Position Paper

Insurance Europe comments on EC consultation on covered bonds in the European Union

Our reference:	ECO-LTI-16-001	Date:	6 January 2016
Referring to:	EC consultation on covered bonds in the European Union		
Related documents:	Consultation document from the European Commission		
Contact person:	Ecofin department	E-mail:	Ecofin@insuranceeurope.eu
Pages:	2	Transparency Register ID no.:	33213703459-54

Key messages

Insurance Europe welcomes the opportunity to provide comments for the European Commission consultation on covered bonds. Insurance Europe understands the efforts by the Commission to make covered bond markets more efficient and it welcomes the recognition that covered bonds have remained resilient under stressed conditions and are a countercyclical source of funding.

Insurers are the largest European institutional investors, with almost €10tn of assets under management at the end of 2014. Access to a wide range of suitable investments, which can match liability-driven needs, is key for the insurance industry. Members of Insurance Europe identified covered bonds as an important asset class for insurers across Europe and the following points have been noted:

- Covered bonds represent attractive assets, not least because of the dual-recourse and safety characteristics of the assets, the very good historical credit performance and the cash flow and maturity profiles.
- In a number of markets, covered bonds represent good substitutes for government bonds. This is the case for markets in which, especially for longer-term maturities, there is no sovereign bond market available. In such markets, the zero default performance of covered bonds reinforces the perception that they can be used as proxies for sovereign debt.
- In at least one market, covered bonds comprise the bulk of the best practice valuation curve for long term liabilities.

Insurers have over recent years operated as investors in covered bonds in many European countries, which have in fact succeeded in establishing sound regulated covered bond markets. As recognised by the consultation paper, the legislative frameworks in European jurisdictions have developed in often very significantly different

Insurance Europe aisbl
Rue Montoyer 51, B-1000 Brussels
Tel: +32 2 894 30 00 • Fax: +32 2 894 30 01
E-mail : info@insuranceeurope.eu
www.insuranceeurope.eu

ways, not least because of differences in mortgage markets, housing policies, insolvency laws, regulations on credit and valuations, etc. It is in the best interest of investors and their objectives that any initiatives by the Commission do not disrupt these well-functioning markets.

Insurance Europe notes that cross-border investment in covered bonds is already taking place to a significant extent, despite the differences in legislative frameworks. While insurance companies agree that, in some cases, harmonisation could encourage and facilitate additional cross-border investment, they also recognise that they appreciate the diversity of the covered bonds markets. Most importantly, insurers would definitely not support the facilitation of more cross-border investment at the cost of losing important features of existing national regimes.

Generally, Insurance Europe agrees that a more integrated covered bond market could bring advantages for market participants. The benefits and the level of achievement largely depend on the regulatory approach and the instruments chosen. Insurance Europe strongly appreciates that the Commission is trying to avoid any adverse impact on the existing national covered bond regimes. There are various reasons for not changing the covered bond regimes that are well established. Harmonisation, for example via far-reaching EU legislation, triggering adaptions, amendments or recasting of existing national covered bond legislations could produce unintended consequences, damage well-functioning covered bond instruments and neutralise any potential benefits of the initiative.

Against this background, members of Insurance Europe have raised concerns about EU legislation aimed to harmonise the covered bonds markets and highlighted a number of challenges that any initiative or objectives set by the Commission should address, including:

- Avoid interference with existing legal frameworks in member states in the area of insolvency law or data protection, which are key elements in the assessment of a covered bonds framework.
- Avoid interference with existing local mortgage markets, which in many cases have developed in strong connection to the covered bonds market.
- Avoid a watering down of existing and strong covered bond regulations and quality standards. Given that "strong" regulations are often very different regulations, it is difficult to imagine a new framework that achieves a single outcome of comparable value.
- Ensure that any changes of the coved bond legislation are beneficial for covered bond investors and do not contradict their business model.
- It should be carefully considered whether it is feasible and appropriate to harmonise ratios and components.

Any actions from the Commission that would aim to enhance convergence should therefore reflect the achievements of market-led initiatives. Furthermore, uncertainty over the future of local covered bonds market would risk disincentivising insurers from continuing to play the significant investment role that they currently play in these markets.