

President

To: Mr. José Luis Rodríguez Zapatero
Prime Minister

Your reference: -

Our reference: (TP) 10-006

Subject: Insurance: a unique sector - why insurers differ from banks

Brussels, 24 June 2010

Dear Prime Minister,

The CEA, the European insurance and reinsurance federation, firmly supports the work being done by the G-20 to enhance the global financial system and align global financial regulation.

The CEA has been engaged in the debates on regulatory responses to the financial crisis and is today pleased to present its new report "Insurance: a unique sector — Why insurers differ from banks".

The report describes the fundamental differences between the business models and risk profiles of banks and insurance companies. It also highlights the potential implications for the insurance sector of regulatory reactions that do not reflect these differences.

Insurers and reinsurers were neither at the root of the last economic crisis nor the main recipients of subsequent government support. They were obviously affected by the financial crisis, but emerged from it relatively unscathed. Largely due to their distinct business model, with upfront, long-term funding and relatively little exposure to liquidity risk, they contributed to stabilizing the economy and absorbing risks.

Nevertheless, we observe with concern policy responses stemming from G-20 commitments that do not give sufficient recognition to the differences between the insurance and banking business models. Moreover, there appears to be a worrying trend to impose regulation that is designed for one financial services sector to other sectors. Problems and regulatory responses have been identified primarily in the banking sector, but final recommendations are often presented as being applicable to the financial services sector as a whole, without due consideration of the implications for other sectors. The differences between sectors must however be taken into account when designing regulatory regimes.

What is valid for banking is not necessarily valid for insurance. The CEA is convinced that some of the measures being proposed are inappropriate for the insurance sector.

The unintended consequence of such a read-across of regulation from sector to sector would be to promote “herd behaviour”, leading all sectors to behave in the same manner. This would prevent the insurance industry from performing its stabilising role in the economy effectively.

Against this background, the CEA wishes to contribute to the G-20 debates and its new report makes 12 recommendations for ways to strengthen regulatory and supervisory frameworks while taking account of the specific characteristics of the insurance business model. The recommendations are set out in the annex to this letter.

The CEA urge the G-20 leaders to take note of these recommendations and to give careful consideration to the specific characteristics of financial sectors in the design of all new policy proposals, as well as to the potential cumulative impact of macro- and micro-prudential measures.

The CEA will continue to support the important work of the G-20 in setting the international agenda. We stand ready to provide any further explanation required of the differences between sectors that arise from their respective business models.

Yours sincerely,



Tommy Persson
President