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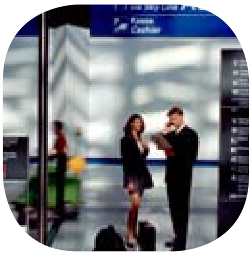
Insurers of Europe



The Contribution of the Insurance Sector to Economic Growth and Employment in the EU

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Executive Summary

The "Lisbon Strategy" aims to produce a competitive environment to promote employment and sustainable long-term growth. This paper demonstrates that the insurance industry plays a vital role in this strategy and provides evidence on how insurers contribute to growth and employment in Europe.

Economists have demonstrated that economic growth and insurance development are interdependent and that a world without insurance would be much less developed and much less stable.

Insurance promotes economic development

Insurance promotes economic development through various channels:

- Insurance reduces the capital firms need to operate.
- Insurance fosters investment and innovation by creating an environment of greater certainty.
- Insurers are solid partners for the development of a workable supplementary system of social protection, in particular in the field of retirement and health provision.
- As institutional investors, insurers contribute to the modernisation of financial markets and facilitate firms' access to capital.
- Insurance promotes sensible risk-management measures through the price mechanism and other methods and contributes to responsible and sustainable economic development.
- Insurance fosters stable consumption throughout the consumer's life.

Moreover, in a global economy characterised by rapid social and demographic change and by the emergence of new risks (e.g. by climate change or technological developments) and new needs (health care, pensions), cooperation between private insurance and public institutions is essential. This cooperation can bring benefits in many fields, for example, health of the working population, accident prevention, compensation for agricultural risks, international trade (export credit insurance), etc.

An appropriate regulatory environment is essential

In all these ways, the insurance sector fosters economic activity and has a concrete impact on the guidelines adopted by the European Council.

Nevertheless, in order to allow the insurance sector to play to the full its economic and social role, an optimal regulatory environment is required. Furthermore, risk-based pricing should be encouraged in order to help firms and households to maximise the benefits they receive from the available insurance coverage. Finally, policy makers should engage in dialogue with all interested stakeholders and especially with insurers, to modernise social protection systems.

Context of the paper

Growth and employment in the Lisbon Agenda

The "Lisbon Strategy" aims to promote competitiveness, employment and sustainable long-term growth, through the design of policy initiatives to be carried out both at national and European levels.

The policy objectives presented in the strategy cover several economic and social fields, including the enforcement of an effective internal market, the development of strong industrial activity and the creation of employment.

The Lisbon agenda also suggests precise policy guidelines to foster efficiency and growth. Surprisingly, the numerous official documents on the matter make no specific reference to the insurance sector.

The European insurance industry strongly believes that it has a positive impact on economic activity and that it can help in achieving the goals of the Lisbon Agenda.

This CEA report explains how the insurance may help to boost growth and employment and outlines the steps necessary to allow the economy to reap the benefits of a well developed insurance sector.

1. Key facts

The insurance sector in Europe is less developed than that in the US

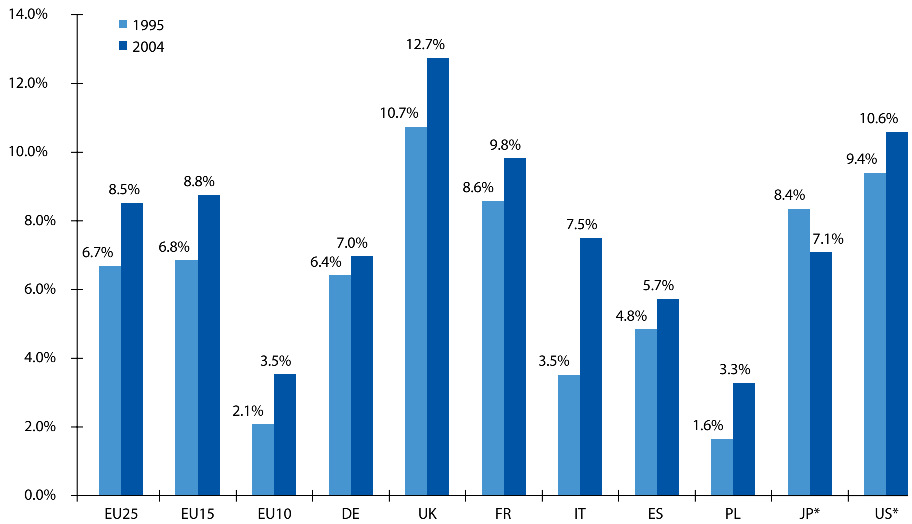
One of the main Lisbon objectives is to make Europe the world's most competitive economy. A comparison of the EU with the world leading economy, i.e. the US, highlights the potential of development of the European insurance sector. The relative importance of the insurance industry – conventionally measured by the percentage ratio of premiums collected and GDP in a given year (insurance penetration) – is above 10% in the US, while the weighted average ratio amongst the EU25 countries is only 8.5% (graph 1).

Differences appear much wider for non-life insurance. The GDP penetration rate of non-life insurance (graph 2) is over 6% in the United States whereas the average EU25 ratio is less than 3.5%.

Not including motor insurance – auto third party liability is compulsory practically everywhere – insurance premiums to GDP account for more than 4.7% in the U.S. as opposed to average of 2.2% in the EU25 (graph 3, see page 6).

