Annual Report 2015–2016

insurance europe

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Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of almost €1 170bn, employ a little under one million people and invest nearly €9 600bn in the economy.

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Contents

Glossary

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

Foreword

Sergio Balbinot
President

Michaela Koller
Director general

Europe's insurers paid out €949bn in claims and benefits in 2014; €2.6bn every day. For an average per capita spend of €5.4 a day on life and non-life insurance combined, Europe's citizens are able to go about their lives and run their businesses, secure in the knowledge that they are protected against unexpected costs from life's risks. The insurance sector, as well as being a significant provider of savings and pension products that contribute to old age financial security, is the EU's largest institutional investor, providing a steady flow of long-term capital that contributes considerably to the stability and functioning of financial markets.

It is clear, therefore, that without the insurance industry Europe would be a very different place. Yet still we have the impression that our industry is seen by some policymakers and regulators as a problem to be solved, rather than an asset to be nurtured.

Don't get us wrong; we see — and support — many well-intentioned regulatory initiatives, both at EU and at international level. Effective and trusted regulation is vital to ensure that policyholders can feel confident buying insurance products and that our industry can remain competitive and innovative.

We applaud many of the legislative achievements of the European Commission under the decade-long leadership of José Manuel Barroso. Nevertheless, we likewise applaud the stock-taking and review of the body of financial services legislation initiated by Jean-Claude Juncker's current Commission. This is because, on many occasions, we have seen initially-sound legislative proposals become over-engineered or buried beneath an avalanche of rules and requirements that fail to serve either the insurance industry or its customers.

Two prime examples are — if you'll excuse the pun — well-documented. The first, Europe's new insurance regulatory regime, Solvency II, was initially intended to be harmonised, principles-based and risk-based, but is now a prescriptive rulebook over 3 300 pages long, with more than 650 sets of guidelines and over 180 reporting templates. The implementation and compliance burden on insurers is enormous, and ultimately it is the customer who pays. Looking ahead, a Solvency II review is due to be completed by 2018. We know that companies expect a lot from this review, including simplification of the framework, where possible, and a better reflection of the real risks and economics of insurers' long-term investments. You can read about life under Solvency II in an article by Bart De Smet, CEO of Belgian insurance group Ageas on p27.

The second example, is the tsunami of pre-contractual information requirements created by the combination of the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) and the

Insurance Distribution Directive. A package of measures intended to increase the protection of consumers and make it easier for them to compare products and make better buying decisions instead swamps them with a bewildering mass of sometimes duplicated information. Our proposals for how to fix this are set out in William Vidonja's article on p6.

"Serving our customer in tomorrow's world" is the theme of our 8th International Conference this year. To be able to do this, we need an effective and appropriate regulatory environment that recognises the unique business model and contribution of insurance. Regulation must — as William insists in his article — be consumer-centric and the article on p11 sets out why that is currently far from the case with the PRIIPs Regulation.

As policymakers grapple with ways to deal with rapid developments in digitalisation and automation, they must also hold true to this consumer-centric tenet. In her article on p15, our motor working group chair, Monika Sebold-Bender, sets out clearly why the drivers of the new generation of connected vehicles need to be the masters of the data those vehicles produce; a view endorsed by consumer champion Monique Goyens in our wide-ranging interview with her on p13.

We are engaging in current initiatives that we feel go in the right direction. Here we are referring in particular to the proposed capital markets union, which seeks to make our financial system more efficient and resilient, bringing down barriers to investment, as well as the Commission's broader Better Regulation agenda to make EU laws more effective, efficient and fit for purpose.

Insurance Europe and its members will continue to strive to ensure that insurers are treated as part of the solution to the many challenges our society faces, not as a problem. In this respect, it has been heartening to receive recognition from Christiana Figueres of the United Nations Framework Convention on Climate Change of our industry's role in tackling climate change (see p40). Insurance Europe's own "target two degrees" campaign played its own small part in raising climate-change awareness ahead of the UN's Paris Agreement in December 2015.

And finally a word of explanation about this new-look Annual Report. In a departure from previous years, we have included not only articles setting out Insurance Europe's positions on all the major regulatory issues facing EU insurers but also opinion pieces by external authors on the insurance topics of the day. We'd like to thank those contributors for sharing their thoughts with us and we hope you enjoy reading this more rounded review of the challenges and opportunities that face the European insurance industry.

William Vidonja
Head of conduct of business
Insurance Europe

Regulation needs reality checks

William Vidonja sets out ways to make European retail insurance regulation work for consumers

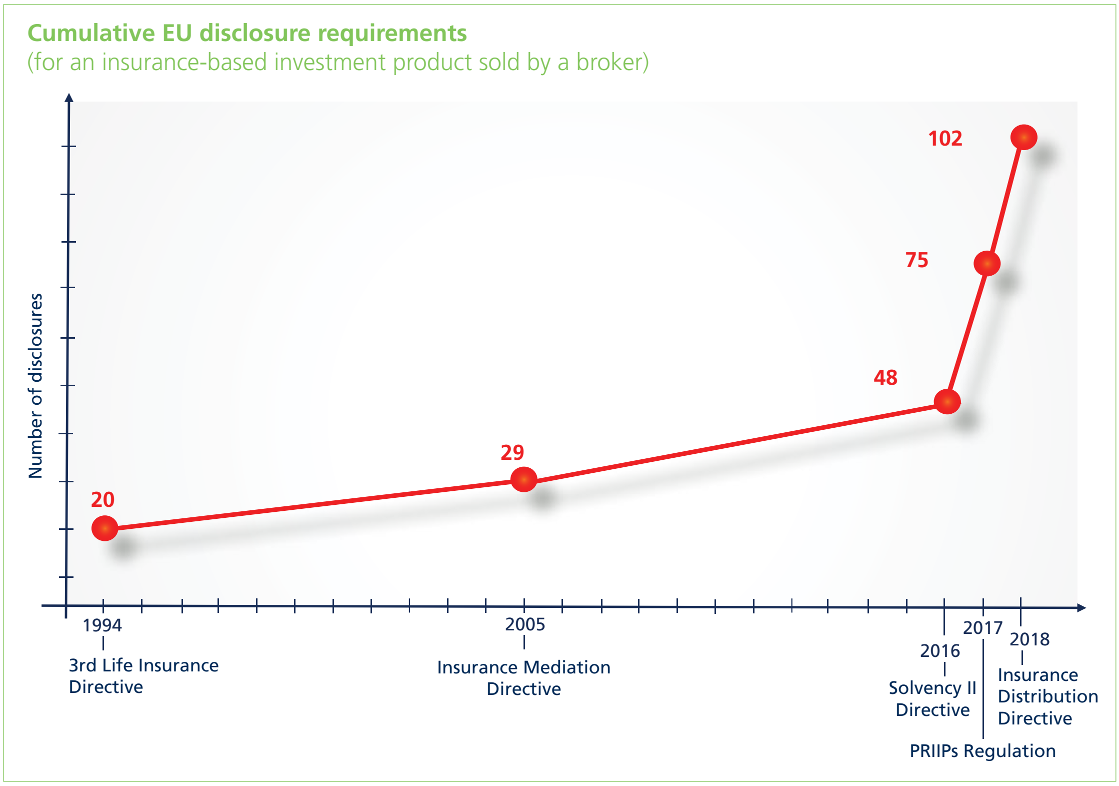
Consumer protection in financial services is taken extremely seriously in the EU. The previous European Commission proposed a retail financial services package back in 2012 and this Commission published a Green Paper on retail financial services in December 2015. In a political climate in which the EU has to clearly demonstrate that it adds value for its citizens, it is obvious that consumer issues will remain very high on the agenda.

And, indeed, there is no doubt that regulation can be instrumental in achieving effective consumer protection in insurance. Our industry has always been clear that it strongly supports consumer protection rules at European level that are fit for purpose; meaning rules that truly benefit our consumers in practice.

Theory and practice

The 2012 retail package led to the adoption of two insurance-related pieces of legislation: the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) of November 2014 and the Insurance Distribution Directive (IDD) of February 2016.

The Commission proposed both texts with the aim to increase the level of consumer protection by making it easier for consumers to compare the various offers available in the market and enabling them to take better-informed decisions.



This is a laudable objective, which the insurance industry strongly supported. After all, who has never had the unpleasant experience, when shopping around for insurance either in person or online, of trying to make sense of the variety of products available? Trying to see the wood for the trees and make comparisons and well-informed purchasing decisions can be far from easy.

Let's be clear: insurers have no interest in confusing consumers. This can lead to ill-informed decisions and ultimately, when a claim comes, to unhappy consumers. Our sector therefore had high expectations that the PRIIPs Regulation and the IDD would help make insurance consumers' lives easier. But will these pieces of legislation deliver as expected for them?

Overload and duplication

Unfortunately, the risk is high that, despite being well-intended, the PRIIPs Regulation (see also p11) and the IDD will actually not benefit consumers. Why? Simply because each proposal was developed in isolation, with not enough attention being paid to their combined effects and potential unintended consequences.

Firstly, they will give rise to information overload. For example, as a result of the PRIIPs Regulation, the IDD and the Solvency II Directive, the number of EU disclosure requirements applicable to the sale of an insurance-based investment product by a broker will triple, taking the total to 102 different pieces of pre-contractual information (see figure above). With this new regulatory framework in place, sales disclosures (such as those about registration, advice, remuneration and potential conflicts of interest) will quadruple, while product disclosures (such as those about benefits, guarantees, performance scenarios, contract duration, methods to cancel the contract, costs, etc.) will more than triple. How can this help consumers to compare products or take informed decisions in any way?

Such overload is even more regrettable in a digital environment in which consumers expect a simple and straightforward online purchasing process. Instead, when an insurance-based investment product is sold by a broker online, the total number of pieces of pre-contractual information will rise to as many as 148 (see figure overleaf).

Secondly, the newly agreed EU legislation includes numerous duplicative disclosures. This means that consumers are likely to receive the same type of information twice, but with different wording and in a different format.

EU disclosure requirements
(for an insurance-based investment product sold online by a broker)

Looking ahead, there is a risk that this situation will worsen as work on the Level 2 implementing measures and the Level 3 technical standards of the IDD develops, and that the transposition of the Directive into national laws will give rise to unwelcome additional disclosures — so-called gold-plating.

Such an outcome is very much to our regret. It will significantly confuse consumers, with negative knock-on effects on the trust consumers have in their insurers and the insurance industry in general.

I firmly believe that the provision of high-quality, relevant information, rather than just a high quantity of information, is a basic requirement for consumer protection. It is self-evident that well-informed consumers are better equipped to compare products and make informed decisions. And this — together with quality products and services — translates into consumer satisfaction, which is key to securing consumer loyalty and the insurance industry's reputation and its contribution to society and the economy.

Must do better

Drawing on this experience, how can policymakers ensure that, in the future, regulation proposed with the best intentions does not turn into a potential source of detriment for our consumers?

An idea worth considering would be for the EU to adopt a genuine consumer-centric approach to regulation, focusing on the real — rather than any perceived — needs of customers. This would help to ensure that any new proposal meets its intended objectives and delivers its expected benefits to consumers. This would be a useful complement to the EC's new Better Regulation agenda, which seeks to design EU policies and laws so that they achieve their objectives at minimum cost and to ensure that policy is prepared, implemented and reviewed in an open, transparent manner.

In practice, we are suggesting that any proposal, be it the Level 1 legislative act, or at Levels 2 or 3, is passed through different reality checks to ensure that the actual impact on consumers is positive and outweighs the potential costs and risks of consumer detriment. Should a proposal not pass the test successfully, it would then need to be reviewed until it is designed to provide net benefits for consumers.

These reality checks (see figure on p10) would include:

- **Screening both the direct and indirect impact that any individual proposal would have on consumers' everyday life**, such as its effect on consumers' access to insurance, consumer choice, consumer understanding and product comparability, insurance prices, innovation, competition and economic growth.

> **"Such overload is even more regrettable in a digital environment in which consumers expect a simple and straightforward online purchasing process.**
>
> **Instead, when an insurance-based investment product is sold by a broker online, the total number of pieces of pre-contractual information will rise to as many as 148."**

- **Assessing the cumulative impact on consumers of the proposal and other texts.** If such an assessment had been carried out for the PRIIPs Regulation or the IDD, the Commission would have been able to identify and prevent information overload and duplication before putting forward its retail package proposals.

- **Checking whether the EU is the most appropriate level at which to take the initiative**, considering the diversity of consumers' needs, demands, cultures, financial education and digital literacy levels across European countries. There is no "typical" EU consumer and, in some cases, local regulators may be better placed to develop effective rules that match consumers' local culture and expectations.

- **Ensuring that changing the rules adds more benefits to consumers than keeping a stable framework.** Behavioural economic research shows that constant changes in regulation may negatively affect consumers' understanding of disclosures or of their own rights. And yet, disclosures in insurance will change three times in the coming years as a result of recent EU developments: Solvency II disclosure requirements had to be transposed by January 2016, the PRIIPs Key Information Document will have to be used as of January 2017 and the new IDD disclosures will come into force by February 2018. Are these yearly changes really in the interests of our consumers?

- **Ensuring that the proposal is future- and tech-proof.** For example, according to the IDD and the PRIIPs Regulation, pre-contractual information should be provided to the consumer on paper by default, and it is only by way of derogation and under certain conditions that this information can be provided through a website. This is quite an out-dated requirement in an era of digitalisation and also astonishing considering that at the same time the Commission was promoting its Digital Single Market Strategy. Looking ahead, the Commission should ensure that preference is not given to a specific medium and that the formats established are suitable in a digital environment to allow consumers to fully benefit from accessing information or services digitally if they wish.

- **Successfully passing consumer testing to ensure that the proposal benefits consumers in practice.** It is a shame that the contents of the IDD Product Information Document (PID), which aims to provide consumers with standardised and understandable information on all types of non-life insurance products throughout Europe, has not been tested on consumers before its adoption, to make sure it matches consumers' real, not perceived, information needs.

