insurance europe

Annual Report 2011–2012

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Insurance Europe

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 almost €1 100bn, employ nearly one million people and invest around €7 700bn in the economy.

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The Insurance Europe publications and position papers mentioned in the Annual Report can be downloaded from the Insurance Europe website, www.insuranceeurope.eu.

Foreword

Welcome to the first Annual Report of the European insurance and reinsurance federation under its new name of Insurance Europe.

It has been another challenging year for the insurance industry. There were a phenomenal 14 215 regulatory announcements in the global financial sector in 2011, according to Thomson Reuters. Europe's economies continued to battle recession and financial instability. And last year was also by far the most expensive natural disaster year ever. Economic losses of $380bn (€287bn) dwarfed the previous record of $220bn set in 2005, and insured losses also reached a new high of $105bn, according to Munich Re.

In the face of such challenges, it is impressive that Europe's insurers have remained stable and secure, meeting their obligations to claimants and long-term investors. The European industry succeeded in recording a 2% increase in its total assets under management in 2011 — taking them to €7 680bn. It saw only a marginal decline of 1.5% to €1 090bn in its total gross written premiums, largely attributed to consumer uncertainty in the light of the financial instability.

The value of the insurance industry lies precisely in this secure and stabilising role in the economy.

Insurers traditionally play a key role as global providers of long-term risk capital, generating significant social benefits and stabilising economies. We must make sure that the onslaught of regulatory initiatives outlined above does not restrict or harm — even inadvertently — a role that is now more important than ever.

As the preparations for the European industry's new regulatory regime, Solvency II, have continued over the last 12 months, it has become clear that the calculations relating to long-term guarantee products and the related long-term investments are not yet appropriately designed. If left unchanged they could increase the capital requirements placed on insurers far above the levels needed to cover their real risks.

The effect of this could be not just to increase the overall cost of such products for consumers but to drive the industry away from providing long-term products and investing in long-term assets, leading to increased volatility and less long-term funding in the European economy.

We are heartened that bodies including the International Monetary Fund and the Bank for International Settlements have also raised these concerns, and Insurance Europe and other industry bodies are currently working together to develop and propose appropriate solutions.

Of course this issue of long-term products and investments is central to the initiatives currently under way in the EU to ensure that pension systems are adequate and sustainable. The European Commission's February 2012 White Paper recognises the important role of insurers in providing complementary retirement savings products. With its review of the Institutions for Occupational Retirement Provision (IORP) Directive it is seeking to improve overall pension provision in Europe and to avoid differences in levels of protection for beneficiaries. Insurance Europe believes that the best way to tackle the latter issue is to apply the principles of Solvency II to occupational pension products from all providers, while taking into account all economically significant differences.

The stabilising role of insurers is likewise a central plank in the industry's arguments in the global discussions over the best ways to avoid systemic risks in the financial system. While we are pleased to see increasing recognition among policymakers that the insurance sector has particular characteristics that make it far less likely to present any systemic risk, we are concerned that the processes being developed to address the limited concerns that do exist mirror too closely — and inappropriately — those for the banking industry. Insurance Europe will continue to explain the principles and specific characteristics of the insurance business model during these debates, just as it will continue to contribute to the international debates on proposed global standards for the industry.

This need to explain how insurance works is nowhere more apparent than in the debates on anti-discrimination. The unintended negative consequence of the European Court of Justice's ruling ending EU insurers' use of gender as a risk factor when pricing products is likely to be premium increases for certain groups of low-risk consumers. This demonstrates that insurers' fair and precise risk assessment is not fully understood and Insurance Europe will do its utmost to counter these misunderstandings in the discussions on the EU Anti-Discrimination Directive.

As you will see from this Annual Report, Insurance Europe has been scrutinising a wide and diverse range of EU and international regulatory initiatives that affect the European insurance industry. This broad raft of initiatives includes everything from detailed proposals related to the way insurance products are sold and the information that is provided to insurance customers, through reviews of data protection and anti-money laundering standards, to motor initiatives.

The federation's work on these issues is ongoing and we see significant challenges ahead in the coming year. These relate not only to finalising and analysing the effects of Solvency II but also particularly to consumer protection initiatives covering selling practices, transparency and distribution. It will be vital to ensure that measures that seek to protect and inform insurance consumers are appropriate, proportionate and do indeed fulfil the purposes intended.

To close on a positive note, we would like to say how delighted we have been at the overwhelmingly positive reception there has been to our renaming and rebranding, which took place in March. Under our new, stronger brand, we believe we are even better placed than before to provide the representation that Europe's insurers need in these challenging times.

Sergio Balbinot

President

Michaela Koller

Director General

European insurance in figures

Insurers affected by economic uncertainty

After shrinking by more than 4% in 2009, the real gross domestic product of the EU recovered moderately in 2010, growing 2%. The European economy continued to expand in 2011, albeit at a slower pace, with Eurostat figures indicating real growth of 1.5% in the EU. Amid fears of a worsening sovereign debt crisis in the euro area, capital markets remained fragile in the first half of 2011 and deteriorated significantly in the second half of the year.

In order to strip out the effects of exchange rate changes and better reflect economic reality at the aggregate level, 2009/10 and 2010/11 growth rates have been calculated on the basis of 2011 exchange rates.

This rather difficult economic environment appears to have affected the European insurance industry, since preliminary figures for 2011 show only a marginal increase in insurers' total assets under management and a small decline in total gross written premiums.

After 2.5% growth (at constant exchange rates) in 2010, total gross written premiums in Europe are expected to decrease by 1.5% at constant exchange rates in 2011 to €1 089bn. This decline is due to a fall in life premiums, which account for 60% of all premiums.

Life falls back to 2008 level

Early estimates indicate that European life premiums fell by 4% at constant exchange rates in 2011 to €650bn, compared to a rise of 3% the previous year. This level of premiums corresponds to that of 2008 when life insurers, affected by developments in financial markets, saw their premiums shrink by more than 10% (at constant exchange rates).

The four largest markets — the UK, France, Germany and Italy — account for around 70% of total life premiums in Europe. Of those four countries, only the UK reported growth (+8% versus -6% the year before). In France, Germany and Italy, life premiums dropped by 14%, 4% and 18% respectively (versus +4%, +6% and +11% in 2010).

The primary reason for the falls is a decrease in new, especially single premium, business that reflects consumer uncertainty linked to the crisis. More specifically, it seems that the economic and financial conditions have resulted in households focusing investment in shorter term savings products, notably those offered by banks.

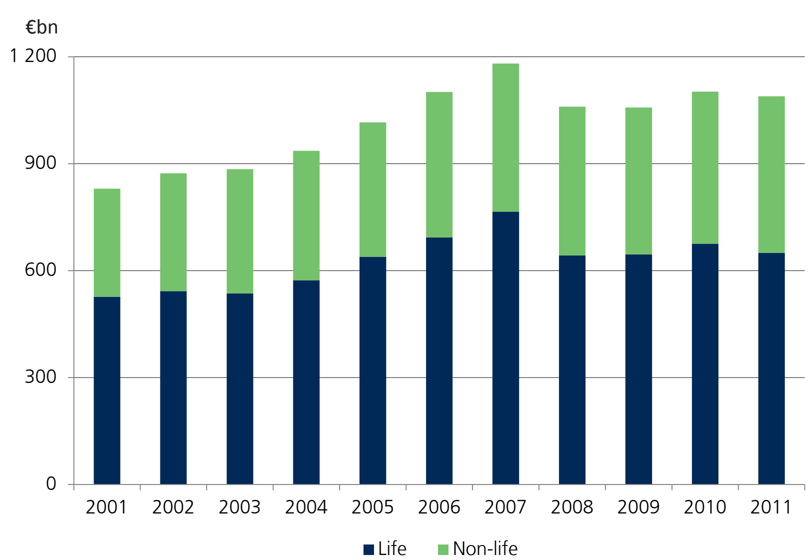
Motor drives non-life growth

In the non-life sector, a rise of almost 3% (at constant exchange rates) is expected in 2011 and confirms the recovery seen in 2010, when growth was 2%. According to preliminary data, European non-life premiums amounted to €439bn in 2011, compared to €426bn the year before. This overall increase is mainly due to the motor sector, which accounts for almost 30% of the non-life market.

The European motor insurance market is led by Germany, Italy, France and the UK, which together represent 60% of all Europe's motor premiums. The first three markets each recorded a rise of 4%, while the UK saw its motor premium revenue surge by 13% in 2011.

Across the whole European motor insurance sector, premiums are expected to amount to

Total gross written premiums in Europe — 2001–2011 (€bn)



Note: 2011 figures are provisional

€128bn in 2011. This corresponds to growth of 4%, compared with +1% the previous year. These developments are the consequences of both price increases to compensate for the 2010 losses and a rise in new business.

Even though health insurance seems to have experienced a slowdown in growth in 2011, it remains the second largest non-life business line in Europe, accounting for a quarter of the total. After a 6% upturn in 2010, a modest rise of 2% (at constant exchange rates) is expected in 2011, with health premiums amounting to €111bn.

The health insurance sector in Europe is mainly driven by the Netherlands and Germany, which respectively represent 36% and 31% of the market. Early estimates show that both markets reported a slowdown in growth in 2011, whereas France, the third largest market (9% market share), experienced a 1% decline, owing to a change in its tax regime on 1 January 2011.

Property insurance, which provides protection against risks such as fire, theft and some weather damage, represents almost 20% of all non-life business.

Provisional data for 2011 indicate that property premiums grew 2% at constant exchange rates in 2011 to total €85bn. This increase is similar to the one seen in 2010. The three major markets are the UK, Germany, and France, which each have 18% of the European market. All three countries reported growth of around 2% in 2011.

Investment growth slows

Insurers are among the largest institutional investors, managing their assets with a long-term perspective. Both their investment strategies as well as the value of their assets are highly dependent on capital market developments.

Capital markets globally, and in particular within the euro area, underwent a period of instability during the second half of 2011. This was due to investors' negative view of the solvency of certain euro-area states and of the euro-area banking system more generally. Stability and investor confidence were restored somewhat at the end of November 2011 as a result of the policy responses of European authorities, but uncertainty is likely to remain a feature of the capital markets in the first half of 2012.

European insurers' overall investment portfolio, estimated at market value, is expected to grow from more than €7 500bn in 2010 to around €7 680bn in 2011. This corresponds to an increase of 2% at constant exchange rates, compared to +6% in 2010. All of the three largest investor communities in the European insurance industry — namely, France, the UK and Germany — report a relative slowdown in the growth of their assets in 2011. Together the three account for more than 60% of the total European investment portfolio.

European insurance key figures and growth — 2009–2011 (€bn)

	2009	2010	2011	Nominal growth (at current exchange rates)		Nominal growth (at constant exchange rates)	
				2009/10	2010/11	2009/10	2010/11
Total gross written premiums	1 058	1 102	1 089	4%	-1%	3%	-2%
Life	645	676	650	5%	-4%	3%	-4%
Non-life	412	426	439	3%	3%	2%	3%
Motor	121	124	128	3%	4%	1%	4%
Health	101	108	111	7%	3%	6%	2%
Property	80	84	85	4%	2%	2%	2%
Other non-life	110	111	115	1%	3%	0%	3%
Insurers' investment portolio	6 979	7 507	7 682	8%	2%	6%	2%

Note: 2011 figures are provisional

Prudential regulation

End in sight for Solvency II process but major concerns still to be addressed

Solvency II, the new prudential regime for the EU's (re)insurers, remains at the top of Insurance Europe's agenda. As the process approaches the final stages, a number of major concerns remain that relate in particular to the industry's ability to maintain its capacity to offer affordable long-term products and to continue to take a long-term approach in its investments.

The EU Solvency II initiative aims to establish a single prudential rule book for all insurance companies. This should help to avoid individual member states interpreting European texts differently, which has led to a rather diverse regulatory landscape in the past, despite the existence of a European framework.

The Solvency II process has been complicated by the fact that the EU treaties have been changed as a result of the financial crisis. The new Lisbon Treaty has led to significant changes, such as the establishment of the new independent European supervisory authorities. It entered into force at a time when the original Solvency II Framework Directive (Level 1 — see box below) had already been adopted and work at Level 2 was well advanced. The Lisbon Treaty therefore requires amendments to the Solvency II Framework Directive while the legislative process leading to its implementation is still in progress. These changes are currently under way in the form of the Omnibus II Directive.

This Directive updates the Solvency II Framework Directive, grants extended powers to the strengthened European regulator, EIOPA (the European Insurance and Occupational Pensions Authority), and finalises the timetable and transitional measures for the introduction of Solvency II. Omnibus II is also being used to address the concerns over artificial volatility and pro-cyclicality (see box opposite) that were highlighted by the fifth quantitative impact study (QIS 5), led by the European Commission and carried out by EIOPA, which was run in the second half of 2010.

The Omnibus II process has taken longer than planned. Originally expected to be finalised in the first half of 2012, publication of the Directive now looks likely to be delayed to the second half of the year, depending on progress in the negotiations between the European Parliament, Council and Commission. The entry into force of the Framework Directive is expected to be delayed from 1 January 2013 to 30 June 2013. No changes are currently planned to the date of 1 January 2014 by which companies have to comply with the new rules.

A Level 2 draft text was released in October 2011. A number of key industry concerns were addressed in this draft but some very important issues remain. Formally, a move to the next level is only possible once agreement has been reached on the previous level. In the interests of time, informal consultations can run in parallel at different levels, so significant pre-consultations have been taking place at Level 3 to which Insurance Europe has been contributing. The most significant of these relate to reporting requirements.

Difficult negotiations on Omnibus II

The Omnibus II process was initiated in 2010 and the Polish EU Presidency made significant progress towards agreement in the EU Council in the second half of 2011. The European Parliament provided its draft amendments in March 2012, allowing the trialogue discussions on a final version to begin between the two institutions, with the Commission as arbitrator. A number of key issues remain to be addressed during the trialogues:

The EU regulatory process

To achieve a more harmonised application of European legislation in insurance, as well as other financial services regulation, a complex regulatory process has been established in the EU that works in four phases or levels.

- At Level 1, the Council (of member states) and the European Parliament determine the framework of the regime.
- At Level 2, the framework is fleshed out so that member states know how to implement the framework in detail in their national legislation.
- At Level 3, the European supervisory authorities — ie EIOPA for the insurance sector — provide additional guidelines beyond the detailed implementation agreement reached at Level 2.
- At Level 4, the European Commission monitors implementation and enforcement of the rules.

■ **Long-term guarantees**

The most significant issue in Omnibus II relates to addressing artificial volatility and ensuring that the industry can continue to offer long-term guarantees and invest long-term. Insurance Europe has worked hard to develop a strong industry consensus with the Pan European Insurance Forum, the CFO Forum and the CRO Forum on this issue and to contribute to the best possible solutions. There are measures under discussion (see box below) that, if implemented appropriately, can address this issue, but in current draft texts they would be applied in such a limited way that they would not work as proposed.

■ **Equivalence**

European (re)insurers are significant players in the global (re)insurance market. It is vital that Solvency II does not unnecessarily restrict their ability to compete internationally. Recognising the regulatory regimes of non-EU countries as equivalent to Solvency II is a vital part of the framework, but the current wording in the Directive puts European groups at a serious competitive disadvantage to locally operating companies in certain third countries (see box on p10).

The criteria that a third country needs to meet to achieve "transitional equivalence" while they are working towards full equivalence are far too demanding and the period during which transitional equivalence would be granted is too short. It should be possible to extend it up to 10 years.

■ **Transitional measures**

As well as specific transitional measures to ease the equivalence process, Insurance Europe has also stressed the need for appropriate treatment of hybrid debt to allow hybrids eligible under Solvency I to run off rather than have to be replaced.

A package of measures to address pro-cyclicality and artificial volatility

Solvency II is a risk-based economic regime that will help companies to better understand the risk inherent in their business. The regime will thus allow companies to assess and adjust their risk appetite on an ongoing basis in line with market developments.

The fifth quantitative impact study (QIS 5) run in 2011 provided valuable insights, showing that the risk profile of insurance companies that offer long-term products is strongly driven by spread risk that tends to exacerbate market movements but is very unlikely to materialise as long as certain product features are adhered to. In light of increasing longevity, an ageing population and dwindling public pension resources, the life insurance market will be needed to complement existing state pensions and respond to customer demand for reliable, safe and affordable private pensions.

