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"Insurance in a world of disruption"

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Ladies and Gentlemen,

I am very happy to be here today as supervisor in my capacity as President of the ACPR, and also as guarantor of the smooth financing of our economy in my capacity as Governor. In these two respects, the insurance sector is both close to me and important to me. Thank you for inviting me to speak on this theme of disruption. To put it more clearly, and as you have pointed out, Mr. President [Bernard Spitz], the world is in turmoil in many ways. This undeniably represents a challenge for insurers, but also a motivation: the raison d'être of insurance has always been to be a vector of protection and stability in the midst of uncertainty. This morning, I would like to stress the essential role that insurance must play in our economy, by emphasising two areas: its financing and its digitalisation. But before that, I would like to mention the very recent developments in monetary policy.

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<u>I. Our monetary policy is in itself a source of stability</u>

Yesterday, at the Governing Council presided by Mario Draghi, we took the important decision to reduce our net monthly asset purchases by half – to EUR 30 billion – until September 2018. This is an essential step towards their possible end later; a step that is justified by our confidence in the gradual convergence of inflation towards our target of 2% over the medium term: we consider the economic recovery in Europe to be "increasingly robust and broad-based". In parallel, we said that we will continue to ensure "ample" monetary support, rather than "very substantial" support as mentioned in our previous statements – thanks to the whole range of our instruments, including the sizeable stock of assets that we will continue to hold in line with our policy of reinvestment, and our forward guidance on interest rates. In this new paragraph, the Governing Council stresses an essential point that I have often referred to over these past few weeks: our non-standard monetary policy is not a solo – it is not simply about net monthly purchases, and we shouldn't focus too much on them –; it is a group of instruments that we can play, by following a predictable sequence, as part of our gradual normalisation strategy.

It is therefore important that insurers continue to adapt their business models to the low interest rate environment. In particular, I welcome the gradual moderation of interest rates paid out on life insurance contracts, which should be pursued in order to maintain, in the long run, insurers' solvency and their ability to meet all their commitments vis-à-vis policyholders.

I would like to add a few words on the bad controversy that had surrounded the **Sapin II law**, and which now luckily seems to be behind us. Much has been said about the measure which gave the possibility to the *Haut Conseil de stabilité financière* (HCSF) to limit life insurance withdrawals in the event of a crisis, and which was, according to some, an impingement on French citizens' freedom to dispose of their savings. These allegations were, perhaps, temporarily detrimental to life insurance; it would therefore be in your interest as professionals to point out, against certain populist excesses, the truth, which you know: these powers are only intended to be used in serious and exceptional circumstances, to better protect the rights of policyholders. Here again, our concern is to preserve stability.

II. The essential role of insurers in the financing of our economy

The insurance sector is the largest institutional investor in the euro area, with total assets of close to EUR 7,800 billion in the second quarter of 2017, of which more than EUR 2,600 billion for the French market alone. Better steering these flows to sectors that need long-term financing is essential for our economy. What comes to mind are infrastructures, of course, but also companies, which need more **equity financing** to be able to innovate more: as innovation is more risky, it is financed through capital rather than debt. Start-ups are well aware of this, but our scale-ups, midcaps and SMEs also need greater access to equity leverage. In this field, our economy, like that of our neighbours in the euro area, is seriously lagging behind: in France, equity only accounted for 64% of GDP at end-2016, which is half as much as in the United States (128%).

It is true that French and European savers are very attached to safe investments. The bulk (69%) of the EUR 4,765 billion in financial wealth held by French households is invested in interest rate products, compared to only 31% in equity products, i.e. invested in corporate capital in the form of listed or unlisted shares.[i] However, it is important to distinguish, with respect to savers' expectations concerning security, two components: they are attached to the **protection of capital**, even more so than to liquidity. With the increase in life expectancy, and with a greater need to prepare their retirement, savers are increasingly being steered towards long-term products; the liquidity component is becoming less decisive.

Here, insurers have an essential role to play, by **taking the lead on new forms of life insurance** that aim for a three-fold compatibility: with low interest rates, our economy's need for equity financing and the expectations of the French people. This requires new long-term savings products that are less liquid but feature a form of capital protection and offer over time the higher equity-type returns. Let me make myself absolutely clear: the development of unit-linked policies is not a sufficient response. I take note of the vitality of these policies' net premium inflows (up 27% in 2016, with inflows for the first 10 months of 2017 at more than twice their levels for the same period in 2016), but they offer no capital protection, and let me remind you of the duty to advise on the real risks incurred by policyholders. Instead, we must encourage the Euro-Growth (*Eurocroissance*) product, which should be revamped and expanded. The product's initial calibration has prompted debate; its commercial take-up, though tangible (assets under management of around EUR 1.8 billion), is still slow. I know that certain professionals have their own ideas to address that. And it's my sincere hope that progress is made on those ideas, and quickly. It is not the responsibility of the public authorities to develop good products – that is down to you –; but it will be our responsibility to encourage them, at the proper time, through the appropriate prudential and even tax-related measures. This struggle, targeted towards life insurance that is more equity-linked and long term, seems more promising to me than the struggle against the flat tax (*prélèvement forfaitaire unique)*; I would like to mention in passing that the flat tax contributes to a neutral stance on the different forms of savings, which is long overdue.