Differences in social security systems can partly explain the gap between Europe and the US. Nevertheless, removing life and health products from the analysis does not change the conclusion that the insurance industry has potential for growth in Europe.

Graph 1 | Total premiums to GDP ratio



** OECD data for 1995-2003*
Source: CEA

There are also large gaps between the different insurance markets within the EU25; in some countries insurance penetration rates are comparable to those observed in the US, whereas others display very low rates (graph 4, see next page)

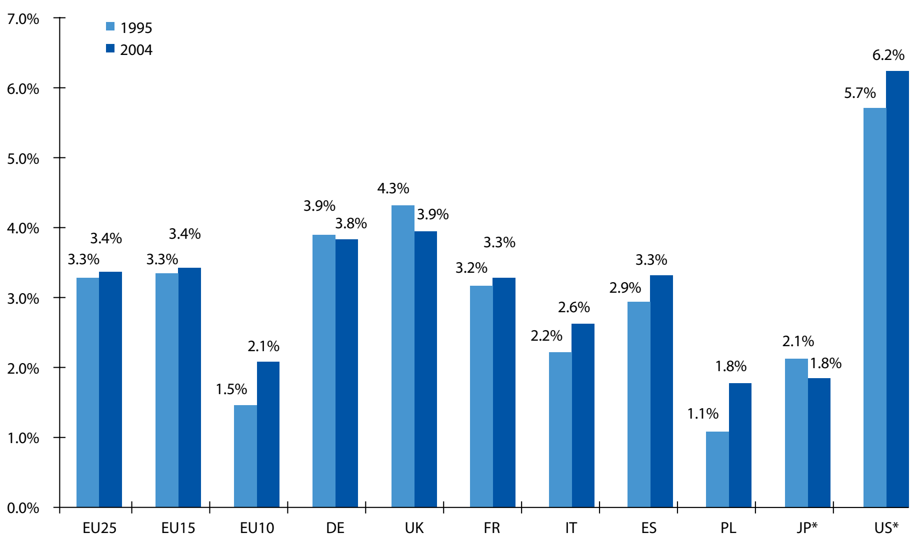
Insurance penetration displays very different patterns across countries

The highest GDP penetration rates are observed in Luxembourg, United Kingdom, Netherlands, Belgium which all have ratios above 10% while most of EU10 countries have lower rates ranging from 1.5% to 5.7%. Heterogeneity appears as well between EU15 members as between EU10 members.

The European insurance industry represents more than 5000 companies employing directly over 1 million people in quality employment. In addition to their own

European insurance directly employs over 1 million people

Graph 2 | Non-life premiums to GDP ratio

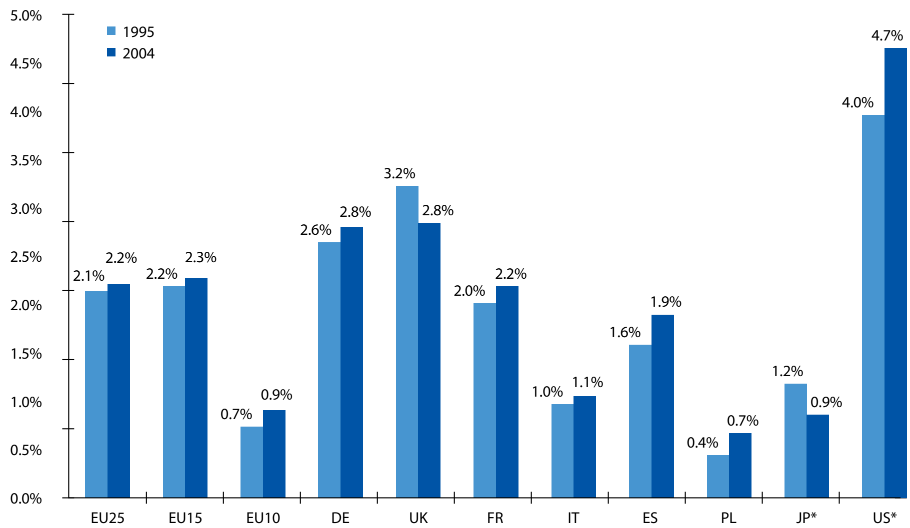


** OECD data for 1995-2003*
Source: CEA

staff, insurers also employ indirectly numerous professionals: approximately 1 million agents, brokers and financial intermediaries. Insurers work also with experts, computer firms, prevention officers, etc.

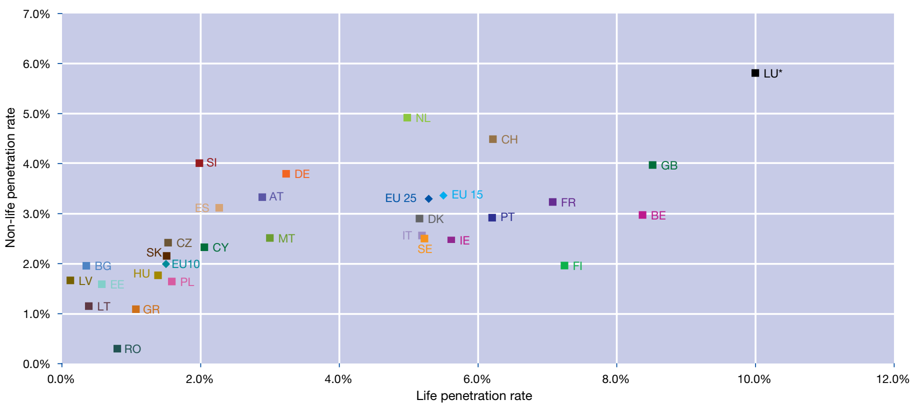
According to Eurostat statistics, employment in financial intermediation sector has grown by 0.5% in the period 1995-2004 but, more significantly, the employment of people between 50 and 64 years old has increased by 27%.

