Europese benadering van marktdenken

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Pensioenseminar 2019

Maastricht, 28 Januari 2019

Insurance Europe

Who?	▪ European insurance and reinsurance federation, founded in 1953
What?	▪ Represents around 95% of European insurance market by premium income
Why?	▪ Committed to creation of favourable regulatory and supervisory framework for insurers at European and international level.

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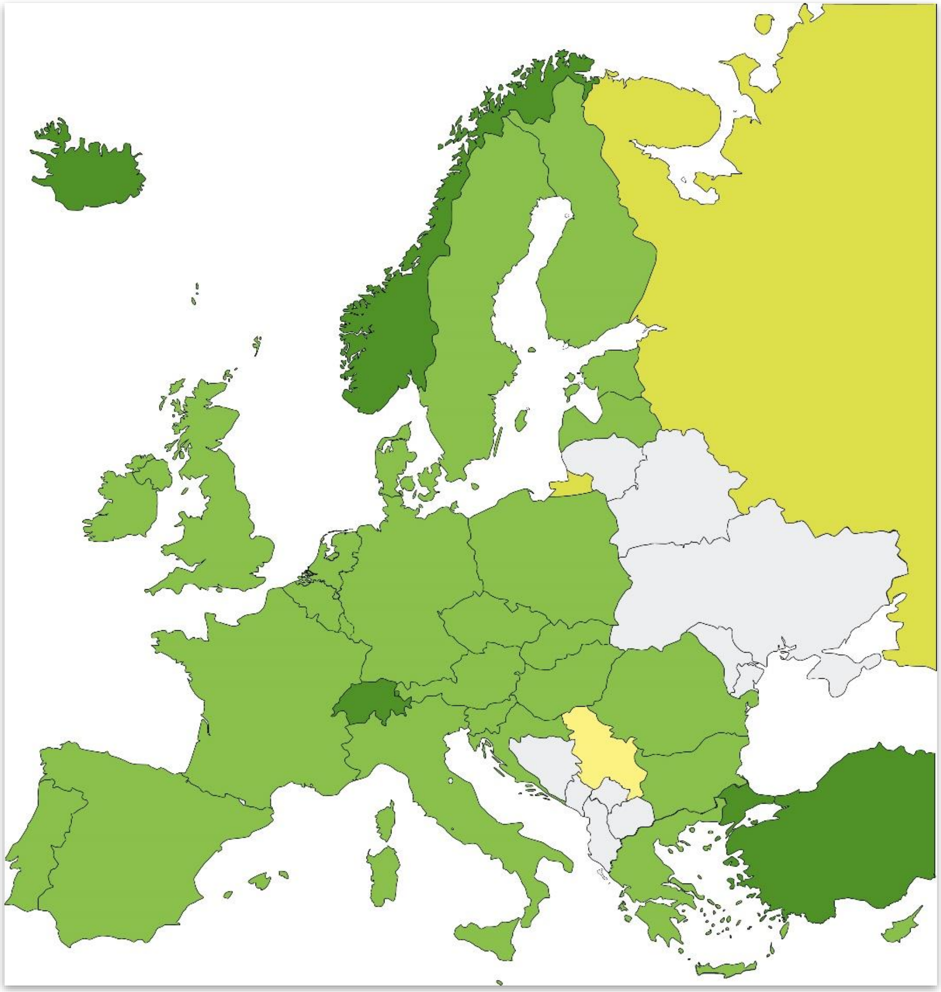
Members



34 national associations

27 EU member states

5 non-EU markets

Switzerland, Iceland, Norway, Turkey, Liechtenstein

1 associate member

Serbia

1 partner

Russia

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Contribution to the economy

Insurance Europe represents around 3 400 European (re)insurers, which:

- generate premium income of more than €1 200bn
- directly employ over 950 000 people
- invest over €10 100bn in the economy

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1. Diversity in the EU pension landscape

