



The European Federation of Insurance Intermediaries  
La Fédération européenne des intermédiaires d'assurances

## POSITION PAPER

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# **European Commission's communication for the Spring European Council *Driving European recovery***

## ***Volume I***

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### **BIPAR, the European Federation of Insurance Intermediaries**

is a non-profit European organisation grouping professional associations of insurance intermediaries in Europe. It presently has a membership of 47 national associations, established in 31 countries, and represents some 80,000 insurance agents and brokers, employing in all about 250,000 people.

Founded in Paris in 1937, BIPAR has been established in Brussels since 1989. It is today the official and recognised voice of insurance intermediaries with the European Institutions.

## I. Introduction

1. Against the background of the current situation in the financial markets, BIPAR welcomes the initiative of the European Commission of a plan which aims to deal with the current financial crisis and to prepare for recovery. BIPAR agrees that there is a need to place Europe's internal efforts in the wider context of international initiatives. In a globalised world of financial services, actions in the field of financial regulation and economic recovery should be coordinated at global level.
2. For initiatives which will have an impact, be it directly or indirectly, on insurance intermediaries, BIPAR, the European federation of insurance intermediaries remains at the disposal of the policymakers as a single contact point and single voice to provide its contribution to the debate with the European policymakers. For the international aspect, BIPAR will coordinate its positions and opinions with WFII, the World Federation of Insurance Intermediaries (grouping national associations of insurance intermediaries from around the world) who will provide its contribution in the debate with international institutions.
3. While BIPAR recognizes the need for EU initiatives for revising the European supervision of the financial services sector based on the recommendations in the "de Larosière" report, it strongly requests that the proposed solutions take into consideration the specificities of the insurance sector.
4. Although we are strong supporters of regulatory level playing fields, solutions designed to solve problems in the banking or investment industry should not automatically apply to insurance as this would not necessarily have the desired effects and could impose restrictive and expensive unnecessary burdens on our sector.
5. In this respect, in its "Follow-up Response to the G20 Washington Action Plan of 13 February", IAIS, the International Association of Insurance Supervisors, writes that "insurance differentiates itself from the other financial sectors by its business model based on an "inverted cycle of production". According to the IAIS this means that "the product- the contractual promise to pay an agreed amount should a particular event occur in the future- is sold at a price, the insurance premium, which has to be estimated before knowing the actual cost of the product, which depends on probabilities of occurrence of future events. The cost of the product should be estimated adequately based on statistics, hence the core importance of adequately assessing technical provisions which reflect such cost i.e. insurers' liabilities towards their policyholders. The insurer's ability to fulfil its liabilities towards policyholders will then depend on the availability of adequate assets. Thus the core prudential requirements in the insurance sector include the establishment of adequate technical provisions, requirements on investments (asset-liability matching along with investment policy, asset mix, valuation, diversification, and risk management), and capital adequacy requirements that enable the insurer to absorb significant unforeseen losses".

## **II. Restoring and maintaining a stable and reliable financial system**

6. We agree that a stable financial sector is a prerequisite for building sustainable recovery. We note in this respect that in the insurance sector there has been a whole series of initiatives launched since the adoption of the Financial Services Action Plan. Many of these initiatives have had positive effects and we would encourage, where necessary, corrections or improvements rather than new regulatory initiatives. Some of these initiatives have only been implemented (such as the Insurance Mediation Directive) recently and need time to be properly assessed before introducing changes.
7. A prerequisite for a stable financial system, in particular in times of crisis, also means stable legislation that is based upon the principles of "better regulation". Even in times of crisis, in particular in times of crisis, every new or change in regulation should be based upon cost/benefit and impact assessments. Hasty decisions could lead to unwanted side effects with effects in terms of extra costs for the operators and the economy. All potential side effects also on sub-sectors should be carefully considered.