Graph 3 | Non-life premiums (excluding motor) to GDP ratio



** OECD data for 1995-2003*
Source: CEA

Graph 4 | Dispersion of life and non-life penetration rate in Europe



** Luxembourg's life penetration rate is limited on the graph to allow easy readability (true value: 32%).*
Source: CEA

2. Why should we care about low insurance penetration in the EU?

Insurance fosters economic growth and employment

The importance of the insurance industry in the development process of a country was already acknowledged in 1964: a sound national insurance sector represents an essential feature of a proper economic system, contributing to economic growth and fostering high employment (UNCTAD, 1964).

In an integrated economic area such as the European Union, the contribution of member countries' insurance sectors to economic growth can be even more crucial.

A low and uneven development of insurance, especially in the non-life lines of business, increases the level of risk in the economic decisions taken by individuals and firms, hampering, in turn, economic activity.

If insurance did not exist, a large proportion of the rest of the economy would not exist either. Without a reliable mechanism for mutualisation, pooling and transferring risk, a large portion of the economic activity would simply not take place.

Supported by empirical evidence

There is a growing empirical literature seeking to assess the causal relation between macroeconomic performance and the size of the insurance sector.

Francois Outrevillle (UNCTAD, 1990) pioneered the examination of the relationship between insurance development and economic growth for developing countries. His findings indicated that both non-life and life insurers generate significant economic growth.

Ian Webb (International Insurance Foundation), Martin Grace and Harold Skipper (Georgia State University, 2001) performed a cross country empirical analysis and found out that the development of the sectors of insurance and financial intermediation increases the total factor productivity by facilitating the efficient allocation of capital.

Maurice Kugler and Reza Ofoghi (University of Southampton, 2005) use cointegration analysis to show that an increase in the market size of the different property and liability lines of business has a positive and statistically significant effect on economic growth. The effect was found to be more significant in the direction going from insurance market size to economic growth than the reverse, thus indicating the prevalence of a long run positive effect over a cyclical one.

3. How the insurance sector fosters economic growth

Insurance drivers of economic growth

The insurance industry promotes economic growth and structural development through the following channels:

1. Providing broader insurance coverage directly to firms, improving their financial soundness.
2. Fostering entrepreneurial attitudes, encouraging investment, innovation, market dynamism and competition.
3. Offering social protection alongside the state, releasing pressure on public sector finance.
4. Enhancing financial intermediation, creating liquidity and mobilizing savings. As major institutional investors, insurers gather dispersed financial resources, and channel them towards investment opportunities, facilitating companies' access to capital.
5. Promoting sensible risk management by households and firms, contributing to sustainable and responsible development.
6. Fostering stable consumption throughout life.

3.1 Providing broader insurance coverage directly to firms, improving their financial soundness

Private insurance improves firms' financial soundness

Insurance allows firms to expand and take on economic risks without the need to set aside capital in liquid contingency funds.

The absence of adequate business insurance cover tends to be particularly harmful for small firms. Limited capital and difficulty in accessing financial markets make them vulnerable to adverse events.

Without insurance, large contingency funds would be needed to protect firms against risk. For many small firms this would represent more capital than they presently employ in total. Therefore, without insurance, the population of firms would decrease rapidly.

It is difficult to assess the exact extent of the positive effect of business insurance on economic activity. Whereas comparison of insurance premiums to GDP conveys information on the performance of the insurance industry, it overlooks the wider contribution to the economy (table 1).

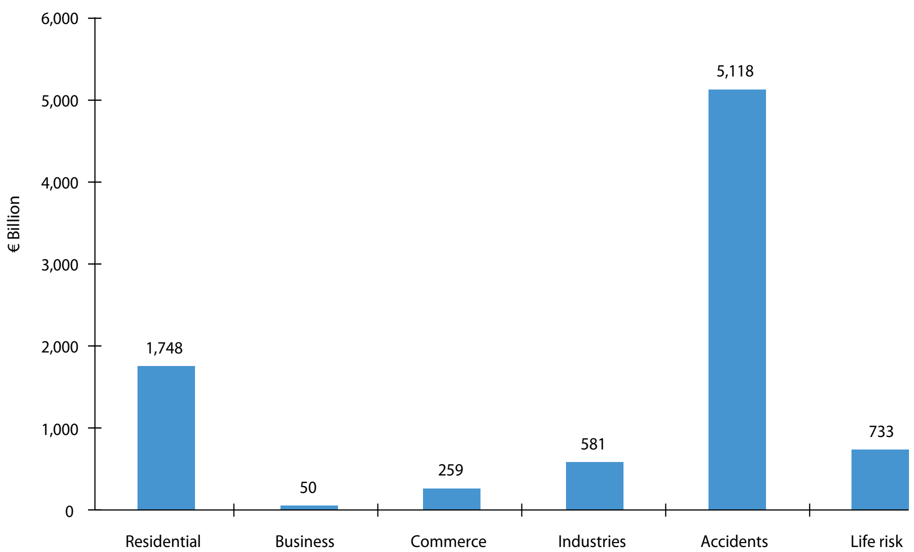
Table 1 | Premiums to GDP ratio by corporate lines of business

