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Ladies and gentlemen,

I am very happy to be here today for this 8th International Insurance Conference - the first to be organised under the aegis of the French Insurance Federation - and I would particularly like to extend my regards to the federation's Chairman, Bernard Spitz, as well as to its vice-chairmen. Although I have met you all several times in the past year, this is the first time I have participated in an event in my capacity as Chairman of the ACPR, the Autorité de Contrôle Prudentiel et de Résolution. Rest assured that at the ACPR, I - indeed we - regard the insurance sector as every bit as important as the banking sector. With a total of 826 licensed firms in France in 2015, oversight of the insurance sector is a vital part of our mission to safeguard financial stability – which, alongside monetary strategy and the provision of services to the economy, forms part of my threefold mandate as Governor of the Banque de France.

As supervisors, we are concerned on a daily basis with the theme of this conference: the insurance industry of tomorrow. Indeed, given the speed at which things are evolving, tomorrow's insurance landscape is already very much present today. Among the many changes you are being forced to adapt to – technological, environmental, macroeconomic and regulatory – I would like to look in particular at two key challenges: the persistent low interest rate environment, and the profound changes to the regulatory framework with the entry into force of Solvency 2.

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I. First, the challenge of low interest rates

On this issue, it is important not to lose sight of the broader picture: low rates are not solely the result of monetary policy, they are also a consequence of the global savings glut; and the current low rate environment is not just having negative effects, it is also producing benefits that should not be underestimated. If the ECB had not acted to lower interest rates, we would have even lower inflation today – and the deadly threat of deflation - and less growth in France and Europe. This would be detrimental for insurers as well as banks. In addition, low rates are having a direct positive impact on insurers' balance sheets: the unrealised capital gains on past purchases of securities have increased significantly. In 2015, they amounted to EUR 271 billion.[1]

Of course, the fact that this low interest rate environment is persistent means that regulatory authorities need to be vigilant and that the insurance sector needs to adapt. This applies in particular to life insurance, France's leading savings product, with an average outstanding investment of EUR 24,000 per

[1] ACPR, *2015 Annual Report*, October 2016. The figure shows the unrealised capital gains recorded by all insurance companies (including mutual and provident insurers) on all asset classes. The unrealised gains on the bond holdings of insurers covered by the Insurance Code amounted to EUR 151 billion in 2015.

inhabitant. The low interest rate environment is squeezing insurers' profits: it is creating a situation where the returns on new securities added to investment portfolios are lower than the rates paid out on insurance policies. In response, insurers have already started to lower the rates paid to policyholders: in 2015, they fell by an average of 25 basis points compared with the previous year. However, this is still insufficient when compared, in particular, with the fall in 10-year OAT yields: a drop of 80 basis points over the same period. I would therefore urge insurers once again to show moderation and to be realistic when setting rates of return on euro-denominated life insurance policies for 2016.

The low rate environment also raises a fundamental question about the diversification of savings products. 2015 was marked by a shift among savers towards unit-linked products: net inflows almost doubled compared with the previous year, to EUR 11.4 billion, while inflows into euro-denominated products declined by 25% to EUR 10.5 billion.[2] However, unit-linked policies are almost certainly not the only answer, especially as their rise in popularity will need to be accompanied by a high standard of financial information, to ensure that policyholders are fully aware of the associated risks.

Public authorities and industry professionals need to combine forces and continue looking for ways to redirect French savings. Without necessarily making it an issue in the upcoming electoral debate, the solution could aim to be compatible on three levels: with the low interest rate environment, with the need to better channel resources towards productive investment – and therefore corporate equity – and with the expectations of savers. Prompted by the increase in life expectancies and the need to prepare for retirement, savers are adopting increasingly long-term investment horizons: they are more

[2] ACPR, *2015 Annual Report*, October 2016.

concerned with the security of their investments than with liquidity. Taking inspiration from the new Euro-croissance policies, it makes sense to offer savers new, complementary forms of saving products that are less liquid and include some form of long-term capital guarantee, and that allow them to take advantage of the higher returns offered by equities over the long run. We also need, at the very least, to avoid any tax distortions that might penalise these products more than liquid and risk-free investments.

