Thursday 12 June, Conference (9h00-17h00)
Welcome speech Sergio Balbinot (9h00)

Good morning ladies and gentlemen. I'm delighted to see so many of you here in Malta for Insurance Europe's 6th International Conference.

My purpose today is to share with you some clear, constructive and, at the same time, realistic messages about the most important issues affecting the insurance industry at the European and global levels.

We are all aware that we are living through an important period, in which we are trying to consolidate economic stability against a background of change. In such an environment, preserving the fundamental role of the insurance industry as a long-term investor should finally become a common goal. And a priority in achieving this result is the need for balanced, clear and consistent regulation.

I've always been committed to promoting **quality regulation**: fairness, clarity and efficiency must be encouraged at all levels in order to help insurance companies to really protect customers as well as the whole economy.

Moreover, we will continue to convey to legislators, investors, the media and the general public the vital need to properly take into account the distinctive characteristics of the insurance business.

After stating that, let me start with a figure: **130**. Indeed, 130 is the number of initiatives affecting the insurance industry - directly or indirectly - that came out of the European Commission during its last five-year mandate. That’s 26 a year or more than 2 a month.

Last month the Commission published an economic review of its financial regulation agenda of the last five years. It listed 40 proposals, most adopted and some already in force. These are initiatives addressing directly the financial sector and don’t take into account all the other proposals that also affect insurance. As everyone here knows, insurance is involved in every aspect of society: from birth to death; from big businesses to small; and from the macro issues such as climate change right down to nanotechnology. That means that there are a lot of legislative proposals not specifically targeted at insurance, but that can have a significant impact on the insurance business.

And so we come to these 130 initiatives. I commend the Commission for this huge amount of work and for the many positive aims that underlie its initiatives. It is clear, however, that such a large number of initiatives can also create undesirable effects, such as unintended consequences, additional costs and administrative burdens, overlaps and contradictions among local, national, regional and international regulatory requirements.

The first such effect is represented by **unintended consequences**. This is something I highlighted in Insurance Europe’s Annual Report, which was published yesterday and which you have in your conference packs.

Great attention needs to be paid in order to avoid unintended consequences: poorly designed or badly calibrated regulations can obstacle financial and insurance firms in the performance of their economic functions.

Let me explain with the example of the plans for new European rules on the **distribution of insurance products** and **information to be provided to consumers**.

The aim of the Regulators is to help consumers to make better informed choices and to prevent conflicts of interest. Insurance Europe supports these general goals: protecting the customer and providing quality information and services are the essence of insurance and it is a common interest to have sound rules in place.

Therefore, Insurance Europe has been closely following crucial files such as the review of the MiFID Directive, the adoption of the Regulation on a Key Information Document for PRIIPs and the ongoing revision of the Insurance Mediation Directive.

Significant work is also expected at the next legislative level, which will define very important technical aspects.

Insurance Europe remains committed to contributing to the legislative process, participating in public consultations and providing qualified comments and data.

In particular, we will strive to keep up the attention on two key aspects.

First, the specificities of the insurance sector must be respected. In particular, the variety of insurance products, markets and distribution channels across Europe must be preserved, because it promotes competition and offers consumers greater choice, so that they have access to high quality products and services that better fit their real needs. As I said to Commissioner Barnier on several occasions, we therefore recommend that legislators follow a proportionate and flexible approach and carefully evaluate the potential impact of any measures on market efficiency and consumers before they are adopted.

Secondly, we believe that consumers need better information, not more information. We can not accept that – as a result of European requirements - a broker proposing a unit-linked life insurance product at distance has to provide 70 sets of pre-contractual information, or even more in the future.

I want to state clearly: this does not benefit consumers!

We will therefore continue to oppose initiatives that distract customers from paying attention to the key elements of an insurance product, such as coverage and exclusions. For example, concerning the prevention of potential conflicts of interests, why imposing at the European level the provision of complex and technical data on the distributors' remuneration, when it would be more effective to disclose the source and nature of the intermediary's remuneration?

At the same time, duplications, overlaps and lacks of alignment between legislative initiatives must be avoided. For example, we are concerned about the duplication of information requirements between Solvency II and the PRIIPs Regulation: it does not make sense that consumers receive the same pieces of information twice, in two different formats!

This is not a minor issue: an excess of information can confuse and mislead consumers, have a negative influence on their ability to choose and therefore distort the demand and the supply of insurance services!

Now let me take another example of unintended consequences, chosen from legislative proposals that are not specifically targeted at insurance, but that can have a significant impact on the industry: the **data protection reforms**.