Premium paid by firms to GDP ratio (in %) - 2002 data				
	ITALY	GERMANY	FRANCE	UK
Property	0.23	0.30	0.34	0.50
Health and accident	0.08	NA	0.27	0.43
Transportation	0.06	0.17	NA	0.15
Loans	0.07	NA	NA	0.07
Motor	0.23	NA	NA	0.27
Life	0.27	0.36	0.39	0.07

Source: ANIA's elaborations on national statistics

Additional information on insured capital in a given period, at least for those lines of business for which this measurement is available, could give a better picture of the interaction between insurance and other economic activities. In Spain, for instance, 42 billion of life and non-life premiums resulted in an insured sums amounting to 7,700 billion euro (or 10 times the GDP) in 2003 (graph 5). In a world without insurance, the funds that would need to be set aside by individuals and companies to match this coverage would clearly be much higher.

Graph 5 | Insured capital by lines of business (property) in Spain



Source: UNESPA

Example of the Benefit of Insurance for Society

Scenario 1

Imagine Firm A which is uninsured and which has a probability of 80% of not having any accident and a probability of 20% of having an accident, the cost of which amounts to €2500.

The average cost of an accident is €500 but the probability to pay a large amount (€2500) is 20%.

Scenario 2

If this Firm A decides to make an insurance arrangement to share the cost of any damage incurred with Firm B which has the same probability pattern, four possible outcomes may occur:

- Neither of the firms incurs any damage. This outcome will happen with a probability of 64% (80%x80%) and the cost for each firm will be zero.
- Firm A incurs damage but not Firm B. This outcome has a probability of 16% (20%x80%) and the cost (€2500) is divided between the two firms. The cost for each firm is €1250.
- Firm B incurs damage but not Firm A. This outcome has a probability of 16% (20%x80%) and the cost (€2500) is divided between the two firms. The cost for each firm is €1250.
- Both firms, A and B, incur damage. This outcome has a probability of 4% (20%x20%) and the cost for each company will be €2500.

The average cost for each firm is still €500 but the probability to pay a high amount (€2500) is now only 4%.

Possible outcomes	Total cost	Cost paid by each firm	Probability
1. Neither firm incurs damage	€0	€0	80% x 80% = 64%
2. Firm A incurs damage	€2500	€1250	20% x 80% = 16%
3. Firm B incurs damage	€2500	€1250	80% x 20% = 16%
4. Both firms incur damage	€5000	€2500	20% x 20% = 4%

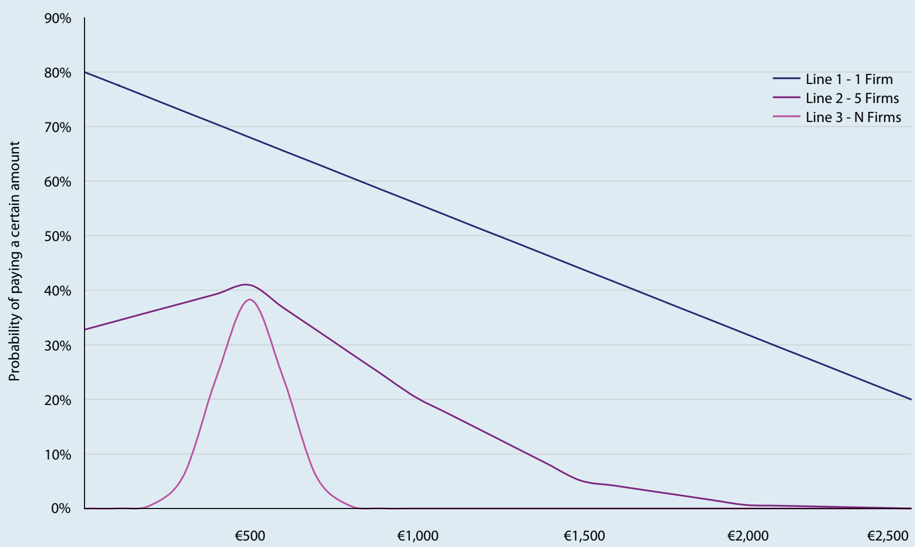
In comparison to the case without insurance, each firm has seen their probability of paying €2500 sharply reduced (from 20% to 4%). At the same time, the probability of not paying anything has also reduced. In both examples the mean cost is €500 but in the second case, the risk of paying an extreme amount of money has also been reduced.

If the number of players increases, all firms will see a decrease in the probability of paying extreme amounts of money and a rise in the probability of paying an amount close to €500. This result reflects the law of large numbers.

This evolution is illustrated on graph 6 (below) where line 1 represents the probability of payment for a firm without insurance, the line 2 represents the probability of payment for 5 firms and line 3 represents the probability for a larger number of firms.