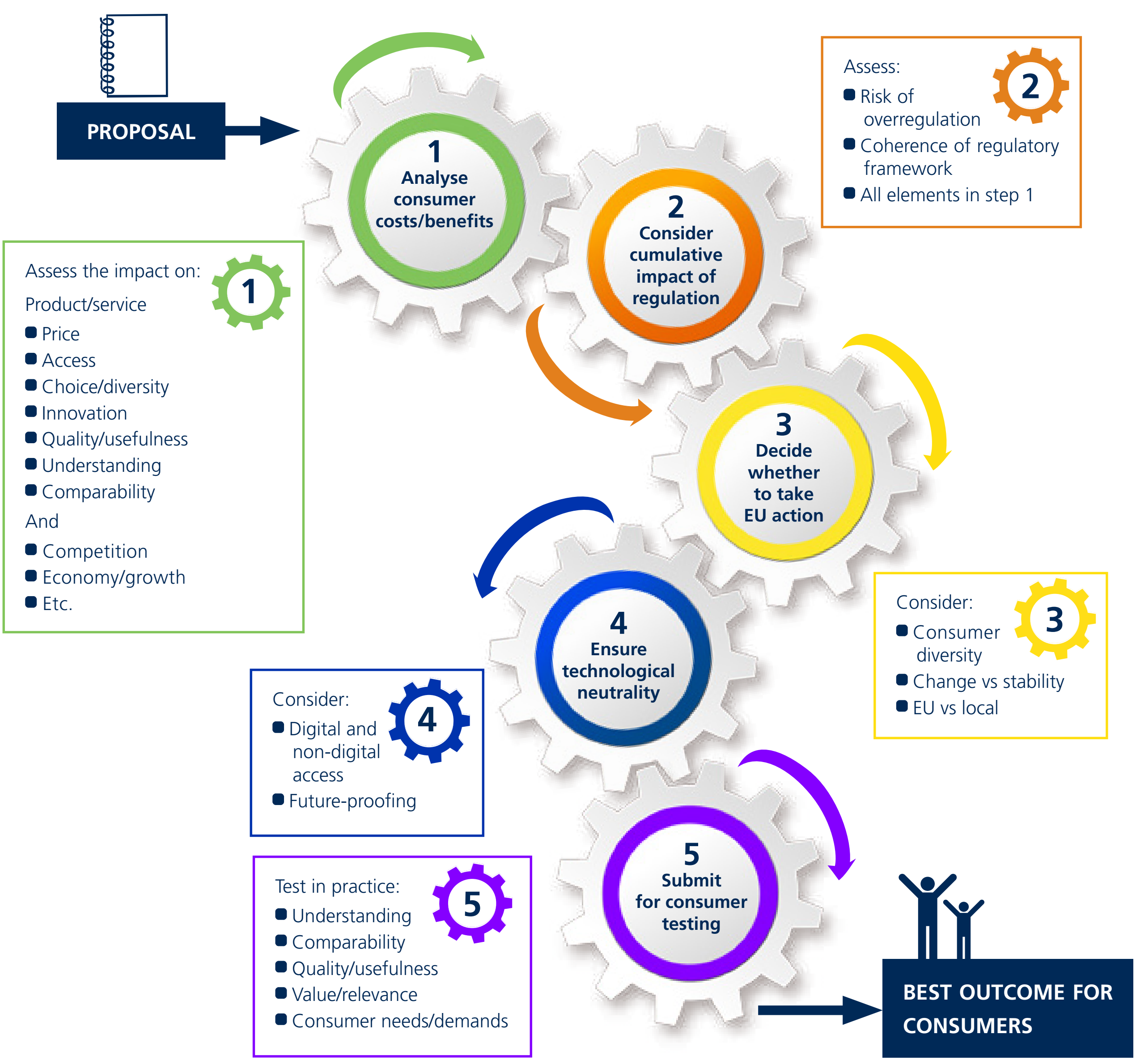
Consumers at the heart

Insurers have an obvious and keen interest in ensuring consumer satisfaction. Indeed, our industry continually strives to innovate and to enhance its products and services to meet consumers' constantly evolving needs and demands.

By way of example, the Insurance Europe website is showcasing some of the consumer-focused initiatives by the European insurance sector, which include innovative products and services, digitalisation, risk management initiatives, enhanced claims management and transparency, and financial education.

The EU regulatory framework needs to be fit for purpose and to allow insurers to satisfy their consumers in the best way possible. This means better consumer protection rather than more, and a truly consumer-centric approach to EU regulation.

Consumer-centric insurance regulation



Michaela Koller
Director general
Insurance Europe

Inappropriate, misleading and rushed

Michaela Koller explains why the PRIIPs Regulation is not fit for purpose and its implementation should be postponed until it is corrected

Making it easier for consumers to take better buying decisions benefits both the consumer and the provider. Insurance Europe, therefore, welcomed the aim of the EU Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs) to enhance consumer protection and improve consumer confidence by improving the transparency and comparability of investment products.

However, as the development of the Regulation progressed, we became increasingly concerned that it was not going to achieve its aims. Now that we have seen the draft implementing measures (the Level 2 Regulatory Technical Standards or RTS) it is obvious that a hurried compromise to meet the Regulation's extremely tight deadlines has led to significant design faults that will mean that consumers are misled. The key information document (KID) will not be suitable for insurance-based investment products and companies will not have sufficient time to prepare for its introduction.

So why will the KID mislead consumers? Apart from being very vaguely drafted, leaving room for differences of interpretation and subsequent divergent implementation, the KID will mislead consumers over both the risk and the cost of insurance-based products.

Risks misrepresented

According to the Level 1 text of the Regulation, only risks "materially relevant to the PRIIP" should be presented in the KID. Market risk is the only truly relevant risk for insurance-based investment products. Yet the proposed risk indicator aggregates market risk and credit risk in a way that, in most cases, leads the KID to present only the highest one.

Irrespective of the fact that insurers are well-regulated by the robust new Solvency II regime, they will be automatically allocated to credit-risk class 3 if they do not have a credit rating, which the vast majority of insurers do not. The provisions that could allow for a better credit-risk class allocation for insurance-based investment products are poorly worded and may therefore be ineffective. So insurers may end up with a high risk indicator for no justifiable reason. Any insurance-based investment product from an insurer subject to Solvency II should automatically be classified in credit-risk class 1.

Costs unclear

The Level 1 text also states that the KID should clearly show costs "associated with an <u>investment</u> in the PRIIP". Yet the draft RTS include the cost element of the biometric risk premium — which is most definitely <u>not</u> an investment cost, since it relates to insurance cover — in the investment cost section of the KID. Consumers will therefore not be able to compare products that are in fact comparable. The biometric risk premium for insurance cover should be shown in a separate section of the KID.

Where is "Better Regulation"?

EU policymakers have committed to trying to improve their law-making (see box). Despite this, in the PRIIPs Regulation the Better Regulation principles are not being upheld.

The KID will certainly not be a short and meaningful tool to help consumers make comparisons. According to the Level 1 text, it should be no more than three pages long. Given the amount of information that the draft RTS would require to be included, this is now highly unlikely, particularly when translated into less concise languages than English.

What is the Better Regulation agenda?

In April 2016 the European Parliament, the Council of the EU and the European Commission reached agreement on better law-making.

The Commission's website states:

"Better Regulation is about designing EU policies and laws so that they achieve their objectives at minimum cost. It ensures that policy is prepared, implemented and reviewed in an open, transparent manner, informed by the best available evidence and backed up by involving stakeholders.

"To ensure that EU action is effective, the Commission assesses the expected and actual impacts of policies, legislation and other important measures at every stage of the policy cycle — from planning to implementation, to review and subsequent revision."

The stakeholder consultation process was also flawed, as many elements of the final RTS are new (such as the configuration of performance scenarios) and were therefore not consulted on.

Unrealistic timetable

All the issues outlined above are at least partially due to the unrealistic implementation timeline, which also goes against the Better Regulation principles. Under the existing timetable, the RTS, which were published late by EIOPA on 7 April 2016, now need to be adopted and translated by the Commission and then presented to the European Parliament and Council, which can take up to three months to fully adopt or fully reject them. This would mean final RTS only available in autumn, yet companies are supposed to have drafted, tested and introduced KIDs for all PRIIPs by 1 January 2017.

In the previous article (p6), William Vidonja explained why regulation needs reality checks. PRIIPs is a prime example. The obvious flaws in the RTS must be corrected before they damage the insurance industry, misleading its customers over the risk and cost of its products. Unless a good outcome is chosen over speed, the EU will not be adhering to its much-lauded Better Regulation agenda.

The PRIIPs timetable must be put on hold while the obvious flaws in the RTS are fixed.

INTERVIEW

Monique Goyens
Director general, BEUC

BEUC is the European consumer organisation whose members are 41 independent national consumer organisations in 31 European countries. As well as sitting as a consumer expert and advocate in numerous EU fora, Monique Goyens is currently EU co-chair of the Transatlantic Consumer Dialogue, a network of EU and US consumer organisations.

Retail therapy

In an interview with Insurance Europe, European consumer champion Monique Goyens sets out her wish list for the EC's work on better regulation, connected vehicles and digitalisation in financial services

REFIT is the EC's Regulatory Fitness and Performance programme — part of its "Better Regulation" initiative to make EU law simpler and to reduce regulatory costs. As a stakeholder representative in the REFIT platform, what are the most important financial services issues that you want to see addressed?

BEUC is concerned that, for too many stakeholders, Better Regulation equals deregulation. And this is specifically the case in the financial sector, where the available industry responses to the cumulative effects of financial regulation indicate their pressure to deregulate. From the consumer perspective, however, the level of trust in financial institutions is consistently low, partly due to the many loopholes in the regulatory and supervisory framework that lead to consumer dissatisfaction and detriment.

Among the major issues that need to be addressed is that of conflicts of interests: financial consumers are in need of affordable independent expert advice to assist them in the most important financial decisions they need to take. There is also a need to rethink the global financial offer available to consumers: the financial sector is characterised by an increased complexity of products, while consumers need straightforward, simple solutions. Simpler products

provide better consumer choice, allowing comparison on sound grounds.

The regulatory framework should encourage such a push towards simplicity, transparency and comparability. The regulatory framework should also be adapted to design consumer protection rules so that they become enforceable, plus national and EU supervisors should be granted sufficient resources and power to enforce the laws. Indeed, experience shows that there is a major lack of supervision and enforcement of rules related to conduct of business in the financial services sector.

As well as being involved in REFIT, you are also a member of the EC's GEAR 2030 high-level group, which will develop recommendations to reinforce the short- and long-term competitiveness of the European automotive industry. In relation to the development of connected vehicles, how important is it that drivers remain the guardians of their own data?

The control by citizens and consumers of their own data is a cornerstone of markets that become more and more digital. The digitalisation of our economies transforms the value of data and their abuse can have major detrimental consequences for consumers.

It is crucial that the privacy aspects are prioritised when developing connected cars/automated driving in order to ensure that car and software manufacturers respect the rules of data minimisation (no more data should be transferred than those needed to perform a service), of privacy by design (systems should be designed in such a way that privacy is embedded in them) and of privacy by default (data subjects should always be protected by default; only with their consent should data be unlocked).

"When it comes to their data, consumers must remain in the driving seat, not be mere passengers."

Monique Goyens

We are still in the early days of the roll-out of these technologies in consumer markets. It is key to get the basics right, not least because of the increased permeability between different sectors and providers linked to the internet of things. Connected devices will make it possible to match data related to a person's health behaviour, their food habits, driving performance or social behaviour. The aggregation and unrestricted use of these data can have tremendous consequences for consumers. When it comes to their data, consumers must remain in the driving seat, not be mere passengers.

Looking more broadly than data from connected vehicles, how are consumer organisations preparing for the digital age as it relates to financial services?

I mentioned earlier the need to monitor closely the use of consumers' personal data, and many consumer organisations consider this to be one of their priorities, as actions undertaken by several of our members clearly illustrate. These include the #appfail campaign by our Norwegian member, Forbrukerrådet, to uncover and analyse potential threats to consumer protection that are hidden in plain sight in the end-user terms and privacy policies of apps, as well as the court cases won by our German member, VZBV, against Facebook for violating German data protection laws.

In particular, in the insurance sector the growing use of big data may lead to discrimination against vulnerable consumers. Digitalisation also brings with it a lot of opportunities, with fintech solutions that can potentially accommodate consumer needs more accurately than the incumbent providers do. Fintech providers will enhance competition in a sector in which a lot of barriers are identified to consumer mobility.

Consumer organisations can optimise digital tools to boost enhanced information and advice, transparency, comparability and mobility of financial consumers. In doing so they will boost financial markets to become more vibrant and lead financial services providers to deliver innovative products that genuinely deliver to their customers. Digitalisation should not lead to the exclusion of certain consumer groups, such as those without broadband internet, people with disabilities, the digitally illiterate, etc. Offline options should also remain available.

Monika Sebold-Bender
Board member, Generali, Germany

Monika Sebold-Bender has been a board member of Generali, Germany, responsible for property and casualty business and claims, since 2012. She is the chair of Insurance Europe's motor working group and represents the federation in the EC's high-level automotive industry group, GEAR 2030.

Gear change for motor

Motor insurers will not just be passengers in the new world of connected and autonomous vehicles, says Monika Sebold-Bender

The idea of your car driving itself to the destination of your choice, without you having any input other than entering the destination, still seems like science fiction to many, but is now not many years from being a reality. Recent advances in automotive technology have laid the groundwork for a paradigm shift in the whole automotive value-chain. As an essential link in this chain, insurance is bound to be transformed by these evolutions, but can also drive some of the changes.

Insurance Europe is involved in a number of EU-level initiatives seeking to promote new automotive technologies (see box overleaf). These include, most notably, the C-ITS Platform, which seeks to make recommendations for an EU-wide deployment of cooperative intelligent transport system (C-ITS) technologies, and GEAR 2030, which gathers representatives from the whole EU automotive value-chain to look into ways to make the European automotive industry more competitive, notably through wider use of the new

Technological changes

Nearly or fully autonomous vehicles are one element of a broader change in transport technologies that encompasses connected vehicles and intelligent transport systems (ITS). Whereas autonomous vehicles are equipped with sensors allowing them to navigate autonomously, connected vehicles are those that, simply put, have access to the internet and other networks.

ITS develop an environment in which transport users, vehicles and infrastructure are interconnected, creating a safer, greener and more efficient use of transport. They rely on the application of information and communication technologies to transport, allowing vehicles to communicate between themselves and with the infrastructure and other mobility-network users (cooperative ITS or C-ITS).

There has been a degree of connectivity and automation in vehicles for some time. This process is now accelerating and amplifying and, as part of a wider expansion of ITS, it is redrawing the existing business models of all the sectors involved with vehicles, including that of motor insurers.

technologies. In these two groups and other platforms, Insurance Europe's objective is to ensure that all aspects of the issues are taken into account, including safety concerns, emerging risks and all the related regulatory issues.

Safer roads

It is generally accepted that these technological advances will improve road safety, leading to a decrease in the number of road accidents and vehicle-related incidents in general. This is, of course, a very welcome development, especially in light of the disappointing figures released in March 2016 by the European Commission, which show that road accidents increased by 2.3% and fatalities only fell slightly by 0.4% between 2013 and 2014.

