



# Annual Report 2016–2017

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## Glossary

EC	European Commission
EIOPA	European Insurance & Occupational Pensions Authority
GAAP	generally accepted accounting principles
GDP	gross domestic product
IAIS	International Association of Insurance Supervisors
OECD	Organisation for Economic Co-operation & Development
SMEs	small and medium-sized enterprises

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# Foreword



**Michaela Koller**  
Director general

**Sergio Balbinot**  
President

When this European Commission began its mandate in 2014, we had high hopes. Its aim is a stable and prosperous Europe, underpinned by strong economic growth. There was renewed energy in the discussions around putting citizens and consumers first, reducing red tape for businesses and designing regulation that is smarter and more efficient.

Yet, mid-term, where are we? From an insurance perspective, the interim assessment does not look too rosy.

## Excessively onerous

Let's first look at the prudential treatment of our industry: the Solvency II regime brings a welcome shift to risk-based supervision but is generally too onerous and has a key flaw: it assumes insurers invest like traders. This is wrong and leads to over-estimation of liabilities, excessive capital and artificial volatility. These unintended consequences are damaging, particularly for customers who need long-term products and for insurers' capacity for long-term investment.

The bold announcement of the Investment Plan for Europe, including a Capital Markets Union (CMU), was warmly backed by insurers because key objectives included removing unnecessary barriers to investment and addressing the shortage of suitable long-term assets available for investment. However, it proved to be somewhat less than bold in practice.

On the positive side, the problems Solvency II can cause for infrastructure investments were recognised by the Commission and the improvements made have helped reduce, at least in part, the barriers to insurers investing more in this asset class. However, the changes made so far affect less than 2% of insurers' portfolio, while the treatment of most of our long-term portfolio remains excessively high and continues to discourage investment. The Commission plans to address these concerns in the Solvency II review, which must be completed by 2020, so we are encouraging the Commission to work now to ensure suitable solutions can be developed and agreed.

At the same time, EIOPA has made own-initiative proposals for changing the ultimate forward rate (UFR) from 4.2% to 3.65%. The UFR is a key component of the risk-free rate, which is the foundation of Solvency II's valuation. It is defined as a stable and long-term rate, and there is no justification for changing this one element of the risk-free rate methodology when there are wider concerns about excessive requirements and a process for changes is defined by the Directive. Furthermore, with discount

rates with the current UFR as low as 0.6% and 2.7% for 10-year and 60-year liabilities respectively, there is no need for a rushed change because Solvency II's approach to interest rates is already very conservative.

## Customer first?

Let's now look at EU texts that will determine how the insurance industry will treat its customers. In the last two and a half years, the Commission has been diligently working on the legacy of the former Commission and putting the final touches to the PRIIPS Regulation and the Insurance Distribution Directive, which will apply in addition to Solvency II conduct of business measures.

The result is a six-page PRIIPS key information document that does not fully take account of the specific insurance product features, as it treats an insurance premium as a cost rather than recognising the protection it provides. The European Parliament is to be warmly commended for rightly rejecting the faulty first draft of the PRIIPs regulatory technical standards presented by the Commission — the first time it had ever done so in respect of financial services regulation. However, even the rejection led only to marginal improvements and could ultimately not prevent the fact that consumers will compare products based on up to 161 information items that insurers will have to provide in different formats (PRIIPs KID, plus the Solvency II disclosures) because of the EU Level 1 laws. And — notwithstanding work towards a digital single market — the industry will have to provide this information in an old-fashioned, digital-unfriendly, paper format by default. More efforts are required to allow our industry to use modern digital tools and to create a better regulatory basis that leads to real improvements in the customer experience.

## Data ownership

And now let's look at developments for an increasingly connected and automated world. For insurers to be able to offer state-of-the-art motor insurance products to their customers, it is indispensable that consumers — rather than car manufacturers — decide whether, with whom and for what purpose they share their data. Yet there is a real risk that the EU-level discussions fail to produce a meaningful result. If there is no European, consumer-centric policy on access to data, it would effectively allow the technical solutions promoted by the car industry to prevail.

## Expert supervisor

Our supervisor, EIOPA, meanwhile, has generally made a positive contribution to the European insurance market, but it has also been overly conservative and at times focused on own-initiative work. An overly conservative supervisor can stifle the creativity and innovation that should be the bedrock of a well-functioning, consumer-focused sector.

One of EIOPA's core roles, however, is supporting consistent application of regulation such as Solvency II. Therefore, while there is no justification for significant changes in EIOPA's structure, responsibilities or powers, there is a need to achieve the right balance in EIOPA's work. We are feeding our thoughts into the current review of the European supervisory authorities to ensure that insurance expertise is maintained in EU supervision and that the supervisor uses all its powers — particularly to help solve issues in the cross-border provision of insurance under freedom of services — and that it uses its powers correctly.

Last, but certainly not least, the UK's Brexit vote has created new challenges. The insurance industry is committed to minimising the impact on our customers and on business, and to supporting a new basis for cooperation between continental Europe and the UK. We will provide our technical assessment of the impact on the insurance industry to the Commission's Article 50 taskforce. While addressing the Brexit challenges, though, we must still ensure that progress is made on the industry's other priorities. ■



**William Vidonja**  
Head of conduct of business, Insurance Europe

## Insurance on a digital journey

William Vidonja sets out the best ways that regulators can support consumer-friendly innovation and ensure future-proof rules in insurance

Digitalisation has already driven massive change in many industries and areas of our lives. Just think of how you — or your children certainly even more — are now listening to music, watching films or moving around. Digitalisation has entirely shifted the expectations of consumers, as they now require simple and rapid online processes, with no more than one or two clicks to get a product or service.

And digitalisation is starting to transform insurance, changing business models and the relationship with consumers as a result of, for example, mobile devices and apps, blockchain, artificial intelligence and big data analytics. Tomorrow's top-performing insurers, agents and brokers will be the ones who have embraced the opportunities offered by new technologies to improve customers' experiences of insurance, from the products on offer through to distribution, claims management and customer services.

The future is tied to innovation, that is clear. And those in the insurance industry must address the cultural and organisational obstacles in their own companies that prevent them from embracing it. What they also need, though, is an environment that allows them to fully harness this new potential. Regulators and supervisors have a crucial role to play here; they must find the right balance between safeguarding high standards of consumer protection and fair competition on the one hand, and removing



### Digitalisation: a declaration

In October 2016, Insurance Europe (Sebastian Hopfner, pictured left) and the other employer and employee representatives in the EU's Insurance Sectoral Social Dialogue Committee (ISSDC) signed a joint declaration on the social effects of digitalisation.

Recognising the huge changes that digitalisation will require in the tools, skills and competences that employees need, the social partners' declaration sets out principles for the social design of digitalisation, including respect for existing law, the need to maintain and even intensify training activities, and dealing in a social way with structural change.

regulatory obstacles and actively encouraging digital innovation on the other. It might seem a tricky balancing act, but there are some basic principles that make the path much clearer. The first — overarching — one is to be mindful that both established companies and new start-ups in the insurance sector make use of new technology to innovate; these are all "insurtech".

### In the digital era too: consumers first

Consumer trust and confidence, as we stress elsewhere in this Annual Report, are vital to all financial services. The customers of insurtech start-ups therefore need to be confident that they benefit from the same rights and effective protection as the customers of established insurers. This means that regulation and supervision must be activity-based and applied equally to all who carry out the same activities, be they a century-old international group, a small, local niche player or a brand-new start-up.

The EU consumer protection rules applicable to insurance activities and distribution, such as 2016's Solvency II regulatory regime and 2018's Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation, Insurance Distribution Directive and General Data Protection Regulation, must all be applied with equal rigour to all engaged in

insurance, with supervisors monitoring that this is the case.

### Same tools, same rules

National authorities around the globe have begun a variety of initiatives to support digital innovation in insurance, and this is to be welcomed. In Europe, for example, the supervisory authorities in the Netherlands have been working with an "Innovation Hub", where established insurers and start-ups can ask questions about innovative initiatives, and in January 2017 they launched a regulatory sandbox to allow businesses to test innovations in a live environment. In the UK, the Financial Conduct Authority already has a second cohort of applications for the sandbox that is part of its "Project Innovate" initiative. Meanwhile, in Germany the authorities offer close contact and advice to insurtech start-

**"Regulators and supervisors must find the right balance between safeguarding high standards of consumer protection and fair competition on the one hand, and removing regulatory obstacles and actively encouraging digital innovation on the other."**

### Quick read

- Levels of consumer protection must be guaranteed, whether customers buy from established insurers or new start-ups.
- Regulators should give existing insurers the same opportunities to develop innovative products as start-up companies.
- Regulators and supervisors at EU level can help ensure a consistent approach to new developments across Europe.
- Regulatory frameworks need to be digital-friendly.

ups, in France they have set up a fintech forum and in Spain they intend to set up a working group open to stakeholders to analyse further innovation in insurance.

Regulators and supervisors should certainly be taking initiatives and setting up tools to support innovations that benefits consumers. There should be no unnecessary barriers to insurtech start-ups, provided existing insurers are given the same opportunities to develop innovative products and services, thus maintaining a consistent, level regulatory and supervisory playing field between traditional players and start-ups. Innovative supervisory tools can, of course, serve a dual purpose, as they can also help regulators and supervisors identify where existing regulation hinders innovation.

### At EU level too

EU regulators and supervisors have an important role to play in ensuring clarity and consistency, if the European Commission's vision of a digital single market is to be achieved in insurance. With member states adopting national approaches to providing regulatory tools for innovative products and services, the EU authorities should be mapping and assessing the various tools being used, and encouraging the exchange of information, experience and expertise between national authorities. All this should, it goes without saying, be being done at international level too, through engagement with policymakers around the world.

### Future-proof rules

However, the most effective initiative would be to ensure that the EU regulatory and supervisory framework is conducive to insurance innovation, so that consumers benefit from the opportunities digitalisation has to offer. This is currently not the case.

For example, even the new Insurance Distribution Directive and the PRIIPs Regulation require that disclosures are made on paper by default (see p16). This paper-based approach holds back the provision of the online services and “zero-paper” processes that connected consumers already expect — even require — from their insurers and distributors.

And the policymaking and regulatory processes themselves may need an overhaul if they are to keep up with developments in the market. Rather than automatically introducing new regulation for the digital age, EU and national policymakers should review how they can adapt existing rules and approaches, so that consumers' requirements for simplicity, convenience and rapidity can be met.

A truly digital-friendly regulatory framework at EU level would benefit all players, be they traditional insurers or start-ups, wherever they operate across the EU. There is no doubt that this is the best way to support digital innovation in insurance. ■



**Janina Clark**  
Editorial manager, Insurance Europe

## Financial education in a digital age

Insurance Europe and its members are engaged in a variety of financial education initiatives and also make policy recommendations for boosting financial literacy. Janina Clark reports.

Financial literacy and risk awareness are essential skills for life in the modern world. Individuals who are financially literate have a better understanding of financial products and concepts and make more informed decisions about budgeting, saving and risk management. They can then make better choices about the financial services that best suit their individual needs.

Yet large numbers of European citizens still lack the financial knowledge and skills they require. A 2015 survey by the OECD, for example, showed the extent of the challenge, with over 80% of respondents from 17 European countries choosing a financial product without shopping around and using independent information or advice.

The need to improve financial literacy levels becomes even more pressing when one considers the unprecedented pension challenge that Europe is facing. With citizens aged 65+ relative to those aged 15 to 64 set to double between 2013

### New European platform

Insurance Europe is a founding member of the European Platform for Financial Education, which was launched in February 2017. The Platform's aims are to pool knowledge and coordinate initiatives to promote financial education and boost financial literacy, particularly among young people and entrepreneurs, and to encourage EU-level leadership in this field.

The eight other founders are: Better Finance; the CFA Institute; Eurochambres; the European Banking Federation (EBF); the European Banking and Financial Services Training Association; the European Fund and Asset Management Association; the European Microfinance Network; and JA Europe.

One of the first actions that the Platform has taken has been to respond to the European Commission's consultation on its Capital Markets Union (CMU) mid-term review in March 2017. The importance of financial education for consumers and investors was already recognised in the Commission's Green Paper on building a CMU and its report "Accelerating the Capital Markets Union: addressing national barriers to capital flows". The Platform therefore encouraged the Commission and other EU institutions to take greater leadership in boosting financial education in Europe to empower consumers, investors and entrepreneurs, and contribute to sustainable European growth.



and 2060, the EU urgently needs individuals to take greater responsibility for saving for their retirement.

### Insurance sector engagement

One of the main policy challenges is to move from raising awareness of financial issues to actually changing individual behaviour. To succeed in improving financial literacy, commitment is needed from many parties, including the European Commission, member states, public authorities, consumer organisations, the private sector and academia.

Insurance Europe and its member associations are keenly aware of this responsibility. They engage in a wide variety of financial education and awareness initiatives. These include:

- supporting national strategies
- developing materials for schools and colleges and giving lessons and talks
- developing consumer websites, advice services, online insurance calculators, pension tracking tools and information materials
- running awareness-raising campaigns

The federation and several of its members participate in

Global Money Week every spring, which aims to inspire children and young people to learn about money, saving, creating livelihoods, gaining employment and becoming an entrepreneur. To coincide with 2017's Global Money Week, Insurance Europe produced a publication showcasing some of the many initiatives its member associations undertake during Global Money Week and beyond.

Called "[Financial education in a digital age](#)", the publication seeks to inspire those engaged in financial education and disseminate best practice. Technological innovations are changing our lives faster than ever before. From consumer websites to mobile phones applications, there are now more ways to communicate with individuals about their finances. In terms of financial education, one of the great benefits of improved technological resources and tools is the potential to reach a wider section of the public, which can lead to higher levels of financial inclusion in the population as a whole.

To give just four examples of the innovative projects by member associations:

- Finland's annual "[Talousguru](#)" (Economic Guru) is a nationwide financial knowledge competition organised

for pupils aged between 16 and 19 in around 100 schools. In 2017, the competition was complemented by a YouTube video blog contest (#tubetattonni). The idea is for young "vloggers" to give everyday personal finance tips and perspectives on the theme "Me and my money".

- Online and mobile phone financial education games, such as the ones developed in [Germany](#), [the Netherlands](#) and [Portugal](#), are used more and more in the classroom. Accompanied by explanations of basic insurance concepts, they are proving an effective way for young people to learn about these concepts in a way that best appeals to them.
- In 2016 Spain launched an ambitious and wide-ranging, four-year awareness-raising project "[Estamos seguros](#)" (We are safe/sure/insurance), which also includes a financial education initiative that promotes insurance and risk prevention to high school students.
- Germany's "[7 Jahre länger](#)" (7 years longer) campaign is to raise awareness of longer life expectancy and its challenges. The campaign website also features calculators for life expectancy and the cost of living until the end of one's life.

### Quick read

- A wide range of financial education initiatives are run by Insurance Europe and its member associations. Many are showcased in the recent publication "[Financial education in a digital age](#)".
- The policies set out in Insurance Europe's financial education publication and in its February 2017 "[Blueprint for Pensions](#)" (see p45) could raise financial literacy levels and help alleviate the pension crisis.



### Policy recommendations

Given how vital it is that parties engage in promoting financial education, Insurance Europe's booklet also includes recommendations for policymakers, including those at EU level. Although financial education is first and foremost the responsibility of each EU member state, EU policymakers and regulators could nevertheless take a more leading role by, for example, supporting the implementation of national financial education strategies, disseminating best practices and promoting tracking services. EU policymakers should also ensure that legislation focuses on better, not more, information for consumers and that legislation is digital-friendly, technologically neutral and sufficiently future-proof to be fit for the digital age.

### Pension policies

As individual responsibility becomes ever more vital, public awareness of the need to make adequate provision for retirement must be raised. The European insurance industry is working with national governments to draw people's attention to the fact that they need to save (more) for their retirement and take responsibility for financing that retirement.

Recommendations of ways to promote financial literacy form a central pillar of Insurance Europe's "[Blueprint for Pensions](#)" (see p45), which was published in February 2017. The Blueprint sets out the extent of the challenge governments face in making sure that their citizens have an adequate retirement income and proposes ways to help ensure that European citizens can save enough, save well and save wisely for their retirement. These include making sure that people have access to information about the financial products and services available to them and policymakers ensuring that pension and savings information is clear and consumer-friendly.

There is no single policy measure that will ensure adequate financial literacy in Europe or fix its pension crisis, but — implemented widely and consistently — the proposals in Insurance Europe's financial education publication and its Blueprint could help significantly to raise literacy levels and reduce the pension savings gap. ■



**Alastair Evans**  
Chair, conduct of business committee, Insurance Europe  
Head of government policy & affairs, Lloyd's, UK

## One, two, three, no go

More care is needed if the Level 2 measures of EU consumer protection legislation are to serve consumers well, warns Alastair Evans

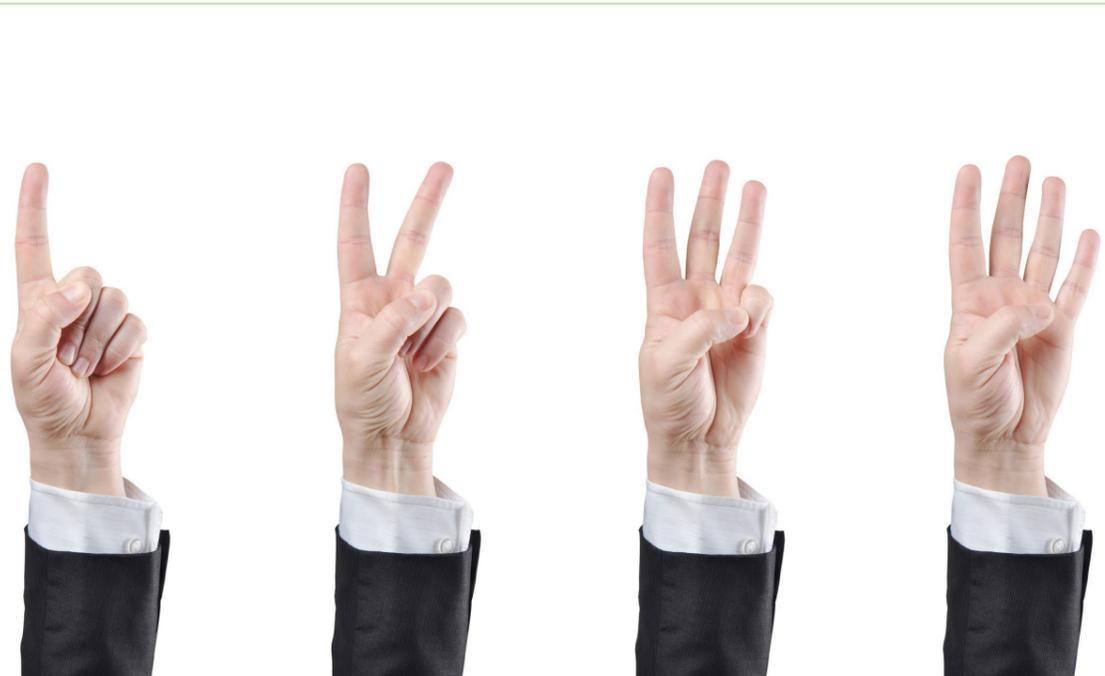
Effective consumer protection rules are vital to enhance trust in any industry, and especially financial services. The EU institutions accord a high priority to consumer protection and Insurance Europe supports appropriate rules that add value for customers. What we have been witnessing, though, is the good original intentions of policymakers and legislators getting lost during the EU legislative process.

Over the last year, we have seen the flawed development of the PRIIPs Regulation (see box on p16). More recently, it has been the Level 2 measures for the Insurance Distribution Directive (IDD) that have given cause for concern.

