were not adopted by the EU Council, although the EC will be obliged to undertake a review that might result in the scope being extended to all large undertakings by 2018.

Finally, the Commission is setting up an expert group to evaluate by the end of 2014 the International Accounting Standards (IAS) Regulation in Europe. Insurance Europe is pleased to have been invited to join the group, given that the standard for insurance contracts is still under development.

EFRAG reform

The European Financial Reporting Advisory Group (EFRAG) was established, with the encouragement of the European Commission, in 2001. This private-sector body provides input into the development of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and provides the EC with technical advice on accounting matters and endorsement advice on IASB output from a wide group of accounting industry experts, academics and national standard-setters. In a move to increase Europe's influence on the development of IFRS standards, a new structure has been developed for the EFRAG. This is due to be endorsed by its founding members — of which Insurance Europe is one — in June 2014. The new structure will bring in a significant number of national standard-setters, which will have an impact on the development of high quality IFRS, such as a likely increased focus on prudence, disclosures and accounting restrictions. Insurance Europe will have one representative on the EFRAG Board that approves its technical opinions.

Consumer information and distribution

Seeking clear and consistent legislation

Following the publication in July 2012 of the European Commission's proposals for a revised EU Insurance Mediation Directive (IMD 2) and what is now known as a Regulation on packaged retail and insurance-based investment products (PRIIPs), Insurance Europe engaged with the European Parliament, EU Council and Commission as their discussions developed. Insurance also became a topic for discussion in the review of the Markets in Financial Instruments Directive (MiFID 2). Ensuring a consistent and coherent approach to EU financial services legislation across the different proposals is a considerable challenge, not least due to overlap and duplication of information requirements and the lack of alignment between different legislative proposals.

Positions on IMD 2

Insurance Europe is supportive of transparency and disclosure to help consumers compare products and focus on the most important elements of the products, such as the level of coverage, exclusions or excesses.

Any rules addressing conflicts of interest in the sale of insurance products and disclosure of remuneration must be of clear benefit to consumers. Insurance Europe believes that a requirement to disclose the source and form of remuneration of intermediaries would strike the appropriate balance, as it identifies potential conflicts of interest while avoiding overly detailed disclosure and respecting the diversity of EU distribution markets.

It is essential that IMD 2 follows a "minimum harmonisation" approach, allowing states to maintain or adopt additional rules on conflicts of interest and remuneration, adjusted to the characteristics of national markets.

In the case of provisions covering tying and bundling (where insurance is sold together with another service or ancillary product), Insurance Europe is disappointed that the European Parliament has opted for a *de facto* ban on tying. This would result in incoherent and inconsistent treatment of such practices across EU financial services legislation, as insurance would be subject to stricter requirements than other sectors.

Insurance Europe is pleased that the European Parliament has acknowledged the importance of allowing consumers the possibility to purchase any insurance product without the need to obtain advice, by making clearer provision for this option than in the original EC proposal. Consumers remain free to seek advice, but their ability to access products is not restricted as a result of an obligation to take advice that they perhaps cannot afford.

MiFID 2 and the treatment of insurance

Insurance Europe is pleased with the final agreement reached between the European Parliament, EU Council and Commission on the proposal for a review of MiFID, as it retains the approach of the Commission and Council by not including insurance undertakings in the scope of investment legislation. MiFID 2 was adopted in April 2014 and comes into effect in 2016. The agreement reached incorporated provisions on conduct of business rules from MiFID 2 into IMD 1 for insurance-based investment products as an interim measure, leaving further detailed requirements to be set

What are the revised Insurance Mediation Directive (IMD 2) and the PRIIPs Regulation?

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 but the proposal is still under discussion in the EU Council.

PRIIPs seeks to introduce standardised pre-contractual disclosure requirements for packaged retail and insurance-based investment products so that they can be more effectively compared. It lays down rules on the format and content of a key information document to be provided to retail investors before purchasing these products. The final text was agreed in April 2014 and the Regulation comes into force in 2016.

International rules progress

Rules on disclosure, transparency and conduct of business are being discussed at international, as well as EU, level. Given the danger of creating potentially inconsistent or duplicative rules, Insurance Europe is actively engaged in both debates.

In October 2013 Insurance Europe responded to a consultation by the Joint Forum of international insurance, banking and securities supervisors on cross-sectoral standards for point-of-sale disclosures, in which it questioned the timing of this work, in light of the concurrent EU work on PRIIPs. It also warned of the dangers of copying rules designed for investment disclosures, without taking into account the features of insurance products, such as their cover of biometric risks. Insurance Europe has also been contributing to the work of the Organisation for Economic Co-operation and Development and the International Association of Insurance Supervisors to ensure that their workstreams on transparency and conduct of business reflect specific insurance features and do not duplicate EU requirements.

out under IMD 2. It is crucially important to ensure that any rules applicable to insurance are contained in insurance legislation, rather than in rules designed for investment firms and regulated investment markets. IMD 2, not MIFID 2, is the appropriate place to regulate conduct of business rules for insurance investment products.

Quality not quantity of information

Insurance Europe supports a high level of consumer protection and recognises the importance of improving the information provided to consumers to aid their decision-making and help them compare products. It therefore supports the PRIIPs initiative's aim to enhance comparability through a pre-contractual key information document (KID). However, disclosure of too much pre-contractual information could lead to consumers being overloaded with information.

Under existing legislation, such as Solvency II (see p8), as well as the latest information requirements under both PRIIPs and IMD 2, a consumer would receive more than 70 different sets of pre-contractual information when purchasing a unit-linked life insurance product at a distance (eg over the phone or internet). The consumer would also receive a number of these information items twice in different formats, as the requirements under the PRIIPs Regulation come in addition to the requirements in Solvency II. Moreover, as many of the EU legislative provisions are minimum harmonisation directives, additional requirements could even be introduced at national level. Insurance Europe believes that pre-contractual information requirements should focus on quality rather than quantity to reduce confusion for consumers and facilitate product comparison.

What should PRIIPs cover?

Insurance Europe has consistently maintained that the PRIIPs Regulation should focus on packaged investment products, as in the original EC proposal. Extending its scope makes the development of a KID less feasible, as far more information is required to compare fundamentally different products. Insurance Europe is disappointed, therefore, that the European Parliament, EU Council and Commission agreed to include life insurance products where the risk is not borne by the policyholder in the scope of the Regulation, as these products are not packaged and/or investment products. However, the exclusion of pension products from the scope of the Regulation is a welcome decision, as they are not investment products either and require personalised information specific to the nature of such products.