Safety and security considerations are of paramount importance to insurers as part of their work in managing risk and preventing accidents. Nevertheless, the reality is that there will still be accidents. And victims will still require compensation. It is, therefore, essential to ensure that the successful compensation model that is in place for the traditional motor market is adapted for the new, (nearly) automated and connected vehicle world. Europe's insurers are determined to ensure that this is the case, as demonstrated by our active engagement in initiatives at European and member-state level.

New risks …

In addition to the "traditional" automobile transport-related risks, which have been covered by insurers for decades, new risks will emerge (or have emerged) with these new automotive technologies that require appropriate cover.

These include the risks inherent in the new technologies: cyber-risks, such as malware or software bugs, or even cyber-terrorism. There are also risks related to the adaptation phase, likely to last many years, during which drivers will need to learn to drive these vehicles and other road users — such as pedestrians and cyclists — will need to adapt to them.

> "It is essential to ensure that the successful compensation model that is in place for the traditional motor market is adapted to the new (nearly) automated and connected vehicle world."
>
> **Monika Sebold-Bender**

A further risk is that, during this transition period, fully automated and connected vehicles will share roads with traditional vehicles with no automation or connection whatsoever. All the questions related to this transitional phase must be duly addressed by the authorities, not only to allow this new generation of vehicles on to European roads, but also to ensure the public embrace it. Insurers are willing to make use of their huge experience in road traffic risk management and prevention, as well as in supporting accident victims, to ensure the transition phase is as smooth as possible.

… new business models …

Autonomous and connected vehicles not only raise questions in terms of new risks to be insured, but also in terms of ways to insure and, more generally, the business models of insurers. The issue of liability is at the forefront of the debate, as a result of the expected increased reliance of drivers on their vehicles' automated functions, coupled with their likely greater reliance on the information received as a result of their vehicles' connection (directions or traffic conditions for example). Should an accident occur following a problem with one of these automated functions or with the quality of the information received, the issue would be to determine whether the vehicle or the driver ultimately caused the accident.

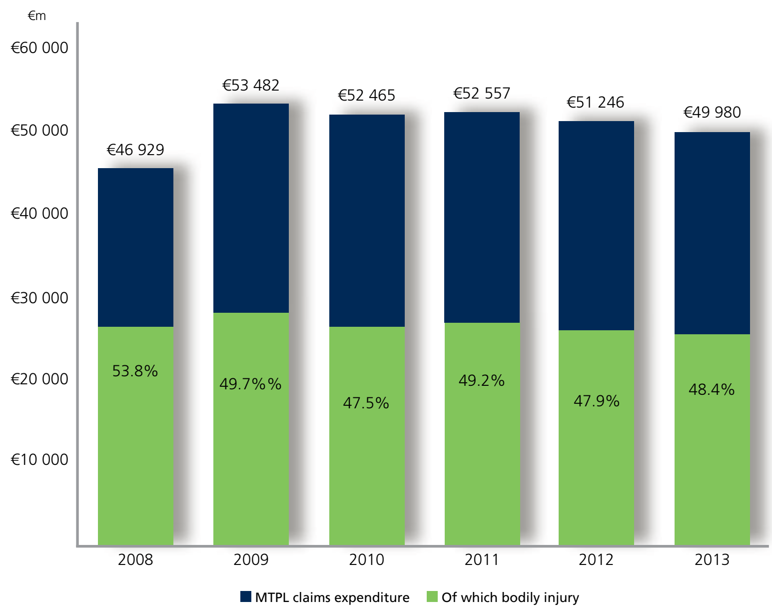
It is therefore possible that autonomous vehicles could lead to a shift from motor third-party liability insurance (MTPL) to product liability insurance, with implications for subrogation actions between motor insurers and product liability insurers (when an insurer pursues the third party who caused the insured loss, in order to recover the amount paid for the policyholder's claim). This discussion will be of the utmost importance to insurers, given the role MTPL has had in shaping the motor insurance market, and given the importance of motor insurance to non-life insurers (see box overleaf).

New motor technologies also bring with them new

Motor insurance is the most widely purchased non-life insurance product in Europe, accounting for 27.4% of non-life premiums and total premium income of €123.5bn in 2013.

Just under 58% of all motor premiums were MTPL. Despite only 14% of MTPL claims being for bodily injury, they accounted for almost half of all claims expenditure, since the average cost of a bodily injury claim was €15 970.

MTPL claims expenditure — 2008–2013 (€m)



approaches to ownership, with car-sharing and car-pooling often tipped to develop exponentially in the years to come. While it is still too early and therefore difficult to ascertain the exact way in which this will affect motor insurers' business models, it is clear that the impact is likely to be significant and that insurers will need to adapt to a new liability and car-ownership environment. My conviction, however, is that insurers will continue to be key players in this new, probably very different environment, where the support for accident victims will remain crucial.

… and new services

Access to vehicle data is indispensable for the full realisation of the economic potential of new motor technologies. This should take place on an open and competitive basis and with the consumer's consent, rather than through a proprietary model under the control of vehicle manufacturers. Safe, secure, fair and equal access to in-vehicle data must be ensured for all stakeholders, in the interest of consumer choice and free competition, and as an indispensable step in the successful deployment of new automotive technologies in Europe.

That deployment represents a tremendous opportunity for insurers and their customers, resulting mainly from the ever-growing amount of data produced by these cars. Firstly, the information obtained from this data gives insurers an even better understanding of the risks they are underwriting. This is a benefit of paramount importance when dealing with new or emerging risks, such as those stemming from autonomous vehicles.

The vehicle's data also gives insurers a better understanding of their customers' driving. This allows insurers to offer products tailored to the time spent driving (pay as you drive policies) and/or the way a customer drives (pay how you drive policies). Understanding the customer's driving is also an opportunity to improve it by providing feedback and coaching, thus contributing to the goal of preventing accidents.

Access to the vehicle's data makes it possible to improve claims-handling by offering services such as theft notification, stolen vehicle recovery or advanced breakdown assistance. Access to data — especially real-time access — will allow the speedier responses that can be beneficial, particularly in cases of bodily injury or stolen vehicle recovery. Finally, the vehicle's data allows insurers to offer innovative services beyond insurance, such as location-based services (directing the driver to the nearest garage, petrol station or hotel for example) and traffic information.

Olav Jones
Deputy director general
Insurance Europe

The lowdown on interest rates

Olav Jones explains how Solvency II ensures the high standards of risk management and solvency protection that insurers need to ride out current low interest rates

The current period of low interest rates and the associated general fall in investment returns are triggering an increasing amount of attention and discussion. As during periods of stock-market volatility, this has reminded many customers of the value of having a minimum guaranteed return from their insurance company, which is often combined with a smoothing-out of the market fluctuations.

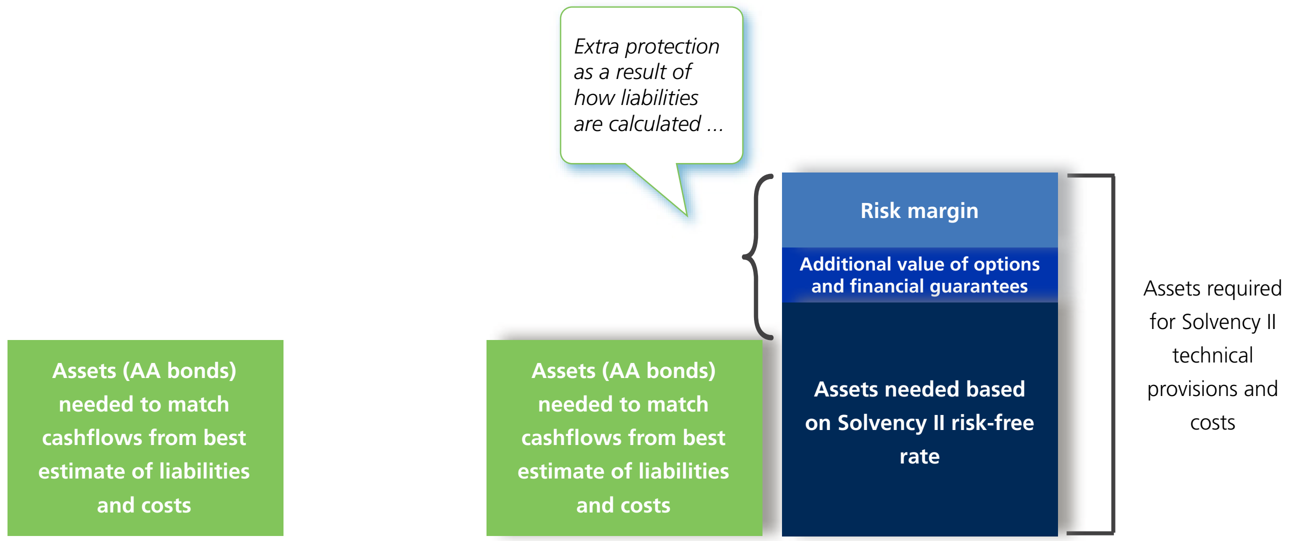
Given the generally long-term nature of insurers' liabilities, their matching of assets and liabilities, their long-term investment approach and — of course — their solvency capital, they can generally cope very well with a wide range of market situations. However, with rates staying potentially low for years to come, the current situation has raised questions over the impact on insurers, who have to take on the low interest risk for their customers if interest rates remain low for a very long period of time.

While low interest rates are far from ideal for insurers and for all Europe's citizens who need to save for their retirement needs, they are being kept purposely low by the European Central Bank and European policymakers to help boost growth, which will in turn lead back to higher rates.

While waiting for these policies to work, insurers have been adapting in various ways to the market conditions. They are also preparing for

Solvency II builds in layers of protection

(illustrative – not to scale)



the worst; that interest rates may stay low much longer than expected. Many of Europe's insurers have been protecting customers for a very long time — in some cases hundreds of years. They have managed their business through multiple financial crises and world wars, so adapting and preparing for difficult situations is nothing new.

Prepared for the challenge

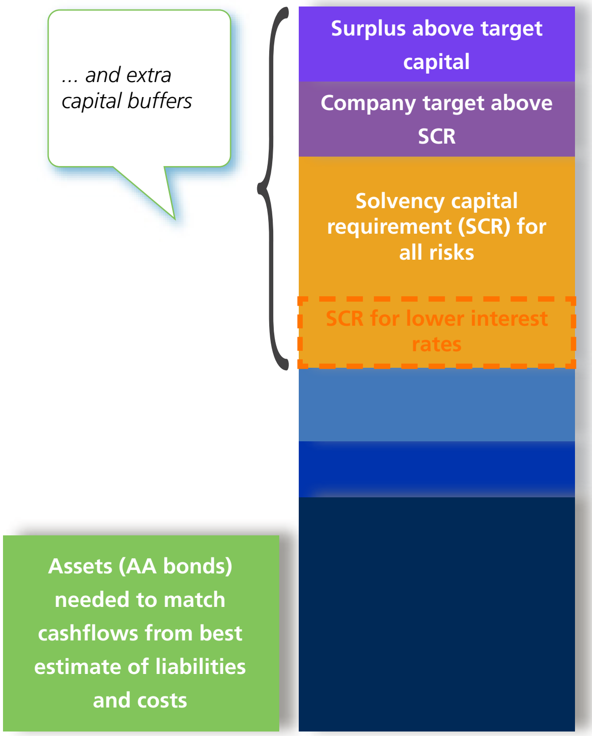
Actions that have been, and are being, taken include optimising risk management and, in particular, optimising investment strategies; putting even more effort into searching for investments with good returns relative to their risks. An excellent example of this is the increased interest in infrastructure projects because these are illiquid long-term investments that can diversify well with other asset returns. Companies are, of course, also lowering guarantees for new policies, looking at the design of products and increasing their focus on unit-linked products with no guarantees. Finally, greater attention is being paid to efficiency and keeping costs to a minimum, as well as maintaining solvency capital at appropriate levels.

The EU's new Solvency II regulatory regime formalises policies and practices that many companies were already following into a framework that ensures that all companies across Europe are meeting very high standards of risk management and solvency protection.

Solvency II also creates buffers and protection against low interest rates (see figure above). These appear to be poorly understood, since there are already calls from some quarters for changes to the framework due to today's low interest rates. Specifically, there have been calls to lower the ultimate forward rate (UFR), which underpins the generation of the risk-free rate curves that are used to value liabilities under Solvency II. EIOPA launched a consultation on the methodology to determine the UFR in April 2016 and indicated that this could lead to a change as early as 2017.

UFR misunderstanding

Firstly, there seems to be a misunderstanding over how Solvency II liabilities are currently calculated, in particular



> "There seems to be a misunderstanding over how Solvency II liabilities are currently calculated, in particular over the actual discount rates used. This matters because the Solvency II methodology includes some important buffers that can provide protection against low interest rates."
>
> **Olav Jones**

over the actual discount rates used. This matters because the Solvency II methodology includes some important buffers that can provide protection against low interest rates.

Some observers appear to believe that the UFR — which was set at 4.2% in the Solvency II Directive — is the discount rate used to value liabilities. The UFR is not the rate used for valuation, but it is an important input needed to generate risk-free rate curves that go out to 130 years and are published by EIOPA each month. The Solvency II Delegated Acts require that the UFR is stable over time. This is because changes to the UFR can have a very significant impact, such as creating artificial volatility in insurers' balance sheets, bringing uncertainty and negating the stated purpose of the UFR to provide stability for long-term liability valuations.