The IDD entered into force in February 2016 and the focus of this past year has been on the development of the Level 2 measures. EIOPA consulted on draft technical advice on possible delegated acts during the second half of 2016, covering issues such as product oversight and governance, conflicts of interest and inducements. However, parts of EIOPA's draft advice contained worrying proposals that would have gone well beyond the Level 1 text.

### EU financial regulation: the levels

- Level 1: An EU directive or regulation proposed by the European Commission and adopted by the Council of the EU and the European Parliament.
- Level 2: At Level 1, provision can be made for Level 2 implementing measures. This secondary legislation is drafted and adopted by the Commission, often on the advice of the relevant European supervisory authority (ESA), with oversight by the Council and Parliament in some cases.
- Level 3: ESAs' guidance, mostly used on a "comply or explain" basis by national supervisors.
- Level 4: Supervision and enforcement.



### Quick read

- Deficiencies in the EU law-making process are failing consumers and creating implementation difficulties for the industry.
- The current work on the detail of the Insurance Distribution Directive and the recent PRIIPs Regulation are cases in point.

These proposals included, among other things, a *de facto* ban on commissions by drawing up a "blacklist" of inducements that would be automatically considered to have a detrimental impact on consumers, and a legal assumption that conflicts of interest would always occur in a specified list of circumstances, without any possibility of proving otherwise.

In terms of product oversight and governance, EIOPA also proposed restricting the possibility to sell an insurance product outside its intended target market, even if that product meets the demands and needs of the individual customer. It also introduced an additional requirement to specify a "negative" target market, ie the group of potential customers for which any given product would not be intended.

Insurance Europe's mock-up IPIDs meet all the relevant information requirements set out in the IDD, while adopting both a more flexible approach and a digital-friendly approach that complements the growing trend of digitalisation in financial services.

investment of transferable securities), as these IBIPs would have to go through a "demands and needs" analysis on top of the appropriateness test under the IDD, and they would automatically be assigned a comprehension alert under the PRIIPs Regulation. Therefore, concerns still remain and the responsibility now lies with the EC and then with the Council of the EU and the European Parliament to ensure that the final IDD delegated acts are fully in line with the Level 1 text and achieve the intended benefits for consumers.

### Remember the consumer

The improvements made by EIOPA to both its final technical advice on the delegated acts and the draft implementing technical standards for the IPID are to be welcomed. EIOPA took on board the concerns raised by stakeholders — particularly with regard to ensuring consistency with the Level 1 text — and it submitted final texts to the European Commission that were a vast improvement on the originals.

However, EIOPA introduced a new criterion that would lead to almost all insurance-based investment products (IBIPs) being classed as complex products. This would result in a *de facto* ban on execution-only sales and seriously undermine the IDD's option to allow member states to have execution-only sales of non-complex IBIPs. It would also put IBIPs at a significant competitive disadvantage to other investment products, such as UCITS (undertakings for the collective

In the case of the draft implementing technical standards for the IPID, EIOPA adopted many of the components of Insurance Europe's proposed format, which should ensure that it will be a useful tool in helping consumers to make informed decisions when buying insurance products. For example, as Insurance Europe recommended, EIOPA proposed questions as section titles, instead of descriptive headings, to make the document simpler and more consumer-friendly.

EIOPA has also allowed a layered approach to the presentation of information, enabling consumers to access supplementary information if they choose. This will be particularly important when consumers read online. EIOPA also abandoned an

### Insurance Europe mock-up IPIDs



### Preparing an IPID

At the same time, EIOPA also consulted on draft implementing technical standards (ITS) for an insurance product information document (IPID). Under the IDD, EIOPA is required to develop a standardised format for pre-contractual information for non-life products. To support EIOPA in its work, Insurance Europe developed its own [mock-up information documents](#) to offer a solution that is consumer-friendly and works in both paper and digital formats. Our proposals use icons to help consumers identify relevant information quickly and make the document simple and easy to read.

overly-prescriptive approach that would have set specific font types and sizes. However, it is disappointing that the EU appears to have missed an opportunity to combine all required non-life pre-contractual information disclosures into one single document, since it is not allowing Solvency II information requirements to be included in the IPID.

#### Rushed implementation

The short time left for the industry to implement the Level 2 requirements once they have been finalised will be a significant challenge. Given that the deadline for member states to enact the IDD is 23 February 2018 and the delegated acts are currently scheduled to only come into force in autumn 2017, the industry may in practice be left with little more than a couple of months to comply with the final text of the Level 2 measures. This is simply not realistic.

Another worrying prospect is the strong likelihood of EIOPA seeking to develop Level 3 guidance on a range of different issues that would go well beyond the Level 1 text.

Indeed, EIOPA has already indicated in its consultation document on the technical advice, and in the final advice itself, a number of areas where it considers further clarification at Level 3 may be necessary. This is despite the Council of the EU and the European Parliament already deciding that many of these areas should be left to member states' discretion.

Both the PRIIPs Regulation and the IDD show that a truly consumer-centric approach to EU regulation is urgently needed to avoid any further flawed and chaotic legislative processes. The EU regulatory framework must enable insurance companies to satisfy consumers' real needs and demands. ■

## OPINION



**Dr Thomas Loesler**  
Chairman, Global Insurance Chief Compliance Officers Forum  
Group Chief Compliance Officer, Allianz

## Consumer protection – *cui bono?*

Dr Thomas Loesler explains why “well meant” does not always equate to “well” in consumer protection legislation, and can be expensive too

Many insurers across the globe have formulated strategic agendas in which the customer is put at the very centre of all their activities. Likewise, regulators across the globe have put consumer protection at the core of their regulatory agendas.

A recent [study](#) by the University of St Gallen, Switzerland on the consumer's view of consumer protection found that those at the centre of all these discussions have hardly been asked or analysed yet — namely the consumers.

There is an interesting similarity in behavioural patterns one can observe both among insurance executives and lawmakers. Both groups are customers, as everyone has all kinds of insurance. So why is it that the same people who privately complain about their insurance being too difficult, too expensive, too narrow in coverage, etc. rarely turn their frustration into efforts to address their own needs better and more efficiently? It feels as though they work on an artificial definition of “the customer” and what they want, need or wish for.

In the insurance sector, at least, this has largely been understood and there are many initiatives under way these days; for example, defining journeys along the entire customer lifecycle and focusing products and

### Lessons from PRIIPs

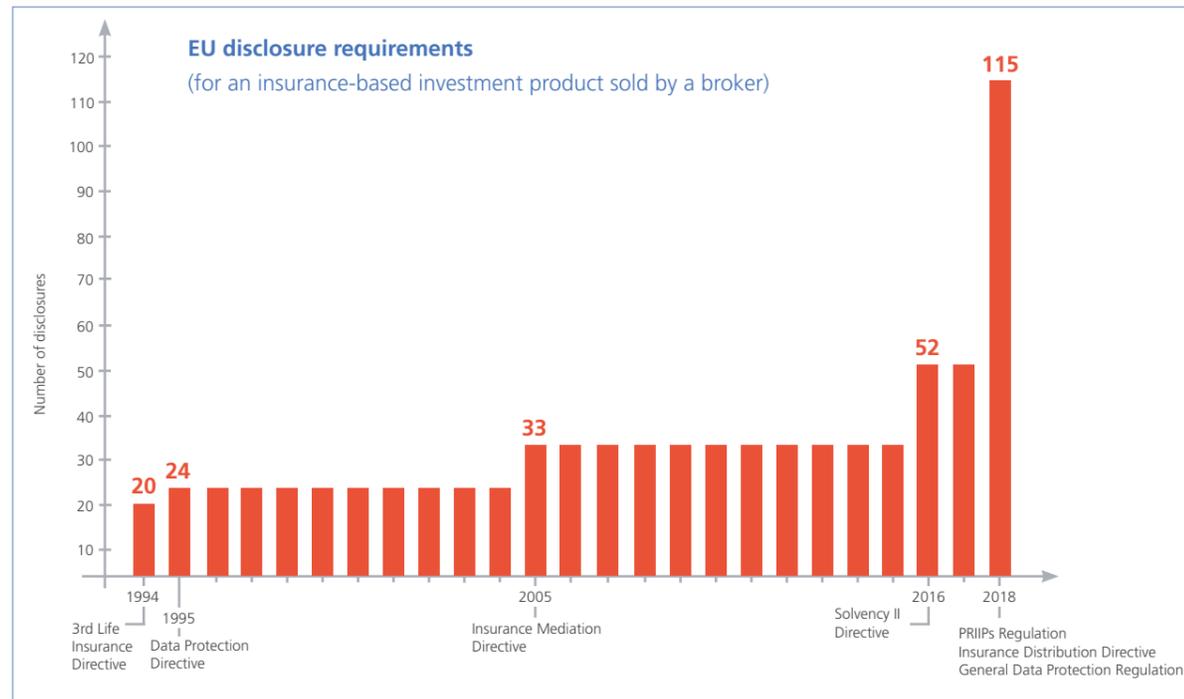
The process that produced the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation was a salutary lesson in how not to make consumer protection legislation.

PRIIPs aims to make investment products more transparent and more easily comparable for retail investors. Unfortunately, the development of the Level 2 measures specifying the rules for Key Information Documents (KIDs) for PRIIPs did not initially take the right direction.

The flawed approach by European policymakers led to a hurried compromise and significant design faults. This, in turn, led the European Parliament to block the process and reject the Commission's first proposed set of regulatory technical standards in September 2016 — the first time this had ever happened in financial services. In March 2017 the European Commission adopted a revised set of standards, which have now been approved.

It is vital to learn from the deficiencies of the process to ensure that future EU law-making at Levels 1, 2 and 3 genuinely focuses on delivering its objectives and the expected benefits to consumers.

- The original implementation timeframe did not fully take into account the fact that the industry needed time to programme, test and launch the KID. Policymakers must consider allowing an additional, separate timeframe for technical standards to be developed and for implementation by the industry.
- The PRIIPs Regulation and other legislative proposals (such as the Insurance Distribution Directive and Solvency II Directive) were developed in isolation. Not enough attention was given to their cumulative impact on consumers and the likelihood of consumers facing information overload and receiving duplicative information. The cumulative impact of proposals must be assessed.
- The PRIIPs Regulation requires pre-contractual information to be provided to consumers on paper by default. The Commission should ensure that preference is not given to a specific medium and that rules are future- and tech-proof.
- To ensure that Level 2 measures truly benefit consumers, any proposal should successfully pass consumer testing before being adopted.



### Too full disclosure

We are currently seeing a number of upcoming regulations that ambitiously aim at enhancing consumer protection by providing consumers with well structured, transparent information in order to enable them to take well-informed decisions. And this ambition rightly finds wide support across all stakeholders.

The way this goal is technically transposed into legislative acts, however, has sometimes quite the opposite effect. As the chart shows, the number of EU disclosure requirements applicable to the sale of an insurance-based investment product is set to leap to well over 100.

services on meeting the customer needs identified in those journeys. Wouldn't the same approach be worth considering for lawmakers — ie, putting themselves in the shoes of a customer and (re)thinking consumer protection from this perspective?

As much as insurance companies are working very hard on identifying what their customers' needs are and how best to meet and serve them, lawmakers and regulators could invest comparable efforts in better defining the right level of protection that insurance customers need and in what situations they need it.

#### Comprehensive yes, clear no

A case that perfectly exemplifies this phenomenon is the intended Key Information Document for packaged retail and Insurance-based investment products (PRIIPs KID) (see also previous article). The legislative goal can be easily described:

**“Simply ask yourself what benefit a six- or three-page document with technical language would provide in your own decision-making on which investment product to buy.”**

consumers should be provided with simple and understandable information in a standardised form before any insurance-based investment product is concluded.

To put this simple goal into practice, insurers are required to implement the Level 2 regulatory technical standards (RTS). This is a long document in which technical requirements for the “what” and the “how” of pre-contractual customer information is defined down to the last comma. When Insurance Europe prepared a mock-up Key Information Document in an attempt to fully comply with the first draft RTS, it ended up with almost six A4 pages. This is worth mentioning, as the draft RTS provisions imposed a maximum of only three A4 pages.

But, independent from this, simply ask yourself what benefit a six- or three-page document with technical language would provide in your own decision-making on which investment product to buy. The information a broker will need to provide to a customer before selling an insurance-based investment product looks set to more than triple due to various new legal requirements at EU level — none of them pre-checked for consistency.

Similar developments can be observed in other areas. Let's take data protection and look at one detail — admittedly selective, but an impressively exemplary one.

The EU General Data Protection Regulation (GDPR) requires data controllers to report personal data breaches to the competent supervisory authority within 72 hours of becoming aware of a potential breach. The idea behind this is noble. Once the authority is made aware, it could swiftly act to the benefit of the affected individual.

It is a pity, though, that defining a materiality threshold was forgotten, ie, the GDPR requires the reporting of any incident with a likely risk to an individual. In light of the draconian new sanctions regime for non-compliance, it is highly unlikely that data controllers are going to actively choose “common sense” implementations. Hence, authorities will be flooded with potential data breach notifications and will no longer see the wood for the trees. The intended protection of individual rights is therefore likely to fall short.

We can only hope that the Article 29 Working Party (comprising national data protection authorities, the European Data Protection Supervisor and the European Commission) will bring some clarity by defining instances of incidents with a likely risk to individuals.

Another example is the “extraterritorial” effect of the GDPR in certain cases. A data controller outside the EU will have

to comply with European laws when offering services to EU residents. The politically well-meant idea was to grant EU citizens additional privacy protection against non-EU businesses. However, as the GDPR imposes unprecedented and massive new obligations, one already sees businesses toying with the idea of withdrawing from the EU market.

#### Who pays?

But that's not all. Technical implementation efforts for the private sector are huge. Investment in IT and changes to operational processes will cost the industry billions of euro, with a bumpy legislative process as an additional cost factor. Is it truly realistic to assume that those costs will not be partly borne by consumers, too?

It may be a boring call to some people's ears, but I am making it nevertheless; we need regulation that not only firstly defines ambitious goals like consumer protection but that is then made into a legislative process that includes the painful effort to think it through to the very end. This includes seriously considering implementation challenges and balancing well intended legislative goals with their costs, which may kill those goals.

We need regulation that ends by delivering the honourable pledge with which it began. ■



**Torbjörn Magnusson**  
**President & CEO, If P&C Insurance, Sweden**  
**Vice-president, Insurance Europe**

## The road to opportunity

For motor insurers, the road to an autonomous future passes through new technologies, partnerships and business models. For now, though, a hand on the steering wheel will still be required, says Torbjörn Magnusson.

Autonomous cars drive themselves along narrow, green, city streets. You order a car using an app, entering your destination and your needs, whether they are an SUV with winter tyres when you are going skiing with your family, a van with tie-down straps when you are going to IKEA or a city car for you and others to share on the drive to work. When the cars have finished for the day, they drive themselves and park, well outside the car-free city centre. This futurist vision has somehow always remained 20 years away, but now, thanks to the exponential development of tailored sensory equipment, big data and artificial intelligence, the vision is finally beginning to materialise.

Developments in technologies are creating new consumer behaviours. In response, the insurance industry is placing greater emphasis on the functionality instead of the product, which gives rise to opportunities. And the changes are arguably the greatest in the motor segment. There are three main trends (see figure on p21) that we have to adapt to: changes in mobility; increased automation; and connected cars. An intriguing question is how the €132bn European auto insurance market will look in the future.

### On the move

Changes in mobility are the most visible development trend at the moment. We are seeing a service concept whereby travellers either buy or subscribe to a combination of different transport

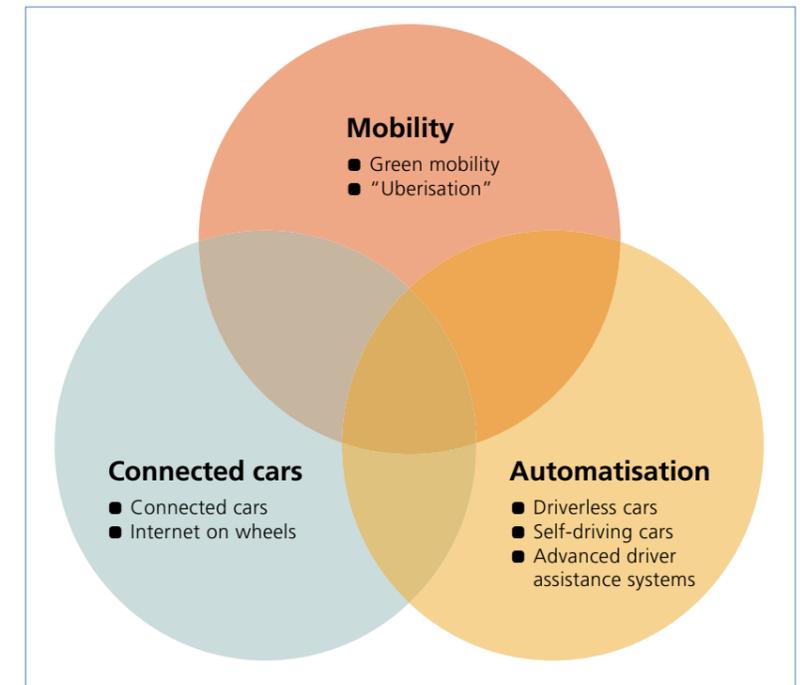
alternatives, for example through companies such as Uber, car sharing or car pools.

Once mobility services are used instead of buying or owning your own means of transport, the need for traditional car insurance decreases. Instead, insurers need to look at new types of business concepts/models with those providing the cars. A large number of car manufacturers have already started to embrace the concept of car sharing.

### Automatic for the people

The automation of cars has been a trend for some time, and in recent years computers have become an integrated part of the car itself. Automation also means a significant improvement in safety in cars. A useful framework for understanding the future evolution of autonomous vehicles is the SAE scale, with its five levels of automation (see table on p22). One point to note is that self-driving technology is often confused with fully autonomous cars — level 5 — which still lie further in the future.

Autonomous technology will without doubt have an impact on the insurance industry. However, traditional car insurance will still be an integral part of the transportation system for the foreseeable future for two main reasons:



- There is currently no legislation to regulate the use of autonomous vehicles, although powerful initiatives are under way, such as the EU's GEAR 2030 to reinforce the competitiveness of the European automotive industry.
- In the EU today, there are more than a quarter of a billion "analogue" cars that are not going to disappear overnight. The insurance industry's role will be to smooth the way for the new technology and to maintain responsibility for the cars on our roads today.

### Making connections

The car industry's strategic focus is shifting from hardware to software; new software, continuous surveillance and over-the-air (OTA) updates give the car manufacturers opportunities to provide new services as well as to create new forms of income.

From 2018 onwards, eCall will be required in all new cars in the EU. eCall is a European service for electronically triggered distress calls from vehicles to a call centre, and it effectively amounts to a requirement for all new cars to be connected.