The diversification, properly understood, of the investments of French savers towards more equity-based, long-term savings is in everyone's interest. And today there are additional incentives for life insurers to offer new products that break away from the dual cash-liquidity guarantee, due to the lesser Solvency II capital requirements.

And this brings me to the issue of regulation. Here too, insurers have an essential role to play, in **preparing the review of the Solvency II Directive's new regulatory framework**. The directive came into force almost two years ago now and you have implemented it with a great deal of professionalism. In many respects, Solvency II represents a very significant step forward for the insurance sector. But this does not mean that it's perfect: we must analyse its impacts closely, particularly its effects on investment behaviour and the financing of the economy, in order to propose the adjustments that prove necessary. Progress has already been made on the financing of infrastructure projects and businesses, thanks to two amendments that came into effect in April 2016 and September 2017, respectively, which adapted the calibration of capital requirements. More generally though, the reviews of the standard formula and long-term guarantee package measures planned for 2018 and 2020, respectively, are important opportunities to make essential improvements. The work is already underway, and the more you actively participate, alongside your European colleagues, the more our chances of success will be enhanced.

III. The role of insurers in the digitalisation of our economy

It is essential for our economy to adapt to the digital revolution: it creates incredible opportunities, but with them, new risks against which the insurance sector, once again, can bring stability and protection. I would like to discuss two subjects in particular:

- Firstly, **cyber-insurance**. The cyber-insurance market is still underdeveloped. Insurers can and should take inspiration from their own experiences in tackling cyber-risk, and use it to develop a more mature French and European cyber-insurance offering. The coverage against cyber-risk is a very real concern that affects all companies – both small and large – as cyber-attacks are becoming increasingly frequent and costly: according to figures from Euler-Hermès, 57% of French companies were victims of these attacks in 2016, compared with 32% in 2015. We at the Banque de France, alongside the Eurosystem and our G7 colleagues, have made cybersecurity one of our strategic priorities.
- And secondly, **personal data** and big data. Naturally, the spread of connected objects that is triggering an exponential rise in the amount of data available on insurance policyholders represents an opportunity for the business of insurance, which consists precisely in collecting and exploiting data in order to quantify and put a price on risk. Nonetheless, I would urge insurers to take a responsible approach: we need to strike the right balance between segmentation and the sharing of risk between policyholders. The basic principles of solidarity and risk-pooling that are intrinsic to insurance are at stake. And we must not lose sight of our collective values regarding individuals' right to privacy.

Before concluding, I would like to add a few words about Brexit. The French authorities are mobilised and committed to making Paris a leading destination for insurance undertakings. The ACPR has taken the lead with an English-language fast-track authorisation. We are holding serious and discrete discussions with various business prospects. The recent announcement by the American group Chubb, the United States' leading property and casualty insurer, of its intention to transfer its operations to Paris demonstrates that our expertise in supervision in particular is a recognised asset. But mobilising must not mean abandoning our high standards and requirements, and Brexit cannot be an opportunity for British entities to simply set up empty shell corporations in Europe, mere company name plates, while keeping their resources in the United Kingdom. In this respect, I fully agree with the vigilance called for by EIOPA. And lastly, Brexit also brings with it certain risks, and consequently the need for contingency plans: I am thinking particularly of the French policyholders who took out insurance directly with British undertakings, and by way of symmetry, the French undertakings with commitments in the United Kingdom.

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Beyond what the insurance sector can do for our economy, I would like to conclude by telling you what we can do for you. At the Banque de France and the ACPR, we are ready and committed to supporting you through all the current upheavals that are forcing you to rethink your business models and professional reflexes. That could be digital technology – for which we have created a FinTech unit and put in place the FinTech Forum – and could also be regulatory developments or even climate change, which we will discuss again on 11 and 12 December in Paris. I know that you are resilient, and we are there to help you. Thank you for your attention.

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[i] Annual report of the *Observatoire de l'épargne réglementée*, July 2017.