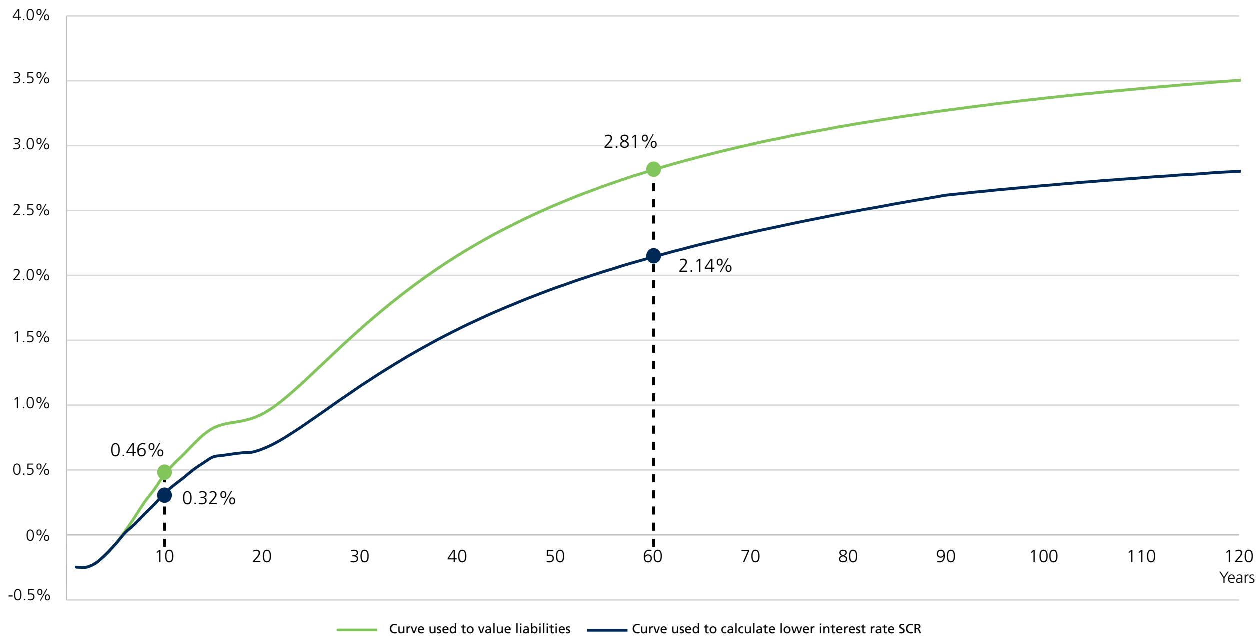
The actual discount rates used to value liabilities for Solvency II are far lower than the UFR. For example, the rates from the curves published by EIOPA for March 2016 were 0.46% for 10-year liabilities. Even for 60-year liabilities they are only 2.81% (see figure overleaf). This means that the rates used are already very low and, even though investment returns are also currently relatively low, the discount rates are still actually lower than the returns. We estimate that using the Solvency II risk-free rates to value a 15-year liability can lead to a buffer of about 6% over the amount needed on a real cashflow basis to pay the liability, assuming the assets backing the liability are invested in high quality (AA) bonds.

Built-in buffers

In addition to this, companies have to hold extra assets within their provisions to cover the risk margin and the market value of options and guarantees. These parts of the liabilities are not actually needed to pay any customer claims and so they can be considered further buffers, ensuring that claims can be met. We estimate that the risk margin alone can total up to 10% of the liabilities.

Last, but by no means least, beyond these sources of additional buffers within the liabilities, there is the significant

Risk-free curve for the euro — March 2016



> **"The actual discount rates used to value liabilities for Solvency II are far lower than the UFR."**
>
> **Olav Jones**

extra money that insurance companies hold as solvency capital to ensure they can cope with a very wide range of extreme adverse events, including significantly lower interest rates. The solvency capital requirement (SCR) for Solvency II can be thought of as being built up from a series of stress tests covering over 30 different risks in the standard formula. These are then combined into a single SCR requirement.

The interest-rate stress scenario within this calculation requires insurers to recalculate their entire balance sheet based on a risk-free curve significantly lower than the current one. For example, the 10-year stressed rate for March 2016 was 0.32% and the 60-year rate was 2.14% (see figure above). Many companies hold more than the required SCR, so have even further levels of protection. Some even set themselves a target range of capital above the SCR.

Over and above all the financial buffers and internal risk management requirements, Solvency II also sets very extensive reporting requirements. These allow supervisors to examine in great detail each company's situation and sensitivities to each risk, as well as to follow management actions to address any issues, including low interest rates.

So while low interest rates are indeed creating real challenges for the industry, companies have been taking action, in some cases for many years, to adapt their products, investment mix, hedges and capital levels. Solvency II makes this a requirement for all companies; creating the need for multiple layers of buffers and protection, as well as introducing very detailed monitoring to allow supervisors to ensure the necessary actions are being taken. This means that, while continued action, vigilance and monitoring is required, the focus on, for example, the UFR is somewhat out of context. Any short-term changes to the UFR or other aspects of Solvency II because of low interest rates are therefore inappropriate.

Xavier Larnaudie-Eiffel
Deputy CEO, CNP Assurances, France

Xavier Larnaudie-Eiffel has been deputy chief executive officer of French insurance group CNP Assurances since 2007 and is the chair of Insurance Europe's personal insurance committee. Previously a civil servant, he held various positions in the French Treasury, including junior director of the insurance department, with responsibility for regulation and supervision. From 1995 to 2000 he was head of cabinet for the European Commissioner for economic and monetary affairs, focussed on preparations for the introduction of the euro.

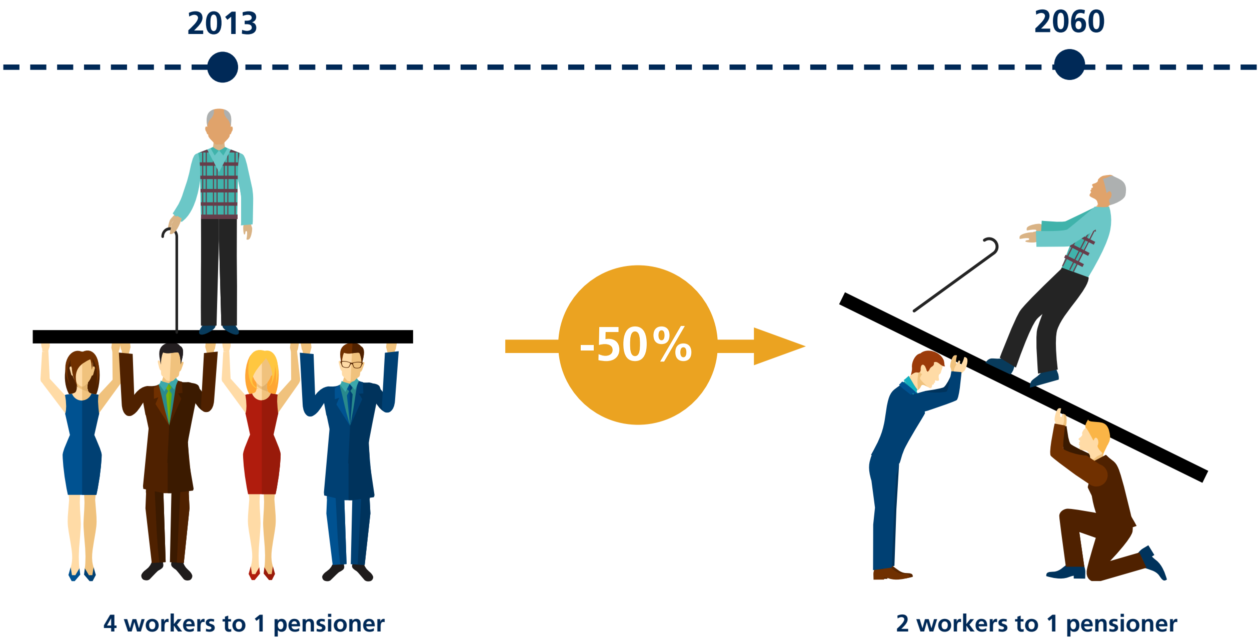
Is there life for life?

New thinking is needed to make pension systems fit for the future. Life insurance is an essential part of the solution, insists Xavier Larnaudie-Eiffel.

The statistics are stark and unprecedented. In 2013 there were four people of working age for every person above 65 in the EU; by 2060 there will be only two. Then there is the strain on public finances post-crisis, with the average public debt-to-GDP ratio in the euro-area rising from 65% in 2007 to 92% in 2014, according to Eurostat. With this in mind, it becomes clear that the current roles of the state, private pension providers and individuals in European pension regimes need to alter.

Demographic trends are unlikely to change any time soon. Neither, in the short- to medium-term, are government finances likely to improve. According to the European Commission, EU public pension expenditure is going to increase significantly in the next two decades (see chart on p25), reaching its peak value of 13.1% of GDP in 2037. In the longer term, the expenditure will then revert to

The ratio of workers to pensioners will decrease



Source: European Commission 2015 Ageing Report

levels close to current ones thanks to the impact of recent pension reforms, which will — on average — deliver less generous pensions. A shift away from traditional pay-as-you-go systems is therefore needed to guarantee adequate levels of pension provision as state systems downsize in order to remain sustainable. Part of the solution consists in strengthening the existing multi-pillar systems. These have proved their value in diversifying risks, since the labour and demographic changes that most affect the first (state-run) pillar are not fully correlated with fluctuating rates of return that most affect the second (employer-sponsored) and third (individual, voluntary) pillars.

Insurers are a fundamental part of a multi-pillar system and have a vital role to play in the new retirement-saving landscape. This means that the challenges that stand in their way need to be addressed. Chief among these are inappropriate regulation and the expected long period of low interest rates. However, addressing these challenges will not be sufficient to significantly boost pension savings, and therefore additional measures will need to be envisaged.

Getting regulation right

Insurers must operate under an appropriate prudential framework. Solvency II, the EU's new, risk-based regulatory regime, increases security for policyholders, but — as it currently stands — is not a suitable framework for long-term, guaranteed products. The capital required to back such products is currently excessively high because it is calibrated based on the underlying assumption that insurers invest short-term like traders rather than long-term as they generally do in practice.

Plans for how to better reflect the actual long-term risks when Solvency II is reviewed by the European Commission in 2018 (see p27) must start now if we are to avoid long-term products being withdrawn or priced beyond the reach of consumers. Similar considerations will, of course, need to

> “Insurers are a fundamental part of a multi-pillar system and have a vital part to play in the new retirement-saving landscape. This means that the challenges that stand in their way need to be addressed.”
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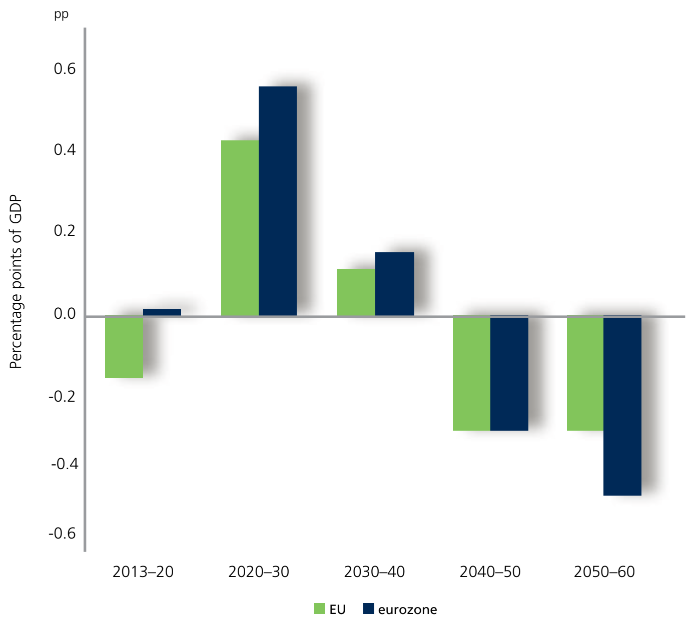
Change in gross public pension expenditure — 2013–2060



Source: European Commission 2015 Ageing Report

be taken into account in the insurance capital standard (ICS) that the IAIS is currently developing for large, international groups (see p30).

Coping with low interest rates

The current period of protracted low interest rates poses new challenges to insurers (see p19), as this results in higher liabilities and lower returns on fixed income assets. In addition, all life insurance companies have to make important and difficult decisions on the products to offer in this new, unprecedented environment.

My strong conviction is that life insurance companies will do their utmost to continue doing what they have been doing for decades, i.e. offering pension solutions to their customers. This will continue to involve, in my view, different types of guarantees, and it means that the product will need to have a long duration to serve as an income in retirement. A long duration enables customers to reap the benefits of investing in long-term assets and of the illiquidity premiums associated with such investments. Biometric risk coverage will also continue to be a key aspect of life insurers’ value proposition.

Incentivising saving

More needs to be done, however, to incentivise people to save for their old age. Financial education has a key role to play here, particularly when targeting the 20-something “millennials” who — as a generation — are unable or unwilling to put money aside for retirement. Providing them with clear information on their future first-pillar pension entitlements also plays a part in raising awareness and there are excellent examples of public/private partnerships, such as the pension tracking systems in Sweden, Denmark, the Netherlands and Belgium, to name a few. These are good practices that can inspire other countries.

That will, however, not be sufficient. Well calibrated tax incentives have also proved to be a successful way to

incentivise people to save for their retirement. These instruments are an essential component of a successful policy mix. To maximise their potential, tax incentives need to be clear, simple and stable, so that savers feel confident they will not change.

Given the significance of the challenge, however, other ways may have to be envisaged. As an example, I would mention the ongoing developments around the UK auto-enrolment reform. Between the introduction of the reform in 2012 and March 2015, over 5.2m workers had been auto-enrolled, helping to turn around a decline in pension saving, with 59% of all employees members of a pension scheme, compared with 47% in 2012. These are impressive results, which I hope will prompt further discussions on how to ensure people save enough for their retirement.

A wide range of measures will be needed to successfully address the huge pension challenge facing all European countries. Strengthened multi-layer systems of pension provision are urgently needed all over Europe, backed up by appropriate regulatory frameworks. National governments must have consistent policies on taxation, information and enrolment that ensure citizens save enough for an adequate retirement. If policymakers achieve these objectives — and an appropriate insurance prudential framework is ensured — insurers will be able to play a full part in breathing much-needed new life into retirement saving.

Current developments at EU level

While pensions are primarily the responsibility of member states, a number of pension policy initiatives are being discussed at EU level. Among these, of major importance are the likely soon-to-be-approved recast Directive on Institutions for Occupational Retirement Provision (IORP II) and the potential creation of a pan-European personal pension product (PEPP).

IORP II

Together with insurers, IORPs play an important role in providing retirement income to European workers. More than two years after the EC adopted its IORP II proposal, an agreement between the EU co-legislators now seems close. It is vital that European workers can rely on regulation to ensure high standards of management and protection for IORPs, irrespective of whether their pension is managed by IORPs or insurers. It is therefore important that fair competition between insurers and IORPs is ensured. In light of the fact that IORPs' prudential rules differ greatly between member states, which could result in regulatory arbitrage — notably when IORPs manage cross-border activities —, adequate measures are needed, such as the requirement that IORPs' cross-border activities are fully funded at all times.

Furthermore, EU workers' pension promises should be managed professionally and in a transparent way. It is therefore key that the governance requirements set by IORP II are effective and proportionate, in line with well-established rules for financial services providers. Transparency is also essential: IORPs' prospective members, active members and beneficiaries must receive clear and adequate information on the nature of their pension promise, as well as on the risks they bear.

