Response of the Association of German Public Insurers[1]
to the European Commission
'Green Paper on retail financial services: better products, more choice, and greater opportunities for consumers and businesses'

The Association of German Public Insurers welcomes the European Commission's consultation on retail financial services and its intention to seek possible enhancements to the Internal Market.

As Germany's second-largest primary insurance provider with a strong regional presence, the group is committed to constructive dialogue with both national and European legislators in the interests of all market participants and of a stable European insurance sector.

In particular, the Association of German Public Insurers supports the following positions:

1. Consumers want strong, reliable regional brands. Any political or regulatory measures should not jeopardise these brands.

2. Different economic and legal conditions in the Member States lead to different insurance solutions for consumers. Any standardisation and cross-border distribution of insurance products could only be achieved by harmonising tax, contract, liability and tort law, as well as social security legislation. Standardised insurance solutions without the adequate harmonisation of legal systems would result in products that could no longer meet consumers' needs and that would trigger price increases in many cases. This should be avoided in the interests of both consumers and providers.

3. With regard to the public interest in promoting the best possible product transparency, it is important to consider that prices for insurance products often cannot easily be compared, and then only under specific circumstances. A direct comparison is only feasible, at best, when products offer identical benefits and cover.

4. Promoting the opportunities of digitalisation also means:
   a) protecting consumers through adequate regulatory and supervisory requirements that apply to all market participants equally; and
   b) taking into consideration the specific requirements of different distribution channels and, consequently, safeguarding the diversity of those channels.

[1] The Association of German Public Insurers (VöV) is the umbrella organisation of the German public insurance companies and a corporation established under public law. Founded in 1911, it represents 11 primary insurers across Germany that are deeply embedded in their regions. The group is the second-largest primary insurance provider in the German market, with EUR 123 billion of investments under management, thereby making a significant contribution to the European economy. The group is committed by law to support the public good. It has 50 million insurance contracts and pays out EUR 17 billion each year to its clients.
The public insurers employ 30,000 people. Through 3,700 own branches and more than 15,000 offices of their partners, they offer advice and protection across most insurance sectors (health, life, pension, motor, indemnity, fire, etc.) for retail clients of all income groups and for professional clients, with a specific focus on small and medium-sized companies.
The Association of German Public Insurers represents the interests of its members at the national and the European level through its head offices in Düsseldorf and Berlin and its liaison office in Brussels.

The Association of German Public Insurers will closely follow the further legislative and political process related to these matters and is ready and willing to provide its expertise to the European institutions at any time.

Responses to the European Commission Questionnaire

Question 2
What are the barriers which prevent firms from directly providing financial services cross-border and which are the barriers that prevent consumers from directly purchasing products cross-border?

Different economic and legal conditions lead to different insurance solutions for consumers

Despite extensive efforts over recent decades to harmonise and enhance the Internal Market, the relevant regulatory frameworks for insurance products still differ considerably across the 28 Member States of the European Union. Consequently, insurance products such as health, life, indemnity or accident insurance are tailored to the specific legal conditions in the respective Member States. These products not only supplement the country-specific social protection systems, but also comply consistently with country-specific tax, contract, liability and tort law, as well as with national jurisprudence. In this respect, insurance products are inseparable from, and linked to, the structural and legal environment of individual economies. A few examples may clarify this aspect:

- Heterogeneous national support schemes for retirement provision that take national characteristics into account make the provision of cross-border products in this sector unattainable today.
- Different social policy priorities prevent standardised Europe-wide contractual terms and conditions and uniform rates for retirement provision and healthcare insurance products.

The standardisation and cross-border distribution of insurance products could only be achieved by harmonising all the areas of law mentioned above, and hence only by comprehensive legislative amendments in all 28 Member States. In light of the division of competences between the European Commission, the European Parliament and Member States, it is questionable whether this is a realistic proposition.

Consumers want strong and reliable regional brands. These brands should not be jeopardised.