Insurance Europe is pleased the European institutions have taken steps to ensure that the KID highlights relevant insurance-specific features to make it possible to adequately compare products across financial sectors. It is important for consumers to understand that, unlike other packaged retail investment products, an insurance-based one offers protection as well as investment.

European insurance contract law

Contract law is not the main obstacle to a single EU market

Modern insurance products are highly sophisticated and can be precisely tailored to cover specific risks. The products therefore reflect the risks and risk sensitivities in particular markets and can differ from one member state to another, sometimes even between regions. The contract laws that govern them thus also vary and, at the moment, there is no single insurance contract law regime at EU level.

The European Commission is currently looking at whether these different national contract law regimes pose an obstacle to cross-border trade in insurance products. Insurance Europe remains unconvinced of the importance of contract law as an obstacle.

Cross-border trade in insurance products must be considered in terms of both supply and demand. The existing, limited, cross-border demand for cover for large risks has always been met and there is no evidence of unsatisfied consumer demand for cross-border products. Insurance Europe would therefore argue that looking at ways to boost trade for which there is little or no demand should not be a priority for the Commission. It also believes that differences in contract law constitute only a minor obstacle to cross-border trade in insurance products; insurers take account of a host of other factors when deciding whether to offer cover.

Commission's expert group on contract law

Despite these reservations, Insurance Europe supported the Commission in its fact-finding mission on European insurance contract law. In January 2013 the EC set up an expert group to examine whether differences in contract laws pose an obstacle to cross-border trade in insurance products and, if so, which insurance areas are likely to be particularly affected.

The members of the expert group included legal, academic, consumer and industry representatives. Insurance Europe and five of its member associations were represented in the group. Insurance Europe participated in all 10 of its meetings, consistently arguing that more important, non-contract law-related factors influence cross-border insurance, and it contributed to the group's final report, published in February 2014.

Insurance contract laws differ …

The final report of the expert group does not draw any policy recommendations but instead reports on the group's findings. This is partly due to the lack of convincing evidence that contract law represents an obstacle and to the fact that the expert group's members were solely "drawing on their professional knowledge and expertise and were not considering statistical evidence".

The group identified a number of differences in contract law between countries that can have an impact on insurers' decisions to operate cross-border, the costs associated with doing so and the design of an insurance contract. However, how insurers manage these costs, the report finds, "is a business decision driven by their commercial approach and attitude to risk".

Insurance Europe contends that the contract law differences identified by the expert group only give a partial picture; what matters to an insurer is a host of other factors that are taken into account when providing cover for a particular risk.

… but are only a minor obstacle to cross-border trade

Insurance Europe supports in particular the expert group's conclusion recognising the significance of differences — other than contract law — that may influence cross-border insurance business. These include "knowing your customer, understanding the true risk proposed for cover, language, culture, including expectations of the local policyholder, the need for local claims handling, the form and prevalence of frauds, the tax and labour law environment, the legal, regulatory and supervisory environment, and cross-border redress options".

Overall, given the current lack of conclusive evidence on the existence of cross-border demand, any future action at EU level would need to be strongly justified by demonstrating clear benefits for consumers, the industry and the single market. The European Commission plans to publish at the end of 2014 a consultation building on the expert group's report, to which Insurance Europe intends to reply.

Data protection

Broad legislation must recognise sector specifics

Insurers recognise the importance of data protection, since data processing lies at the heart of their business. Insurers collect and process data to assess the risks to be covered, so that they can provide consumers with insurance products that are tailored to their needs and risk profiles. Data processing is also an essential part of evaluating consumers' claims, paying compensation and benefits, and detecting and preventing fraud.

Insurance Europe therefore supports the European Commission's objective of further harmonising existing, fragmented EU data protection legislation.

In January 2012 the Commission proposed a data protection reform package that seeks to adjust the current EU data protection framework to rapid technological developments and globalisation. The reform package includes a proposal for a Regulation on the protection and free movement of data to update a 1995 Directive. The draft Regulation would apply to all businesses processing data both off- and online. This broad approach resulted in a hugely complex legislative proposal, since the rights of individuals and the particularities of a wide range of industries had to be taken into consideration. Indeed, the full extent of the reform's complexity was unveiled when it reached the European Parliament, where nearly 4 000 amendments were tabled to the report of the Parliament's lead committee.

As a result of its broad, horizontal approach, the proposed Regulation does not take into consideration sector-specific features. This is of significant concern to insurers, since it could introduce possibly unintended consequences for the insurance industry. It is vital to both insurers and their customers that the EU data protection framework allows insurers to collect and process personal data.

Insurers' specific concerns

To ensure a workable Regulation that finds the correct balance between an individual's right to privacy and the needs of business, the proposal would benefit from a number of crucial changes to ensure that the way private insurance works is appropriately taken into account. Some of the current proposals would prevent insurers from performing their contractual obligations, assessing consumers' needs and risk, innovating, and combatting fraud.

For instance, the proposed rules on profiling do not take into consideration the way insurance works. As part of the underwriting process, by which the risk of the customer is assessed, insurers process personal data both at the pre-contractual stage and during the term of the insurance contract. Profiling is a necessary tool for the assessment of customers' risks, making it possible to offer them the appropriate cover. Any prohibition or restrictions would prevent insurers from determining accurately the level of risk consumers request to cover. This could translate not only into higher insurance prices and a decrease in insurance coverage, but also into an inability to provide consumers with appropriate insurance.

Insurance Europe therefore recommends that the new Regulation should be amended to allow explicitly the insurance-related profiling of customers at the pre-contractual stage.

Insurance Europe is further concerned that the proposed Regulation could restrict insurers' ability to share information in order to combat fraud, which exists in all lines of insurance and is estimated to represent up to 10% of all claims expenditure in Europe. One of the ways in which insurers detect suspicious activity is by considering previous claims history, ie whether someone has made multiple claims of the same nature. If insurers were to be prohibited from sharing such claims-history data, their efforts to protect their honest customers against insurance fraud would be significantly hampered.

Insurance Europe strongly recommends that the proposed Regulation explicitly recognises the need for organisations, including insurers, to process and share information for the purposes of fraud detection and prevention.

The draft Regulation proposes a new right to data portability, which would allow customers to obtain from insurance companies a copy of their data that is undergoing processing. Insurance companies are concerned that they could be forced to disclose confidential and commercially sensitive information, such as their underwriting criteria, their risk and pricing tools and structures, if customers exercise this right.

