MEP CORIEN WORTMANN-KOOL
BELIEVES IN INTERNATIONAL SOLUTIONS

GABRIEL BERNARDINO (EIOPA)
DOESN'T SEE SOLVENCY II AS THREAT

THREATS AND CHALLENGES

VISION OF MEPs *SVEN GIEGOLD,*
***SOPHIE IN 'T VELD, PETER SKINNER* AND**
***BURKHARD BALZ* ON THE INSURANCE INDUSTRY**

NIEK HOEK (DELTA LLOYD):
'INSURERS CAN PLAY A LEADING ROLE'

EUROPE IN FOCUS

THE STRENGTH OF SIX EUROPEAN
INSURANCE MARKETS

TYPICALLY DUTCH

***WILLEM VAN DUIN (ACHMEA)* AND**
***TOM KLIPHUIS (ING)* TALK ABOUT DUTCH**
HEALTHCARE AND PENSION SYSTEM

SOLVENCY II AND PENSION REFORM
VISION OF *ALEX WYNAENDTS (AEGON)*

INSURED!

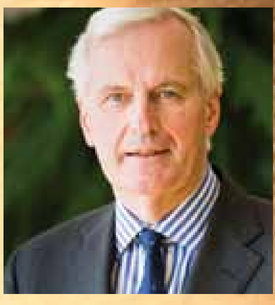
JUNE 2012

ACROSS BORDERS

Princess Máxima

'Financial education is not a hype'

EU Commissioner Michel Barnier



'Europe is a necessity'

Michaela Koller

'No economy without insurance'

Ronald Latenstein

'Regaining social licence'

This magazine was composed and published by the Dutch Association of Insurers, dedicated to Insurance Europe's 4th International Insurance Conference in Amsterdam

DUTCH ASSOCIATION OF INSURERS

COLOPHON

JUNE 2012

INSURED! Across Borders is a special publication of the Dutch Association of Insurers dedicated to Insurance Europe's 4th International Insurance Conference to be held in Amsterdam on 1 June 2012. The magazine is intended for all conference participants and will also be sent to the subscribers of our corporate magazine *Verzekerd!*.

THE FOLLOWING PEOPLE CONTRIBUTED TO THIS PUBLICATION:

Harry op den Camp
Geert Gunneweg
Maarten Pathuis
Ivar Pel
Stefan de Vries

Dutch Association of Insurers
P.O. Box 93450
2509 AL Den Haag
Netherlands
Telephone +31 (0)70-3338695/94
www.verzekeraars.nl

DESIGNED BY

Vormbreker, grafisch ontwerp bno
Leo van der Kolk

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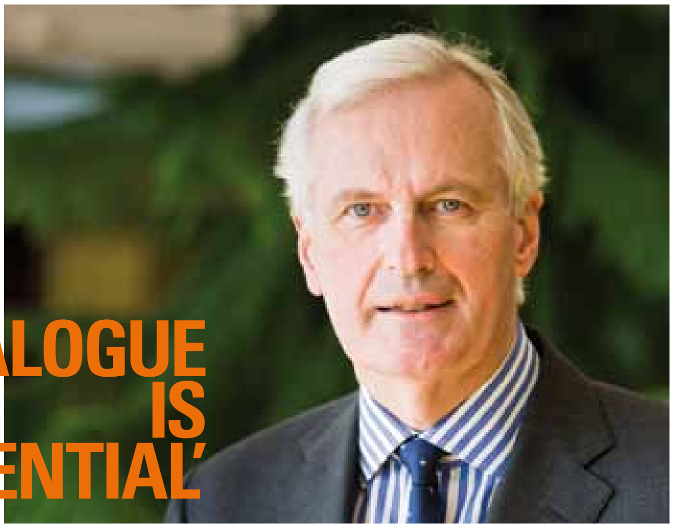


AND MORE:

LOOKING BEYOND BORDERS

Richard Weurding,
Director General

On behalf of the Dutch Association of Insurers, I am proud to present this special publication on the occasion of Insurance Europe's upcoming 4th International Insurance Conference in Amsterdam on 1 June 2012. We are proud that the Netherlands has been given the opportunity to host this year's edition of an event that over the past four years has evolved into a prestigious international venue for insurers. This year we will be discussing the current threats and opportunities in the worldwide insurance industry.

It is always good to look beyond the borders of your own country. I was reminded of this recently when we interviewed EU commissioner Michel Barnier for our corporate magazine Verzekerd!. While the Dutch tend to complain that we are in dire straits, Barnier pointed out that the Netherlands is actually a good example of what can be achieved through the internal market. He also praised the Dutch insurance industry for its active commitment to improving public knowledge about financial products. Obviously we still have a long way to go in regaining client trust, but Barnier's comment is encouraging, highlighting the positive developments that are taking place in the Netherlands and elsewhere despite the recession. And this is why it is so important to look beyond national borders. Different countries have different ways of dealing with problems and challenges, and we can all learn a great deal by sharing these experiences.

This is why INSURED! Across Borders is the title and also the common thread in this magazine. We will highlight the specific characteristics of a number of European insurance industries: Germany, France, the UK, Switzerland, Romania and Italy. Where do their strengths lie, why? In addition, Princess Máxima will give a presentation on improving the general public's knowledge on financial products and on microinsurance, EU Commissioner Michel Barnier will talk about the common market, Michaela Koller, General Director of Insurance Europe, will discuss the theme of this year's conference, and EU MP Corien Wortmann will provide a political perspective on our industry. Naturally, we couldn't resist including something uniquely Dutch, so we have published the visions of three Dutch CEOs about the strengths of our own insurance market.

I hope you will enjoy reading this publication!

GLOBAL MARKET, GLOBAL RISKS

Insurance Europe's annual international conference has become an established part of the insurance calendar, as demonstrated by the calibre of the speakers we have the pleasure to host and the number of delegates who attend. We chose "Global market, global risks" as this year's theme because we wished to reflect the fact that – in our increasingly globalised world – insurers in all regions are facing similar challenges, whether in terms of regulatory change, social change or climate change.

In many cases, the challenges our industry tackles can be turned into opportunities if they are approached correctly. Take the subject of one of our conference panel debates; the issue of ageing populations and the problems in funding retirement. It is abundantly clear that state systems alone can no longer offer sufficient pension provision. What is needed, is risk-sharing between the state and the private sector. Insurers and other pension providers must continue to offer innovative, appealing and transparent products. On their side, regulators must provide the right environment, to the benefit of both consumers and insurers.

Of course our many and diverse challenges are best tackled if the industry can speak with one voice. Insurance Europe is proud to be the pre-eminent representative of the European insurance industry, whose views are sought and considered by all the major institutions that influence our market.

I am confident that our conference will provide a great platform for discussions that will help to shape the future development of our industry.
I wish you all a stimulating and enjoyable day of debate.

Sergio Balbinot
President, Insurance Europe
Managing director, Generali Group, Italy

OVER 400 PARTICIPANTS ...

Over 400 people from across the globe will attend Insurance Europe's annual conference on 1 June to discuss international challenges. The conference will be opened by Princess Máxima (see the interview on pages 6-9). Other keynote speakers are EU Commissioner Michel Barnier (see the interview on pages 12-14) and Peter Braumüller (chairman of the International Association of Insurance Supervisors). Tom Kliphuis (CEO ING Insurance Benelux) will open the afternoon session preceding the panel debate on ageing populations. Page 24 of this magazine presents an interview with him.

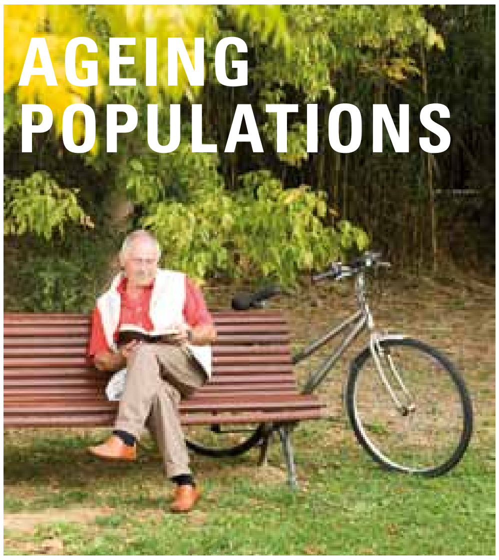
RISKS AND OPPORTUNITIES

There will be four panel debates during the conference. The first debate will focus firmly on the future, with four senior industry figures predicting the shape of the insurance world in years to come. Entitled "Insurance in context: risks and opportunities" the panel features Lloyd's CEO Richard Ward, Yasuhiro Hayasaki (vice-chairman of the executive committee of the International Association of Insurance Supervisors), Gonzalo Alberto Pérez (president of Colombian insurer Suramericana) and Ronald Latenstein (chairman and CEO of Dutch bank-insurer SNS REAAL).

FOCUS ON MITIGATING CATASTROPHES

For the first time, this year's Insurance Europe's International Conference will include an examination of the way insurers can contribute to sustainable approaches to climate change. Not all countries are equally affected by it, but fact is that the number of catastrophes worldwide is rising. How can insurers respond to this? That is the key question in this debate. FERMA president Jorge Luzzi will moderate a high-level panel of experts made up of David Cole (group chief risk officer of Swiss Re), Jeremy Cox (CEO of the Bermuda Monetary Authority), Rowan Douglas (CEO of Global Analytics at Willis Re) and Hannover Re chairman Ulrich Wallin.

AGEING POPULATIONS



In 1950 there were 12 working people for every elderly person. Last year it was nine. By 2050 it will be four. Funding old age is a major and growing challenge and insurers have a significant role to play. The third debate focuses on ageing populations and pensions. The debate, chaired by Governor Dirk Kempthorne, president and CEO of the American Council of Life Insurers, will feature Gabriel Bernardino (chairman of the European Insurance and Occupational Pensions Authority), Mark Grier (vice-chairman of US insurance group Prudential Financial), Yasuhiro Hayasaki (vice-chairman of the executive committee of the International Association of Insurance Supervisors) and Alex Wynaendts (chairman and CEO of Dutch insurer AEGON).

GLOBAL REGULATORY CHALLENGES

The number of rules that apply to insurers has grown enormously in recent years, which has been exacerbated by the credit crunch. Not only have they increased in number, they can also be different internationally speaking. No insurer will deny that regulations are needed, but they do come with administrative burdens and other dilemmas. How can insurers respond to global regulatory challenges? That is the theme of the second debate. Participants are John Huff (Missouri Director of Insurance), Yoshihiro Kawai (secretary general of the IAIS), Axel Lehmann (chief risk officer of Zurich Insurance Group) and Nicolas Moreau (chairman and CEO of Axa France). The panel will be moderated by Karel van Hulle, head of the Insurance & Pensions Unit of the European Commission Directorate General for Internal Market & Services.

'THE INSURANCE BUSINESS IS BASED ON TRUST'

'Solidarity is the core principle of insurance. Particularly in these times of economic uncertainty, the need for solidarity is rising. Insurers should take the opportunity to focus on their core business: to organise solidarity in a fair, efficient and transparent manner. The financial crisis has shown that financial institutions can quickly lose the trust of customers if their business practice is questionable or their financial resources deteriorate. Insurers are not immune to that serious threat. Their business is based on trust. A policyholder must be able to rely on the insurer to live up to its commitments and to pay the insurance benefits when they fall due.
As a result of Solvency II, European insurance regulation is currently undergoing a fundamental reform. In particular, it will change the requirements of the provisions insurers have to set up for their insurance obligations.
The insurance industry has been lobbying heavily in Brussels to reduce the requirements to a level that is unlikely to be sustainable. Solvency II may include a number of concepts – like the counter-cyclical premium or the matching premium – which would allow insurers, at least temporarily, to set up provisions lower than what is realistically needed to fulfill the insurance obligations. This would undermine the very basis of the business model of insurance, namely the trust in the insurer's ability and willingness to live up to their commitments towards policyholders.'

SVEN GIEGOLD

Member of the European Parliament, Greens/European Free Alliance

‘Financial literacy can be learned’

PRINCESS MÁXIMA

INTERVIEW

She has been dedicated to making the financial sector more accessible. Princess Máxima is the Honorary Chair of *Wijzer in geldzaken* (Wiser in Money Matters), a Dutch platform that aims to promote financial literacy. During the annual Insurance Europe conference, she will address the importance of increasing financial literacy. In this magazine, you will find a (summarised) version of the interview with the Princess on this topic, originally published in late 2010 in *Verzekerd!*, the magazine of the Dutch Association of Insurers.