Although we are seeing a move towards product insurance coverage for cars, there will still be a need for basic third-party liability car insurance for many more years, to cover

SAE level	Name	Narrative definition	Execution of steering and acceleration/deceleration	Monitoring of driving environment	Fallback performance of dynamic driving task	System capability (driving modes)
<b>Human driver monitors the driving environment</b>						
0	No automation	The full-time performance by the <i>human driver</i> of all aspects of the <i>dynamic driving task</i> , even when enhanced by warning or intervention systems	Human driver	Human driver	Human driver	n/a
1	Driver assistance	The <i>driving mode</i> -specific execution by a driver assistance system of either steering or acceleration/deceleration using information about the driving environment and with the expectation that the <i>human driver</i> perform all remaining aspects of the <i>dynamic driving task</i>	Human driver and system	Human driver	Human driver	Some driving modes
2	Partial automation	The <i>driving mode</i> -specific execution by one or more driver assistance systems of both steering and acceleration/deceleration using information about the driving environment and with the expectation that the <i>human driver</i> perform all remaining aspects of the <i>dynamic driving task</i>	System	Human driver	Human driver	Some driving modes
<b>Automated driving system ("system") monitors the driving environment</b>						
3	Conditional automation	The <i>driving mode</i> -specific performance by an <i>automated driving system</i> of all aspects of the <i>dynamic driving task</i> with the expectation that the <i>human driver</i> will respond appropriately to a <i>request to intervene</i>	System	System	Human driver	Some driving modes
4	High automation	The <i>driving mode</i> -specific performance by an <i>automated driving system</i> of all aspects of the <i>dynamic driving task</i> , even if a <i>human driver</i> does not respond appropriately to a <i>request to intervene</i>	System	System	System	Some driving modes
5	Full automation	The full-time performance by an <i>automated driving system</i> of all aspects of the <i>dynamic driving task</i> under all roadway and environmental conditions that can be managed by a <i>human driver</i>	System	System	System	All driving modes

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personal injuries and damage to property caused by semi or fully autonomous vehicles. If the damage or injury is due to product defects, it seems likely to be interpreted as a product liability and the car manufacturer will be held liable for the claim. Since it is the motor insurance companies that settle the claims, we will need to establish well-managed subrogation and recovery agreements for the product liability together with the car manufacturers to avoid lengthy court proceedings.

#### Whose data?

Another question is who owns the data generated by the connected cars. Is it the car manufacturer, the driver or someone else? Does the driver have the right to extract driving data so that the insurance company can investigate a traffic accident? The insurance industry strongly advocates that drivers must control their data and be free to share it with the service providers of their choice, and that access to this data should be through an open platform.

And what is the best way to manage the vast amounts of data that are rapidly going to be produced? What should be saved, how should it be stored and for how long? The line between the conflicting interests is thin and fragile. At the same time, the protection laws regulating the storage of

personal data are becoming increasingly stringent. Ensuring consumers are in the driving seat when it comes to this data is a sound approach to managing the various parties with a legitimate interest in accessing and storing the data.

The road ahead passes through a landscape dotted with many different, sometimes conflicting, needs. We have to maintain a balance between the present and the future. Mobility, connected cars and automation will merge even more in the future. The players who will become successful in the market are those who find the right balance between collaborating with their partners and excelling at their own game, between analogue and digital cars. We have a paradigm shift ahead of us, although it is hard to predict exactly when this will occur. As industrialist Henry Ford once said: "Progress happens when all the factors that make for it are ready, and then it is inevitable." ■

#### Video

Watch "[A fair and competitive vehicle service industry in the digital era](#)", an animation by a coalition of industry and motorist representatives, on the Insurance Europe website.



**Nicolas Jeanmart**  
Head of personal insurance, general insurance & macroeconomics, Insurance Europe

## Getting IT right

Cyber risk insurance is a small but fast-developing market. Insurance Europe wants to contribute to the right conditions for growth, says Nicolas Jeanmart

The internet of things, connected cars, cloud computing, wearables, telematics — so many current buzzwords relate to information and communication technology that it is no surprise that cyber attacks cost businesses as much as \$400bn (€367bn) a year, according to Lloyd's of London. A survey by reinsurer Swiss Re and technology firm IBM in October 2016 found that 40% of companies had been affected by a cyber incident in the past three years.

Forecasts suggest that a trillion devices could be connected by 2020, yet cyber risk is the risk most underestimated by businesses, according to the 2015 Allianz Risk Barometer, for which the German insurance group surveyed over 500 risk managers and experts from more than 40 countries. This, in part, explains why the cyber insurance market is currently estimated to be worth only between \$2bn and \$3bn (see figure on p25) — a tiny fraction of the \$2 020bn of global non-life premiums estimated by Swiss Re in 2015.

The cyber risk insurance market may still be relatively small, but it is growing rapidly and will continue to do so. Predictions vary, but Swiss Re forecasts that it will increase by at least 15% a year over the next five to 10 years. Lloyd's saw a 50% leap in companies and individuals taking out policies in 2016.

The US is currently by far the largest market for cyber risk insurance (although much of the cover is written by international insurers).

### Quick read

- Global cyber insurance premiums total less than \$3bn (€2.8bn), mainly in the US, but demand is growing in all countries and all sectors.
- Insurers face the usual difficulties they face when insuring new risks, in particular a lack of data, but new EU regulations could help in that respect.
- Awareness of cyber risk needs to be raised, particularly among SMEs. The insurance industry is assisting in this; policymakers could do more.

This is partly because the introduction of mandatory reporting requirements for cyber attacks in the vast majority of US states, with large fines for violations, has increased awareness of cyber risk and demand for third-party liability cover.

In Europe, the market is much smaller and varies considerably by country, with the UK being the most developed. Two new EU regulations due to be implemented in 2018 look set to increase cyber-risk awareness. The Network and Information Systems Directive adopts comprehensive cyber-security measures for key sectors such as health, technology, banking and digital service providers. It also introduces a requirement to report cyber attacks. And the General Data Protection Regulation is likely to drive demand for third-party liability cover, as legislation did in the US. The Regulation will harmonise data protection regimes within the EU, introducing the requirement to notify data breaches to supervisory authorities and affected individuals and setting penalties.

#### Access to data

As the cyber insurance market is relatively young, insurers face a variety of difficulties when considering offering cover. Prime among these is a lack of data. While historical data may not always be especially meaningful for calculating future losses — given how fast cyber risks are evolving — allowing

insurers access to data-breach information collected by national authorities could increase the insurance cover they can offer and improve the loss prevention and mitigation advice they provide.

To this end, the European insurance industry is seeking access to the anonymised, aggregated data sets that the GDPR will create. Insurance Europe is in discussions with the Article 29 Working Party (comprising national data protection authorities, the European Data Protection Supervisor and the European Commission) about the elements to be shown in the templates for breach notifications. These should include, for example, the type of company affected, its size and the duration of the attack and its effects.

#### Awareness of exposures

Another barrier to the development of the European cyber risk insurance market is companies' lack of awareness of cyber risks and their need for insurance cover. Most current

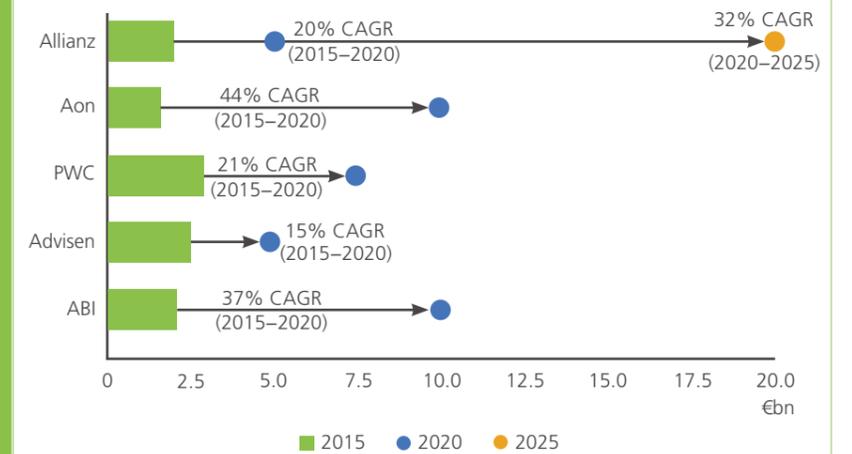
**“The European insurance industry is seeking access to the anonymised, aggregated data sets that the GDPR will create.”**

### What is cyber risk?

The Geneva Association defines cyber risk as the compromising of the confidentiality, availability or integrity of data or services arising from the use of information and communication technology. This can lead to business disruption, infrastructure breakdown and physical damage to humans and property.

Cyber risk can be both natural (eg flooding, earthquakes) and accidentally or deliberately man-made (eg cyber crime, cyber terrorism).

### Estimates of worldwide cyber insurance premiums — 2015–2025 (\$bn)



CAGR = compound annual growth rate

Source: Swiss Re Sigma No.1 2017 "Cyber: getting to grips with a complex risk"

purchasers are large businesses with sophisticated risk management plans, yet it is SMEs that are affected by almost two-thirds of all targeted cyber attacks, according to cyber security firm Symantec.

Insurance Europe and its member associations are already working to raise awareness of the growing threat cyber risks represent. In the Netherlands, for example, the insurance association and several insurers participated in a project by the SME employers association, MKB-Nederland, that included offering 300 SMEs a "free hack" to test their cyber resilience, resulting in half the "hacked" companies being willing to implement additional cyber-security measures.

Due to the range of cyber risks, which vary considerably between sectors, there is no standard insurance policy for cyber risks. Cyber risk insurance can be sold as a stand-alone product or as part of another policy. Cover is offered for liability and data protection risks, but also business interruption.

Since the market is young, there is also still a lack of uniform definitions and terminology, although with time and competition the market is likely to standardise where appropriate. In certain markets, initiatives are being taken to facilitate this. The German insurance association, the GDV, for

instance, has developed non-binding model wordings for SME risk covers.

#### The market knows best

While the development of cyber insurance should remain market-led — which is the best way to provide customers with the innovative products they want at competitive prices — governments do have a role to play in facilitating the dissemination of information about cyber threats and losses, in setting legal frameworks and in preparing national cyber-risk strategies that raise awareness and support loss prevention and mitigation.

Insurance Europe engages with policymakers at EU level on all these issues, particularly since insurers can help based not only on their experience of cyber risks, but also on their many years of insuring natural catastrophe and terrorism risks, which are similarly large and multi-faceted events.

Insurers have centuries of experience in developing products for new and unusual risks so, given the right conditions, the market will develop as awareness of cyber risks grows and demand increases. Half the insurers questioned in the Swiss Re/IBM survey not already offering cyber cover plan to do so in the next few years. ■



**Gary Shaughnessy**  
CEO EMEA, Zurich Insurance Group, Switzerland

## Cause and effects

Gary Shaughnessy of Zurich Group sets out the insurance industry's multifaceted commitment to tackling climate change risks

The insurance industry faces many challenges from trends in the external environment: digitalisation, an ageing society and an uncertain political dynamic to name but three. Nonetheless, changes in climate continue to feature as a key global challenge.

Indeed, according to the World Economic Forum's [2017 Global Risks Report](#), environmental risks such as extreme weather, large natural disasters and the failure to mitigate against and adapt to climate change continue to feature as the most prominent risks in terms of impact and likelihood. This is despite the extraordinary geopolitical events in 2016. Insurers can help society to address climate change through adaptation and mitigation. Importantly, we can also use our influence to encourage behavioural change in our stakeholders.

### Adaptation

Climate change adaptation means helping customers and communities become more resilient to the effects of change in climate, such as natural disasters and extreme weather events. One of the most obvious and devastating impacts of climate change is flooding.

Floods affect more people globally than any other

type of natural hazard and cause some of the largest economic, social and human losses. Research suggests that flooding poses a threat to roughly 21 million people across the world every year, costing the global economy over \$90bn (€83bn), with the potential for an estimated six-fold increase over the next 15 years<sup>1</sup>. By using our risk expertise, global insurers help customers and communities to reduce the devastating impacts of floods, even before one hits, by developing flood resilience.

Zurich, together with academic institutions and NGO partners — such as the International Foundation of the Red Cross and the Wharton School — has developed a [flood resilience framework](#) with innovative pre-event mitigation measures to help the poorest communities in the world protect themselves from floods.

One example of how Zurich addresses community flood resilience is the "From Vulnerability to Resilience: Household Preparedness" project in Bangladesh. Skilled volunteers monitor water levels by setting up water gauges at different points in flood zones. Measures to help householders include building raised foundations for houses to keep them above water levels, and providing safer drinking water and sanitary latrines. Families have also been trained in improved methods to cultivate vegetables and protect animals, so that

<sup>1</sup> <http://www.artemis.bm/blog/2015/03/11/economic-cost-of-flooding-could-hit-500-billion-by-2030/>

they are able to continue producing vegetables and rearing livestock and poultry during floods, significantly increasing the food available for consumption.

After initial CHF 33m (€31m) funding from the Z Zurich Foundation in 2013, the programme today includes community flood resilience projects across nine countries.

### Mitigation

Mitigating climate change means working towards the transition to a cleaner, circular economy (see diagram on p28). Insurers can be direct investors in this shift within the framework of the United Nations' COP 21 Paris Agreement of December 2015. One example is green bonds, the importance of which was recently highlighted by the [G20's Green Finance Synthesis Report](#).

Green bonds are debt securities issued to fund projects that reduce the effects of climate change or help communities adapt to the impact of such change. They make it possible to generate market-level returns and still achieve a positive impact. For example, by participating in a loan to an offshore windfarm, one insurer expects its share of that project's financing to help avoid more than 800 000 tons of CO<sub>2</sub> emissions annually, equal to greenhouse gas emissions from 169 000 passenger vehicles driven for one year. The green



enough clean, affordable energy to power approximately 160 000 Californian homes and displace 300 000 metric tons of greenhouse gas emissions per year — equivalent to taking 60 000 cars off the road. In Italy, Germany and Switzerland, Zurich provides customised coverage for private homeowners and small to mid-size commercial companies to build renewable energy facilities, such as photovoltaic, solar thermal, biomass and geothermal installations.

The insurance industry must also look at itself and recognise its responsibility to reduce its own carbon footprint. The expectation to do so is increasing from all sides: customers, policymakers, shareholders, employees, society and our own internal standards. Zurich aims to reduce carbon emissions generated by our office buildings and business travel by 50% per employee and energy consumption per employee by 40% by 2020, compared with a 2007 baseline.

We have continued to purchase carbon credits since becoming carbon neutral at the end of 2014. These credits offset emissions that we cannot eliminate through a forestry project in Indonesia, which also complements our flood resilience programme.

#### Behavioural change

But perhaps the area in which insurers can have the most significant impact on climate change risk reduction is by using their expertise to encourage behavioural change. This tallies with a recent report by the ClimateWise network, "[Investing for Resilience](#)", which noted that insurers are not natural investors in climate resilient infrastructure but have a crucial role to play in promoting societal resilience to climate change in general.

Insurers encourage customers to reduce their climate change exposures through their pricing and management of climate change risks. Pricing as a mechanism to influence behaviour is important, as it signals the level of risk associated with an activity. At an industry level, the Geneva Association's extreme event and climate risk working group is helping to improve modelling of climate and natural catastrophe risks, with the ultimate aim of also linking these impacts to investment risks.

The industry also encourages behavioural change by

bond market has taken off in recent years, with \$42bn issued in 2015; almost four times the 2013 issuance (\$11bn). 2016 continued this sustained growth, with issuance topping \$50bn by September.

Zurich has a comprehensive and growing green bond initiative. After exceeding an initial goal of \$1bn, we have now committed to invest up to \$2bn. Our investments at the end of July 2016 totalled \$1.2bn, comprising 70 green bonds from 47 different issuers. And we are committed to developing the green bonds market further. Zurich is a member of the Green Bonds Principles executive committee.

The [Green Bonds Principles](#), endorsed by other insurers such as Allianz and Axa, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach to issuance of a green bond. By insuring others in the circular economy, insurers further support the transition. The industry covers many renewable energy construction projects around the world. An example is "Desert Sunlight", the building of one of the largest solar power projects in California, "Xina Solar One" in South Africa and the Ashalim solar thermal power plant in Israel.

Desert Sunlight converts sunlight to electricity, providing



Flooding from the River Elbe, Fischbeck, Germany, 2013

Photo: Michael Szónyi

engaging with policymakers and other key stakeholders to share its underwriting and investment insights on climate-related risks. Through industry bodies such as the Geneva Association, Insurance Europe and the Global Federation of Insurance Associations, insurers engage in dialogue on climate risk with supranational organisations such as the United Nations and G20 and at various regional and local levels.

A recent example is the industry's representation and input into the Financial Stability Board's Task Force on Climate-related Financial Disclosures, which considers the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

#### Measuring progress

As a final point, measuring progress is crucial to the climate change risk efforts of the whole industry. Here, the work of ClimateWise is notable. ClimateWise is the insurance industry's growing global network of over 30 leading insurers, reinsurers, brokers and industry service providers. Members are independently audited annually on their integration of the six ClimateWise Principles across their business activities. The Principles include leading on

climate risk analysis and climate resilient investment, raising customers' climate awareness and reducing the member's own carbon footprint.

Zurich also uses other measurement criteria to track progress. On green bonds, we encourage the use of impact measurements; such as the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS). Similarly, on flood resilience, measuring impact is crucial. Resilience bridges two seemingly conflicting goals to achieve the best of both worlds, encouraging strategies that both manage risk and promote development.

When we found no practical toolkit existed that suited our needs to measure the impact of our flood resilience programmes, Zurich — with its partners — developed a holistic flood resilience measurement framework that helps us to understand the sources of resilience and how they can be strengthened to provide community flood resilience. By doing so, we aim to demonstrate empirically that *ex-ante* measures are more effective than *ex-post* ones.

What is clear is that, in all these ways, the insurance industry can make a real difference in tackling climate change, for the benefit of both our businesses and society as a whole. ■



**Phil Bell**  
Chair, liability/insurability working group, Insurance Europe  
Group casualty director, RSA, UK

## Out of service

The insurance elements in the European Commission's proposal for a European services e-card will not bring the boost to cross-border business it is seeking. Phil Bell explains why.

The European Commission has the laudable aim of making it easier for those in the services sector to do business in other EU countries. At the start of 2017, the EU Commissioners approved a proposal for a "Services Package" Regulation that would introduce a European services e-card. The card, offered on a voluntary basis, would allow service providers to use an electronic, EU-level procedure to complete the formalities required when operating abroad.

Europe's insurers strongly support efforts to strengthen the EU single market in ways that benefit individuals and the economy. Insurers themselves make wide use of the freedoms provided by the EU, with foreign-controlled subsidiaries and branches writing well over a third of EU gross premiums.

The insurance industry does not, however, support the inclusion of professional indemnity insurance elements in the services e-card, or the obligations around claims history statements.

The Commission's proposals in this area are not based on evidence that they are needed and the administrative burden they would place on both member states and insurers would far outweigh their doubtful value in terms of easing or increasing cross-border activity in specific sectors. Tellingly, those sectors themselves have questioned the added value of this initiative, while some EU member states have also already expressed their low appetite for it.

### Quick read

- The EC proposes a European services e-card to make it easier for service-sector companies to comply with requirements when operating outside their home market. It includes a standardised certificate of proof of insurance. The proposal also foresees claims history statements for professional indemnity insurance and an obligation for insurers abroad to consider these.
- Insurers argue that there is no evidence that difficulty accessing insurance is a barrier to cross-border business. The cost and administrative burden of the proposals far outweigh their doubtful benefits.

A far more effective approach would be to improve service suppliers' access to information about the requirements in the market in which they wish to operate. This could potentially be done by making better use of the Points of Single Contact provided for in the EU Services Directive. These are online portals set up by governments to advise on the regulations that apply to activities in their state and to assist with the administrative procedures needed.

### Insurance is not a barrier

The services sector is responsible for around 70% of the EU's GDP and employment, says the European Commission. The Commission sees potential for further growth in the sector, since trade and investment in services across internal EU borders has — according to the EC — remained low since the 2006 Services Directive, despite some progress. Hence this year's proposed "Services Package" Regulation with its e-card.