Today, consumers already have the option to purchase cross-border insurance products such as indemnity and accident insurance. Limited types of household insurance products can also be purchased cross-border under specific conditions. Nonetheless, the conclusion of such contracts is the exception rather than the rule nowadays, since consumers frequently avoid unfamiliar legal frameworks or even associate cross-border products with unreliable providers. The Romanian ‘Astra’ insurer, which offered liability and property insurance products in Germany before its insolvency, serves as an example in this respect.

One of the lessons drawn from the financial crisis is that confidence in financial services providers is the key factor for consumers when they purchase insurance or financial services products. Such confidence requires familiar legal frameworks as well as stable and high-quality supervisory structures that ensure adequate protection for consumers from improper business practises and from threats to the financial stability of individual institutions. Guaranteeing efficient recourse to the courts is another prerequisite in this context. On the other hand, confidence is established through individual experience of expert advice tailored to the customer's specific needs as well as – in the case of insurers – efficient claims management and reliable payment of claims and benefits.

In many parts of Europe, regional insurance providers are deeply embedded in their local business area and have justified this confidence and trust through sound business conduct in the course of long-term partnerships with their predominantly regional clients. Against this background, many consumers prefer to choose regional, familiar brands. This is also the case in Germany, where regional insurance providers have existed for more than 200 years.

We fully support the European Commission's intention to establish a framework that will safeguard a wide range of financial services products and the best possible product transparency for consumers. Nonetheless, these regulatory changes must not impose a burden on established and reliable business models with a strong regional focus of expertise and service in regionally limited markets. Such a focus not only benefits consumers and medium-sized insurance providers, but also contributes to a high degree of insurance cover in society.

Question 8

Is there other evidence to be considered or are there other developments that need to be taken into account in relation to cross-border competition and choice in retail financial services?

'Discrimination' and price comparison

In its Green Paper, the European Commission expresses doubts as to whether price differences for specific insurance products are justified and is concerned about any potential discrimination of European consumers, e.g. based on their place of residence.

However, a Europe-wide price-only comparison of insurance products is not a suitable instrument for verifying the supposed discrimination of consumers. On the contrary, it is necessary to take into account a variety of parameters and only to consider directly comparable products and their benefits. These parameters include:

- **The specific insurance services and benefits:**
  - ➢ It is important for consumers that they can purchase insurance products that meet their specific needs and financial means.
  - ➢ In various Member States, different requirements exist for specific insurance products. In the area of motor insurance, for instance, different liability requirements apply throughout Europe. The extent of the cover and the rates offered therefore also varies. Consequently, a simple comparison of prices between different benefits and cover packages would be deceptive.

- **Macroeconomic framework**
  - ➢ Different prices for insurance products often reflect regional or national indicators, such as general wage and price levels. The latter factor can lead to different prices for identical products between different Member States, or even within a single Member State. Accordingly, commercial reasons mean that higher claims costs in a particular insurance sector (for instance, costs of repair or medical care) result in higher insurance rates.

- **Distinctive distribution channels**
  - ➢ Further limitations on comparability result from the use of different distribution channels. A variety of forms of distribution allows providers to appeal to different target groups, for instance via an online platform or through personal advice in a local branch. This wider appeal provides better cover for a broader population of socially desirable retirement provision and other fundamentally important products for safeguarding a standard of living. Therefore, sustaining a variety of distribution channels whilst securing a level playing field and maintaining the stability of the financial markets are very important (see also our answer to Question 22 below on 'digitalisation').
  - ➢ Different distribution channels can lead to different costs and thus to varying prices for individual products.

- **Legal framework**
  - ➢ Tax rules differ between Member States and even within a single country. In Germany for instance, different tax rules apply to various forms of pension schemes, such as the statutory pension insurance, the 'Riester' pension or occupational pension schemes. These differing legal frameworks limit comparability.
  - ➢ Additionally, antitrust requirements prohibit companies from offering everyone the same price. On the contrary: competition between providers and hence the individual cover for each consumer must be ensured.