Insurance Europe believes that insurance companies, in their capacity as data controllers, should not be obliged to disclose commercially sensitive information.

Another new right, the "right to be forgotten", is contained in the Commission's proposal. This would allow customers to require their insurance companies to erase all their personal data from databases. It could result in insurers being unable to process consumers' data, preventing them from performing their contractual obligations and thus from offering their services to consumers. It could also force insurers to delete data that other regulations require them to retain or that they would need to process in order to detect and prevent fraudulent activities.

Insurance Europe recommends that the Regulation should clearly state that the right to be forgotten does not apply where there is a contractual relationship between an organisation and an individual. It should also not apply to data that the insurer is obliged to keep under other regulation or for the purposes of preventing and detecting fraud.

Parliament recognises need for change

In March 2014 the European Parliament approved its report on the proposed Regulation. Insurance Europe welcomed changes introduced by the report that strike the right balance between individuals' rights and business needs. In particular, the report seeks to allow insurers to process health data based on the insurance contract agreed between insurers and policyholders, facilitating compensation and benefit payments to consumers. The proposed changes in the provisions on profiling would enable insurers to offer consumers insurance products that reflect their needs and risks, as it would allow profiling at the pre-contractual stage.

Insurers will also be able to detect and prevent fraudulent activities without being in breach of data protection rules when their regulatory authorities require them to process data related to administrative sanctions, judgements and criminal offences.

Another area in which the Parliament's report is striking the right balance between consumer protection and business needs is the amended right to withdraw consent. Insurers would be allowed to continue processing data if legal or contractual conditions apply but, should consumers decide to withdraw consent, insurers would inform them that they may no longer be able to offer them their insurance services and that their contractual relationship could be terminated.

The legal uncertainty in the proposal is partially removed with the deletion of the newly introduced term of "significant imbalance" between controllers (insurers) and data subjects (consumers). In the context of insurance, this "imbalance" is assumed to exist from the beginning of the contractual relationship: the consumers need to give consent, agreeing with the insurer processing their data if they want to have a contract. This is considered to be an "imbalanced" situation because the consumers did not give their consent freely, but were obliged to do so in order to get the insurance contract. Insurers are concerned that this could mean that consumers' consent to an insurer for the processing of their data is always invalid because there will always be a "significant imbalance". Insurance Europe has highlighted several times that, should this be the case, insurers would no longer be able to offer their services to either existing or new consumers.

While the Parliament's report made positive changes to the original Commission proposal, Insurance Europe believes that further changes are still needed to ensure that the Regulation delivers benefits to the industry and consumers alike. Importantly, the European Parliament did not explicitly recognise insurers' need to process data for fraud prevention and detection or insurers' obligation to comply not only with legal but also with regulatory requirements. Likewise, further legal clarity is still needed to ensure that the right to be forgotten should not apply when insurers need to retain or process data.

It is hoped that such vital sector-specific issues are addressed as the proposal is analysed first by the EU Council and then discussed by the European Parliament, Council and the EC during the latter part of 2014.

Anti-money laundering action

Target resources where they can be most effective

Over the last year, Insurance Europe has been closely following the discussions over the proposal for a fourth EU Anti-Money Laundering Directive, published by the European Commission in February 2013. The main purpose of the Directive is to enact in EU law revised Recommendations from the intergovernmental Financial Action Task Force (FATF). The Recommendations, to which Insurance Europe contributed, are internationally endorsed global standards for combatting money laundering and the financing of terrorism.

Compared to other sectors of the financial services industry, insurance is at relatively low risk of being targeted by money launderers or used to fund terrorism (see box). The insurance industry is nevertheless just as committed to combatting both. For insurance companies' anti-money laundering efforts to be most effective, their resources should therefore be targeted at the limited areas that could present an actual risk.

Risk-based approach is key

Like the FATF Recommendations, the EC proposal takes a risk-based approach; tailoring the required anti-money laundering measures to the risks identified. Insurance Europe is highly supportive of this approach. It allows companies to focus their resources effectively, addressing identified and prioritised risks in the right order and with the most appropriate response. In addition, it enables insurers to adjust their approach depending on the country concerned and their own assessment of the risk. In its March 2014 vote, the European Parliament likewise supported a wide application of the risk-based approach.

Simplified due diligence needed

The main concern that remains for Insurance Europe about the Commission's proposal is the restriction of the use of simplified due diligence measures. Simplified due diligence is a regulatory exemption that removes the requirement for full customer due diligence in certain circumstances. Such simplified measures are crucial to avoid costly and unnecessary checks on all products in low-risk sectors such as the insurance industry. The FATF Recommendations, which Insurance Europe supports, allow for simplified due diligence in all cases where national or internal risk assessments show that the products present low or no risk of money-laundering (eg pure life insurance contracts).

Insurance Europe is concerned that the wording of the Commission's text in effect eliminates this possibility by obliging entities to perform additional checks on the customer relationship and transaction before applying simplified due diligence. In practice, this means that simplified due diligence would cease to exist, placing an unnecessary administrative burden on insurers.

Insurance Europe hopes this critical issue will be solved during the trialogue discussions between the European Parliament, EU Council and Commission that are expected to start in late 2014.

Why insurance presents a low risk

The nature of insurance activities and products makes them largely unsuitable vehicles for money laundering:

- Most insurance products pay out only against a proven loss from a specified, unpredictable event, such as a car accident or a death.
- Many insurance products work on the basis of small premiums, paid on a regular basis. Money launderers prefer products with high lump-sum payments and the possibility of significant cash accumulation.
- Insurance contracts tend to be relatively long-term. Money launderers prefer contracts with a short duration to limit their chance of detection.
- Certain products have stiff conditions that must be met to benefit from a tax advantage. Insurers' transparency to fiscal authorities further reduces insurance's attractiveness.
- In general, insurers do not accept cash payments, so customers are already screened by banks.

Motor insurance

Technological change offers far-reaching opportunities

Advances in technology are changing the landscape in which motor insurers operate. The use of vehicle telematics — electronics and telecommunications transmitting data to and from a vehicle — is growing. This "connected car" technology offers motorists a wide range of information and services, including emergency/assistance call services and insurance telematics products.

One benefit is that it affords insurers the opportunity to gain a better understanding of drivers' risk profiles, making it possible to factor good driving practices into the design of insurance products and potentially enabling insurers to give feedback to drivers and reward them for good driving. Such targeted products can incentivise safer driving behaviour and ultimately have a positive impact on road safety.