HRH Princess Máxima of the Netherlands originally studied to be an economist, and after graduation, acquired extensive experience in the financial sector. Before coming to the Netherlands, she worked at HSBC, DKB and at the Deutsche Bank. She later became an advocate for inclusive finance in the broadest sense of the word. 'Financial services are not a goal in themselves, but a means of fighting poverty and promoting development', the Princess says. 'A credit can enable an enterprising woman in Kenya to purchase a sewing machine. This will then help her start a business and support her family. However, it is not a magic charm, since financial services are only effective in combination with other basic social services.'

If there is anyone who is capable of estimating the true value of the financial sector, it's Princess Máxima. However, this same financial sector is not always as accessible as it should be, and many people have difficulty understanding financial services. The consequences of this are well-known: one out of four people in the Netherlands never save money, and are not prepared for unforeseen expenses. In addition, one-third of young people display financially irresponsible behaviour.

'Young people are actually a very vulnerable group', according to the Princess. 'One out of three young people gambles, or incurs debt. It is incredibly important for their future that they learn how to manage their finances. If they are already displaying risky behaviour, there is a very good chance that they will get into trouble later on.'

THE IMPORTANCE OF FINANCIAL LITERACY IS A FREQUENTLY DISCUSSED TOPIC, CERTAINLY SINCE THE CRISIS, BUT WHAT IS IT ACTUALLY?

'In my view, financial literacy quite simply means that you have insight into and an overview of your finances. In other words, you should know what's coming in, and what's being spent. Additionally, you shouldn't just know what the situation is now, but also what the prospects are for the future. Only then you can determine whether you need to make arrangements now for later. Financial literacy also goes beyond controlling your own finances. It is also very specifically about being able to estimate the risks of certain expenses; knowing that loans come with a price tag. This means that you have to be aware of all the advantages and disadvantages of a financial decision, and you also need to develop good patterns of behaviour, such as saving, budgeting, comparing, etc.'

IS FINANCIAL 'UNAWARENESS' TYPICAL OF THE TIMES WE LIVE IN?

'The number of financial products has increased dramatically in recent years, making it even more difficult to make the right choice from all these products. In addition, there are many more temptations, particularly for young people, such as mobile telephones or buying things on the internet. Managing your money is no longer merely a question of managing the money in your wallet. These days, money comes out of the wall, via your bank card, and this has made our relationship with money more complicated.'

ISN'T IT ODD WHEN YOU THINK THAT DUTCH PEOPLE, KNOWN FOR BEING RISK-AVERSE, ARE DISPLAYING SUCH RISKY BEHAVIOUR?

'I don't think that this has anything to do with the risk-averse nature of people. The fact is, and I think this doesn't just apply to the Dutch, that many people find financial products boring and complicated. It's hard to look ahead; we would rather focus on enjoying the things we can do now. But this doesn't mean that the Dutch don't purchase financial products, on the contrary, in fact. We buy insurance to protect many things, such as our household effects and incapacity for work. However, not all insurance policies are clear about which risks we are actually covering by buying them. Add to this the fact that people find it hard to accurately estimate personal risks. Take pensions, for example. Research conducted by *Wijzer in geldzaken* has shown that 66 percent of the Dutch do not know what amount their pension will pay out later, and, possibly even more importantly, whether or not it will be enough. In other words, we know that having a pension is important, and are willing to pay premiums for this, but the question of whether or not we will really be taken care of later, is one many people can't answer. In developing countries, people often have no access to even the simplest financial products, such as a savings account. Although we do have this here, we don't always understand how a financial ➤

WISER IN MONEY MATTERS

For many years now, Princess Máxima has advocated access to financial services at a reasonable price, for anyone who needs it. In 2005, she was a member of the UN advisory group for the International Year of Microcredit, and from 2006 to 2008, member of the UN advisory group for an accessible financial sector. Since 2009, she has been the UN Secretary-General's Special Advocate for Inclusive Finance for Development. In the Netherlands, Princess Máxima is a member of the Dutch Committee for Entrepeneurship and Finance, and since 1 September 2010, she has been the Honorary Chair of *Wijzer in geldzaken* (Wiser in Money Matters), a platform in which over 40 organisations have joined forces to increase the financial literacy of the Dutch people, so that consumers will be better equipped to make financial decisions. *Wijzer in geldzaken* is an initiative of the Dutch Ministry of Finance, and comprises partners from banks, insurers, schools, government, consumers' organisations and research institutions.

PHOTO: IVAR PEL

product works, what we should do with it, and what it means for our own personal situation.'

HOW CAN WE CHANGE THIS?

'By firmly embedding the concept of financial education. By financial education, I am referring to learning how to manage our finances well and wisely, and this is something you can learn. It is a subject that is deserving of attention, always and everywhere, certainly in education. *Wijzer in geldzaken* is very active in its efforts to get this on the agenda, and has been successful in these efforts. For example, we launched a Financial Education Aid, which offers schools ways of including financial education in existing subjects, such as civics, economics and mathematics. These subjects lend themselves perfectly to this. In mathematics, for example, you can incorporate this very easily into children's perception of their environment, and this is already being done in a number of the teaching materials used. You need to use sums that appeal to them, for example: you have only three euros of credit left on your mobile, and a call costs 20 cents per minute. How many minutes of calling time do you have left?'

'MICROINSURANCE HAS SO MUCH POTENTIAL'

In her capacity as the UN Secretary-General's Special Advocate for Inclusive Finance for Development, on 11 April 2012, Princess Máxima spoke about the importance of microinsurance during the 2012 Research Conference on Microinsurance. An abridged version of her speech follows below. You can read the full speech text on www.koninklijkhuis.nl/globale-paginas/taalrubrieken/english/speeches/speeches-archive.

'In my work as the UN Secretary General's Special Advocate, I have seen the impact of unexpected shocks on people. Events like illness and injury are the number one reason why a family that is progressing can fall back into poverty. Microinsurance has so much potential to help prevent that. The good news is that more insurance reaches lower-income populations every day. There are many promising products and so much interest. But some efforts have been less successful, costly or slow to take off. And there is so much we do not know about this new field. How should a microinsurance product look like? How can we make the business model sustainable? How do we encourage enrollment? What creates impact? Research is therefore more important than ever.

But what should be the focus of research? In my work in the field of financial inclusion, I have realized that two issues are very important: client demand and impact. Only when we understand demand we will design products that have the right features, the right prices and the proper delivery mechanisms. And when products are valued by clients, they will be used. And product use leads to expansion, scale and sustainability.

The second priority for research is what is it that creates impact? I always remind myself that demand and impact are not the same thing. Some things that are not in demand can have big impact. Such as preventative health care. We know that this is one of the best ways to avoid extended illness and big expenses, and increase productive lives. It is one reason why countries like Brazil and Mexico are making cash transfers to poor households conditional on visiting health clinics. Conversely, there are insurance products that are in demand, but have little social-welfare impact. For example, some mobile phone companies in South Africa are providing insurance plans with pre-paid minutes to cover loss of the lost phone.
I therefore think that we must broaden the scope of research to understand behavior that does create impact on community welfare as well as households and individuals.

Research could also look at what combinations of financial products are best for meeting people's goals. Savings is of course the simplest form of insurance. Yet, some findings reflect that poor people do not like to use savings for unexpected events. They would rather borrow from friends or take a loan. Does this preference affect willingness to pay for insurance? Or will uptake of insurance depend more on availability and learning over time?
In my roles with the UN and the G20, I have been promoting national coordination platforms for financial inclusion, backed by strategic action plans and good data. This process, where it is happening, gives policy makers an opportunity to include microinsurance data collection in the target setting and planning.
I hope you can help that to occur.'

IS ALL OF THIS ENOUGH TO BRING ABOUT CHANGE?

'Yes, I think it is, but it will naturally take time. Financial education is not a hype, it is a question of perseverance. I have the impression that realisation of its purpose and necessity has increased substantially everywhere as a result of the financial crisis, and education is no exception. *Wijzer in geldzaken* is constantly taking action to draw attention to the subject. We are involved in a large number of projects, either as the initiator or subsidy provider, and these projects are developed and executed by the partners. It is fantastic to see how dedicated they are to the cause.'

WHAT IS YOUR OWN ROLE IN THIS?

'As a special adviser, I speak with interested parties about the way in which we can increase financial skills, and I focus specifically on campaigns designed to reach young people in particular.'

TALKING OF YOUNG PEOPLE: HOW EARLY SHOULD WE START FINANCIAL EDUCATION?

'As far as I'm concerned, you can never start soon enough! First of all, financial education is the responsibility of parents, but schools can also help by emphasising the importance of the subject. I am a great proponent of starting to give children pocket money at a young age. Children learn about money in a playful manner: should I spend it, and if so, what shall I spend it on? Or should I save it to buy something bigger? And if I save, how should I do it? I think that children should actually have a piggy bank from the time they're six.'

DOES FINANCIAL EDUCATION STOP WHEN CHILDREN GROW UP?

'No, on the contrary actually. I think it's important that you start when they're young, but the process never ends. Financial education is an ongoing process. People are faced with financial decisions and choices in every phase of life so the topic should be one that stays on the agenda permanently. At *Wijzer in geldzaken*, we feel that there are two groups deserving of extra attention: first of all, young people, whom, as I mentioned, are a high-risk group. Two-thirds of all young people have a hard time managing their finances, and the chance that they will be tempted to make an irresponsible purchase is considerably higher thanks to the internet and mobile phones.
In addition to young people, there should be an extra focus on women. Research has shown that three million women are not capable of suppor-

'FINANCIAL EDUCATION IS A QUESTION OF PERSEVERANCE'

ting themselves. Many women work part-time, and have no idea what financial consequences they will face if they are suddenly on their own. It is particularly important for this group to acquire insight into the financial consequences of certain decisions.'

WHO IS ULTIMATELY RESPONSIBLE FOR A FINANCIALLY AWARE NETHERLANDS?

'First of all, as a person, you are responsible for yourself of course, but you also need the help of all the institutions and organisations that are active in the financial sector. This assistance is truly necessary. I like to refer to it as shared responsibility. Financial institutions shouldn't just leave it to parents and schools, but should also shoulder their own responsibility in the matter. Fortunately, at *Wijzer in geldzaken*, we see this happening all the time. The Dutch Association of Insurers is one of the more active partners. Individual insurance companies also have a very important role; they are the ones that are in direct contact with consumers, and know what's going on in their world.'

IN YOUR VIEW, WHERE DO THE OPPORTUNITIES LIE FOR INSURERS?

'Insurers (and this applies to all financial service providers) should facilitate people as much as possible when they offer them financial products which involve making a choice. This is a really important responsibility, but I think that financial institutions should mostly view it as an opportunity to make a contribution to financial education.' •

'SOLVENCY II IS NOT A THREAT'

GABRIEL BERNARDINO

Chairman of the European Insurance and Occupational Pensions Authority

'Solvency II is built around one key word: risk. It better aligns risk and capital, promotes sound risk management and fosters transparency. The regime will provide an appropriate basis for increased policyholder protection and will contribute to financial stability, allowing insurance companies to play their natural counter-cyclical role in times of stressed markets.
Solvency II is increasingly perceived as more than a "check the box" regulatory exercise. It requires insurance industry to critically analyse its risks and assess the true costs attached to them. This should help to promote a strong culture of risk management, encourage more realistic pricing and create incentives for innovation, risk transfer and risk mitigation.
Another advantage of Solvency II is a unified approach towards group supervision, as a result of which companies can achieve a better capital allocation. They can rely on the fact that there are less inefficiencies in group supervision; that through colleges and information exchange supervisors know how groups operate and have adopted supervisory responses to groups that operate across Europe.
Insurers need to view Solvency II as a comprehensive regime that should be used to raise the profile of their Enterprise Risk Management (ERM) arrangements.
With Solvency II, risk management should become an integral part of the day-to-day management and influence the decision-making processes at all levels of the organisation. The sustainability of long-term guarantees provided by insurers is under pressure. The low interest rate scenario creates further challenges. By being based on market consistent valuations, Solvency II necessarily reflects the underlying market volatility on the insurers' own funds and makes these challenges more transparent.
Solvency II is not a threat for these products, it is the economic reality that challenged them.
I believe that the current efforts to devise an adjustment in the valuation of long-term illiquid and predictable matchable commitments may be a pragmatic solution to deal with this volatility, without compromising the transparency of the regime. However, this should not be used to support the maintenance of unsound and unsustainable products and practices.
Every crisis brings challenges but also creates opportunities. I believe that the insurance industry has now a huge opportunity to reinforce its reputation and strengthen the relationship with customers. That may call for a "back to the basics" strategy, looking more closely to the intrinsic value of risk management and to the core values that insurance represents to society and the economy.'

Europe in focus

Every national insurance market has its own characteristics and background. While this makes it difficult to harmonise the European insurance market, these different characteristics also have their unique charms: each member state has its own approach and specific strengths. What are the areas in which particular countries excel and what can others learn from this? In five articles we address initiatives and characteristics of six different countries: the coverage density in Romania and Switzerland (pages 10/11), the mutuals in France (page 15), the campaign in Germany to improve the image of the insurance industry (page 18), the intermediaries in Italy (page 25) and the Treating Customers Fairly approach in the United Kingdom (pages 28/29).

