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"The new frontiers of insurance"

Speech by François Villeroy de Galhau,

Governor of the Banque de France

Chairman of the ACPR

Press contact: Delphine Cuny (delphine.cuny@banque-france.fr)

Madam President, Ladies and Gentlemen,

I am delighted to be with you this evening as part of this event organised by France Assureurs, and I would particularly like to thank its President, Florence Lustman, for her invitation. Insurers play an essential role – that is not always sufficiently recognised – in financing our economy and ensuring financial stability. I would first like to pay tribute to this role (I), then emphasise that it is set to expand further in the future (II), and lastly, outline a path for strengthening dialogue with the supervisor (III).

I. A tribute

I would like to start by paying tribute to the insurance community, by recalling, of course, the vital role played by France's 600 licensed insurers in protecting individuals and businesses against risks. But also in **financial stability**, because insurers' asset allocation policy remains very stable over time. It reacts little to the economic and financial cycle, and is capable of covering risks over the long term. Thirdly, and most importantly, in the **financing of the real economy**; with EUR 2,400 billion worth of investments, the French insurance industry is an essential asset, not just for the financing of government bonds, but also, more importantly, for our businesses. It helps to finance them through its direct or intermediated holdings of non-financial corporation equities and bonds, amounting to some EUR 800 billion, or 33% of its total investments. It also contributes some EUR 700 billion – around 29% of its investments – more indirectly, via its holdings of financial sector bonds... which goes to show that bankers and insurers, who are sometimes viewed as rivals, can in fact have common interests...

Two recent or ongoing regulatory changes are helping to bolster this role. The revision of the Solvency II directive encourages long-term investment in the real economy, thanks notably to the Long-Term Equity Investment (LTEI) scheme, which grants favourable prudential treatment to insurers' long-term equity holdings. The European Commission's launch of a review of the European securitisation framework could also provide insurers with new solutions for diversifying their strategic asset allocation. There is much more at stake here

than technical discussions over prudential ratios – it is a matter of strategic importance for Europe. The development of equity financing is essential if Europe is to catch up in terms of innovation. Our continent has the resources – private savings; it also has the needs – investment in the transformations of the European economy. But, unlike the United States, it does not have sufficient financial intermediation between the two. This is precisely the goal of a genuine Savings and Investments Union, as recommended by the Draghi and Letta reports. And this Union is not just aimed at banks, markets, private equity funds or venture capital funds. It needs to rely on you, insurers, as well.

II. An increasing role in the future

1) *The transformations under way in our society*

In a world that is changing more rapidly, new risks are emerging. To what extent can they be covered by insurers, or to what extent are they in fact "insurable"? I'm going to focus here on three challenges. First, the challenge linked to the **digital transformation**, which has been accelerated by the pandemic. Although this transformation is indeed generating opportunities and efficiency gains, it is also making information and operational systems increasingly complex – notably due to fragmentation linked to the growing use of external service providers – and increasingly exposed to sophisticated cyber attacks. The insurance industry needs to maintain greater vigilance over these risks to guarantee its own resilience. The imminent entry into force of the DORA regulation is contributing to this. More generally, it is crucial that all firms and citizens can protect themselves against these heightened IT/cyber risks. Here again, the insurance industry has a predominant role to play, through initiatives to raise awareness, but also by developing cyber insurance.

The second very concrete transformation facing the insurance industry is **climate change**. The biggest direct consequence is an intensification of the physical risks, which translates as a rise in the frequency and cost of insured climate events: we've just witnessed this dramatically in Mayotte. According to Swiss Re, natural disasters generated total economic losses of EUR 295 billion

in 2024, an increase of 6% compared with 2023.[i] And in the latest edition of its climate scenarios, published in November, the NGFS[ii] – our Network for Greening the Financial System, based at the Banque de France – estimates that the losses caused by chronic physical risks could amount to 15% of global GDP by 2050, three times higher than its previous estimate of 5%. Another telling indicator is the recent estimate from France Assureurs that more than half of private dwellings in France (11.1 million) are potentially at risk from clay shrinkage and swelling, which causes cracks and structural damage.

Lastly, the insurance industry needs to adapt its business models to the risks generated by **demographic shifts** in our societies. According to INSEE,[iii] the share of people aged over 65 is set to rise sharply, from 21% in 2021 to 29% in 2070. Naturally, this is exacerbating the issue of how to maintain income levels after retirement, cover health costs (senior health care) and finance support for the elderly (dependency). In France, insurers already play a crucial role in health care and provident schemes, and hold a significant proportion of French citizens' retirement savings. How far can this role expand?