Telematics also represent an exceptional tool for insurers to use in combatting motor insurance fraud and vehicle crime. In-vehicle data obtained during a traffic accident may be used to dispute the fraudulent insurance claims that create considerable costs for insurers and lead to higher premiums for the vast majority of honest policyholders.

The information collected from in-vehicle technology also enables insurers to reach quicker decisions on liability and resolve claims more efficiently. Accelerating the claims process benefits customers not only by providing them with timely compensation but by reducing insurers' processing costs.

EU action on eCall

The insurance industry has been closely following the development of one particular piece of vehicle telematics: eCall (see box). In a 2005 Communication, the European Commission strongly urged EU member states to invest in the deployment of eCall with a view to launching a full, pan-European voluntary service in 2009. Due to the absence of any significant progress, the EC concluded that regulation was needed and published a proposal in June 2013 that would require the installation of eCall in all new vehicles.

Insurance Europe welcomes the EC's eCall proposal and supports its aim of mitigating the consequences of serious road accidents. It does believe, however, that the proposal as currently worded could have an unintended and detrimental impact not only on the competition between telematics product providers but also on consumers' freedom of choice.

To equip all new vehicles with eCall, vehicle sensors need to be installed to collect the information to be sent to the emergency centres. These sensors could potentially collect a much wider range of information, including the material that is currently used by other telematics products and services currently on the market. Many car manufacturers are likely to regard this as an opportunity to introduce more comprehensive systems that make it possible to offer additional telematics services. These could include repair and maintenance remote diagnostics, roadside assistance, private emergency call facilities, navigation assistance and mobile phone connections.

This means that eCall cannot be viewed in isolation from other vehicle telematics. It will become the gateway to a variety of in-vehicle services for consumers, so targeted legislation on eCall has consequences beyond its original focus.

Threat to consumer choice

It is important that the principles of free consumer choice and fair competition are guaranteed in any legislation. A standardised vehicle platform, open to third-party providers competing in a fair environment, would ensure that consumers are free to choose from a range of additional and optional services.

Vehicle manufacturers will be responsible for implementing the new eCall technology and will, therefore, be the gatekeepers of any additional services. If not otherwise required by law, they would have discretion over what services are offered to consumers, restricting the choice of products and services that could be of interest and benefit to them. Likewise, if not required by law to provide data access to other service providers, vehicle manufacturers are likely to benefit from an unfair advantage in the provision of telematics products.

Insurance Europe believes consumers should be able to acquire

What is eCall?

An EU-wide emergency call system based on the 112 emergency number, eCall is intended to bring prompt assistance to motorists involved in serious accidents. In-vehicle sensors trigger a call to the nearest emergency centre. An eCall can also be triggered manually by, for example, a witness. In parallel to the call, the system also transfers data about the accident, such as the time, location and vehicle description. Originally, the European Commission's objective was for this system to be mandatory in new vehicles in the EU, Iceland, Norway and Switzerland by 2015, although this deadline is currently being reconsidered to allow motor manufacturers sufficient time to develop and test the technology.

Although eCall will not prevent accidents, it should mitigate their consequences by improving the efficiency of the emergency services. According to the EC, equipping all vehicles with eCall will speed up emergency response times by 40% in urban areas and 50% in rural areas, saving up to 2 500 lives a year, and will reduce the congestion caused by traffic accidents and secondary accidents caused by unsecured accident sites.

third-party services that they have specifically requested. Should insurers, as providers, be excluded from the vehicle system, consumers would be deprived of access to innovative, new insurance products. The European Parliament expressed similar concerns in an own-initiative report adopted in 2012.

Open access is feasible and preferable

Vehicle manufacturers and policymakers have raised concerns over data protection, security and the timeline for implementing an open platform. Yet an open platform will not mean that it is unsecured, since security and safety requirements will be introduced. As for concerns about data protection, additional telematics products are always optional and providers have to adhere to existing EU and national data protection regulations. Whatever form of platform is introduced, market participants — be they car manufacturers or others — will have to adhere to data protection legislation. Creating an open and standardised eCall platform through the type-approval regulation for eCall and additional services is therefore an issue of competition policy and not one of data protection.

In terms of the timetable, no technical reasons have been given to show why an open-access platform might not be developed in a short timescale that meets the needs of the third-party providers as well as ensuring the rapid delivery of the emergency eCall architecture. On the contrary, Insurance Europe maintains that the timeframe between the implementation of the emergency eCall system and the establishment of standards for an open platform must be as short as possible to reduce to a maximum any limiting of consumer choice and unfair competition.

European Parliament wants progress

In February 2014 the European Parliament voted on its report amending the EC's proposed Regulation on eCall. Insurance Europe hoped for it to call for the delegated acts to include the technical requirements of an open platform. Instead it calls for work on an open, secure and standardised platform to begin without delay, which is still a step in the right direction.

The Parliament maintained its call for the mandatory emergency eCall system to be installed in new vehicles from October 2015, acknowledging that this date may need to be revised pending technical developments. Negotiations between the European Parliament, EU Council and Commission to reach agreement on the proposal are expected later in 2014. In reaching that decision, Insurance Europe hopes policymakers will look beyond eCall itself to the implications of the proposals for other sectors and their products.

Insurability

Unique insurance solutions require a flexible regulatory framework

Access to liability insurance is important for companies and individuals, as it allows them to transfer to insurers the risks of having to compensate third parties. Policymakers often view regulation as a way to encourage the take-up of insurance and to ensure that compensation is available. However, introducing mandatory cover can be counterproductive.

Introducing EU-wide compulsory insurance measures can in fact hinder the development of an insurance market for risks that are difficult to quantify or where the current market capacity is insufficient to sustain the demand created by statutory compulsion. The result is then the opposite of what was intended: diminished consumer protection because existing, valuable insurance products are withdrawn or the range of policies available is reduced.

Contributing to the debate on environmental liability

The need for a range of tailor-made insurance products is particularly important for the unique, complex and long-tail risks posed by environmental liability, where a European-wide insurance market has continued to develop steadily since the 2004 EU Environmental Liability Directive (ELD) (see box).

The European Commission is expected to report to the European Parliament and the EU Council on progress in implementing the ELD in early 2015. The EC may suggest amendments to the ELD's scope, remediation and prevention measures, and liability exceptions.

