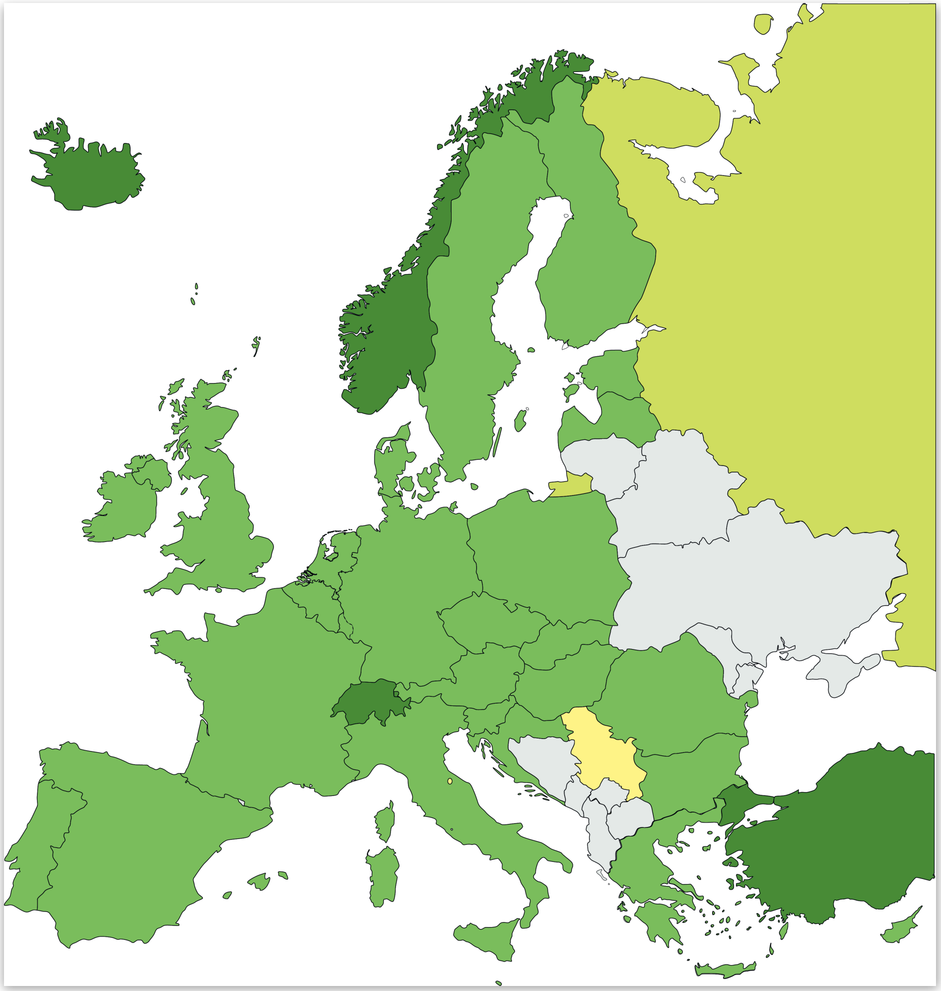
Olav Jones, Deputy Director General

Rome, 13 December 2014

Insurance Europe - the (Re)Insurance Federation



- Insurance Europe represents around 95% of European insurance market by premium income
- Insurers, Reinsurers, Mutuals
- European insurance market: largest market in the world (35% share in 2013)
- 34 members (national associations)
  - **27 EU member states**
  - **5 non-EU markets** *(Switzerland, Iceland, Norway, Turkey, Liechtenstein)*
  - **2 associate members** *(Serbia, San Marino)*
  - **1 partner** *(Russia)*