- EU pension savings availability/affordability

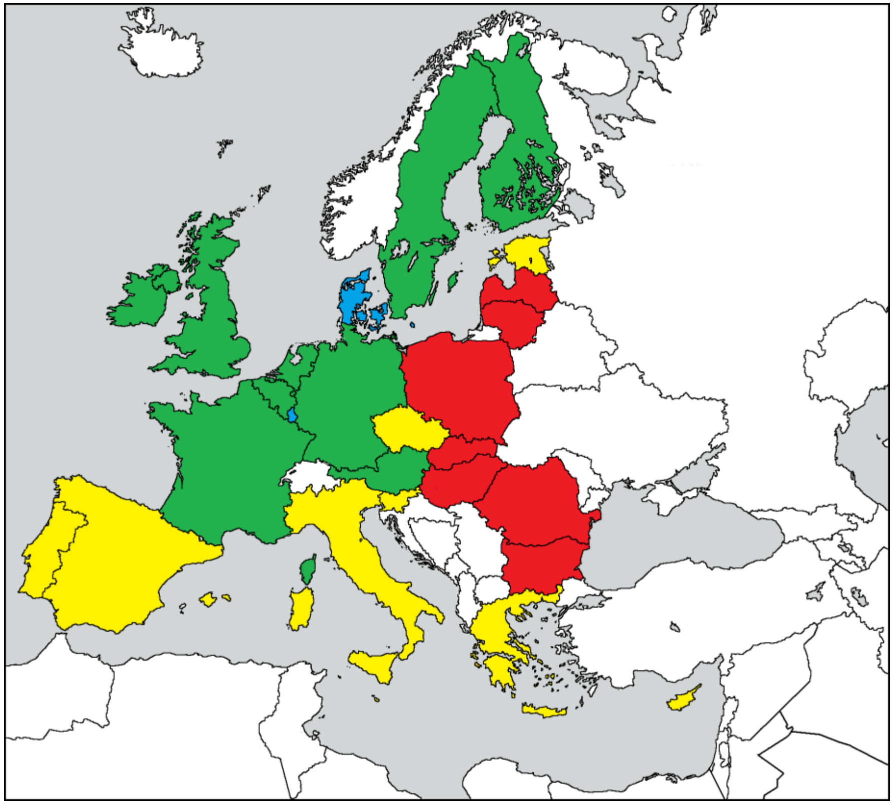
€ Net average monthly salary (after tax)

< 800 €
BG, RO, HU, LT, LV, PL, SK, HR

< 2000 €
CZ, EE, ES, GR, PT, MT, SI, CY, IT

< 3000 €
AT, BE, UK, FR, NL, DE, IE, SE, FI

> 3000 €
LU, DK



Source: European Commission, Eurostat

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1. Diversity in the EU pension landscape

- Effective years after labour market exit in 2016

Men	NL	DE	FR	DK	SE	IT	ES	CZ	HU
Effective age of retirement	63.5	63.3	60.0	63.7	65.8	62.1	62.2	62.5	63.6
Life expectancy at retirement	83.4	82.8	83.6	82.8	84.5	83.9	83.8	80.5	79.2
Effective years in retirement	19.9	19.5	23.6	19.1	18.7	21.8	21.5	17.9	15.6

Women	NL	DE	FR	DK	SE	IT	ES	CZ	HU
Effective age of retirement	62.3	63.2	60.3	63.1	64.6	61.3	62.6	60.8	60.7
Life expectancy at retirement	85.9	85.8	87.8	85.3	86.5	86.9	87.9	83.9	82.6
Effective years in retirement	23.6	22.6	27.6	22.2	21.9	25.6	25.3	23.1	21.9

Source: OECD, Pensions at a Glance 2017, p129

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1. Diversity in the EU pension landscape

- European pension provision is highly diverse.
  - Net pension replacement rates (for average earner)(%)

NL	DE	FR	DK	SE	IT	ES	CZ	HU
100.6	50.5	74.5	80.2	54.9	93.2	81.8	60.0	89.6

Source: OECD, Pensions at a Glance 2017, p107

  - Breakdown of gross replacement rate (for average earner)(%)

	NL	DE	FR	DK	SE	IT	ES	CZ	HU
Total	96.9	50.9	60.5	86.4	55.8	83.1	72.3	45.8	58.7
Mandatory Public	28.7	38.2	60.5	14.8	36.6	83.1	72.3	45.8	58.7
Mandatory Private	68.2	-	-	71.6	19.2	-	-	-	-
Voluntary	-	12.7	-	-	-	-	-	-	-

Source: OECD, Pensions at a Glance 2017, p103

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1. Diversity in the EU pension landscape