The European Union is carrying out a review of the European data protection legal framework, which is still under discussion.
Here again, Insurance Europe supports the general aim to harmonise legislation and reinforce individuals' rights. However, we are concerned that the broad reforms have been designed without considering their impact on specific sectors, such as insurers' data-processing activities. Yet data processing and analysis lies at the heart of insurers' activities! If the revised legislation prevents us from collecting and using data to assess risks, evaluate claims and prevent fraud, we will no longer be able to offer the cost-effective, tailored and innovative products that consumers need and expect.

For instance, the "right to be forgotten", introduced in the Commission proposal, would allow customers to require insurers to erase all their personal data from databases. It could result in insurers being unable to process data, preventing the performance of contractual obligations and forcing the deletion of data that other regulations require or that is needed to detect fraud.

So, we will continue to explain to legislators that insurance has its own, very specific model and needs, which must be respected for the sake of both consumers and the functioning of the market.

Referring back to my introduction, it is clear that so many legislative initiatives may also have a significant impact in terms of **additional costs and administrative burdens**. This complexity negatively affects productivity, in particular that of small companies and distributors.

Another very concrete point is that — of course — those 130 initiatives are only the ones worked out by the European Commission. There are also national initiatives to which insurers need to respond and the increasing number of actions taken globally. **Overlaps and contradictions among national, regional and international regulatory requirements** have to be avoided; otherwise there will not only be greater costs and a higher administrative workload, but also legal uncertainty, compliance concerns and reputational issues.

And we don't want this, we don't need this!

On the subject of international requirements, I immediately turn to a very important issue in our Conference Programme. This afternoon we have a panel debate on the most pressing global initiatives: the work of the International Association of Insurance Supervisors on **global capital standards**. We will hear from Peter Braumüller of the IAIS [International Association of Insurance Supervisors] and from Svein Andresen of the FSB [Financial Stability Board], the two international organisations that are driving the ambitious timetables to develop three capital standards in less than three years.

We are only five months away from the planned endorsement by the G-20 of the basic capital requirements [BCR] for insurers identified as globally systemically important. And the IAIS is due to finalise the insurance capital standard that will apply to international groups by the end of 2016. So the coming weeks and months are critical and there will be limited possibility for the industry to provide input on the standards.

However one of the lessons that we learnt from Solvency II is that the definition and the development of capital standards, which work as intended, is not an easy job.

If we want capital standards to be not only "numbers" but actual, effective protection mechanisms, we need analysis, studies, proposals and long discussions with all the parties involved. But most of all we need time. And time is what is missing from the ambitious deadline set by the IAIS and the FSB.

Without sufficient time there will not be any analysis, any proposals and any discussions, thus reducing dramatically the chances of having “effective” new capital standards.

I asked Commissioner Barnier for a meeting last February and explained to him the concerns of the industry and the need for the involvement of the European Commission. I am glad that after our discussions the European Commission recently decided to organise a wider meeting with representatives of the industry. I hope that this constructive dialogue will continue. We call on European policymakers and Institutions to bring greater political accountability and transparency to the discussions at international level and we welcome steps taken by the Commission to start this process. We would also like to express concern about unduly high levels of regulatory capital, given the detrimental effect of additional capital lying inactive on insurers’ balance sheets.

It is also equally important for the European insurance industry that the outcome of the work on international capital standards is compatible with Solvency II.

Solvency II is a sophisticated, risk-based regime and represents a fundamental review of the European supervisory framework for insurers. It must therefore be possible to treat it as a practical implementation of the global standard.

I think that the main objective of Europe should be to ensure that Solvency II can be consistent with the principles under the ICS project.

That leads me to a second figure. The first was 130. The second divides that number by 10.

So, **13**. That's how many years we have all been working towards **Solvency II**.

It's tempting to think that the work is done. This is not the case. I will spare you more numbers but there will be many consultations on implementing technical standards and guidance over the coming months. Frequent revisions will follow too. There is also the considerable work involved for companies to put the necessary systems and processes in place in order to comply with the requirements.

The Omnibus II agreement that was reached last November by the EU Council, the Commission and the European Parliament — led by rapporteur Balz who is here today — updated Solvency II in important ways and it was a great achievement.
We worked hard to demonstrate why our proposals - reflecting the way the business is managed - were needed to protect the ability of insurers to continue offering long-term guarantees and to safeguard the insurance industry's role as Europe's largest institutional investor and as a provider of financial stability in volatile markets.