The challenge for European regulators, supervisors and the industry has been to identify the relevant risk drivers for the insurance sector and — equally importantly — to identify counter-cyclical measures that would help to "blend out" risk factors that would have a strong impact on an insurer's balance sheet but would ultimately not materialise.

A package of three measures was developed based on concepts put forward by a working group on long-term guarantees that was set up by the European Commission in 2011. Insurance Europe was a member of the working group and strongly supports these measures as the best way to deal with this important concern. Each measure plays a crucial and different role and the elements need to be appropriately reflected in the final Solvency II text:

- A matching adjustment to ensure that, where assets can be held to maturity, Solvency II focusses on the default risk rather than the spread risk and thereby removes the impact of artificial volatility from the asset/liability management of insurance portfolios.
- A counter-cyclical premium that applies in exceptional market circumstances and ensures that Solvency II can cope with periods of crisis. Contracts to which a matching adjustment is applied would not apply the counter-cyclical premium.
- An extrapolation methodology that provides a way to extrapolate the interest rate curve beyond the point where the market is deep and liquid and that avoids creating volatility in the valuation of long-term liabilities.

More generally, it has highlighted the need for Omnibus II to include the Level 1 legal hooks that will make it possible to develop the necessary transitionals at Level 2.

Key issues at Level 2

The EC had planned to finalise its draft Level 2 measures in mid-2011 but — realising that there were significant issues to address — it continued to consult member states and the industry until late in 2011 and Insurance Europe put forward over 600 proposed amendments during this process. Progress was made but the draft Level 2 text left a significant number of concerns unresolved and Insurance Europe continues to advocate changes on key issues at Level 2:

■ Long-term guarantees

Long-term guarantees have become a Level 1 issue and been covered in the Omnibus discussions. There is certainly a need to identify the measures in the Framework Directive but Parliament transferred most of the draft Level 2 text relating to them into its Omnibus II text. Insurance Europe believes that technical detail should remain at Level 2 because it is too detailed for Level 1, needs more time to be finalised within the Level 2 process and will facilitate adaptation at a later stage.

■ Catastrophe risk

Insurance Europe has continued to contribute to the discussions around the design and calibration of the structures to cover catastrophe risk and has taken an active part in the catastrophe risk task force that was set up by EIOPA. A number of calibration and other issues have been addressed through this process but some still remain and follow-up will be needed at Level 3.

■ Non-life premium and reserve risk

The calibration of non-life underwriting risk was a key concern for the industry due to proposals by EIOPA that for some lines of business were as high as five times those in QIS 5. In a sector that has weathered the crisis well, Insurance Europe would wish to see more justification for such large increases in capital requirements.

In August 2011 the industry and EIOPA joint working group reached an agreement on the non-life and health NSLT (non-similar to life techniques) on calibration factors that were still considered high by the industry but seemed more justified than the ones originally proposed by EIOPA. The industry members of the group recommended a review clause to guarantee that there would be an early recalibration exercise and they highlighted the essential role of the use of undertaking-specific parameters (USPs), particularly in this case where limited historical Solvency II data for the calibration leads to an overly conservative charge going far beyond the actual risk.

Assessing equivalence

In order to accommodate the groups based in Europe that have operations outside the EU in "third countries", and vice versa, the Solvency II framework has proposed processes for assessing whether the regulatory framework of those third countries is equivalent to Solvency II. Any country deemed equivalent with Solvency II would immediately be recognised by all EU member states without having to engage in lengthy negotiations with individual states.

The need to assess equivalence arises in three situations:

- A (re)insurer located in a third country (defined as any country outside the European Economic Area (EEA)) enters into a reinsurance arrangement with a (re)insurer in the EEA. If the country is deemed equivalent, the imposition of collateral requirements is prohibited.
- A (re)insurer is headquartered within the EEA with participations or subsidiaries outside the EEA. If the country is deemed equivalent, the European group avoids having to do Solvency II calculations for its subsidiary because it can instead use the local solvency requirements.
- A (re)insurer is headquartered in a third country and has related undertakings located within the EEA. If the country is deemed equivalent, the third-country international groups would avoid being subject to the unnecessary burdens that would arise from dual group supervision because the third-country group supervision could be relied upon.

■ Complexity

QIS 5 highlighted areas of unnecessary complexity in the default approach for some risk modules and the disproportionate burden that this will place on insurers, in particular when compared to the relative materiality of their capital charge. In other words, a heavy administrative burden will be placed on insurers while the outcome of the calculation will influence the final results only very marginally. Insurance Europe therefore called for the complexity of certain calculations and requirements to be reduced, particularly for small and medium-sized companies, and produced a set of proposals to achieve this while maintaining an appropriate reflection of risk.

■ Expected profits in future premiums

The industry has long argued that expected profits in future premiums should be classified as the top quality, Tier 1 capital rather than the more limited Tier 2 or 3. Michel Barnier, the EU Commissioner for the Internal Market and Services, has responded positively to a coordinated industry letter highlighting the strong economic justification for this. However, this important change puts more focus on contract boundaries.

■ Contract boundaries

Setting the contract boundaries that limit how many future premiums should be included in the Solvency II balance sheet has a significant impact on the own funds available to undertakings. The EC proposal of July 2011 was intended to address the industry's concerns on the treatment of group contracts (group pension and health), term renewable insurance and universal life contracts. These were treated as one-year contracts in the EC's previous proposal. Confusion still remains, however, over how contract boundaries should be interpreted and discussion are expected to continue with EIOPA at Level 3.

■ Currency risk and group solvency

The method for calculating currency risk is still a major problem in the draft Level 2 text for all solo entities and groups writing business internationally, as the current capital requirements penalise the proper management of currency exposures. Group solvency and, in particular, the assessment of the fungibility of capital within a group also remain concerns. The current proposals restrict unnecessarily the amount of fungible capital and therefore risk overstating overall group capital requirements.

Level 3 in parallel

In parallel with the work on Levels 1 and 2, EIOPA informally requested feedback from the industry on a wide range of Level 3 drafts. As early as September 2011, EIOPA issued informal Level 3 pre-consultations on pillar 3 reporting requirements, groups, the approval processes for internal models, external models, documentation and the valuation of assets and other liabilities, and the classification and eligibility of own funds. However, it was the issue of reporting templates that monopolised the Level 3 discussions. The industry found the first drafts of the templates too detailed and unnecessarily frequent and it provided significant feedback (see p18).

Stress tests continue

In July 2011 EIOPA published the results of its second Europe-wide stress tests on insurers. The results highlighted the robust solvency of the industry despite the ongoing financial crisis. It should be noted that the final specifications of the Solvency II regime will differ from those used for this stress test exercise.

The International Monetary Fund (IMF) had also planned stress tests but will now work on principles and best practices for supervisors instead. It raised concerns over EIOPA's stress tests, pointing out — as Insurance Europe had done — that Solvency II is itself a stress test. However, EIOPA plans annual stress tests even once Solvency II is in force.

Harmonisation of transposition and implementation

In October 2011 Insurance Europe stressed to EIOPA and the EC the importance of a harmonised approach by supervisors to the pre-application processes for the approval of the full or partial internal models that individual companies will use for their Solvency II calculations. This would ensure that all undertakings start from the same point when Solvency II enters into force. Insurance Europe urged EIOPA and the EC not to delay the timetable for the pre-application processes and to allocate sufficient supervisory resources to them. It also asked EIOPA to introduce pre-application processes for the use of undertaking-specific parameters and ancillary own funds.

Insurance Europe will continue to monitor the implementation and the transposition of Solvency II at national level to ensure maximum consistency and to identify any cases where national requirements go beyond those set out in the Directive.

Long-term saving & pensions

Improving transparency and avoiding differences in protection for beneficiaries

Against the background of the rapid ageing of our societies and the increasing pressure that pension provision is in turn placing on national budgets, Insurance Europe welcomes the comprehensive approach to pensions that the European Commission has taken in its White Paper "An Agenda for Adequate, Safe and Sustainable Pensions" of February 2012.

The White Paper is the follow-up to the Green Paper published in July 2010, which launched a European debate in which Insurance Europe has participated. The aim has been to find out how the EU can best support the efforts of member states to safeguard pensions for their citizens, both now and in the future.

The White Paper puts forward policy initiatives to support states in the reform of their pension systems. The measures proposed aim to help those who can to work longer and to help people save more for their retirement. They aim to raise the average age at which people retire, reflecting rising life expectancy, and to encourage and protect complementary private retirement savings, not least when people change jobs and have to switch occupational pension schemes.

Key role for complementary pensions

Insurance Europe especially welcomes the Commission's call for the strengthening of the role of complementary retirement provision — an area in which the insurance sector is already playing an important part. Insurance companies have unique expertise in offering and efficiently administering sustainable pension systems and developing innovative insurance solutions. With proven actuarial expertise, built up over the last two centuries, life insurers provide sustainable retirement benefits. Furthermore, life insurance products can provide complementary benefits to public pensions through annuities, survivor benefits and long-term pension savings.

Life insurers are well positioned to ease the burden on public pension schemes by providing funded pensions. In the past, longevity risk has exceeded demographers' expectations and life insurers have a long track record of tackling this efficiently. Since they are subject to strict supervision and regulation, including comprehensive solvency requirements (see box opposite), insurance companies offer high levels of pension protection to their customers. This role for the insurance sector needs to be recognised by European regulation and Insurance Europe is therefore pleased to see the different initiatives in the White Paper to promote complementary retirement provision.

However, Insurance Europe regrets that no initiatives were taken to define a common EU pensions language. This is a prerequisite for better co-ordination of policy at EU level, since many terms no longer reflect reality. Take the concept of the "three pillars"; very often a product that belongs to one pillar in one country is part of a different one in another.

The starting point for a "common language" for pensions could be developed on the basis of their purpose as products or arrangements. Their primary purpose is to provide an income in retirement. This understanding of a pension would facilitate comparison with and differentiation from other general savings products. It would also serve to make the differences between pension products across Europe more understandable and transparent and would help to make the diversity in EU pensions more manageable.

Support for IORP review

Insurance Europe welcomes the Commission's initiative to revise the EU's current Institutions for Occupational Retirement Provision (IORP) Directive. This aims to maintain a level playing field with the forthcoming Solvency II regulatory regime for insurers (see p8), to promote more cross-border activity and to help to improve overall pension provision in the EU, thereby ensuring the safety of supplementary pension provision.

Any improvement in the Directive that facilitates cross-border pension business is to be welcomed, as it seems that there is a demand for such services. A recent study by the Holland Financial Centre found that in the Netherlands 20% of respondents (companies with at least 250 employees and at least one business established abroad) are actually considering a pan-European pension fund. A previous study in 2010 showed that 80% of the companies that participated felt that they would benefit from pan-European pension funds. The main reasons for considering a pan-European fund were economies of scale and opportunities to harmonise pension schemes.

Protecting beneficiaries

The EU single market is about more than removing cross-border obstacles. It is also about achieving similar levels of protection

Insurers and pension funds in competition

The prudential regulatory framework for occupational pensions in the EU is incomplete and inconsistent. There are significant variations in the regulatory treatment of occupational pension provisions:

- Life insurers, which are significant providers of occupational pensions, are currently regulated under the Life Insurance Directive. They will be required to comply with the Solvency II Directive (see p8), which is expected to come into force in 2014.
- IORPs regulated under Article 17 of the IORP Directive are required to comply only with Solvency I capital requirements. These IORPs are those where the institution itself, and not the sponsoring undertaking, underwrites the biometric risk or guarantees a given investment benefit.
- Pension funds regulated under Article 20 of the IORP Directive — cross-border pension funds — are required to be fully funded, with national legislation defining the calculation of the value of the pension liabilities.
- Other types of IORPs are subject to minimum harmonisation, fully based on national frameworks following the prudent person principle.
- The IORP Directive itself includes a high level of flexibility and is therefore implemented differently in different EU countries.

While pension funds and insurance companies providing occupational pensions are not similar entities, they do often offer similar products and are frequently in both direct and indirect competition. Some IORPs even provide services for multiple employers, thereby providing almost identical services to the ones offered by insurers.

The competition between insurers and pension funds is acknowledged in the current IORP Directive. Article 4 allows member states to opt to have their insurers covered by it. After the adoption of the Solvency II rules — and as long as the IORP Directive remains unchanged — foreign IORPs will be in a position to enter the market on the basis of a different set of rules. This will lead to competitive distortions not only between insurers and IORPs but also between IORPs themselves, which could potentially create different levels of protection for beneficiaries for similar pension promises.

for the beneficiaries of all occupational retirement providers. If insurance companies were to move to Solvency II while pension funds stayed under Solvency I, beneficiaries would be exposed to different levels of risk from similar products with a long-term guarantee. Indeed, unless subject to article 17 of the IORP Directive, pension funds currently provide benefits on a "best effort basis" (meaning they offer no guarantee) while insurers regulated under Solvency II will fulfil their annual obligations to a 99.5% confidence level.

Moreover, the current prudential regulatory framework for occupational pensions in the EU is inconsistent (see box above) and Insurance Europe believes that — while still respecting specific national differences and the particular characteristics of products — these prudential differences should be tackled to ensure transparency, consistency and stability.

A package of measures is currently being developed under Solvency II to ensure that the principles of the new regime are suitable for long-term guarantee products. These solutions could serve as the framework for ensuring comparable and high levels of policyholder protection for pension investments, whether offered via a pension fund or an insurer.

The Solvency II framework has sufficient flexibility to be able to capture the risk profile of each pension scheme and IORP. In Insurance Europe's view, the Solvency II principles should be applied to IORPs, taking appropriate account of any economically significant differences between the different providers, such as:

- the treatment of a sponsor's covenant, where the employer promises to finance any pension scheme shortfall; and,
- the ability of a pension scheme to reduce future benefits.

In its February 2012 response to a call for advice from the Commission, EIOPA (the European Insurance and Occupational

Pensions Authority) sought to capture these economically significant differences in a "holistic balance sheet" approach (see box below).

Contributions to the debate

Insurance Europe has been active in the discussions over this vital review of the IORP Directive. Over the course of the last year it has hosted three breakfast debates (see p50) at which key participants from the Commission, European Parliament, Council, EIOPA and national insurance associations were able to exchange views.

Insurance Europe published its initial key messages on the IORP review in July 2011, responded to EIOPA's consultations on the review in August 2011 and January 2012 and spoke at the Commission's public hearing on the review in March. Throughout the debates Insurance Europe has stressed that applying Solvency II principles to IORPs has clear advantages, provided they are suitable for long-term guarantee products. Such an approach would:

- ensure adequate protection of beneficiaries, independent of the provider;
- reduce the risk of taxpayers being asked to bail out failed pension funds by ensuring that funds are all capitalised to a uniform minimum standard;
- increase citizens' confidence in the complementary pension industry and help facilitate the single market; and,
- remove the scope for regulatory arbitrage and provide a level playing field with insurers.

In a true EU single market there should be EU-wide minimum standards of regulatory consistency and transparency in information. The Commission must therefore take steps to avoid regulatory arbitrage when it publishes its proposal for reviewing the IORP Directive at the end of 2012.

The holistic balance sheet explained

During the European Commission's hearing on the IORP Directive review in March 2012, pension fund industry representatives claimed that there are economically significant differences between pension funds and insurers providing occupational retirement provisions:

- IORPs often have a plan sponsor (usually the employer or a group of employers) backing the pension promise.
- IORPs have flexible adjustment mechanisms. For example, in some jurisdictions, IORPs operate workplace pension schemes in which contributions and liabilities may be adjusted, depending on agreements negotiated by the social partners or on discretionary decisions by the board, or they target a specific benefit level instead of guaranteeing it.

Insurance Europe recognises the existence of differences and believes that in order to maintain a level regulatory playing field and obtain equal protection for consumers from IORPs and insurers providing occupational retirement provisions, these security mechanisms need to be assessed and included in the capital requirements. EIOPA has embraced this idea in its "holistic balance sheet" approach as a way to achieve the Commission's aim of further aligning prudential regulation. This approach aims to capture the existing diversity in occupational pension systems in a single balance sheet. The capital requirements would be calculated based on the economic balance sheet as used for Solvency II, while also including IORPs' security mechanisms.

Obviously the detailed rules for IORPs still need to be carefully worked out — and Insurance Europe fully supports EIOPA's commitment to carry out a thorough quantitative impact assessment during 2012 — but the federation holds by the following core principles for the EU-wide regulation of occupational pensions:

- similar risks must be covered by similar rules, offering similar and adequate protection;
- financial institutions that provide occupational pension products must be regulated not on the basis of the legal vehicle through which the products are sold, but according to the risks of those products; and,
- any economically significant differences between insurers and IORPs should be properly taken into account.