In order to be protected against negative outcomes, a firm will require capital as a function of the level of risk it bears. The more risk the firm bears, the more capital it will need. As we have seen, through risk pooling with a large number of participants, insurance lowers the risk of having to pay a high amount. Insurance allows firms to reduce their capital needs and to invest more efficiently in their core business.

GRAPH 6 | Probability of paying a certain amount of money.



Source: CEA calculation

Impact of Non-insurance in Australia

A study published by the Insurance Council of Australia (ICA) in October 2002 underlined the effects of non-insurance and significant under-insurance on commercial operations. According to this report, some "70% of uninsured and under-insured small businesses affected by a major event, such as legal claim against the business, earthquake, fire or storm, don't recover".

The study highlights that the 200,000 uninsured and 200,000 under-insured small-businesses could secure their activities and therefore several million jobs with appropriate insurance cover (business interruption, damage, liability, etc) which represents less than 1% of the total expenses for SME's.

3.2 Fostering entrepreneurial attitudes, encouraging investment, innovation, market dynamism, and competition

Insurance frees entrepreneurial spirit

Being innovative presupposes the willingness to take risks. Since (potential) entrepreneurs, much like ordinary people, are characterized by risk aversion, the willingness to take risks can be considered as a scarce resource (Sinn 1986, 1988). The more willingness to take risk is available, the more will be produced.

Even if the insurance industry cannot change the overall willingness of actors in an economy to take risks (risk aversion does not change with insurance), it does play a key role in freeing entrepreneurial spirit. Insurance decreases the risk supported by entrepreneurs through mitigating and pooling procedures and allows them to take additional risks. Well developed insurance markets contribute by helping to optimize the allocation of the scarce resource of "risk-taking" by shifting it from conservative to innovative and high-profit activities. Underinsured firms, in contrast, usually do not exploit new business opportunities; they invest less in innovation and their degree in participation in global markets is low.

The relationship between insurers and their business customers should be considered at least as important as the relationship between banks and their business customers.

3.3 Offering social protection alongside the state, releasing pressure on public sector finance

Insurance provides an additional pillar alongside the protection supplied by the state

In all industrialized countries, the debate about the need to revise the social protection offered by the state is increasing. The population structure is changing fundamentally with a longer life expectancy, an increase in elderly people and a falling birth-rate. At the same time people expect to receive a high level of healthcare, pensions, unemployment allowance and other social benefits.

This evolution raises general concern for the future if reform is not rapidly introduced. A 2006 study prepared by the European Commission and the Economic Policy Committee notes that without a change in policy, public finance will be put under extreme pressure and the EU potential economic growth will be almost cut in half by 2030. Moreover, this situation will push wages upwards and reduce the propensity to consume or, in other words, it will depress demand and erode competitiveness. In addition, a large part of the population does not seem to be fully aware of the reduced prospects for social protection.

Significant reform of the current social security system is therefore needed in most Members States. Private insurers are naturally willing to contribute in the development of an additional pillar alongside the protection offered by the state. For instance, insurance products such as 'Payment Protection Insurance' play a vital role in protecting households from the consequences of unemployment in the event of an economic downturn.

There is a wide consensus on the need to foster the development of funded private pensions as a supplement to the current Pay As You Go (PAYG) state system. Such a system ensures solidarity with PAYG, and limit the problems associated with demographic change (individual contributions are capitalised on a personal account and benefits are paid out from this account) and increases long-term financial investment contributing therefore to the main objective of the Lisbon Strategy.

The need for a balanced pension reform

The system should respect the principles of freedom of individual choice and competition, within a transparent and adequate regulatory framework.

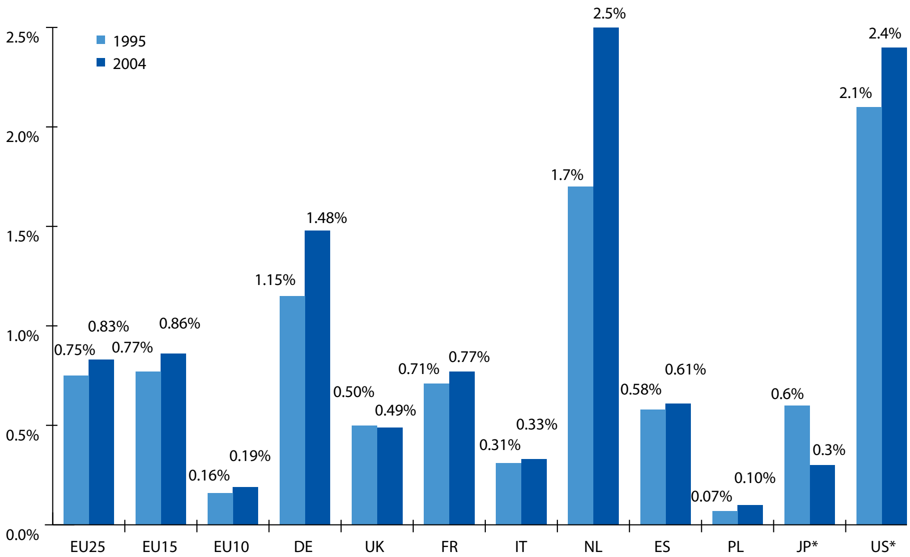
The welfare system fails to keep up with new healthcare needs

In some countries, such as the US, Germany and the Netherlands, the use of private insurance against sickness and injury is high (graph 7).