To feed into its report, the EC conducted a study in the second half of 2013 of the effectiveness of the ELD. Having participated in that study, Insurance Europe supports the EC's efforts to simplify the ELD in order to ensure its effective application. Measures to achieve this could include greater clarification of the "significant threshold" to trigger liability for damage to biodiversity, land or water, as well as a more cohesive description of the difference between highly dangerous activities (which are subject to a strict liability scheme) and other activities (subject to a fault-based scheme). Clarification could aid insurers in their ELD product design and enhance their ability to calculate the insurance capacity required.

Insurance Europe believes that the current ELD works effectively to complement industrial operators' civil law liability for bodily injury and property damage and should thus not be expanded to these areas. It cautions against expanding the ELD to cover unquantifiable damage, such as offshore marine biodiversity, or to cases where the polluter may not be positively determined, such as air pollution. It also warns against introducing European legislation for areas in which international solutions are already in place, such as to cover liability or insurance requirements in relation to offshore, shale gas and nuclear activities.

To ensure further growth in this market, a flexible, voluntary insurance system — which enables industrial operators to freely negotiate with insurers the type of cover that best suits their risk exposure — remains the ideal EU framework. Should policymakers be concerned about the uptake of insurance, their focus would be better directed towards ELD awareness-raising campaigns and national ELD enforcement.

EC focus on man-made disasters grows

Growing attention to man-made disasters is also apparent from the EC's April 2013 Green Paper on the insurance of natural and man-made disasters (see also p34), which questioned how cooperation between insurers and authorities could be improved with respect to the ELD. In its July response, Insurance Europe stressed that policymakers should bear in mind before taking any action that insurance for the prevention and remediation of environmental damage is still developing in many EU member states, so financial capacity may not yet match that in mature markets such as motor or general third-party liability.

As noted in the Green Paper, the EC is also looking at the extent to which the situation of potential victims of a nuclear accident in Europe could be improved. In contributing to the EC's October 2013 consultation on insurance and compensation for damage caused by nuclear accidents, Insurance Europe emphasised the global nature of nuclear liability insurance and urged the EC to take into consideration existing international conventions, as well as global market capacity. Given the efficient functioning of European

Market-wide ELD survey demonstrates insurance development

To assist the European Commission in its evaluation of the application of the 2004 Environmental Liability Directive (ELD), Insurance Europe conducted a survey in early 2014 of developments in environmental liability insurance (see p44).

Although according to the survey few claims have so far been made under the ELD, in most of the 18 markets surveyed cover is available for all ELD risks. A range of insurance solutions are on offer, depending on the needs of individual markets, with cover provided through stand-alone products, endorsements to existing general liability policies and — in the case of France, Italy and Spain — environmental insurance pools offering additional (re)insurance capacity. A range of amounts of cover are likewise available, depending on demand, with over half of the countries having multinational products on offer.

Insurance capacity appears to be expanding as demand increases, suggesting that there is no need to introduce compulsory EU-wide insurance to stimulate growth. Indeed, such compulsory cover would hamper the development of tailored cover that is already occurring and could increase costs and decrease consumer choice.

insurance markets, it also stressed that any EU action must be in response to a clearly identified problem. Close cooperation between the insurance sector and member states can help to ensure that the maximum potential of private insurance market capacity is realised. An EC Communication is now expected in July 2014, with a legislative proposal likely by the end of the year.

Compulsory insurance for insolvency is not the answer

Over the course of the past year, Insurance Europe has witnessed a pattern of compulsory EU insurance legislation being envisaged for traditionally uninsurable risks, such as insolvencies. For any risk to be insurable, a number of prerequisites must be in place, including that the occurrence of the insured event is outside the control of the insured party. This is not always the case for insolvency, so it is a risk that is not generally transferable to the insurance market.

Despite this, calls for EU-wide compulsory insolvency insurance have been made by the European Parliament in relation to both the EC's proposed Regulation on air-carrier liability as well as the EC's proposed Regulations on medical devices and in-vitro medical devices. The European Parliament seeks to ensure that consumer liability claims against the air carrier or the medical-device manufacturer can be filed, even in cases where the entity becomes insolvent.

Due to the reasons outlined above, no established insurance market exists in Europe for insolvency cover for air carriers. Instead, more effective products are in place for direct purchase by the consumer (eg credit card protection, tour/travel guarantees of scheduled airline failure insurance). The EU Council and the European Parliament are likely to begin discussions on the Regulation in early 2015.

With respect to medical devices, Insurance Europe understands the European Parliament's concern that consumers severely injured by a medical device should, in all cases, be adequately compensated. However, insolvency risk is not covered by liability insurance policies. Guarding against insolvency also has no impact on the Parliament's other concerns, such as medical device defects that can arise from reckless or criminal action by a manufacturer. Member states and the European Parliament will decide on the details of the legislation in late 2014 or early 2015.

A compulsory insolvency insurance system is unrealistic and could effectively force those unable to find the statutory insurance out of business. Focus would be better placed on preventive measures, such as stricter air-carrier licensing or improved risk-management measures for medical devices. Insurance is not a substitute for prevention and safety measures.

Sustainability

The value of prevention and preparedness

Insurance and reinsurance are valuable tools in disaster risk management. They cover the devastating losses from natural catastrophes and facilitate prompt, appropriate restructuring following a disaster. To ensure the viability of disaster insurance in the future, Insurance Europe supports the efforts of the European Commission to better understand the role of insurers and to foster an EU environment that addresses the basic needs of the insurance market.

Efforts by the Commission in this area began with a Green Paper on the insurance of natural and man-made disasters in April 2013 to raise awareness of the risks of natural catastrophes and to assess whether EU action might be warranted to improve the EU disaster insurance market.

In its July response to the paper, Insurance Europe welcomed the EC's recognition of three priorities for the (re)insurance industry: free and ready access to more sophisticated risk data; cooperation in prevention activities, particularly by public authorities; and the minimisation of state intervention in those markets where catastrophe risk can be adequately covered by the private (re)insurance market.

Insurance Europe reiterated that there is no single approach to disasters that is appropriate for the entirety of the EU, making an EU-wide insurance scheme inappropriate. It also set out the limits to insurability, explaining why it is imperative that national authorities integrate disaster prevention and preparedness into their planning.