Investment

Insurers' long-term role must be preserved

Insurers are among the largest institutional investors in Europe, with a portfolio of €7700bn. Regulation can have a huge impact on insurers' investment decisions, which affect in turn not just the companies themselves but also their customers and the economy as a whole.

Due to their business model, insurers are traditionally keen to invest in long-term assets, matching the long-term nature of their liabilities. Insurance Europe is concerned that the wave of regulatory initiatives adopted in Europe as a response to the financial crisis could have an impact on insurers' investment activities, potentially making it more difficult for them to play that role as long-term investors in the economy. In 2011, alongside its work on the investment aspects of Solvency II (see p8), it therefore increased its focus on regulatory issues relating to investment.

Close attention to EMIR …

Over the past year Insurance Europe has closely followed the work on the future European Market Infrastructure Regulation (EMIR) for over-the-counter (OTC) derivatives, which is due to be implemented at the end of 2012. The Regulation seeks to reduce counterparty risk by obliging financial and non-financial firms to clear standardised OTC derivative contracts through a central counterparty (CCP) clearing house and to report all OTC derivatives to trade repositories.

Insurance Europe issued position papers following the publication of each draft text by the EU presidencies. In them it drew attention to the negative impact on the performance of insurance products that could result from the lack of a long-term investment perspective in the requirement for collateral to be cash or highly liquid. It pointed out the unlevel regulatory playing field that would result if only pension funds — and not all occupational pension providers — were excluded from the scope of the Regulation; and took issue with the proposal that intra-group transactions should be centrally cleared.

The federation was pleased that some of its concerns were addressed in the final text approved by the European Parliament. In April 2012 Insurance Europe responded to the joint consultation by the European insurance, banking and securities supervisory authorities on the draft regulatory technical standards on risk mitigation techniques for OTC derivatives not cleared by CCP. It set out a number of concerns, including its disagreement with the initial margins on the non-centrally cleared trades being imposed on insurance and pension-related insurance funds.

… and to rating agency proposals

The question of the appropriate regulatory framework for credit rating agencies has been discussed since the beginning of the crisis. This led to the adoption of a Regulation in December 2010, amended in May 2011 to give the European Securities and Markets Authority (ESMA) exclusive supervisory powers over rating agencies registered in the EU.

In November 2011 the European Commission proposed new amendments to the Regulation, with the objectives of creating more transparent and timely sovereign ratings; more transparency and less reliance on ratings; the greater diversity and independence of agencies; and of increasing their liability.

While Insurance Europe supports the general objectives of the Commission's proposal, it has serious doubts as to whether the measures proposed will fulfil them. Its main concern relates to the proposal to force issuers to rotate rating agencies on a regular basis. For Insurance Europe, such a mechanism is likely to lead to more uncertainty and instability in the European capital markets. Moreover, proportionate measures have to be taken to achieve the objective of less reliance on external ratings; refraining altogether from any reference to external ratings would be neither desirable nor feasible for small and medium-sized insurers. Insurance Europe is also concerned that the proposal to impose EU-wide civil liability on rating agencies could cause them to become overly conservative to an extent that would distort ratings.

Support for two more initiatives

In late 2011 the Association for Financial Markets in Europe and the European Financial Services Round Table started a project aimed at revitalising the securitisation industry in Europe by establishing "market best practice" standards. Insurance Europe intends to support this initiative. It has also been following the developments of the Commission's Europe 2020 project bonds initiative, which aims to revive and expand capital markets to finance large European infrastructure projects in the fields of transport, energy and information technology.

Systemic risk

A targeted approach is required in insurance

The banking crisis that unfolded in 2007–2008 showed that problems in an individual bank can have dramatic consequences for the financial system as a whole, requiring the intervention of public authorities. As a result, there has been a new focus, in particular at international level, on the issue of systemic risk. This is generally defined as the risk of disruption to the wider financial system and economic activity resulting from the disorderly failure of a financial institution.

Efforts have so far mainly been concentrated on mitigating systemic risk originating from banks. This reflects the fact that the business model of banks, characterised by a mismatch between assets and liabilities, by strong interconnections and by the risk of a "run", is prone to generate systemic risk. Work by the Basel Committee on Banking Supervision and the Financial Stability Board (FSB) resulted in the adoption in November 2011 of a methodology to identify global systemically important banks — a total of 29 were identified — and of additional loss absorbency requirements for those entities, mainly in the form of a capital surcharge. Guidelines have also been adopted on the intensity and effectiveness of their supervision, in order to further decrease the probability of a default, and on effective resolution regimes in order to mitigate the consequences of a failure.

In parallel, and based on guidance by the G-20 group of countries (see box below), work is underway at various levels to address potential sources of systemic risk in other sectors, including insurance. Recognising the need to close any gaps in financial services regulation, Insurance Europe has actively engaged in these discussions, notably by responding to consultations launched by the Financial Stability Board and the International Association of Insurance Supervisors (IAIS), stressing that any framework created to deal with systemic risk in insurance should be adapted to the specific characteristics of the sector.

Traditional insurance is not risky

In particular, it is important to recognise that some sources of systemic risk do not exist in insurance and that, fundamentally, traditional insurance activities are not systemically risky. The size of a company, for instance, which is generally perceived as an additional risk factor in banking, is actually a mitigating factor in insurance, due to greater risk diversification. The degree of interconnectedness is also significantly lower in insurance than in banking, as inter-company funding in insurance is extremely low. In insurance, premiums are paid upfront and entities do not face corresponding short-term funding needs. Last but not least, there can only be a "run" on an insurer if it offers bank-type products.

In a report published in November 2011, entitled "Insurance and Financial Stability", the IAIS noted that insurers' investment portfolios, which are selected largely to match the underlying long-term characteristics of insurance liabilities, were able to absorb sizeable losses during the financial crisis, and that there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the

Constructive meetings with the G-20

Insurance Europe met the French and Mexican presidencies of the G-20 group of countries in October 2011 and February 2012 respectively to share its concerns over the G-20's approach to systemic risk in insurance, which it believes is excessively based on what has been developed for the banking sector. Insurance Europe urged the G-20 to base its approach on the reality that traditional insurance activities are not systemically relevant and that in insurance there is no global regulatory framework equivalent to that which exists in the banking sector (see main text).

Insurance Europe took from these meetings that regulators worldwide are increasingly aware of the particular characteristics of the insurance sector and share the view that specific and targeted responses to any systemic risk issues are needed. Insurance Europe committed to continuing to engage in the debate around developing an appropriate set of responses for the specific non-traditional insurance activities that sometimes raise concerns, such as derivatives trading on non-insurance balance sheets or the mismanagement of short-term funding.

Reinsurance is not a source of systemic risk

Reinsurers are frequently cited by non-insurance commentators as an area of potential systemic relevance due to the fact that they can insure significant numbers of insurers and cover large, often catastrophic risks. The reality, in the view of Insurance Europe and its reinsurance advisory board, is that reinsurance activities, just like traditional insurance activities, are not prone to generate systemic risk.

Insurance Europe was pleased to note that its views are shared by the International Association of Insurance Supervisors (IAIS) which, in its "Insurance and Financial Stability" report (see main text) concluded that the failure of one reinsurer does not necessarily cascade through the market and cause the failure of other (re)insurers. The IAIS also observed that far from creating systemic concerns for financial markets, reinsurers have contributed to financial stability.

real economy. Insurance Europe shares this assessment, as well as its logical consequence that, from a systemic risk perspective, the focus should be on certain non-traditional or non-insurance activities, while stressing nonetheless that not all of these activities are necessarily systemically relevant.

Disappointing mirroring of banking

Insurance Europe regrets that despite the increasing consensus that there are fundamental differences between banking and insurance, the process followed in insurance continues to mirror what has happened for banks, with firstly the creation of a methodology to identify systemically relevant insurers and secondly the development of measures applicable to those entities. For Insurance Europe, such a focus on a list of systemic insurers does not reflect the reality of the insurance sector. Instead the focus should primarily be on identifying the potentially systemically risky activities and then on developing measures that would address those specific concerns.

In relation to the measures to address insurance-related systemic risk concerns, in Insurance Europe's opinion two key principles need to frame the development of an appropriate toolbox. Firstly, measures should carefully target activities that have been identified as systemically relevant and should be proportionate to the level of risk posed by the activity. Secondly, local regulation and supervision, as well as individual firms' internal risk management practices, should be carefully considered before a decision is made on whether additional measures are needed.

This second point is particularly important since in insurance — despite considerable progress towards greater global consistency — there is to date no international standard equivalent to the banking sector's Basel II and III international regulatory frameworks. There is therefore no globally consistent starting point to which additional measures — such as capital surcharges or enhanced supervision — can be applied.

Unnecessary layers of regulation

In view of the absence of such a global framework of supervision, Insurance Europe is concerned that the calls made by the G-20, the FSB or the IAIS for "enhanced" or "more intensive" supervision for certain systemically relevant institutions could result in unnecessary additional layers of regulation or supervision, incurring higher costs without real benefits. Insurance Europe therefore urges the world's regulators to refer to an "appropriate" or "adequate" level of local risk-based supervision. Any measure developed to address systemic risk concerns should take account of local regulation, such as the existence of specific capital requirements for the activities regarded as more risky and the intensity of supervision.

Insurance Europe's concerns regarding the development of an inappropriate approach to systemic risk are shared by the whole international insurance community. For this reason, Insurance Europe has worked with insurance associations around the world through the systemic risk working group of the International Network of Insurance Associations (INIA) to contribute to consultations by the FSB on the effective resolution of systemically important financial institutions and by the IAIS on a proposed approach to global systemically important insurers. INIA also addressed letters to the G-20 on the same issues.

Reporting requirements

Rules must be appropriate but not overly burdensome

The package of reporting requirements for the forthcoming Solvency II regulatory regime (see p8) has been under development for over two years. Insurance Europe has responded to three informal consultations — the latest consisting of 64 templates and three consultation papers — on the format and content of the reports and has argued that the level of reporting required should be appropriate and not unduly burdensome or costly for Europe's insurers.

In the past 12 months there have been significant developments in terms of the content of the quantitative reporting templates (QRTs) themselves; of the add-on templates that will be incorporated into the QRT package addressing indicators and the accelerated QRT sub-sets to monitor overall financial stability; and of the qualitative reports for both supervisors and public disclosure. EIOPA (the European Insurance and Occupational Pensions Authority) aims to finalise the overall package by June 2012.

Progress on format and content

Insurance Europe has regularly raised the importance of presenting quarterly reports in a simplified format and also of allowing the use of approximated data or simplified calculations. For example, to calculate estimates of policyholder liabilities, which constitute more than 80% of a (re)insurer's balance sheet, undertakings have to run cash-flow models that in many cases would involve considering thousands of scenarios/stochastic models. Such models and projections take time to perform, validate and present in a report. To fulfil quantitative, pillar 1 requirements, full calculations are required once a year, so anything more frequent would be for reporting only and would serve no other purpose for the undertaking.

Outstanding concerns include the revised templates on own funds, which the industry believes to be overly detailed, and the deadlines for reporting financial stability information, which would see (re)insurance groups reporting the information to the same deadlines as solo undertakings. Insurance Europe has raised significant concerns over the latter issue, since requiring data on an accelerated basis would have a negative impact on the quality of the data and would introduce duplicate reporting requirements.

Insurance Europe has also expressed strong concerns about the need to report a quarterly solvency capital requirement (SCR). This goes beyond the requirements of the original Solvency II Framework Directive, which appropriately foresees the recalculation of the SCR if the risk profile of a (re)insurance undertaking deviates significantly from the assumptions underlying its last reported SCR.

As a general principle, Insurance Europe maintains that templates that are disclosed to the public should not contain data that are commercially sensitive. In this regard it has some outstanding concerns over the template that details risk concentration.

Issues over third-party information

In order to assess the application of the prudent person principle, which gives (re)insurers full flexibility over their investment policies and decisions provided it is done prudently, EIOPA is suggesting that (re)insurance undertakings are required to report very detailed information on their asset holdings and related information and also to apply a "look-through" into their underlying portfolio investments.

Rating agencies and other data disseminators charge additional fees if information is passed on to third parties such as supervisors, so this requirement would create significant costs for the insurance industry. Insurance Europe firmly believes that undertakings should not incur direct financial charges as a result of reporting information required for supervisory purposes. Supervisors should either ensure that no charge is applied for passing on such information to supervisors or they should obtain the data from their own shared data sources.

Reporting a "look-through" of asset portfolios would also require all third parties in the data chain to report to the (re)insurer in advance of the supervisory reporting deadlines. To collate this information from the many third parties could take weeks or even months. Insurance Europe is continuing to investigate whether it is indeed possible to obtain this information within the Solvency II reporting deadlines and the potential costs.

No retrospective requirements

Insurance Europe is concerned that during the finalisation of

the Omnibus II Directive (see p8) no requirement should be introduced that would result in Solvency II reporting starting before the actual entry into force of the Framework Directive, which is currently expected in 2014. The current Parliament proposals suggest that undertakings with a financial year ending after 1 July 2013 and before 31 December 2013 would have to begin full annual Solvency II supervisory reporting during 2013. Insurance Europe disagrees with this, as it would result in some undertakings being subject to full Solvency II requirements before the regime has entered into force.

Insurance Europe also has concerns with EIOPA's proposals to use a development-year period of 15 years for reporting claims information for non-life (re)insurance. These requirements do not correspond to how claims are recorded and would be particularly inappropriate for short-tail business, where shorter periods are used. For example, three to four years would be more common for motor insurance and five to eight for property insurance.

In addition to considering the content of the quantitative and qualitative reporting, EIOPA announced early in 2012 that it will adopt a new eXtensible Business Reporting Language (XBRL) format for exchanging reports between supervisors. While this is essentially an internal requirement, EIOPA indicated it expects larger undertakings to move towards XBRL reporting on or after the entry into force of Solvency II. It intends to promote the use of XBRL by requiring national supervisors to "comply or explain" the decisions they take on reporting formats in the Solvency II Level 3 supervisory guidance. EIOPA aims to consult on a draft taxonomy for XBRL by the fourth quarter of 2012.

Reporting for financial stability purposes

One of the generally accepted lessons from the financial crisis is that there has not been enough attention paid in the recent past to the macro-economic aspects of financial stability. In the EU this has led to the decision to set up a new architecture of financial supervision, which included the December 2010 creation of the European Systemic Risk Board (ESRB), an entity focussing on the macro-prudential oversight of the financial system. Insurance Europe has consistently expressed its support for a supervisory approach that gives more consideration to macro-prudential issues.

As a result of this enhanced focus on macro-prudential oversight, Europe's financial institutions are expected to report not only data for the assessment of their individual situation, but also data that contribute to the assessment of the stability of Europe's financial system as a whole.

At the end of 2011 EIOPA (the European Insurance and Occupational Pensions Authority) launched a consultation on "financial stability" templates, but other bodies are also expected to show an interest in gathering new, additional data from the insurance sector. Europe's insurance companies are willing to play their part in this process and to contribute with useful data. However, it is important that the bodies involved in the data gathering avoid multiple reporting lines and requests.

In addition, when defining data requirements for financial stability purposes it is important to take account of the fundamental differences between the business models of the different financial institutions, and in particular between banks and insurance companies. Likewise, imposing the frequency of bank reporting on insurance companies would lead to inappropriate and in some cases misleading results.

As explained in the main article, estimating policyholder liabilities — the vast majority of a (re)insurer's balance sheet — can require the running of thousands of scenarios/stochastic models. Many of the quarterly data items provided at a less granular level are therefore based on estimations and approximations, with full calculations being necessary once a year. This is in sharp contrast to banks, which do not make use of such models and can therefore compile their balance sheet more easily, based on a summation of their loans and deposits at the reporting date.

Insurance Europe will continue to respond to EIOPA consultation requests as it fine-tunes its reporting requirements to emphasise that Solvency II reporting is fit for purpose and does not place an excessive implementation burden on the industry.

Minimising divergence

Insurance Europe is also continuing to cross-check Solvency II against the international financial reporting standards (IFRS) being developed by the International Accounting Standards Board (IASB), both in terms of methodology and practical application. It is important for the efficiency and competitiveness of the European insurance industry that compliance costs are minimised by limiting divergence where possible.