### **➤ Supervision**

8. BIPAR welcomes the Commission proposed European financial supervision package. BIPAR believes that the principal task of all insurance supervisory authorities is to establish a means of ensuring high standards of financial soundness and conduct of all insurers under their supervision. The main objectives of such measures are to provide a high degree of security to the policyholders and to maintain the confidence in the industry. The role of supervision by or on behalf of the state is to ensure that insurance companies are able at any moment to fulfil their obligations and that the interests of the policyholders are sufficiently safeguarded. According to BIPAR it is of vital importance to customers that insurers are financially secure and able to meet all valid claims. The supervisors should have at any time a clear view on the obligations and investments of insurers.  
BIPAR is of the opinion that the supervisors should have adequate powers and financial resources to perform its functions and exercise its powers.
9. In this respect we welcome the initiative announced in the Communication "to provide the EU with a supervisory framework that detects risks early and meets the challenge of complex international financial markets".
10. We refer to another section in the above mentioned IAIS paper where it says that "The financial crisis has highlighted particular issues and challenges in the context of group supervision".
11. Priority should be given to measures, which anticipate an insurer's insolvency, based on the effectiveness of prudential standards and supervisory requirements and supervisors should take quick action when necessary to minimise the harm to public. In this respect we welcome the initiative of the announced "White paper on tools for early intervention to prevent a crisis".
12. BIPAR is also of the opinion that any future system should ensure that the supervisory system does not lose the contact with the reality of the market and of the individual operators.

➤ **Good Governance**

13. According to BIPAR, the *financial integrity* of an insurance company also depends on the quality of management and the availability of properly functioning internal control and risk management systems.

➤ **Policyholder protection mechanisms**

14. We believe that it should also be recognised that, in a competitive market, failures can occur and it is the responsibility of regulators/supervisors and governments to remove financially impaired companies quickly from the market in order to minimise damage to policyholders, the public and the insurance industry in general.
15. The future Solvency II framework will not provide a zero-failure environment. BIPAR believes that there should be a mechanism in place to protect private policyholders in the event an insurance company becomes insolvent, in particular in the framework of cross-border activities. Such a mechanism would act as an additional layer of policyholder protection in the event of company failure. These mechanisms are also important in helping to maintain consumer confidence in the sector.
16. The mechanism can take the form of a guarantee fund, a policyholder protection scheme, or another mechanism entirely funded by insurance companies authorised to do business in the jurisdiction. Regulators and supervisors, should, however, ensure that the existence of such a mechanism has no effect on the quality of their supervision and rules on solvency.

➤ **International co-operation**

17. Against the background of a highly globalised financial and insurance market, BIPAR is of the opinion that an efficient and regular cooperation between supervisory bodies, both within the insurance sector and across the financial services sectors, is critical in order to ensure the effective supervision of internationally active insurers, insurance groups and financial conglomerates. With reference to what was said above, the specificities of insurance should, however, be taken into consideration.
18. It is BIPAR's opinion that international cooperation between insurance supervisors can contribute to a better functioning of the market.
19. BIPAR agrees that there is a need to place Europe's internal efforts in the wider context of international initiatives. Further balanced liberalisation, in preference multilaterally, of insurance and insurance intermediation markets is in our opinion necessary in the context of economic recovery.

➤ **State aid**

20. With regard to state-aid, we call upon policymakers to take into consideration level playing fields and potential unintended side effects of governmental interventions. Although the stability of the market and the consumer protection should prevail, appropriate safeguards should be put in place to limit the distortion of competition to the greatest extent possible.

➤ **Communication on retail investment products**

21. We hope that the announced Communication on retail investment products will be taken as an opportunity to consult further the industry.

➤ **Rating agencies**

22. Rating agencies play an important role in the insurance sector. This role may become more important under the Solvency II regime. In order to reinforce the trust in those agencies we would support an effective regulatory framework for rating agencies.

### **III. Supporting the real economy**

23. We would want to reiterate that the sector of insurance intermediaries is populated by mainly SME type of operations who together employ many thousands of employees spread around Europe.

24. Insurance intermediaries serve private clients and business clients in all sectors of the economy and of all size. Insurance intermediaries serve in most markets around Europe over 60% of the consumers and over 80% of business for their insurance needs.

25. We therefore welcome the announced policy under the heading of supporting the "real economy" in terms of employment and we welcome the fact that the importance of SMEs is highlighted in the paper.

26. BIPAR remains at the disposal of the EU policymakers and looks forward to contribute in more details to the discussions about measures announced in the Communication entitled "Driving European recovery".