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Insurance reforms: putting the European economy back on the path towards sustainable growth

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Your Royal Highness Princess Maxima,

Ladies and Gentlemen,

Let me first of all express my thanks to Insurance Europe, its President Sergio BALBINOT and the Dutch Association of Insurers for the organisation of this timely conference. It is a pleasure to be here in Amsterdam today.

The conference will focus on risks and opportunities for the insurance sector, looking in particular at regulatory aspects, occupational pensions and natural disaster risk. I welcome this selection of topics. They are all very timely. Your discussions today will contribute to the internal ongoing debate in the Commission.

But let us not forget that all developments in the insurance sector take place against the backdrop of what is happening in Europe. We face a fifth consecutive year of financial crisis, growth close to zero and uncertainty about the situation in Greece. While much of the focus is on banks and how they are coping with the crisis, insurance companies are obviously also affected by the situation.

Ladies and Gentlemen,

You will be talking today about risks and opportunities for the insurance sector with a focus on regulatory aspects, pensions and natural disasters. I welcome this choice of topics. They are in keeping with the Commission's priorities and will certainly enliven our internal discussions until the end of 2012.

Given the difficult economic circumstances I have just described, I would like to look to the future and talk about the opportunities an intelligently regulated insurance sector can offer European society as a whole.

You know that my roadmap is the same as that of the G20. In a few weeks' time we will have put forward some 30 texts covering the whole range of decisions taken by the G20 in response to the crisis.

Europe has shown it is determined to restore stability in its financial system. It must now prove its willingness to put its real economy back on the path of sustainable growth. This should be our priority for the coming months.

I am convinced that, since insurers are a force for stability and continuity on financial markets, and especially as they can invest for the long term, they have a key role to play in getting Europe back on track for sustainable growth.

I am also certain that the <u>three major regulatory projects</u> under way can help them in that role.

First and foremost I am thinking of Solvency II, which is an effective supervisory system. At the end of 2010, insurers had invested more than 7,400 billion euro worth of assets, which is more than 50% of European GDP. It is in the interest of Europe and of policy holders for those assets to be allocated optimally in order to finance sustainable growth.

Similarly, I think a modernised pension fund supervisory regime should allow funding to be channelled properly towards the real economy without undermining the protection of current and future pensioners. These are the stakes in the revision of the IORP Directive (institutions for occupational retirement provision).

Lastly, the financial system will not contribute fully to sustainable growth in the real economy until confidence is restored among its 'users'. This is the aim of the initiatives we will be proposing for the protection of investors and consumers of financial services. In particular, the revision of the insurance mediation Directive (IMD) comes to mind.

Allow me to elaborate on the three projects I mentioned.

I – Solvency II

As you know, our aim with Solvency II is to introduce for all European insurers and reinsurers an efficient, modern, economic solvency system based on real risks. While it is true that this system was designed in very different economic circumstances from those we have seen in recent years, I think the Framework Directive adopted in 2009 is sufficiently flexible to allow all the changes necessary to take account of the current state of the economy.

These changes are important because the Solvency II regime should allow insurers to fully play their part in the return to sustainable growth in Europe.

Which steps have we taken under Solvency II to recognise the role of insurers as long-term investors?

I would mention three points:

- Firstly, a reminder that the framework set out in the Directive was not designed to prevent insurers investing in certain categories of assets. On the contrary, they will have greater freedom to invest since the absolute limits by category of asset currently in force will cease to exist. In addition, the capital requirements will be reduced for insurers who diversify their asset portfolio.
- Next, Solvability II recognises that it is better for insurers offering policies with long-term guarantees to invest for the long term rather than the short term. For example, it seems logical for an insurer offering pension policies with guarantees lasting several decades to invest in very long maturity bonds. In such a case, the capital burden under Solvency II would be lower than if the insurer invested in short-term bonds. A very long-term investment of this kind could be used, for example, to fund infrastructure projects and thereby create growth. Thus, Solvency II allows asset-liability management, which is inherent to the insurance profession, to benefit the real economy.
- To strengthen insurers' impact on sustainable growth in the real economy, it is therefore important to foster their ability to provide long-term guarantees. That is what we have been doing over the last few months in close cooperation with the insurance industry and governments in Europe. This has enabled us to come up with a set of solutions that take account of the concerns of several Member States. The discussions on the Omnibus II Directive now include these aspects and I hope the European Parliament, whose role is essential in this matter, will soon reach a balanced agreement with the Council on the issue of long-term guarantees. We are doing our utmost to ensure that the agreement contains various well-tailored solutions to address the concerns expressed by the insurance sector and to avoid certain markets or insurers being penalised by the new system. At the same time, we wish to see swift progress in the discussions as we need to stick to the timetable we have set ourselves.

While we are on the subject of the timetable, I would like to stress one point: in the Commission's view it is important for Solvency II to enter into force as soon as possible. We have been working on this project with the industry for more than 10 years now.

What are we doing to ensure Solvency II applies from 1 January 2014?

Although our proposal for the Omnibus II Directive was published at the very beginning of 2011, Parliament only took a position on the text at the beginning of spring 2012. This meant that the discussions between Parliament and the Council started quite late. Rapid progress has been made though and I am hopeful that a political agreement will be reached over the coming weeks. However, if nothing happens, there is a major risk that the Solvency II Directive will not be officially amended in time, that is before 1 November 2012.