THE SWISS A ROMANIANS

The Swiss may call themselves the most risk-sensitive people of Europe. With a premium of € 5,124 per head, no country is insured more thoroughly. Romanians pay the least: only € 92 per head.

Not very long ago, the Romanian insurance market was totally run by the state. The government monopolised both obligatory accident and health insurances and all kinds of voluntary insurance policies. When the state monopoly was ended in 1991, commercial parties started competing to win the Romanian consumer. There are now about 45 insurance companies operating on the Romanian market.
But after more than two decades of market forces in insurance, the number of people insured in Romania is still the lowest in Europe. In 2010, the Romanians paid and average premium of € 92 per head. 'The highest amount was € 113 in 2008, but those days are behind us. At least for the moment', says Florentina Almajanu, General Manager of the Romanian Association of Insurance and Reinsurance Companies. In the coming two to three years the association expects only very slight growth.

TOP YEAR

At first glance, 2008 seemed a top year: the premium revenues of life insurers increased by 17 percent. But that growth was preceded by a significant decrease. The credit crunch reached Romania at the end of 2008 and life insurers were hit hardest, says Almajanu. Although the market for life insurance has made a comeback, she expects that the importance of insurance will only substantially increase in the long run. The relatively low income of Romanians is one of the main reasons for the low level of insurance protection. With an average income of € 500 per month, Romanians have little money left to take out insurance policies. People in other European low-income countries are also not insured thoroughly. In the list of insurance premium per

EUROPE IN FOCUS

RE THE MOST INSURED; THE LEAST

capita of Insurance Europe Romania ranks lowest together with Turkey and Latvia.

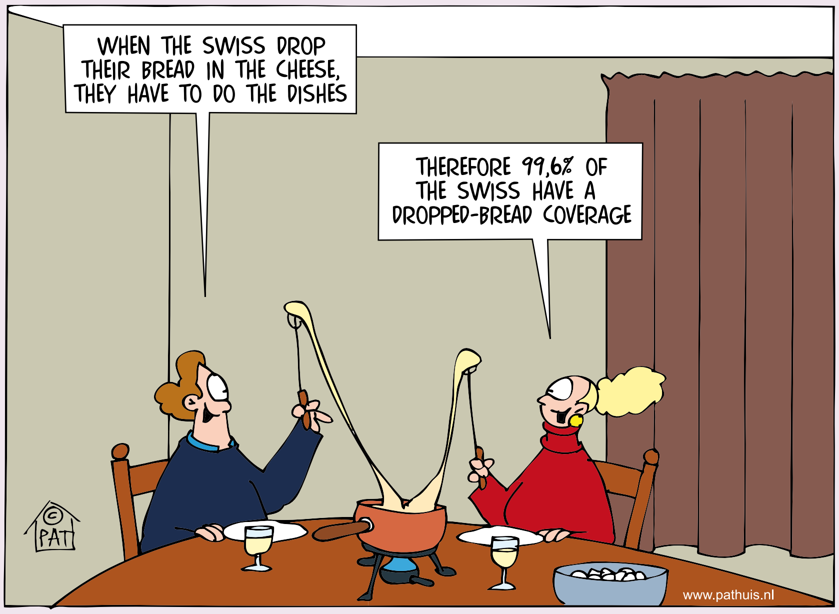
FINANCIAL EDUCATION

Relatively low income per head is not the only reason why Romanians are not insured well, according to Almajanu. For a short period of time, taking out a life insurance in Romania was fiscally attractive, but that advantage was recently removed.

In addition to this Almajanu feels that there is still a lack of financial education in Romania. For that reason, the Romanian Association has started a campaign to point out the value of insurance. 'Romanians can take out insurance easily', Almajanu says. 'There are enough international players on the Romanian market. We have noticed that the campaign is increasing people's awareness. More and more Romanians want good insurance for their families.'

The Swiss, on the other hand, hardly need to be informed of the necessity of insurance. Switzerland is the most insured country in Europe. In 2010, the Swiss paid an average premium of € 5,124 per head. Particularly life insurance is big in the Alpine country. Also, employees save up for their pension through a compulsory occupational pension plan. Health insurance, accident insurance for employees and the coverage of third-party liability in car insurance belong to a number of compulsory insurances in Switzerland.

SWISS PEOPLE ARE NOT GAMBLERS



INDUSTRIALIZATION

The Swiss have a longstanding insurance tradition. The first possibilities for insurances came about with industrialization in the 19th century: Swiss people could insure their premises against fire and damages caused by natural disasters. In the textile and metal industry employees were insured against accidents. Entrepreneurs started pension funds for their respective economic sectors, thus enabling employees to save up money for their old age.

From the end of the 19th century, the Swiss economy grew practically continuously. Along with that, the risk of losing wealth increased, says Lucius Dürr, CEO of the Swiss Insurance Association. 'While Swiss wealth kept growing, people wanted to insure their belongings more and more thoroughly. In the 20th century the insurance density increased considerably.'

RIKS-AVERSION

The high insurance density does not mean the Swiss are exceptionally risk-averse, Dürr says. 'If anything, the Swiss are very aware of risks and deal with them in a healthy way. They have learned from many unfortunate events in the past. Switzerland has been struck often by natural disasters such as floods, landslides, wind storms, fires and avalanches. As a people the Swiss like to be in control. Put it like this; they are not gamblers.'

Insurance has developed into one of the most successful Swiss export products. More than a century of experience and knowledge of practically every aspect of insurance have made Swiss insurers famous across the globe, Dürr says. 'The domestic market is small. As a result they are very innovative. And if Swiss insurers wanted to expand they had to cross the border, which they did.'

On top of this, sector supervision is highly developed in Switzerland, Dürr explains. The financial stability of insurance companies is therefore guaranteed. 'In many ways our rules and regulations are stricter than European supervision.' •

‘We are not an opponent, but a partner’

EUROPEAN COMMISSIONER MICHEL BARNIER

Looking at his CV, you will see an impressive list of political functions, with a clear common thread: Europe. No wonder, therefore, that Frenchman Michel Barnier, since 2010 European Commissioner for the Internal Market and Services, believes Europe is not an option, but a necessity. He is optimistic about the euro crisis and sees the financial sector as an important partner. ‘I want us to succeed together in quickly establishing stability.’

Michel Barnier has been in the top echelons of politics for quite some time. He has been politically active since the age of fourteen and, at the age of 27, was the youngest ever French member of parliament. He has been a minister several times – for Foreign Affairs and Agriculture & Fisheries, for example – under both President Chirac and President Sarkozy.

Above all, however, Barnier has always been dedicated to Europe. From 1999 to 2004, for instance, he was European Commissioner for Regional Politics, but he was also involved in formulating the text of the European Constitution. After a few months as a member of the European Parliament in 2009, in 2010 he returned to the European Commission, this time in the post of Commissioner for Internal Market and Services.

Being responsible for the internal market during the present crisis, he fulfils a key position that is also extremely important where elections are concerned. Not surprisingly, he is one of the keynote speakers at the Insurance Europe annual conference.

INTERVIEW

'EUROPE IS NOT AN OPTION, BUT A NECESSITY'

PHOTO: IVAR PEL

IT IS TWENTY YEARS SINCE THE INTERNAL MARKET WAS ESTABLISHED. CAUSE FOR CELEBRATION?
'An anniversary should be dynamic rather than nostalgic. Thanks to the internal market, tens of millions of jobs have been created and roaming and plane tickets, amongst other things, have become much cheaper. But we are not there yet. With a better internal market, within a couple of years we can achieve two to three extra percentage points of growth. I am therefore working with ten colleagues on fifty proposals for improving the internal market, the *Single Market Act*. One of the concrete proposals is the European patent. Protecting an invention is ten times as expensive here as in the US. We hope the Council will adopt our proposal before the summer, as it will mean an enormous step forward. Naturally, on a daily basis we are working towards a single market for consumer financial services. In that respect, I would like to go even further with the transparency of bank charges.'

HOW DO YOU SEE THE EURO CRISIS?
'In my view, there is no euro crisis, but a crisis in certain countries in the eurozone that are weaker than others. The euro itself is extremely strong: in some people's eyes even too strong. The real problem is that we have a monetary union but no economic union. Now our backs are up against the wall we are rectifying that. European leaders have taken the right decisions for getting the economic union back on the rails with a fiscal pact, stricter budgetary discipline and better supervision. Some countries will have to make drastic reforms, as they have been too lax. That is difficult, not only for Greece but for everyone. I have every confidence that it will work out, though.'

IS THE WORST OVER?
'Yes, I think so, but it is not to say there are no more problems to come. We will not succeed with cuts alone; growth and competitive strength are badly needed, too. We also, at least in my view, have to achieve institutional progress, for a more democratic, more united Europe. I feel we should merge the most important functions in the European Union, those of President of the Council and President of the European Commission. They would initially be elected by the European Parliament and later probably by the members of parliament of the member states.'

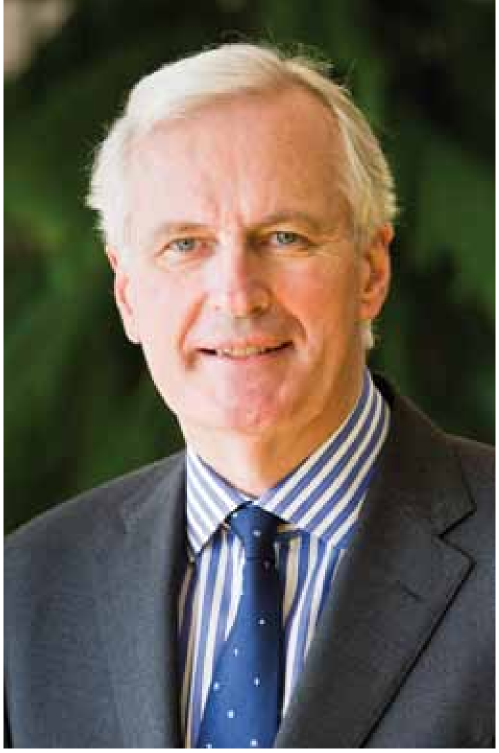
THE PICTURE IN EUROPE HAS CHANGED. IN MANY COUNTRIES, THE EURO CRISIS HAS MADE PEOPLE RATHER NEGATIVE. DOES THAT MAKE YOUR JOB DIFFICULT?
'Not difficult, but it does show that we are perhaps not yet doing our best to explain Europe in the public debate. That clarifies part of the concern, or the rise of nationalistic tendencies. A lot of people who work in Brussels and, like me, think the European project is the best thing imaginable in the way of peace, prosperity and progress, have to take more time to talk to ordinary citizens. To explain how the world works nowadays, in particular. How can the Dutch or the French defend their model and interests in relation to the Chinese, the Americans or the Brazilians? You need Europe for that. Will we still be participants in the future or simply spectators? Europe is therefore not an option, but a necessity, with respect for national identities.'

THERE ARE ALSO VARIOUS IDENTITIES WITHIN THE INSURANCE WORLD. IS THAT HINDERING AN INTERNAL MARKET?
'There are, indeed, big differences within the European insurance sector, which can often be explained by the cultural or historic situation. The structure of German products, for example, is quite different from that of British products, but you also see that difference in the types of provider: one country may have chiefly bank insurers, while in other countries cooperative insurers have a large share of the market. I don't see that as an obstacle, but as an asset and this diversity should be maintained. It is sometimes hard for me to apply the regulations concluded at a G20 or issues such as Basel III and Solvency II, while making allowances for this diversity.'

TALKING ABOUT DIVERSITY... HOW DO YOU VIEW DUTCH INSURERS?
'The Dutch insurance sector is one of the most solid and most developed in Europe. With widespread coverage among the population, an extremely wide range of products and highly active intermediaries. It is part of Dutch tradition to be open. Dutch insurers are highly active in other European markets, as well as further afield. The Netherlands is therefore a good example of the benefits of the internal market.'

WHAT COULD DUTCH INSURERS IMPROVE?
'It is not my place to criticise. I would rather focus on the good things. Take the financial education of children and young people. The situation in the Netherlands is an example to us all. We are working on that in a European context, too, but as you know education is generally a member state domain. We can only encourage such programmes, not make them compulsory. We can, however, quote the Netherlands as a source of inspiration to motivate member states into including financial education in their national educational programmes. We have developed an online tool for ➤

'WE WILL NOT SUCCEED WITH CUTS ALONE'



➤ teachers, *Dolceta.eu*. This kind of initiative is particularly important, as consumer protection is a priority for 2012. The Netherlands is at the fore in that respect.'

