



Opening remarks from Sergio Balbinot, president of Insurance Europe 8th International Insurance Conference, 25 May 2016

Good morning ladies and gentlemen. It is an honour to speak to you today at Insurance Europe's 8th international insurance conference. I would also like to thank our host, Insurance Ireland, for helping us to put together a day full of interesting discussion and debate.

The theme of today's event is "serving our customer in tomorrow's world". We chose this theme because our industry – and indeed our society – faces potentially seismic technological, demographic and climatic shifts. However, whatever changes the future may bring, insurers need to be able to continue delivering the valuable products and services that help our customers to lead secure and prosperous lives.

So, what components need to be in place to enable us to serve our customers in the future?

Overall, we need regulation that allows us to continue to put our customers at the very heart of everything that we do. For this to happen, we need rules to be clear, simple and fit-for-purpose.

Unfortunately, there are numerous examples of where European legislation – despite being well intentioned – is none of these things. Let me give you an example: to continue improving our service to customers in the future, we need regulation that allows us to keep them appropriately informed.

INFORMATION OVERLOAD & PRIIPS

However, when you consider three new pieces of EU legislation together – that is the Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPS) and Solvency II – they will require a person buying an insurance-based investment product online from a broker to receive 148 different pieces of pre-contractual information. Will this help that person to understand the product they are buying? Clearly not.

Especially when you realise that much of the information is duplicative, which in practice means that the customer will receive the same information several times in a different wording and format.

Another example can be seen in the PRIIPs Regulation. This Regulation provides for a Key Information Document – the KID – that is intended to help consumers compare different investment products and to gain a better understanding of their features. We strongly support this objective.

However, the current proposals of the European supervisory authorities for the design of the KID would make insurance products wrongly appear more expensive and risky than they actually are. If the EU institutions accept these proposals, it means that the KID would actually mislead consumers.

It is, therefore, essential that the EU institutions address these design faults immediately, and get the KID right to allow for a better comparison of products and better consumer understanding in practice.

PRUDENTIAL

Of course, to continue providing products that address our customers' protection and savings needs in the future, we need a regulatory framework that both appropriately reflects our business model, and that takes account of its impact on consumers.

This brings me to Solvency II.



European insurers have contributed a significant amount of resources and effort to its development and implementation. While it brings many significant benefits, such as improved governance and risk monitoring, inevitably for a framework so ambitious, there are aspects of it that will need to be improved.

In particular, people need to understand better why Solvency II is already a very conservative regime. Adding further levels of regulatory conservatism is not the right action, especially in a low interest rate environment, which is already hurting customers' long-term savings and putting pressure on the industry.

For example, there are already calls to increase the levels of capital insurers need to hold even further, such as through changes to the ultimate forward rate or the UFR, as it is commonly known. However, this may be the result of misunderstandings about what the UFR is and how it is used in Solvency II. Firstly, it seems that not many realise that we are discounting liabilities at rates far below the UFR. For example, the UFR is 4.2% but the actual discount rate used for 10 year liabilities is less than 0.8% and even for 60 year liabilities was less than 3% in May.

In addition, not many are aware of the extra assets Solvency II requires insurers to hold, but which are not actually needed to pay claims. The main one of these is the Risk Margin, which has even increased under low interest rates. This is all, of course, in addition to the solvency capital which ensures insurers can cope with a very wide range of extreme adverse events, including significantly lower interest rates.

While low interest rates are creating real challenges for the industry, companies have been taking action — in some cases, for many years — to adapt their products, investment mix, hedges and capital levels. Solvency II makes this a requirement for all companies, creating the need for multiple layers of buffers and protection, as well as introducing very detailed monitoring to allow supervisors to ensure the necessary actions are being taken. So increasing capital requirements now would result in an even more conservative approach for most companies.

Now, some might think, "Surely, setting aside more capital than is actually needed can only be a good thing? Surely, excessive capital doesn't harm customers?" This is simply not correct. Capital is a scarce resource and must be paid for. So excessive capital can, in fact, result in a direct detrimental effect on our policyholders because it can impact charges and also how they invest.

Let me give you a short example: if an insurer has to increase annual charges on a long-term pension product by 1 percentage point because of excessive capital charges, it could reduce the overall pension pay out to the policyholder by more than 20% over 20 years. Yes, that is correct: 20%.

If that level of capital is really needed to provide appropriate protection, then the costs can be justified, but if it is just because of an overly conservative approach or because not enough care or effort has been taken and as a consequence the wrong risks have been measured, then this it is unacceptable.

Yet that is not all. Excessive capital charges could have an adverse effect on the wider economy. Insurers currently invest around 10 trillion euro in the economy, the equivalent of about 60% of Europe's GDP. Excessive capital charges could mean insurers will not be able to continue to invest in a long-term way or to increase their investment into the infrastructure needed to help Europe grow. If we want our customers' savings to benefit from good diversified investment portfolios and to live in a prosperous economy enjoying growth, then regulation needs to allow insurers to make more long-term investment, not less.

