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"Pushing back the limits of insurability"

Closing remarks by François Villeroy de Galhau,

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Ladies and Gentlemen,

I am delighted to be with you today to give the closing remarks at this tenth international conference on insurance, organised under the aegis of President Bernard Spitz. We don't say it often enough: the financial sector is one of the French economy's key strengths. Another point that bears repeating is that, within this financial sector, insurers play a critical role in financing our economy. This will be the first point that I touch on. I will go on to look at regulatory developments, hailing the progress made in the last year and picking out some European challenges that we must face together. I will close by speaking about "the limits of insurability": your theme today is as old as your profession, which dates back to the bottomry arrangements used to protect shipping ventures in ancient times and the first recorded insurance policy written in Genoa in 1347. But the question has taken on a renewed urgency today with the emergence of new risks, particularly those relating to climate change.

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I. Insurers play a critical role in financing the economy.

The ACPR recently published its annual statistical report, which showed that the French insurance sector is in good shape. I recommend giving it a read: the report itself is a treasure trove of data, and the results do you credit. The average solvency capital requirement (SCR) coverage ratio on the French market climbed from 222% in 2016 to 238% in 2017. What's more, in the first quarter of 2018, the French insurance market overtook Germany and the United Kingdom to become Europe's number-one market, with over EUR 35 billion in direct premiums written in non-life insurance and over EUR 2.100 trillion in technical provisions. It also leads in investment capacity: commanding total assets of EUR 2.7 trillion in September 2018, France's insurance sector is far and away the largest institutional investor in Europe, accounting for over one-third of the total assets of euro area insurers. In comparison, France makes up 21% of euro area GDP.

Insurers, then, are a crucial asset for France, and their critical role in financing the economy can and indeed must grow further. Corporate equity is vital to innovation and hence to a vibrant economy, but in mid-2018 equity was equivalent to just 77% of GDP in the euro area and 76% in France, compared with 124% in the United States.

II. Tapping into regulatory opportunities.

I would like to start this section off by noting that France's introduction of a flat tax on capital income on 1 January has not had the slightest detrimental effect on life insurance, despite fears on this score within your industry. I am also delighted that the new **Pacte Bill**, which was recently adopted at the first reading by the National Assembly, seeks to promote equity investment as well as long-term investment. Our discussions in the lead-up helped to shape this legislation, with the result that the bill includes measures to reform "eurogrowth" (*Eurocroissance*) life insurance products at long last, setting an ambitious target – with which you are all familiar – of EUR 20 billion in outstandings, compared with EUR 2 billion at present. Accordingly, France's lawmakers have expanded the tools put in place to achieve this goal. Now it is time to deliver. We are entitled to expect a fresh start, with a reset for eurogrowth products and innovative and energetic sales and marketing efforts by your industry, once the framework has been simplified. Retirement savings, meanwhile, have been the subject of a lively annuity versus lump sum debate. Like you, I am glad that the ability to receive annuity payments – and above all the principle of an annuity product – has been maintained across the board, not to defend one industry against another, but because a lifetime income is closer to a retirement product and because this timeframe should support more equity investment. Here again, though, it is up to you to take the steps to enable retirement savings to finally take off in France and ensure that your approach to asset/liability management better takes into account the longer durations of these products. The needs are huge, and the goal of increasing assets held in retirement savings products from EUR 200 billion to EUR 300 billion is well within our reach. I would also stress the need to ensure that policyholders are adequately informed about retirement savings products, especially – as with all unit-linked products – if they do not include a capital guarantee.

Within Europe, the forthcoming **Solvency 2 review** must include a full and frank assessment of the framework that has now been in place for three years. Of course, insurers have significantly improved their risk and capital management under Solvency 2, and the insurance market is now more resilient and better equipped to cope with financial crises. But these positives must not be allowed to overshadow the questions that need to be asked after such a radical change, particularly about the impact on equity investment and the financing of the European economy, along with issues relating to volatility and complexity. The very fact that we're calling it a "review" for 2020 means that, by definition, maintaining the status quo cannot be an option. As the preparatory work gets underway, I would like to see every topic, even the most awkward, raised and dealt with. I urge insurers to play an active role in the consultations and I can assure you that the ACPR will make its presence felt in the coming discussions. In this regard, we are naturally supporting efforts by the French Treasury and insurers to improve the prudential treatment of long-term equity investments already during the 2018 review.