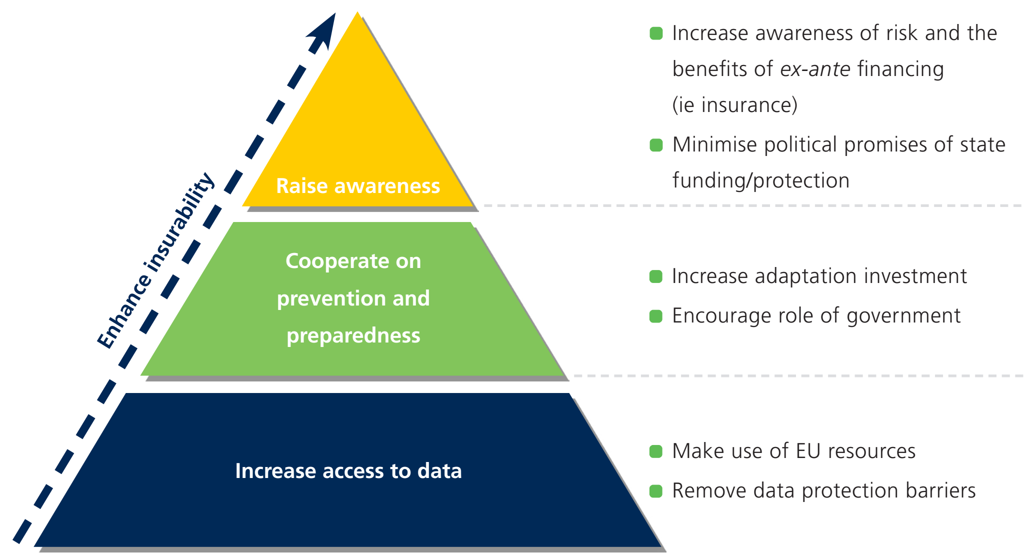
Flexible insurance market can cover local risks

The insurance industry has been handling the losses caused by natural catastrophes for decades and has amassed significant collective expertise in the transfer of risk. This means the industry is well-positioned to assess the specific insurance needs in individual markets, which can vary widely. For this reason, Insurance Europe cautions policymakers against seeking an EU-wide, "one size fits all" solution that could stifle flexibility in the development of the private insurance market and could, in fact, fail to meet the needs of all markets.

Compulsory insurance, for example, is generally not necessary in states in which the conditions that allow insurers to underwrite cover are met. In these cases, a compulsory measure can actually hinder the industry's ability to freely develop tailor-made policies (see also p32). Compulsory insurance may, however, be appropriate for those states that maintain a public-private partnership in the provision of natural catastrophe cover and in which public authorities are charged with containing the risk.

In all cases, though, policymakers should be aware that making insurance compulsory does not guarantee insurance supply. In a free market, insurers are not obligated to provide cover and, if the risks or costs of providing it are too great, they will not jeopardise their business by doing so.

Insurability of disaster risks can be improved



Insurance Europe calls for dialogue with national authorities

In December 2013 Insurance Europe took part in a seminar as part of the ENHANCE scientific project, an EC-led project funded by the EU 7th Framework Programme for Research and Technological Development that aims to develop and analyse new ways to enhance society's resilience to catastrophic natural hazards. The project examines the roles of the public and private sectors in providing insurance and contributing to risk reduction. Its aim is to analyse how different member-state systems manage natural catastrophe risk.

A core topic of discussion between the EC and the insurance industry was the serious lack of participation by national authorities in the EU-level debates over natural catastrophe insurance and prevention. Insurance Europe urged the EC to bring more national and local authorities into the dialogue, as the sustainability of insurance is highly dependent on the prevention and preparedness measures taken in member states. Should the authorities not implement adequate measures, private insurance may become unaffordable for at-risk consumers. Insurance Europe also explained how data protection barriers were limiting individualised risk assessments.

There must be sufficient data to estimate the frequency and severity of the event (not always adequately available for all markets) as well as a means of building enough capacity to spread the risk across a large number of policyholders.

A flexible political framework, on the other hand, enables insurers to adapt their products to local conditions and requirements. This risk-based approach allows them to adapt to, for example, the changing values of properties as a result of growing populations, especially in concentrated urban areas, or improvements or degeneration in municipal infrastructure.

The ability to accommodate these changes would be restricted if a "one size fits all" approach is introduced at EU level, as it would establish a single insurance scheme that fails to distinguish between the different risk exposures of member states and the level of prevention measures taken.

EC recognises need for adaptation

While the EC's analysis of responses to its Green Paper is still under way, other relevant areas, such as adaptation to climate change, have increasingly gained recognition on the EC agenda. Throughout 2013 the EC's Directorate-General for Climate Action conducted a series of workshops to analyse the role of insurance in adaptation, in which Insurance Europe and many insurance markets participated.

In these workshops, Insurance Europe emphasised how important it is for authorities to engage in adequate risk prevention methods, such as investing in flood defences, enforcing building codes, implementing land-use planning policies and regulating risk-zoning. It also highlighted the need for government, municipal and public cooperation in disaster-preparedness planning, including efficient and effective crisis response. Preparedness should also encompass more extensive government cooperation with insurers in the form of sharing risk information and giving prompt access to damaged sites so insurers can more rapidly contain damage.

European Parliament concerns

In February 2014 the European Parliament adopted an own-initiative report on the insurance of natural and man-made disasters, which shared Insurance Europe's view that a "one size fits all" approach toward insuring disasters across the EU is unfeasible.

Insurance Europe also welcomes the Parliamentary report's recognition that risk-based pricing is an important and central approach to disaster insurance. The report rightly signalled that there is no justification for introducing EU-wide compulsory cover for disaster risks. Instead, the report stresses that the EU should take a leading role in raising risk awareness, increasing the availability of risk data and encouraging the involvement of local authorities in decisions concerning risk prevention.

Securing the best insurance workforce

A fruitful insurance social dialogue at EU level

The average age of employees in the insurance sector is increasing. Many workers are approaching retirement age. The insurance sector therefore needs to attract new talent to ensure a sustainable, skilled and diverse workforce.

Over the past year, Insurance Europe continued to play a leading role in supporting the sector's efforts to address these challenges through the Insurance Sectoral Social Dialogue Committee (ISSDC), the only forum at EU level in which insurance employer and employee representatives can discuss topics of common interest.

Tackling demographic change

With the support of the other social partners involved in the ISSDC, Insurance Europe performed an assessment of the practical impact of a project on the demographic challenge in the insurance sector that was carried out under Insurance Europe's leadership in 2012.