- **Technical reasons**
  - ➢ Price differences, for instance in the life insurance sector, are also the result of different risk exposures that are linked to local characteristics, for instance, such as dietary habits and lifestyles, with consequent differences in life expectancy. A risk-sensitive calculation based on such key indicators is essential for insurers to enable them to provide the populace with appropriate retirement planning products, for example.

To sum up, in most cases price differences across the various insurance products are justified by objective criteria, as recognised by the European Commission (see Green Paper p. 16).

Question 11
Is further action necessary to encourage comparability and/or facilitate switching to retail financial services from providers located either in the same or another Member State?

Making it easier to change financial service providers

As a general principle, we consider regulatory changes with the objective of making it easier to change financial service providers unnecessary, and in certain circumstances even harmful. The underlying reasons differ depending on the insurance sectors:

- In the composite segments such as liability, household, building or motor insurance, consumers can change their insurance provider easily within the comparably short agreed period of notice and without significant financial disadvantages for the policyholder.

- This situation differs for products in which the policyholders enter into a long-term insurance contract that, for instance, protects them from biometric risks and that provides supplementary asset accumulation for adequate pension provision in cases like annuity and endowment insurance policies. The insured community (insurance collective) fulfils an essential preventive function for a considerable proportion of the population by safeguarding financial provision in the event of illness or retirement. These collectives are financed on the basis of long-term established solidarity communities and would experience significant adverse effects from early contract terminations.

- The focus of such insurance policies is on continuous asset accumulation and the strengthening of reserve funds with corresponding long-term guarantees, while balancing risks in the community over time. Consequently, early contract terminations, in particular by healthier and younger policyholders, alter the risk exposure for the remaining insured pool and reduce interest income. They damage the insurance collective. In order to mitigate the impact on the collective, cancellation options in life insurance policies are normally linked to option premiums (cancellation fees).

- Increased flexibility in the form of simplified termination privileges would inevitably lead to a lower interest return for the insurance collective. At the same time, greater portability, in the sense of arbitrary options for entering or exiting the insured community (including the portability of the 'personal' reserves), counteracts the principle of solidarity and jeopardises financial sustainability. It would furthermore run counter to the social policy objective of long-term retirement provision (see also Questions 15, 17).

- Tax rules are another constraint on increased flexibility, particularly with regard to pension provision products. These rules differ across Member States, but also vary between different forms of insurance provision within individual countries. In Germany, for instance, the tax rules differ for statutory pension insurance, occupational pensions and endowment policies.

- Policyholders also enter into a long-term insurance relationship in the case of health insurance, which protects them from health risks. For these products, the insurance provider builds up reserves over time to protect the policyholder from rising healthcare costs in old age. In this context as well, the long-term nature of the insurance is an obstacle to increased flexibility.

Question 14
What can be done to limit unjustified discrimination on the grounds of residence in the retail financial sector including insurance?

Please see our answer to Question 8 above.

Question 15
What can be done at the EU level to facilitate the portability of retail financial products – for example, life insurance and private health insurance?

The desire for increased portability in the context of a Europe of open borders and an enhanced Internal Market is understandable. Nonetheless, a number of practical difficulties remain, as already mentioned in our reply to Question 11.

- Limits on portability are inevitable for products such as life insurance, for which old-age reserves must be established in order to fulfil the long-term guarantees. Partially dissolving these reserves – which are mostly invested for the long term and offer returns that cannot be achieved today due to the current interest rates – implies an intervention in highly complex insurance models that are based on mixed calculations. This would harm the insurance collective by triggering financial disadvantages for the remaining pool of insured consumers.