In many other countries, however, only a small fraction of households benefit from complementary health coverage and an increasing proportion of health expenses are financed by patients. This trend demonstrates the difficulties experienced by the public health systems in meeting the growing demand for healthcare.

Radical reform of the healthcare system is necessary in most industrialised countries. There is also broad consensus on the need to involve the private sector in this process with clearly defined areas of competence for both the public and private sectors. Similar to the developments seen in pensions, it is necessary to foster the creation of a second pillar for healthcare in which insurers can play a significant role.

GRAPH 7 | Sickness & injuries premiums to GDP ratio



** OECD data for 1995-2003*
Source: CEA

It would be possible to achieve a more efficient balance between the state and the market. This would encourage the growth of firms and employment in the sector, offer more diversified responses to consumer preferences and make possible a sustainable and lasting reduction in the tax burden.

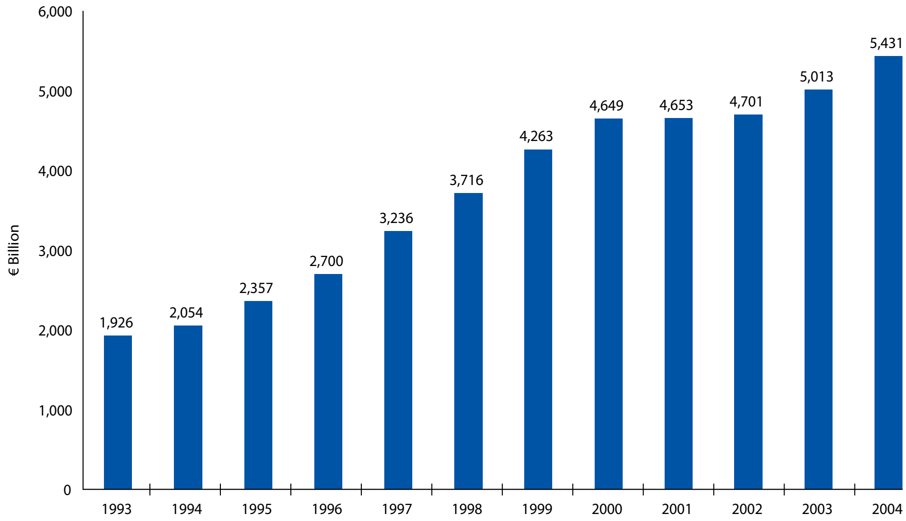
3.4 Enhancing financial intermediation, creating liquidity and mobilizing savings

Insurers as institutional investors

With more than €5,000bn invested in the economy, insurers figure prominently in the ranks of institutional investors (graph 8 & 9). They therefore see benefit in the development of a modern, competitive financial market that facilitates firms' access to capital and offers a wide range of investment opportunities.

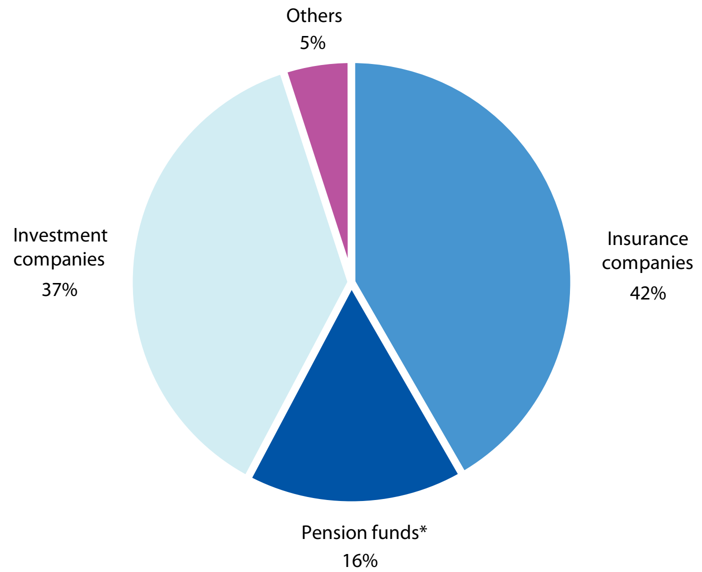
In this respect, insurance companies look favourably upon the initiatives taken by the European Commission to ensure shareholder rights in the EU and to maintain high standards of corporate governance.

GRAPH 8 | Insurer investment in the economy



Source: CEA

Graph 9 | Financial assets of institutional investors in EU15 in 2001



** Share of pension funds may be underestimated due to missing data for France, Greece and Luxembourg*
Source: OECD

Insurance as the Primary Channel for Corporate Financing: The French case

With more than €1250bn assets under management in 2005, insurers are the biggest institutional investors in France. With almost half of these assets invested in shares and bonds issued by enterprises, insurers are contributing about €600bn to the financing of the economy (table 2).

By means of life insurance, households represent 60% of the firms' financing (1/3 in share and 2/3 in corporate bonds), which is to say €444bn. Life insurance constitutes then the primary channel by which households finance firms innovation and extension of production capacity.

Insurers are also very active on the French private equity market. They represent 15% of the investment in private equities against 13% for the whole European market and 4% in the US. Such activity helps SMEs to develop their high potential for growth and innovation.