The project, which received financial support from the European Union, aimed to aid the insurance sector in efficiently addressing the demographic changes it is facing by disseminating examples of good practice at company, national and EU level in tackling issues such as work-life balance, qualifications, life-long learning, and health and safety at work. The project included the publication of a booklet of good practices, a conference and a seminar promoting the booklet.

The assessment confirmed not only that demography remains a key challenge for the insurance sector, with the issues of qualifications and life-long learning as major priorities for the coming years, but also that the 2012 project was effective in supporting (re)insurance companies and local social partners in tackling the practicalities of demographic change.

It showed that the insurance social partners at national and company level have widely promoted the outcomes of the project, for instance by making the ISSDC booklet available on their websites, by disseminating the good practice examples to human resources managers in their markets and by organising conferences to address further how best to tackle the demographic challenge.

Importantly, a number of new initiatives in the field of work-life balance, qualifications, life-long learning, and health and safety were reported at national and company level across Europe, demonstrating the industry's increasing efforts to attract qualified and highly trained employees, and to make insurance an even more attractive sector in which to work.

Following the success of the project, Insurance Europe and its partners in the ISSDC worked in the first half of 2014 on augmenting their booklet with new, innovative examples. The updated booklet is expected to be published online in 2015. Many insurance companies have already indicated their willingness to share their own practices, with a view to providing others with inspiration to find successful ways to address demographic changes.

Addressing telework

Last year, Insurance Europe also discussed telework with the other ISSDC social partners. Nowadays, 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.

Telework may offer advantages to both employers — in terms of attractiveness and increased staff motivation — and employees — in terms of greater flexibility in working hours, savings in time and less stress due to reduced commutes. Telework may also help to reduce pollution by cutting employees' commutes, benefiting thus the environment and society as a whole.

Employers and employees in the insurance industry may therefore consider using telework as a tool that can be of common interest. Unsurprisingly, telework places a high level of individual responsibility on employees.

Insurance Europe and its ISSDC partners are preparing a joint statement on telework. Its objective is to draw attention to the relevant factors to be considered in individual or collective telework agreements at national or company level.

- Member associations
- 5th International Conference, Rome
- Publications
- Corporate governance
- Working bodies

Member associations

Austria	Verband der Versicherungsunternehmen Österreichs (VVO) President: Günter Geyer www.vvo.at tel: +43 171 15 62 00
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Cyprus	Insurance Association of Cyprus Chairman: Polys Michaelides 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 01
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5th International Conference, Rome

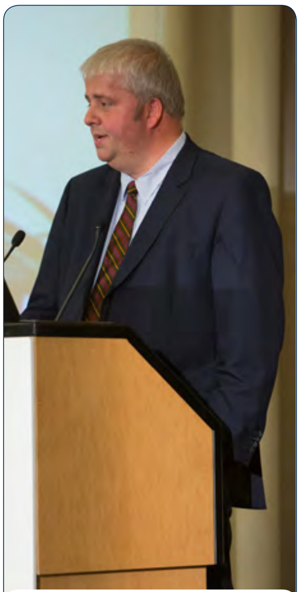
Around 350 insurers, policymakers and regulators gathered in Rome, Italy, on 13 June 2013 for Insurance Europe's 5th International Conference. Entitled "Stability and security: insuring our futures", the full-day conference debated the insurance industry's role in the global economy and how global regulatory initiatives can affect that role — either positively or negatively.

Opened by Fabrizio Saccomanni, Italy's Economy and Finance Minister, the event featured keynote speeches by Global Federation of Insurance Associations (GFIA) chairman Frank Swedlove; International Association of Insurance Supervisors (IAIS) chairman Peter Braumüller; Burkhard Balz MEP; and Eurofi president Jacques de Larosière.

Italy's finance minister Fabrizio Saccomanni (left) is welcomed by Insurance Europe president Sergio Balbinot

Peter Braumüller, chairman of the IAIS

GFIA chairman Frank Swedlove



Burkhard Balz MEP

High-level debates: (L to R) David McMillan of Aviva Europe, If P&C Insurance's Torbjörn Magnusson, Marcio Coriolano of Bradesco Saúde and AG Insurance's Hans De Cuyper

Safeguarding insurers' role in the global economy

One theme that ran through the conference was the role of insurers as long-term investors. The insurance industry is one of the world's largest institutional investors with well over €8trn in assets under management in Europe and more than $27trn (€19.5trn) held in assets globally. The long-term funding provided by the sector is therefore a vital component of sustainable economic growth, fostering financial stability by providing an anti-cyclical buffer in times of market stress.

Yet various policy trends — especially in prudential regulation and taxation — intended to reinforce financial stability can unintentionally affect insurers' appetite to invest long-term. Insurance Europe president Sergio Balbinot highlighted that if regulations create unnecessary and artificial volatility in insurers' balance sheets, insurers have only two options: stop selling long-term guarantee products or radically change their asset allocation.

As this would have a dramatic impact on EU and worldwide economy and stability, Balbinot called on regulators and policymakers to ensure that insurance companies are not discouraged from investing in long-term assets. "The vital role of insurers as institutional investors must be preserved," he insisted. This was echoed by many speakers during the day.

Another topic that dominated the discussions was the interlinking and interconnectedness of regulatory initiatives

around the world. The financial crisis caused a paradigm shift in international financial regulation, but no legislation or regulation can be drafted in isolation and the wider implications of each initiative need to be considered.

A frequently cited example in this area was the international move to identify and reduce possible systemic risks in the financial sector to try to avoid any repeat of the problems that arose during the crisis. Many speakers highlighted that there is little evidence of traditional insurance either generating or amplifying systemic risk and stressed that any policy initiatives should focus on the few non-traditional and non-insurance activities carried out by insurers that have the potential to create systemic risk.

Elizabeth Ward of the MassMutual Financial Group

Axa's Gérald Harlin

Standard Life's Raj Singh

Klaus Wiedner of the European Commission

Regulatory dialogue: EIOPA's Gabriel Bernardino (left) and Thomas Leonardi, Connecticut Insurance Commissioner debate conduct of business and consumer protection

Keynote speaker and GFIA chairman Frank Swedlove explained that the shift towards international regulation of the industry created a need for more formal cooperation and coordination by the global insurance industry. In response the GFIA (see p53) was established as a unified voice for the industry and to provide a single point of contact for regulators. Swedlove pointed out the enormous advantages: "Regulators know that when GFIA takes a position it is supported by essentially the entire industry around the world."