- European supplementary pension provision is also highly diverse.
  - Coverage of supplementary pension (%)

	Occupational pension	Personal pension
NL	88.0	28.3
DE	57	33.8
FR	24.5	5.7
DK	63.4	18
SE	<70	24
IT	9.2	11.5
ES	3.3	15.7
CZ	N/A	52.6
HU	..	18.4

Source: European Commission, Pension Adequacy Report 2018, p79

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1. Diversity in the EU pension landscape

- Diversity of actors involved in the provision of private pensions:
  - pension funds, insurers, banks, asset managers

- Complex regulatory framework
  - Regulated either at EU level and/or at national level
  - Legislation either based on:
    - The provider (**Solvency II, IORP II, UCITS…**)
    - The product/scheme (**PRIIPs, PEPP…**)
    - The activity (**IDD, MIFID…**)

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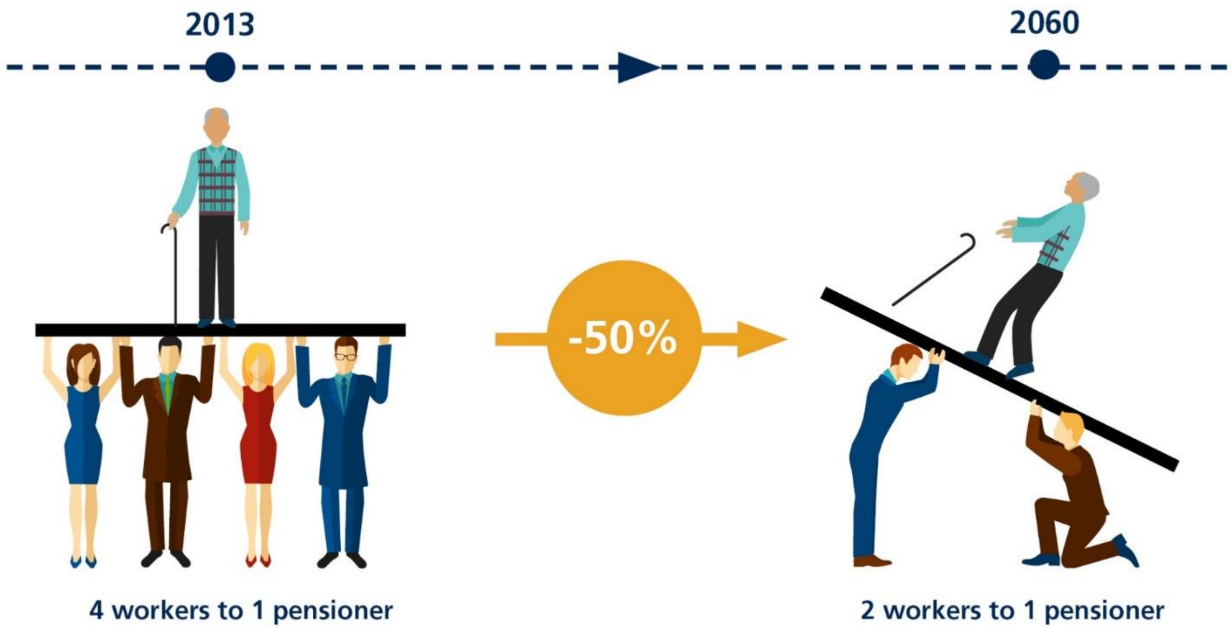
2. Important trends (I) - demography

- Demographic change
  - Europe's old-age dependency ratio is expected to double between 2013 and 2060