Let me be clear: The insurance industry believes that Solvency II overall remains the right approach, and there is no desire to move away from risk-based regulation. However, we do believe Solvency II doesn't yet measure the risks relating to long-term investment in the right way and this leads to capital requirements that are too high. We acknowledge that the European Commission's Capital Markets Union initiative has already made some improvements for infrastructure investment.

Nevertheless, it remains vital for capital charges to reflect the real risk insurers face. Therefore, it is important that policymakers use the review processes built into Solvency II to make the necessary adjustments, so that



the framework can fully work as intended, and to avoid damaging our industry, our customers and the wider economy.

Looking to the global regulatory arena, development of the global insurance capital standard, the ICS, is continuing. Unsurprisingly, some of the key areas of intense discussion are very similar to what we experienced during the development of Solvency II some years ago. As I said, the industry remains supportive of the Solvency II framework, but it also acknowledges that some elements of it, especially linked to long-term business, need improvement. I believe all European stakeholders - industry, regulators, supervisors - should engage in these international discussions, and use the knowledge and experience that we have acquired from the development of Solvency II, to avoid outcomes that we already know are not optimal. From a European perspective, it is also important that Solvency II – or an improved version of it – is recognised as an appropriate implementation of the ICS.

While these issues may seem like technicalities, they go to the very heart of our ability to provide the products that our customers require.

SOLUTION

So how can policymakers avoid the kinds of unintended consequences that I have outlined so far, when designing regulation?

Insurance Europe is calling on policymakers to adopt a genuinely consumer-centric approach to regulation.

To achieve this, we believe that they should:

- Address the cumulative impact of those proposals to delete duplication and clarify contradiction. That would include looking not only at the Level 1 legislative act, but also at Levels 2 or 3;
- Address the complexities of existing rules;
- Focusing on the real (rather than perceived) needs of consumers;
- And making sure that each new proposal delivers its expected benefits to consumers in practice.

This would put consumers at the heart of regulation and help insurers to continue improving their service to customers in tomorrow's world.

DIGITALISATION

Again looking to the future, it is important to recognise that in order to serve our customers in the future, we must embrace digitalisation. Digitalisation is already reshaping the way insurers innovate, distribute, underwrite, compete and interact with their customers.

However, we should be careful with assumptions that digitalisation could be the answer to overcoming all barriers to insurance cross-border businesses, as implicitly suggested by some policy makers. One of the key questions for policymakers around the world will be to ensure that their respective regulatory frameworks are digital and tech-proof. Regulation needs to make sure that standardised information sheets, which should help consumers compare products, will be available in a size, format and content that can be accessed by digital means. But notwithstanding the opportunities that new digital tools are bringing, there will be always elements like culture, tax systems, infrastructure standards and labour markets, that will continue to remain different and only changing the operational mode from paper to digital will therefore not solve all problems.

Another aspect of digitalisation is who owns the data. Let's take the example of highly automated and connected cars. By having access to more granular data generated by their customers' cars, insurers can offer many new products and services. However, for this to happen, policyholders must remain in control of who can access the data so that they can decide whether to provide it to a range of service providers, including insurers. This decision should not be made by the car manufacturers.



At the same time, it is also vital that our industry continues to support non-digital consumers, who may find it difficult to use new digital services. With that in mind, regulatory initiatives should not favour one channel over the other. Ultimately, consumers must be able to choose which means they wish to use to access insurance products and services. Traditional, paper-based and modern, digitally-driven distribution must both remain possible, to avoid excluding customers from accessing the products they need.

CONCLUSION

So what can you take away from the conference today? What do we need to do to ensure that we can continue to serve our customer in tomorrow's world?

- One. We need regulation that is truly consumer centric, that responds to the real needs of consumers and that delivers real benefits, without duplication or contradiction.
- Two. We need regulation that accurately reflects the risks our industry faces, so that while it protects policyholders and taxpayers, it also allows us to continue to invest in our economy and provide the important products our customers demand.
- Three. We need regulation that takes account of the opportunities in our future, but does not forget the important traditions of our past. It needs to be both paper and digital-proof.

Of course, good regulation requires a deep understanding of the insurance business and its characteristics. In order to achieve the best for our clients, without causing unnecessary burdens and unintended consequences, a steady and trustful dialogue between regulators and the insurance industry is needed now, more than ever.

To maximise the benefit of this engagement, our industry must continue working together, as we do through Insurance Europe, which represents not just the interests of a single company or group, but of the entire European insurance industry, encompassing companies of all kinds, whether they are large, medium or small.

This is very important, because we need regulation that allows our whole industry to continue to be part of the solution to many of society's most serious challenges. By standing together, we can ensure that, in the future, regulation allows insurers, not just to stay where we are now, but to contribute even more.

Thank you.