WHAT OPPORTUNITIES DO YOU SEE FOR THE FINANCIAL SECTOR AND FOR INSURERS IN PARTICULAR?
'Together with pension funds and banks, insurers are the primary financers of the real economy and, as such, they are essential. The internal market is highly important for emerging from this crisis, which is not yet over. Sixty percent of the export of goods and services takes place within the internal market. We also have to take advantage of the opportunities presented by Solvency II. This directive will ensure that European insurers soon have a modern, efficient solvency system. Naturally, it will entail quite a lot of new regulations and not everyone is happy with that, but the new regulations are the result of extensive consultations and impact studies. The sector itself wanted these regulations, something of which we occasionally have to remind those insurers who have a short memory. I think we can now very quickly link up with the European Parliament, which is producing some good work, and the Council of Ministers. Of course we have to regain consumer confidence as well. They feel they have been badly informed and in some cases even feel cheated. Now, we are on the right track with the regulation agenda for institutions we can give priority to consumer protection and transparency. The new capital requirements for banks and insurers should help. Finally, an important directive, the Insurance Mediation Directive, is being reviewed. That will finally provide a real level playing field for the various sellers of insurance products, such as intermediaries, banks, insurance companies and even car lease companies and travel agencies.'

ANOTHER IMPORTANT ISSUE IN EUROPE IS THE IORP DIRECTIVE, WHICH IS A MAJOR STEP TOWARDS A SINGLE EUROPEAN PENSION MARKET. WHAT CAN INSURERS EXPECT FROM THAT DIRECTIVE?
'There are some fears and criticism, which I am certainly taking seriously. Over the past two years, I've been conferring extensively with pension funds and insurers, including those in the Netherlands. The text that provides the framework for the activities of pension funds, IORP, dates as far back as 2003, way before the crisis in other words. Almost ten years later, it is logical that the text needs to be evaluated and, where necessary, amended to arrive at fair, intelligent regulations. I am aware of the concerns in your country. But there is no question of pension funds having to comply with exactly the same regulations as insurers. We must not weaken those pension funds that are performing well. They have to continue playing their role as long-term investors and stabilisers of the economy and we are taking account of the various systems in the member states, in close cooperation with EIOPA and all parties involved.'

CAN COUNTRIES LEARN FROM ONE ANOTHER?
'In Europe, the member states themselves decide how pensions are organised. Nevertheless, I think we have to look at what works well in the internal market. The Netherlands and a couple of other countries have responded efficiently to the problems of an ageing population and working longer. In the internal market, we hope that those companies that are efficient and have good products will be able to offer them everywhere. There are 150,000 pension funds in Europe, but there are still fewer than a hundred that are active across borders! So we have to encourage that by creating more interaction, without imposing any particular model.'

THERE ARE VARIOUS INITIATIVES FOR MAKING THE COSTS OF FINANCIAL PRODUCTS MORE TRANSPARENT. THE COMMISSION WILL SHORTLY BE PRESENTING A NUMBER OF PROPOSALS. CAN YOU GIVE US ANY INDICATION AS TO WHICH?
'Virtually all the proposals stem from the decisions the G20 comes up with. Now it's down to the ministers of the European Parliament. My priority is to improve consumer protection. This spring we will be making a number of proposals in that respect, within the frame of the PRIPs initiative (Packaged Retail Investment Products). One of those is that anyone buying a financial product anywhere in Europe has to be given a simple, clear explanation. We will be producing an information leaflet that will be the same everywhere, for both investment funds and life insurances.'

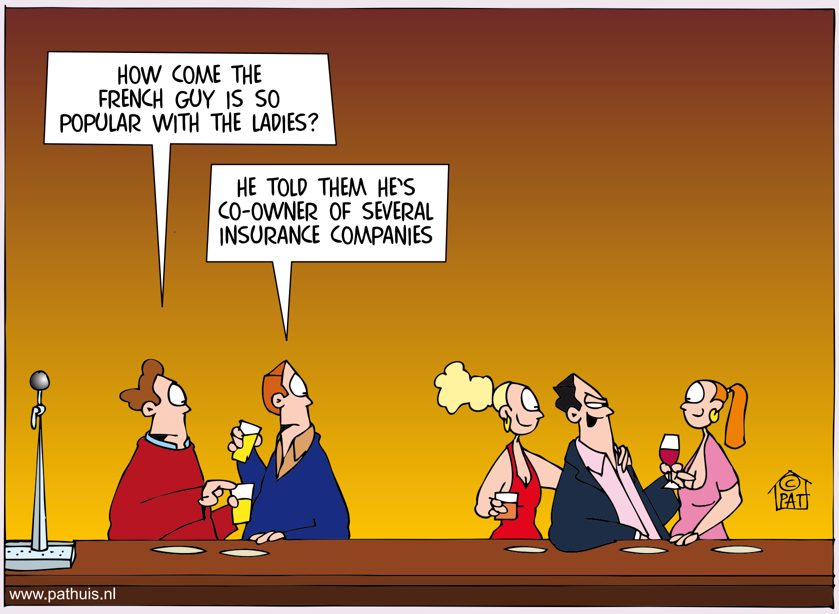
WHAT IS THE MAJOR MESSAGE FOR INSURERS?
'I hope they realise that the Commissioner for Internal Market and Services is aware of the fundamental importance of pension funds and insurers for the economy, for growth and for investment in the long term. I want us to succeed together in quickly establishing stability and completing the regulation agenda. Once we have got that done, I want to work with pension funds and insurers on stimulating investment in the long term. Dialogue is essential. We only propose the regulations. The European Commission is a partner, not an opponent.' •

MUTUELLES: PROMINENT IN FRENCH INSURANCE

Mutual insurance companies control over 40 percent of the French non-life insurance market. Olivier Désert, president of one of the French associations of mutual insurance companies, explains why and identifies the major threats and opportunities to the position of the *mutuelles*.

There is no doubt in his mind that the strength of mutual insurance companies (MIC's) in France is a blessing to French consumers, says Olivier Désert, president of Réunion des Organismes d'Assurance Mutuelle (ROAM) and General Director of the Mutuelle de Poitiers. '*Mutuelles* give households access to a large range of products against very competitive prices. They have always been driving the market in terms of prices, quality of products and proximity to customers.'

Whereas a joint insurance company is owned by its shareholders and strives for profit maximization, mutual insurance companies operate differently. An MIC is owned (or at least nominally controlled) by its members, i.e. the policyholders, and aims to serve the interests of its members in the best way possible. In France, they control over 40 percent of the non-life insurance market.



FRENCH LOCK

There are three reasons for the uniquely strong position of MIC's on the French insurance market, Désert explains. 'First, *mutuelles* have been around for a long time, some are more than 200 years old. Because of that, they know the needs of their policyholders extremely well. Also, MIC's captured a large share of the market after 1945 – especially in motor and household insurance – as they could offer competitive premiums due to low distribution costs. Finally, *mutuelles* are shielded against demutualization through the so-called "French lock", meaning that in case of winding up the net assets must go to another mutual.'

The prominence of mutual insurance companies has left a major imprint on the French insurance market, with € 206 billion of gross premiums (2010) the second largest in Europe. Direct marketing, for instance, has shown only modest growth; the price difference is generally too small to convince consumers to change insurer. Also, whereas banks in the 1990s massively launched life insurance operations and now control about 60 percent of that market, they have been less successful in making inroads into the MIC-controlled non-life insurance market.

Désert believes that the current crisis offers huge opportunities to mutual insurance companies. 'At a time when consumers distrust capitalism and big players, we offer an alternative model closer to the consumer. *Mutuelles* have proved that they don't need to be big to be efficient; their costs are, most of the time, below the level of large insurance groups.'

'*MUTUELLES* KNOW THE NEEDS OF POLICYHOLDERS EXTREMELY WELL'

SOLVENCY II

However, unfavourable European regulations may prove to be a threat to the *mutuelles*, Désert cautions. 'The governance requirements of Solvency II can become a huge burden to some MIC's, unless the new rules take into account the specificities of mutual governance and the size of the undertaking. Europe should also create a level playing field with joint stock companies, so that MIC's can expand and form groups across borders. Much depends therefore on how Solvency II will be applied to MIC's and small entities. An insurance market consisting only of large joint stock companies surely isn't in the interest of French, and other European consumers.' •

‘Our work is becoming more and more international’

MICHAELA KOLLER, DIRECTOR GENERAL INSURANCE EUROPE

Global market, global risks: the theme of the 4th annual Insurance Europe conference characterises not only the insurance landscape, but also that of the European umbrella organization itself. ‘Four years ago, we hoped our annual conference would develop into an industrial, global event’, says Director General Michaela Koller. ‘Over the last four years we have had people presenting and participating from all over the globe, so I can cautiously say: mission accomplished.’

Koller is pleased that this year’s conference is being held in the Netherlands. ‘Amsterdam is a fascinating city, with its canals and history. Also, we are very happy that the conference, with the presence of Princess Máxima, has a “royal touch”. The princess is doing great work through the United Nations with her efforts to put financial literacy and micro-insurance on the map. I am honoured she will open this year’s conference.’

Even though it’s the fourth time the conference is being held, it is the first one under a new name: at the beginning of this year, the previous name (CEA) was changed to Insurance Europe. ‘The name Insurance Europe is self-explanatory’, Koller says. ‘It is clear, simple and it says it all, which is different from our previous name. While the CEA was a well established acronym for the French *Comité Européen des Assurances*, we had to explain what the letters stood for, who we represented and what we came to do in the non-French speaking world.’ Insurance Europe also moved into a new building, in which the British, French, German and Dutch associations each have their own offices. That offers a number of advantages, Koller says. ‘We have only “lived” together for a couple of months, but it’s already clear that being in the same building benefits the coordination of our activities. We now meet by chance in the lift, whereas previously we got together only for planned conference calls or meetings. We hope this will eventually generate more synergy. The new building also offers more opportunities to all our members. There is a shared working area, which can be used by all staff members of our member associations.’

ON 1 JUNE, ALL THESE ASSOCIATIONS WILL MEET IN AMSTERDAM. WHAT DO YOU EXPECT?

‘It is fantastic to see that the annual conference is developing into the industry’s global event. Every year, there are more people participating and – perhaps even more importantly – they increasingly come from all over the world: from Japan to Mexico and from Canada to South Africa. It is becoming a truly global event and,

'NO ECONOMY CAN FUNCTION WITHOUT INSURANCE'

since we operate in a global world, that offers our sector an important opportunity. In other words, the insurance landscape does not end at the borders of Europe.'

IS THERE ALSO A SHIFT FROM EUROPE TO "GLOBAL" AS FAR AS YOUR POLICY EMPHASIS IS CONCERNED?

'Yes, I think that's inevitable. International developments increasingly influence our industry and the financial crisis has amplified that. International bodies, like the G20, Financial Stability Board and International Association of Insurance Supervisors take initiatives that are relevant to insurers, and require our response.'

IS IT PLAUSIBLE THAT IN THE FUTURE ALL ASSOCIATIONS WILL JOIN IN ONE GLOBAL ASSOCIATION?

'Yes. Even more than that: together with other insurance trade bodies from around the world we would like to take decisions on this matter when we meet in Amsterdam. Insurance Europe is closely involved in the founding of IFIA, the International Federation of Insurance Associations, which we plan to launch officially in autumn. This does not mean that Insurance Europe will disappear, but it does imply that international cooperation will become much stronger. From a global point of view, insurers face the same challenges. Thus they can learn from one another. That is why "Global market, global risks" is the theme of this year's conference. We have also scheduled two debates relating to typically international topics: ageing populations and climate change.'

YOU HAVE BEEN DIRECTOR GENERAL FOR FIVE YEARS NOW. WHAT IS THE MOST IMPORTANT ACCOMPLISHMENT OF INSURANCE EUROPE IN THAT PERIOD?

'I find that difficult to pinpoint. If we work actively for modification to European legislation and that goal is achieved, it is still an oversimplification to say it is all thanks to us. But we are most successful when we manage to "overcome" national differences and succeed in speaking with one voice and when the explanation of the industry's position and its promotion is well coordinated at national, European and even global level. Success can come in many forms. We have become a serious and respected interlocutor for the institutions in Brussels. When Insurance Europe presents a position it is the result of a thorough due process and can be very useful for the EU institutions who also strive to develop feasible compromise solutions that work for all markets, irrespective of their cultures, mentalities and characteristics. That's a major achievement, since the differences between member states are huge as far as insurance is concerned. We speak on behalf of more than 5,000 European insurance companies and roughly 95 percent of our industry. We represent € 1,100 bn in premium income and almost € 7,700 bn in invested assets. Whenever we manage to develop a strong, united and well coordinated position, we are an attractive counterparty for the EU institutions.'

IS IT DIFFICULT TO BRING ALL THESE DIFFERENT MEMBER STATES INTO LINE?