Pan-European personal pension product

The insurance industry is engaged in the debate on the possibility of creating a PEPP; an idea that has been discussed in the context of the EC's capital markets union project as a way not only to encourage citizens to save for their retirement, but also to contribute to the funding of Europe's long-term growth.

It is still premature to assess whether introducing a PEPP could potentially achieve these objectives, as key aspects of the project — not least its legal viability and issues such as tax and interaction with local law — still need to be thoroughly assessed. The EC assessment is due to take place later this year.

What can certainly be said is that the PEPP must be a true pension product. This means the product should have key pension features so that insurers can invest in the type of long-term and sometimes illiquid assets, such as equities, property and infrastructure, that will allow good long-term returns for citizens and also help fund EU economic growth. The features needed to allow this include minimum investment periods, a decumulation phase and solvency requirements that take a long-term perspective fully into account.

OPINION

Bart De Smet
CEO, Ageas, Belgium

Bart De Smet has over 30 years' experience in the insurance industry and is a member of Insurance Europe's strategic board. He joined Fortis in 1998, becoming CEO in 2009. The group was renamed Ageas in 2010.

Life under Solvency II

Bart De Smet, CEO of Belgian insurance group Ageas, explains what it is like to operate under the EU's new, risk-based regulatory regime

Solvency II went live on 1 January 2016. The good news is that the transition from Solvency I to Solvency II was not as disruptive as some thought it could be. But it has been a costly exercise. Many estimate a multi-billion euro commitment by the industry, including a major investment in new IT. And this has also been a huge human commitment. Within our own group, close to 100 risk specialists have been involved in preparation in recent years. The stakes were high, and insurers have made the level of commitment needed to be ready on time.

Solvency II was designed to introduce a harmonised and robust prudential framework for insurers in the EU, and one that would lead to a much better understanding and alignment between the capital of an insurance company and the real risk embedded in the activities of that company. It was designed to address

the structural weaknesses of Solvency I, which failed to take proper account of the real market, credit and operational risks. And it was intended to improve transparency for consumers, providing a sense of security based on knowing insurers are sufficiently well capitalised.

From principles to rules

When Solvency II was first mooted it was very much a principles-based regime. Over time it moved more towards rules-based regulation. As insurers, we are somewhat responsible for that evolution. We insisted on greater specificity, and with that came greater complexity. Whilst we are a strong proponent of Solvency II, it is not perfect. But it does deliver a holistic, risk-based system that places responsibility firmly at the door of the insurer.

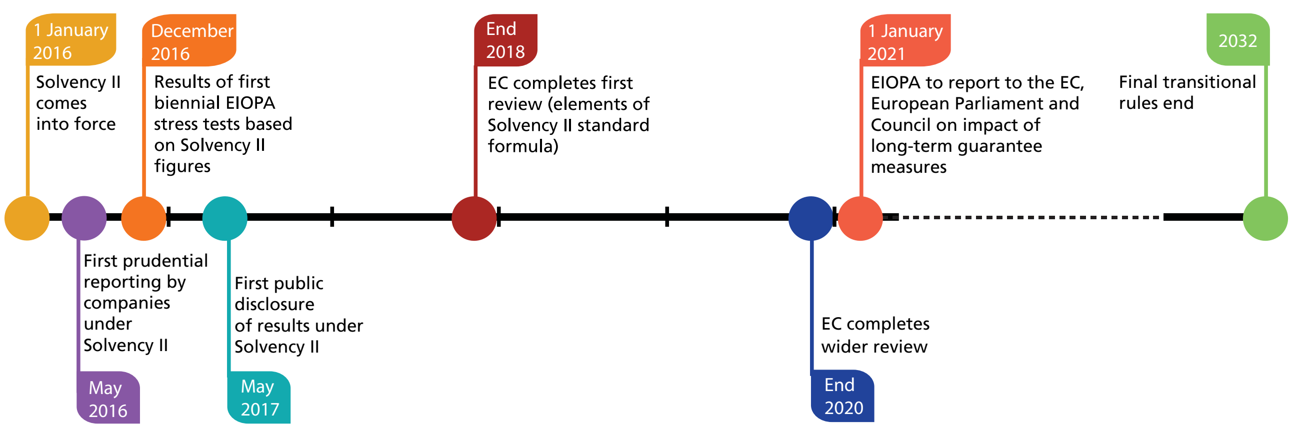
A review is planned for 2018, but some are already advocating an earlier review based on concerns over, for instance, the impact on competition, the treatment of sovereigns and the ultimate forward rate used to calculate the long-term liabilities of insurers. We believe, however, that insurers and supervisors will benefit from a period of stability, allowing time for the new regime to bed down.

> **Solvency II**
> A risk-based regime seeking to harmonise the supervision of EU insurers, Solvency II is made up of three pillars:
>
> **Pillar I**
> Calculation of capital reserves
>
> **Pillar II**
> Management of risks and governance
>
> **Pillar III**
> Reporting and disclosure

The good news is that we have transitioned smoothly to a new regime, thanks to years of preparation. But this is a new way of working, and we need to continue to make progress towards stronger cross-border alignment to ensure a true level playing field. Although Solvency II brings far greater comparability than we had under Solvency I, some member states have chosen to interpret certain of the rules somewhat differently and added their own specificities. This impedes the ability to make straightforward comparisons between companies and markets and has increased complexity. And — since the devil is always in the detail — we recognise that there is room for improvement in some categories, including capital against certain long-term investment asset classes.

Solvency II does of, course, impact some of the choices we make on strategy, products, pricing and investments. But a lot of this change was already well under way before the stimulus of Solvency II. Within our own business model we were increasingly focused on non-life because the high capital charges on life make it more difficult to offer attractive products and we were working towards greater diversification in terms of geographic spread and within our asset portfolio.

Solvency II: started but not finished

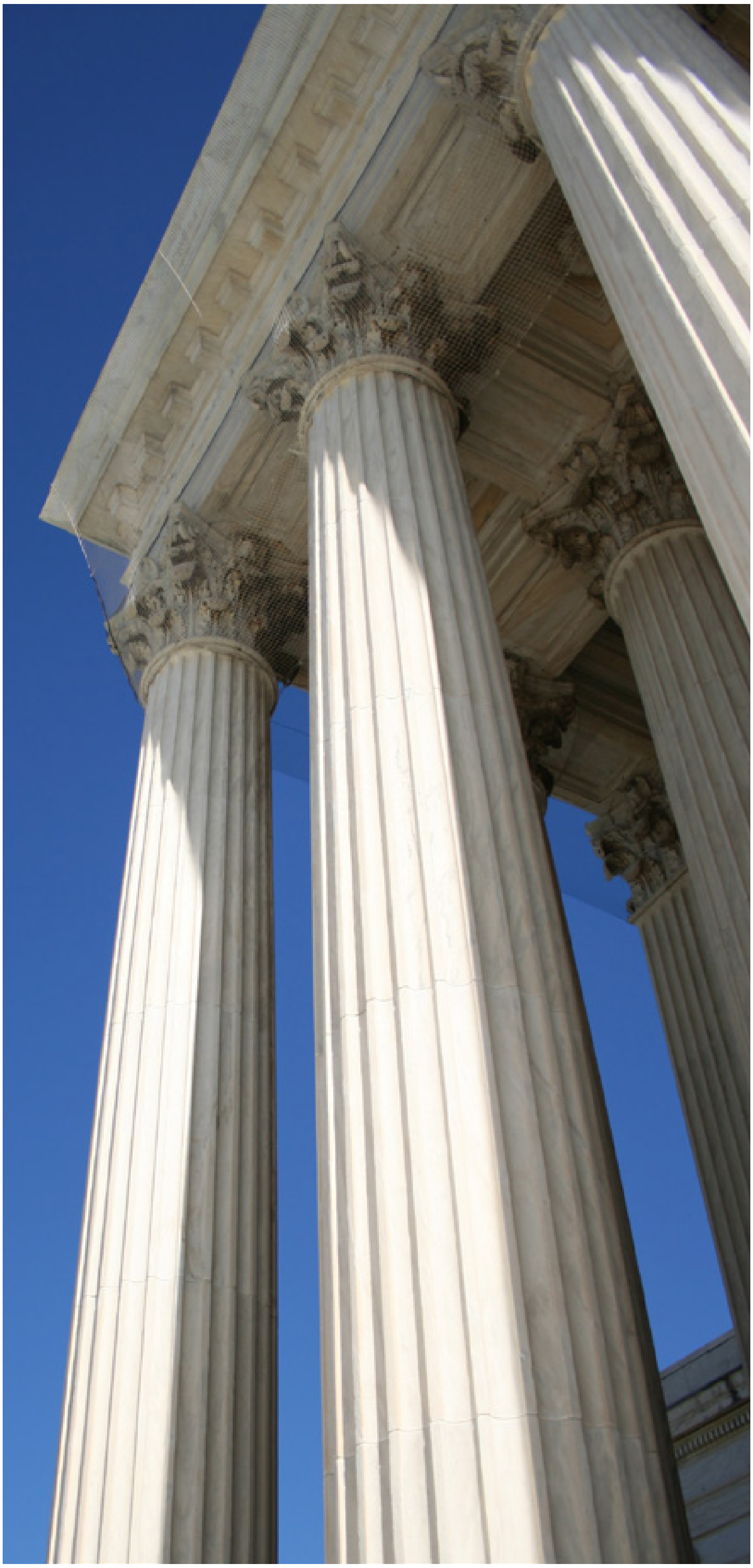


Regulation with benefits

As we look at some of the benefits coming out of the process, it is clear we are seeing an improvement in the quality and use of data and there is improved transparency. Professionalism in the area of risk has also been elevated to new levels, and awareness of risk has never been greater internally. Boards have become even more risk aware. Ultimately it is their final approval of the model and the self-assessment report and they are accountable. As insurers, we increasingly need people in the company capable of challenging management about the choices we make. But while we are looking to optimise the capital that is needed, there is an important distinction between optimising capital and fairly assessing your full risk as an insurance company.

Consumer transparency has definitely improved under Solvency II. Under Solvency I, two companies could share the same ratios based on their overall liability, whilst their risk profiles could be very different. It is still not an exact science, but it is easier to compare under Solvency II than Solvency I. But the big question becomes who pays. At the end of the day, it is the customer who pays for this quality assurance and additional security. However, in a world where volatility is increasingly the norm, it is critical that consumers and partners are reassured that insurers can cope with risk.

While Solvency II may not yet be ideal, there are review processes built into the legislation that should be used to improve it. In the meantime, we do have a framework in place that reflects much better the actual risks taken by companies. And that is something we strongly support.



OPINION

Professor Karel Van Hulle
KU Leuven, Belgium and
Goethe University Frankfurt, Germany

Karel Van Hulle, a former head of the EC's insurance and pensions unit, lectures in the economics and business faculty of KU Leuven and is attached to the International Centre for Insurance Regulation at Goethe University Frankfurt.

Squaring a circle

Karel Van Hulle looks at the hurdles in the way of creating an international capital standard for insurers

Insurance is complex. Accountants have been struggling for decades with the difficulty of translating the insurance business model into sensible financial reporting. Likewise, insurance supervisors have had their problems with the development of a risk-based solvency capital regime. Nevertheless, there is no obvious reason why the insurance industry should remain the only major economic sector without an agreed international capital and/or accounting standard.

While the International Accounting Standards Board (IASB) seems now close to finalising its long-awaited international accounting standard for insurance, it is still uncertain whether it will be possible to develop a truly international solvency capital standard.

Although the insurance industry was not responsible for the last financial crisis, it was impossible to disregard insurance when developing new regulatory requirements at global level. The Financial Stability Board (FSB) wanted a level playing field between banking and insurance regulation in order to avoid regulatory arbitrage.

Furthermore, once it was agreed that there could also be global systemically important insurers (G-SIIs), it became necessary to define the additional capital that these insurers need to hold in order to distinguish them from other insurers. How to do this in the absence of an internationally-agreed capital standard was the question.

One standard …

In October 2013, the IAIS announced its plan to develop an insurance capital standard (ICS) that will ultimately apply to all internationally active insurance groups (IAIGs), which include the G-SIIs. An ambitious work programme was agreed, with a target date of 2019. First, a basic capital standard (BCR) was developed for G-SIIs as a base for the additional capital that they need to hold (higher loss absorbency or HLA). This BCR will ultimately be replaced by the ICS.

The development of the ICS is greatly helped by the fact that many insurance supervisors now agree that a risk-based solvency capital regime is also needed for insurance. This has led to important reforms in many parts of the world. However, while there is agreement that this solvency reform should follow the three-pillar approach — Pillar 1 (quantitative requirements), Pillar 2 (qualitative requirements) and Pillar 3 (public disclosure and supervisory reporting) — that was introduced in the banking sector, there is still a lot of disagreement on the quantitative part dealing with capital.

The disagreement relates to issues such as the valuation of assets and liabilities in the solvency balance sheet, the risks to be included in the standard formula, the definition and quality of own funds and the possibility to use an internal model. The ICS will therefore have to come in stages, whereby the last stage should be a truly international capital standard.

… two valuations

It seems impossible to agree from the beginning on one set of rules for the valuation of assets and liabilities in the solvency balance sheet. Although most countries in the world have opted for an approach based on international standards (International Accounting Standards/International Financial Reporting Standards), the US is still unable to sign up to these standards. The ICS will therefore have to use two valuation approaches as a start: one approach using a market-consistent valuation and another approach using historical cost as the basis for valuation.

While using market values creates volatility in the balance sheet, ignoring market risk in the valuation of insurance liabilities and assets can hardly be called a risk-based solvency approach. In my view, it will therefore be unavoidable to move ultimately to a form of market-adjusted valuation for calculating insurance liabilities. The question for the IAIS, the industry and academics is how to do this in a way that captures adequately both the real risks and the long-term nature of insurance.

As long as two valuation approaches continue to exist, the numbers will not be comparable. Comparability can be helped through disclosures that allow interested parties to see the difference between the two approaches. However, experience has shown that the use of different numbers is confusing, as the readers are left to make their own judgement on which of the numbers is the right one. In addition, there can be no level playing field between insurance groups that use different valuation approaches, as the required capital will be different depending on the valuation approach chosen.

Hidden benefits

Nevertheless, the development of the ICS has had important advantages. Insurance supervisors are learning to better understand each other and to speak the same language, even though they might not always agree.

This is particularly relevant for group supervision, where supervisors from different jurisdictions are sitting around the same table. The discussions and the field-testing also bring some order to the different economic capital concepts that are applied by insurers in different parts of the world. They may also at last bring agreement that group solvency is important and that we need to move away from legal-entity reporting as the sole way of reporting within groups.

