INSURANCE IRELAND

INSURANCE IRELAND IN EUROPE

2018

INSURANCE IRELAND IN BRUSSELS

Insurance Ireland is the Voice of Insurance representing the Irish general insurance, health insurance, life assurance, reinsurance and captive management sectors. The Irish insurance industry employs approximately 28,000 people both directly and indirectly with one in four jobs in financial services being in insurance.

There is a compelling strategic rationale for the Irish insurance industry to enhance its position as a constructive stakeholder in European discussions on regulatory and other matters. As the Irish insurance sector is predominately a European insurance hub servicing EU markets, it is supported by the benefits of being a committed EU member. Having such a market dynamic, Insurance Ireland opened a Brussels office in 2018 to enhance its support to its more than 130 members and to facilitate greater engagement with key stakeholders in Europe.

The move reflects the importance of European regulation for all aspects of insurance in Ireland and Ireland's position as a hub for international insurance, with the Irish cross border sector writing business into more than 110 countries with over 25 million customers. More generally, the move emphasises the Irish industry's commitment to Europe at an important juncture.

Kevin Thompson
CEO
Insurance Ireland

Florian Wimber
Head of European
Affairs and International
Insurance

Contact our new Office in Brussels:
Insurance Ireland
51, Rue Montoyer
B-1000 Brussels

Phone: +32 2 896 02 06
Email: brussels@insuranceireland.eu

SOLVENCY II

The European prudential supervisory regime, Solvency II, has applied since 2016. The regime will be subject to a number of (partial) reviews in the coming years. At the end of 2018, the European Commission (EC) should publish a report regarding the delegated acts on the methodology to determine the capital position of an insurer. In 2020, specific measures will be assessed, which were introduced to answer the procyclical effects of the basic regime unveiled during the financial crisis. The third review is the comprehensive full review of the system in 2021. Due to the tremendous impact these reviews have and the complexity of the Solvency II system, including the interlinkages between the different components, all three are already being discussed in parallel.

For the Irish insurance industry, it is important that none of these reviews leads to a change in paradigm of Solvency II. The enormous efforts necessary for the development and implementation of Solvency II require continuity under all circumstances. A structural change would need to be based on clear and indisputable evidence.

However, the system leaves room for improvement. Solvency II sets unnecessary incentives for short-term rather than long-term business – a fundamental contradiction of the insurance business model. Furthermore, some of the calibrations are overly prudent and should be more sensible (e.g. regarding risk margins). This aspect will be particularly important as there is a strong push from supervisors to excessively increase the prudence of the system (e.g. by limiting the capital impact of deferred taxes). Finally, the system is presenting an ultimate regulatory burden, particularly for small and medium sized entities (SMEs). Currently, even more regulatory requirements on macro-prudential supervision are discussed which will increase the burden. A more consistent application of the principle of proportionality is indispensable. Only a sensible design of the regulatory framework for SMEs ensures market diversity and consumer choice.

“Only a sensible design of the regulatory framework for SMEs ensures market diversity and consumer choice.”

ESA-REVIEW

In autumn 2017, the European Commission (EC) published a proposal to review the regulations establishing the European Supervisory Authorities (ESAs). The three authorities – EIOPA for insurance and pensions, ESMA for financial markets and securities, as well as EBA for banking – took up their work in 2011. Since then, all three have evolved differently. To allow for a sensible design of the mandate of each of the ESAs, it is important that each of the ESA Regulations is assessed separately. We appreciate that the EC follows a **differentiated approach in its review proposal.**

We strongly believe that the cornerstone for EIOPA's success is the supervisory convergence in the European insurance market. Supervisory convergence does not mean that European insurers are supervised by a single European authority but that **NCAs apply the regulatory framework consistently, their supervisory practice is coordinated and that there is a common understanding of the rules.** The EC and the European Parliament (EP) Rapporteurs emphasised this system by proposing a mechanism for the involvement of EIOPA on request by one or more affected NCAs. This mechanism should be rolled out consistently to all relevant fields of activity, i.e. cross-border supervision, dispute settlement etc.

We strongly believe that the review of the EIOPA regulation should ensure that EIOPA has the **right mandate, powers and structures to facilitate the function** described above. We support the EC and the EP Rapporteurs in their intention to clarify EIOPA's mandate, e.g. on the use of opinions and Q&As. A broader mandate and power always have to be reflected by appropriate accountability and control mechanisms, and we consider the proposals to enhance these mechanisms to be important.

It will be the key challenge of the next months and years to overcome the present "teething troubles" and to grow confidence in and reliability of the European supervisory system of cross-border cooperation of NCAs.

> "It will be the key challenge of the next months and years to overcome the present "teething troubles" and to grow confidence in and reliability of the European supervisory system of cross-border cooperation of NCAs."

PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP)

The EC presented a proposal for a regulation on a pan-European personal pension product (PEPP) last summer. Currently, the EP and the Council are negotiating their respective positions. PEPPs should be simple, comprehensible and reliable pension products and should be available throughout the Union. Insurance Ireland supports the initiative. Private provision of pensions is becoming more and more of an imperative for governments and consumers and we welcome new ways of supporting long term financial planning.

Irish insurance providers are better placed than many to offer this product. They have a tradition of innovation in product design and offer highly flexible unit-linked products. They have significant experience of providing insurance investment products cross-border. Whilst the Irish domestic market is well served by a range of pension offerings, there is a very mobile workforce with young people coming from other EU counties to work in Ireland for whom portability may be a priority.

Irish providers may capitalise on this experience to make PEPPs available in other markets. However, the challenges of delivering on certain aspects of the proposal should not be underestimated (e.g. the requirements for compartments in relation to each market and the wide range of social and taxation regimes). Market insight and experience are not only crucial for the PEPP provider but for the authority registering the PEPPs as well. We strongly believe that NCAs should be tasked with this process. We consider it important that EIOPA takes a strong role in supporting and coordinating the work of the different NCAs.

We strongly support the availability of different options, in particular for the decumulation phase. However, certain product features will require a more differentiated approach for some of the rules. Particularly the provision of guarantees and annuity options could otherwise harm the consumer’s interest unnecessarily.

“Irish insurance providers are better placed than many to offer this product.”

MOTOR INSURANCE DIRECTIVE (MID)

In May 2018 the EC published a Proposal for a Directive amending the Motor Insurance Directive (MID).

Among other amendments to the MID, the EC proposes that in cases of an insolvency of a motor insurer which has been active under the freedom to provide services, the scheme of the EU Member State of the head office of the insurer ("home scheme") should be responsible for any claims. The scheme of the country where the affected individual is located ("host scheme") shall cover the claim, first, and then take recourse against the home scheme.

Important aspects of the proposed recourse mechanism between guarantee schemes seem to have not been fully considered. First, it is indispensable to note that the case of an insolvent insurer is very different from the case of uninsured driving – the case the MID originally catered for – and organised differently (e.g. regarding contributions). Second, the limited harmonisation of EU insolvency laws will lead to conflicting situations in the determination of the payment of claims (e.g. due to the hierarchy of obligations). Third, the question how cases which lead to an on-going payment obligation are handled remains fully unanswered. These issues only present examples. Based on the observed shortfalls and unanswered questions, we consider the proposal to be premature. Further consideration and assessments are indispensable to avoid consumers being left in an insecure situation.

The second issue is the widening of the scope of the MID to accidents irrespective of where they occur. Recent rulings by the European Court of Justice (ECJ) require the EC to clarify the "use of vehicles" as part of the definition within the MID. We are very concerned that this widening of the scope would lead to a significant increase in fraudulent claims (i.e. for accidents happening on private property). Furthermore, enforcement of compulsory motor insurance will be undermined because it is impossible to effectively enforce an insurance requirement for vehicles on private land. In its impact assessment, the EC provided for a sensible solution ("Option 3"). It is unclear, why the EC diverted from this approach.

> "Important aspects of the proposed recourse mechanism between guarantee schemes seem to have not been fully considered."

SUSTAINABLE FINANCE

In May 2018, the EC also published its sustainable finance package. The aim of the initiative is to strengthen responsible and sustainable investments by European financial services companies. The initiative consists of four main elements: a framework or taxonomy on what sustainable investments are, a disclosure regime for financial services entities, rules which prescribe the inclusion of sustainable finance preferences in the advice process of retail investors and a proposal for a low-carbon benchmark. The initiative builds-up on the work of the European institutions' initiative on environmental, social and governance (ESG) transparency.

Insurance Ireland greatly welcomes the initiative. The Irish government and financial services companies are making huge efforts to develop the Sustainable Nation Ireland initiative and the associated Sustainable & Responsible Investment Forum. Only recently, Irish efforts on this issue were honoured by the UN setting up its green finance hub for Europe in Dublin. Irish insurers already run internal policies on responsible and sustainable finance. The respective measures include the avoidance of certain asset categories or exposures to certain investments as well as the responsible use of ownership rights.

The proposed taxonomy is a logical next step towards a common framework on sustainable finance. It is crucial that this step is taken before other policies like the disclosure elements are ratified. Otherwise companies face the risk that products and policies developed today might not be eligible with the future taxonomy. Insurance Ireland urges the EP, the Council and the EC to develop the taxonomy first and then build-up on the harmonised system. To not lose momentum and to support sustainable investment policies, the institutions should develop minimum standards about the reporting of current (best) practices. Such an approach does not only avoid the need to reveal measures already taken before the taxonomy is developed but also supports the quality of future standards.

> "Irish insurers already run internal policies on responsible and sustainable finance."