**"The inclusion of insurance in the services e-card is based on the flawed assumption that a lack of available insurance is impeding cross-border business."**

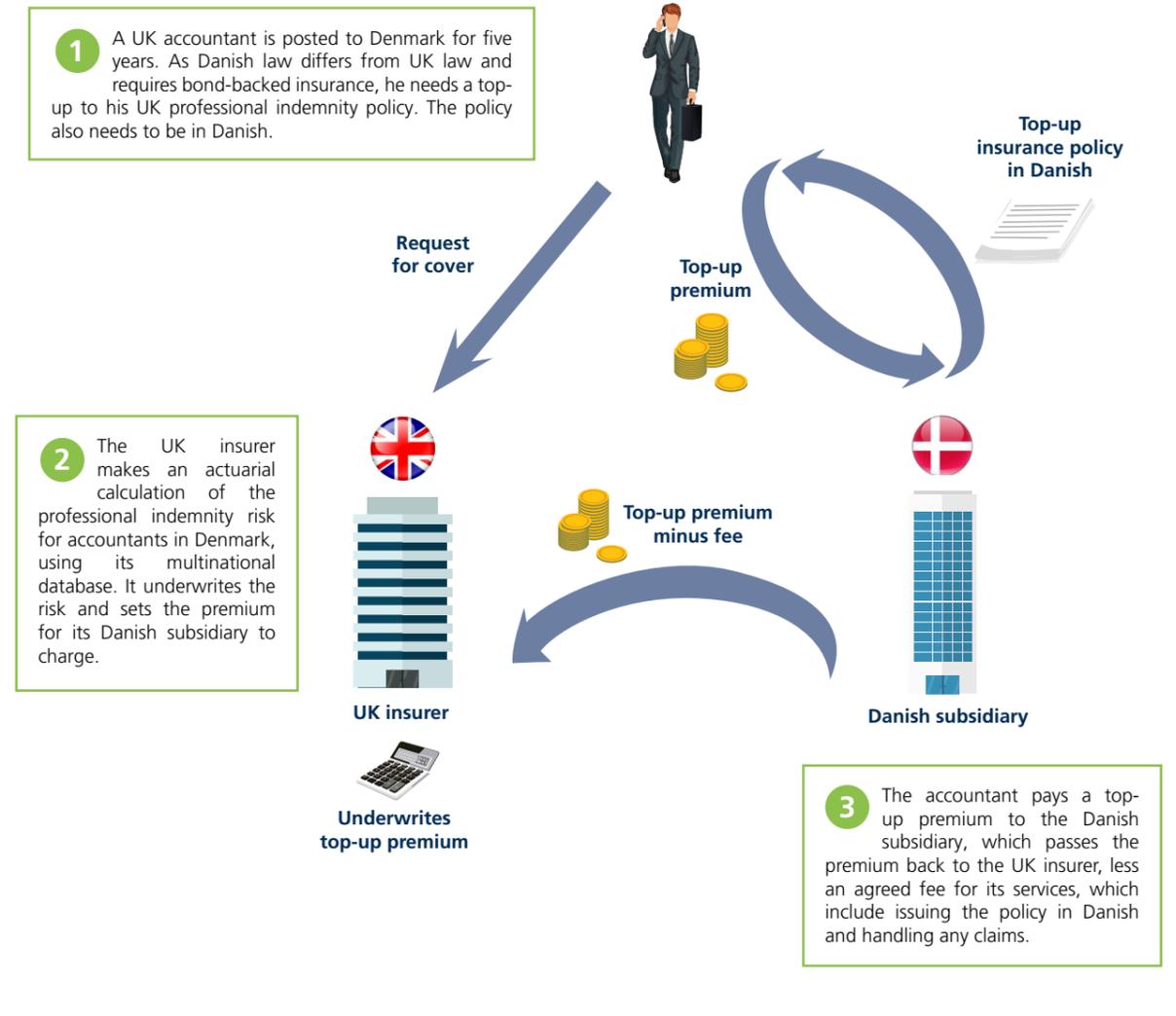
The inclusion of insurance in the services e-card is based on the flawed assumption that a lack of available insurance is impeding cross-border business. Yet there is no evidence to support this. During the Commission's consultations and workshops to prepare its proposal, no stakeholder commented that professional indemnity insurance was a concern for their sector. Indeed, at one workshop, the architects' representative clearly stated that obtaining insurance cover was not a problem.

Over many years, insurers have developed ways to provide cover legally to clients who wish to operate in markets other than their own. Multinational insurers do this through their own networks (see diagram on p32). Brokers have likewise developed networks of partners and so can operate in a similar way. This is of particular importance for professional indemnity insurance, where so many member states have their own compulsory insurance requirements. Using these networks ensures compliance with all local regulatory requirements in the local language.

### Practical problems

The services e-card contains two specific insurance elements, both of which are of concern to the insurance sector. The first is the obligation to supply, on request, a certificate of

**How a multinational insurer offers cross-border cover**



professional indemnity insurance, which the Commission reserves the right to standardise.

Harmonising the format of such a certificate would be hugely difficult and extremely costly, since professional indemnity cover varies significantly depending on the market, the profession being covered, the individual risk exposure and the national liability regime. Commercial policies may be individually tailored to the policyholder. Furthermore, national authorities will continue to require proof that compulsory insurance complies with national regulations, which vary

between professions. A European certificate would by necessity standardise at the lowest common denominator and so would not fulfil national requirements.

The second concerning element is the obligation to supply — again on request and potentially standardised — a claims history statement and the requirement that insurers take account of the statement “in a non-discriminatory manner” in their acceptance policy and premium calculation.

As with certificates, claims history statements would be

extremely difficult to standardise because of the differences in legal practices and protocols as well as reserving practices in member states.

This provision seems to be inspired by the claims history requirements of the Motor Insurance Directive, but it should be remembered that while motor liability insurance varies across Europe due to different risks, legislation and economic factors, it is regulated at EU level. Professional indemnity insurance is not regulated at EU level and varies even more widely. In addition, motor liability insurance has a large volume of claims but at relatively low values, while professional indemnity has far fewer claims but at a substantially higher value.

**Questionable value**

The value of such a statement is also questionable, given that each insurer uses its own criteria to assess risk and calculate premiums. Risks are always assessed against the background of local circumstances, thereby limiting the value a claims history statement would have in a different country.

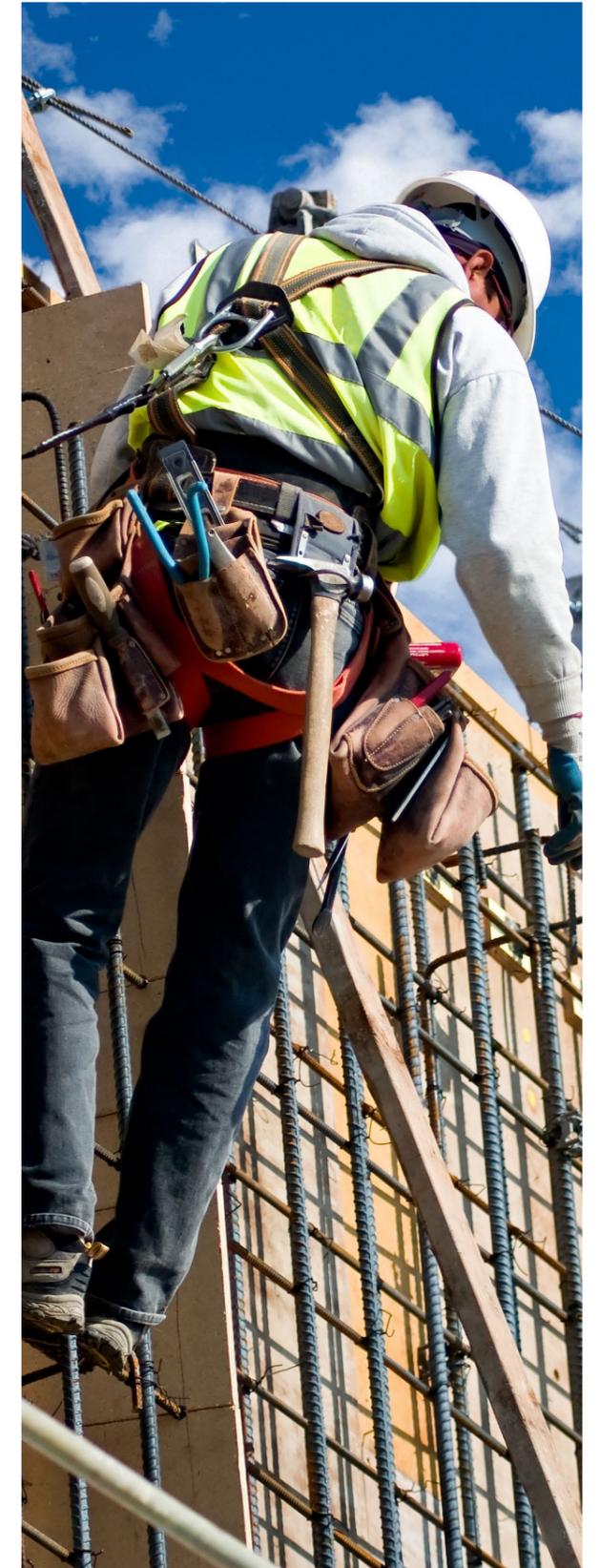
Insurers consider a range of factors when evaluating a risk, including loss history. Obliging insurers to take account of a client’s loss history is completely unnecessary and could potentially restrict insurers’ freedom to make their own business decisions.

As insurance for cross-border services exists and is accessible, Insurance Europe will continue to call for the insurance provisions to be excluded from the services e-card as the European Parliament and Council of the EU scrutinise the Commission’s proposal. ■

**Video: the construction sector view**

Visit the Insurance Europe website ([Positions — EU services e-card proposal](#)) to hear from Ulrich Paetzold, director general of the European Construction Industry Federation (FIEC).

He explains that, for FIEC and the European Federation of Building and Woodworkers, the European services e-card is “hardly a workable tool” and its “real added value for economic operators remains to be proven”.





**Olav Jones**  
Deputy director general, Insurance Europe

## Solvency II: sophisticated but excessive

The underlying assumption that insurers are traders leads to three ways in which Solvency II can be excessive, says Olav Jones

Solvency II is probably the most sophisticated and comprehensive risk-based regime in the world. A risk-based approach and policyholder protection were, and rightfully remain, at the centre of its design. However, Solvency II may also be the most conservative solvency regime.

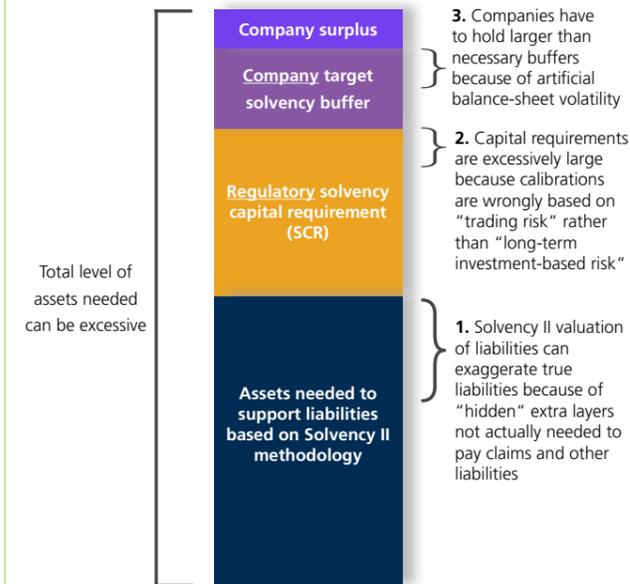
While it is clear why it is important that the Solvency II measures and requirements ensure all insurance companies doing business in Europe hold enough capital, it is less well understood why care must also be taken to avoid excessive requirements, which are bad not only for consumers but for the overall economy.

There are three key ways in which the measurement approach can make Solvency II far more conservative than actually intended and perceived, which lead to excessive capital requirements (see Figure 1). All are linked to the flawed underlying assumption that an insurer is trading all its assets and liabilities at all times. Very low interest rates can amplify the effects of this assumption.

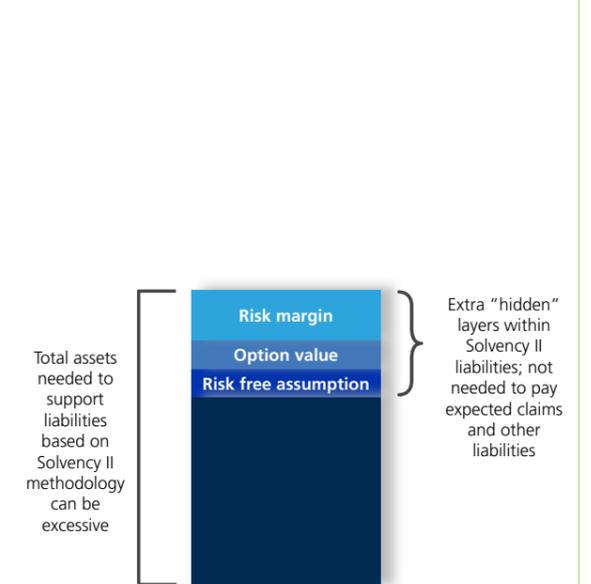
### More than a prudent “best estimate”

There are “hidden” extra layers within the measurement of insurers’ liabilities that can force insurers to hold significant extra assets that are not actually needed to pay expected claims (see Figure 2). They arise because Solvency II assumes that the liabilities should be valued as if they are being traded and so can

**Figure 1: Three causes of excessive capital**  
(illustrative – not to scale)



**Figure 2: More than a prudent “best estimate”**  
(illustrative – not to scale)



be transferred to another party at any time. This is far from reality and can lead to much higher valuations than a more traditional economic valuation based on what is needed to pay claims and other costs as they fall due.

Solvency II requires insurers to reserve for future claims by forecasting a best estimate of all their liability commitments. This includes not only claims, but also the costs associated with managing the company until all the claims are paid out, such as claims administration, general administration, IT, personnel costs and taxes. Very thorough, but in line with what well run insurers have always done.

Under a traditional valuation approach, the assets needed to back these projected liabilities would be assessed taking into account how much the assets will earn. So, if the company has invested in bonds to match the liabilities and these earn 3% per year after any expected losses, then the liabilities can be discounted at 3% to calculate how much of those assets are needed. However, under Solvency II, the insurer is generally required to value liabilities’ cashflows not by using its actual assets, but at a rate based on risk-free investments, with lower returns than the actual assets. For example, at the end of 2016, insurers typically had to discount 10-year liabilities using a rate of just 0.6%; even for 50-year liabilities the rate

was below 2.7%. While of course there is a risk that actual returns can vary and be lower than expected, Solvency II requires significant capital to cover this risk.

Ignoring the real cashflows and how assets and liabilities are actually matched in favour of a very theoretical approach can create significant extra requirements in terms of capital. For example, a life insurer whose liability payments are expected on average 15 years in the future, and which invests solely in safe A-rated corporate bonds, could be required to reserve around 16% more when measured on the theoretical rather than a realistic economic basis.

A second layer within the liabilities, the risk margin, is another theoretical concept that can significantly increase how liabilities are measured for Solvency II (see Figure 2). According to Solvency II, its purpose is to ensure that the insurer holds enough assets to effect a transfer of liabilities to a third-party insurer should the worst happen and the insurer becomes unable to sustain its business. So the risk margin is not actually needed to pay claims, but must be held by all companies all the time for the very small risk that a portfolio will need to be transferred.

The need for the risk margin as a transfer tool is easy to

### Quick read

- The mistaken assumption that insurers trade all their assets and liabilities at all times means that the measurement approach of the EU's Solvency II regulatory regime is too conservative. Very low interest rates can amplify the effects of this assumption.
- This matters to consumers because it leads to higher premiums, lower benefits and less choice.
- This matters to the economy because it limits the ability of insurers to invest in long-term assets that support economic growth.

question, since Solvency II is already designed to ensure that, should an insurer get into trouble, the supervisor can take over the company while there is still significant solvency capital left. This intervention point —the minimum capital requirement (MCR) — was also designed so that, if a transfer is needed, there is some extra money to ensure a party can be found to accept the liabilities.

It is not only the *raison d'être* of the risk margin that can be questioned; its calibration and design are also flawed. When it was designed, the expectations were that the risk margin would be relatively small, but in practice it can be very large and very volatile, with no evidence that its size bears any relation to the cost of transferring the liabilities. For example, at the end of 2016 in Spain, the total risk margin was more than 40% of aggregate capital requirements for life business.

The risk margin is, rightly, one of the aspects of the Solvency II framework being investigated as part of the 2018 Solvency II review. In the short-run, and as part of that review, a more appropriate design should be developed, while in the longer run, ie the holistic 2020 Solvency II review, its whole purpose and *raison d'être* should be reconsidered.

In addition to the assets they have to hold to cover the valuation of projected liabilities and the risk margin, insurers also have to add to their valuation of liabilities an amount to cover the uncertainty from embedded options that can arise from certain product features, for example profit-sharing. Options embedded in contracts do pose risks for the insurer, but Solvency II already requires solvency capital to be held against them, so requiring additional assets in the liabilities is double-counting the risks.

### Excessive capital requirements

The risk-based capital requirements cover all the investment, claims and operational risks that an insurer is exposed to; indeed the Solvency II standard formula requires capital to be held for up to 28 different risks. Under Solvency II, the available capital (own funds) is determined by subtracting the value of assets from the value of the liabilities. The solvency capital requirement (SCR) for each risk is typically determined by applying an extreme scenario for the risk to both assets and liabilities and measuring how much the own funds change. The scenarios are calibrated to be events that are worse than 99.5% of all outcomes. The individual capital requirements for each risk are then aggregated, taking into account the fact

Figure 3: Losses during 2007–08 financial crisis — example of AA corporate bond portfolio



that it is impossible for every risk to occur at the same time (diversification), to get an overall SCR for the company.

This approach makes a lot of sense for insurance companies, whose core business is to take on a wide range of risks on customers' behalf. This scenario-based approach allows for a good assessment of risks but also takes into account the many types of risk mitigation that insurers use, including reinsurance, hedges, policy limits, profit-sharing and diversification.

Yet the measurement of risks for insurers' investments (which can represent up to 60% of the total SCR of a life insurer) can be far too high because it is based on the erroneous assumption that insurers invest like traders and so are exposed to the same risk. In reality, insurers can and do invest long-term and, unlike traders, they are rarely — if ever — forced to sell their entire portfolio at a bad time. This can have a very significant impact on the capital requirement.

In the case of bond investments, a trader is exposed to the dramatic drops in the market value of a bond that can happen in the middle of a market crisis, but a long-term investor is exposed to actual losses from defaults. For example, during

the crisis of 2007–08, a portfolio of AA bonds lost as much as 30% of its market value for a short period of time. The same portfolio only experienced actual losses based on defaults of just 0.2% of market value (see Figure 3). A similar issue exists for other investments, such as shares and property. So we can see why the underlying trading assumption can lead to an over-estimation of the real risks of investing.

### Extra buffers for extra pressure

I mentioned earlier that Solvency II sets the SCR at a high level, which is intended to ensure that the company can meet all its commitments to customers with a 99.5% certainty; in other words that it can pay claims even if extreme events occur. The SCR is not actually the legal minimum, this is a much lower figure called the minimum capital requirement (MCR). However, if a company's actual capital falls below its SCR, its supervisor can start to intervene and take more and more actions until the MCR, at which point it can fully take over the company.

Unfortunately, the SCR is treated as if is the minimum level and a company's solvency strength is measured as its available capital divided by its required capital (SCR). Companies have to

set a target above this, so that they have a safety buffer to minimise the risk of falling below the 100% solvency level.

The problem for management is that both their available capital and their SCR can be so volatile under Solvency II that they need to set target ranges for their solvency ratio significantly above 100% of the SCR. Again, here, the trading approach can push the capital to excessive levels because it creates artificial volatility between the company's assets and liabilities, which in turn forces companies to set very high target levels of solvency to avoid falling below 100% (see Figure 4).