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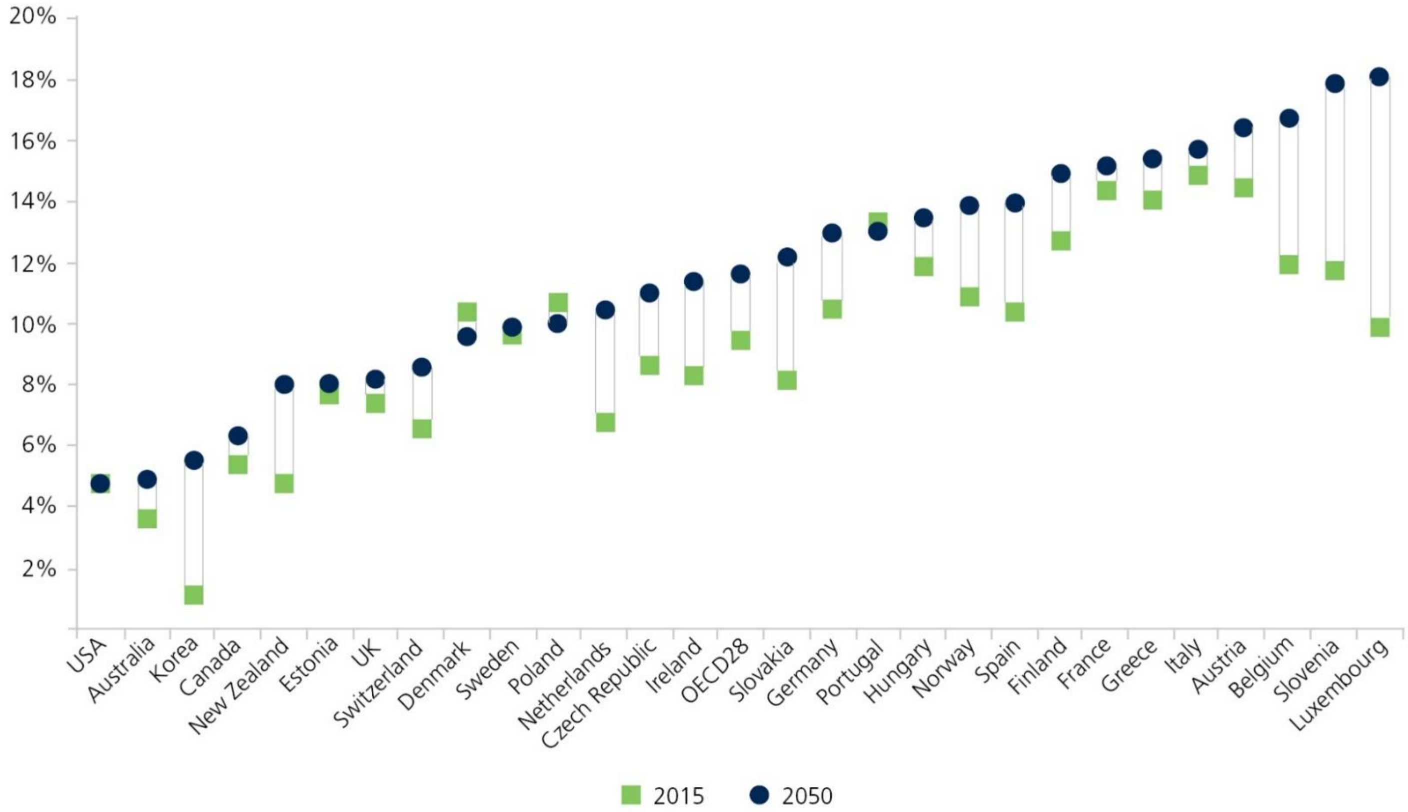
2. Important trends (I) - demography