In terms of implementation of the ICS, things are not easy. For the EU, it is unlikely that changes will be considered before the agreed deadlines for the revision of Solvency II and — given the investment made in its development — any changes are likely to be refinements rather than fundamental. Other countries, such as Australia, Brazil, Canada, China, Japan and Mexico have carried out, or are in the process of developing, similar reforms to create strongly risk-based solutions. It will also be difficult for many of them to fundamentally change their approach. For the US, it is already difficult to agree nationally on who is in charge of developing solvency rules for large insurance groups. It is thus unlikely that the introduction of an ICS will come without difficulties there.

The ICS therefore cannot be a revolution but must be something that evolves from the reforms that have recently been introduced in many parts of the world. It will not be easy to square the circle.

RAB OPINION

Inga Beale
CEO, Lloyd's, UK

Inga Beale has been CEO of Lloyd's since 2014 and took over in 2015 as chair of the Insurance Europe Reinsurance Advisory Board (RAB). She has over 30 years' experience in insurance, having been CEO of Lloyd's managing agent Canopius and of Converium, Switzerland, as well as holding senior roles with both the Zurich Insurance Group and GE Insurance Solutions.

Model behaviour

Internal models are often the only effective way for large and complex reinsurers to calculate regulatory capital, says Inga Beale, chair of the Reinsurance Advisory Board

Reinsurers have a long history of managing the world's most complex risks and the global risk landscape is constantly evolving, sometimes very rapidly. The negative effects of the financial crisis are still being felt. Climate change is increasing the frequency of extreme weather events. Society is under pressure to respond to the risks posed by ageing populations. And technological advances are increasing exposures to cyber risk.

Adapting to this changing risk landscape and identifying emerging risks lie at the heart of reinsurers' business. The complexity and heterogeneity of the risks mean that tailor-made, firm-specific modelling is often the only accurate way for large and complex firms to measure the risks they cover and to allocate their capital correctly and efficiently. Reinsurers have invested significantly in developing such internal models and they have proved

> **"It is important to remember just how many benefits internal models provide — and not only to reinsurers but also to supervisors."**
>
> **Inga Beale**

crucial for sound risk management, efficient business steering and solvency calculations. It therefore makes sense that those models are the basis for regulatory capital assessment.

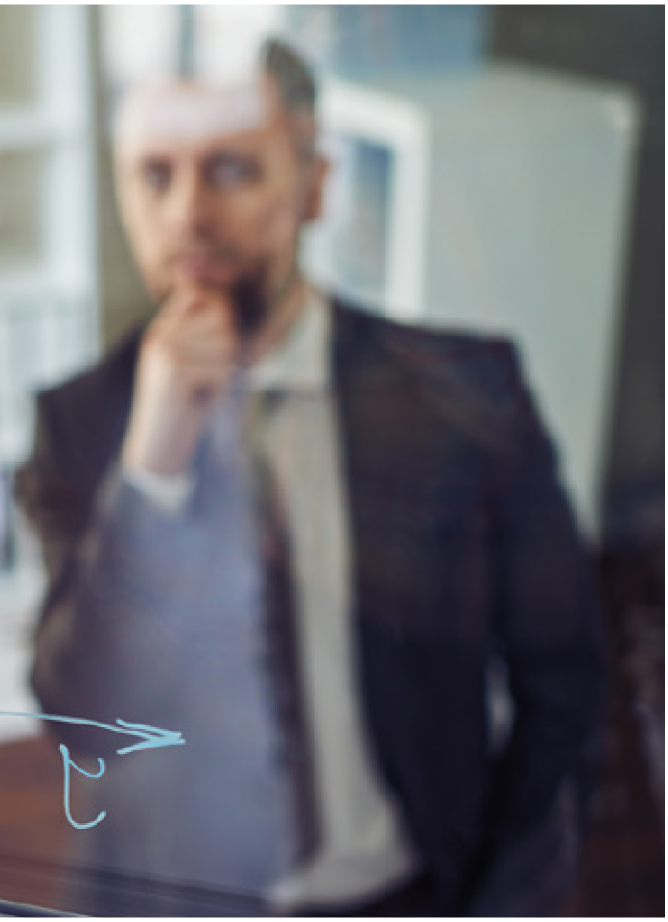
Yet the use of internal models is under threat on not one but two fronts.

Firstly, inspired by a growing reluctance among banking authorities to rely on internal models, reinsurance supervisors have also started discussing the idea of introducing constraints around internal models. In Europe, there is the prospect of supervisory overlays to internal models in the form of benchmarks, early-warning indicators and standard formula corridors and scope limitations (i.e. partial models). Indeed, EIOPA has announced in its work programme for 2016 that it is working on "internal model ongoing appropriateness indicators" based on Solvency II reporting and programme codes. These could undermine internal models' ability to accurately calculate risk and could result in significant misstatements of required capital.

It is worth remembering that European supervisors had previously accepted the important role that internal models play in advanced solvency frameworks and had actually designed regulatory frameworks such as the EU's Solvency II regime and the Swiss Solvency Test in a way that not only allows for, but also could not work without, internal models to calculate regulatory solvency.

In Solvency II, the ability to use an approved internal model to calculate regulatory capital is a key component of the framework, given that its standard formula is not risk-sensitive enough, significantly overstates reinsurance risk (principally by understating diversification benefits) and does not properly reflect third-country exposure and currency risks.

The second threat comes at international level. The IAIS is working on a risk-based, global international capital standard (ICS) to apply to internationally active insurance groups (see previous article, p30). Astonishingly, it has postponed discussion on the use of internal models to calculate capital



requirements until very late in this process and it has excluded models completely from the first version of the ICS that it plans to adopt in mid-2017.

Models benefit firms and supervisors

It is important to remember just how many benefits internal models provide — and not only to reinsurers but also to supervisors. They model risk in great detail, so they closely reflect the firm's risk profile. And they make that risk profile more transparent, thus enriching the dialogue between supervisor and reinsurer.

Standardised approaches, on the other hand, may result in reasonable proxies for some firms, but they have significant limitations for many large, internationally active reinsurers. They do not adequately recognise diversification, miss risk factors and cannot address deviations from average market characteristics.

Where the standard formula is not risk-sensitive enough, internal models are the most effective way to capture accurately the risks of a firm. They make holistic assessments of risks; understanding dependencies and the joint impact of all risks on the balance sheet. Risk factors with large, global exposures are modelled in greater detail and diversification between risks can be handled more effectively with internal models.

Internal models also provide great incentives for effective risk management. The significant work involved in model creation and validation ensures that capital requirements are commensurate with risk, creating improvements in risk resilience and financial stability. They also necessitate systematic senior management engagement in the firm's risk exposure and are then used to optimise every aspect of the business: business planning, stress and scenario testing, monitoring risk appetite and aggregations, pricing, allocating capital and making investment decisions.

In contrast, standard models, when not risk-sensitive enough,

can in some cases even disincentivise good risk management. For example, the treatment of currency risk in Solvency II's standard formula incentivises companies to hold capital centrally in their reporting currency, rather than in the currency in which the risk resides, and this is contrary to economic rationale.

Last but not least, internal models provide a number of benefits from a supervisory perspective. The process of model approval necessitates close and continuous dialogue with the firm concerned, creating better understanding of the firm's risks and more opportunities to challenge assumptions.

Adaptable and effective

The changing global risk landscape will increase the demand for insurance and, in turn, for reinsurance. And the understanding of risks is continually evolving. In relation to climate risk, for example, technological advances are constantly improving reinsurers' understanding of the frequency and impact of natural catastrophes, as well as the prevalence of climate-sensitive diseases. Internal models can easily and quickly adapt to these advancements. Legislation cannot.

Appropriately designed and calibrated internal models are an effective way in which proper economic capital assessments can be determined for global reinsurers. Supervisory overlays will not give supervisors the information they need to understand a firm's risks, nor will they improve the transparency or accountability of the reinsurance sector.

The IAIS must integrate an internal model framework into the ICS. Including general principles in the ICS for the design and use of internal models that can be used across jurisdictions will reinforce confidence in these sophisticated risk and capital management tools. We have seen from Solvency II how difficult it is to design an appropriately risk-sensitive standard formula, so it is difficult to imagine how we can achieve the risk-sensitivity and appropriateness objectives of the ICS without internal models. ■

The voice of Europe's reinsurers

The Insurance Europe Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry.

It is represented at CEO level by seven major reinsurers: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, Scor and Swiss Re, with Insurance Europe providing the secretariat.

One of the key objectives of the RAB is to stimulate and maintain a stable, innovative and competitive reinsurance market environment. It aims to achieve this by promoting a regulatory framework that facilitates global risk transfer through reinsurance and other insurance-linked capital solutions.

To read more:

The report "Internal models: a reinsurance perspective", RAB, January 2016, is available in the RAB section of Insurance Europe's website, www.insuranceeurope.eu

GFIA OPINION

Governor Dirk Kempthorne
President & CEO, American Council of Life Insurers (ACLI)

Governor Dirk Kempthorne has been chairman of the Global Federation of Insurance Associations (GFIA) since 2014 and president and CEO of the ACLI since 2010. After serving seven years as mayor of Boise, Idaho, he was elected to the US Senate in 1992. He served two terms as governor of Idaho before becoming secretary of the interior under President George W. Bush in 2006.

Global influence

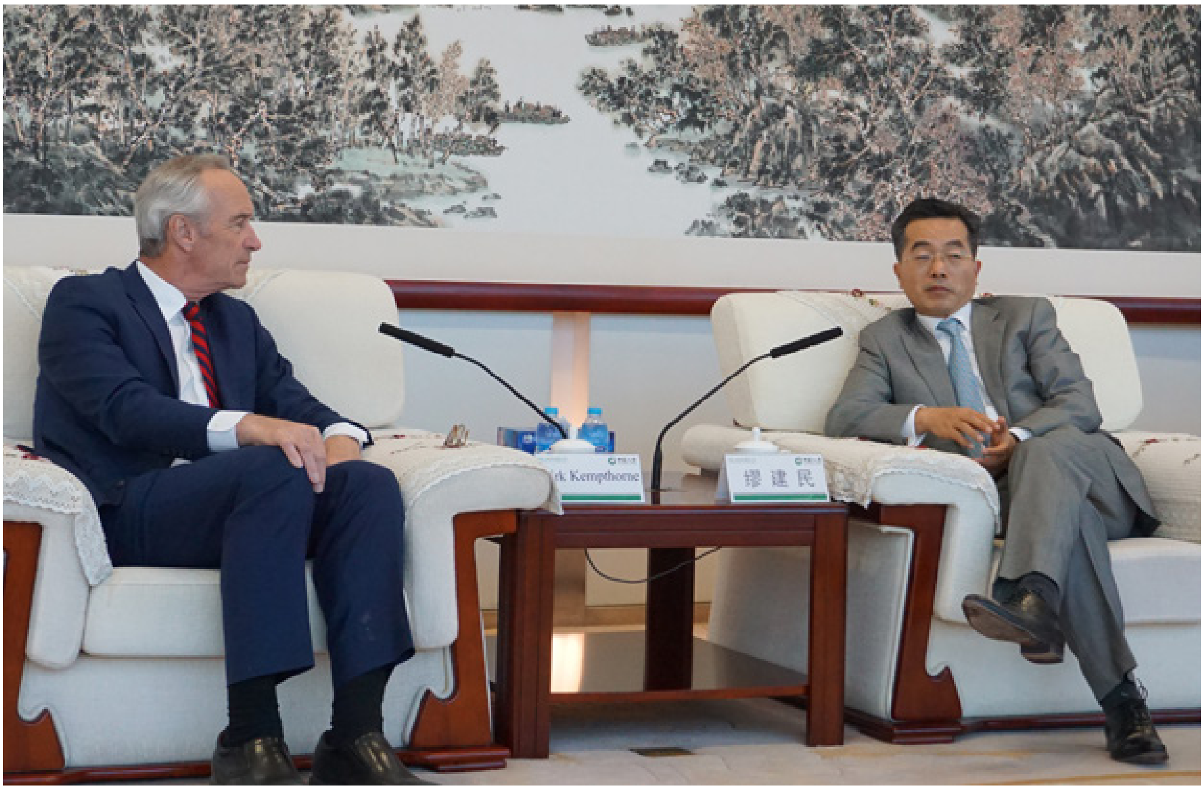
GFIA chairman Dirk Kempthorne explains why it is so important that insurers have a seat at the international table

The international regulatory landscape is evolving quickly. The past few years have offered substantial evidence of this, convincing me that it is more crucial than ever to have a body such as the Global Federation of Insurance Associations (GFIA) as a means for national and regional insurance associations to work collectively to convince national policymakers that international standards could do far more harm than good to the economy and consumers if they undermine other goals that global G-20 leaders seek to achieve.

The regulatory topics for GFIA to address include informing G-20 leaders about how insurers contribute to their agenda; advocating appropriate global standards on taxation and capital; and tackling barriers to free trade. GFIA provides an essential, central point of industry contact for global policymakers and regulators.

Top-level representation

An area in which GFIA has been extremely effective has been in facilitating high-level talks



Governor Kempthorne in discussions with the chair of the B-20's financing growth taskforce, Miao Jianmin, president of China Life.

between the industry and policymakers, particularly the G-20 and the IAIS.

GFIA organised an event in November 2015 that allowed the industry to engage with regulators gathered for the IAIS Annual General Meeting in Morocco. The event, "An Afternoon with GFIA — Supervisory Cooperation and Convergence", focused on the IAIS's global insurance capital standard (ICS) and the common framework for the supervision of internationally active insurance groups (ComFrame). GFIA continues to call for a high level of transparency and stakeholder involvement in the standard-setting process.

Earlier in 2015, the Turkish G-20 presidency requested that GFIA and the Turkish Insurance Association organise an insurance conference. The conference, "Insurance and the G-20 Goals", examined the social and economic role that insurance plays in society and how insurance helps achieve the G-20 goals.

At the event, the industry and regulators exchanged views on insurers' role in infrastructure investment, financial inclusion, insuring an ageing population and the recommendations of the G-20 ancillary organisation, the Business 20 (B-20).

This was a landmark moment for GFIA. In the past, the G-20 and B-20 focused on the role of the banking sector in their policy decisions. Organising an insurance conference under the G-20 brand is a signal that insurance issues are gaining broader prominence in this influential group.

In March 2016, GFIA met representatives of the Chinese 2016 G-20 presidency, underscoring the importance of insurance to its core priorities: an innovative, invigorated, interconnected and inclusive world economy (the "4 Is"). The Chinese representatives we met were most appreciative. They agreed that regulators often do not fully understand the extent to which insurers contribute to their objectives on investment, infrastructure and trade. I look forward to continuing these fruitful discussions in the second half of the year.