Finally, the recent evolution of the insurer portfolio shows an increase in shares, private equity and corporate bonds. The participation of insurers in the financing of the economy contributes to growth and creation of jobs and will increase with the development of pension products in the future.

Table 2 | Assets of insurers at their market value (June 2005)

	Assets (€bn)	shares
French Shares	133	11%
Bond of french enterprises	149	12%
	282	23%
Foreign shares	81	7%
Bond of foreign enterprises	223	18%
Assets of foreign enterprises	304	25%
Bond of the French State	238	20%
Bond of Foreign States	207	17%
States Bonds	445	37%
Others	176	15%
Total assets	1 207	100%

Source: ACAM/FFSA/AFG

3.5 Promoting sensible risk management by firms and households, contributing to sustainable and responsible development

Insurance as a precaution provider

Insurers' risk assessment is reflected in price and policy conditions. In this way they offer firms and households an indicator of their risk level. The policyholder can take action to reduce the risk profile, or to reduce the potential damage, or both.

Therefore, by means of risk pricing, insurance acts as a precaution improver and encourages responsible and sustainable use of resources; for example: prevention of accidents at work, less polluting technology.

The client will clearly see the advantages of action taken to reduce risk. In some cases this will happen because there will be no insurance if things are left unchanged, at other times this will happen because of a high premium level.

This process influences investment decisions and thus contributes to the sustainable development of the economy and society.

3.6 Fostering stable consumption throughout life

Insurance fosters and smoothes consumption

Consumption represents almost 80% of GDP and constitutes one of the main drivers of economic growth and citizen welfare. By offering lifelong financial protection, insurance acts as a security net allowing stable consumption throughout an individual's life:

- House and other damage insurance allow households to secure their assets in case of adverse events (see example on page 10 which works in the same way for households as for firms).
- Liability insurance protects households from the consequence of damage they may cause to other people.
- Life insurance protects relatives from financial burdens in case of death and/or offers revenue, under the form of capital or annuities, at the time of retirement.
- Health and accident insurance provides resources when they are most needed.
- Credit insurance eases consumption but also protects the consumer against excessive debt through pricing and acceptation policies.

By offering products relevant to all aspects of life, insurance secures the standard of living and sustains consumption, which is one of the main drivers of economic growth. Guaranteeing a stable lifestyle to millions of Europeans increases their confidence in the future and enhances consumption.

4. An institutional role for the private insurance sector

Public-private arrangements meet needs of changing society

There is growing interest in measures involving private insurers in areas traditionally undertaken by the state. In a previous report[1], CEA has already underlined the potential of public-private collaboration to address difficult public policy issues.

Insurance offers timely and efficient solutions to the new needs of a rapidly changing society. Insurers provide efficient cover for those risks that are insurable, that is, for those risks where a suitable pool of risk bearers can be identified to pool their risks. In many countries, private insurers are already complementing the public sector in the provision of services.

The public sector should not withdraw completely, as private insurers cannot efficiently take on all risks. In some circumstances, for instance in the case of major terrorist incidents, full insurance cover is difficult or at a high price, reflecting the potentially significant claims that might occur. For these risks, the state has a fundamental role in acting as insurer of last resort.

Moreover, the relation between public and private should be established with appropriate consultation in order to allow mutual respect for the specificities of each. The private sector functions in a very different environment from the public insurance environment.

Social security under private management: The Belgian case

In Belgium, the management of industrial accident insurance has been entrusted to private insurers under the control of the public authorities, since 1903. This model gives insurers full scope to play a social role by developing their know-how in the management of mass risk and the appropriate establishment of funded reserves, for the benefit of a social security mission. This synergy benefits industrial accident victims, employers and social security.

[1] *CEA, 'Between Public and Private: Insurance Solutions for a Changing Society' (June 2005)*

The Advantages of the Belgian model

- High-quality compensation, often more significant than that granted in most European countries where it is generally entrusted to the state.
- A guarantee of adequate rating, combining appropriate risk assessment and mutualisation or internal set-offs.
- An active prevention policy
  Most authorised insurers have developed on a voluntary basis their own prevention services which contribute to the implementation of an effective prevention policy
- Involving employers in safety
  The premium paid by the employer is not only based on the risk but it is also affected by the company's own claims experience. The employer who sets up an effective prevention policy may therefore obtain a substantial reduction in the industrial accident premium.
- An extended range of services and additional cover
  In order to establish customer loyalty, insurers have improved the quality of their services and developed additional services such as administrative formalities assistance, '24 hour a day call centre', the provision of a temporary worker to replace workers victim of an accident, additional cover offering the victim compensation above the upper legal limit.

  It should, moreover, be noted that the industrial accident insurance makes a contribution to financing and modernizing the overall management of social security.

Key Figures (2004)

- Insured workers: 2,457,800
- Premiums: €912 million
- Benefits paid-out: €976 million (106% of premiums)
- Provisions: €6,145 million
- Active insurance entreprises: 17
- Contribution of insurers to social security: €231 million (25% of premiums)
- Prevention investment by private insurers: €10 million (1.13% of premiums)
- Number of claims: 165,472 (1994: 206,518)

5. Conclusions

Insurance sector can contribute to the Lisbon Strategy:

The insurance sector plays a fundamental role in the economy. A world without insurance would be much less developed economically and much less stable. In the framework of the Lisbon Strategy, the insurance sector can contribute significantly to achieve the Lisbon guidelines[2] adopted by the European Council.