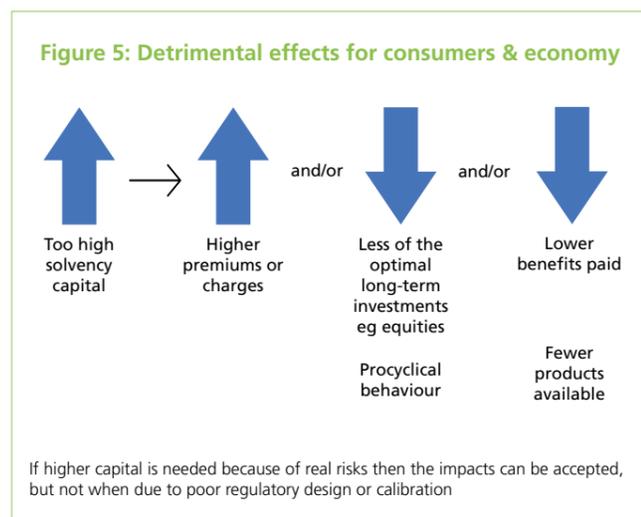
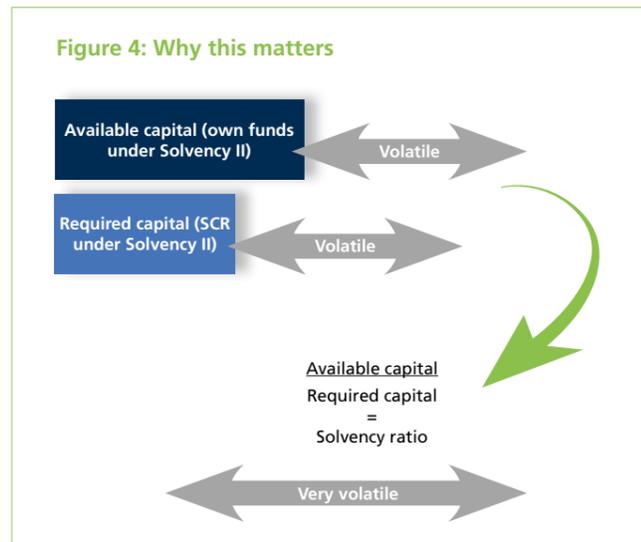
#### Why this matters

Excessive and volatile capital requirements can have a number of unintended and detrimental effects on customers and the wider economy (see Figure 5).

For the consumer, this can include unnecessary costs, potentially leading to higher premiums and lower benefits, reduced availability of good and useful products that consumers value (eg long-term products with guarantees) and sub-optimal investment strategies, which also lead to lower benefits. For the economy, the impact can be the limited ability of insurers to invest in the long-term assets that support economic growth and avoid procyclical behaviour.

When higher capital is needed because of real risks and volatility, the consequences should be accepted. When excessive capital is due to poor regulatory design or calibration, they should not. This issue will be an important focus of the 2020 review.

Good regulation is important for a healthy industry. However, bad regulation can be as damaging as a lack of regulation. Policymakers need to start now on work to understand the concerns raised here about Solvency II and to work with stakeholders to develop improvements that will adapt Solvency II from a short-term trading approach to one that recognises fully the long-term nature of the business. This will safeguard the industry's ability to provide long-term guarantees, pensions and savings products and to maintain and grow its role as a long-term stable investor, willing and able to invest in illiquid investments and avoid procyclical behaviour. ■



#### Video: The layers explained

Watch [Olav Jones's slide presentation](#) on the Insurance Europe website, explaining why Solvency II leads to excessive capital requirements.

## OPINION



**Jyrki Katainen**  
Vice-president, European Commission

### The win-win partnership

European Commission vice-president Katainen offers his view of the role of the insurance industry in mobilising capital in Europe

In response to Insurance Europe's request for a contribution to its Annual Report, I am pleased to reflect on the contribution made by insurance companies to the European Commission's Investment Plan for Europe and the Capital Markets Union and set out my expectations for our future partnership.

The size of the European insurance industry is significant<sup>1</sup>. The annual gross written premium of €1.2trn represents 7.4% of the GDP in Europe. The aggregate investment by insurers of €10trn covers a range of asset classes including sovereign bonds, corporate debt, infrastructure, equity investments, property and structured products. Insurers provide liquidity as well as stability to financial markets. The growth in premiums by 2% and in insurers' investments by 2.8% in 2015 are accelerating contributors to economic activity in the EU and Europe.

The success of the Investment Plan for

<sup>1</sup> Statistics from "European Insurance in Figures", Insurance Europe, December 2016

Europe and the Action Plan for the Capital Markets Union relies on the continued engagement of insurers. However, insurers' role as investors also raises the important question of the role and objective of insurance regulations and their alignment with the wider objectives of the EU. How can the two objectives be complementary and aligned to each other?

The Solvency II Directive aims to protect insurance policyholders by ensuring the financial soundness of their insurers. The Directive became fully applicable on 1 January 2016 and I wish to congratulate the insurance industry for its rapid adaptation to the new regulatory framework. Policyholders and their financial advisors can now be confident that insurance companies that comply with Solvency II requirements are more resilient than those who do not.

#### Infrastructure investment

Solvency II is a risk-based regulatory framework. Whilst it contains risk calibrations and other provisions for all types of investments, it has the capacity to identify safer investments and prescribe risk calibrations that are proportionate to those investment risks. We should take as an example the qualifying infrastructure projects under Solvency II. The qualifying criteria and risk management requirements are such that only those infrastructure investments with a better risk profile benefit from a lower risk calibration. The Commission, under the delegation from co-legislators, reduced the risk calibrations in the Solvency II Delegated Regulation<sup>2</sup> by 30–40%, thereby effectively incentivising safer investment by insurance companies.

This regulatory approach creates a win-win scenario in which insurance companies make prudent investment decisions whilst simultaneously supporting the wider

**“Insurance and reinsurance companies and their associations, such as Insurance Europe, have played a robust and constructive role in the development and implementation of the Solvency II framework. I wish to thank all stakeholders for their contributions.”**

<sup>2</sup> Effective from 2 April 2016. The exact reduction depends on the asset class and credit rating.

strategic objectives and investment requirements of the EU as articulated in the Investment Plan for Europe.

I am a strong believer that a healthy European Union requires strong financial market participants and a resilient insurance industry as its backbone. There are periods of uncertainty ahead of us. I cannot think of any better industry to deal with uncertainty through strong balance sheets and high quality investments.

#### Commission expectations

My expectations from EU insurers are as follows:

Long-term investments are one of the many areas where insurers have the potential to make further contributions, and the reports of increased investment allocation to infrastructure by some insurers are encouraging. I would encourage you to maximise, within the constraints of your business model, your allocation to the long-term and strategic investments that are important for investment and growth in the European Union.

Do take into account issues relating to the sustainability of your investment portfolio. Many insurance companies are already thinking of this important issue. A sustainable investment initiative can be successful only through the widest possible participation by all investors.

As a follow-up to the encouraging response to the public consultation on a pan-European personal pension framework, the Commission will be taking further steps to establish the enabling framework. I would encourage insurance companies to explore their role as product and service providers to make a success of this EU-level initiative.

Some insurers consider the recent developments in fintech/insurtech as a disruption, whilst others look at them as an opportunity. However, both sides need to identify the need for an adaptation of their business models. I would encourage you to take advantage of the opportunities arising from technological developments, whilst maintaining the standards for a fair treatment of your customers and avoiding the inadvertent exclusion of citizens.

Last but not the least, please continue your robust and constructive contribution to further refinement of the regulatory framework for the insurance business. ■



**Michaela Koller**  
Director general, Insurance Europe

## How best to invest

European insurers would like bolder action from the European Commission on its Investment Plan for Europe, says Michaela Koller

Almost three years ago, the newly appointed European Commission launched an ambitious Investment Plan for Europe, with the key objective of increasing and improving the flow of investment to the real economy, thus supporting the creation of jobs and economic growth.

From the beginning, the project rightly recognised the important role of the insurance industry, as the largest European institutional investors with more than €9.6bn of assets under management and over €1.2bn of new premiums per year.

The EC's Investment Plan appropriately identified three areas of focus, all of them of great relevance to our industry. Firstly, it emphasised the need for increased private investment in infrastructure and SMEs — key drivers of growth and also areas in which private financing would help to address the decreasing availability of public resources post-crisis. This came as a perfect follow-up to earlier industry calls for more appropriate long-term assets to be created, in which insurers can invest.

### Quick read

- The European Commission's Investment Plan for Europe seeks to: increase private investment in infrastructure and SMEs; provide public support for risky investment projects; and create a Capital Markets Union (CMU).
- The Plan has so far not met insurers' expectations. Policy actions lag behind insurers' ability to invest in infrastructure and bolder action is needed via the CMU to address regulatory barriers to investment, including Solvency II's unnecessarily punitive treatment of insurers' long-term assets.

Through the long-term and savings products it provides, our industry has a strong duty towards policyholders to provide returns and this has become increasingly challenging over recent years due to low interest rates and a very conservative prudential regulatory framework (Solvency II). Insurance Europe therefore welcomed the initiative, highlighted the ability and interest of the industry to invest, and stressed the need for suitable assets to be created, with predictable pipelines and strong political commitment.

Secondly, through the European Fund for Strategic Investments (EFSI), the Commission recognised that some risky investment projects would need public support to attract private resources. We welcomed this approach, highlighting that public support should only be used where needed and should be focused on "crowding-in" insurers as opposed to crowding them out, as we have unfortunately experienced on some occasions in the past.

Thirdly — and this is probably the key area of engagement for our industry — the Commission launched the Capital Markets Union (CMU) project, with the clear objective of removing regulatory barriers to investment. It recognised from the beginning that Solvency II should be one of the areas of focus, and we were optimistic to hear that the Commission

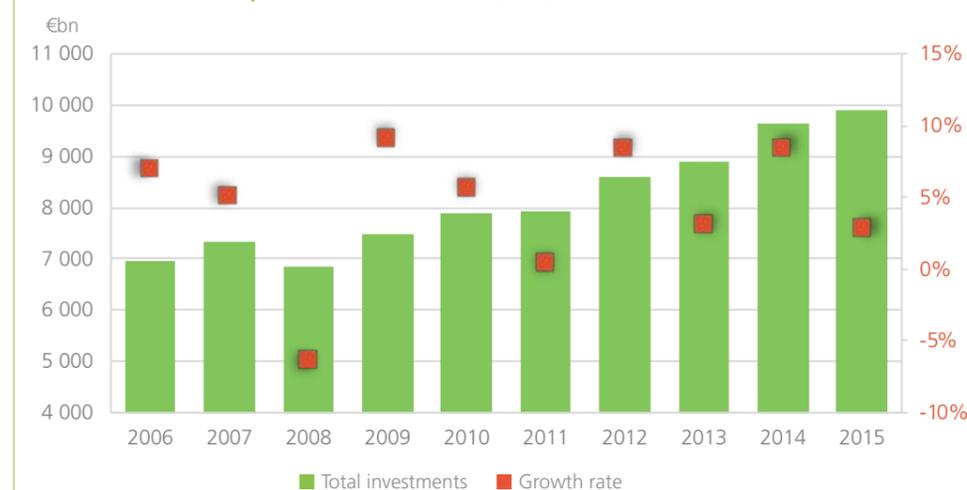
would be willing to identify areas in which regulation had been designed in a way that hinders economic growth as opposed to supporting it.

### Bolder action needed

Since the launch of the Investment Plan for Europe some progress has, undoubtedly, been made in all three key areas. Unfortunately, though, the Plan has not met the industry's expectations. The CMU was aimed at addressing regulatory barriers — in the case of Solvency II the unnecessarily punitive treatment of long-term assets. So far, the Commission has initiated work on a very limited range of assets: infrastructure, securitisations, unlisted equity and unrated debt. The industry has raised two key concerns about this approach.

The first concern is that, while changes in these areas are needed, this limited range of assets probably accounts for under 5% of insurers' investment portfolios. And infrastructure is the only area in which progress has so far been made, and that accounts for under 2%. The other 95% should not be ignored. Insurers have an interest and an ability (see figure opposite) to invest in a much wider range of assets, including listed equities, bonds and real estate. A thorough revision of the Solvency II treatment of these asset classes should be conducted to identify areas in which an

Insurers' investment portfolio — 2006–2015 (€bn)



Source: Insurance Europe

overly prudent or restrictive regulatory approach discourages insurers from investing.

The second concern is that the Commission's proposals are often designed as "quick fixes" and do not seek to address the real problem, which is the flawed approach in Solvency II to measuring long-term risks and the erroneous assumption that insurers act like traders. In short, the Commission should aim to address a range of key questions, such as:

- Is there a difference between measuring exposure to long-term default risks and exposure to short-term trading risks?
- Does the accumulation of dividends affect equity risk exposure differently over the long-term to over one year?
- Does the ability of insurers to avoid forced sales change their actual risk exposure? Is the current Solvency II assumption that insurers would be forced to sell their entire portfolio at a huge loss in a time of stress reasonable and backed by evidence?
- Given that capital requirements influence investment decisions, to what extent is the Solvency II framework able to recognise that insurers are often not exposed to short-term volatility of market movements?

Solvency II is and should remain a risk-based system. The

industry believes that it can become appropriate for insurers' investments only when it measures the actual risks to which insurers are exposed. This is currently not the case.

### Not enough infrastructure assets

The insurance industry has shown a strong interest in infrastructure assets as a means of achieving additional yield for policyholders and diversification for portfolios. To understand if and how insurers have experienced changes over recent years in both the supply of assets and the use of public support, we ran a survey in late 2016 to which 11 European markets responded. Their feedback mirrored the experience with the CMU; namely some progress was made, but not enough, and it was clearly below market expectations. The pipeline of suitable infrastructure projects, while improved, remains weak across EU member states and there is a strong perception that insurers still lack projects in which to invest. Political risk remains a concern, largely due

"Solvency II can become appropriate for insurers' investments only when it measures the actual risks to which insurers are exposed. This is currently not the case."

to recent experiences of governments changing the rules of the game after investments have been made by insurers, with a direct impact on the returns on those investments, which fall below initial commitments and expectations.

Furthermore, the survey showed mixed experiences in terms of investing alongside public support such as EFSI. On the positive side, in some countries EFSI has helped increase the pipeline of infrastructure and opened new sectors (for instance, in Austria the scheme helped two wind parks, which contributed significantly to the development of the energy generation sector). However, in some markets the use of EFSI was perceived as counter-productive and a range of examples of crowding out were highlighted in, for instance, Germany, the UK and the Netherlands. In those cases, despite sufficient interest from private investors, they were priced out of the market because of cheap alternative funding provided by multilateral development banks that invested alongside EFSI guarantees.

#### Demand exceeds supply

While raising concerns over the still limited progress in the infrastructure landscape, insurers maintain their interest in this asset class. More insurers have entered the infrastructure market over recent years and they have developed investment expertise they are hoping to be able to match with an adequate supply of assets.

Indeed, several large European insurers have already publicly committed to increasing their infrastructure investments by a total of around €50bn in the coming years. Some large insurers have indicated that they would want infrastructure to represent 5–10% of their investment portfolios, while for medium and smaller insurers 1–2% would remain the target.

Achieving these targets would represent a sizeable increase in absolute investment amounts from the current average 1–2% allocation. For example, a 2–5% increase in the average allocation would mean €200–500bn of new investment. The significance of this is clear when you consider that the Investment Plan's objective is to mobilise €315bn of new investment. Whether these intentions will materialise or not depends a lot on European policy actions, which currently lag behind the ability and willingness of our industry to invest.

The European (re)insurance industry continues to strongly support the aims of the Investment Plan for Europe. It calls for swift and bold policy actions in the areas of project/asset supply and prudential regulation, which, if appropriately defined, can help make a real difference to the European economy. ■



**Nicolas Jeanmart**  
Head of personal insurance, general insurance  
& macroeconomics, Insurance Europe

## Save enough, save well and save wisely

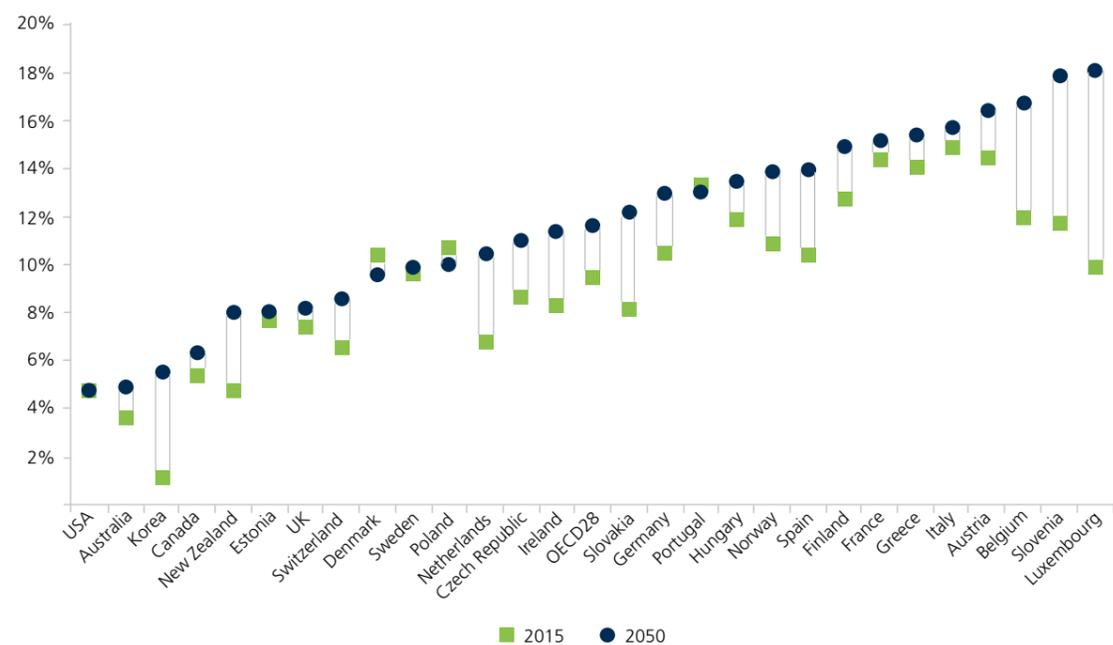
Nicolas Jeanmart outlines the policy recommendations in Insurance Europe's recent pensions campaign and sets out its views on the idea of a pan-European personal pension

“Contribute more and for longer periods.” That is the OECD's stark advice to individuals seeking an adequate income in retirement. The (im)perfect storm of rising life expectancy, “baby boomers” now approaching retirement, squeezed public finances and record low interest rates is creating a much-discussed pension crisis in developed countries. But is it being tackled in the right way?

Multi-pillar pension systems — which complement state pension provision with occupational and personal pensions — are widely held to be the most effective way to ensure the sustainability and adequacy of retirement provision because the risks each pillar faces are not fully correlated and are thus diversified.

Insurers are major providers of both occupational and personal pensions and, while no single policy will solve the EU's pension problems, insurers are well placed to contribute ideas and solutions to the

Estimated government pension payments as a % of GDP — 2015 to 2050



Source: "The Coming Pensions Crisis", Citi, March 2016 (OECD and Citi research)

The (im)perfect storm of rising life expectancy, "baby boomers" now approaching retirement, squeezed public finances and record low interest rates is creating a much-discussed pension crisis in developed countries.

huge challenges that governments face in ensuring that their citizens have adequate retirement income. Insurance Europe therefore closely follows policy developments related to pensions and, in early 2017, it ran an awareness-raising campaign (see box on p49) that included publication of "[A Blueprint for Pensions — Saving enough, saving well, saving wisely](#)", containing recommendations for policies and actions to reduce the retirement savings gap in Europe.