There are two key IASB projects for insurers: work on an IFRS for insurance contracts and the replacement of the standard that determines how to account for financial instruments. In a joint effort with the US-based Financial Accounting Standards Boards (FASB), the IASB was expected to have final standards for insurance contracts (IFRS 4 Phase II) and for financial instruments (IFRS 9) by the end of 2011. Disappointingly, delays have occurred to both projects. Whereas the timeline for IFRS 4 is somewhat contingent on whether it re-exposes or publishes a review draft (since the former would take much longer), IFRS 9 will be effective as of 1 January 2015, with early application permitted.

In November 2011 Insurance Europe responded to the IASB's three-yearly consultation on its post-2011 agenda, stressing that IFRS 4 Phase II and IFRS 9 should be given the highest priority. It is also imperative that both IFRS 4 and 9 become mandatory at the same time, otherwise insurers would be required to undergo two separate and significant conversion exercises within a short period. Once these important projects have been completed, Insurance Europe urges the IASB to perform post-implementation reviews.

Urgent need for a global standard

The European insurance industry is in urgent need of a high quality standard for insurance contracts within a reasonable timeframe. The current, interim, standard requires companies to account for insurance contracts as they do under national accounting

Concern over audit regulation proposals

The proposal by the European Commission in November 2011 for an Audit Regulation and Directive goes beyond simply reshaping the audit market and also has an impact on the insurance industry. The proposals have been subject to much criticism and the vote in the European Parliament has been delayed until January 2013.

Insurance Europe welcomes the harmonisation of auditing standards across Europe, which would not only enhance transparency but would also facilitate the mobility of audit professionals. However, the EC proposals also contain elements of concern for the European insurance industry, such as mandatory auditor rotation, changes to the roles of audit committees and boards, and an extension of the current prohibition on providing non-audit services and limitations to related financial services.

Insurance Europe opposes the mandatory rotation of auditors because it believes that audit committees should be free to choose the most appropriate auditor. Changing auditors is time-consuming and costly, without any guarantee of improved audit quality, and the costs would ultimately be passed on to consumers.

Likewise it believes that sufficient requirements and professional practices exist to ensure auditor independence and prevent conflicts of interest when providing non-audit services. Equally, prohibiting the provision of non-financial services alongside audit engagements could lead to a loss of acquired knowledge that would be particularly harmful for insurers, which have inherently complex internal structures.

Insurance Europe is currently developing a position paper on the proposed legislative changes to highlight that their benefits are clearly outweighed by their costs.

rules, so insurers' financial statements are not comparable. IFRS 4 Phase II aims to remove such discrepancies and make insurers' financial statements easier for users to understand.

While positive progress has been made on the joint project by the IASB and FASB, the discussions proved too difficult for the initial timetable to be met, with divergence on topics such as the measurement model, acquisition costs, residual margin and the premium allocation approach.

In January 2012 Insurance Europe wrote to the IASB urging the continued prioritisation of the insurance project and calling for a high quality insurance standard at the earliest date possible, without compromises for the sake of convergence. Insurance Europe has sought to liaise with other industry bodies, such as the CFO Forum, to coordinate positions and ensure that the European insurance industry speaks with one voice.

There is no target date yet for finalising the insurance standard. Pending a decision later in 2012 on whether there will be a review draft or a reviewed exposure draft, it is likely that no final standard will be defined before the end of 2013.

Another reason for the uncertainty relates to the US Securities and Exchange Commission (SEC), which had been due to decide in 2011 whether US Generally Accepted Accounting Principles (US GAAP) should converge with IFRS. This decision is still pending.

Volatility concerns discussed

A key issue identified in the exposure draft of the insurance contract project was that of volatility in the profit and loss account. If those IASB proposals were to be adopted, they would severely harm the European industry, as they would reflect high volatility in earnings, increasing insurers' cost of capital.

Insurance Europe continues to stress the long-term nature of insurance business and the interaction between its assets and liabilities. Short-term market movements that are not representative of long-term performance should not be presented as key performance indicators.

The IASB and FASB have continued to address the industry's concerns by developing solutions to volatility on residual margin, the discount rate, unbundling and the mirroring approach for participating contracts. More important, however, is the re-opening of IFRS 9, in which a third business model might be discussed and developed. This is most likely to present a solution using the other comprehensive income (OCI) line of the balance sheet to address volatility concerns.

Insurance Europe advocates an OCI solution under which changes to valuations resulting from short-term changes in interest rates would go through OCI. This would remove the short-term volatility of asset and liability values from net income, so that an insurer's income statement would appropriately represent long-term business performance. Insurance Europe would like to tackle volatility with as many tools as possible. OCI should be optional and applicable where appropriate.

Two more IASB topics

In December 2011 Insurance Europe responded to an IASB exposure draft on amendments to the rules relating to government loans under IFRS 1. European insurers support proposals that would require first-time adopters to measure any government loans taken out on or after the date of transition to IFRS with a below-market interest rate at fair value prospectively instead of retrospectively.

In January 2012 Insurance Europe and the CFO Forum submitted joint comments on another IASB exposure draft, this time on the consolidation of investment entities, which does not currently reflect insurers' investment activities and on which additional criteria need to be developed.

Insurers wish to see the inclusion of an option to permit investment-entity accounting to be rolled up into parent entities, and for the requirement in relation to the fair-value measurement of investment property to be clarified. The joint submission raised concerns about the detailed nature of the disclosure requirements and asked the IASB to consider delaying the implementation dates for certain international financial reporting standards (10-12, 27 and 28) until the investment entities project has been completed.

IAIS ComFrame

A new supervisory framework for groups

Insurance Europe has closely followed the work of the International Association of Insurance Supervisors (IAIS) to develop a common framework (ComFrame) for the supervision of internationally active insurance groups as the three-year project entered its critical second year.

Insurance Europe believes that ComFrame should focus on outlining high level principles for group supervision and on the coordination and recognition of existing regimes rather than imposing another layer of supervision on international groups.

Alongside the work examining potential systemic risk in the insurance sector, ComFrame has dominated the IAIS agenda and looks set to do so throughout 2012/2013 and potentially beyond.

Key questions remain

Despite the substantial amount of time and resources invested in the project, however, many key questions remain unanswered. Is the ComFrame intended to address gaps in global group supervision, for example, or is its aim to achieve greater consistency in the supervision of the individual entities that make up an internationally active insurance group? How will the IAIS ensure that ComFrame is consistently enforced once it is completed? Without a clear answer to these and other questions, it is hard to judge the likely success of the project and, critically, its ultimate impact on the insurance industry.

The ComFrame project's progress during 2011/2012 has also been challenged by trying to resolve differences in regulatory approaches between jurisdictions. Is it acceptable for there to be more than one group supervisor? Should ComFrame include a strong quantitative global capital standard? It seems some form of compromise has been reached on at least the former question. It is now generally agreed that more than one group supervisor should be allowed in exceptional circumstances, although the so-called "seamless cooperation" between supervisors needs to be clarified. In contrast, the outcome of the discussions on group capital remains uncertain.

Insurance Europe has provided both formal and informal feedback on the development of ComFrame. In its detailed written comments on the draft Concept Paper in mid-2011, it expressed support for the project's objectives of accelerating regulatory convergence and establishing a strong basis for better international cooperation.

Nevertheless, it highlighted a number of concerns with the direction of the project. Among these are the level of prescription in the current draft; the inclusion of elements emanating from the discussions on systemic risk; and the potential creation of a two-tier regulatory structure that would result in a small number of internationally active groups being subject to more intensive supervisory practices. Insurance Europe also provided verbal comments at the October 2011 and February and May 2012 ComFrame Dialogue sessions.

Although the formal consultations and dialogue sessions provide a useful opportunity to address some of the strategic questions surrounding ComFrame's development, the real detail is being developed by the various IAIS subcommittees, which Insurance Europe therefore also attended.

A busy few months

In principle, Insurance Europe welcomed the restructuring of the ComFrame paper in April 2011, believing it helped to provide important clarity on which provisions in the paper apply to supervisors and which are applicable to internationally active insurance groups. That said, the period building up to the two-month public consultation at the beginning of July 2012 on the second draft of the concept paper will be key in shaping the document, since all issues remain on the table.

To respond to the volume of member and observer consultations throughout May and June looked set to be challenging, with two ComFrame Dialogue sessions and meetings of all the key IAIS subcommittees scheduled to take place.

International coordination

Insurance Europe has complemented its own activities by supporting submissions by the International Network of Insurance Associations (INIA). This has not only helped Insurance Europe to identify commonalities in industry positions at international level but has also given it a better appreciation of areas where opinions diverge, thus making it easier to work towards possible compromises or further develop its own position. That said, the position of the international industry seems to be increasingly well aligned.

Market access

Problems and progress on the path to a global insurance market

Over the course of 2011/2012 issues relating to access to insurance markets and free trade have continued to climb Insurance Europe's international agenda, with the federation bringing the industry's key concerns to the attention of a variety of bodies including governments, national supervisors, the International Association of Insurance Supervisors (IAIS) and the European Commission. However, international trade issues are complex, with regulatory change in certain countries heavily driven by the domestic political agenda. Despite persuasive arguments being put forward as part of a well-coordinated international effort, changes are thus often not forthcoming.

Retrograde steps in South America

The reinsurance restrictions that were introduced in Brazil in March 2012 and Argentina in September 2011 are good examples of this. In both cases, new resolutions were enacted with no public consultation and with limited opportunity for input from interested parties. The new resolutions in Brazil reverse a number of years of positive progress, following the opening of the Brazilian market to foreign reinsurers back in 2007. Now foreign reinsurers are prevented from transferring more than 20% of the insurance premium on each coverage to related companies located outside Brazil and must place 40% of each cession with "local reinsurers". With Brazil due to host the World Cup in 2014 and the summer Olympics in 2016, the ability to obtain competitively priced, well diversified and financially robust (re)insurance coverage for the events looks set to be challenging.

In Argentina, foreign reinsurers registered with the Argentinian Superintendent of Insurance (SSN) are now only allowed to underwrite the portion of a risk over $50m, otherwise they must become a "local reinsurer" and set up a fully capitalised Argentinian branch. This contrasts with the previous situation whereby foreign reinsurers were free to underwrite risks on a cross-border basis if they registered with the SSN or via locally registered brokers. These changes place Argentina directly in breach of World Trade Organization General Agreement on Trade in Services (GATS) commitments, under which Argentina is fully committed to maintaining an open market for reinsurance. In addition, limitations now apply to the transfer of premium to companies abroad that belong to the same group.

In drawing attention to these negative developments and seeking to change them, Insurance Europe has maintained close contact with the European Commission as it engaged in the EU-Mercosur trade negotiations, highlighting the industry's concerns and the dangerous precedent these changes might set. The Commission wrote to both the Argentinian and Brazilian authorities back in June 2011 and also listed the reinsurance restrictions in Argentina as one of the key priorities in its 2012 "Trade and Investment Barriers Report".

Insurance Europe itself wrote both independently and as part of an international coalition to the Brazilian authorities in January and March 2011 and to the Argentinian authorities in April and May 2011. However, despite this co-ordinated international initiative, only small amendments were made to the original regulations, and foreign reinsurers remain subject to severe market access restrictions when writing business.

Positive developments in China and Russia

The European Commission has raised insurance market issues in both the EU's trade negotiations and regulatory dialogues with third countries. We are pleased to note positive market developments in both Russia and China which should improve the opportunities available to European insurers doing business in those markets.

With respect to China, Insurance Europe welcomes the decision by the Chinese authorities to open up the mandatory third party liability market for motor vehicles to foreign companies and hopes to see this speedily implemented.

With respect to Russia, Insurance Europe appreciates the agreement by the Russian authorities to raise the limit on the investment charter capital quota for foreign insurers from 25% to 50%. With the quota filled to 24.5%, the supervisory authority had been refusing to approve new applications, thus severely limiting development opportunities for foreign insurers in the Russian market.

Market access restrictions are certainly not unique to developing insurance markets. Reform of the collateral requirements in the US, whereby foreign reinsurers are required to maintain collateral in the US in order for US cedents to be able to receive credit for their reinsurance, remains a priority for Insurance Europe. It is pleased to note that this is one of the technical workstreams established under the EU-US workplan agreed at the beginning of 2011 between the EU (the Commission and the European Insurance and Occupational Pensions Authority) and the US (the Federal Insurance Office, National Association of Insurance Commissioners and state commissioners) to gain a better mutual understanding of insurance regulation and ultimately to seek a path to regulatory convergence.

Insurance Europe has also been following the Comprehensive Economic Trade Agreement negotiations between Europe and Canada, which are expected to be finalised later in 2012, and has been seeking to ensure that the European insurance industry's priorities are given appropriate consideration when the final agreement is reached.

Call for guidance from the IAIS

Insurance Europe has not only focused on market access issues in individual jurisdictions but it has also brought the negative implications of countries maintaining barriers to trade to the attention of the IAIS. In August 2011, Insurance Europe presented the market access barriers in place around the world to the IAIS reinsurance transparency group and encouraged the IAIS to further its work in promoting open markets.

More recently, in March 2012, Insurance Europe, the Association of Bermuda Insurers and Reinsurers and the Reinsurance Association of America wrote to the IAIS to highlight the negative effects on financial stability of market access restrictions and to call on the IAIS to review its standards, guidance and principles to better promote the maintenance of open markets.

As shown above, one very welcome development in Insurance Europe's work on trade in 2012 has been its significantly increased interaction with other international insurance bodies, in particular through the International Network of Insurance Associations (INIA). Through national/regional associations' relationships with local policymakers it has been possible to deliver a consistent message in a co-ordinated manner to the most influential people in the regions concerned. The INIA trade group only commenced work in early 2012 but will be an increasingly key element in Insurance Europe's work on market access issues in the future.

India: efforts to raise the investment cap

A potential raising of the cap on foreign direct investment in Indian insurance companies from 26% to 49% has been discussed for many years and remained high on Insurance Europe's trade agenda throughout 2011/2012.

The European Commission has raised the issue of the cap with the Indian government in the course of the ongoing EU-India Free Trade Agreement negotiations and has said that increasing the cap remains one of its main priorities in the trade negotiations.

Insurance Europe has been working with its international counterparts in the International Network of Insurance Associations (INIA), sending letters to the Indian Government in November 2011 and again in May 2012 that set out the benefits to Indian consumers of greater foreign involvement in the country's insurance market and, in the more recent letter, rebutting the objections raised in the report of the influential Indian Parliament Standing Committee on Finance that was published in December 2011, which disagreed with raising the cap.

Despite the concerted international pressure, domestic opposition to reform remains strong and the outlook for success remains uncertain, with strong domestic opposition to reform potentially resulting in the cap being carved out of India's Insurance Amendment Act. If this does occur, and the Act is passed by the Indian Parliament, it will be a missed opportunity for the international insurance industry, which has long campaigned for the opening of the Indian insurance market.

Consumer information & distribution

Protecting consumers while respecting diversity

Insurance products are sold in different ways in different markets in Europe. This diversity in distribution channels benefits consumers, as it stimulates competition between product providers and intermediaries on the price and quality of products and services and ensures that the channels are adapted to the cultures, needs and preferences of consumers in individual markets.

Insurance Europe supports a high level of protection for all consumers purchasing insurance products — regardless of which of these channels they are sold through — and it believes that the best way to protect consumers is for legislation to be flexible enough to accommodate the diversity in the markets of the EU.

Over the last year, Insurance Europe has been involved in a number of initiatives relating to the information provided to insurance customers and the way in which insurance products are sold.

In the EU, the European Commission is carrying out a review of the Insurance Mediation Directive (IMD) and EIOPA (the European Insurance and Occupational Pensions Authority) is defining its approach to disclosures and selling arrangements for insurance contracts with an investment element.

At international level, the Organisation for Economic Co-operation and Development (OECD) has drafted high-level principles on financial consumer protection following a call from the G-20 group of countries, while the Joint Forum of insurance, banking and securities supervisors is investigating whether further alignment of the sectors' regulatory approaches to point of sale disclosure between products competing with collective investment schemes is required.

IMD under the microscope

Following its response to the EC consultation on the review of the IMD in early 2011, Insurance Europe reiterated its key messages on distribution to PricewaterhouseCoopers (PwC), the company carrying out a study of the impact of the IMD review for the Commission. The PwC study was published in November 2011. Its findings support the extension of information requirements in the IMD to direct writers and, in line with Insurance Europe's position, it proposes mandatory disclosure of the nature and source of remuneration, which the study concludes would also be sufficient to address conflict of interest concerns.