That is why on 16 May 2012 we made a very targeted proposal to amend Solvency II on this point alone, in other words to change the date of implementation by the Member States. Parliament and the Council should, therefore, decide very shortly that Solvency II will apply from 1 January 2014.

Once the Omnibus II Directive has been adopted, the system will be ready to be put in place very quickly and the Commission will then be able to table the implementing texts ('Level 2') completing the Framework Directive. Similarly, the European Insurance and Occupational Pensions Authority (EIOPA) will be able to submit its draft technical standards to the Commission.

II – Directive on institutions for occupational retirement provision (IORPs)

I am aware that the planned revision of the Directive on institutions for occupational retirement provision, also known as the 'IORP Directive' or the 'pension funds Directive', has given rise to a great deal of concern here in the Netherlands and in other Member States such as Germany and the United Kingdom. The argument I often hear is that pension funds in general have withstood the crisis well so there is no need to amend the existing rules.

However, I would like to insist on the need for this revision. We cannot allow ourselves to look only at the current situation. We also have to take into account the safety of future pensioners and their trust in the system! If we do not start the necessary reforms today, there will be no guarantee that the occupational pensions paid out in 10 or 20 or 30 years will be adequate. This is a matter of our common responsibility towards future generations.

But let me be very clear: contrary to reports in the press and as I have already said on several occasions – including at our Brussels conference on 1 March – we do not intend to apply all the Solvency II rules to occupational pensions institutions.

Nevertheless, European regulation of insurance companies is important for pension funds because of the legal link between the two. The pension funds Directive dating from 2003 currently refers to the applicable insurance legislation – namely, the Solvency I directives! The transition to Solvency II for insurers therefore raises the following question: how can pension funds also be made to benefit from more effective regulation that is better adapted to today's challenges?

I believe it is important in regulatory terms to maintain a level playing field between insurance companies and pension funds when they supply similar and interchangeable products. I do not wish to penalise either of them.

We must remember that an occupational pension scheme is not an insurance policy. However, in so far as the risks underwritten by an insurance company or a pension fund are the same, I think the prudential rules should also be the same. This is necessary so as not to promote regulatory arbitrage in the single market.

I would stress though that we have not yet spelled out the new rules for pension funds. No final decision has yet been taken on this matter. The preparatory work is under way. Over the coming months, the Commission will continue to work closely with EIOPA – and I welcome Gabriel Bernardino, who is with us here this morning – and all the other stakeholders to ensure that the final text hits the right note. The Commission is mindful of the big differences between the pension systems currently in place in Member States. Those differences must be taken into account in our revision.

Given the complexity and importance of this issue, and particularly the need for first-rate quantitative impact assessments, I have decided to take a few more months to finalise the revision. We therefore expect to table the revised Directive before summer 2013, rather than at the end of 2012.

Ladies and Gentlemen,

Although the current discussions on pensions are largely focused on pension funds, in my view insurance companies also have a key role to play in this area. The work on insurance products with long-term guarantees under Solvency II that I mentioned before is heading in the same direction. As I explained, this work will have a profound impact on the ability of insurers to invest for the long term. The same would also apply to pension funds if a similar approach is chosen.

More generally, we will shortly be launching a green paper on this key issue of long-term investment. In this regard, I would like to examine the impact of our proposals, especially Capital Requirements Directive IV (CRD IV) and the Solvency II Directive. I will also seek new ways of encouraging this long-term investment, which is particularly essential for funding major infrastructure projects and the environmental transition.

III – Insurance mediation Directive (IMD)

As I have pointed out, to make the financial system fully serve the real economy, another crucial priority is the protection of investors and consumers of financial services.

In this regard, we shall be proposing three key initiatives in the coming weeks:

Firstly, we want to better protect consumers of packaged retail investment products (PRIPS) by introducing harmonised and transparent information requirements. These products are now so complex and obscure that too often consumers buy them when it is not in their interest to do so. In this context, I can assure you that the rules to be applied will take account of the specific nature of the insurance sector.

Secondly, the Madoff fraud case in the United States, in which some Europeans lost money, has exposed the loopholes in regulating UCITS. Our aim is to provide better protection for those investing in such products by introducing stricter liability rules for the loss of financial instruments kept in a depositary bank.

Finally, a subject that concerns you directly: we want to protect consumers of insurance products, especially by creating a ‘level playing field' between the different providers of these products. That is why the IMD Directive must include within its scope direct selling of insurance. We think that each policy holder should be given the same level of information and protection, wherever they purchase their insurance guarantee. I will be submitting a text to Parliament and the Council that represents real progress in terms of transparency, including on remuneration, responsible risk management and removing conflicts of interest.

As regards restoring consumer confidence, I also have in mind the confidence insurers inspire when they work together to reduce the risk or limit the impact of the catastrophic consequences that can result from natural or industrial disasters. I intend to publish a green paper open to public consultation on the subject of insurance and disasters. It will be designed as a forum for the exchange of experience and good practice in the Member States. The role of insurers will be acknowledged and discussed and I would invite you all to take part in this very important debate.

Ladies and Gentlemen,

Insurers and reinsurers are guardians of stability and continuity on the financial markets. In the current context, they are more important than ever.

In this regard, we must restore confidence in the ability of the financial system to channel funding towards the real economy over the long term while protecting investors and consumers.

By moving in this direction, our proposals on Solvency II, insurance intermediaries and occupational pensions institutions give us an opportunity to help put the European economy back on the path towards sustainable growth.

Thank you for your attention.