- Budgetary constraints

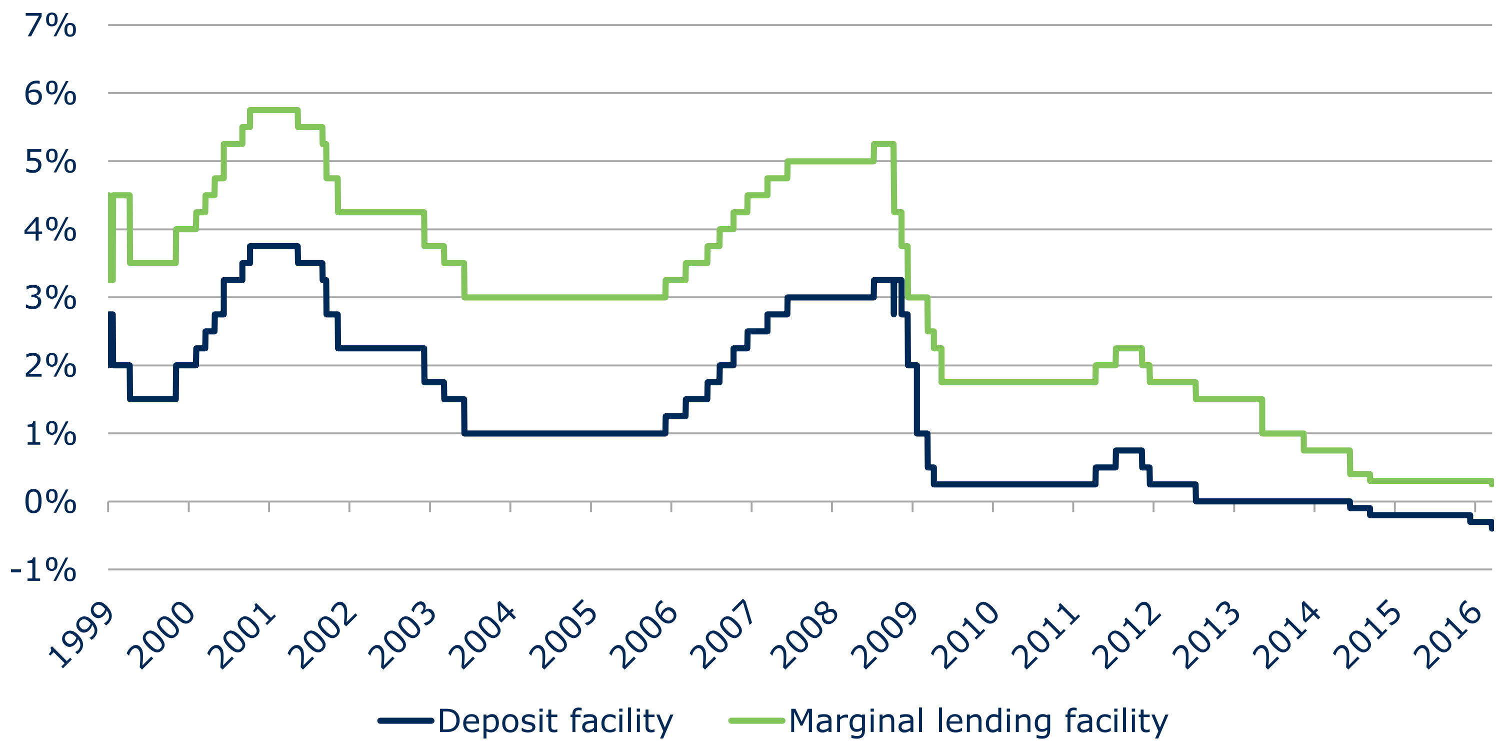
Estimated government pension payments as a % of GDP — 2015 to 2050



Source: Citi, The Coming Pensions Crisis, 2016

2. Important trends (II) - low interest rate

- European Central Bank interest rates



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2. Important trends (II) - low interest rate

- Effects on pension provision
  - Asset side
    - Reduced investment return in DB, DC and personal pension
    - Reduced guarantees offered by DB and personal pension products
    - Forcing members of DC plans to take additional investment risks
  - Liability side
    - Reduced discount rate, leading to increased liability
    - More contribution needed from sponsoring companies of DB plans
    - Potentially, closing the schemes to new entrants, who will then be shifted to DC with no guarantee or will have no access to occupational pensions

2. Important trends (III) – Risk shifting

- From Public pension to Private pension
  - Reduced generosity of public pensions, leading to increasing role of supplementary pensions
- From DB to DC / From profit participation to unit-linked
  - Investment risk is increasingly and mainly shifted to the individuals
- From annuity to lump-sum
  - Longevity risk (and also investment risk) in decumulation phase is increasingly transferred to individuals
  - Various decumulation options in between

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3. Insurers' role in pension provision

Life insurers are an integral part of the pension landscape:

- Traditional insurance pension products play a key role in pension provision
  - Providing a **minimum return guarantee**
  - Using **risk-sharing mechanisms** such as collective pooling
  - Providing good **investment returns** by long-term investment and risk diversification

- Insurance pension products also cover **biometric risks** (longevity risk, mortality risk, morbidity risk)

- Insurers provide a range of options in **decumulation**
  - Available options include lifetime annuities, lump-sums or a combination of different products.