'Yes, sometimes. Above all with respect to complicated issues such as Solvency II and distribution and sales processes, where there can be widely divergent interests. In such cases, we talk to the associations regularly and often, and we try to have the collective interest prevail over individual interests. For the member associations, that means giving and taking. But it is great when it succeeds.'

WHAT ARE THE MOST IMPORTANT CHALLENGES FACING INSURERS TODAY?

'I see major challenges with respect to the regulatory environment. This is why one of the panel debates is devoted to that issue. To illustrate my point: in 2011, there were almost 15,000 regulatory announcements in the global financial sector overall. The financial crisis has led to a torrent of regulations for insurers: higher capital requirements, stricter supervision and stringent rules to avoid mis-selling problems. I am not saying these regulations are unnecessary, but more rules do not automatically result in a better insurance climate.'

THE SCALE TIPS IN THE WRONG DIRECTION?

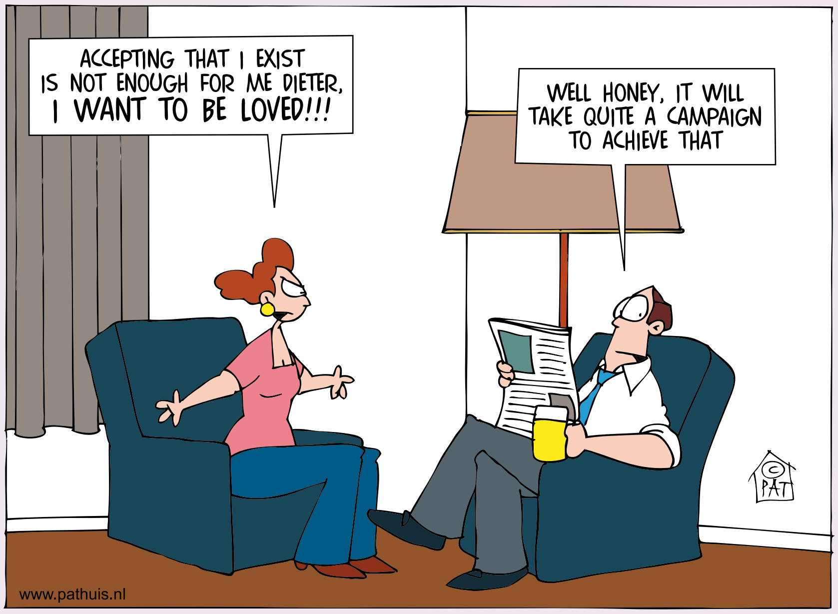
'The end result of a regulatory initiative can sometimes be so far removed from the initial goal that you start to wonder: why was this regulation needed in the first place? To give an example: in the initial approach to Solvency II it was stated that, at the time, the supervisory system was not really in line with the way companies managed their risks. Therefore, we wanted supervisors to understand how insurance companies manage risks and the idea was that the companies would become very transparent. The crucial element was that the supervisors checked the risk management of companies but left decision-making to the companies themselves. However, the present Solvency II guidelines set the regulation bar much higher. Don't get me wrong: Solvency II is very important and I am convinced that we need revised European legislation. All I am saying is: be careful that the scale doesn't tip too far in the wrong direction. Overdoing it is in nobody's interest.'

WHAT'S THE FUTURE FOR THE INSURANCE SECTOR IN THE LONG TERM?

'We operate in a rapidly changing world and face significant challenges. Some of these challenges can pose a threat, but at the end of the day no economy can function without insurance. There will always be a need for certainty and the possibility to cover risks. Therefore, I am convinced that there will always be opportunities for insurance companies. Consider the issue of ageing populations. Life expectancy today is much higher than it was thirty years ago. The insurance sector has always been very good at predicting these trends and covering the associated risks, even in the long term. That is of great significance and something we should promote.' •

REGAINING THE SYMPATHY OF GERMAN CUSTOMERS

Two years ago (December 2009) the *Gesamtverband der Deutschen Versicherungswirtschaft* (GDV) launched a national wide public campaign in order to regain the sympathy of the customer and to activate him. Ulrike Pott, spokeswoman of the German Association of Insurers: 'It has not been our explicit aim to be "loved", but to make clear that nothing is possible without insurance.'



Surveys in Germany showed that the level of customers satisfaction with their own insurer is high. Individual advice and service in particular are assessed positively. However, only a small fraction of customers apply this positive assessment to the overall image of the sector. There is a great discrepancy between the image of insurance as seen from an insight point of view and from a remote or general point of view. The image seen from a remote point of view has to a great extend been determined by the media, which tend to focus on negative individual cases, but ignore the large majority of satisfied customers.

DID THE RESULTS OF THE SURVEYS SURPRISE YOU?

'Insurance products provide protection and security to the customer. To realize these values, one has to deal with risks – and nobody likes to do so. Moreover, satisfaction with our products usually is only becoming apparent after some years or in the event of a claim. We see this especially in the case of old-age provision. Our surveys repeatedly led to the following result: everybody knows that he or she has to make individual provisions, but hardly anyone actually implements this realization. Therefore, one of the objectives of the image campaign has been to increase appreciation of the product of insurance and to highlight its importance in everyday life. It has not been our explicit aim to be "loved", but to make clear that nothing is possible without insurance.'

THERE SEEMS TO BE A PARADOX: THE IMAGE OF THE BRANCHE AS A WHOLE IS NEGATIVE, WHILE PEOPLE THINK THE OWN INSURER IS RELIABLE.

'Indeed, customers make a great difference between the assessment of their own insurer and that of the entire sector. The importance of personal contact for the image of an otherwise very abstract product is clearly apparent. Therefore, the concept of our campaign focused on conveying proximity and information.'

WHAT WAS THE RESULT OF THE CAMPAIGN?

'The campaign has been successful: measurements have shown that we have succeeded in conveying the message "It's good that insurance exists" in a friendly and emotional manner. This is certainly one reason for the fact that it has not caused any "shitstorm". Especially the basic idea of the campaign, to make "real" people tell about their needs of protection and their insurance in an authentic way, has given the campaign more credibility than similar campaigns organized by individual companies from the outset. That part of the public which has knowledge of the campaign now has a clearly more positive opinion of the insurance industry. However, achieving a significant change of the image with the whole public takes significantly more time with stable media pressure. According to experts, this will require at least three to five years.'

IS IT DIFFICULT FOR INSURERS TO BE THE NUMBER 1 PARTNER FOR SECURITY? IN OTHER WORDS: DO PEOPLE TRY TO GET SECURITY FOR RISKS ALSO BY OTHER MEANS?

'The political, social and economic environment of our sector is increasingly characterised by uncertainty and loss of confidence. The bad news, emanating from financial markets, produces global fears with local consequences and creates a situation where it is becoming increasingly difficult for our sector to score with security and confidence. For guaranteed protection, insurers will continue to be first choice. However, family, friends and the social environment are gaining in importance when it comes to credible recommendations on individual protection.'

IN THE NETHERLANDS, THE IMAGE OF INSURERS WAS HIT BY MIS-SELLING WITH UNIT-LINKED INSURANCES. DOES GERMANY HAVE THE SAME PROBLEMS?

'We don't have a comparable case. Here, criticism is directed against distribution, its costs and the wrong incentives associated with commissions. Last year, this subject caused sensation in the media with several scandals. In response to this, companies established structures and processes to prevent these kind of misconducts in the future.' •

Typically Dutch

The city of Amsterdam is a tremendously popular travel destination, but what does the Netherlands have to offer as an insurance market? We asked three CEOs/chairmen active in the Dutch insurance industry to comment on three typically Dutch initiatives. We talked with Ronald Latenstein (SNS REAAL) about the *VerzekeraarsVernieuwen* (InsurersInnovate) project, with Willem van Duin (Achmea) about the unique Dutch health insurance system, and with Tom Kliphuis (ING Insurance Benelux) about the three-pillar pension system.

The Netherlands is famous for its tulips, windmills, wooden shoes and Dutch cheese. It is also renowned for its polder model, tolerant policy on drugs and homosexuality and the fact that a large part of the population lives below sea level. Another feature foreign visitors are sure to notice is how busy it is: with a surface area of 41,526 km^2 and a population in excess of 16.6 million, the Netherlands is the most densely populated country in Europe. This goes a long way towards explaining why such a small country is a relatively large player in the insurance market. With a premium volume of € 78 billion, the Netherlands is ranked fifth in Europe behind the UK, France, Germany and Italy. To a large extent this is attributable to the unique Dutch private health insurance system; every Dutch national is required by law to take out basic health insurance (see also pages 22/23). Another factor is the Dutch simply like to cover their risks. The fact that for years the Netherlands was the country with the highest coverage density speaks volumes. It was only last year that the Dutch “lost” their record spot to the Swiss (see also pages 10/11).

However, recently it has not been all smooth sailing for the Dutch insurance industry. In 2008 the industry suffered a serious setback due to the mis-selling of unit-linked insurances. Consumers were disappointed in these products when it turned out that yields were much lower than they had anticipated. They also found themselves paying high fees even though the cost structure was not transparent. This affair had a huge impact on the image of Dutch insurers. The Dutch insurance industry responded by launching a joint project to fundamentally change the business culture and attitude within the insurance industry, entitled InsurersInnovate. This project epitomises the typically Dutch polder model; the consensus approach that also influences the insurance industry. We discussed the project during our interview with Ronald Latenstein, which you find on pages 20/21/22. ➤

In late 2009, Dutch insurers launched *VerzekeraarsVernieuwen* (InsurersInnovate): a long-term project aimed at restoring the trust of consumers in insurers. According to Ronald Latenstein, CEO at SNS REAAL and chairman of the Dutch Association of Insurers, the strength of the project lies in its collective approach. 'Everyone has to be motivated to do their bit.'

'You can only fix a breach of trust if you work together'

RONALD LATENSTEIN, CHAIRMAN OF THE DUTCH ASSOCIATION OF INSURERS

He considers it an honour that the Netherlands has been given the opportunity to host the annual Insurance Europe conference. 'Insurers worldwide are facing the same challenges, and all countries cope with it in their own way. This is what makes it so interesting to share experiences. The conference will allow us to put the spotlight on the insurance industry as a whole – and since it will be held in Amsterdam this year, the Dutch insurance industry in particular. I'm really happy about that.'

HOW IMPORTANT IS AN UMBRELLA ORGANISATION SUCH AS INSURANCE EUROPE (IE) FOR INSURERS?

'I think it is becoming increasingly important to present a unified face and to speak with one voice in Brussels. A lot of the regulations in the various European countries are based on EU regulations, and if you want your voice to be heard in Brussels, it is very important to unite. The influence of the EU is rapidly increasing. Since 2008, insures have really had to invest a lot more time in incorporating new regulations into their business that are increasingly driven by Brussels.'

SO EUROPE HAS DISADVANTAGES TOO?

'I think "disadvantages" is an exaggerated term here; I consider it more of an annoying side effect, since the interests of Europe are still a priority for me. Europe is one of the three economic blocks in the world, even if it has not really doing that well lately. Somehow, Europe is not succeeding in having a clear focus on the common good. Not only because there is a lack of leadership, but also a result of the way in which decisions are being made: as long as every member state can veto decisions and the local support base puts its own interests first, it will continue to be difficult to act in unison.'

WHERE DO YOU HOPE EUROPE WILL BE FIVE YEARS FROM NOW?

'I hope that in addition to a monetary union, we will have also become much more of a political union. This will make it easier for us to really tackle our problems.'

DO YOU SEE ANY OPPORTUNITIES FOR INSURERS IN THIS?

'Looking at the present situation, the tendency might be to focus on the threats due to the debt crisis, but I can't help thinking of Churchill's famous adage "never waste a good crisis": a crisis also offers opportunities to set things right, to take a close look at the earnings models, improve efficiency and improve customer service. The major challenge for insurers lies not only in regaining their financial license to operate, but mostly in winning back their social license to operate.'

WHAT DO YOU MEAN BY THAT?

'The global financial sector has suffered a major blow in terms of trust. It will take a lot of work to regain that trust. The time of complicated, aggregate life insurance products – the "happy meals" as I often refer to them – is over. We must work towards a world with simple products, which people can understand at a glance. We must also focus much more on the end client; we will have to take a different approach to the commission models, and compensation will have to be a lot more restrained throughout the sector. When I wake up five years from now, I hope we will be able to say that we have made fundamental reforms in the sector, and have together entered a new world.'

HOW NECESSARY WAS AND IS REFORM IN THE NETHERLANDS?

'Very necessary. In 2006, we experienced the so-called *woekerpolisaffaire* (mis-selling of unit-linked products): people with a unit-linked insurance were disappointed in these products, often didn't know about the risks associated with the products, and it also turned out that their cost structure wasn't transparent. This resulted in the entire sector being put under a magnifying glass. In a short period of time, the confidence rating decreased from +10 to -36. I think that pretty much says it all.'