- A further obstacle to the portability of life insurance policies is linked to the different tax rules across the EU. In Germany, for instance, deferred pension provisions on the basis of regular premiums are taxed at their final maturity (62/12 rule for lump-sum payment or taxing the income portion of the pension). In contrast, Austria taxes contributions but exempts benefits when they are paid out. The taxpayer in this case is the insurance undertaking, which can claim the taxes back from the customer. These differences are a barrier to portability and reduce the range of cross-border product offerings.

- Consequently, when proposing measures to stimulate portability, it is vital to avoid any negative effects on the actual insurance cover for the insured collective and to prevent possible drawbacks in the form of lower long-term guarantees at the expense of consumers that would outweigh the supposed advantages of increased portability.

Question 17
Is further action at the EU level needed to improve the transparency and comparability of financial products (particularly by means of digital solutions) to strengthen consumer trust?

The German public insurers generally support all proposals that could increase transparency and, to this end, have participated in various transparency initiatives across the insurance sector. Nonetheless, it should be pointed out that only recently, a number of legislative measures at the EU level have been adopted that impose significantly increased transparency requirements on the insurance sector (e.g. IDD, PRIIPS, etc.). These additional measures are on top of the existing national regulations in Member States. In order to avoid any counterproductive effects for consumers, supervisory bodies and insurers resulting from over-regulation, it is necessary to first assess precisely the implementation and impact of recently adopted EU regulation across Members States before discussing further requirements at the EU level.

In this context, a number of aspects are of particular importance:

Coherence of national and European rules

- The coherence of national and European rules should be increased. Currently, different information requirements in the form of product information sheets under the German national ‘AltVPIBV’, PRIIPs, etc., apply to various forms of old-age provision (statutory, occupational or private). Already at the national level, these differing requirements lead to significant implementation and hence transparency challenges that are increased by additional EU regulation. In the future, for instance, private pension schemes in Germany could require both a VVG product information sheet under national law as well as a PRIIP product information sheet. A comparison of various products – for example for a ‘Riester’ pension plan – is significantly complicated, as an ‘AltZertGPIB’ (another product information sheet under national law) has to be provided to the customer; its content differs from a VVG product information sheet or a PRIIP product information sheet.

- Only stringent and coherent rules would enable insurers to appropriately implement the requirements and consequently increase transparency for consumers, as opposed to promoting difficult-to-understand information overload. To this end, it is worth considering replacing the large number of national and European information requirements by harmonised, sector-specific rules (for instance, a standardised product information sheet for all forms of financial provision).

Question 22

What can be done at the EU level to support firms in creating and providing innovative financial digital services across Europe, with appropriate levels of security and consumer protection?

Digitalisation is going to transform the insurance sector significantly. It offers opportunities for new market participants, creates new distribution channels and products, and gives consumers new ways to access information and to conclude contracts. The German public insurers are facing up to the challenges resulting from these processes. Nevertheless, they wish to emphasise the importance of adequate regulatory and supervisory measures to respond to the risks resulting from these new opportunities:

Stable supervision and a level playing field

Regulatory and supervisory requirements that ensure financial market stability and the protection of the interests of consumers must apply to all market participants equally. Existing rules must not be diluted or counteracted by technological developments, and any shadow banking and grey areas in the insurance sector where some market participants could act without sufficient supervision and/or qualification must be avoided.

Diversity of distribution channels

- The Green Paper rightly states (p. 5) that not all consumers are interested in purchasing financial service products cross-border. Many customers deliberately opt for service providers that offer customer-centric and individual advice of high quality, and therefore appreciate the physical and personal proximity of their service provider.
- There must be no discrimination of consumers who, for various reasons, prefer not to obtain digital advice. Accordingly, different distribution channels have to co-exist equitably and the specific requirements of each distribution channel must be taken into consideration.
- Future measures adopted by the European legislators must safeguard the diversity of services in the financial sector and the plurality of their distribution channels, and must not call into question the business models of the various market participants. To this end and last but not least in order to support the objectives of the Capital Markets Union, the European political and legislative environment must ensure for that diversity of business models and market participants.