2) The frontiers of insurability: a few ideas

This key issue is of course a sensitive one. I would like to share with you three thoughts on three levers.

A better understanding of risks

Recent technological advances, especially in data gathering and artificial intelligence, must be fully leveraged to improve our understanding of the risks. But we should avoid the pitfalls of demutualising risks and excessive individualisation, which would be to deny the very role of insurance. On this issue, we have closely followed the debates surrounding the proposed European FIDA regulation, and the talks seem to be heading towards a sound balance between the secure but nonetheless broader sharing of financial data. Moreover, climate stress testing is a good example of new tools. The exercise piloted by the ACPR and completed in May 2024, which focused exclusively on insurers, has increased players' ability to anticipate the effects of climate change

and adapt their strategies accordingly, notably thanks to the long-term scenario (2050) that was proposed.

Encouragement of prevention by insurers

Prevention must also play an important role: insurers can influence behaviour by encouraging measures to adapt to risks. Regarding IT/cyber risks, the terms and conditions of cyber risk insurance can help to boost resilience, notably by making security audits compulsory or setting minimum security standards to be met beforehand. Regarding climate risks, the industry is involved in testing techniques to adapt buildings to clay shrink-swell risk. Drawing up a shared map of natural hazards could also be a powerful prevention tool, helping to better control the loss ratio through land-use planning. The recent Langreney report[iv] draws similar conclusions and puts forward other ideas that we should explore jointly, such as an annual re-evaluation of the CAT NAT surcharge and its modulation according to climate risk exposure.

Public-private partnerships?

The incorporation of climate considerations shows the importance of striking the right balance when splitting responsibilities between the insurance industry and government intervention. The CCR[v] public-private partnership has proved particularly fruitful in this regard and needs to be preserved and reinforced. It maintains the incentive to prevent and manage risks (via the insurance premium), and relies on various layers of mutualisation, with the government only providing a guarantee as a last resort. Thanks to this specific national scheme, France is doing particularly well, with 32% of the effects of climate disasters insured, compared with just 23% for Europe as a whole. Clearly, we must not transfer risks too easily to public finances, which are already too constrained. But, going forward, could we not envisage, in some cases, a system of a government guarantee **of last resort** – clearly delineated in advance – to address other challenges, such as systemic cyber threats or legitimate social solidarity imperatives?

These debates on the frontier of insurability are nothing new: as far back as in 1921,[vi] the American economist Frank Knight famously distinguished between **risks** – which are measurable and therefore insurable – and **uncertainty** – which is neither measurable nor insurable. In 2024, our world is undoubtedly more "Knightian", notably due to geopolitical uncertainties. But if we fail to work together to maintain the right level of protection, or even push back the boundaries of insurability, the industry could be increasingly criticised for turning away from certain geographical areas, certain risks or certain economic sectors. This has been made clear in many recent debates, on dealing with operating losses during Covid, on the French overseas territories and on insuring homes against climate risks. What's at stake here for the future is not only the new development opportunities, but also the role insurers should play in this new paradigm.

III. A need for increased dialogue between supervisors and supervisees

The insurance industry's ability to support and assimilate these structural transformations is vital for our economy. In this context, the ACPR must, of course, remain vigilant with regard to the new risks, but it must also be pragmatic and keep its ear to the ground by maintaining dialogue with the industry.

1) Good relations between supervisors/supervisees

This effective dialogue is illustrated in the joint and active participation in work and talks on insurance regulation, at both European and international level. In the case of the Solvency II review in particular, the outcome is generally satisfactory. Evidence recently gathered by the supervisor from the main French insurance groups suggests the review guarantees an overall neutral impact for the French market. These talks, which allowed French insurers' concerns to be taken on board as early as possible, will continue to be necessary for drafting the level 2 and 3 texts. This is borne out by the current success of the industry meetings being held to discuss these texts.

