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"Insuring in the long term in a short-term world"

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Madam President, Ladies and Gentlemen

I am delighted to participate in this 11th International Insurance Conference. This will be my fourth time at this unmissable annual event, but the first for you, Florence. Bernard Delas and I would like to offer you our warmest wishes for success at the head of the *Fédération française de l'assurance* (FFA – French insurance federation). For our part, changes are also underway and I would like to take the opportunity this evening to welcome the appointment of Dominique Laboureix as Secretary General of the ACPR, with First Deputy Secretary General, Patrick Montagner, whom you know well, at his side.
The subject of your 11th Conference – "Insuring in the long term in a short-term world" – perfectly sums up the real challenge to the insurance profession. I would like to begin by thanking France's 712 authorised insurers that never waver in playing their key role in the financing of our economy, with EUR 2,600 billion of investments. In 2018, France became the leading European insurance market, outpacing the United Kingdom and Germany in terms of total balance sheet value and non-life premiums earned. The French insurance market has also enjoyed strong growth, with revenue up by almost 3% [2.7% and 3.1% in non-life and life insurance, respectively]. In response to the legitimate concerns that many of you have raised, I have chosen to focus on two main issues: the challenge of low interest rates (I) and our ambition for the Solvency II review (II).

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I. The challenge of low interest rates

A. The economic situation compels us to keep interest rates low

I recently marked out the limits that I believe should be set for monetary policy. I thus feel all the more obliged to clarify why the low interest rates are needed, why they are going to continue, and how we have to adapt to them together.
I hear your concerns with regard to low interest rates, and I fully understand them. However, it is important not to lose sight of the long-term perspective: low interest rates are not only driven by monetary policy – they are primarily the consequence of long-term **structural** trends, notably resulting from the

change in the balance between a high level of savings and a fall in investment linked to an ageing population and the slowdown in productivity. The low interest rates thus reflect the historic low level of what economists refer to as the real natural rate of interest, R*, which has declined by around 2 percentage points over the last 15 years in both the euro area and the United States.

Furthermore, for the last several months, we have been experiencing an **economic cooldown** whose causes largely lie outside the euro area. According to the IMF, heightened trade tensions are expected to shave up to 0.8% off global GDP in 2020, primarily due to mounting political uncertainty and a resulting decline in business confidence. At 3% in 2019, global growth is expected to be at its lowest level since 2008/09. The euro area as a whole has been badly affected, principally due to the weight of Germany, whose growth at best is expected to amount to 0.5% this year. Our country is holding out far better with expected growth of 1.3% this year and the next.

I would just like to add a few words about **Brexit**: even with a withdrawal agreement, all aspects of a possible trade agreement and its financial services component will still have to be negotiated in 2020. The uncertainty surrounding Brexit will therefore continue. Our monitoring of the implementation of contingency plans, however, gives us confidence for the future of the French insurance industry: for our part, we are ready, for every scenario.

Given the context of prolonged uncertainty, we are compelled to **pursue an accommodative monetary policy**. It would go against all logic to raise interest rates now. When there are reasons for supporting demand, which is apparent in the excessively low inflation we see today, active monetary policies have to be maintained. This is the main reasoning behind the strengthening of our forward guidance, which we reasserted yesterday at the Governing Council. We now foresee that the ECB’s floor rate will remain at its current level of -0.5% or lower, until there is a lasting convergence in the inflation outlook towards a rate that is sufficiently close to, but below, 2%. The low interest rates, and even the negative interest rates, are nothing new: what is new is that the low interest rates are going to continue, and have to continue, given the global economic cooldown.

The current low interest rate environment also has **positive effects** that must not be underestimated. If the ECB had not acted to bring down interest rates and purchase assets, there would have been between 1 and 1.5 percentage point of inflation less in the euro area during the 2015-18 period, but above all there would have been less growth (of approximately 2.5 percentage points) and fewer jobs in France and Europe. The insurance profession, like banks, benefits from this improved economic environment. Since 2013, the euro area has created 11 million jobs. Mario Draghi, whose term comes to a close next Thursday, has been far more than a great ECB president. He has been a great servant of Europe.

B. This low rate environment calls for vigilance and adaptation

Nonetheless, and this is an undeniable fact as it is mechanical, low rates are putting pressure on European insurers' SCR coverage ratios. Their solvency ratio remained stable in 2018 at an average of around 240%, but it is true that it declined sharply in the first half of 2019 to 225% [Q2 2019]. This level is still high though, and testament to the resilience of all Europe's insurers: it gives them the time and capacity they need to make the essential adaptations. The impact of low rates on insurers' solvency, especially for those companies covering long-term risks, has already been one of the supervisor's priorities for a number of years. This year the ACPR has again strengthened its supervision of the management of low interest rate risk by ensuring "ongoing close monitoring" of those firms that are most exposed. In this context, I would like to urge insurers to intensify their efforts in two areas: reducing the rates paid to policyholders, and diversifying their products and business model.