While not exactly what the industry had been proposing, we recognise that the Omnibus II agreement was a major achievement and that it was in all our interests to end the uncertainty and move ahead with Solvency II.

If implemented correctly, the Omnibus II measures can reflect the way we manage our long-term business and avoid unintended consequences. This is because these measures can help to avoid overstating the risks to which our balance sheets are exposed and reduce the problems of exaggerating the real volatility identified in the quantitative impact studies and impact assessments. Provisional figures that Insurance Europe released yesterday reveal that insurers had an estimated 8.6 trillion euros of assets under management at the end of last year. Therefore getting this right was important not just to policyholders but for European growth and financial market stability.

With the Directive agreed, focus shifted to the implementing measures: this includes delegated acts, implementing technical standards and guidelines. Insurance Europe originally identified over 100 concerns with the draft Solvency II delegated acts that set out the detail of the directive.

In view of the tight timetable to keep Solvency II on track, we nevertheless restricted our focus to eight top priority issues, in particular related to long-term guarantee and investment issues.

Among the long term guarantee measures, the volatility adjustment is the one of utmost importance, and as such its definition is one of the key industry priorities.

The directive sets only the high level principles for the volatility adjustment. So, it is in the delegated acts and in the implementing technical standards that the real capabilities of the volatility adjustment are established through the definition of the methodology of its calculation.

The methodology adopted should be set acknowledging the two main goals that are the basis of the Omnibus II agreement.

The first one is that the amount of the volatility adjustment should ensure its effectiveness in protecting the industry from short-term market volatility. An incorrect calibration, which does not prevent pro-cyclical investment behaviour, could affect not only the insurance industry sector, but could also damage the entire financial system.

The second goal is the need for transparency and clarity in the formulas and parameters adopted. Without a full and deep understanding of its calculation, the volatility adjustment will not be replicable and predictable and therefore will not be embedded in the industry's key risk and capital management processes.

To conclude this Solvency II chapter, even if the principles included in the Directive seem to work in the right direction, the key point is correct implementation.

Insurance Europe will analyse carefully the final version of the Solvency II delegated acts and all the technical standards and guidelines to make sure that they are in line with the spirit and the letter of the Omnibus II agreement.

It will also be important to monitor how Solvency II works in practice and take action if it turns out that the measures included do not prevent the unintended consequences.

Approaching the conclusion of my contribution, I'd like to draw your attention to the **new Commission**, the **new European Parliament** and all the challenges that lie ahead.

Next we will hear from Commissioner Barnier about the achievements and legacy of the current Commission.

And given my nationality, I particularly look forward to engaging with the **incoming Italian Presidency of the EU**, which could have long-term investment issues, data protection and the revision of the Insurance Mediation Directive on its list of priorities.

In this rapidly evolving scenario, Insurance Europe also awaits the European Commission's report on the **reform of the European Supervisory Authorities** [ESAs]. Here we underline the importance of maintaining the current model of separate Supervisory Authorities (for Insurance, Banking and Securities), so that the characteristics of the different sectors can be better understood and recognised. In addition, we hope to be able to continue and reinforce the dialogue and cooperation with EIOPA, sharing data as well as opinions and

expertise. I am delighted that Gabriel Bernardino is with us today to contribute to the debates.

Huge adjustments lie ahead for our industry.

Regulation will form an even bigger and more complex part of insurers' operations. The regulatory environment defines our operations, our customers and our liabilities, so it is essential that we engage constructively as an industry to ensure that this environment is solid, trusted and fit for purpose.

Insurance Europe has built up a strong working relationship with the EU institutions and a positive and constructive dialogue will surely be developed with the new representatives. We are ready to engage with them to explain "how insurance works" and "why insurers are different from other financial institutions".

At the same time, Insurance Europe has similarly good relations with the global bodies that influence our industry. This it has done both through its membership of the Global Federation of Insurance Associations – led by Frank Swedlove who is here today - and independently.

Despite the challenges, I am <u>optimistic</u> that Insurance Europe's open and constructive engagement with policymakers, legislators and supervisors — many of whom I am delighted to see here with us today — will contribute to global and European frameworks that allow our distinctive and innovative sector to grow, continuing to protect and serve the needs of its customers.

As many of you know, the Football World Cup opens in Brazil today, just after the conclusion of our Conference!

Who will win this global competition? I'm sure that teamwork and shared goals are the secret for great results!

And this is my warm wish for all of us …!

Thank you and enjoy the Conference.