Insurance supports R&D, innovation and new activities

The risk transfer function of the insurance sector contributes, on the one hand, to the creation of a more stable operating environment for companies and, on the other hand, to a reduction in the level of capital required by undertakings to protect themselves against risk. This allows companies to concentrate their attention and resources on their core business. Where appropriate, it enables firms to realise new investments in R&D (Guideline N°7), to innovate by developing and commercialising new products (Guideline N°8) and to extend their market activities to other countries inside and/or outside Europe (Guideline N°12). This impact is particularly significant for SMEs that do not have easy access to the capital market and which are a main source of innovation (Guideline N°15).

Insurance supports economic stability and sustainable growth

By protecting firms and citizens against adverse events, the insurance sector provides a safety net that allows policyholders to restart their activities whatever the difficulties they have to cope with. Insurance plays, at this level, a key role in economic stability (Guideline N°1). Moreover, as institutional investors, the insurance sector provides a long-term source of finance for investment in the economy, thus contributing to sustainable growth (Guideline N°4).

Modernising social protection systems

In a world characterised by social changes and particularly by an ageing population, insurance provides an efficient way to support the State in the provision of pensions, healthcare and social security. Through products designed to complement State provision, the insurance sector contributes significantly to guaranteeing a stable and lifelong level of revenue (pension, education leave, maternity leave) (Guideline N° 18) and to limiting the impact of demographic change on states' budgets (Guidelines N°2). Insurers have also demonstrated their ability to manage other fields of social security such as compensation and rehabilitation following accidents at work, for which insurers of several countries (including Belgium, Portugal, Finland, Denmark) provide high-quality social protection. These products have a double economic impact, protecting workers from the economic consequences of accidents, and encouraging a healthy working population.

Insurance supports the substainable use of resources

Insurance not only provides a stable operating environment, but it also improves companies' awareness of risk management, and influences their investment decisions. Differences in price and policy conditions are key factors that influence undertakings' and households' decisions, and contribute to sustainable and responsible use of available resources (Guideline N°11). For instance, insurance contributes to the reduction of risks linked to climate change by supporting Government policies designed to limit climate change and to reduce its impact.

[2] *See "Integrated guidelines for growth and jobs (2005–2008)" on page 22*

6. Recommendations to policymakers

How the insurance industry can contribute even more:

An optimal regulatory environment is needed to allow the insurance sector to play fully its role in the economy:

Better regulation

- This implies less burdensome regulation, better adapted to the real needs of insurers and customers. In this regard, the insurance industry welcomes the European Commission White Paper on financial services policy. Its commitment to the principles of "Better Regulation" constitutes a great step forward.
- It also means that solvency regulation should contribute to an optimal allocation of capital through a pure economic risk-based system.

Awareness of risk and social changes

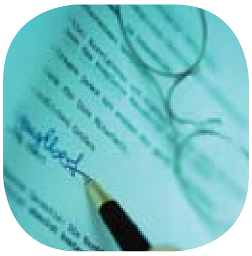
Financial awareness and alertness to the social changes taking place in our society should be encouraged. People need to be made aware of the change to social security to enable them to take adequate decisions related to their future pensions and healthcare (for private persons) and to their economic activities (for business).

Better risk management

The regulatory environment for insurance should encourage risk-based pricing. Risk management should be stimulated to make sure public and private institutions are conscious of the risk environment they are facing and take measures to reduce the impact on their activities.

Modernise social protection by expanding public-private cooperation

Moreover, in rethinking the role played by the State and more precisely in designing of new pension and health policies to respond to demographic and social changes, public-private cooperation should be considered by policy-makers. Such cooperation would benefit all parties: public authorities, citizens and insurers.



Annex: Integrated guidelines for growth and jobs (2005–2008)

Macroeconomic guidelines

(1) To secure economic stability.

(2) To safeguard economic and fiscal sustainability.

(3) To promote a growth- and employment-orientated and efficient allocation of resources.

(4) To secure economic stability for sustainable growth.

(5) To ensure that wage developments contribute to macroeconomic stability and growth.

(6) To contribute to a dynamic and well-functioning European Monetary Unit (EMU).

Microeconomic guidelines

(7) To increase and improve investment in R & D, in particular by private business.

(8) To facilitate all forms of innovation.

(9) To facilitate the spread and effective use of Information and Communication technology (ICT) and build a fully inclusive information society.

(10) To strengthen the competitive advantages of its industrial base.

(11) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

(12) To extend and deepen the internal market.

(13) To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.

(14) To create a more competitive business environment and encourage private initiative through better regulation.

(15) To promote a more entrepreneurial culture and create a supportive environment for Small and Medium Enterprises (SME).

(16) To expand, improve and link up European infrastructure and complete priority cross-border projects.

Employment guidelines

(17) Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

(18) Promote a life-cycle approach to work.

(19) Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive.

(20) Improve matching of labour market needs.

(21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.

(22) Ensure employment-friendly labour cost developments and wage-setting mechanisms.

(23) Expand and improve investment in human capital.

(24) Adapt education and training systems in response to new competence requirements.

Source: http://ec.europa.eu/growthandjobs/pdf/integrated_guidelines_en.pdf

CEA

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