The PwC study is independent and separate from the EC's own impact assessment and Insurance Europe also responded to the questionnaire in preparation for that assessment, which sought to analyse the anticipated costs and benefits associated with the review. Insurance Europe's response was based on its own statistics and additional input from national markets.

A letter to the EU Commissioner

In March 2012 Insurance Europe wrote to the European Commissioner for the Internal Market and Services, Michel Barnier, to restate its views on the review of the IMD ahead of the Commission's proposal for a revised Directive.

It stressed the importance of accommodating the current diversity in insurance distribution and that the revised IMD should be proportionate and take the form of high-level principles. It proposed its own six high-level principles on selling practices for all insurance contracts, which it believes would ensure an appropriate level of consumer protection regardless of the distribution channel. These principles (see box on p26) cover issues such as the fair treatment of the customer, advice and analysis of customer needs.

Furthermore, Insurance Europe stressed that any read-across from rules that apply to intermediaries to cover direct selling should be considered carefully and it highlighted the differences between the various distributions channels.

Insurance intermediation and direct selling are two very different sales models that require different consumer protection measures, particularly in relation to conflicts of interest and transparency of remuneration as the risks of conflict of interest vary.

Insurance Europe believes that the Commission should consider very carefully whether extending the scope of the Directive to direct sales would provide any real benefit for consumers. The information requirements under the forthcoming Solvency II regulatory regime (see p8) already apply to direct sales, so the duplication of requirements is also a consideration.

Insurance Europe believes that similar principles with regard to the level playing field between distribution channels should apply to all insurance products and be modulated according to the demands and needs of the customer, the complexity of the product, the level of risk to the customer and the distribution channel. Such an outcome-oriented approach provides the same level of protection to all consumers, while recognising the need to adapt to the type of distribution channel concerned.

Insurance Europe supports transparency that enables consumers to make informed decisions and compare products and distribution channels. This issue also needs to be addressed in light of the variety of distribution channels and market structures. EU member states should not be hindered from adopting their own national solutions based on principles appropriate to their market.

Addressing conflicts of interest

With regard to conflicts of interest, Insurance Europe argued that provisions in the current IMD provide a good starting point to mitigate potential conflicts. Conflicts of interest can be addressed by mandatory disclosure by distributors, including direct sellers, of their relationship with the consumer and the insurance company. This is the so-called "business card solution", whereby a customer receives relevant information at the first meeting, including the name of the insurance undertaking for which the intermediary works and whether their remuneration is commission or fee-based.

If further steps are nevertheless considered desirable at EU level, Insurance Europe proposes that an appropriate solution — as part of a minimum harmonisation approach — would be to encourage mandatory, automatic transparency for intermediaries as to the form (fee/commission) and the source of the remuneration (insurance undertaking/policyholder), regardless of the type of insurance product. This would maintain a level playing field while remaining compatible with the variety of distribution channels, and would be in line with the findings of the PwC study on remuneration disclosure and conflicts of interest.

Consultation on variable annuities

EIOPA carried out a consultation on its draft report on good practices for disclosure and selling of variable annuities at the end of 2011.

In its response to the consultation, Insurance Europe raised concerns about the scope and timing of the EIOPA report, given the ongoing work by the EC on a selling and disclosure regime

Insurance Europe's high-level principles on selling practices

Insurance Europe proposes that the revised EU Insurance Mediation Directive should contain a set of six high-level principles on selling practices for all insurance products and all distribution channels:

1. Selling practices must be focused on the fair treatment of the customer.

2. A distributor has to offer advice on request or on own initiative when the circumstances indicate there is a need, as a result of the information provided by the customer.

3. A customer should always be informed about the type of the service provided (non-advised sale, advice, fair analysis).

4. Where advice is given, it should be based on an analysis of the customer's needs, on the basis of information provided by the customer.

5. Any distributor providing information or advice on an insurance product must understand and be able to explain the key features of the product.

6. Before a contract is concluded, the customer should be given the information about the insurance product that allows the customer to make an informed decision.

for packaged retail investment products (PRIPs), and questioned the report's broad definition of variable annuities.

It expressed concern about the extent to which the report confuses the issue of the complexity of variable annuities with the level of risk to the consumer, and took a critical stance towards any proposal requiring the sale of all variable annuities to be on an advised basis only. Such a requirement may impede consumer choice, as consumers do not always need or request advice, particularly where the risk is low. The consumer should always be free to seek advice but that advice should not be imposed when specifically declined.

Insurance Europe also warned against introducing prescriptive and burdensome information disclosure requirements that go against the objective of streamlining pre-contractual information so that consumers can make an informed choice.

EIOPA's final report was published in April 2012. In response to concerns raised by Insurance Europe, EIOPA provided further clarity on the report's legal status — its purpose is limited to analysing good practices rather than setting out guidelines or recommendations — and also recognised that consumers in different European countries may have different preferences for the types of product disclosures they receive, referring to its proposal for frequently asked questions (FAQs) as just one way of addressing consumer information needs. However, EIOPA maintains its view that it is good practice for variable annuities to be sold exclusively on an advised basis.

High-level OECD principles

Meanwhile, at international level, the OECD's voluntary common principles on consumer protection in financial services relate to the fair treatment of consumers, disclosure and transparency, financial education and awareness, conduct of business, consumer data and privacy protection, complaints-handling and competition.

Insurance Europe submitted a response to the consultation on the OECD draft high-level principles in August 2011. It also co-signed a similar submission by the International Network of Insurance Associations (INIA).

In line with established Insurance Europe positions, the OECD principles consider the need for financial consumer regulation to reflect national differences, to be proportionate and to take account of the relevant services and sector-specific approaches. Insurance Europe, however, raised concerns that the vocabulary that they use sometimes has a strong banking/investment bias that does not suit insurance. The final principles, which are in line with many of Insurance Europe's positions, were endorsed by the finance ministers and central bank governors of the G-20 countries in October 2011.

International supervisors' standards

Insurance Europe has also paid close attention to the work of the International Association of Insurance Supervisors (IAIS) and of the Joint Forum on distribution and consumer information issues.

In April 2012 it participated in a hearing organised by the Joint Forum and outlined its views on the Forum's work on cross-sectoral standards for point of sale disclosure. The work seeks to identify and assess differences and gaps in regulatory approaches to point of sale disclosure for products competing with collective investment schemes, and to determine whether regulation in the different financial sectors needs to be further aligned.

During the hearing, Insurance Europe questioned the timing of this exercise in light of the current EU work on PRIPs. It stressed that any disclosure format and content should provide for sufficient flexibility to allow innovation and the adaptation of information to local consumer needs, expectations and levels of financial understanding, as well as to local laws and products. It also pointed to specific pre-contractual information requirements that already exist for insurance under Solvency II at EU level, as well as stressing the need for any attempt to standardise information to reflect the particular characteristics of insurance products that distinguish them from other products, such as biometric risk coverage, the duration of insurance contracts and the consequences of early termination of a contract.

The Joint Forum working group is planning to issue an interim report in June 2012, followed by a final report on the outcome of its work by the end of the year. A public consultation is expected to be held on the draft final report in late 2012, to which Insurance Europe intends to respond.

Taxation

Both EU and US issues concern Europe's insurers

A significant number of taxation initiatives on both sides of the Atlantic continue to have implications for Europe's insurers. In the EU, despite the lack of international appetite for a tax on financial transactions, the European Commission has issued a proposal for such a tax, while the suggested amendments to the EU directives on savings taxation and VAT have yet to be finalised. In the US, two problematic taxation areas are the perennial proposal to change the tax treatment of affiliated reinsurance and the onerous Foreign Account Tax Compliance Act.

Insurers oppose financial transaction tax

The EC issued a proposal for a financial transaction tax (FTT) in September 2011. The tax would be levied on all transactions on financial instruments between financial institutions when at least one party is located in the EU. The EC proposal considers (re)insurance companies to be financial institutions, but excludes the conclusion of insurance contracts.

In its January 2012 position paper on the EC proposal, Insurance Europe opposed the tax. As proposed, it would be highly unlikely to achieve the Commission's objectives. Firstly, given the insurance business model, reducing the harmful effects of excessive risk-taking would not be achieved by a transaction tax targeting the insurance sector. The core business of insurers — risk transfer and asset management — does not cause problems such as those that materialised during the financial crisis, but rather contributes to stabilising markets. Furthermore, Insurance Europe remains convinced that appropriate regulation and efficient supervision are the best ways to ensure financial stability. The insurance sector already has both with the forthcoming Solvency II regime (see p8).

It is inappropriate to introduce an additional tax on a sector that was not the source of the crisis or the main recipient of subsequent government funds. Insurance companies are already subject to national insurance premium taxes and to non-deductible input VAT, so are not under-taxed. In the absence of the required consensus in the EU Council on an EU-wide FTT, the possibility of introducing one within the eurozone is also being explored.

Onerous FATCA requirements

The Foreign Account Tax Compliance Act (FATCA) passed by the US Congress in March 2010 poses a significant problem for European insurance companies. It seeks to ensure that the US tax authorities obtain information on US residents' investments in foreign financial institutions but its provisions are not well targeted or proportionate. It comes into effect in January 2013.

US affiliated reinsurance tax issue rolls on

Long-running attempts in the US to change the rules covering affiliated reinsurance tax continue to create concerns for European (re)insurers, since the proposed changes would impose tax on reinsurance ceded by non-US companies to their offshore affiliates.

The proposal was revived in bills introduced into the US House of Representatives and Senate in October 2011. Their objectives are similar to legislation proposed in 2009 and proposals in the administration's 2011 and 2012 budgets.

Following the introduction of the latest bills, Insurance Europe co-signed a letter to the US Congress from the Coalition for Competitive Insurance Rates. It set out the well-established arguments that the proposals violate US World Trade Organization commitments; would lead to higher insurance prices for US businesses and consumers; and would distort competition in the US market, since US-based companies reinsuring domestically would not be subject to the same tax and since EU entities already pay substantial tax in their home states.

The proposal also reappeared in President Obama's 2013 budget proposal of February 2012 and once again Insurance Europe wrote to both the House of Representatives and the Senate opposing it, while at the same time highlighting its concerns to the European Commission. The proposal could become law in 2012 either as a revenue-raising amendment to a tax or spending bill or as part of corporate tax reform.

Insurance Europe recognises the legitimate desire of the US regulator to tackle tax evasion. However, legislation needs to be in line with EU data protection laws and should not impose an undue burden on non-US insurers. European life insurance companies present a low risk of US tax evasion due to the nature of life products and to the small number of US residents in Europe. Insurance Europe has liaised with the EC and with other insurance trade associations on this issue and argued during the consultation leading to FATCA's adoption that existing insurance contracts should be excluded from its scope, with the exception of certain products exclusively for high-net-worth individuals. It also argued that contracts that are highly unlikely to be used for tax evasion, such as no-cash-value insurance contracts and pension/retirement plans, should be excluded.

In February 2012 the US Treasury and Internal Revenue Service (IRS) consulted on draft regulations under which FATCA will apply to all new life insurance and annuity contracts and to existing ones with a cash value of $250 000 or more. They recognise that contracts without cash value and pension/retirement plans do not present a risk of tax evasion.

Alongside the draft regulations, the US Treasury/IRS and five EU states (France, Germany, Italy, Spain and the UK) issued a joint statement on an alternative implementation approach, the key aspect of which is to replace reporting to the IRS by reporting to the local tax authority and to have a reciprocal exchange of information based on existing bilateral tax agreements.

Insurance Europe responded to the consultation, highlighting that the draft regulations should better address certain insurance-specific issues and calling for all pensions, retirement products and annuities to be excluded. It also asked that FATCA reporting requirements be tailored to the sector. The final regulations are due to be published in mid-2012.

Little progress on VAT

Under the EU VAT Directive, insurance services are generally exempt from value added tax (VAT). The EC launched a proposal in 2007 that comprised three types of measures: the redefinition of the scope of exempt services; the introduction of the possibility for banks and insurers to opt to tax their services; and the introduction of cost-sharing arrangements.

Insurance Europe's main concern here has been to ensure that the exemption covers the key functions of an insurance contract. Letters it sent to the EU Economic and Financial Affairs Council in July, September and October 2011 argued in favour of the explicit exemption of the transfer and management of (re)insurance contracts and for a broad definition of the outsourcing exemption including specific and essential insurance activities, such as claims-handling.

The scope of exempt services was the focus of work under the Polish EU Presidency in the second half of 2011, although no further work was done under the subsequent Danish Presidency.

Debate stalled on savings tax

The EU Economic and Financial Affairs Council has not been able to reach agreement on an amended draft of the 2008 proposal to amend the Directive on Savings Taxation, which governs the taxation of cross-border interest payments.

Insurance Europe has repeatedly expressed its opposition to the draft, arguing against its proposed extension to benefits from certain life insurance contracts on the grounds of the disproportionate administrative costs given the low level of cross-border sales and of the need to preserve a level regulatory playing field between EU and non-EU financial institutions. The most recent Council text, of November 2009, includes life insurance contracts, which would oblige insurers to provide information on the revenues of the products to their tax authorities.

The political negotiations have been stalled primarily by countries refusing to agree to a text without having in place a similar agreement with non-EU countries such as Switzerland. The Danish EU Presidency was aiming to grant the European Commission a mandate to open negotiations with non-EU countries before its tenure ends in June 2012.

Anti-money laundering actions

Welcome for an approach that suits low insurance risk

Insurance Europe supports global and European efforts to combat money laundering and the financing of terrorism. It has therefore contributed over the last year to a review of the Recommendations of the Financial Action Task Force (FATF).

The FATF is an independent intergovernmental body that sets out a framework of criminal justice and regulatory measures that countries should implement, and the international cooperation and preventive measures that financial institutions and others should take. Its Recommendations are endorsed by more than 180 countries and jurisdictions.

Insurance Europe generally welcomes the revised FATF Recommendations that were published in February 2012. They are more practical than the previous ones in a number of areas and more readable. This positive outcome can be attributed to the fact that the FATF ran the revision process in a very open way, with the direct involvement of interested parties through consultations and open hearings. Insurance Europe contributed to the review process directly and co-signed joint industry messages delivered by the International Network of Insurance Associations (INIA).

Risk-based approach is best

A key feature of the revised Recommendations relates to its risk-based approach, meaning that the measures that are applied should reflect the level of risk that has been identified. The FATF decided to increase the importance of this principle by applying it directly in its Recommendations rather than only as guidance.

Insurance Europe had consistently argued that this is especially important for insurers, since insurance products are at only a very limited risk of being used for money laundering. Indeed, many products could never be used for such purposes. The risk-based approach should lead to better, more targeted use of the resources available to fight money laundering.

Furthermore, Insurance Europe welcomes the clear recognition that some terms have a different meaning in life insurance than, for example, in banking, and that the requirements placed on the sector should be different.

Beneficiary issue addressed

The FATF's proposed measures relating to due diligence on beneficiaries acknowledge that the timing of the identification and verification of beneficiaries is important, since they can change over the lifetime of a policy. The FATF has included a statement for the life insurance sector in its Recommendations, highlighting that verification of the beneficiary should only be dealt with at the time of pay-out.

The FATF international standard now needs to be implemented by countries throughout the world, with the measures adapted to countries' particular circumstances.

Bringing the EU into line

In parallel with the international process, the European Commission has been undertaking a review of the European framework. This review has comprised an external study of the application of the third Anti-Money Laundering Directive and extensive consultations with representatives of EU member states' regulatory and supervisory authorities and other interested parties.

In April 2012 the Commission published an implementation report that is subject to a public consultation. The Commission's aim is to transpose the new international standards as quickly as possible and to ensure that the European approach responds appropriately to evolving threats of money laundering and terrorist financing. In addition, the Commission is keen to have clear and proportionate rules promoting the single market without overburdening market participants.

Greater harmonisation

In Insurance Europe's opinion, the review of the Directive should lead to increased harmonisation of EU anti-money laundering measures. This would improve the functioning of the EU single market, avoiding cases of unlevel regulatory playing fields between insurers' host and home markets and removing obstacles to issuing similar products in different markets. In addition, Insurance Europe expects the Commission to reflect in its proposal the FATF Recommendations relating to the risk-based approach and to the specific characteristics of the life insurance sector.

A legislative proposal for a fourth Anti-Money Laundering Directive is expected from the Commission in October 2012, with final adoption possibly in mid-2013.

