

The EU's Capital Markets Union: stocktaking and next steps

The insurance industry is Europe's largest institutional investor, investing over €10 200bn in the economy. It fully supports the ambitious aims of the European Commission's Capital Markets Union (CMU) project to boost European growth by strengthening the single European market and stimulating the sustainable development and integration of capital markets in Europe by removing barriers to investment.

Below is Insurance Europe's high-level assessment of progress on the CMU project since it was launched in 2015, followed by initial recommendations for the way forward.

Insurance Europe's assessment

- The CMU work needs to continue but to recognise that:
 - There is still a significant lack of suitable sustainable assets.
 - The challenges posed by ageing societies and strained state pension systems require more action, especially by member states, than the pan-European pension product (PEPP) already proposed.
 - Increasing consumers' confidence in financial products requires a regulatory framework that helps them to make the right financial decisions.
 - New regulations have proven complex and highly prescriptive, often with implementation deadlines that are too tight.

- The insurance industry therefore makes eight high-level recommendations:
 1. **Assess whether the CMU actions taken so far have had the intended impact.** This assessment should have two objectives:
 - i. to take further steps where the impact is found to have been limited
 - ii. to learn lessons to ensure the effectiveness of new initiatives
 2. **Define measurable, quantitative objectives for every piece of EU regulation** and relate them to the EU's top priorities (eg aim to release €xxbn of capital in the review of Solvency II to support the objective of growth and long-term investment).
 3. **Maximise insurers' investment potential** by fixing how Solvency II deals with long-term business and investments.
 4. **Increase the availability of suitable sustainable assets** (eg green infrastructure PPPs) to support Europe's transition to a low-carbon economy. Continue and foster Juncker Plan initiatives such as the EFSI, advisory hubs and, more broadly, credit-enhancement mechanisms.
 5. **Make substantial growth in savings for retirement a major objective.**
 6. **Address consumer misinformation that results from EU legislation** not reflecting real-life sales processes, as identified in the EC's REFIT Platform recommendations.
 7. Ensure that EU regulations **create a level playing field** within Europe and **do not harm the global competitiveness of European business.**
 8. **Allow sufficient time for implementing any new regulation** by creating separate timeframes for developing Level 2 and 3 measures and for industry implementation.

Insurance Europe's proposed way forward

WHAT?	WHY?	HOW?
Massively increase saving for retirement	<ul style="list-style-type: none"> ■ To address the pension gap & ensure adequate retirement provision as states face up to ageing societies & unsustainable state schemes ■ To generate the investment funds needed to fund sustainable development projects 	<p><u>DO</u></p> <ul style="list-style-type: none"> ■ Governments should introduce/facilitate: <ul style="list-style-type: none"> ■ well balanced, multi-pillar pension systems ■ transparency about public pension entitlements ■ workplace/digital distribution of third-pillar pensions ■ the incentivisation of the accrual of pensions via the workplace/employment (second and/or third pillar pensions, eg by auto-enrolment mechanisms) ■ tax incentives to foster retirement savings that remain stable over time ■ The EC should finalise the PEPP in a way that is attractive to sellers and buyers ■ The EC should amend Solvency II to reflect the real risks of long-term pension liabilities <p><u>DON'T</u></p> <ul style="list-style-type: none"> ■ Rush to create other standardised EU products until the success or otherwise of the final PEPP has been fully assessed
Maximise insurers' investment potential	To enable insurers to support the transition to a low carbon economy and contribute to economic growth	<p><u>DO</u></p> <ul style="list-style-type: none"> ■ Address regulatory barriers to insurers' long-term and sustainable investment. The 2020 Solvency II review should therefore: <ul style="list-style-type: none"> ■ Fix flaws in the treatment of long-term business (valuation and capital requirements) ■ Reduce capital requirements where there is proof that they are overly-conservative ■ Release capital that could be directed towards long-term investment and growth ■ Avoid overly prescriptive, new sustainability regulation until a taxonomy is tested and there is greater data availability ■ Avoid artificial capital incentives/disincentives applied to "green"/"brown" assets ■ Avoid crowding out institutional investors by sub-optimal use of public funding facilities (eg EFSI) ■ Harmonise insolvency and enforcement laws to foster cross-border investing <p><u>DON'T</u></p> <ul style="list-style-type: none"> ■ Increase the capital burden placed on insurers

<p>Address consumer misinformation resulting from EU legislation</p>	<p>To boost levels of consumer confidence and help consumers make informed financial decisions</p>	<p><u>DO</u></p> <ul style="list-style-type: none"> ■ The EC's retail strategy should: <ul style="list-style-type: none"> ■ Remove information overload and duplications that result from the cumulative application of EU legislation, in line with the REFIT Platform recommendations ■ Ensure consumer information is meaningful and fit for purpose (highlights the benefits of protection) ■ Remove the mandatory use of paper and ensure legislation is digital-friendly, technologically neutral and sufficiently future-proof for the digital age ■ Improve consumers' financial literacy by: <ul style="list-style-type: none"> - encouraging national financial education strategies and the incorporation of financial literacy components into school curricula - encouraging the creation of national pension tracking tools - introducing a European Day of Financial Education, for example as part of Global Money Week <p><u>DON'T</u></p> <ul style="list-style-type: none"> ■ Impose new disclosures that have not been proven to improve consumers' decision-making ■ Create additional requirements that make the real-life purchasing process less convenient for consumers
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