In our Blueprint, we argue that governments should introduce or enhance funded pension pillars (ie occupational and personal pensions) alongside the traditional pay-as-you-go statutory pension systems to improve their sustainability and the adequacy of retirement incomes. We argue that, to be successful, these pension pillars must be mutually reinforcing and have clear roles and objectives. We then split our recommendations into three areas: saving enough, saving well and saving wisely.

should also be simple and stable over time. Meanwhile, digital distribution methods should certainly not be hindered, as they can increase private pension coverage.

should work together to facilitate the offering by insurers of well-designed, collective mutualised investment products for those savers that need them. This means, among other things, that the EU Solvency II regulatory regime's treatment of long-term investments should move from a "trading" to a closer to reality "long-term" approach, so that measurements are appropriate and capital requirements not unnecessarily excessive (see p34). Finally, just as building adequate capital is crucial, so is the design of the pay-out phase. Against the background of increasing longevity risk, policymakers must ensure that consumers can access decumulation products that best suit their needs.

**Ways to save well**

Future pension adequacy depends not only on how much individuals save and how early they start saving, but also on their asset mix. Investing in a range of assets that includes equities and property can be as important as saving enough, since very different long-term returns and diversification are offered by different asset classes. The long-term nature of insurance savings products fully justifies investing in illiquid and long-term assets, such as equities, property and infrastructure, that are vital to economic growth. Natural and legitimate concerns over the risks and volatility of certain asset classes can be overcome by traditional insurance techniques of collective pooling of risks and providing customers with the option to have minimum returns guaranteed.

**Ways to save wisely**

Levels of financial literacy remain low in most European countries. That being said, no matter how financially literate they are, citizens cannot make informed decisions unless pre-contractual information about pension products is fair, clear and not misleading.

It is imperative that savers are informed about the importance of the asset mix in achieving their goals for income in retirement. Also, policymakers and the insurance industry

Better information does not mean more information, indeed too much information may prevent consumers from making

**Quick read**

- In early 2017 Insurance Europe ran a campaign to raise awareness of the pension crisis and published a "[Blueprint for Pensions](#)" recommending ways to reduce the retirement savings gap.
- In its deliberations on a pan-European personal pension product, the European Commission must make sure that it creates a product that is truly fit for retirement saving.

**Ways to save enough**

As individual responsibility becomes ever more vital, policymakers must raise public awareness of the need to make adequate provision for retirement. A key element in this is ensuring that European citizens are informed about their expected future statutory pension entitlements. EU member states should also take action to increase the uptake of supplementary pensions, introducing enrolment systems suited to local circumstances. One way to increase uptake is to adopt tax configurations that incentivise citizens to save for the long-term — by deferring the point of taxation, for example, or by penalising early exit/surrender. Tax incentives



### Insurance Europe's pensions campaign

In early 2017, Insurance Europe contributed to efforts to raise awareness of and tackle the pension crisis with a targeted campaign, “#Save4OurFuture”.

Firstly, with an [online quiz](#) sent to policymakers, regulators, supervisors and the media, we tested in a light-hearted way participants’ knowledge of some of the sobering statistics on the pension crisis. Over 500 people took part.

Then, Insurance Europe published its “[Blueprint for Pensions](#)”, setting out the extent of the challenge and proposing policy actions (see main article). To launch the Blueprint, Insurance Europe hosted a seminar in Brussels with speakers from the EU Council Presidency, the Commission, EIOPA and a financial services users group. It promoted the campaign and the Blueprint by distributing (very popular!) chocolate coins in paper pig money boxes.



good assessments and appropriate choices. Pension disclosure requirements should be rigorously tested on consumers to ensure they are consumer-friendly and engaging. The content of the Key Information Document recently developed for packaged retail and insurance-based investment products (see p16) would not be appropriate for pension products. Its format is also not appropriate, since it is on paper by default, despite consumers increasingly wanting information digitally.

Meanwhile, to tackle financial literacy levels, the Commission and member states should favour the adoption of national strategies for financial education, supporting the financial education work being done by insurers and others (see p9). These strategies should include school curricula in order to develop financial literacy and responsibility from an early age. While pension provision is the responsibility of each EU member state, there is still a role for EU policymakers. A Commission-led European Day of Financial Education for sharing best practice and new approaches to financial education should be introduced and EIOPA should review and coordinate financial literacy and education initiatives.

#### PEPP talk

One initiative at EU level is the preparation by the European

Commission of a legislative proposal for a pan-European framework — most likely a pan-European personal pension product (PEPP) under a “2nd regime” (an alternative set of rules working alongside existing national frameworks), as recommended by EIOPA. The Commission sees a PEPP as a way not only to encourage EU citizens to save for their retirement, but also to contribute to funding long-term growth as part of its Capital Markets Union project (see p44).

To this end, the EC is (at the time of writing) mapping the national requirements that apply to personal pension products in the EU and is investigating which policy options and features would best achieve its stated objectives with a PEPP.

Insurance Europe has been contributing to the Commission’s deliberations. In line with its position on pre-contractual information, set out above, it has already identified some elements for a [key information checklist for a PEPP](#), providing consumers clearly and concisely with the information they need.

Any initiative on personal pensions at EU level must have the goal of supporting the generation of long-term illiquid savings and investments and be a product that appeals to both

providers and consumers. In its advocacy, Insurance Europe made clear that a PEPP should be a true pension product: what consumers do not need is to be misled by a “pension” label being granted to products that are not fit for retirement purposes.

More concretely, this means that:

- The PEPP should include an appropriate level of security for policyholders.
- The PEPP needs to enable providers to generate long-term liabilities, so consumers have to be incentivised to save for a long period, ideally until retirement. Minimum investment periods should therefore be included in the PEPP framework. PEPP providers should be allowed to design the number and length of minimum holding periods embedded in their products, as this is essentially a business decision.
- It is also crucial for any work on the PEPP to focus primarily on supporting national efforts to close the pensions gap, as opposed to an excessive focus on the objective of portability. PEPP providers should be subject to appropriate prudential treatment. The “same risks, same rules” principle should apply to ensure a level playing field between all providers. For PEPPs with minimum return

guarantees and/or biometric risk coverage, the applicable framework should be Solvency II. However, providers’ ability to manage market volatility in the long-term should be taken into account.

- National practices and rules on decumulation and protection mechanisms, such as pay-outs and annuities, and survivor’s/death benefits, should be considered in any discussion at EU level.
- The PEPP needs to include the option for the consumer to ask for biometric risk coverage (eg mortality, disability), either during the accumulation or the decumulation phase (taking into account national practices).
- Since pension products are generally defined by their objective to provide an income in retirement, the protection of longevity risk should be considered among the options offered to consumers, in line with national rules.
- Should an initiative be taken at EU level on pension product information, it should respect local market characteristics, be suitable for current and future distribution channels and be thoroughly tested with consumers. With a PEPP, as with any other financial product, consumers should certainly always be made aware of the risks they bear. This is key to building trust. ■



**Cristina Mihai**  
Head of prudential regulation & international affairs, Insurance Europe

## Not such a capital idea

Cristina Mihai explains the significant challenges and limited opportunities that a global insurance capital standard currently represents

While still in the early stages of applying the EU's new Solvency II regulatory regime, European insurers have increasingly been asked to engage in the challenging and ambitious project of a global insurance capital standard (ICS).

Back in July 2016, the IAIS launched an extensive consultation on ICS version 1.0, mainly focused on three key areas: valuation of liabilities, capital resources and capital requirements. Insurance Europe raised major concerns with the proposals, pointing out that they would require significant improvements before implementation in Europe.

Firstly, and unsurprisingly, the valuation of liabilities was a key area of divergence between jurisdictions, as the IAIS put forward for discussion two very distinct options: one based on a market-adjusted approach and one on local GAAP measurements. We focused

our analysis on the market-adjusted approach, identifying all six options as being flawed and failing to appropriately capture the link between assets and liabilities and to avoid artificial balance-sheet volatility. Given how similar the issues were to those in Europe ahead of finalisation of Solvency II, we strongly encouraged the European representatives at the IAIS to use the work done in Solvency II to inform the very similar ICS discussions and challenges.

Secondly, the draft ICS package only included a standard method for the measurement of capital requirements and thus failed to recognise that, in many cases, risks cannot be properly measured this way and require the use of internal models. In Europe, Solvency II was designed with internal models as a key part of the framework to ensure its risk-based nature. Europe is the largest insurance market in the world and as the EU recognises the value and importance of internal models, this element should be part of any international framework.

### Timing concerns

Beyond the technical proposals, the proposed timetable for developing and applying the ICS remains not just ambitious but unrealistic, particularly given the major jurisdictional differences that the ICS consultation itself revealed. A rushed

### Quick read

- The European insurance industry has significant concerns over the IAIS's insurance capital standard (ICS) project, both in terms of content and timetable.
- Lack of political support for the standard also calls into question the significant effort being put into its development by insurers.

approach to converging supervisory regimes that is agnostic to differences in regimes across the world would fail to allow for a proper design, calibration and testing of the framework. The IAIS should take a more realistic approach and aim for incremental progress over reasonable timeframes, taking the time needed to evaluate how modern, risk-based systems — such as Solvency II and others — are working. In Europe, the Solvency II experience has shown how important it is to take the necessary time to achieve outcomes that reflect the wide range of business differences between jurisdictions.

### Lack of political support

Equally importantly, the fundamental aim of a global capital standard is the concrete application of the standard in all jurisdictions around the world, yet there is a lack of political support for the project in certain of those jurisdictions. We would vigorously oppose any situation in which European insurers end up at a competitive disadvantage due to non-implementation of an agreed standard in other jurisdictions.

Solvency II has taken many years and significant cost to develop and implement, and is a clear example of a very strong risk-based regime that provides high levels of policyholder protection. Requiring European insurers to comply with both Solvency II and an ICS would not be

acceptable. Neither would burdening them with the additional costs of moving to a similar but different framework.

#### “Team Europe”

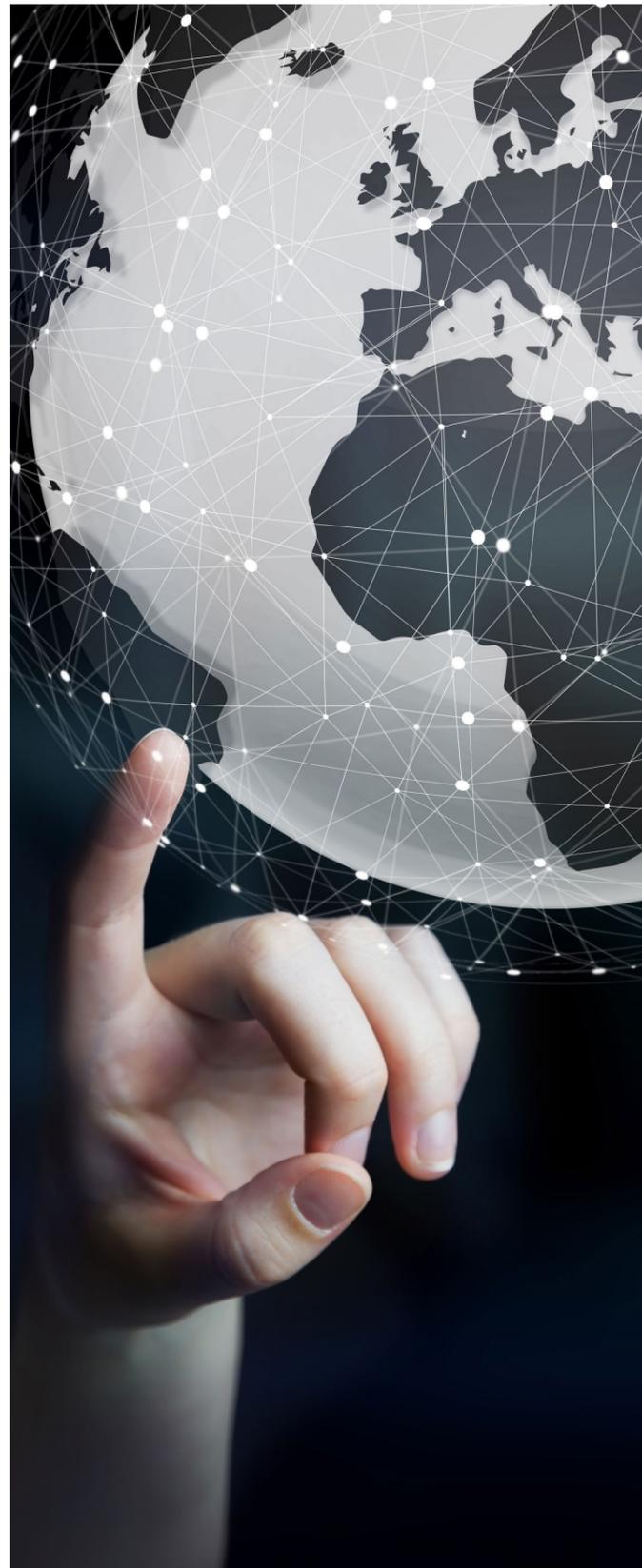
A number of European authorities are involved in the development of the ICS, including EIOPA, some European supervisors and the European Commission. We have repeatedly called for more coordination between the European contingent to create a strong European voice, as well as for more engagement by the Commission, which ultimately has the responsibility for any potential conversion of international standards into European law.

On the more positive side, the Commission has highlighted that it would not support an international framework that fails to respect European standards of prudential supervision and creates competitive disadvantages for the European industry.

Looking ahead, ICS 1.0 is due for adoption in June 2017 and will undergo extended field testing. It will be followed by extensive work over the coming two years on the development of ICS 2.0, which is scheduled for adoption in 2019 and implementation from 2020.

We will continue to raise strong concerns over the ambitious timeline and the lack of political support, which calls into question the considerable effort on the industry side. As in the Solvency II discussions, we will continue to highlight the need for an appropriate measurement of both available and required capital to avoid undermining the core features of insurers’ business model that allow them to offer long-term products, and support growth and stability in the economy.

The ICS is today very far from achieving appropriate solutions that will receive wide jurisdictional support. The IAIS should recognise this, calibrate its ambitions accordingly and more thoroughly consider the actual commitment of the parties that will ultimately be responsible for implementing the ICS. ■



## OPINION



**Nic Nicandrou**  
Chief financial officer, Prudential  
Chairman, European Insurance CFO Forum

### IFRS 17: Fit for purpose?

The CFO Forum’s Nic Nicandrou questions whether the IASB’s replacement standard on insurance contracts will be worth its considerable cost

The International Accounting Standards Board (IASB) has been developing a replacement standard on insurance contracts for over 10 years. Finalisation is now close and publication of International Financial Reporting Standard (IFRS) 17 is expected soon.

The current IFRS 4 standard, which was introduced in 2004, permits the continuation of different grandfathered reporting bases used historically by insurers. The IASB has been seeking to develop a consistent basis that would gain support from stakeholders. This process has been protracted and included the publication of Exposure Drafts in 2010 and 2013 and, most recently, the IASB conducted a limited outreach exercise to seek feedback on six specific aspects of the proposals to assess whether they could be interpreted consistently and were capable of being operationalised in practice.

Throughout this period, the insurance industry — including the European Insurance CFO Forum and Insurance

Europe — has provided constructive input. The IASB is now ready to issue the standard. The apparent scope for any further changes is limited, with only implementation issues to be discussed by a Transition Resources Group to be established by the IASB after the standard is published.

So should not the industry now just move to implement the standard without further ado, so that it can meet the deadline of mandatory adoption on 1 January 2021?

Clearly companies will develop implementation plans to meet their legal obligations, but is that enough? Aside from implementation planning, the European insurance industry does have an obligation to raise concerns. There is an opportunity to do so as part of the testing programme being undertaken by the European Financial Reporting Advisory Group, which is intended to support the advice it will provide the European Commission on whether Europe should endorse the standard. A core aspect to this programme will be assessing the costs and benefits of the change and, ultimately, whether the standard is both appropriate and in the public good.

#### Counting the cost

The change that IFRS 17 will bring about to financial reporting is expected to be as fundamental as that introduced by the EU's Solvency II regulatory regime on capital reporting. The total cost of Solvency II implementation for the UK insurance industry alone has been estimated at over £3bn (€3.6bn). Some observers misdiagnose that — as the IFRS 17 requirements have certain similarities with aspects of the Solvency II approach — the hard work has already been done and therefore the effort and associated cost of the new standard will be modest.

However, the notion that IFRS 17 amounts to Solvency II with a few adjustments is incorrect. In practice, extensive re-engineering of data storage and actuarial and finance systems to generate all the necessary information will be required. We are talking about fundamental operational as well as technical accounting change.

**“The notion that IFRS 17 is Solvency II with a few adjustments is incorrect. ... We are talking about fundamental operational as well as technical accounting change.”**

At this stage, it is not possible to put an accurate estimate on the IFRS 17 implementation costs. However, even if a very efficient way of dealing with all the operational complexity could be found, a figure in the range of £1bn–£2bn in the UK would not seem unrealistic. For Europe as a whole, the amounts involved will be considerably higher.

Whatever the actual implementation costs, the amounts are eye-watering and one has to ask the obvious question; will the standard deliver an outcome that justifies the effort and investment? Currently, it is hard to see how anyone can answer yes with any informed confidence. This is because:

- results on the new basis have not been prepared and therefore any assessment as to the usefulness and understandability (or not), judgemental aspects, incidence of accounting mismatches, need for supplementary performance reporting, and so on, is only at an early stage;
- current investors in the insurance sector have not been meaningfully consulted;
- audit firms have a huge learning curve to navigate; and
- the impact on the products offered to customers and the investment behaviour of insurers is unknown.

In short, it is a completely new basis for the entirety of insurance contracts, not some minor modifications on detailed aspects of an existing standard, and the familiarity of preparers and users with strategic, operational and business model impacts is nowhere near where it needs to be.

Just because it has taken over 10 years to get to this stage and the fact that it deals with the inconsistent grandfathered approaches are not reasons enough to conclude that endorsement is desirable. What is needed when the standard is finally issued is both a top-down and a bottom-up assessment of its requirements and impact over a meaningful period.

#### In the public good?

From a top-down perspective, the standard has to be able to demonstrate usefulness to users and preparers by providing information that is relevant, reliable, comparable, predictable and — more generally — in the public good. Such considerations need to be addressed from a strategic perspective rather than the superficial view that, as IFRS 17 is intended to provide a uniform approach and will replace the current inconsistent basis, it is enough for the standard to be considered better than what we have at the moment and is therefore fit for purpose. This misses the bigger picture.

**“Whatever the actual implementation costs, the amounts are eye-watering and one has to ask the obvious question; will the standard deliver an outcome that justifies the effort and investment?”**

Since IFRS adoption in 2005, shareholders and analysts have used a number of inputs to inform their investment decisions, including IFRS 4 basis results, embedded value information, internal rates of return, payback periods, free capital generation and — latterly — Solvency II metrics. Investors are well versed in using multiple reference points to judge both the performance and financial condition of insurance groups.

Of course, the current IFRS 4 standard has deficiencies, but the assumption that it is a good thing at this stage to replace it with an IFRS 17 basis that has not been fully assessed is potentially disruptive. It is also misguided, particularly as there is little certainty that consistency alone will have the positive effect of reducing the sector's cost of capital and, in doing so, attract new investors.

#### Need for comprehensive assessment

From a bottom-up, technical perspective, the standard also needs to be rigorously assessed. You might ask why this has not been done already, particularly given the long history of the project and the IASB's consultation process. The reality is that the combination of alterations to proposals over a long period has increased the complexity of the standard. As is typical with this type of exercise, the devil will be in the detail and very little, if any, in-depth testing has been undertaken by companies or other interested parties.