Data protection

Balancing consumer protection and the needs of underwriters

Collecting and processing personal data are core insurance activities. To ensure that premiums fairly reflect actual risks, insurers need to collect relevant details from customers. They then assess the risks based on that information and on underwriting guidelines.

Risk assessment is economically efficient, as it allows the price of the insurance to reflect the cost of providing it. If insurers are not able to properly assess risks, there can be a significant negative impact on (re)insurers and consumers, as premiums could increase, insurance coverage could decrease and some products might be withdrawn from the market entirely. It is crucial that legal frameworks for data protection achieve the correct balance between the rights of individuals and the ability of insurers to deliver services to customers at the right price.

Reform in the EU

In January 2012 the European Commission published its proposals for the reform of the legal framework for data protection, consisting of a Directive on the processing of data for the purposes of prevention, investigation, detection or prosecution of criminal offences and a general data protection Regulation on the processing and free movement of personal data. Insurers will have to comply with the general Regulation.

Insurance Europe supports the reduction of the existing fragmentation of data protection legislation and the strengthening of data protection across the EU and it acknowledges the EC's efforts to raise privacy protection for individuals. However, it is concerned that parts of the proposed EC Regulation may have unintended consequences.

The EC proposals include changing the rules on consent to the use of data by introducing the notion of explicit consent and by proposing to give the right to consumers to withdraw consent.

To obtain an insurance product, customers give consent to the insurer to use their data for the duration of the contract. If consumers could withdraw their consent at any time, this would lead to a breach of contract. Insurance Europe therefore suggests that the proposed provision on the right to withdraw consent at any time without reason should not apply to insurance and should be differentiated from withdrawals that are already allowed for in insurance contracts.

As explained above, restricting insurers' ability to collect and use certain information would be detrimental for consumers. Insurance Europe is concerned that the proposed rules would restrict the risk-adequate rating, rate classification and risk assessment that are necessary for calculating premiums.

Furthermore, Insurance Europe points out that the insurance industry needs a legal basis on which to process data on criminal convictions, including data about fraudulent or other criminal behaviour, not only for underwriting purposes but also for preventing and detecting fraud. Detecting and combatting fraud is in the interest of insurers, consumers and society.

Existing EU legislation already requires the insurance industry to collect certain data related to fraud. For example, anti-money laundering legislation requires insurers to verify the accuracy of certain personal data, such as the identity of the policyholder or beneficiary, the origin and the destination of the funds. It is important that the EC's draft proposals do not hinder or prevent the fulfilment of those existing regulatory requirements.

Modernising the Council of Europe Convention

The 1981 Council of Europe Convention for the protection of individuals with regard to automatic processing of personal data was the first international data protection instrument and has been ratified by 43 states. Due to the rapid developments in information and communication technology, the Council initiated work to modernise the Convention in 2011. Revised proposals were published at the beginning of 2012, with final proposals expected by the end of June.

During the 2012 consultation, Insurance Europe welcomed the fact that some of the concerns it had raised in 2011 were included in the revised proposals. It also provided further comments on the provisions on the legitimacy of data processing and quality of data, the type of consent, the inclusion of genetic and biometric data in the "special category of data" and the consumers' right to access data. However it stressed that the Convention's definition of genetic or biometric data should not include characteristics such as gender and age, because this would be incompatible with provisions in national and European legislation, such as the general data protection Regulation proposed by the EC.

Anti-discrimination: gender

Ensuring the implications of the ECJ Test-Achats ruling are understood

In March 2011 the European Court of Justice (ECJ) ruled in the Test-Achats case. The ruling invalidates the derogation in the EU's 2004 Gender Directive that exempts insurers from the anti-discrimination principle.

It is important to note that the judges' reasoning did not reconsider the ability of insurers to differentiate on the grounds of gender but found the unlimited nature of the exemption for insurers to be at odds with the general principle. It is thus the construction of the Directive that led to the ruling.

While the judges did not challenge the way private insurance works, their ruling on the Directive's structure had the — probably unintended — consequence that insurers will no longer be able to differentiate on the grounds of gender in their pricing with effect from 21 December 2012.

Following the ruling, Insurance Europe has therefore been keen to ensure that the implications of the ruling are fully understood by all parties, particularly in view of the current discussions on the proposed Anti-Discrimination Directive (see p34).

The ruling provides the insurance sector with two particularly significant challenges. Firstly, the impact on pricing, as gender has to be discontinued as a differentiation criterion in risk assessment. Secondly, uncertainty, as the ruling requires changes in national legislation that will probably be implemented very close to the 21 December deadline, leaving companies with very little time to adapt.

Debate in the Gender Forum …

In June 2011 the European Commission organised a meeting of the Gender Forum to discuss the impact of the ECJ ruling. It set up the Gender Forum in 2009 to discuss the implementation of Article 5 of the Gender Directive related to financial services with EU member states, the insurance and related financial services sectors, consumer and non-governmental organisations and national equality bodies, including the European Women's Lobby interest group. The objective is to help the Commission draw up its report on the implementation of the Directive, which has been postponed to 2014.

At the meeting, all member states agreed with the Commission's analysis that the ruling only applies to new insurance contracts concluded on or after 21 December 2012. There was also a general consensus that defining a new contract should be dealt with at national level. Participants likewise agreed on the need to provide insurers with legal clarity on how to implement the ruling as soon as possible.

At the Forum, Insurance Europe presented its views on the implementation issues raised by the ruling, supporting a non-retrospective effect of the ruling and asking the EC to provide legal clarity at the earliest opportunity to allow insurers time to adapt their processes.

The invalidation of the derogation in the Gender Directive challenges the fundamental principles of private insurance and the functioning of risk assessment, which relies on the use of relevant risk factors such as gender. A ban on the use of gender in insurance pricing is therefore likely to have negative consequences for consumers. Insurance Europe stressed that the ruling should have no effect on the other uses of gender in insurance, ie for risk assessment, reserving, underwriting, reinsurance, marketing and advertising. The EC announced its decision not to review the Gender Directive to bring it into line with the ruling but to issue guidelines instead.

… and discussions in the European Parliament

Insurance Europe also took part in an exchange of views on the ECJ ruling in the European Parliament Women's Rights and Gender Equality (FEMM) Committee in May 2011. It again took the opportunity to explain how insurance works and the negative impact of the ECJ ruling on the functioning of the insurance market and on consumer groups such as young female drivers, who will likely face premium increases.

The Parliament's rapporteur for the EC report on the implementation of the Gender Directive, Hungarian MEP Zita Gurmai, explicitly called for legal certainty for insurers as soon as possible in her working document issued in December 2011. The rapporteur highlighted the possible negative impact of the ECJ ruling, especially for women.

Follow-up to the Gender Forum

As a follow-up to the EC Gender Forum, Insurance Europe took the initiative to meet the European Women's Lobby to explain the implications of the ECJ ruling for insurers and — consequently — their female customers.

As announced on the day of the ECJ ruling in the Test-Achats case, EC Vice-President Viviane Reding, the Commissioner for Justice, Fundamental Rights and Citizenship, convened a meeting with insurance leaders and Insurance Europe that took place in September 2011 to discuss the ECJ judgement's implications. During the meeting, Commissioner Reding discounted the possibility of any amendment to the Gender Directive, but assured the meeting that the EC would issue guidelines on the implementation of the ECJ ruling that would bring the legal clarity required by confirming the ruling's application to new contracts only. She confirmed the industry's view that the ruling does not prevent insurers from using gender in areas other than pricing.

Insurance Europe also met the cabinets of the EU Commissioners concerned in order to reiterate the insurance industry's commitment to comply with the ruling, while stressing its concerns over the implications of the ruling for both insurers and their customers.

Study shows significant impact

In early December 2011 Insurance Europe unveiled an independent study, carried out by Oxera, on the impact of a ban on gender in insurance pricing. Based on data from a sample of European countries, it demonstrated a number of likely unintended negative consequences for consumers, insurers and society resulting from the ban. It showed that premiums could increase as a result of the redistribution of premiums from high-risk to low-risk groups. The study found that, on average:

- women could see term life premiums rise by 30% or more;
- young women could see motor premiums rise by at least 11%; and,
- men could see a reduction in pension income from annuities of 5% or more.

The study also found that such changes in premiums and benefits are likely to affect consumer demand, leading to wider social implications, including disincentives for people to save for old age.

Guidance, but no legal certainty

The EC published its guidelines in late December 2011 in the form of a Communication. They clarify that the unisex rule has to be applied to new contracts concluded as from 21 December 2012. They also provide examples of what could constitute new contracts and, conversely, of situations that should not be considered as new contractual agreements. The guidelines, however, leave several issues of interpretation to member states to clarify through their national legal frameworks.

The text concludes that EU member states have to adapt their legislation to the ruling by 21 December 2012 and that the EC will monitor the compliance of national legislation with the ruling on the basis of the criteria set out in the guidelines. Insurers now await the implementation of the ruling and the guidelines at national level in order to be able to finalise the adaptation of their internal systems and processes by the deadline.

In coordination with its member associations, Insurance Europe will assess any issues raised by the implementation at national level in order to feed into the report on the implementation of the Gender Directive and its related guidelines that the EC will issue in 2014.

Insurance Europe contributed further to the debate in the European Parliament by taking part in a public hearing on the Gender Directive and the ECJ ruling in May 2012. It described the likely consequences of the ruling, highlighting the problems that would result if there were a similar judgement on other factors used in insurance pricing such as age and disability (see p34). Rapporteur Gurmai intends to publish her draft report on the implementation of the Gender Directive in June 2012, for adoption by the Parliament in September.

Wider implications

Insurers recognise that changes to legislation should be made to reflect developments in society and it fully supports the equal treatment of people in comparable situations. However, insurance risk assessment does not constitute discrimination. It allows appropriate and justified differentiation on the basis of relevant and fair criteria and ensures that the risk a consumer represents is reflected in the price.

Insurers therefore need to be able to use factors that are relevant to risk assessment and insurance pricing. This ensures a fair and precise assessment of risk, which results in more consumers having insurance products adapted to their needs and means.

Anti-discrimination: age & disability

Seeking to avoid restrictions on underwriting

In light of the 2011 European Court of Justice (ECJ) Test-Achats ruling on the structure of the Gender Directive that ended EU insurers' ability to use gender as a risk factor in insurance pricing (see p32), Insurance Europe is closely monitoring work on a proposed EU Anti-Discrimination Directive.

It is vital for the efficient working of insurance that the Directive does not lead to a ban on insurers' use of age and disability in risk assessment and pricing. It is also important to ensure that it does not contain a wording that could be legally challenged in the way the ECJ ruling modified the EU's Gender Directive.

Insurers' use of data and information related to age and disability is key to the risk assessment and pricing of many insurance products. Without these, insurers would be less able to differentiate fairly between insureds. This would increase the risk of adverse selection — with higher risk individuals more likely to take out insurance — ultimately leading to more expensive products and less choice for many consumers.

Proposal makes slow progress

The European Commission's 2008 proposal for a Directive on the principle of equal treatment irrespective of religion or belief, disability, age or sexual orientation continues to be discussed in the EU Council. The European Parliament adopted its opinion on the proposal under the consultation procedure in 2009 but now has to give its consent to the Council's position under the terms introduced by the EU's Lisbon Treaty. In June 2011 the Hungarian EU Presidency issued a report acknowledging the progress made but stressing that further work was needed. The subsequent Polish Presidency issued two updated versions of the proposed Directive text. Improvements were made to the wording of the provisions related to financial services. Most importantly, the derogation structure — similar to that which was challenged by the ECJ in the Gender Directive — was weakened, and the possibility for member states to opt for it was removed.

Greater certainty required

However, Insurance Europe believes that there is still a need for further legal certainty regarding insurers' ability to continue using age and disability. It suggests that this could be achieved through a separate article in the Directive clarifying that insurers do not discriminate but differentiate on these grounds. This would avoid this provision being considered as a derogation to the anti-discrimination principle set out in the Directive and thus would further limit the risk of the ECJ ruling on gender contaminating the age and disability factors.

Insurance Europe also has concerns about the reference made to the underlying health condition when discussing disability. According to the EU Treaty and the EU Charter on Fundamental Rights, health is not one of the grounds on which the EU may regulate in the area of discrimination. Furthermore, in some cases disability itself — independent from the underlying health condition — may have to be taken into account in risk assessment where it is relevant for the risk to be insured.

Insurance Europe disagrees with the separation of age and disability, which prevents the combined use of these factors for risk assessment and pricing under the same conditions. It also believes that there should be no limitation and hierarchy for the sources of risk assessment and pricing used for both factors (ie actuarial principles, statistical data, medical knowledge, etc.). Furthermore, insurers should not be obliged to make information used in risk assessment accessible to customers and judicial and complaints bodies, since this could potentially infringe insurers' intellectual property rights while being overly technical for consumers.

In its progress report issued at the end of 2011, the Polish Presidency highlighted the improvements made to the proposal, particularly on the provisions related to financial services, but pointed out that some country delegations even question the need for a Directive.

At the beginning of 2012 the Danish EU Presidency addressed many concerns in its two sets of drafting suggestions. However, further improvements are needed, particularly regarding legal certainty for insurers and the approach to disability. A ban on the use of age and disability as risk factors would have a major impact on the affordability and availability of insurance, to the detriment of consumers.

On the European Parliament's side, a hearing focused on "unblocking" the Directive was organised in March 2012. The rapporteur for the Directive called on the Council to speed up the process with the aim of adopting the Directive within a year.

Health insurance

Genetics, data and competition

In the EU, member states are responsible for the organisation of their health systems. Nevertheless, legislative developments at EU level can have a significant direct or indirect impact on private health insurers. This is the case, for instance, with the rules on data protection that are currently under development (see p31). Looking to the future, this could also be the case for rules on genetics. Insurance Europe is therefore paying close attention to these issues and to any other developments that could distort domestic competition for health insurers.

Genetic diversity

There is increasing scrutiny at European level of the use of genetic information by health insurers, even though insurers generally do not use or ask for predictive genetic test results, except in very specific cases that are defined and regulated at national level. Insurance Europe is concerned that it would be difficult for any EU-level regulation of the use of genetic information to capture the existing diversity in the markets.

These messages were set out in Insurance Europe's contribution to the Council of Europe's consultation on "Predictivity, genetic testing and insurance" in spring 2012. In addition to setting out its concerns about a possible EU-wide regulation on genetic testing, Insurance Europe clarified that, unlike predictive genetic testing, which insurers generally do not use or ask for, non-genetic examinations are crucial for risk assessment. Additionally, an individual's family history can have a strong predictive nature and is therefore used by insurers to fine tune an established risk, irrespective of genetic status. The feedback from the Council's consultation will serve as the basis for a potential future legal instrument; probably a Protocol to the Convention on Human Rights and Biomedicine.

Data concerns

Insurers can demonstrate long-standing compliance with data protection legislation, as collecting and processing health data lies at the core of private health insurance. Any reform of data protection rules should therefore be appropriate for insurance business, since otherwise it could have a negative impact not just on (re)insurers but also on consumers.

In its response to the European Commission's November 2010 consultation on a comprehensive approach to personal data protection in the EU, Insurance Europe highlighted, among other points, that if the Commission includes genetic or biometric data in its definition of sensitive data, it should first ensure that obvious characteristics such as gender and age are not included. Otherwise the extended definition will be incompatible with the provisions in other European or national legislation.

Following its consultation, the Commission issued new proposals at the beginning of 2012 (see p31). Insurance Europe is concerned that the Commission's proposal for a general data protection Regulation on the processing of personal data includes a broad definition of health data which, along with the revised rules on consent, might make it more difficult for insurers to use the data they need. Without that data they are less able to align premiums to risk, resulting in a poorer service for consumers. To avoid this, Insurance Europe believes that the consent requirements must be proportionate to the purposes for which the consent is obtained.

Competition issues

Insurance Europe supports fair conditions of competition between all health insurance market participants, on the basis of the principle of "same business, same rules". It has observed that recent interventions by some EU states, as well as the recently adopted Commission Communications on the Social (Economic) Services of General Interest, have — perhaps unintentionally — distorted competition between private health insurers and public institutions or other entities providing insurance services.

In the EC Communications a distinction is made between economic and solidarity based schemes, which in turn determines whether state aid and antitrust rules apply or not. The European Court of Justice defines economic schemes as optional and profit-making and solidarity ones as state-supervised with a social purpose. Insurance Europe is questioning whether the criteria used in the Communications to operate this are appropriate and sufficiently clear to be used for insurance activities. They could result in competition rules applying to some providers and not to others, even if the services provided are similar. Insurance Europe will seek to ensure both that these issues are properly addressed.