Capital ideas

A major focus for insurers worldwide is the IAIS's development of quantitative insurance capital standards (see also p30). Last year, the IAIS carried out an extensive consultation on the ICS. Stakeholders from around the world responded and highlighted a wide range of concerns and challenges. Since then, we have learned that the IAIS has modified its target timeline for development of the ICS, acknowledging that the first versions of the ICS will need to be relatively flexible and subject to ongoing incremental changes. The IAIS also began field-testing the ICS. The next consultation in July 2016 will reveal the lessons learned from the 2015 exercise and will be complemented by a second exercise.

GFIA has provided the IAIS with feedback on the ICS design and concept and will continue to engage as the project continues.

Both the IAIS and the Financial Stability Board (FSB) have continued to work on systemic risk issues. They have looked at assessment methodologies for systemically important insurers, their resolution strategies, and the definition of non-traditional, non-insurance (NTNI) activities that some regulators believe have potential for systemic risk. While the objectives of this work are understandable, regulators must not lose sight of the fact that most insurance activities do not give rise to systemic risk.

Opening markets

In 2015 the (re)insurance industry celebrated the landmark approval of the Insurance Bill by the Indian Parliament. The measures further open up India's market and represent a victory for free trade and competition by allowing the increase in the level of foreign direct investment in joint ventures and the establishment of foreign reinsurance branches. However, later in 2015, during the implementation of the Bill, we saw damaging clauses that would in fact undermine the liberalisation goals of the Bill. GFIA wrote to the Indian Government and the Indian regulator to express its concerns and we remain optimistic that there will be a positive resolution.

There are, unfortunately, a range of other countries in which protectionist measures are already in place or in the pipeline. GFIA and its members will continue to engage with relevant stakeholders and advocate open markets without discriminatory barriers.

As new regulatory topics appear on the horizon, GFIA will continue to represent insurers and reinsurers on the global stage by leveraging our collective regional and national experience and influence. I am honoured to serve with GFIA's members, executives and the secretariat in meeting these challenges.

About GFIA

The Global Federation of Insurance Associations (GFIA), established in October 2012, has 40 member associations, which represent the interests of (re)insurers in 60 countries. They account for more than $4 trn of insurance premiums worldwide, or 87% of the global total. GFIA's secretariat is run by Insurance Europe.

OPINION

Christiana Figueres
Executive secretary
United Nations Framework Convention on Climate Change (UNFCCC)

Christiana Figueres is the top UN authority on global climate change. She has been the executive secretary of the UNFCCC since July 2010. Assuming responsibility for the international climate change negotiations after the Copenhagen Conference of the Parties of 2009, she directed the annual Conferences from 2010, culminating in the historic Paris Agreement of December 2015. She brought together national and sub-national governments, corporations and activists, financial institutions and communities of faith, think tanks and technology providers, NGOs and parliamentarians to jointly help deliver the unprecedented climate change agreement.

Sustaining momentum on climate action

Christiana Figueres explains why the COP 21 Paris Agreement locks climate change and insurance together like never before

The Paris Agreement has decisively tightened the link between insurance and climate change, and opened an entirely bigger scale of opportunity and challenge for the industry.

The insurance industry — finely tuned to rising risks of extreme weather and in a position of trust and influence — was one of the major supporters of an effective Paris climate change agreement. Insurance firms across the world supported and encouraged governments' ambitions. Their investment arms pledged to redouble green assets in their portfolios. You began the huge and innovative task of bringing millions of people vulnerable to climate change under an insurance umbrella for the first time.

For this, from my heart, I thank you.

Paris has set a clear path towards keeping the global temperature rise since pre-industrial times below 2°C, indeed well below. This means peaking global emissions soon — stopping their current annual rise — and then reversing them very rapidly to a point, as soon as possible later this century, when remaining greenhouse gas emissions are absorbed back from the atmosphere by nature.

Concrete climate action

Paris is backed by concrete climate action plans from almost every one of the 196 nations under the UN Climate Change Convention, which will now only strengthen over time. These plans alone keep us within around a 3°C rise. This is not yet near enough, but a huge advance from the 4 or 5°C or more we would otherwise be headed towards, with each extra degree adding exponentially larger losses to life, livelihoods and investments. The Agreement also encompassed the ways and means to provide increasingly robust financial and technological support to developing countries.

In short, the world has agreed to move as fast as possible into an age of clean, renewable energy and to ensure societies and economies are sustainable in the face of the climate impacts that are already in the system.

Both sides of balance sheet affected

Both insurance underwriting and investment are impacted by this global transformation across all three principal areas of business: physical risk, transitional risk and liability.

Underwriters can assess risk and make actuarial decisions based on a clearer future picture, but they know that delays in climate policy and action plus inertia in the established industries of the fossil-fuel era can seriously affect calculations.

Fund managers can make more informed assessments of future risk and return based on the internationally-agreed direction from Paris, but they also know that the same factors that bother the underwriters can undermine their forecasts and disappoint customers' expectations.

A call to action

The required professional responses of the industry are already well understood and I am encouraged at just how fast new thinking and innovation are being adopted: improved risk modelling, new markets, incorporating carbon footprints in valuations, and much more. But there are two other areas of action that I would ask you to sustain and step up.

What is the Paris Agreement?

At the United Nations Climate Change Conference, COP 21, in Paris in December 2015, parties to the UN Framework Convention on Climate Change (UNFCCC) committed to strengthening the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

Additionally, the Paris Agreement aims to strengthen the ability of countries to deal with the impacts of climate change. The Agreement provides for enhanced transparency of action and support through a more robust transparency framework.

The Paris Agreement requires all parties to commit to their best efforts through "nationally determined contributions" (NDCs) and to strengthen these efforts in the years ahead. There will also be a global stocktake every five years to assess collective progress towards achieving the purpose of the Agreement.

Left to right: Christiana Figueres, United Nations Secretary General Ban Ki-Moon, French Foreign Minister and President of COP 21 Laurent Fabius and French President François Hollande celebrate the Paris Agreement.

First, continue your dialogue with and support to policymakers and legislators. The Paris Agreement put a huge seal on the international will to act, but governments need to draw on the widest possible expertise. What policies, incentives, markets and mechanisms best help you achieve climate goals? How can they work and be implemented?

Second, there are already many international institutions and initiatives dedicated to supporting climate action, especially in the developing world where major opportunities for new insurance business lie. Increasingly, they can help you and you can help them.

For example, 70% of natural disasters that affect people's lives and livelihoods are still not covered by insurance, most often because the right combination of financing and policy are absent or uncoordinated.

Example initiatives would include the Sustainable Energy Marketplace from the International Renewable Energy Agency, identifying promising renewable energy projects and linking them to public and private financiers. The Land Degradation Neutrality Fund aims to finance rehabilitation and sustainable management of 12m hectares of land per year.

And very own Momentum for Change initiative made the Zurich Flood Resilience Program one of its award winners for being a highly scalable and replicable solution to measure flood resilience and deliver community risk financing.

Time to drive the transformation

After Paris, no politician or citizen, no business manager or investor can be in doubt that the world is committed to moving towards a low-carbon society and economy, resilient to the impacts of climate change.

The insurance industry has proven that it has the will, the need and the ability to be a frontline leader in this historic transformation. Now is the time for you to reap the benefit of that leadership and drive the transformation farther and faster ahead.

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

The same but different

The reality of the EU single market is that it is made up of individual nations. Nicolas Jeanmart explains why this has implications for selling insurance across borders.

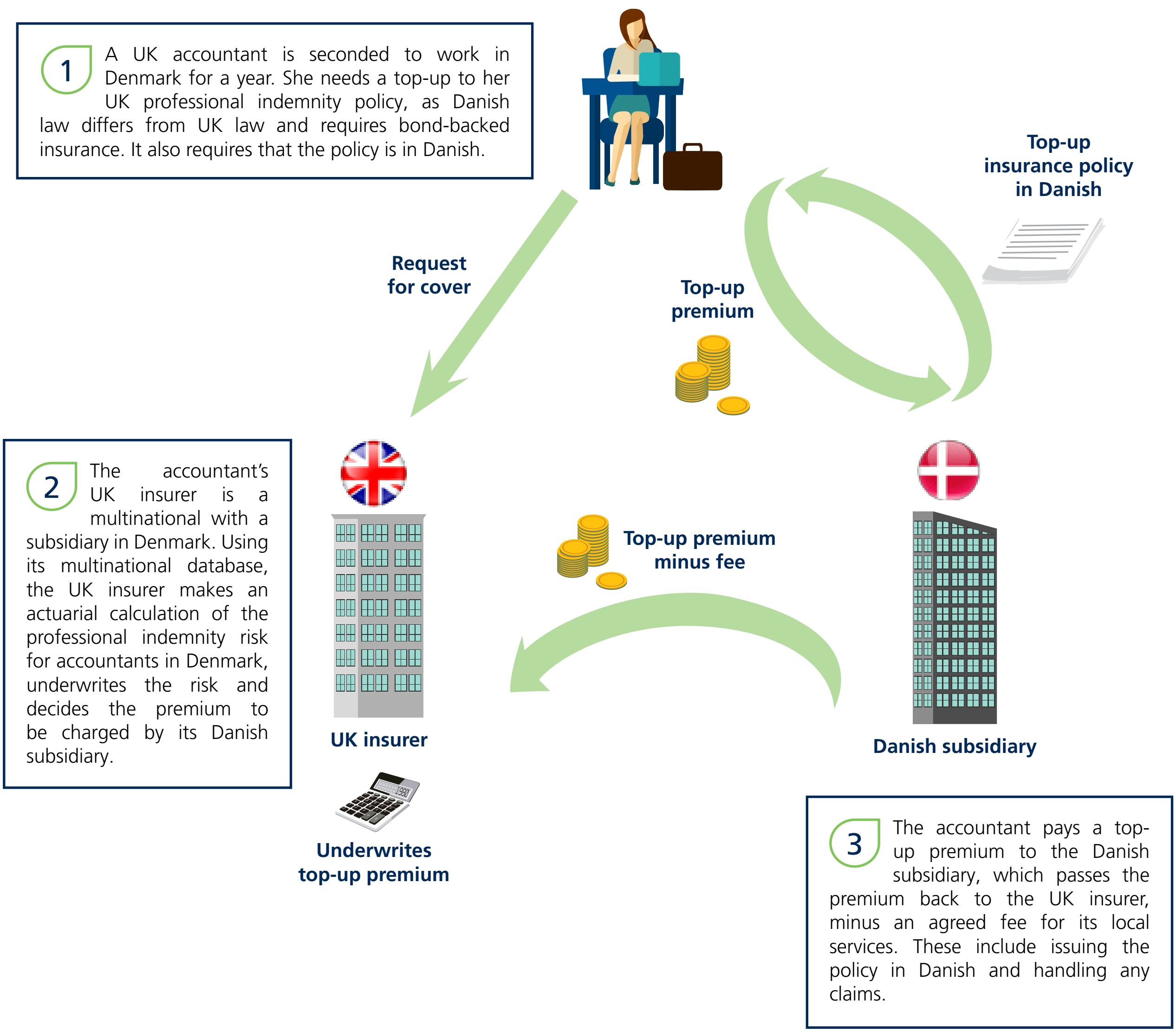
Peter runs a construction company that has just completed a successful housing project on a hill overlooking a river. Now he has been asked to undertake an identical project on the hill on the opposite bank. Do the two projects appear the same? Yes, they do. Is the professional indemnity insurance that Peter needs the same? Strangely, it is not.

The reason lies in the fact that the river marks a border between two EU countries. And the two countries have different legal systems, different tax regimes, speak different languages and enforce different building codes, all of which have a — sometimes significant — impact on risk and insurance cover.

The different laws and building codes with which the policyholder has to comply can mean variations in both the risks that have to be covered and in the minimum and maximum amounts of cover required in an insurance policy. Differences in tax levels can also affect the cost of the policy. And different liability regimes can mean substantial variations in the damages awarded if claims arise. Cultural norms likewise affect risks; for example, some societies are more litigious than others.

All these elements are taken into account by insurers in the sophisticated calculations that they make to assess the probability of risks and their likely costs, so that they can accurately price their policies.

Insurance solution: a multinational network



1. A UK accountant is seconded to work in Denmark for a year. She needs a top-up to her UK professional indemnity policy, as Danish law differs from UK law and requires bond-backed insurance. It also requires that the policy is in Danish.

2. The accountant's UK insurer is a multinational with a subsidiary in Denmark. Using its multinational database, the UK insurer makes an actuarial calculation of the professional indemnity risk for accountants in Denmark, underwrites the risk and decides the premium to be charged by its Danish subsidiary.

3. The accountant pays a top-up premium to the Danish subsidiary, which passes the premium back to the UK insurer, minus an agreed fee for its local services. These include issuing the policy in Danish and handling any claims.

Strengthening the single market

The EC is looking at ways to strengthen the single market in Europe and to stimulate greater cross-border trade. Under its Single Market Strategy, which was launched in October 2015 to deliver a "deeper and fairer" single market, the Commission is considering ways to reduce barriers to the free movement of goods and services, especially for SMEs wishing to engage in cross-border trade. It is within this context that the EC is keen to find out whether the variations in insurance obligations lead to uncertainties among service providers that can limit cross-border business.

Insurance solutions

Insurance Europe has been assisting, and continues to assist, the Commission in its research and to engage in its discussions. Yet, in Insurance Europe's view, there is no evidence that lack of access to cross-border insurance represents a barrier to trade.

Indeed, while abiding by national laws and regulations, insurers have developed ways to provide cover to businesses and individuals who wish to operate in markets other than their own. The box above shows how this can work for a

multinational insurance group. Brokers have likewise developed networks of partner firms, so that they can operate in a similar way.

Building such networks is, of course, still easier in theory than in practice. It takes time and money to understand new markets and find trustworthy partners. Nevertheless, such multinational programmes and networks do exist and are being created for our increasingly global world. In this, insurers are being greatly assisted by technological advances that make it easier to manage complex risks and keep in touch with policyholders.

Insurers likewise already make wide use of the freedoms provided by EU treaties, notably the freedom of establishment (FOE) through subsidiaries or branches and, to a lesser degree, the freedom of provision of services (FOS). Independent figures quoted by the EC itself show that 36% of total gross written premiums in the EU are written by foreign-controlled insurance subsidiaries or branches, far higher than the 25% of cross-border activity in the banking sector.