So, to sum up, is the standard good enough? Opinions will vary on its merits. While the IASB's intentions are honourable, the absence of a comprehensive top-down and bottom-up assessment to date means that there is a real risk that the standard may not prove to be a demonstrable and unambiguous step forward for the insurance sector's financial reporting. Were this risk to materialise, and given the likely significant costs of transition, a real opportunity will have been missed to create a standard that befits the important role that the sector plays in supporting social policy and investing in the real economy. ■





**Olav Jones**  
Deputy director general, Insurance Europe

## Alphabet soup

Many tax-related issues have occupied Insurance Europe over the last year. Olav Jones provides a guide through the acronyms and abbreviations.

Policymakers' efforts to tackle tax avoidance and to improve the overall corporate tax system have intensified lately, so Insurance Europe's taxation working group has had a busy year. While supporting reasonable proposals at international and EU level, the group has aimed to ensure that any new rules do not unduly impact insurers' business model.

### On board with BEPS

The OECD base erosion and profit shifting (BEPS) project established a modern international tax framework with the aim of ensuring that profits are taxed where economic activity and value creation occur. The publication of the 15 actions of this plan in late 2015 was followed in 2016 with additional OECD work on interest rules for banking/insurance and permanent establishments. While the BEPS project is almost finalised, further OECD work is expected in 2017 on transfer pricing and financial transactions.

In the EU, the OECD BEPS rules were implemented through the Anti-Tax Avoidance Directive (ATAD), adopted in June 2016, which will be complemented by ATAD2 introducing detailed rules for addressing hybrid mismatches with non-EU countries. ATAD will enter into force on 1 January 2019, ATAD 2 a year later.

Insurance Europe has always supported the objectives of the

OECD BEPS project and those of the ATAD and we contributed significantly to the various consultations launched as part of the development of these new standards, which include many provisions that can have an impact on insurers' activity, most notably for hybrid regulatory capital, interest limitation, country-by-country reporting and controlled foreign companies.

Insurance Europe argued that regulators should take account of the unique characteristics of the industry's business model in their proposals in order to avoid unduly affecting insurers' ability to operate as they currently do. Pleasingly, most of these arguments were taken on board by regulators.

### No public CBCR

Country-by-country-reporting (CBCR) is one of the action points of the BEPS Action Plan, which foresees that large

**"Tax authorities are the ones that need to have access to country-by-country information because they have the know-how to accurately interpret it."**

### Quick read

- BEPS: The OECD and EU included welcome recognition of the insurance industry's unique characteristics in their final texts.
- CBCR: Requiring the publication of country-by-country reports is unreasonable and would not help the fight against tax avoidance.
- FTT: The costs of a financial transaction tax would have a negative effect on pension provision in Europe, so retirement products should be excluded.
- CCCTB: A common corporate tax base needs to be consolidated to reinforce the European single market.
- VAT: EU rules are ill-suited to modern financial services and should be modernised.

multinational enterprises (above a certain threshold of activity) should report to tax authorities — annually and for each tax jurisdiction in which they do business — relevant tax information according to a pre-defined template. This information would then automatically be exchanged between tax authorities, subject to appropriate confidentiality rules.

This BEPS action point was converted into EU legislation through a fourth extension of the Administrative Cooperation Directive in 2016 and the CBCR requirement has applied since January 2017. We supported this provision — subject to a number of adjustments being made that ensured that the reporting is not unduly burdensome for taxpayers — because we agree that tax authorities need to see and understand better how multinational enterprises organise their business worldwide. However, an amendment to the Accounting Directive, proposed by the EC in April 2016, plans to make the publication of the CBC reports mandatory.

Insurance Europe argues that the publication of CBC reports is unreasonable, not only because it goes beyond the OECD recommendations, but because publishing these reports (even anonymised) can lead to disclosure of business secrets and would be anti-competitive. No other large jurisdiction



**“The FTT would have a negative effect on pension provision in Europe.”**

plans to mandate this and the OECD itself has voiced scepticism. We will continue to oppose this requirement, which would bring no added value in the fight against tax avoidance. Tax authorities are the ones that need to have access to CBC information because they have the know-how to accurately interpret it.

#### **FTT uncertain**

Negotiations between the finance ministers of the 10 countries (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) working under enhanced cooperation towards the establishment of a financial transaction tax (FTT) have entered their fourth year. An agreement continues to be uncertain, given that these countries find it difficult to reach consensus on more than the “core engines” of the tax.

Insurance Europe has followed the negotiations throughout

**“It is only through consolidation that the expected advantages of the CCCTB in terms of reinforcing the European single market can be achieved.”**

and has reiterated its main concerns with the FTT on several occasions. In particular, we have argued that the tax would have a negative effect on pension provision in Europe. In the insurance sector, the costs of the FTT would push up insurers’ expenses and would inevitably reduce investment returns for consumers. These include policyholders who have signed contracts designed to provide long-term retirement income and protection against an unforeseen life event. We therefore strongly argue for an exemption from the FTT for all retirement products, regardless of their legal form or provider.

In fact, the treatment of pension products has been at the centre of negotiations over the past several months and is proving to be a sticking point, given that some countries have threatened to abandon the FTT project if an exemption is not granted. Yet while negotiations do seem to be currently at a “make or break” stage, any outcome, including a further extension of discussions, remains possible.

#### **CCTB should be CCCTB**

The Commission relaunched its common consolidated corporate tax base (CCCTB) project late last year with a two-step approach, meaning that the Council is first asked to agree on a mandatory common corporate tax base (CCTB) and only after that on the more controversial

consolidation provisions that sank the previous proposal a few years ago. Based on the new proposal, member states must adopt measures to comply with the directive on CCTB by 31 December 2019, and it would be applicable from 1 January 2020. However, discussions in the Council have not yet begun in earnest and several member states have voiced scepticism about — and even opposition to — the CCCTB project.

Insurance Europe adapted its position on the CCCTB project to reflect the changes made by the Commission in its new proposals compared to the 2011 version, and it stands ready to contribute to negotiations. We support the Commission’s aim to simplify the determination of taxable income for cross-border companies but believe that certain aspects of the proposals need to be addressed to ensure added value for European businesses. Most importantly, we argue that it is only through consolidation that the expected advantages of the CCCTB in terms of reinforcing the European single market can be achieved, because consolidation recognises a company’s cross-border activity within the EU. Furthermore, we support measures designed to counter aggressive tax planning and avoidance but believe that a CCTB would not meet the objectives that are set out in the proposal in this regard. ■

#### **VAT rules need modernising**

In the European Union, the VAT liability of financial services transactions continues to be governed by the VAT Directive that was implemented in 1977. In many respects, this Directive is outdated and not appropriate for modern financial services. Financial services providers are therefore having to rely on decisions by the European Court of Justice to adequately interpret the Directive’s provisions and apply them to current market realities.

Recent rulings in the *Skandia* and *Aspiro* cases have had a profound impact on the insurance business model by challenging the VAT treatment of head office/branch transactions and by limiting the application of the VAT exemption to outsourced services respectively. Future decisions in the *DNB Banka* and *Aviva* cases also have the potential to do so. This is not a sustainable way to implement VAT rules in the EU.

Since the VAT Directive is so ill-suited to modern financial services and current market realities, EU member states endeavour to find a balance for their national market and may implement their own interpretation of the law, particularly when no ECJ decision exists to mandate a particular interpretation. This results in an uneven playing field within the EU, causing VAT to become a factor affecting EU competitiveness and a driver in business decisions for financial services companies. It also leads to inappropriate taxation and to lost VAT income for member states. The lack of harmonisation of VAT law across the EU is, in fact, a significant barrier to the EU’s Capital Markets Union project.

For these reasons, Insurance Europe is calling for the modernisation of VAT rules for financial services to be put back on the Commission’s agenda. This process should adjust VAT rules to ECJ rulings, thereby ensuring the much-needed harmonisation of VAT rules at EU level. The areas that would most benefit from modernisation are: the scope and application of the VAT exemption for financial services; VAT grouping; cost-sharing groups and outsourcing; and third-party delegation.



**Alberto Corinti**  
Member of the board of directors, Italian Institute for the Supervision of Insurance (IVASS)

## Home and away

The conditions for free movement of services within the EU are as vital as the freedoms themselves, says supervisor Alberto Corinti

Free movement of services is one of the fundamental freedoms of the EU's internal market. An open and sound EU single market in insurance benefits both consumers and insurers. It has the potential to foster genuine competition, increase consumer choice, boost innovation and provide business opportunities.

This system, however, is based on the precondition that prudential and market conduct supervision ensure an equivalent, satisfactory level of consumer protection and a level playing field for companies across all EU member states.

The principle of "home country control", coupled with the obligation to consider general requirements related to the provision of services in another country (host country), such as consumer protection law, has been designed to allow this system to work. EU supervisors must therefore ensure that EU undertakings are capable of fulfilling their obligations and treating consumers fairly in whichever EU market they conduct business.

Several obstacles could potentially obstruct this objective, such as:

- Lack of harmonisation of regulation across EU countries. Even certain detailed aspects of prudential regulation, despite the EU's Solvency II Directive, are not — or have not yet been — fully harmonised in national implementing measures.
- Lack of or insufficient convergence of supervisory practices.
- Home supervisors' lack of expertise about specific risks and challenges in the host market, ie players, products, operational

functioning. This is relevant for the assessment of both the company's underwriting risk and the operational and reputational risk stemming from conduct of business in the host market.

- Home supervisors' limited resources and tools to appropriately supervise a cross-border activity that could become disproportionate compared to domestic activity.
- Host supervisors' challenges or even inability to appropriately enforce consumer protection law or other general requirements.

All these issues can be amplified by a lack of effective cooperation between the home and the host supervisor. Companies could then try to leverage these shortcomings in order to circumvent unfavourable regulation, as well as to exploit less effective supervisory treatments.

These risks could put the credibility of the sector and eventually the fundamental objectives of the internal market at stake. This would be a loss both for European citizens seeking insurance coverage and for insurers, who would all be impacted by a decrease in the credibility of the sector.

Unfortunately, these risks appear to materialise increasingly in the internal market. The recent distress or even failures of some EU insurers pursuing extensive cross-border business have had a significant impact on host country policyholders. This has, of course, raised concerns among policymakers, insurers and supervisors.

### A system that does not always work

The cross-border activity under freedom of services (FOS) represents a significant portion of insurance business in Italy. While we see this as a good development, we cannot hide the fact that ensuring appropriate protection for Italian policyholders in the case of cross-border activity has become increasingly challenging.

One clear, maybe extreme, example is Italian entrepreneurs banned from the Italian financial market due to their reputation, who then establish companies in other countries to continue to operate in Italy. In these cases we have cooperated with the home supervisors, who remain responsible for the prudential supervision of those companies, to seek appropriate interventions to stop or, as far as possible, prevent this behaviour.

<sup>1</sup> Conducted during 2015 and whose final report was approved by the EIOPA Board of Supervisors (BoS) in January 2016

<sup>2</sup> The revision of the General ("Siena") Protocol was approved by the EIOPA BoS in January 2017 under the legal form of a BoS Decision

**"The cooperation between home and host supervisors ... should become more effective, more timely and more forward-looking."**

Recently there have also been cases of EU companies entering the Italian motor third-party liability (MTPL) market and experiencing severe problems due to their lack of knowledge of the specific characteristics and risks of this market, which could not be detected and addressed by the home supervisor.

### What can regulators and supervisors do?

Certainly, harmonisation of regulation and enhanced convergence of supervisory practices, including the availability of resources and tools, are preconditions to improving the situation. EIOPA plays a key role in this. However, a crucial aspect is a qualitative evolution in the cooperation between home and host supervisors. This relationship should become more effective, more timely and more forward-looking. In addition, notwithstanding the "home country control" principle, the host supervisor should have a more proactive and responsible function. This is because host supervisors are often better placed to detect risks arising from cross-border activity in their markets.

The EIOPA "peer review" on FOS<sup>1</sup> highlighted this need. The subsequent revision of the "Siena" Protocol<sup>2</sup> has introduced new forms of cooperation that intend to move in this direction. It should enable more timely and complete exchange of information at all stages of the supervisory process: during the authorisation of cross-border activity; on an ongoing basis; and — if necessary — even before the undertaking submits an application to carry out cross-border activity (eg, when assessing shareholders and managers who come from or are connected to another EU country and there is a clear intention to operate predominantly in that country).

Whether this is sufficient will very much depend on the day-to-day supervisory practices of EU supervisors and their ability to cooperate effectively, even beyond their formal duties. Since the creation of the internal market, the main objective has been to eliminate obstacles to the freedom to move services across EU countries. Now, to defend the internal market, we need to focus more on the conditions to allow this freedom. ■



**Rosa Armesto**  
Head of public affairs & communications,  
Insurance Europe

## On good authority

Effective supervision is essential to a trusted, well functioning EU insurance sector, says Rosa Armesto

Effective supervision is a cornerstone of any modern industry — and even more so in financial services, given the importance of consumer confidence and trust. That is why Insurance Europe is taking a close interest in the European Commission's review of the three European supervisory authorities (ESAs) created in 2010 for insurance, banking, and securities and markets.

Insurance Europe responded to the eight-week public consultation by the Commission in May 2017. The consultation sought evidence on the operations of the ESAs and to see where their effectiveness and efficiency could be strengthened and improved, with a view to a possible legislative proposal. We welcomed the openness of the consultation, which covered the tasks and powers of the ESAs, their governance, supervisory architecture and funding.

To maintain a safe, stable and competitive European insurance market, and the role it plays facilitating business activity and funding growth, efficient and effective EU-

### Quick read

- The EC is currently reviewing the three European supervisory authorities.
- A separate insurance supervisor responsible for prudential and conduct of business supervision should be maintained to safeguard sector-specific supervisory expertise.
- The insurance supervisor needs to deliver fully on its core role of ensuring the harmonised application of EU legislation, but it must not exceed its mandate.

level supervision is required. This is best achieved by retaining a separate insurance supervisor responsible for both prudential and conduct of business supervision. That separate insurance supervisor, EIOPA, should focus on delivering on its core role of ensuring that European insurance regulation is applied in a suitably harmonised way across the continent.

### Insurance expertise is vital

Our dealings with policymakers around the world have taught us that the way insurance functions, its value and its differences from banking can be poorly understood, even at the highest levels. We frequently find it necessary to explain why rules that are appropriate for banks are ill-suited or even damaging to insurers, who have a long-term business model, a stabilising economic role and a lower risk profile. Indeed, we have produced publications, such as [“Why insurers differ from banks”](#), to explain this in detail. The same concerns also apply to the significant difference between insurance and the fund management industry. Maintaining a separate insurance supervisor with specialist insurance expertise is therefore the best way to ensure appropriate EU-level supervision of insurance.

The unique business model of insurance likewise means that prudential and conduct of business matters are closely intertwined. Prudential regulation directly affects insurers' decisions about the products and product features they offer and thus the way they conduct their business. And the consumer protection aspects of the way business is conducted are generally best dealt with at local level, where there is understanding of local consumer needs. This means that separating supervision into a “twin-peaks” model would not make sense at EU level. Keeping prudential and conduct of business oversight together in a separate EU insurance

supervisor is also the best way to avoid conflicts, overlaps and gaps in supervision, as well as unnecessary costs.

### Focus on core activities

EIOPA has made a positive contribution to the EU's insurance market since its creation, and its mandate and responsibilities are largely appropriate. However, it has not always focused its limited resources on work of most importance to the market. What is more, the lines between the supervisory and regulatory responsibilities of the ESAs, the EU institutions and national supervisory authorities have sometimes become blurred.

EIOPA has at times exceeded its legal mandate, acting like a regulator or using its resources on own-initiative projects that cross into political positions. We agree with the European Parliament that the ESAs should only give advice on, and seek implementation of, what has been agreed by EU legislators. At the same time, we also agree with the Parliament that the ESAs have not yet used all their legal prerogatives — such as in mediation and the settlement of disagreements between competent authorities across sectors — and we believe they should not be given more powers until they do.

### Improving governance and accountability

Such issues could be largely avoided if EIOPA's governance and accountability gaps were strengthened. For example, we believe that all Board of Supervisor decisions should be reached by qualified majority voting. Transparency in the supervisory system is also important for maintaining credibility. And while we welcome EIOPA's efforts on transparency, there is still room for improvement in the timeliness and quality of the information it provides. A further option is to introduce an independent oversight board to support the European Parliament in its oversight role. Such a board would help EIOPA maintain its independence and credibility by providing support for its work in achieving convergence, but also by ensuring it acts within its mandate and uses its independence appropriately.

Last but not least, to be able to fulfil their responsibilities, EIOPA and the other ESAs must continue to be fairly, efficiently and sufficiently resourced, with some element of EU funding maintained to ensure accountability.

In some ways, an industry can only be as strong as its supervisor, and Insurance Europe hopes to be able to continue its robust but constructive exchanges with its expert, stand-alone supervisor, EIOPA, for many years to come. ■



**Inga Beale**  
**Chair, Insurance Europe Reinsurance Advisory Board (RAB)**  
**CEO, Lloyd's, UK**

## Swings and roundabouts

With one major positive and a number of negative developments in international trade conditions in the last year, Inga Beale weighs up the changes

One cannot deny that the past 12 months have been extraordinarily eventful for the international (re)insurance community. Our industry is confronted with an ever-increasing number of reinsurance barriers to trade worldwide. The picture is not wholly one-sided, however, since occasionally we see more positive developments in some jurisdictions.

### **An EU–US bilateral agreement**

One positive and key development has been the finalisation of the negotiations of the bilateral agreement between the EU and the US on prudential measures for insurance and reinsurance.

This has been a top priority on all our agendas for many years and — although predictions of a successful outcome had become several shades darker after it became clear that the political direction of the US would undergo a significant shift — we were very pleased to congratulate EU and US policymakers on reaching a final compromise in January 2017.

For European reinsurers, the vital element of the bilateral agreement is certainly the commitment to the elimination of requirements to post collateral when providing services to local ceding companies. Once implemented, the agreement aims to open both markets further, as the same treatment of the local market will be granted to both local and foreign (re)insurers.

The agreement needs to be signed by both sides before any

discussions on implementation can commence. The European Commission has asked the Council of the EU for a mandate to sign. On the US side, political developments and the change in the US administration could delay this process. We hope that both sides will swiftly finalise their internal approval process and sign the agreement.

However, our work does not stop here. As can be expected from such a unique and compound international agreement, the implementation regime is complex and dependent on a number of factors. On both sides of the Atlantic, we will soon need to focus on ensuring a streamlined and ambitious execution of the measures to which the parties have committed. Despite increasingly tough circumstances in the international trade environment in general, we hope all parties will eventually agree that this deal is beneficial for the sector on both sides, as well as for consumers.

### **Other positive developments ...**

In addition to the bilateral agreement, we witnessed further positive developments in economies that are opening, or have committed to taking measures to open, their markets to the international reinsurance industry.

It has been encouraging to see Argentina, for example, implement a new Resolution that foresees a staged decrease in their barriers to access the reinsurance market, after what have been years of protectionism and overall economic instability. Likewise, contrary to previously communicated plans, South Korea decided not to introduce restrictions on the placement of Korean risks on a cross-border basis in 2017. And many European reinsurers received regulatory approval to open branches and increase their local presence in India over the past year. This was only made possible by India finalising its long-awaited reforms to open the market.