Sustainability

Sharing responsibility for catastrophe prevention and preparedness

The insurance industry plays an important role in improving the understanding of natural catastrophes and in developing sustainable solutions to prepare for them and cover any losses.

The role of insurers is not limited to risk transfer and risk sharing; insurers constitute an integral part of the whole risk management cycle. They perform risk assessment, promote risk awareness, create incentives to increase risk prevention and risk management, improve methods of risk measurement and calculation, assist public authorities in setting up appropriate risk management frameworks and provide faster compensation than *ex-post* (after the event) schemes.

Everyone must be involved

Insurance cannot provide the sole solution to natural disasters, however. The responsibility for minimising the growing impact of catastrophes (see chart below) and adapting to catastrophic conditions must be shared between private and government bodies and the public. To cover catastrophe losses effectively and efficiently, the involvement of all stakeholders — public authorities, private companies and insureds — is essential.

Responsibility sharing, coordinated actions and *ex-ante* (before the event) financing are the three core principles.

Investment in risk mapping and zoning is equally important, as well the dissemination of risk data among all those involved. The development of such tools can, on the one hand, help policymakers to identify (high) risk areas and integrate this information into their decision-making and, on the other hand, aid insurers to design more appropriate insurance cover.

Targeted state involvement

Each EU member state has exposure to different natural catastrophes (see box opposite). Because of these differences, each state should be supported in developing a coherent legal framework that encourages the economic players to provide appropriate *ex-ante* solutions to cover damages and that limits the intervention of the state.

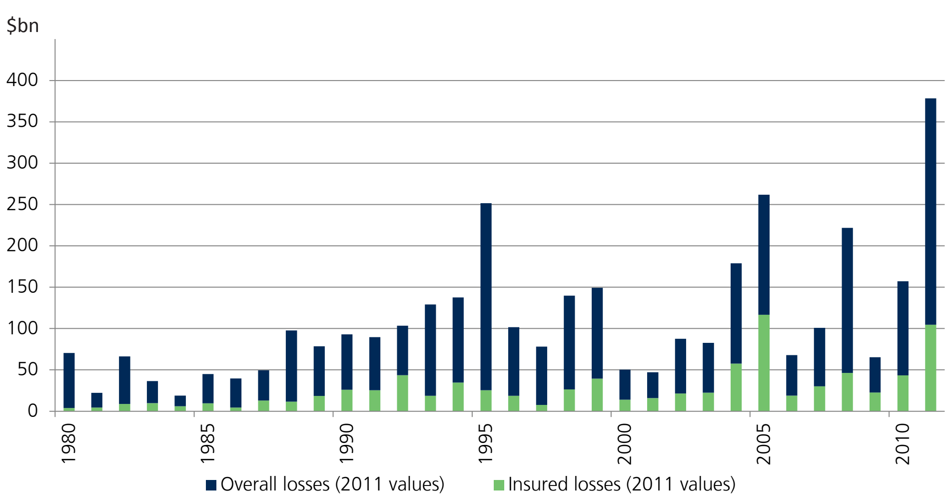
Public-private partnerships can help to ensure that the conditions of insurability are met or improved. However these partnerships should be introduced only in those areas where the economic risks of the possible natural catastrophes exceed the financial capacity of the private insurance market.

Where the private insurance market has sufficient capacity to cover catastrophe losses, any overlapping of state or EU funds should be avoided. Expectations of state assistance tend to discourage the adoption of preventive measures and demand for *ex-ante* insurance protection. It can introduce discrimination between people who take out insurance and those who do not. Insurers can also provide faster financial support to their insureds, so *ex-post* compensation should be limited to those cases where the losses are privately uninsurable.

Insurance Europe regularly provides expertise on natural catastrophes: attending events, supplying data and comment to stakeholders and working closely with the European Commission.

In October 2011 Insurance Europe spoke at the EC's "Prevention and Insurance of Natural Catastrophes" conference, outlining the principles of insurability, highlighting the

Overall and insured global natural catastrophe losses — 1980–2011 ($bn)



Source: Munich Re, Topics Geo 2011

importance of public authorities enforcing risk prevention measures and stressing the need for free access to geo-risk data. To support its messages, Insurance Europe also published a position paper on the insurance of natural catastrophes in Europe.

Insurance Europe commented on the study of the EC's Joint Research Centre on "Natural catastrophes: risk relevance and insurance coverage in the EU", which was presented at the October conference. Its remarks on the first draft report addressed important technical issues, some of which were taken into account in the second draft that was published in January.

The federation is a member of the EC's Adaptation Steering Group, which comprises national environmental experts and key stakeholders and seeks to help implement the adaptation measures outlined in the 2009 White Paper on adaptation to climate change. It presented to the Steering Group at its March 2012 meeting on the different national insurance schemes in the EU.

Global initiatives

Insurance Europe is equally involved in sustainability discussions at global level. To take just two examples, it spoke at a regional consultation meeting of the United Nations Environment Programme (UNEP) Finance Initiative on UNEP's principles for sustainable insurance in October 2011 and it shared information on EU-wide and member state approaches to natural catastrophes in meetings with the officials in charge of the Mexican G-20 Presidency in February 2012.

Respecting national diversity in insurance schemes

As environmental conditions throughout Europe vary significantly, different countries are exposed to different kinds of natural catastrophes and risks. This variety is reflected in the insurance schemes across Europe.

In Germany, for example, the state does not intervene in the private insurance market. Nevertheless, nearly 100% of buildings are insured against fire, in which case cover for natural catastrophes can be added to the policy. More than 90% of German policyholders also have cover for storm and hail. Furthermore, property owners can obtain cover for flooding (including torrential rain and backwater), earthquakes, subsidence, landslides, snow pressure, avalanches and volcanic eruptions. Currently, around 30% of all buildings have such coverage and numbers are steadily increasing. Should it be impossible to obtain insurance for a specific building due to its high-risk location, some German states will provide loans at reduced interest rates to property owners for damage from natural catastrophes. Nonetheless, the basic principle remains that private insurance comes before public help.

In low-lying countries such as the Netherlands and Denmark, insurers play a lesser role in the provision of cover for flood risks than in other EU member states. In the Netherlands national legislation permits natural catastrophe losses to be partially paid for directly by the state, though only in exceptional circumstances. In Denmark there is a state pool to cover sea flooding, although there are private insurers that offer coverage for flooding caused by heavy rainfall.

Some states also have particular needs arising from, for instance, the level of development of their insurance market or levels of risk perception (the amount of risk to which the public believes it is exposed). In an effort to increase property cover, for example, in 2010 Romania enacted legislation obliging individuals and legal entities to insure against natural catastrophes or pay a government fine.

A "one size fits all" solution to natural catastrophes cover at EU level is therefore clearly not appropriate: the flood insurance system in the Netherlands is not required in a country like Spain, where drought is the main concern. Any attempts to harmonise so many different insurance schemes would hinder insurers' ability to contract directly with their policyholders and to properly address market conditions.

Insurability

Why a free market is the best solution

A key objective of policymakers when working on insurance legislation is to ensure that individuals and businesses large and small have adequate access to affordable insurance.

The insurance industry supports this aim and seeks to ensure that the different characteristics of various liability markets are considered before legislation is implemented.

Insurance is often regarded as the answer to regulatory problems and a way to offer consumers protection, when it is actually a risk-transfer mechanism. EU-wide compulsory insurance proposals should not be considered a "one size fits all" solution: the likelihood of their success depends on many variables and in particular on the characteristics of the liability and the liability insurance market.

Prerequisites and market conditions

Insurance Europe has explained on many occasions that voluntary insurance schemes are the best way to permit insurers to meet the needs of customers and markets. There are only limited situations in which compulsory insurance can work so, before any compulsory insurance scheme can even be considered, there are five basic preconditions that must be met:

- market stability established by sufficient data
- sufficient insurance capacity to manage and cover claims
- a variety of insurers to ensure adequate competition
- uniform risk characteristics that can aid in standardisation
- an adequate reinsurance market

These preconditions alone may still not be sufficient, depending on the nature of the liability. Some liabilities may be so difficult to cover (ie have such a high risk) that they require certain predefined filters for the risk to be insurable (eg a cap on insurance cover, the possibility to introduce policy exclusions and/or coverage restrictions). Insurers must be free to use these filters to adapt their products to the needs under any given liability regime.

Insurance Europe has made clear that when a compulsory insurance scheme is introduced in a market that is not prepared for or designed to handle the sudden increase in demand for the insurance, there may be several negative consequences:

- limited financial capacity for offering protection
- higher premiums due to an unsecured basis for insurance practice
- hesitation or reluctance of policyholders to adopt loss prevention measures
- limited contractual flexibility
- stifling of innovation due to lack of contractual freedom
- inadequate or no insurance availability
- excessive administrative costs of supervising/facilitating compulsory insurance implementation

ELD is a case in point

Insurance Europe has closely followed all EU debates on compulsory liability insurance legislation; the most recent one being in relation to the Environmental Liability Directive (ELD).

The ELD is an important piece of legislation that is designed to protect the environment by requiring it to be restored to its previous condition after onshore environmental accidents. In 2010 the European Commission published a report on the ELD, correctly concluding that there was insufficient justification at that time to introduce a harmonised system of mandatory financial security, such as compulsory liability insurance. This option will be re-examined in 2014.

Dangers of ELD extension

In 2011 the EC proposed a Regulation on the safety of offshore oil and gas prospection, exploration and production activities that would extend the ELD to cover all marine waters. Insurance Europe set out in a position paper in December 2011 why it believes that this extension will introduce a new liability that is impossible to quantify due to the relatively unknown biodiversity contained in offshore waters.

The ELD legislation is already complex and adding offshore liabilities could have an adverse effect on operators and insurers in their attempts to guard financially against ELD risks.

ELD insurers would be unable to predict the type and amount of cover needed to guard against offshore liability risks and their economic costs. Moreover, a law would not protect the EU from accidents occurring in neighbouring countries. Offshore oil spills constitute a global problem that easily crosses borders and that needs to be addressed by the international community.

Motor insurance

eCall and the re-registration of vehicles

During 2011–12 Insurance Europe's motor activities focused on two European Commission initiatives: the EU-wide automatic emergency call system to be imbedded in all new vehicles (eCall) and the simplification of the registration of vehicles previously registered in another EU member state.

Getting eCall right

eCall is a system designed to generate an automated emergency call when a vehicle is involved in a collision. It is expected to be introduced in all new cars from 2015. The initiative is driven by a desire to reduce the number of fatalities and the severity of injuries from road accidents. Its merit lies in its automated function, eliminating the need to report the accident.

In September 2011 the EC adopted a Recommendation asking states to start making the practical preparations necessary to introduce the system. This will be followed by a legislative proposal that had been expected to be published in April 2012 but is still awaited. In its proposal for vehicle type approval, the EC is expected to set out the framework for the introduction of eCall.

Ensuring free competition

Insurance Europe has welcomed the initiative on eCall, despite the limitations of it being an after-the-event system. Insurance Europe has highlighted to the EC and the European Parliament the importance of ensuring that any proposal for a Regulation on eCall safeguards free consumer choice and free and fair competition between suppliers of any add-on services to the eCall system.

Failure to ensure these safeguards could allow car manufacturers to control the distribution channel of any add-on services to eCall, thereby allowing them to steer customers to their own services. The scope for add-on services (such as repairs, roadside recovery, insurance, theft-tracking, etc) is significant and could benefit consumers if free choice and open competition are safeguarded.

The EC has confirmed that it shares Insurance Europe's concern to safeguard consumer choice and competition in respect of add-on services and is considering how best to do so.

On the basis of the content of a separate draft report on eCall, it seems Insurance Europe's concerns are also shared by the European Parliament lead rapporteurs. The draft report from April 2012 urges the EC to ensure that eCall is based on an open-access platform. The report is expected to be approved by the European Parliament in mid-2012.

Facilitating vehicle re-registration

In April 2012 the EC published a proposal for a Regulation that simplifies the process of re-registering cars that are moved across borders within the EU; for instance, when a car owner moves to another member state or where cross-border commuters use cars registered in another state from the one in which they live. Among other things, re-registration would be required within six months of moving "normal residence" and the proposal sets out the manner and type of data to be exchanged between national registration authorities.

The proposal for a Regulation takes into account the main concern raised jointly by Insurance Europe and the Council of Bureaux, which manages the organisation of the international motor insurance card (green card) system. That concern was to ensure that the provisions of the existing EU motor insurance directives are not jeopardised; for instance by introducing a one-off registration.

Codified Directive must be safeguarded

Insurance Europe had, in particular, stressed that an EC proposal should not jeopardise the system established by the Codified Directive. This system ensures that victims of cross-border road traffic accidents have recourse to specific bodies for assistance in bringing their claims. In extreme cases involving uninsured or unidentified drivers, the system provides victims with recourse to compensation for their injuries.

The proposal stops short of suggesting a one-off registration, which was entertained at one stage. This could have had severe implications for the provisions of the Codified Directive, which relies on the principle of where a vehicle is "normally based" and is determined by national legislation. This would have been altered by the introduction of a one-off registration. Instead, the proposal aims to simplify re-registration by setting out limited instances in which registration authorities are permitted to carry out physical checks on a vehicle (one factor that the EC had deemed to cause difficulties) before agreeing to a re-registration.

Dispute resolution

Promoting effective and inexpensive redress for consumers

Insurance Europe supports initiatives that promote the use of alternative dispute resolution (ADR) schemes, which are an effective and inexpensive way for consumers to seek redress.

Statistics show that, for the limited number of complaints received in the European insurance sector, ADR schemes are used extensively, with a high number of cases solved this way rather than going through expensive and lengthy court proceedings.

This extensive — and in some countries growing — use is due to an improvement in consumers' access to information about ADR, the fact that these procedures are cheap and quick and that consumers are happy with their outcome.

Support for ADR

Throughout 2011–12 Insurance Europe closely followed the work of the European institutions on ADR and also on collective redress.

Insurance Europe promotes ADR as a valuable alternative to individual or collective court proceedings. It also believes cross-border insurance disputes are currently dealt with efficiently through FIN-NET, the financial dispute resolution network of national out-of-court complaint schemes in European Economic Area countries.

No case for collective redress

On collective actions, on the other hand, Insurance Europe argues that the need for an EU-wide collective redress system capable of handling mass claims has not been established by the European Commission and that further detailed assessment is needed to ascertain whether such a system is required. It sees a number of potential legal obstacles to an EU-wide approach. These include which laws should apply and which courts should be deemed competent when consumers from different member states join a collective action, and the fact that — in most cases that are related to insurance — it is unlikely that a cross-border class of claimants would be able to allege the same law infringement.

If an EU-wide collective redress system were nevertheless to be introduced, Insurance Europe believes that several safeguards would be needed in order to avoid abusive claims. These would include requiring consumers to explicitly agree to their involvement in collective action (an "opt-in" procedure) and limiting the compensation granted for the damage suffered (no punitive damages).

Two Parliamentary reports

During 2011 the European Parliament issued own-initiative reports on ADR and collective redress, following the European Commission's consultations in both areas at the start of the year.

In the non-legislative Resolution on ADR adopted in October 2011, the European Parliament emphasised the need to publicise existing ADR mechanisms and their benefits, as well as to preserve the voluntary nature of the schemes that currently exist. However, the Resolution also called for the development of ADR for business-to-business disputes and for schemes to be widened to cover issues such as defamation or commercial transactions. The Parliament invited the Commission to present a legislative proposal on ADR by the end of 2011 and to ensure its swift adoption.

The European Parliament's non-legislative Resolution on collective redress was adopted in January 2012. In it, the Parliament took a cautious approach towards any possible introduction of an EU-wide collective redress procedure. It called on the EC to demonstrate through an impact assessment that action is needed to improve existing EU legislation in this area. It also stated that if a collective redress procedure is finally introduced, the proposal should take the form of a horizontal framework instrument and should provide appropriate safeguards to avoid unmerited claims. Here again, it encouraged the use of ADR as an alternative to court proceedings.

The Commission's ADR package

In response to the European Parliament's call for early action, in November 2011 the Commission published a legislative package that included a draft Directive on ADR and a proposal for a Regulation on online dispute resolution (ODR). The Danish EU Presidency in the first half of 2012 also identified ADR as one of its priorities.