It is also particularly important that insurers hold extensive talks with the supervisor on commercial practices. Indeed, we need to make progress together

on the rules surrounding the "value for money" and distribution of products, because if products are not sufficiently valuable and therefore of interest for customers, there is no justification for selling them. Let me illustrate this with the example of unit-linked contract fees: discussions between the ACPR and the industry have already led to a moderation of management fees on certain investment vehicles. And France Assureurs is now preparing to adopt a first set of proposals specifically on management fees on unit-linked contracts, to identify cases where they are high relative to a market benchmark, and, where necessary, restore the balance in favour of policyholders. This review – for which I will ask the ACPR to draw up an initial appraisal by next summer – should allow us to prove, with figures to back it up, that French insurance savings schemes take customers' interests fully to heart. This is the essential justification we need to keep a national rather than a European benchmark, in line with your wishes. In addition and at the same time, this review should soon be accompanied by the inclusion of the **euro fund** portion in the value for money scheme. Alongside Vice-Chairman Jean-Paul Faugère and the ACPR teams, I shall personally make sure that progress is made on these two issues between now and next summer.

2) *Simplifications by the supervisor and regulator*

Finally, the supervisor must, of course, ensure that its action is effective. In response to the temptations voiced across the Atlantic, let us be clear: simplification is not deregulation.[vii] I already had the opportunity to say this three weeks ago, on the subject of banking supervision. It's not necessarily a question of reducing requirements, which are vital to mitigate the risk of a financial crisis – something the United States all too often forgets. But there is undoubtedly scope for reducing the **complexity** of our rules and their application. And the same can also apply to insurance.

In prudential matters, the new "proportionality regime" set out under the revised Solvency II directive offers a first avenue for rationalisation. While preserving the robustness and level of requirements – notably capital requirements – the

new regime proposes adapting the practical implementation of the directive to the size and complexity of each institution.

There is one crucial area in Europe where we are thankfully at the forefront, but which is representative of a certain build-up of overlapping regulations, namely that of climate change. These are essential if the financial sector is to be able to contend with the very real risks to which it is exposed. But if the regulations become too complex and difficult to understand, there is a risk they will be applied poorly or not at all. We therefore need to achieve the most unified regulations possible in Europe, instead of a plethora of regulations including – to name but a few – the CSRD regulation[viii], the CSDDD[ix] and Solvency II, and France's Energy and Climate Act and its Article 29 which is well-known to insurers. Each of these regulations, often issued by different bodies, represented legitimate progress at the time. However, their accumulation now clearly lacks overall consistency. Let's stick to the objective but, at the very least, bring the definitions closer together and avoid duplicating requests for data. Secondly, we need to come up with a single transition plan per institution, summarising prudential requirements under Solvency II and net-zero alignment requirements under the CSRD and CSDDD. This is vital if we are to set credible targets for financial institutions. And one day, we will perhaps be able to go further in aligning European EFRAG[x] and international ISSB[xi] standards.

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As the year draws to a close, filled with economic and political uncertainties, I will conclude with a nice quote from the French writer and former insurance inspector, Georges Bernanos: "Hope is a risk to be run, it is even the risk of risks".[xii] Since Antiquity and the very first "bottomry loans", insurance has safeguarded against risk and adapted to a changing world, providing protection and stability for all. Let us continue to push back the frontiers of your industry, and use our dialogue to meet the challenges facing France and Europe of tomorrow. Thank you for your attention.

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[i] Swiss Re Group, "Hurricanes, severe thunderstorms and floods drive insured losses above USD 100 billion for 5th consecutive year", press release, 5 December 2024
[ii] Network for Greening the Financial System, *NGFS Climate Scenarios for central banks and supervisors – Phase V*, November 2024
[iii] INSEE, "68,1 million inhabitants in 2070: a population that will be slightly larger but older than in 2021", Insee Première No. 1881, November 2021.
[iv] Langreney (T.), Le Cozannet (G.), Merad (M.), *Rapport de mission sur l'assurabilité des risques climatiques*, April 2024
[v] Caisse Centrale de Réassurance
[vi] Knight (F.), *Risk, Uncertainty and Profit*, Boston and New York, Houghton Mifflin Company, 1921.
[vii] Villeroy de Galhau (F.), "Towards a realistic simplification: untying some of the knots in European banking regulations", speech, 26 November 2024
[viii] Corporate Sustainability Reporting Directive (2022), implemented as of 2024.
[ix] Corporate and Sustainability Due Diligence Directive (2024), to be implemented as of 2027.
[x] European Financial Reporting Advisory Group.
[xi] International Sustainability Standards Board.
[xii] Bernanos (G.), Conference for Brazilian students, Rio de Janeiro, 22 December 1944.