HOW DID DUTCH INSURERS REACT TO ALL THIS?

'We are not proud of this whole affair, and it did take some time before the entire industry understood the full extent of the damage to its reputation. However, when it had finally sunk we decided that there was only one way to rise above this breach of trust: take action together.

In spite of all of the problems, we ultimately succeeded in creating a collective goal and a common interest.’

HOW DID YOU SUCCEED IN DOING THIS?

‘In late 2009, all our members came together to review the core values of the entire insurance industry. This has resulted in the InsurersInnovate initiative, a project in which we assign three core values to all of our activities: provide certainty, make things happen, and become socially involved. One example is the initiative we took to create an independent quality label for insurers that puts the client’s interest first, and we are implementing a ban on commissions for complex products. We are the first in Europe to do this.’

WHAT ELSE HAS INSURERSINNOVATE ACCOMPLISHED?

‘Two things come to mind: first of all, we have done everything we can to resolve the unit-linked products affair, in close consultation with the Ministry of Finance. We are committed to taking so-called “flanking” measures. This means that we have to make it clear to consumers whether or not they are entitled to claim compensation for the excessively high costs and whether or not they can easily switch to a new product or another supplier. We are working really hard to ensure that this is all more or less completed by the end of this year. Another issue that comes to mind is the ban on commissions for complex and high-impact insurance products that will be introduced in the Netherlands in 2013. Many countries are surprised by this, but we were the ones to initiate the debate on this because we felt that the commission model is not in our clients’ best interests. It is much clearer for clients if they pay an independent adviser directly for services. By implementing a ban on these commissions, we are collectively taking a step that we will all be proud of in five years time. In short, we aim to solve problems stemming from the past while at the same time innovating by developing a new perspective.’ ➤

TYPICALLY DUTCH

‘INSURERS CAN PLAY A LEADING ROLE’

CEO Delta Lloyd

‘The euro crisis is dominating life in Europe at the moment, but in the meantime we still have to think about the future. And there I can see opportunities. Insurers are skilled in entering into long-term commitments: from a pan-European point of view, an awful lot of banks have received state support recently, while insurers have had no support whatsoever. That is significant. It does help our image – after all, sentiment towards financial institutions is negative throughout Europe at the moment. We are well aware of that in the Netherlands, with the debate about costs and transparency for unit-linked insurances. But I’m optimistic, all the same. Insurers are good at estimating risks in relation to return in the long term. They have solid balance sheets and can therefore play a leading role, particularly in an uncertain stock market climate. Within the Delta Lloyd Group, we are doing just that by profiling ourselves with a clear risk and return policy.

I also have great expectations of Premium Pension Institutions (PPIs). These enable insurers to offer pension products in all European countries. In view of our experience in the pension field, I can see great opportunities for Dutch organisations; I think it’s a unique vehicle.

If we talk about threats, then I’m greatly concerned about the stability of the eurozone. We, as insurers, will be directly affected by developments. Capital requirements are being raised, regulations are being tightened up, market parties are cautious in their investments and everyone is withdrawing to their own countries. Insurers can respond in two ways: raise capital in the market or downscale and reduce risks. The first option is not open to everyone and the second has the side effect of leading to economic decline. The picture is not so rosy, in other words, especially now new regulations and legislation such as Solvency II and IFRS are being postponed. All that leads to extra uncertainty.

I also foresee socio-economic threats. Interest levels are low, due to the low economic and demographic growth outlook, so long-term pension accumulation is becoming less appealing and issuing guarantees is expensive. In addition, there is pressure on the pension and life insurance system all over Europe.’

IS INNOVATION IN THIS SENSE ESSENTIAL IN ORDER TO RISE ABOVE A CRISIS OF CONFIDENCE?

'Yes, but innovation alone is not enough: you have to solve the problems from the past, whilst at the same time working on the prospects for the future. We call this InsurersInnovate and InsurersInvigorate, and the two go hand in hand.'

DUTCH INSURERS ARE ALSO ACTIVE IN EDUCATING THE PUBLIC ABOUT FINANCIAL PRODUCTS. WHY?

'Educating people about financial products is about helping them become more self-reliant. People bought products where they did not fully understand what they were buying and what costs and risks were involved. However, we cannot solve this by merely providing simple products. I do not believe in a model where the client no longer has any responsibilities whatsoever. And if you don't believe in such a model, you should also ask yourself what you can do to ensure that people will start taking responsibility in the future. It is a broadly held belief that as a sector, we must invest in raising awareness about financial products, not only by funding it, but especially by contributing knowledge. Every company has its own way of doing this. Some give guest teacher classes at primary schools, and in my own company we have what are known as "budget watchers" and the *Stichting Weet Wat Je Besteedt* (the independant foundation Stay on Top of your Spending).'

WHAT IS THE MOST IMPORTANT LESSON OTHER MEMBER STATES CAN LEARN FROM INSURERSINNOVATE?

'The strength of the project lies in its collective approach, but taking action is actually the most important part. When an affair emerges such as the one we had with the unit-linked products, don't immediately go into denial phase with statements like "it's not so bad, as long as share prices go up, everything will be fine". Acknowledge what went wrong and work together on building the future. Don't get stuck in talking about it, take action and just do it!' •

'INNOVATION ALONE IS NOT ENOUGH'

Healthcare: private for the public

Willem van Duin, chairman of the Executive Board of Dutch insurer Achmea

PHOTO: HARRY OP DEN CAMP

The Dutch healthcare insurance system is unique. Nowhere else will you find a completely private system for short term healthcare with such thorough public guarantees, says Willem van Duin, chairman of the Executive Board of Dutch insurer Achmea. 'Everyone has a right to affordable and accessible care.'

An obligatory basic insurance policy for everyone is one of the core elements of the Dutch healthcare system. The basic insurance policy offers all Dutch people the same coverage for medical expenses. Which costs are covered by the basic insurance policy is decided by the government. Standard expenses for visits to the general practitioner, hospital and pharmacy are covered, making up for almost 80 percent of all healthcare visits.

Insured people have a duty, but so do insurers. Insurers have an acceptance obligation, meaning they have to offer all clients basic insurance against the same premium. Van Duin: 'Everyone has a right to affordable and accessible care. We achieve this by an obligatory basic insurance policy, the acceptance obligation and the prohibition of premium differentiation.'

The Dutch system promotes solidarity between generations and groups, Van Duin says. The elderly, who generally incur higher medical expenses, cannot be excluded from the basic insurance policy. The same applies to people who have a genetic predisposition to certain diseases.

The prohibition of premium differentiation makes sure insurers will not demand a higher premium from vulnerable groups. Van Duin: 'In addition to this, people with the lowest incomes are entitled to a care benefit to compensate for the costs of basic insurance.'

COMPETITION

Still, there is competition between insurers. One insurer may charge a lower premium than another one. Also, insurers are allowed to offer a collectivity bonus up to 10 percent. In practice, the premiums are quite comparable. The basic premium is now about € 100 per month, with an obligatory annual excess of € 220.

In addition to the obligatory insurance package, Dutch people can buy additional insurance. Competition between insurers also concerns the premiums and conditions of these extra insurance policies.

The Dutch healthcare system is only able to exist because of community risk rating, Van Duin emphasises. Due to the acceptance obligation, insurers with a large proportion of relatively older or chronically ill clients are much more at risk than insurers with overall young and healthy clients. Insurers with a higher risk profile therefore receive compensation from a special community risk rating fund. Van Duin: 'Community risk rating ensures fair competition among insurers, regardless of their type of clients plus it prevents cherry picking by insurers who focus on calculated risks.'

EXCEPTION

The European Parliament recently decided that Dutch healthcare insurers have an exceptional position regarding the newly introduced Solvency II requirements. At first, capital demands didn't take community risk rating into account. Dutch insurers therefore had to create much higher buffers, causing significantly higher premiums for clients.

The relationship between insurers and care providers is also unique, Van Duin says. 'Insurers decide with which care providers they work on a contractual basis. For example, they can nego-

tiate with hospitals about the price and quality of particular treatments. Care providers, on the other hand, can choose to specialise in certain treatments, a development we have been seeing more and more in the past year.'
Thus, the care system has incentives which guarantee good quality and prevent care costs from increasing too rapidly. General practitioners play an important role in keeping the costs of medical care reasonable. Patients practically always come to their family doctor first. He or she can refer the patient to a specialist if necessary. 'General practitioners are the gatekeepers to more expensive healthcare in hospitals and institutions.'
Van Duin is very enthusiastic about the Dutch system but also sees points that need improvement. In his opinion, the community risk rating system still has to be perfected. Also, patients could be better informed about the performance of doctors and hospitals, so that they can make well considered choices. 'Clients then can vote with their feet by staying away from care providers who do not perform well.'
The possibility of clients voting with their feet is another incentive for care providers to work more efficiently and offer more quality. This is very necessary according to Van Duin, since the costs of care in Holland are still rising. 'Good incentives limit the increase of costs and make sure that the system will make it in the long run.' •

FINANCING

The Dutch healthcare system is financed from three sources:

- Premium of insured people (minimum of 45 percent)
- Premiums based on income through the employer (50 percent)
- Government contribution (maximum of 5 percent)

TYPICALLY DUTCH

'INSURERS MUST THINK ACTIVELY WITH US'

Member of the European Parliament, European Liberal Democrat and Reform Party

'The formation of a European market for financial consumer products offers insurers interesting opportunities. The market is still at a developmental stage, but as soon as it becomes easier for Europeans to take out a mortgage or insurance in another EU country, the market for financial services companies, including insurers, will increase significantly.
At the same time consumers are reaping the benefits of increasing competition between sellers, making products better, cheaper and more transparent; provided that they are better protected than they are now. An important part of this is the European regulation to demand collective reimbursements in court. The European Parliament is in favor and I expect that the formal introduction of this regulation is just a matter of time.
In time, the rapid development of alternative forms of services through the internet will also offer new opportunities for insurers. For example through a more direct connection between supply and demand, as is currently happening in micro financing. It is advisable for insurers to embrace these new possibilities instead of rebelling against the inevitable, as the music industry has done.
Personally, I prefer to speak of challenges rather than threats. However, it is a fact that companies in financial services have to deal with a huge amount of rules. Considering the role of the financial sector (especially the banks) in the origin of the crisis, this is fair, but sometimes we are in danger of overreacting. Insurers must think actively with us on how to prevent a repeat of the crisis as well as a suffocation of the sector caused by an abundance of rules.'

Dutch pensions: flexible and less vulnerable


Tom Kliphuis, CEO ING Insurance Benelux

TYPICALLY DUTCH

Practically all Dutch people save up, in most cases obligatory, for their old age. That is the distinguishing factor of the Dutch pension system, says Tom Kliphuis, CEO ING Insurance Benelux. 'Our system is flexible and less vulnerable than systems in other countries.'

HOLLAND IS FAMOUS FOR ITS PENSION SYSTEM. WHAT'S ITS STRENGTH?

'The obligatory nature of our system makes sure that virtually all Dutch people build up a considerable pension. In the so-called first pillar, everyone obligatorily builds a state pension (AOW). In the second pillar, almost 95 percent of the Dutch save up in a mandatory pension fund or pension insurer through their employer. In this way we prevent a considerable weakening of the finances of the elderly after their retirement. In the third pillar, people can voluntarily save up through banks and insurers in a fiscally attractive way.
Our system is flexible and less vulnerable than systems in other countries because of the way the three pillars are financed. In many countries the obligatory pension is entirely or almost entirely financed by the current generation of premium payers. In our situation that only applies to the first pillar. The obligatory second and the voluntary third pillar are funded pensions. Also, the first and second pillars create solidarity between generations.'

AN IMPORTANT CHARACTERISTIC OF THE DUTCH SYSTEM IS THAT IT'S OBLIGATORY. WHAT DOES THIS MEAN?

'The obligation is connected to the second pillar. The Dutch system has two forms of obligations. Firstly, employees from one sector or company are obligatorily connected to one and the same sector or company pension fund. So they are not free to choose a pension fund themselves. Secondly, an employer has to offer his pension scheme to all employees, who, in turn, are essentially not allowed to turn down the offer. Thanks to the obligation, the overwhelming majority of Dutch people build up a pension in the second pillar. We should cherish that, because research has shown that people who save only on a voluntary basis, start too late. However, the disadvantage of the current obligation is that participants are not allowed to choose the pension fund or insurer which performs best. Especially young people increasingly call for freedom of choice.'

ARE THERE ANY OTHER DISADVANTAGES OF THE DUTCH SYSTEM?

'A point of interest is that many people have unrealistic expectations of their pension. They wrongly assume that the pension from the first and second pillar combined is equal to 70 percent of their last salary. In practice, this is often considerably less. Reasons for this are people getting divorced, changing jobs or not working for a while. It is important to increase pension awareness, so that people can make timely adjustments.'