Insurance Europe commented on the legislative package in February 2012, supporting the EC's aim of improving access to justice for EU consumers through ADR. It also welcomed

the proposed limitation of the scope of schemes to business-to-consumer disputes, but questioned the proposed right of traders to file a complaint against a consumer. It pointed out that businesses, whatever their size, already have other means at their disposal to obtain redress, such as arbitration or court proceedings.

Furthermore, Insurance Europe expressed support for the EC's recognition that the non-binding nature of ADR — both adherence to the scheme and the outcome of the procedure — needs to be preserved where it currently exists. Businesses have a clear interest in complying with ADR schemes' decisions, as adhering to a scheme implies a commitment to do so and failing to comply with a decision would have a negative effect on their image.

Insurance Europe agreed with the EC that consumers should be made more aware of the existence of ADR, but would not support including information about ADR in documents such as invoices and receipts, since it believes that consumers should not be overburdened with pre-contractual information. Insurers are already subject to disclosure obligations under the Solvency II Directive and the Distance Marketing of Financial Services Directive.

Key concerns

One of insurers' main concerns about the proposals relates to the timeframes the EC proposes for ADR entities to resolve disputes. This is 90 days in the draft ADR Directive and 30 days in the draft ODR Regulation. Such timeframes are inappropriate as the requirement to meet such deadlines could affect the quality of the decisions and could increase costs for the funders of the schemes, for example, as they could need to employ additional staff. Insurance Europe therefore advocates that either no fixed timeframe be specified or that a longer timeframe is foreseen, especially for insurance-related disputes.

Regarding the financing of ADR entities, Insurance Europe believes that private-sector financing of schemes does not affect their impartiality, since it is guaranteed by a number of safeguards such as their structure, appointment rules, operational independence and/or supervision by a regulator. It therefore thinks that the EC proposal to designate one national authority as responsible for the monitoring of all national ADR entities would add an unnecessary additional layer of regulation. Such an authority could also potentially develop over time, especially as the draft Directive provides that such an authority would be entitled to issue recommendations on how to improve the functioning of ADR entities, which increases the risk of over-regulation.

Separate initiative on complaints-handling

Insurance Europe agrees with the EC that companies' internal complaints-handling systems should be dealt with separately from the EC legislative proposal on ADR, as they operate under different principles. Consumers should be encouraged to try to resolve disputes directly with the insurer, and both sides should strive to find an amicable solution wherever possible, before taking the case to an ADR scheme.

EIOPA (the European Insurance and Occupational Pensions Authority) launched a consultation on its proposal for guidelines on complaints-handling by insurance undertakings at the end of 2011, to which Insurance Europe responded. Insurance Europe raised concerns about the legal status of the proposed guidelines, in particular if there should be a conflict with national legislation or guidelines. It also expressed concern that the proposed guidelines appear to be too far-reaching and disproportionate, and it called for any requirement that insurers provide overly-burdensome and technical information to consumers on their complaints-handling process to be avoided.

What happens next?

The European Parliament Legal Affairs Committee's draft opinion on the ADR legislative package, which was issued in April, addresses many of Insurance Europe's concerns. However, the process in Parliament has been delayed due to the complexity of some of the issues raised by the Commission's proposals and the draft report in the Parliament's Internal Market and Consumer Affairs Committee will only be voted on in July 2012, with the plenary Parliamentary vote scheduled for September.

On collective redress the EC is considering whether to publish a Communication at the end of 2012, in which it would announce whether it intends to take action and, if so, the measures it will propose.

Financial education

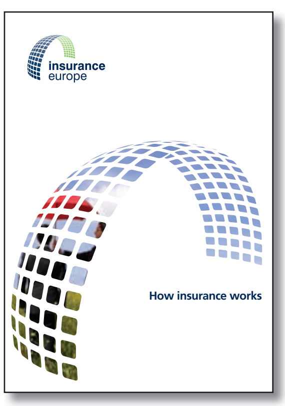
Two booklets and an exhibition

Insurance Europe and its members are heavily engaged in efforts to improve financial literacy and raise risk awareness. The activities they undertake cover a wide spectrum: everything from teaching aids for schools through research and surveys to drawing attention to emerging risks.

This year Insurance Europe also sought to fill a gap that it had perceived in all the information that is currently available by producing a small booklet that sets out the basic concepts of insurance.

A simple guide to insurance

Insurance is a cornerstone of modern life, without which many aspects of society and the economy could not function. Despite this, the way insurance functions and its value are not always well understood — at all levels of society. The booklet that Insurance Europe produced in April 2012 explains clearly and concisely "How insurance works".



A new publication from Insurance Europe: "How insurance works"

Containing clear and simple explanations of everything from risk pooling to adverse selection and moral hazard, this short guide is the ideal introduction for anyone who wishes to understand the basic principles of modern insurance.

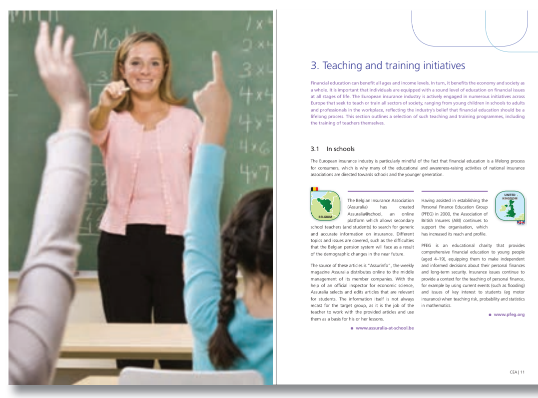
Starting with a short description of the principles of insurance, the booklet then explains what is insurable and why, before going on to outline how a well functioning insurance market benefits individuals, society and the economy. The booklet concludes with a look at how vitally important it is to have the right regulatory environment so that insurers can function effectively and sustainably.

Available free to download in English from Insurance Europe's website, the booklet is also being translated into a number of other languages by Insurance Europe's member associations for use in their national markets.

Sharing best practice

Insurance Europe will host an exhibition at its 4th International Conference on 1 June 2012 of some of the many initiatives of its members and other insurance associations around the world to increase financial and risk awareness.

National associations and international federations play an important role in providing neutral information to consumers about insurance concepts and products. They also carry out research and conduct surveys to monitor citizens' understanding, expectations and opinions, thus ensuring that consumers' needs are met by the industry. The aim of the exhibition is to share some of the best and most innovative of those ways of getting involved in developing financial education and awareness.



On display at the 4th International Conference: Insurance Europe's financial education booklet

Building on the federation's booklet, "Financial education and awareness: European insurance industry initiatives", which was published in May 2011, the exhibition will showcase the publications, online material, teaching and training initiatives, consumer advice services, research, public events and media activities and campaigns worked on by the industry in recent years.

Copies of Insurance Europe's "How insurance works" booklet will be available at the exhibition, along with the 2011 financial education booklet and samples of the many print publications produced by the national and international associations. Interactive screens will enable conference delegates to browse initiatives by type so that they can select the areas that interest them most.

Social dialogue

Combatting the demographic challenge facing insurers

The European insurance and reinsurance sector is facing a significant challenge as its workforce is getting older and many employees are approaching retirement age.

In November 2011 Insurance Europe led a project to help the insurance sector address these demographic changes from a pan-European perspective.

The project received financial support from the EU institutions. It was developed in cooperation with the other social partners involved in the EU Insurance Sectoral Social Dialogue Committee (ISSDC) as a follow-up to a joint statement on the demographic challenge in the insurance sector that was adopted by the ISSDC in 2010. The Committee is a unique forum at European level, supported by the European Commission, in which insurance employer and employee representatives can discuss topics of common interest.

Good practice booklet

As part of the project, Insurance Europe and its partners in the ISSDC will publish a booklet in June 2012 presenting a sample of the many original "good practices" already introduced in the insurance industry. The booklet offers examples of fruitful practices that have been selected for their innovation, originality and effectiveness in increasing the attractiveness of the insurance sector and the employability of the staff already in it by addressing three issues: the work/life balance, qualifications and lifelong learning, and health and safety at work.

The practices are either successful measures introduced by insurers on their own initiative or by social partners at company and sectoral level, and they have all demonstrated their effectiveness in making insurance an even more dynamic and attractive sector in which to work. The booklet displays the practices in a way that illustrates the diversity of their objectives and origins. Some are specific to one of the three issues and others address several issues together.

ISSDC publication: "Combatting the demographic challenge in the insurance sector"

A selection of European initiatives that showcase the diverse ways in which insurers and intermediaries are attracting and retaining talent, and the innovative tools being used to make the sector a dynamic and attractive one in which to work.

While not directly transferable from one company or market to another, the examples in the booklet should provide food for thought and inspiration to other companies and social partners. They were all designed with specific objectives and contexts in mind, as the demographic pressures and regulatory frameworks differ significantly between EU countries, as do companies in terms of their size and the markets in which they operate.

Welcomed by the EC

The European Commission has welcomed the initiative as supporting the EU in meeting the objectives of its decade-long growth plan, the Europe 2020 Strategy. It highlighted that, by providing a summary of such good practices, the booklet also contributes to the achievement of the aims of the EC's 2012 European Year for Active Ageing and Solidarity between Generations. The Commission praised the booklet as a useful information tool for social partners active in other areas and sectors at EU level as well as in member states.

To ensure the dissemination of the good practices, Insurance Europe — together with the other ISSDC social partners — is organising follow-up events as part of the project, including a conference in June 2012 promoting the booklet and a seminar in September 2012 to assess the impact of the booklet. These events should also contribute to further improving relations, understanding and collaboration between employers and trade unions in the insurance sector at EU, national and company level.

Avoiding harmful legislation

In addition to the demography project, Insurance Europe has discussed the social impact of the Commission's major legislative proposals with the other ISSDC social partners over the past year. Insurance Europe has insisted in particular on the need to avoid any negative impact on employment in the insurance sector from ill-designed EU legislation in the fields of distribution, corporate governance, pensions and anti-discrimination.

- Members
- Events
- Publications
- Corporate governance
- Working bodies

Member associations

Austria	Versicherungsverband Österreich (VVO) President: Wolfram Littich www.vvo.at tel: +43 171 15 62 00
Belgium	Assuralia President: Bart De Smet www.assuralia.be tel: +32 2 547 56 11
Bulgaria	Association of Bulgarian Insurers (ABZ) Chairman: Dancho Danchev www.abz.bg tel: +359 29805125
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Events

General Assembly 2011

Insurance Europe’s last General Assembly under its former name of the CEA took place on 15 June 2011 in Athens, Greece. Sergio Balbinot, managing director of Generali Group, Italy, was elected president for a term of three years. He took over the presidency from Tommy Persson, senior advisor to Sweden’s largest non-life insurer Länsförsäkringar AB, who became vice-president.


Outgoing president Tommy Persson (left) and incoming president Sergio Balbinot

In his acceptance speech Balbinot paid tribute to his predecessor, praising Persson’s leadership during his three-year tenure. He highlighted Persson’s instrumental role in helping the federation to engage with other industry bodies to ensure that Europe’s insurers speak with one, strong voice.

Balbinot announced that the overarching aim of his presidency would be to ensure that the federation, together with its member associations, speaks clearly and strongly for Europe’s insurers whenever and wherever necessary.


The Insurance Europe presidency is handed over

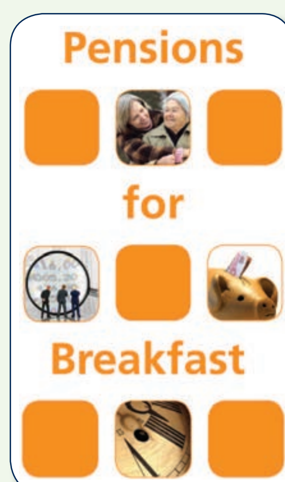
Balbinot joined Generali in 1983, building his career in several companies within the group in Italy and abroad. Returning to Generali’s head office in Trieste in 1996, he was appointed deputy general manager in 1998 and general manager in 2000.

Since April 2002 he has held the position of managing director with responsibility for all Generali’s international insurance business and its technical and actuarial activities in Italy and abroad, as well as research and development.

Three breakfast debates on pensions

In July and November 2011 and February 2012 Insurance Europe organised “pensions breakfast” debates in Brussels. They provided the opportunity for an informal dialogue between industry representatives, both from Insurance Europe and national associations, and the European Commission, the European Parliament and Council and the European Insurance and Occupational Pensions Authority.

Unsurprisingly, the ongoing review of the Institutions for Occupational Retirement Provision (IORP) Directive (see p12) received particular attention at all three events. The importance of pension funds and insurance providers to long-term economic stability and growth was another recurring item of discussion. The third breakfast debate mainly focussed on the European Commission’s White Paper on adequate, safe and sustainable pensions, which was published in February 2012.



3rd International Conference, Athens, Greece

Entitled "Insurance reform: opportunity or threat?", this full-day conference attracted 350 delegates to Athens on 16 June 2011 to debate how proposed regulatory reforms will affect the future shape and success of the global insurance industry.


The EC's Karel Van Hulle (centre) moderates a high-level panel: (L to R) Generali's Sergio Balbinot, Konstantin Klien of Uniqa, MetLife's Robert Henrikson and George Kotsalos of the Interamerican Group

One topic that dominated the discussions was the EU's new Solvency II regulatory regime. Insurers, policymakers and regulators united in their commitment to ensure that the Solvency II rules will enhance the resilience of EU insurers and that the new regulatory framework will be proportionate and fit for purpose.


Keynote speaker Peter Skinner MEP


350 delegates attended a full day of debates

Audience votes at the conference provided an excellent barometer of the views of those involved in insurance. The audience was asked to select the biggest concern for insurers in the wave of new regulatory requirements from four choices: higher capital requirements; additional regulatory reporting; the introduction of new taxes or levies; and new corporate governance requirements. Overwhelmingly — 79% — they chose higher capital requirements.

The insurance CEOs representing internationally active groups, including Robert Henrikson, chairman of the largest US life insurer MetLife, stressed the importance of US regulations being treated as equivalent under Solvency II to ensure that business flows are not affected.

The other theme that ran through the conference was systemic risk, which was touched on in every panel and by almost every speaker. Keynote speaker Peter Braumüller, chairman of the International Association of Insurance Supervisors, confirmed that there is little evidence of insurance either generating or amplifying systemic risk within the financial system itself or in the economy. As Nikolaus von Bomhard, chairman of Munich Re, explained succinctly, this is because of fundamental differences between insurers and banks, which become obvious when applying the criteria generally used to define systemic risk: size, interconnectedness, substitutability and timing.


Debating regulatory convergence: (L to R) Canadian supervisor Mark White, Christina Urias of the Arizona Department of Insurance, moderator Xavier Larnaudie-Eiffel of CNP Assurances, EIOPA's Gabriel Bernardino, the EC's Karel Van Hulle and Tien-Mu Huang of the Taiwanese insurance bureau

Publications

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

Annual Report 2010–2011
(June 2011)

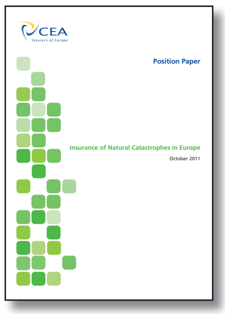
Review of key activities between June 2010 and June 2011, together with details of the federation's structure and organisation.

European Insurance — Key Facts
(September 2011)

Facts and figures about the European insurance market and the contribution of European insurance to society and the economy.

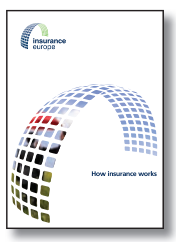
European Insurance in Figures
(December 2011)

An overview of key 2010 data on the life and non-life premiums and investment portfolios of Europe's insurers and on market operators.



Insurance of Natural Catastrophes in Europe
(October 2011)

An explanation for policymakers and others of how the insurance schemes applicable to natural catastrophes work in Europe.



How insurance works
(April 2012)

A short introduction to the principles of insurance, the value insurance provides and the importance of the regulatory environment in maximising the benefits that insurance can offer.

Indirect taxation on insurance contracts in Europe
(April 2012)

A detailed overview of the taxes applicable to insurance premiums as well as the various declaration and payment procedures in most European states.

Combatting the demographic challenge in the insurance sector: A selection of initiatives in Europe
(June 2012)

A sample of good practices in improving the work/life balance, lifelong learning and health and safety, produced with the other partners in the EU Insurance Sectoral Social Dialogue Committee.

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