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4. Focus on Solvency II

- Solvency II: what it is
  - Harmonised prudential framework for European insurance firms
  - Fully applicable from 1 January 2016
  - Comprised of three pillars;
    - 1. Strong Solvency Capital, 2. Strong Risk Management, 3. Strong Disclosure Requirements
  - Covers all risks
    - About 30 different risks covered by Standard Formula
    - Nothing is “off-balance” sheet
    - Group and solo requirements
  - Two levels of capital allowing early supervisory intervention
    - “Target” SCR and real minimum MCR
  - Very high level of protection
    - 1 in 200 for Solvency Capital, but protection even greater in practice with other Pillars & powers of early supervisory intervention

4. Focus on Solvency II

- Huge cost…
  - The UK supervisor estimates SII has cost about 4bn Euros to implement for UK insurers alone
  - Costs make it especially difficult for smaller insurers

- While having enough capital is important, currently SII is very conservative particularly for long-term business…
  - Layers of “hidden” protection in calculation of SII liabilities – not widely known or understood
  - Treatment of insurers as if they are traders, instead of fully recognising ability to invest long-term and how this results in lower risks than trading risks

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4. Focus on Solvency II

- Solvency II: treatment of long-term business
  - Insurers’ business model allows insurers to **avoid forced sales of assets**
    - Predictable liability portfolios, policyholders have limited ability and/or dis-incentives to surrender early
    - Significant inflow of cash from premiums, dividends, rents, coupons, maturing bonds, etc creates significant liquidity
  - This gives insurers great deal of flexibility over **IF** they sell, **WHEN** they sell, **WHICH** assets they sell
  - Therefore **insurers can reduce or even eliminate exposure to price volatility** and short to medium term declines asset values
  - **Exposure to forced-sales** can and does exist but it is limited –it **must be covered by the framework but it also must not be exaggerated**

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5. Focus on consumer issues

- Consumer protection: Increased regulatory focus on…

  - **Pension information disclosure** (in particular: cost paid by the saver/member, performance, level of security) **and accessibility** (digitalisation)
    - ➢ Risk of information overload and duplication

  - Impact of **costs and fees** on pension benefit (transparency and pricing regulation).
    - ➢ Risk of oversimplification

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6. PEPP – A solution to the pension challenges?

- “Proposal for a Regulation a Pan-European Personal Pension Product”, July 2017

- According to Commission, PEPP Regulation aims to:
  - Complement national personal pension products;
  - Support national effort to close the “pension savings gap”;
  - Raise awareness on the need for individuals to prepare for their retirement.

- The PEPP Regulation to be adopted in the coming weeks?
- Will the PEPP Regulation meet the expectations?