'In addition to this, Holland, just like other European countries, will need to deal with the ageing of the population. The amount of elderly people is increasing and the working population is decreasing. This puts pressure on the first pillar, which is financed by the current generation of working people. By the way, this problem is less serious here than in other countries. Since the second pillar is funded, people save up for their own pension.'

TO WHAT EXTENT IS THE DUTCH SYSTEM IMMUNE TO THE AGEING OF THE POPULATION?

'To keep the system going, we have to work longer. When the state pension was introduced in Holland in 1957, people on average lived much shorter lives than today. Thankfully we see that people are adjusting. The average Dutch retirement age has increased considerably in the last year, and the state pension age will rise from 65 to 67 in the coming years.
Those are steps in the right direction, but I expect that the Dutch system will see more change, partly because of the ageing of the population. Even now we observe that risks connected to the size and security of pensions, are shifting from pension funds and insurers to participants. This trend will continue. Still, the Netherlands can be proud of its pension system. Its principles are good. Now we have to adjust to changing circumstances.' •

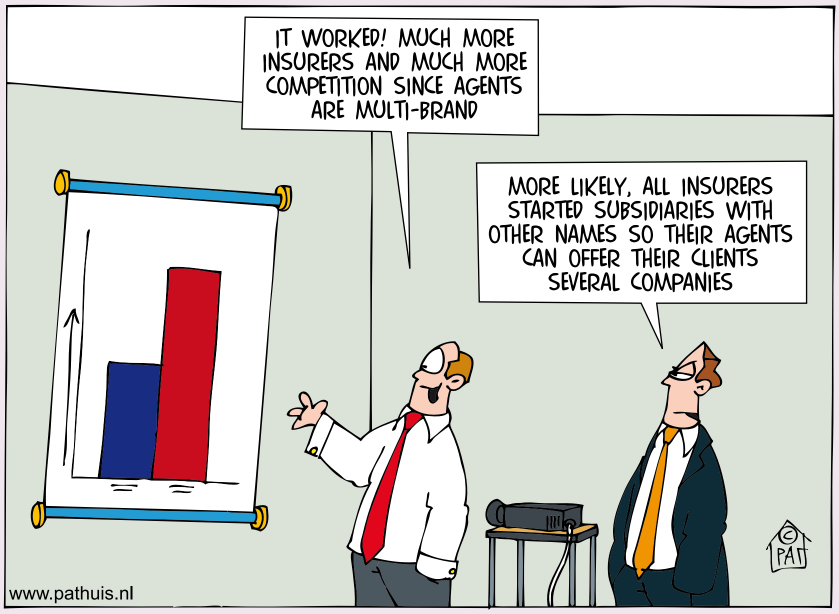
EUROPE IN FOCUS

AGENTS ARE THE GATEWAY TO ITALIAN CONSUMERS

Italian consumers buy their compulsory motor insurance overwhelmingly through agents, many of whom have exclusive relationships with a particular insurance company. The government aims to liberalise the system in order to encourage competition, but the insurers are unconvinced.

In January this year, the Italian association of insurers (ANIA) published a press release in response to newspaper reports that the government was planning to ban exclusive agreements between agents and insurance companies. Such measures, the insurers argued, would destroy the value of their distribution networks and the result of 'years of investment in physical and human capital'.

The Italian distribution landscape in non-life insurance differs markedly from that in most other European countries. The share of agents in this segment is an impressive 85 percent (2010), leaving only modest market shares for brokers and bancassurance. The importance of direct sales, mainly through online channels, is growing but still small. To put things in perspective: in France agents control about 35 percent of the non-life market, in the UK that figure is a mere 5 percent.



LEGISLATION

The Italian insurance business – especially in the non-life segment – is a long-established system which has experienced only modest changes over time. With approximately 28,000 individual agents in some 10,000 (often very small) intermediary firms, distribution is highly fragmented. Opponents of the system argue that fragmentation prevents economies of scale in the distribution of insurance products and leads to unnecessarily high distribution and general expenses. Consumers pay the price in the form of higher premiums.

In recent years, there have been government attempts to liberalise the general insurance sector with the declared aim of increasing competitiveness. Legislative measures in 2005 eliminated the up until then, exclusive relationship between an insurance company and its agents. Successive legislation further extended these provisions. This means that, at least in theory, all agents are now multi-brand.

Those in favour of liberalisation say that the emergence of a new multi-tied agency model – meaning that agents can distribute and work for more than just one insurer – encourages competition between insurance companies and will lead to a wider offering of products corresponding to consumer needs. They point at the relatively low premium rate of € 600 per capita in non-life insurance and the overwhelming dominance of compulsory motor insurance (55 percent) in this segment. In Italy, sales of property, private liability, and accident and health insurance are still modest.

THE ITALIAN INSURANCE BUSINESS IS A LONG-ESTABLISHED SYSTEM

INEQUALITY

Italian insurers vehemently oppose restrictions on exclusive relationships with agents within their distribution networks, arguing that such legislation will lead to the opposite of what it intends to achieve: higher premiums and lower service to Italian consumers. They maintain that the short supply chains of the agent system make this form of distribution actually very cost effective. Prohibiting agents to work exclusively for one insurance company can also create conflicts of interests, since agents have an incentive to sell policies offering them the highest commission, instead of those best suited to the customer's need.

Inequality within the context of the European market is also a matter of concern to Italian insurers. They point out that no other EU member state prevents insurance companies shaping their distribution networks as they see fit. Italy's exception would thus prevent uniform interpretation and implementation of European legislation on mediation and competition. •

‘I believe in international solutions’

CORIEN WORTMANN-KOOL

The financial sector has taken on too much risk, thereby aggravating the crisis. For that reason strict European supervision is being prepared. Nevertheless we should not lose sight of national differences, argues Corien Wortmann-Kool, member of the European Parliament and Vice President of the Group of the European People’s Party. ‘If not, we risk a costly accumulation of regulation or even the weakening of our supervision.’

PERSONAL

Corien Wortmann-Kool (1959) is a member of the European Parliament for the CDA/EPP (Christian Democratic Appeal /European People’s Party). She has been Vice President of the Group of the EPP since 2009 and as such responsible for financial economic affairs and environmental policies. Wortmann studied Political Sciences. She started her career as a board member of a retail trade company in women’s fashion. After being in the retail market for almost ten years she switched to the Ministry of Transport, Public Works and Water Management to become a coordinator/ project manager and later on deputy director. She was elected to the European Parliament in July 2004.

The crisis has made one thing painfully clear, says Corien Wortmann: in an increasingly cross-border financial sector, supervision on a national level is failing. This contributed to banks and insurance companies taking on too much risk. ‘It is clear that the risk behaviour of the financial sector has led to a deepening of the crisis. Waning trust in financial institutions has had harmful consequences. The supervision of banks, insurers and financial markets is strengthened by three newly established European supervisory authorities. It is now important to extend European supervision step by step.’

In 2009, while the crisis was in full swing, Corien Wortmann became Vice President of the Group of the European People’s Party (EPP), the biggest political party in the European Parliament. Her responsibilities within the group are economic and financial affairs, as well as the environment. Is she leading a busy life? ‘Yes, it is a demanding job’, Wortmann says with a smile. Then thoughtfully: ‘Politicians have a responsibility to come up with an answer for the crisis. I believe in international solutions. We must work towards a sustainable financial sector with a long-term perspective.’

INTERVIEW

'THE INTRODUCTION OF SOLVENCY II IN 2013 IS A MILESTONE'

As far as Wortmann is concerned, the Rhineland Model has a central place in a sustainable finance industry. Excessive risk taking and inordinate distribution of bonuses in the financial sector must come to an end. The continuity of companies should prevail once again. 'Banks and insurers have to focus on their social responsibilities: to invest in important sectors of the economy and to provide security for companies and consumers.'
This is not to say that the financial sector is solely to blame for the crisis, Wortmann adds. 'People who live in glass houses should not throw stones. Governments have allowed their depts to sky rise. I do not believe government is the solution to everything, but I do not believe in fully liberalised markets either.'

PHOTO: IVAR PEL

THE FINANCIAL SECTOR ISN'T ALWAYS KEEN ON MORE EUROPEAN RULES AND REGULATIONS. RIGHTFULLY SO?

'My first consideration is a sustainable finance sector. In this companies should also take responsibility and have a long term focus. The ball is in their court now. Legislation needs to have incentives to further responsible behaviour. Furthermore, we need to co-ordinate legislation and associated supervision on a European level. If not, we will be dealing with 27 little kingdoms each making up their own rules.'

THE EU COUNTRIES EACH HAVE THEIR OWN AMBITIONS. HOW DO YOU DEAL WITH THE TENSION BETWEEN NATIONAL INTERESTS AND THE EUROPEAN INTEREST?

'As a political group we consider it important that a European supervisory authority has supranational powers. Not all member states agree with us regarding that issue, far from it. Larger countries in particular find it difficult to renounce control. In addition to that, we must be careful not to make exceptions for every national singularity; otherwise European regulation becomes some sort of a Swiss cheese model. At the same time, we must prevent European regulation overlapping existing national securities. If that happens, we risk a costly accumulation of rules and regulations or even a weakening of our supervision.'

DO YOU EXPERIENCE ANY ROLE CONFLICT, BEING A DUTCH REPRESENTATIVE AND AT THE SAME TIME VICE PRESIDENT OF THE EUROPEAN PEOPLE'S PARTY (EPP)?

'In my day-to-day job I don't feel these roles are contradictory. European regulations and countering protectionism are in the interest of the Netherlands. We have an internationally operating trade and industry and a financial sector which is active across borders. I am a people's representative so it is my duty to examine what the consequences of European rules and regulation are for Holland.'
The European Parliament recently decided that Dutch healthcare insurers have an exceptional position regarding Solvency II. The new capital demands turned out to be too strict for Dutch health insurers. In the Netherlands there is an obligatory basic insurance policy. According to Solvency II, this poses an additional risk, as a result of which insurers would have to create higher buffers. Wortmann: 'But the community risk rating system, in which the government shares the risks of the insurers, was not taken into account.'

YOU CONVINCED A MAJORITY IN THE EUROPEAN PARLIAMENT TO SUPPORT THE DUTCH EXCEPTION POSITION. WHY IS THIS SO IMPORTANT?

'The Dutch healthcare system is unique. We have a private insurance system with public guarantees. Precisely these public guarantees eliminate potential risks from the basic insurance policy.
An exception was therefore warranted; otherwise we would have demanded twice as many securities. Insurers would have to hold on to much more extra capital, resulting in considerably higher premiums for the Dutch insured.'

IS IT HELPFUL TO BE VICE PRESIDENT OF THE EPP GROUP IN THESE KINDS OF SITUATIONS?

'Being part of the biggest political group in the European Parliament and holding a leading position in it, is an advantage. Besides that I maintain good relationships with the European Commission, the Ministers of Finance and the European and Dutch supervisors. But when it comes to an exception position, for whichever member state, it is important to have a debate based on arguments for or against a case. In my experience much can be achieved this way.'

ULTIMATELY THERE WILL BE ONE EUROPEAN MARKET. WHAT IS THE STATE OF THE INTERNAL MARKET FOR BANK AND INSURANCE PRODUCTS?

'We notice that many financial stakeholders are withdrawing into their own markets because of the crisis. Banks and insurers are more cautious to venture abroad. But once the crisis is over, they will do this again. That's why it is important to work on internal markets and to agree upon the rules of the game on a European level. For that matter the introduction of Solvency II in 2013 is a milestone. Actually, that has taken too long, which has caused uncertainty in the sector.'

WHAT OPPORTUNITIES DO YOU SEE FOR INSURERS AFTER THE CRISIS?