Of course, in a free market such as the EU, it is up to individual insurers whether they see sufficient demand to justify investing in and developing the networks to be able to offer products in other member states. Such decisions rest on different factors and risk appetites. Insurers need to feel confident that they will generate sufficient volumes of business in the target state to make it worth spending the time and money needed to understand the true risk proposed through a thorough understanding of applicable laws, to deal in the local jurisdictional system and language with the claims that may arise, to research the forms and prevalence of fraud, and to understand the tax and supervisory environments.

Government support

In their efforts to increase cross-border business, EU member states should focus on raising awareness among professionals of the insurance solutions that are available to them when they are considering accessing a new market. This could conceivably be achieved through better use of the Points of Single Contact (PSCs) provided for in the EU Services Directive. PSCs are online government e-portals set up to advise cross-border service providers on the regulations that apply to their activities in a particular member state, as well as to assist them with administrative procedures.

Insurance Europe is keen to support the Commission's efforts to strengthen the internal market for retail financial services in ways that benefit consumers, insurers and the economy, and it looks forward to continuing to provide input into the Commission's discussions.

EC actions

One of the EC's aims when launching its Single Market Strategy in October 2015 was to reduce perceived barriers to cross-border movement in key sectors such as business services, construction and retail. The Commission identified in particular the excessive administrative requirements placed on professional services providers when establishing themselves in a new member state as an obstacle to their cross-border movement.

The Commission noted that a possible solution would be a "services passport" provided by the home state authorities, which would help professionals demonstrate that they satisfy the requirements of the host state. Insurance was also referred to as a barrier in the Staff Working Document accompanying the Strategy. The Commission noted that insurance requirements are often difficult to comply with and that in some cases SMEs and professionals in particular have found it hard to obtain insurance cover for cross-border activities.

In parallel to the Commission's work on its Single Market Strategy, in December 2015 it launched a Green Paper consultation on retail financial services. The consultation — to which Insurance Europe responded — sought to identify how companies established in one member state can offer services in another, how consumers can access retail financial services from other member states, as well as ways to increase the portability of financial service products. It also covered the impact of digitalisation on retail financial services.

Sebastian Hopfner
Deputy general manager
Employers' association of insurance companies (AGV), Germany

Sebastian Hopfner has been deputy general manager of the AGV in Germany since 2010. He is also the chairman of both the European Insurance Sectoral Social Dialogue Committee (ISSDC) and Insurance Europe's social dialogue platform. The ISSDC is the only forum at European level in which insurance employer and employee representatives discuss topics of common interest with the support of the European Commission.

Future-proofing the workplace

Sebastian Hopfner reflects on the trends that are influencing the future of employment in the European insurance sector

I see two trends that will fundamentally reshape the future employment landscape in the European insurance industry. The first is that the workforce in the European insurance industry is getting older and many employees are approaching retirement age. This will pose significant challenges to the sector. The second is the increasing use of digital tools and technology. This will also have a major impact on the future of work in the insurance sector.

Like any business, insurance companies are only as strong as the people they employ. It is therefore important that we, as the European social partners in the Insurance Sectoral Social Dialogue Committee (ISSDC), engage in a constructive dialogue about how to adapt to these profound shifts.

This will be challenging. On the one hand, the insurance sector needs to allow experienced and motivated older staff to continue with their careers beyond the statutory retirement age if they wish to do so. On the other hand, the insurance sector needs to attract the new talent necessary for a sustainable, skilled, flexible and diverse workforce.

The sector also needs to embrace the opportunities offered by new technologies and digitalisation, balancing its potential benefits and possible unintended consequences.

Case study: health Czech

Czech health insurer VZP has been running a traineeship programme for disabled graduates since 2013. So far, it has supported almost 100 graduates.

College and university graduates receive a three-month contract, allowing them to gain initial work experience. If successful, the contract is extended for a further three months. The best graduates on the programme are offered permanent employment contracts.

Not only has the programme provided work experience and jobs for disabled graduates, it has helped foster a corporate culture of mutual tolerance and support. It has also led to a prevention project under which disabled VZP employees share their personal stories with elementary and secondary school students to encourage them to behave safely and avoid accidents.

Developing solutions for the future

As the average age of employees in the insurance sector is increasing, there is a need to intensify efforts to attract and retain high-quality employees. I can assure you that this is a topic that is high on the ISSDC's agenda. Since we started our discussions in 2008, the ISSDC has issued a joint statement, organised a number of conferences and workshops across Europe and published two booklets showcasing examples of how the European insurance sector is combatting the demographic challenge.

The ISSDC's most recent booklet, which is available on the Insurance Europe website, was published in May 2016 at a conference in Bucharest. It features a selection of initiatives that European insurance companies have introduced in the areas of qualifications and lifelong learning, working longer, health and safety at work, work/life balance and telework.

The European social partners believe that lifelong learning and qualifications play an important role in tackling the demographic challenge in the insurance sector. Individual career development and the improvement of skills are decisive in keeping staff motivated, capable of performing satisfactorily and working longer. Lifelong learning creates added value for both the employer and the employee and should be developed in a framework of mutual responsibility. The continuous training of older staff is particularly important if they are to be retained as an asset to the company. This obviously assumes that older staff are willing to be trained. Our May 2016 booklet contains a variety of good practice examples in this area (see boxes on this page and overleaf).

Lifelong learning and qualifications are also being discussed by the ISSDC in the context of digitalisation. As digital advances are expected to require a huge change in the skill sets that employees require, both insurance companies and employees must be prepared to invest in the continuous development of skills and qualifications.

Digitalisation will also lead to a greater need for flexibility and agility in the workplace. For example, it is now no longer necessary for some employees to always work in a "traditional" office environment. Employers are therefore increasingly offering a wide range of work options, including flexible hours, part-time work schemes or the opportunity to telework.

Case study: live long and prosper

The Italian arm of French insurer Groupama ran its "Long Life Opportunity" initiative in 2013–14, focusing on providing training to employees over the age of 55.

A social research company first analysed the profiles of the employees and then developed five voluntary training initiatives. These were: a one-day conference on issues relating to the extension of working life; the creation of a "long life motivation centre" focusing on self-empowerment and motivational training; initiatives to teach older employees how to run training courses and mentor younger employees; and training on using new technology.

In 2014 all over 55-year-olds took part in at least one of the initiatives and over 2 800 training hours were provided.

Technology-enabled, flexible working arrangements such as teleworking can have many advantages for both employers and employees. Employers can benefit from increased productivity from satisfied and better motivated staff, while employees gain greater flexibility in working hours and savings in time, money and stress due to reduced commutes. Telework places a high level of personal responsibility on the employee. It should, of course, be voluntary for both employers and employees and there are some jobs in which telework is simply not suitable.

The ISSDC recognised these opportunities for the sector in a joint declaration on telework that was signed in 2015. We also included some good practice examples of teleworking arrangements in companies such as Achmea in the Netherlands, LähiTapiola in Finland and Baloise Insurance in Belgium in our May 2016 demographic challenge booklet.

As the insurance sector responds to this changing environment, the European social partners will continue to play a supporting role. Only together will we be able to adapt to these challenges.

Sebastian Hopfner with Elke Maes, vice-chair of the ISSDC on behalf of UNI Europa Finance, at the February 2016 ISSDC meeting.

Insurance Europe

- Member associations
- 7th International Conference
- Publications
- Executive Committee
- Strategic Board
- Committees, working groups, platforms

Member associations

Austria	Verband der Versicherungsunternehmen Österreichs (VVO) President: Günter Geyer www.vvo.at tel: +43 171 15 62 00
Belgium	Assuralia President: Frank Koster www.assuralia.be tel: +32 2 547 56 11
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Czech Republic	Česká asociace pojišťoven (ČAP) President: Martin Diviš www.cap.cz tel: +420 222 35 01 50
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Estonia	Eesti Kindlustusseltside Liit President: Artur Praun www.eksl.ee tel: +372 667 18 00
Finland	Finanssialan Keskusliitto Interim chairman: Risto Tornivaara www.fkl.fi tel: +358 207 93 42 00
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Germany	Gesamtverband der Deutschen Versicherungswirtschaft (GDV) President: Alexander Erdland www.gdv.de tel: +49 302 020 50 00

Greece	Hellenic Association of Insurance Companies President: Alexandros Sarrigeorgiou www.eaee.gr tel: +30 2103 33 41 00
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Ireland	Insurance Ireland President: Ken Norgrove www.insuranceireland.eu tel: +353 1676 18 20
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Latvia	Latvijas Apdrošinātāju asociācija (LAA) President: Jānis Abāšins www.laa.lv tel: +371 67 36 08 98
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Switzerland	Schweizerischer Versicherungsverband (ASA/SVV) President: Urs Berger www.svv.ch tel: +41 442 08 28 28
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United Kingdom	The British Insurers' European Committee (BIEC), comprising:	
		Association of British Insurers (ABI) Chairman: Paul Evans www.abi.org.uk tel: +44 20 7600 3333
		International Underwriting Association of London (IUA) Chairman: Malcolm Newman www.iua.co.uk tel: +44 20 7617 4444
		Lloyd's Chairman: John Nelson www.lloyds.com tel: +44 20 7327 1000

Associate members

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

Partner

Russia	All Russian Insurance Association (ARIA) President: Igor Yurgens www.ins-union.ru tel: +7 495 232 12 24

7th International Conference

Around 400 policymakers, regulators and insurers from over 40 different countries gathered in Luxembourg on 27 May 2015 for Insurance Europe's 7th International Insurance Conference. The theme of the conference was the "globalisation of the insurance industry".

In the presence of His Royal Highness Crown Prince Guillaume of Luxembourg, Insurance Europe president Sergio Balbinot opened the conference. He outlined the global and regional regulatory developments that are shaping and having an impact on the insurance industry.

Luxembourg's finance minister, H.E. Pierre Gramegna, discussed the importance of insurers in Europe in general and in Luxembourg in particular. He also pointed out the importance of the European insurance industry as long-term investors.

Governor Dirk Kempthorne, chair of the Global Federation of Insurance Associations (GFIA), was the next to speak. He warned of the need for society to address the growing pension crisis, and the role that the insurance industry could play in tackling the challenges of retirement funding.

The first panel comprised Henri de Castries, CEO and chairman of Axa, Inga Beale, CEO of Lloyd's, and Felix Hufeld, chair of the IAIS.

The conference then heard from Burkhard Balz MEP, who stressed the need for policymakers to recognise the difference between insurers and banks when designing regulation.

After lunch, five break-out sessions debated some of the hot topics of the day:

- addressing the global insurance protection gap
- bringing pensions to life
- investing in infrastructure
- adapting to extreme events
- using smart technology for insurance

The closing panel focused on regulatory strategy. The panel comprised Dr Manuela Zweimüller, EIOPA's head of regulations, Christina Urias, managing director of international insurance regulatory affairs for the US National Association of Insurance Commissioners (NAIC), and Nathalie Berger, head of the insurance and pensions unit at the European Commission.

1. Axa's Henri de Castries (left), Felix Hufeld of the IAIS and Inga Beale of Lloyd's debate strategic issues for the insurance sector

2. Insurance Europe president Sergio Balbinot (left) and ACA president Marc Lauer welcome His Royal Highness Crown Prince Guillaume of Luxembourg (right) ahead of the conference

3. Luxembourg finance minister H.E. Pierre Gramegna

4. Axa's Henri de Castries

5. Keynote speaker Governor Dirk Kempthorne of GFIA

6. Keynote speaker Burkhard Balz MEP

7. Conference moderator Professor Karel Van Hulle

8. Sergio Balbinot, Insurance Europe president

9. Nathalie Berger of the European Commission (left), the NAIC's Christina Urias and EIOPA's Manuela Zweimüller (right) discuss the challenges of international regulation

Publications

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

Annual Report 2014–2015
(May 2015)

Review of Insurance Europe's key activities between June 2014 and May 2015, together with details of Insurance Europe's structure and organisation.

Insight Briefing:
Dynamic access to insurance information
(October 2015)

An overview of how InsuranceData, Insurance Europe's interactive online data tool, works.

European Insurance — Key Facts
(August 2015)

Key preliminary data for 2014, including information on European insurers' role in the economy, their premiums and their investments.

Insight Briefing:
Addressing Europe's pensions challenge
(October 2015)

Describes the initiatives currently being discussed at European level which, if properly carried out, could contribute to the sustainability of pension systems.

European Motor Insurance Markets
(November 2015)

A statistical report that also explains why motor premiums differ across Europe.

Insight Briefing:
Insurers driving digital products and services in Europe
(April 2016)

Sets out how digitalisation is shaping the way insurers distribute to and interact with their customers, while explaining why digitalisation cannot remove all barriers to increasing cross-border insurance.

Indirect taxation on insurance contracts in Europe
(March 2016)

A full survey of rules, tariffs and regulations in European markets. It provides an overview of the taxes applicable to insurance premiums, as well as the various declaration and payment procedures in most European states.

Insight Briefing:
Draft PRIIPs rules will mislead consumers
(April 2016)

Explains why mistakes in the PRIIPs Regulatory Technical Standards must be urgently corrected and why the unrealistic implementation timeline must be extended.

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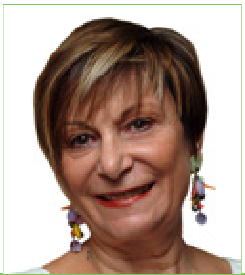

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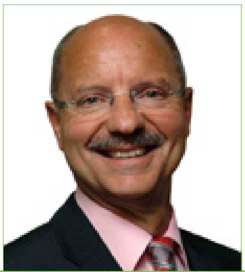

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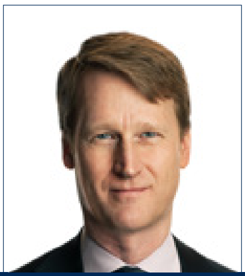

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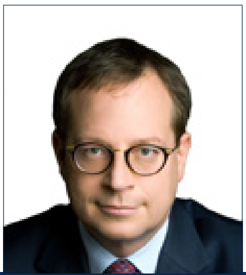

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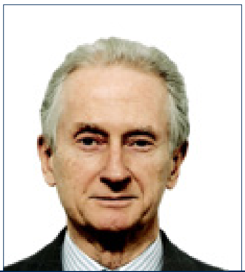

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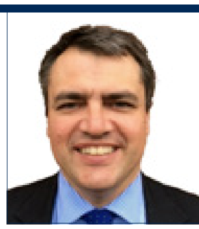

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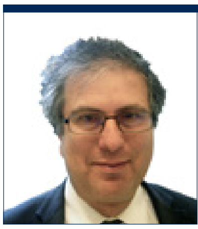

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Insurance Europe's Annual Report 2015–2016 is available on the Insurance Europe website: www.insuranceeurope.eu

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