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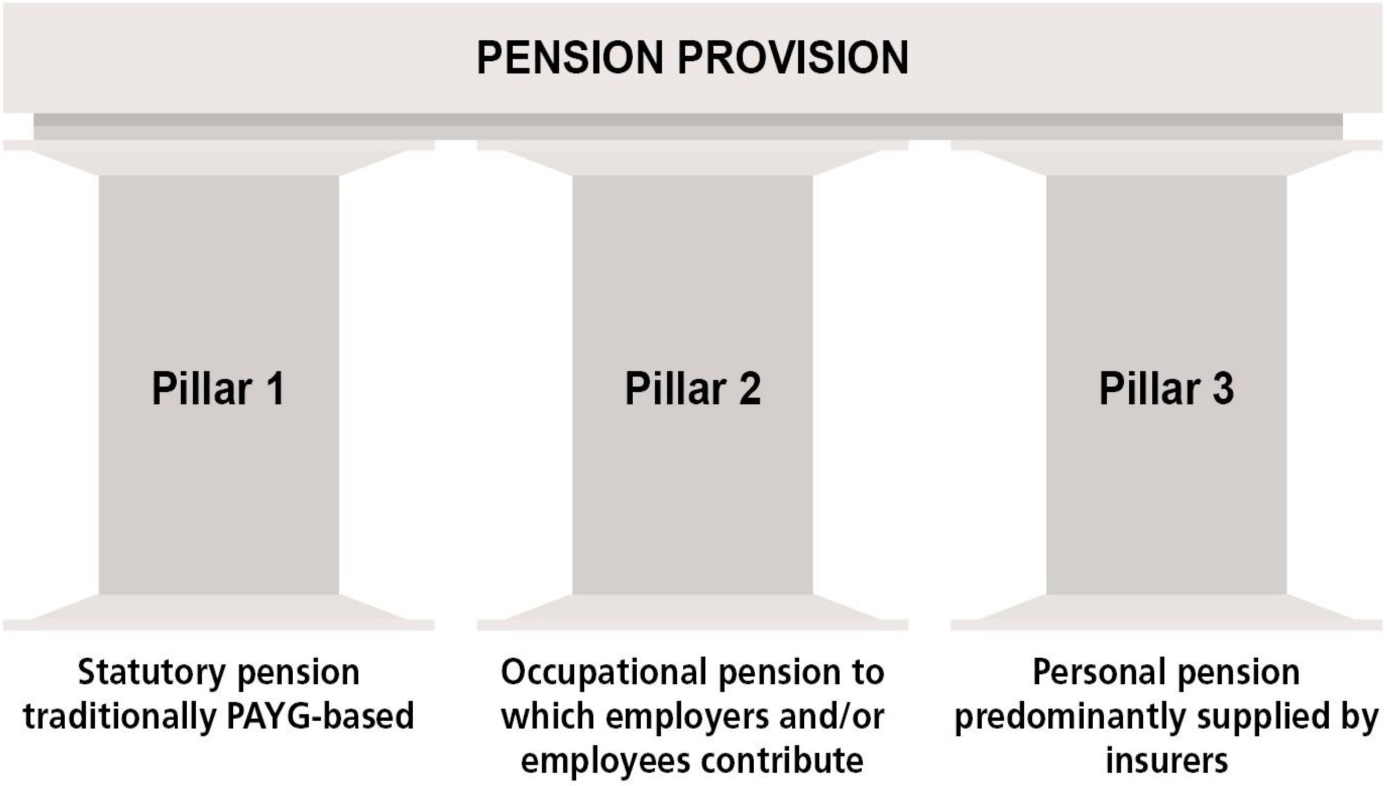
7. Multi-pillar pension systems - solution

- Multi-pillar systems that complement statutory retirement income with funded private pension pillars have the significant advantage of **diversifying risks**.



8. Policy recommendations

- Saving enough
- Saving well
- Saving wisely

Saving enough

- **Raising awareness**
  - Ensure that citizens are informed about their expected future statutory pension entitlements
- **Stimulating uptake of supplementary pension arrangements**
  - Ensure the widest possible uptake, taking into account the design and role of their statutory pension system (eg primarily poverty relief or income replacement)
    - Different models for this exist in Europe such as hard compulsion and soft compulsion
- **Tax incentives**
  - Tax configurations should incentivise adequate saving over the long-term, eg by deferring the point of taxation or penalising early exit/surrender
  - Tax incentives should be simple and stable over time
- **Easing online access to pensions**
  - Digital distribution can increase private pension coverage and should not be hindered

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Saving well

- **Providing information on the benefits of insurance savings products**
  - Savers should be informed about the importance of the asset mix in achieving their goals for income in retirement
  - Policymakers and the insurance industry should work together to facilitate the availability of well-designed collective mutualised investment products for those savers that need them
- **Adjusting Solvency II**
  - Solvency II's treatment of long-term investments should move from a trading to a long-term approach
- **Ensuring access to appropriate decumulation products**
  - Pension decumulation needs to balance the right level of protection against longevity risk and the flexibility to allow access to funds if needed

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Saving wisely

- **Financial education**
  - All member states should adopt national strategies for financial education and include them in school curricula
  - The European Commission could introduce a European Day of Financial Education for sharing best practice and new approaches to financial education at national and EU level.
  - EIOPA should review and coordinate financial literacy and education initiatives by national authorities
- **Pre-contractual information**
  - Any EU initiative on pension product information should respect local market characteristics, be suitable for current and future distribution channels and be thoroughly tested with consumers
  - Consumers should be able to freely decide in which format they wish to receive information and have equal access to both digital and paper means

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For more information

www.insuranceeurope.eu

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Publications on Pensions:

- **A Blueprint for Pensions**
  www.insuranceeurope.eu/blueprint-pensions
- **Older and wiser** (Global Federation of Insurance Associations)
  www.gfiainsurance.org/en/Media-room/News-2018/New-GFIA-report-Solutions-to-the-global-pensions-challenge/