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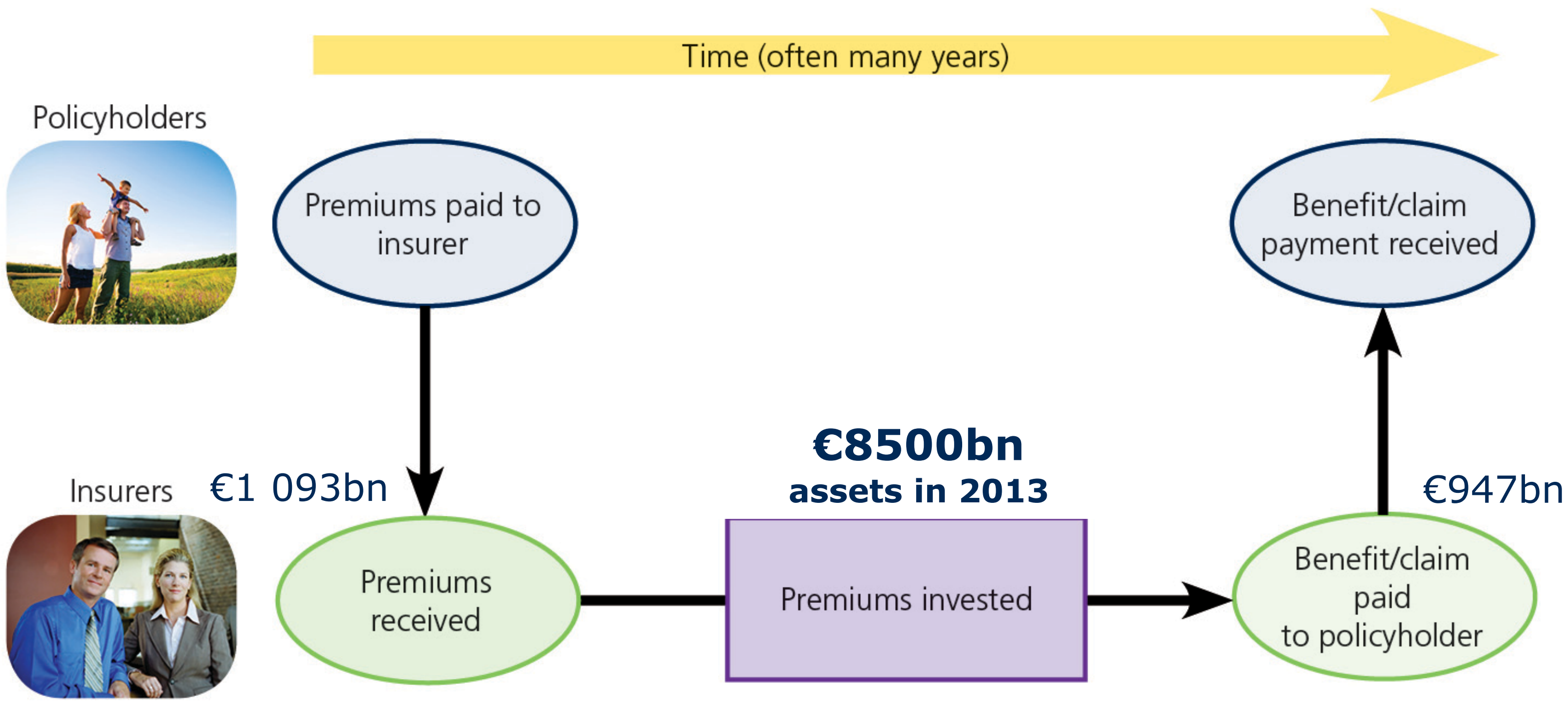
Investing is a consequence of our business model …

- Investment is core to the provision of insurance products but is **driven by the nature of our liabilities and our need to match our liabilities**