A third issue that frequently arose during the debates was consumer protection and conduct of business. Speakers expect these issues to be on the international agenda for the next 10–15 years, also in the area of supervision. Keynote speaker and IAIS chairman Peter Braumüller confirmed that policyholder protection was one of the core objectives of the IAIS.

Publications

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

Annual Report 2012–2013
(June 2013)

Review of Insurance Europe's key activities between June 2012 and June 2013, together with details of Insurance Europe's structure and organisation.

Funding the future: Insurers' role as institutional investors
(June 2013)

Explanation of the distinctive characteristics that make insurers ideal, low-risk long-term investors. It highlights the benefits of insurers' investment approach and identifies policy developments that could create disincentives to long-term investing.

Indirect taxation on insurance contracts in Europe
(April 2014)

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

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.

Statistical publications

European Insurance — Key Facts
(August 2013)

Key preliminary data for 2012, including information on European insurers' role in the economy, their premiums and their investments.

European Insurance in Figures
(February 2014)

Detailed 2012 statistics showing European insurers' life and non-life premiums, benefits paid and portfolios, as well as market structure information.

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General counsel, global life
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GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

- Activities
- Executives
- Members

Global Federation of Insurance Associations

International bodies are increasingly influencing the way the insurance industry is regulated. Without doubt the two clearest examples are the initiatives of the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) on global capital standards (see p15) and the work of the Organisation for Economic Co-operation and Development (OECD) on taxation (see p20). These have made it more important than ever that the industry has a global voice and a single, representative point of contact for global policymakers and regulators.

A GFIA delegation, led by chair Frank Swedlove (fourth from left), held meetings with the Australian G-20 Presidency in March 2014

Insurance Europe has therefore been fully engaged in the activities of the Global Federation of Insurance Associations (GFIA) as this relatively new but highly representative body (see box) becomes increasingly active in the international arena.

Wide range of activities

The GFIA has developed and promoted 28 industry positions in different areas since its inception just over 18 months ago. Largely as a result of its broad membership, the GFIA has been able to form positions not only on high-profile international issues — such as systemic risk, capital standards and the IAIS ComFrame project for the supervision of international groups — but also on topics on which other industry bodies are silent. These include business conduct rules, consumer protection issues and taxation.

On taxation, for example, the GFIA contributed to the efforts of the OECD to counter tax evasion through its base erosion and profit-shifting initiative, endorsed by the G-20.

While fully supporting the principle of disclosure of information to tax authorities, the GFIA believes that the level of detail in the OECD's draft template for country-by-country reporting is more detailed than is necessary for effective risk assessment and that it could place an unnecessary additional compliance burden on insurance companies.

It therefore stressed, in comments submitted in February 2014 as part of a public consultation, that the OECD should first explore the existing tax information requirements before imposing new ones and should also ensure that flexibility is permitted in compiling the information for the template, as this would still enable tax authorities to conduct efficient risk assessments. The GFIA also emphasised that there needs to be a uniform global standard for transfer-pricing documentation to avoid inconsistent or duplicate reporting.

What is the GFIA?

The GFIA was established in October 2012 as the first formal representative body of the global insurance industry. Insurance Europe was one of the founding members. The federation now has 37 member associations and represents insurers that account for around 87% of the world's insurance premiums.

The GFIA represents the interests of national and regional associations of life, health and general (re)insurers. It presents industry positions to international regulatory groups, to standard-setters and to national governments, as well as facilitating dialogue within the industry on non-commercially sensitive issues.

Formally incorporated in Switzerland, the federation's secretariat is being run for its first term by Insurance Europe in Brussels. It has 10 working groups covering issues as disparate as systemic risk, taxation, natural catastrophes and financial inclusion.

www.GFIAinsurance.org

In May the GFIA also commented on the OECD's commentaries on common reporting standards for the automatic exchange of tax information. It suggested refinements to the exemption of pre-existing cash value insurance and annuity accounts and called for the exemption of pension products from the reporting requirements.

Constructive G-20 meetings

Of particular note in the GFIA's past year of activities was a series of constructive meetings it held with representatives of the Australian G-20 Presidency in March 2014. With so much political and regulatory focus on the banking sector, a key mission for the GFIA is to seek to ensure that the insurance sector is understood by influential global bodies — such as the G-20, the FSB and the OECD — that have less direct experience of the insurance sector than its supervisory body, the IAIS.

The GFIA was able to convey to the G-20 how well placed insurers are to contribute significantly to the Australian Presidency's goals of sustainable growth and a more resilient global economy through their provision of risk-transfer and retirement savings products and through long-term investments. The delegation was also able to explain how this contribution could be damaged by inappropriate regulation. The coming year will be a critical one in the evolution of the international regulation of insurance, particularly on capital standards. The GFIA called for that FSB/IAIS work to correctly take into account insurers' long-term liability-driven approach to investment, so that the industry's ability to invest long-term is safeguarded. It also stressed that the benefits from any taxation reforms put forward by the OECD must outweigh the compliance costs placed on the industry.

The GFIA has called — and will continue to call — for impact assessments and cost/benefit analyses to be carried out on all international regulatory proposals.

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American Insurance Association (AIA)

America's Health Insurance Plans (AHIP)

Association of Bermuda Insurers and Reinsurers (ABIR)

Association of Mexican Insurance Companies (AMIS)

Brazilian Insurance Confederation (CNseg)

Canadian Life and Health Insurance Association (CLHIA)

Chilean Insurance Association (AACH)

Federación Interamericana de Empresas de Seguros (FIDES)

Insurance Bureau of Canada (IBC)

National Association of Mutual Insurance Companies (NAMIC)

Property Casualty Insurers Association of America (PCI)

Reinsurance Association of America (RAA)

Asia

General Insurance Association of Japan (GIAJ)

Korea Life Insurance Association (KLIA)

Life Insurance Association of Japan (LIAJ)

Non-Life Insurance Association of the ROC (NLIA)

Australia

Financial Services Council of Australia (FSC)

Insurance Council of Australia (ICA)

Europe

All Russian Insurance Association (ARIA)

Association of British Insurers (ABI)

Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE)

Association of Spanish Insurers (UNESPA)

Dublin International Insurance & Management Association (DIMA)

Dutch Association of Insurers (VVN)

French Federation of Insurance Companies (FFSA)

German Insurance Association (GDV)

Insurance Europe

Insurance Ireland

International Underwriting Association of London (IUA)

Italian Association of Insurance Companies (ANIA)

Polish Insurance Association (PIU)

Portuguese Association of Insurers (APS)

Swiss Insurance Association (ASA/SVV)

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