### **... but protectionism still on the rise**

These positive developments are, nevertheless, overshadowed by a significant tendency to re-embrace protectionism. Over the past year, the number of countries and regions that have implemented, or are in the process of implementing, barriers to the transfer of risks through global reinsurance markets has increased. These include restrictions on conducting business on a cross-border basis, requirements for the collateralisation or localisation of assets for cross-border reinsurance, barriers to establishing a local presence, and other discriminatory and anti-competitive mechanisms.

It has become an increasing trend, for example, to impose mandatory cession requirements, requiring local cedants to transfer a certain share of their risk to either local reinsurers in general or an established state reinsurer. This has been common practice in several Latin American countries for years, but similar provisions have now also been introduced in Ethiopia and Namibia and are in discussion in several member countries of the Asian Reinsurance Corporation (Asia Re).

One major obstacle we continue to face in India, even after the establishment of branches of foreign reinsurers has been allowed, is the "Order of preference for reinsurance business in India". The underlying regulation established a four-tiered system that effectively created a "first right of refusal" in favour of domestic reinsurers for reinsurance business, before it goes to branches of foreign reinsurers and cross-border reinsurers.

### **Freedom to (re)insure**

On balance, barriers or disincentives to domestic insurers accessing reinsurance from foreign reinsurers either cross-border or via branches are increasing in international markets. Hence we need to continue our engagement and our efforts. This will involve significant work explaining to policymakers not only how our business model works but also the benefits of open reinsurance markets to local economies.

Open reinsurance markets are vital to enable reinsurance markets to operate efficiently, to diversify risk globally and to promote continued growth and recovery of global and national economies. Barriers to trade in reinsurance undermine the efficiency of reinsurance markets. They lead to higher reinsurance costs and less capacity in the long term. It is crucial that global trends towards more risk-based regulation go hand in hand with appropriate, widespread recognition of the value of reinsurance and of reinsurers' business models.

### **Challenging times ahead**

The developments over the past year have clearly been a game-changer for the future of international trade. It has become evident that world events, such as a sudden turn in the political steering of one of the world's major powers or a national referendum, have an immediate and direct impact on the global business environment in which European (re)insurers operate.

It is safe to say that our work is set out for the coming months, which contain many uncertainties and challenges. ■

## GFIA OPINION



**Governor Dirk Kempthorne**  
**President, Global Federation of Insurance Associations (GFIA)**  
**President & CEO, American Council of Life Insurers (ACLI)**

### High five

As the Global Federation of Insurance Associations celebrates its fifth anniversary, Dirk Kempthorne reviews its achievements

Five years ago, in 2012, a coalition of future-minded insurance associations from around the world signed a charter to create the Global Federation of Insurance Associations (GFIA). Those five years of GFIA have deepened the way the insurance industry works together internationally, enabling GFIA to speak as the respected representative body for the world's insurers with a broad variety of interlocutors.

It is with no small amount of pride that I now look back at what GFIA has accomplished in the past five years.

It has produced over 115 papers detailing its positions on a wide variety of subjects, set out insurance issues to G-20 leaders on five separate occasions, participated in debates across the industry and beyond, and sought consensus, built positions and shared best practice at 10 general assembly meetings. It has become a key counterpart for international organisations, including the IAIS, the Financial Stability Board (FSB) and the OECD.

Given the diverse nature of the industry and the various specialisations of its members, GFIA builds its positions in 13 different working groups. GFIA's advocacy activities range from taxation-related issues to countering money laundering and responding to natural catastrophes. Much work has been done in response to initiatives at the IAIS and the FSB on systemic risk, on the supervision of internationally active insurance groups and on quantitative capital standards.



*GFIA members at their May 2016 General Assembly, Dublin, Ireland*

For those who have followed GFIA's activities, it will come as no surprise that GFIA remains a champion of free trade, objecting to market barriers and protectionism. Over the years, GFIA has written to regulators and governments around the world (including those in India, Indonesia, China and Ecuador) to raise concerns over their evolving insurance regulation.

And the global federation has been preparing for the next chapter of policy developments by initiating discussions on disruptive technology, cyber risks and the challenges of ageing societies and pension adequacy.

#### **Building bridges with supervisors**

As GFIA has grown, the IAIS has fundamentally reshaped itself, particularly in terms of efforts to streamline and optimise its stakeholder input processes, which are most welcome. It has committed to re-opening its annual conference, as we saw in Asunción, Paraguay in November 2016. This is a positive development, as the conference allows supervisors and the industry to connect and share experiences. A similarly positive step was the inclusion of several GFIA representatives in the panels at the IAIS Global Seminar in Budapest in June 2016.

GFIA members travelled to join the IAIS in Asunción, where the IAIS and GFIA together set up a roundtable discussion on the benefits of cross-border reinsurance. The roundtable was attended by top-level IAIS representatives and was positively

#### **About GFIA**

The Global Federation of Insurance Associations was established in October 2012. It has 41 member associations representing the interests of (re)insurers that account for more than \$4trn of annual insurance premiums worldwide, or nearly 90% of the global total. GFIA's secretariat is headquartered at Insurance Europe.

received. The IAIS has given strong signals that it is willing to coordinate future events with GFIA on substantive regulatory issues. It goes without saying that supporting the IAIS in this way will be at the very top of GFIA's priority list.

#### **Looking to an inclusive future**

Everybody deserves a fair chance to participate in the economy. Both for the good of the public and for the health of financial services, it is imperative that governments and the private sector work together to achieve this. For the insurance sector, this means financial inclusion projects that span microinsurance, financial education and other initiatives aimed at market segments that are underserved.

In the past year, GFIA's financial inclusion working group has



Governor Kempthorne discusses the global relevance of the insurance industry before 900 attendees from 30 nations at the April 2017 conference of the Moroccan Association of Insurance and Reinsurance Companies (FMSAR).

organised workshops to exchange best practice in these efforts. GFIA members, in cooperation with the International Labour Organization's Impact Insurance Facility, spoke about their struggles and successes in diverse and unique local markets. This range of accounts teaches us many lessons about the complexity of achieving social objectives, and insurers must go the extra mile to reach customers and improve financial literacy and consumer understanding of the social and economic value of insurance.

The working group has also produced a financial inclusion framework and completed a financial inclusion survey as part of a broader strategy to identify the role of associations in improving financial inclusion.

#### A G-20 with deep insurance expertise

Over the last five years, GFIA has met representatives of the G-20 presidencies of Mexico, Russia, Australia, Turkey, China and, most recently, Germany. In all these engagements, we have focused on highlighting the important role that our industry plays in protecting individuals and businesses, managing savings and pensions, and being key investors in the world's economies.

**"Insurers must go the extra mile to reach customers and improve financial literacy and consumer understanding of the social and economic value of insurance."**

Our efforts have met with success. The G-20 is no longer bank-centric, only referencing the risks it perceives with insurance and not our strengths. That has changed. Today, insurance is included in discussions on solutions at G-20 meetings.

It has been a particular pleasure to meet the German G-20 team, which possesses such experience in the insurance sector. Dr Steffen and President Hufeld have each served on the IAIS executive committee, and both have outstanding track records of working closely with the insurance industry. Their backgrounds allowed us to discuss topics in great detail.

Our team also met those responsible for drafting the B-20 recommendations for several of its policy papers. This exchange was also positive, with the drafters well-informed and aware of the policy issues that affect insurers. They understood our concerns about forced localisation of reinsurance and how our industry's long-term investments align well with policymakers' objective to foster investment in infrastructure projects.

Another recurring theme during the G-20 meetings that deserves attention is the "Compact with Africa". This programme, established under the German G-20 presidency, aims to strengthen the regulatory environment in Africa in a way that encourages more private investment, particularly in infrastructure. In June 2017, the G-20 will hold a conference on investment and building resilience in Africa. GFIA has contributed by introducing the German organising team to technical experts from the industry with experience of investing in African countries. ■

## Insurance Europe

- Member associations
- Events
- Publications
- Executive Committee
- Strategic Board
- Working bodies

## Member associations

Austria		Verband der Versicherungsunternehmen Österreichs (VVO) President: Othmar Ederer <a href="http://www.vvo.at">www.vvo.at</a> tel: +43 171 15 62 00	Greece		Hellenic Association of Insurance Companies President: Dimitris Mazarakis <a href="http://www.eaee.gr">www.eaee.gr</a> tel: +30 2103 33 41 00
Belgium		Assuralia President: Hans De Cuyper <a href="http://www.assuralia.be">www.assuralia.be</a> tel: +32 2 547 56 11	Hungary		Magyar Biztosítók Szövetsége (MABISZ) President: Anett Pandurics <a href="http://www.mabisz.hu">www.mabisz.hu</a> tel: +36 1318 34 73
Bulgaria		Association of Bulgarian Insurers (ABZ) Chairwoman: Svetla Nestorova <a href="http://www.abz.bg">www.abz.bg</a> tel: +359 29 80 51 24	Iceland		Samtök Fjármálafyrirtækja (SFF) President: Birna Einarsdóttir <a href="http://www.sff.is">www.sff.is</a> tel: +354 591 04 00
Croatia		Hrvatski ured za osiguranje (HUO) President: Damir Zorić <a href="http://www.huo.hr">www.huo.hr</a> tel: +385 14 69 66 00	Ireland		Insurance Ireland President: Ken Norgrove <a href="http://www.insuranceireland.eu">www.insuranceireland.eu</a> tel: +353 1676 18 20
Cyprus		Insurance Association of Cyprus Chairman: Andreas Kritiotis <a href="http://www.iac.org.cy">www.iac.org.cy</a> tel: +357 22 45 29 90	Italy		Associazione Nazionale fra le Imprese Assicuratrici (ANIA) President: Maria Bianca Farina <a href="http://www.ania.it">www.ania.it</a> tel: +39 06 32 68 81
Czech Republic		Česká asociace pojišťoven (ČAP) President: Martin Diviš <a href="http://www.cap.cz">www.cap.cz</a> tel: +420 222 35 01 50	Latvia		Latvijas Apdrošinātāju asociācija (LAA) President: Jānis Abāšins <a href="http://www.laa.lv">www.laa.lv</a> tel: +371 67 36 08 98
Denmark		Forsikring & Pension (F&P) President: Søren Boe Mortensen <a href="http://www.forsikringogpension.dk">www.forsikringogpension.dk</a> tel: +45 41 91 91 91	Liechtenstein		Liechtensteinischer Versicherungsverband President & director: Caroline Voigt Jelenik <a href="http://www.lvv.li">www.lvv.li</a> tel: +423 237 47 77
Estonia		Eesti Kindlustusseltside Liit President: Artur Praun <a href="http://www.eksl.ee">www.eksl.ee</a> tel: +372 667 18 00	Luxembourg		Association des Compagnies d'Assurances et de Réassurances du Grand-Duché de Luxembourg (ACA) President: Marie-Hélène Massard <a href="http://www.aca.lu">www.aca.lu</a> tel: +352 44214 41
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Norway		Finans Norge Chairman: Odd Arild Grefstad <a href="http://www.fno.no">www.fno.no</a> tel: +47 23 28 42 00
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Romania		Uniunea Națională a Societăților de Asigurare și Reasigurare din România (UNRAR) President: Adrian Marin <a href="http://www.unrar.ro">www.unrar.ro</a> tel: +40 31 40 57 328
Slovakia		Slovenská asociácia poisťovní (SLASPO) President: Vladimír Bakeš <a href="http://www.slaspo.sk">www.slaspo.sk</a> tel: +421 24 34 29 985
Slovenia		Slovensko Zavarovalno Zdrúženje (SZZ) Director: Maja Krumberger <a href="http://www.zav-zdruzenje.si">www.zav-zdruzenje.si</a> tel: +386 1 30 09 381
Spain		Unión Española de Entidades Aseguradoras y Reaseguradoras (UNESPA) President: Pilar González de Frutos <a href="http://www.unespa.es">www.unespa.es</a> tel: +34 917 45 15 30
Sweden		Svensk Försäkring President: Bengt-Åke Fagerman <a href="http://www.svenskforsakring.se">www.svenskforsakring.se</a> tel: +46 85 22 78 500
Switzerland		Schweizerischer Versicherungsverband (ASA/SVV) President: Urs Berger <a href="http://www.svv.ch">www.svv.ch</a> tel: +41 442 08 28 28
Turkey		Türkiye Sigorta, Reasürans ve Emeklilik Şirketleri Birliği President: Ramazan Ülger <a href="http://www.tsb.org.tr">www.tsb.org.tr</a> tel: +90 212 32 41 950

United Kingdom	The British Insurers' European Committee (BIEC), comprising:	
		Association of British Insurers (ABI) Chairman: Andy Briggs <a href="http://www.abi.org.uk">www.abi.org.uk</a> tel: +44 20 7600 3333
		International Underwriting Association of London (IUA) Chairman: Malcolm Newman <a href="http://www.iua.co.uk">www.iua.co.uk</a> tel: +44 20 7617 4444
		Lloyd's Chairman: John Nelson <a href="http://www.lloyds.com">www.lloyds.com</a> tel: +44 20 7327 1000

#### Associate members

San Marino		Associazione Sammarinese Imprese di Assicurazione (ASIA) President: Camillo Soave <a href="http://www.asiarsm.sm">www.asiarsm.sm</a> tel: +378 054 990 56 80
Serbia		Udruženje Osiguravača Srbije Secretary general: Duško Jovanović <a href="http://www.uos.rs">www.uos.rs</a> tel: +381 112 92 79 00

#### Partner

Russia		All Russian Insurance Association (ARIA) President: Igor Yurgens <a href="http://www.ins-union.ru">www.ins-union.ru</a> tel: +7 495 232 12 24
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# Events

## 8th International Conference "Serving our customer in tomorrow's world", Dublin, May 2016



Nearly 600 delegates listened to the opening debate on the impact of regulation on customers between (L to R) Mike McGavick, XL Group; Gabriel Bernardino, EIOPA; moderator Karel Van Hulle; Paul Mahon, Great-West Lifeco; and Rowan Douglas, Willis Towers Watson.



Ireland's Taoiseach Enda Kenny (centre) is welcomed by Insurance Europe's Sergio Balbinot and Michaela Koller as he arrives to open the conference.



Watched by Mario Vela of GNP Seguros, Tennessee Insurance Commissioner Julie Mix McPeak makes predictions about the customers of the future in the last panel of the [full-day event](#).



Gordon Watson of AIA Group provided the south-east Asian perspective of a group based in Hong Kong.



Torbjörn Magnusson of If P&C Insurance (left) moderated a futuristic session on the distribution channels of tomorrow with speakers Cécile Wendling of Axa and Valter Trevisani of Generali.

## Capital Markets Union dinner, Brussels, November 2016



Burkhard Balz MEP was one of the guest speakers at a dinner debate organised by Insurance Europe as part of Brussels's inaugural Invest Week, urging the EC to be ambitious in its efforts to ensure insurers can maintain their long-term investments.

Commission speakers Miguel Gil-Tertre of the Cabinet of Vice-President Katainen and Niall Bohan, head of the Capital Markets Union unit, insisted the EC's Investment Plan for Europe puts investment at the centre of policy discussions.

## Launch of "A Blueprint for Pensions", Brussels, February 2017



Martin Merlin, EC director for regulation & prudential supervision of financial institutions, gave the keynote speech at the launch of Insurance Europe's pensions campaign (see p49).



Debating the merits of a pan-European pension framework: (L to R) moderator Olav Jones, Insurance Europe; Edward Scicluna, Maltese Finance Minister; Gabriel Bernardino, EIOPA; Guillaume Prache, Better Finance; and Nicolas Jeanmart, Insurance Europe.

# Publications

These Insurance Europe publications, and more, are available at [www.insuranceeurope.eu](http://www.insuranceeurope.eu)



**Annual Report 2015-2016**  
(May 2016)

Articles on current insurance topics and details of Insurance Europe's structure and organisation.



**Insight Briefing: Access to in-vehicle data can maximise the benefits consumers gain from motor insurance**  
(June 2016)

Why consumers must be able to decide who can access their in-vehicle data, and for what purposes.



**European Motor Insurance Markets Addendum**  
(June 2016)

Addendum to the November 2015 statistical report with updated figures for headline indicators.



**European Insurance — Key Facts**  
(August 2016)

Key preliminary data for 2015, including information on European insurers' role in the economy, their premiums and their investments.



**Insight Briefing: Better, not more, information for consumers**  
(December 2016)

EU consumer protection rules must avoid duplication and be future proof.



**European Insurance in Figures: 2015 data**  
(December 2016)

Detailed 2015 statistics showing European insurers' life and non-life premiums, benefits paid and portfolios, as well as market structure information.



**Insight Briefing: Supporting innovation in insurance in a digital age**  
(February 2017)

How to promote consumer-friendly innovation and ensure future-proof rules.



**A Blueprint for Pensions (and Insight Briefing)**  
(February 2017)

Sets out the extent of the pensions challenge in Europe and suggests actions to help ensure that Europe's citizens save enough, save well and save wisely for their retirement.



**Insight Briefing: Climate change: From words to action**  
(October 2016)

Why measures are needed to ensure affordable and sustainable insurance remains possible.



**Insight Briefing: It's time to (re)evaluate the risks of protectionism**  
(October 2016)

Policy makers must recognise the benefits of engaging with foreign (re)insurers.



**Insight Briefing: Making the IPID work for consumers**  
(October 2016)

The insurance product information document (IPID) required by the Insurance Distribution Directive must be straightforward and future proof.



**Financial education in a digital age**  
(March 2017)

European insurance industry initiatives to increase financial literacy and recommendations for policymakers.



**Market access and trade barrier factsheets**  
(March 2017)

Individual factsheets on the issues faced by European (re)insurers in Argentina, Brazil, Ecuador, India, Indonesia and Turkey.



**Indirect taxation on insurance contracts in Europe**  
(May 2017)

A full survey of rules, tariffs and regulations. It provides an overview of taxes applicable to insurance premiums, as well as declaration and payment procedures.

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**Emmanuel Van Grimbergen**  
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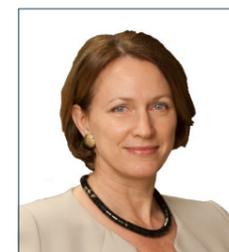
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Group casualty  
director  
RSA, UK



**Vice-chair**  
**Marco Visser**  
Head of market  
management  
HDI Global, Germany

**Motor Working Group**



**Chair**  
**Monika Sebold-Bender**  
Member of the board,  
responsible for P&C  
Ergo, Germany



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

**Sustainability Working Group**



**Chair**  
**Thomas Hlatky**  
Head of reinsurance  
Grazer Wechselseitige,  
Austria



**Vice-chair**  
**Roland Nussbaum**  
CEO  
Mission Risques Naturels  
(MRN), France

**Insurance Crime Platform**



**Chair**  
**Per Norström**  
Deputy CEO  
Larmtjänst, Sweden

**Road Safety Platform**



**Chair**  
**Siegfried Brockmann**  
Head of insurance  
accident research  
GDV, Germany

**Public Affairs & Communications Committee**



**Chair**  
**Michaela Koller**  
Director general  
Insurance Europe

**Communications & PR Platform**



**Chair**  
**Wauthier Robyns**  
Communications & PR  
director  
Assuralia, Belgium

#### Statistics Working Group (reports to the Executive Committee)

	<b>Chair</b> <b>Delphine Maisonneuve</b> Retail P&C director Axa, France		<b>Vice-chair</b> <b>Alberto José Macián Villanueva</b> Head of global P&C retail Generali, Italy
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#### Health Platform (reports to the Executive Committee)

	<b>Chair</b> <b>George Veliotes</b> General manager, life & health Interamerican Group, Greece
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#### Social Dialogue Platform (reports to the Executive Committee)

	<b>Chair</b> <b>Sebastian Hopfner</b> Deputy general manager Arbeitgeberverband der Versicherungsunternehmen (AGV), Germany
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