On a topical note, I would add that it is crucial for supervisors to apply all prudential requirements with equal rigour. The string of failures by insurers doing business on the French market under the FPS, particularly in construction insurance, is a reminder of the importance of this. The ACPR is obviously working hard to deal with this crisis, which is affecting tens of thousands of French policyholders. But the requisite convergence of supervisory practices also needs to become a reality very soon. I know that Gabriel Bernardino and EIOPA are making this a priority.

Finally, let me be clear: it is unreasonable to apply the **new IFRS17 accounting framework** right now, given the current state of the discussions. Aside from the complexities of creating a European governance framework for these standards, there is also an obvious issue of timing, and fortunately, the IASB appears to be reopening discussions on this. Implementing IFRS17, which will be costly and complex, will follow on from implementation of Solvency 2, a process that has kept insurers very busy. Beyond the question of timetabling, there are major substantive issues. We want an agreement on identifying groups of loss-making contracts. As it stands, the draft is unworkable. We also want to see completion of the discussions on the treatment of reinsurance contracts held. At this point, there is too much room for interpretation in the standard, which could interfere with comparability and consistent application across countries.

III. Addressing the emergence of new risks

I turn now to the new risks that are emerging as challenges for the insurance sector. I would like to single out three for comment, each with a longer time horizon than the next: Brexit, cyber-security and climate risk.

In the short term, **Brexit** is, alas, the issue that will keep us busiest. The ACPR is working actively to ensure a smooth transition, but the time has come for insurers to set their contingency plans in motion. That means talking with supervisors in the UK and Europe. It will also mean getting new authorisations, transferring portfolios, relocating European companies and setting up third-country branches. Even if we hope to avoid it, we must be ready for a no-deal scenario. In this respect, it would be preferable to have **European** legislation in place to ensure that every relevant issue is dealt with in a harmonised manner; however, if need be, and as a backstop, the enabling legislation presented to the Council of Ministers on 3 October will allow us to take legal steps in France to manage – for those individuals insured in France – situations where UK firms have not already transferred their contract portfolios. I would like to mention that joint work by the European Central Bank and the Bank of England to assess financial risks looked specifically at insurance contracts, and we believe the risks in this area to be manageable, provided we can properly guarantee the protection of policyholders.

In the medium term, against the backdrop of the digital revolution, **cyber-security** is a growing concern for all businesses. Insurers are of course among the main ones affected because they hold sensitive data. Your industry would certainly be well advised to draw on your experience with cyber-risk to build up your own cyber-insurance offering.

I come last to **climate risk**, which occupies the longest time horizon of all, but which nevertheless requires tangible action to be taken right now. As today's discussions have shown, the natural disaster insurance regime needs an overhaul and I know that reforms are coming in 2019. But this is also a very important area of investigation for supervisors because, over the long run, climate stability is a determining factor in financial stability. In June of this year, the ACPR published a study revealing that an estimated 10-20% of all securities held by French insurers are exposed to risk in relation to the transition to a low-carbon economy. The Banque de France and the ACPR have set up and are actively coordinating the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). Launched in Paris last December, the NGFS started out with eight trailblazing supervisors but has since grown to include 19 members and five observers, including the Sustainable Insurance Forum (SIF). We are working hard on two subjects where insurers are in the vanguard: disclosure of current climate risks and the projection of dynamic stress tests based on future risks. A report detailing the network's first year of work and making recommendations will be presented at a conference in Paris on 17 April next year.

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I have called green finance "the new frontier for the 21st Century". Today, you are talking about "pushing back the limits of insurability". These images testify to your pioneering role and evoke your spirit of entrepreneurship and innovation. The risks facing the world in 2018 are unquestionably growing, and we need these qualities more than ever before. Thank you for your attention.