The reduction in revaluation rates – of around 0.17% or 17 basis points on average per year since 2011 – has to be continued and stepped up after being put on hold last year. For insurers to meet their long-term commitments securely, they have to – and this is imperative – pass on the lower returns on their investments to the remuneration rates on life insurance policies. The rates currently being paid to existing policyholders are still high: 1.8% on average.

In parallel, the only way insurers can meet their long-term return requirements is to **diversify their products**. Unit-linked policies accounted for more than a quarter of gross inflows in September 2019, but only 7% of net inflows. This discussion is relevant for **new subscriptions**; for top-up payments into existing policies, the terms of the contract must of course continue to apply. With regard to new policies and new ad hoc inflows, these should not lead to the returns paid to existing policyholders being overly diluted. The duty of advice applies here: it has to be tailored to the individual client and to their particular situation, but it is rarely good advice to invest 100% in euro funds or 100% in unit-linked policies. So I am asking you to use your innovative capacity and promote offerings that, alongside eurocroissance and retirement savings, could make up a category of investments where the risk is contained, somewhere between euro products and unit-linked policies. At the ACPR, we are fully prepared to facilitate these initiatives, by supporting any demands for regulatory adjustments that might prove necessary, and without ruling out a recalibration of the tax rules applicable to different products.

But more broadly, over the medium-term, it is life insurers' business model that needs to be redesigned. We need to think about this together, and get ready to use all the levers that can help in this transformation.

II. Our ambition for the Solvency II review

I would like to turn now to your second major concern: Solvency II. We are entering a consultation period that is absolutely critical and that will lead in June next year to the issuance of an opinion by EIOPA. This opinion, which will be reviewed by the Commission, will form the basis for the negotiations with the Council and Parliament that are scheduled to start in early 2021.

Here again, we need to put the challenges posed by Solvency II into perspective. Let me remind you that this is the most ambitious reform ever undertaken in insurance. The new regulatory framework, based on an approach that takes into account all risks to which insurers are exposed, has undeniably strengthened the resilience of the European insurance market. However, and you yourselves see this every day, the prudential requirements imposed by Solvency II have a number of drawbacks, including being volatile and complex. To remedy this, let's take advantage of the window of opportunity offered by the directive's review, and push for four priorities that are essential for financial stability and for the sound financing of the economy:

(i) All things being equal, the revision **must not lead to an increase in capital requirements** for the European insurance industry.

(ii) It would be counterproductive to artificially lower the capital requirement by stopping equity investments. But despite the advances obtained in 2018, this asset class is still being penalised. We are therefore calling for a reduction in the shock applied to all equity categories, to make the standard easier to read and reduce insurers' capital charge. "Insuring in the long term", to come back to today's topic, means providing our MTEs and SMEs with greater access to equity financing. Our economy, like that of our euro area neighbours, is seriously lagging behind in this field: in France, equity financing only amounted to 79% of GDP in 2019, compared with 122% in the United States.

(iii) The weight of the **risk margin**, which on average accounts for 30% of capital requirements at the European level, needs to be reduced. The current method of calculation is too prudent and penalises long-term insurance products such as savings, retirement and prudential products.

(iv) Last, we need to move towards greater **simplification**: "What is simple is always wrong. What is not is unusable".[i] This irrefutable observation from Paul Valéry should be an incentive for us to push for concrete measures to simplify the standards and **converge supervisory practices**. I'm thinking about a reduction in the reporting burden and requirements for activities that are low risk. And on a more structural level, I'm thinking about **the overcomplexity** of the method for calculating mathematical reserves, which undermines the comparability of prudential balance sheets.

With the upheaval currently underway in standards, it would be a mistake to roll out **IFRS 17** too prematurely. Let's take it slowly, and grant our insurers a little respite so they can assimilate the regulations and prepare, to the best of their abilities, for the future requirements. This extra time would also be useful for the IASB, to allow it to take full account of the concerns of Europe in the current low rate environment.

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My conclusion aims to be a conviction, one that I hope you will share: we are waging these battles collectively for the benefit of the **insurance industry**, which is a key player in the economy. We are also waging them to protect **policyholders**, who are one of the ACPR's core responsibilities. And we are waging them to prepare for the **future** and to be able to make the massive investments that will be necessary. Beyond the issue of low rates, therefore, insurance has an essential role to play in this world which, more than just being "short-term", is also undergoing major upheavals. A **climate** upheaval, first and foremost, and I welcome EIOPA's "sustainable finance" group, co-chaired by the ACPR, which will also modify Solvency II to take better account of climate-related risks in the governance and management of insurers' risks. Second, a **digital** upheaval, which is completely transforming your activities and raising crucial questions about the protection of policyholders' data, and about the rising threat of cyber risk and how to insure against it. Yes, this world really needs insurance. Thank you for your commitment and your attention.

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[i] Paul Valéry, *Mauvaises pensées et autres*, 1942.