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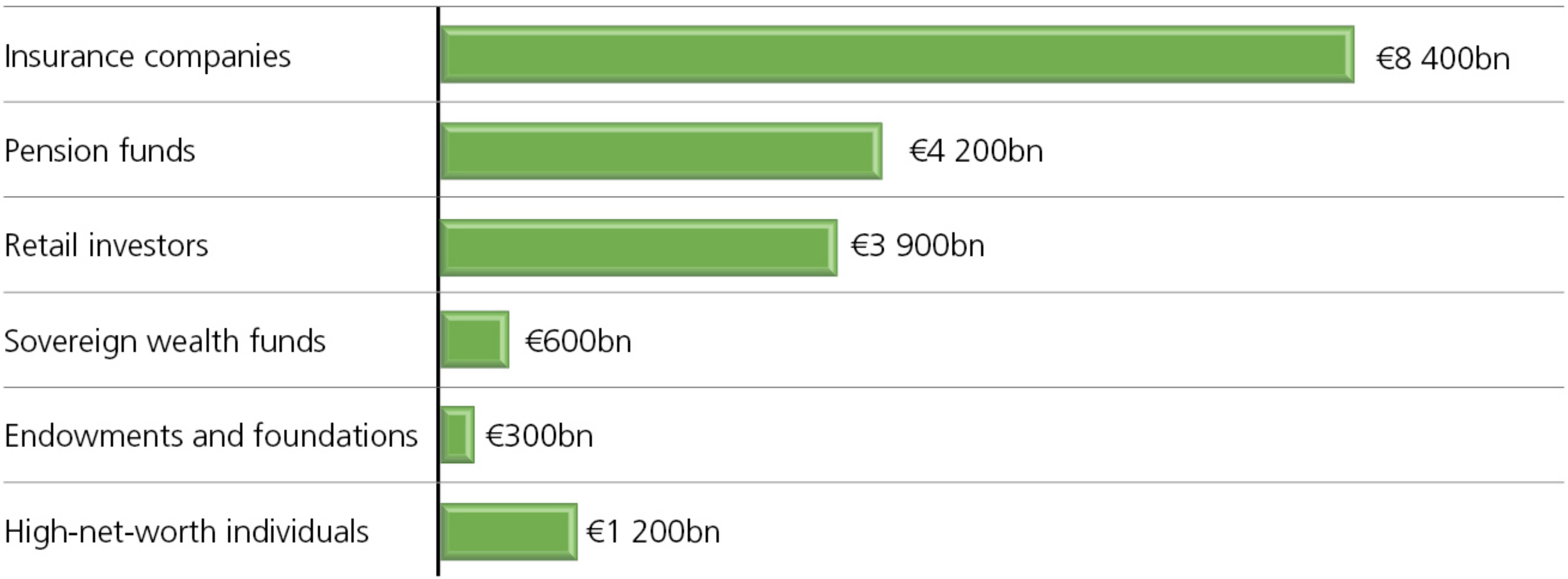
...and results in our role as being Europe's largest institutional and long-term investor

European institutional assets under management — 31 December 2012



Sources: Insurance Europe, OECD, EFAMA, SWF Institute, Forbes

...in addition to our central role of providing protection

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Long-term Investment: We welcome the new Commission's focus on investment and growth

- Provides opportunity to consider in a wider context the industry's long-term investment objectives and Europe's investment needs

- Explore solutions to enable insurers to maintain and grow their role in providing long-term financing

- We recognise the interest in asset classes which can have the most immediate impact on growth
  - Infrastructure investments (equity, bonds, Project Bonds, PPPs)
  - Securitisations
  - SME investments (equity, bonds, private placement)

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Steps to unlocking insurers' potential capacity to invest in real economy

1 **Maintain/grow inflow of premiums for investment**

- We can only invest if we get premiums –eg policymakers need to think carefully before removing incentives to save - eg tax incentives

2 **Improve supply and access to suitable assets …**

3 **Avoid and remove regulatory disincentives**

2) Barriers to supply and access to suitable assets

Emerging views on barriers …

- Adequate supply
  - Lack of sufficient deal flow of suitable infrastructure projects
  - Need for an identified infrastructure asset class
  - New initiatives should avoid heterogeneous fund structures and crowding-out of institutional investors
- Accessibility
  - Complex and lengthy procurement processes
  - High initial acquisition costs
  - Lack of standardised disclosure, transparency and due diligence requirements
  - Concentration risk and deal size
- Risk/return features
  - Uncertainty and political risks of government interference
  - Lack of distinction between the different stages of infrastructure investment (brownfield vs greenfield)

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3) Avoidance/removal of regulatory disincentives

- Good regulation is important for a healthy industry

- A raft of regulatory changes can affect insurers' investment behaviour, including:
  - Prudential (Solvency II)
  - Accounting (IFRS 4 Phase 2/IFRS 9)
  - Derivatives (EMIR)

- Regulation and design of the supply side is also key

- Regulations must take into account the distinctive characteristics of the insurance industry

Solvency II calibrations of long-term investment are too high compared to the real risks

- Strong support of a risk-based approach, but vital to measure based on the true economic risk exposure

- Despite improvements, SII still assumes insurers act like traders and are faced with same risk as traders – still undervaluing how long-term liabilities can reduce exposure to market volatility

- Example 1: capital charge for 5 year AA high-quality securitisation

Original Calibration (QIS5)	80%
EIOPA proposal (end-2013)	42.5%
Final calibration (Sept. 2014)	**15%**
Actual default during entire crisis period	0.14%

Spread-risk approach

Default-risk approach

- Example 2: capital charges for infrastructure

Infrastructure equity *(treated same as hedge funds)*	**49%** (+/- 10%)

Infrastructure 25year bond AA (treated same as corporate bond)	**16%**
Worst level of actual defaults in crisis period for AA corporate Bonds	0.38%

Spread-risk approach

Default-risk approach