'The crisis is provoking defence mechanisms, but I think there are many opportunities for insurers in Europe in the next five to ten years. On condition that they are aware of what's going on in other countries. To illustrate this, Holland is ahead of other countries when it comes to consumer protection and education. I think we will make a leap regarding this point in European legislation. This will not only be a slighter change for Dutch banks and insurers than those in other countries, it also offers possibilities. We can export our knowledge and experience in this area.' •

TREATING CUSTOMERS FAIRLY IN UNITED KINGDOM:

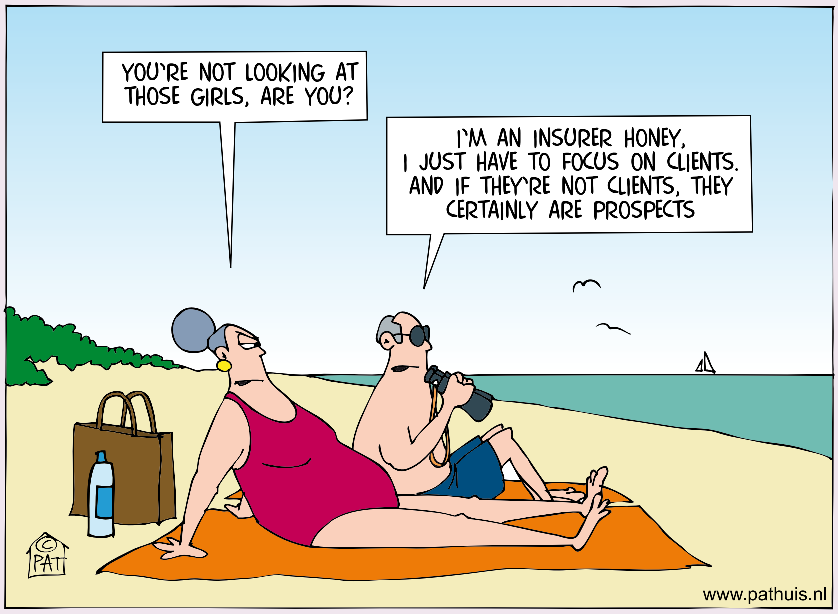
SUCCESSFUL, BUT TRUST REMAINS SHAKY

After three scandals in quick succession in the British insurance sector, the regulatory authorities have come down hard with a package of strict measures. The FSA's plan, Treating Customers Fairly (TCF), has had a beneficial effect, feels Otto Thoresen, Director General of the Association of British Insurers (ABI). The sector has changed its attitude towards customers. But customers remain wary, he admits.

At the end of the 1990s, the pension mis-selling crisis made a huge dent in the image of the British insurance sector, which had to pay out billions in compensation. Then came the crisis involving endowment mortgages for which the reality was often disappointing in relation to the return customers had been led to expect. At the time it was not exactly a case of mis-selling, but more one of miscommunication. And finally, at the beginning of this century, there was the PPI crisis, which also hit hard at the sector's image, even though the problem was mis-selling by banks, not the product itself.

'The sector's perspective was aimed at growth', says Thoresen, 'not customers. It was full steam ahead: "This is going well, that is going well, everything's looking rosy for us and you as a customer will be better off too." Moreover, with 25-year contracts, the sector had no idea how to tell customers about any setbacks, or how to deal with setbacks at all. If there was a dip, then it was just a short-term setback – nothing serious.'

There was no question of deliberate misleading, stresses Thoresen. 'We sincerely thought we were doing the right thing. We just weren't looking at it from the customer's point of view. What's more, the entire British market was dominated by advisors. If insurers thought about customers, then that meant advisors.'



A DIFFERENT CULTURE

'The sector's own plan for treating customers better came five years too late and had too little meat in it', continues Thoresen. The Financial Services Authority therefore presented the TCF package. The core concept is a different culture. You have to be solid as a company, commercially successful, comply with all the solvency requirements and have your risk management properly organised. But you also have to have a precise set of standards, rules and disciplines when it comes to how to treat customers. 'TCF is seen as a framework for management and boards to have identical access to management information on both customers and the financial-commercial side of the business.'

The FSA started out with a general concept, launching ideas and suggestions. Thoresen remembers it well. 'There was a lot of grumbling; people were talking about it everywhere: "What do they want? What's going to happen?" Then you saw there were people who believed in it and that activated a movement. At the same time, all kinds of research data was released: how long before a customer could get out of a contract, how his complaints were dealt with, heavy criticism from the financial ombudsman. Then the FSA just started visiting companies with very concrete questions: how do you think you will be able to comply with the requirements of TCF within two years? How does the board think it can adjust policy? Have you got a dashboard with various types of customer information? Every company was allowed to compile the programme in its own way; after all, no two companies are the same, but the principles applied to everyone.'

'THE SECTOR'S PERSPECTIVE WAS AIMED AT GROWTH, NOT CUSTOMERS'

REVOLUTION

TCF was not immediately received with open arms, according to Thoresen. 'It was a typical denial phase when faced with major change. But the FSA's focus on customers turned out to be extremely helpful. They were in and out of insurers' offices. They showed boards how their business worked thanks to more and better information on their customers. Most importantly, the relationship with the FSA improved because they sat down at the table with the company's Executive Management once a month, sometimes for years. It was a revolution from that point of view.'

In Thoresen's opinion, TCF changed the mentality of insurers, although it is difficult to tell exactly what is cause and what is effect. 'After all, a new generation of management took over, with a different mentality. They are not only concerned with return on investment; they are also convinced that the insurance sector has real added value for people and for society.' Up to a year ago, Thoresen was Chief Executive at AEGON UK. 'When I left, the topics of discussion at board meetings were extraordinarily clearly balanced between purely financial aspects and customer aspects. The TCF aspect has to be an intrinsic part of discussions at the top of every company. At the moment, within every company in the UK there is someone who has the responsibility and authority for achieving this. That's what makes TCF so powerful. So I'm positive about the culture change. But it's still amazing to see how much time such a process takes.'

SLOW

The ABI itself was convinced before some of its own members that customer interests had to be top priority. 'Initially, insurers moved at the pace of the slowest in response to the changes, but now the whole industry is embracing measures that put the consumer first and implementing our own, voluntary codes of conduct. The challenge for us now is to show within a couple of years' time that we can live up to our promises. How? We, as the ABI, are going to scan the market ourselves: where can problems arise? And what can we do about them ourselves before they become an issue? And we're setting up a Consumer Conduct Advisory Panel of senior industry executives to oversee this work. We're not going to oppose a stricter regulatory regime for the sake of it if it benefits customers.'

Nevertheless, Thoresen feels customers are still slightly wary of trusting insurers. 'If car insurance premiums rise, customers ask themselves: "Are there more accidents, has damage repair become more expensive or do insurers simply want to pay out more to their shareholders?" So we're not there yet; we have to keep working on regaining customers' trust. This is a long term battle for the future reputation of the industry.' •

'SOLVENCY II IS A BIG CHANCE'

'The introduction of Solvency II is one of the great challenges for the insurance sector. The road to it was a very long one, but finally there is light at the end of the tunnel', says Peter Skinner, who reports about Solvency II for the European Parliament.

'Insurers are working hard to prepare their systems in time to meet the new demands. Then we will see if Solvency II works in practice. It looks very good on paper but we will have to wait and see.

The gradual introduction of Solvency II offers insurers sufficient possibilities to adjust. Fact of the matter is that it is a big change. It is always uncertain if all companies will be able to make the changeover in time. Not only insurers have to adapt, national and European supervisors have to be ready for big changes too. But they are prepared for it. I have good hopes that everything will be on track at the beginning of 2014.

Both in Europe and the United States people are working hard at new rules and regulations, which is another challenge for insurers and supervisory authorities. It is of great importance that the rules and regulations in the European Union, United States and other parts of the world will be congruent.'

Member of the European Parliament, Group of the Progressive Alliance of Socialists and Democrats

‘Competitive position of European industry should be taken into consideration’

ALEX WYNAENDTS, CEO AEGON

As chairman of the Pan-European Insurance Forum, Alex Wynaendts knows like no other how important it is to consider themes such as Solvency II and pension reform from an international perspective. ‘Solvency II is a key priority. We must ensure that this framework does not generate high levels of volatility in insurers’ balance sheets and own funds, and does not affect the competitive position of the European industry outside Europe.’

YOU CURRENTLY CHAIR THE PAN-EUROPEAN INSURANCE FORUM (PEIF). WHAT IS PEIF AND WHAT ARE ITS KEY TOPICS?

‘PEIF is a forum of the CEOs of twelve major European insurers: AEGON, Allianz, Aviva, AXA, Generali, ING, MAPFRE, Munich Re, RSA, Swiss Re, UNIQA and Zurich. In June 2011, I took over as Chair for a 2-year term. PEIF offers its members the opportunity to discuss policy and regulatory developments concerning the internal market – an issue of central interest to Europe’s multinational insurers each of whom is confronted by the opportunities and challenges of trying to combine within one company the diverse insurance and pensions landscapes not only across Europe but beyond.

I think the spread of our operations is the key difference between PEIF members and predominantly domestic players. However, for the insurers in PEIF, just like for other insurers, the two major topics currently under discussion are the emerging new EU prudential regime for insurance supervision, Solvency II, and EU pension reform.’

SOLVENCY II MUST BE A KEY PRIORITY ON THE AGENDA OF BOTH PEIF AND THE INDUSTRY. TAKING INTO ACCOUNT THE ORIGINAL OBJECTIVES OF SOLVENCY II, WHICH ISSUES DO YOU BELIEVE STILL NEED ADDRESSING?

‘Yes, this is absolutely true: Solvency II is a key priority. In my view, the two main issues to be addressed effectively before implementation are how to deal with the volatility introduced by the framework and how to ensure this framework does not affect the competitive position of the European industry outside of Europe. Solvency II is a risk-based prudential regime and is intended to encourage sound risk management. I welcome this. However, as currently proposed, the framework would generate high levels of volatility in insurers’ balance sheets and own funds. If not properly addressed, this will most likely affect insurers’ ability to act as long-term investors on the one hand, and on the other hand, affect the design and availability of long-term products such as pensions. In order to avoid such unintended consequences, the framework needs to include well-designed counter-cyclical measures in order to reflect the long-term nature of the insurance business. In addition, the framework needs to include workable equivalence transitional measures to maintain the global competitiveness of European based insurance groups.’

YOU MENTIONED EU PENSION REFORM AS A PRIORITY ISSUE. WHY ARE INSURERS INVOLVED IN THIS DEBATE?

‘Europe’s insurers are active in pensions in many different ways. They not only provide private pensions, they also provide occupational pensions – in some countries they are in direct competition with occupational pensions funds, so-called IORPs. Elsewhere insurers provide key services to pension funds. They may even have IORPs as subsidiaries. For example, AEGON’s pension business in the Netherlands conducts these various activites. What is unique about Europe’s multinational insurers – such as those represented in PEIF – is that they combine all these pension roles across Europe in one corporate structure. As such, we embody Europe’s pensions complexity in a way that no other providers do, that’s why we are extremely interested in this debate.’

WHAT DO YOU BELIEVE ARE THE KEY ASPECTS OF PENSION REFORM DEBATE – PARTICULARLY IN EUROPE?

‘Ageing, the financial crisis and globalization make pensions very topical and a key focus in every European country. Across Europe, the pensions debate is currently dominated by the proposed reform of the prudential regime for pension funds – or IORP Directive. Pensions are very national, different legal frameworks can reflect different cultural approaches to pensions. Nevertheless, all countries face the same question: how to balance collective and individual responsibility to achieve fair, efficient and secure outcomes. Informed choice here demands full product transparency: a clear view of similarities and differences between different pensions, regardless whether we are dealing with IORPs or insurers. Only a risk-based, economic approach can deliver this. It’s true that developing such an approach for pensions raises questions that still need to be answered. However, this requires a rational and measured pensions’ debate in Europe – one in which the evolving Solvency II regime and reform of the IORP Directive are treated as two sides of the same coin. AEGON – and PEIF – would like this debate to be as objective and as fact-based as possible. Apart from my involvement through PEIF in the European pension debate, I want to emphasize AEGON’s own commitment to creating greater awareness, not just of the challenges but also of possible solutions, at a global level. We look at levels of pensions readiness on the part of working individuals. Are the systems in place adequate to account for increased longevity for instance? It is clear that a concerted effort is needed to make citizens aware of their personal responsibility for their retirement and to enable them to act in time to be well-prepared for their future. We are all personally responsible for our long-term financial security. What we do today to prepare for retirement, and with the support of public policies, employers and the industry, will ultimately determine our readiness.’ •

‘BACK TO THE CORE BUSINESS!’

‘The insurance sector’s stabilising role has been and still is of great importance during this time of crisis. Its key objective, the provision of long-term investments and products, should be enabled and facilitated by regulations. To provide added value to policyholders should be the top priority, in particular when costumer advice, cost structure of products and transfer of risks are concerned.

The attractiveness and sustainability of products is first of all a duty of the insurance sector itself. I do not believe that the engagement of insurance companies in quasi-banking business is useful or wanted. It is up to the insurance business to reconsider its core values and qualities. If you ask me to provide a key message, my reply would be: back to the core business!

As a rapporteur of the European Parliament on the Omnibus II Directive, I’d like to take the opportunity to emphasize the significance of our commitment to general Solvency II principles. Solvency II ensures the implementation of necessary improvements to insurer’s risk management and governance. It also increases policyholders’ protection.

We should not take the easy road and deny the advantages the new solvency regime is going to put in place. A common understanding of Solvency II rules is absolutely necessary to prevent competitive distortions across national markets in Europe. This understanding should include the principle of proportionality, which needs to be enforced to lessen the burden on small undertakings.’

BURKHARD BALZ

Member of the European Parliament, European People’s Party (Christian Democrats)