Given the current low rate environment, the ACPR is taking care to ensure that insurers remain alert to the risks of adverse developments and take appropriate measures to counter them. For this reason, as part of the 2015 preparations for the Own Risk and Solvency Assessment (ORSA), it asked insurers to conduct an in-depth analysis of the impact of persistent low rate scenarios on their solvency, finances and ability to meet their commitments. In addition, this year EIOPA is conducting a Europe-wide stress test. For France, the scope of this exercise is particularly broad: the ACPR has extended it to cover 90% of the market, compared with the 75% specified by EIOPA. Unlike bank stress tests, insurance stress tests are not “fail or pass” and as a result will not lead to the application of additional capital requirements. The findings, to be published by mid-December, will make it possible to determine precisely how exposed the insurance market is to the risks linked to the low rate environment. The ORSA exercise and stress-tests will enable the ACPR to identify weaknesses, and we fully intend to discuss any counter measures to be put in place with the establishments concerned.

Lastly, there is the proposal, under the draft Sapin law, to extend the powers of the French macroprudential authority, the HCSF, to the insurance sector. There is no point trying to turn this into a controversy; indeed doing so would only be counterproductive for the protection of policyholders. Let me say this

unequivocally: there is no threat to the savings of French investors, and no question of making changes to the terms of their policies. On the contrary, our responsibility, after the crisis we have experienced, is to better protect the rights of policyholders, and by that I mean all policyholders. The sole purpose of this measure is to enable us to protect French savers in the event of serious and exceptional threats to financial stability. If ever it were needed, we would be sure to use it appropriately and in the collective interest.

II. Second major challenge for the insurance sector: the complete overhaul of the regulatory framework

The Solvency 2 Directive came into force in the European Union on 1 January this year after 10 years of difficult negotiations. Despite what critics say, this overhaul of the regulatory framework was necessary. The previous framework, which dated back to the 1970s, was no longer adequate. It did not take into account the true nature of risks: capital requirements, for example, were independent of asset allocation. The new supervisory framework now includes requirements relating to governance, cooperation between European supervisors in the same group, reporting and transparency vis-à-vis the market. The principles of Solvency 2 are not perfect but they do represent genuine progress: investment freedom in return for compliance with the "prudent person" principle, joint valuation of insurance assets and liabilities, and the taking into account of "long-term guarantees" to mitigate the effects of financial market volatility on capital.

That said, there are a number of developments that would be desirable. A review phase of the standard formula and the long-term guarantee package is

scheduled at the European level for 2018-2020. This step provides an opportunity for improvement in at least three areas:

- Firstly, the simplification of the regulatory framework. The complexity of the standard formula is neither desirable for the industry which has to produce these new calculations, nor for supervisors, nor for financial markets.
- Secondly, insurers should remain a genuine lever for financing the economy. The insurance sector is the largest institutional investor in the European Union, with almost EUR 9,800 billion invested in the economy in 2015. You have often brought this issue up with me... and it has now been clearly identified at the European level. There are already plans for improvements in two areas, upstream of the review phase: infrastructure corporates on the one hand – EIOPA has proposed a revision; high-quality securitisation products on the other. More generally, it is essential to consider the potential deterrent effect of Solvency 2 on more "risky" investments, which are necessary to ensure the proper functioning of our economy: equities, whether listed or unlisted, loans to SMEs and MTEs but also green assets or investments in innovative companies.
- Finally, we know that Solvency II is more volatile than the previous regime. Measures have already been integrated to limit the procyclical effects of a market value-based balance sheet. It is worth mentioning the matching adjustment,[3] the volatility adjustment[4] and the symmetric adjustment for equity risk,[5] which complement a set of transitional measures to ensure a gradual entry into force of the new regime. The effectiveness of these measures should be assessed in the coming years, and if it proves inadequate, amendments should be proposed.

[3] which takes account of the reality of asset-liability matching.

[4] which adjusts changes in bond spreads not linked to default risk.

[5] which adjusts the capital charge according to the position in the equity cycle.

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I could also have talked about digital technology, or climate change; I know you are already dealing with these issues. Going forward, however, there is one thing we can be sure of: in a world of uncertainty, and therefore of volatility, the business of insurance, your business, will remain central to two key challenges: protecting against risks and preparing for the long term. Insurance is a strength, both for France and for its economy. As the industry continues to evolve, rest assured that the ACPR’s staff will remain fully committed to supporting you day-to-day. Thank you for your attention.