Contribution Dutch Association of Insurers to the questionnaire of the Next CMU High-Level Group

1. Could you provide us with an analysis of deep trends and developments (such as digital and artificial intelligence transformation, aging, climate change, UK's decision to leave the EU) relevant for the future of the Capital Markets Union? What is the impact of these trends on capital markets in Europe, its products and services? (Please provide data).

All trends mentioned are relevant for the capital markets in Europe. The ageing European population makes it even more relevant to incentivize savings for the old age in a multi-pillar pension system. Second and third pillar pension providers are important players in the capital markets through their role in linking long-term savings with long-term investments. These long-term investments are relevant for developments towards a sustainable, carbon neutral, economy. Therefore these investments will be more and more channelled to sustainable activities.

The digitisation of the economy and society creates new opportunities for the CMU. It creates new opportunities to match supply and demand for investments, and has the potential to reduce existing national barriers. When it comes to the decision of the UK to leave the EU, we foresee a change in the volume of capital that will be available within the CMU (of the EU-27). Having London as an important financial hub outside of the EU, increases the need to further develop the CMU in order to maintain its relevance in an international context.

2. From a forward-looking perspective, how do you view strengths and weaknesses of the Capital Market Union in its current state and when made of 27 Member States? From the perspective of companies (all sizes and at each stage of their growth), consumers, (wholesale and retail) investors and other market players? How do you view the role of EU's and national supervisors? How does Brexit change the prospect for a financial integration in the EU?

A major strength of the current CMU is the volume of investment capital that is available within the EU. The EU economy is an important motor for generating capital which in turn can be used to drive investments. In addition the high quality of financial supervision and high level of consumer protection in the EU help to build trust in the financial services sector. A potential weakness of the CMU is that there is no single mechanism to assess existing barriers in the CMU.

The departure of the UK from the EU will in principle not change the fundamental strengths and weaknesses of the CMU. However, it will have an effect on the volume of investment capital within the EU. The fact that the city of London, one of the main financial centres of the world, will no longer be within the EU, will also mean that other financial services hubs will need to develop within the EU.

3. Is European SME's financing satisfactory beyond bank finance? Why is access to capital markets (debt and equity) so difficult? Are there relevant differences between national financial markets in this respect? How could access to market financing facilities be improved for all size companies in each stage of their growth?

Financing SMEs remains a challenge for larger institutional investors, other than banks. The main reason for this is the relative small amounts of money SMEs need. The costs of providing this finance are too high relative to the return. Another reason is the lack of a working infrastructure for providing the finance. Corporation between institutional investors and banks or bundling the SME finance request could help.

In the Netherlands Invest-NL could play an important role in this. However, the Solvency II capital requirements are not properly calibrated for (equity) investments in SMEs and the potential returns on investments are not always fully clear yet.

4. Home bias in investments still characterizes the EU landscape. What would you say are the main issues limiting cross border flows and what steps could be taken to encourage more cross border activity?

For insurers investments in stocks and (government) bonds are already internationally orientated. Only direct loans and investments in mortgages / housing are nationally focussed. The housing markets are very member state specific with major differences. For instance, mortgages are high in the Netherlands compared to other member states, yet the number of defaults is extremely low. There are several member states where this is the other way around. In the Dutch housing market there is cross border investment in mortgage portfolios thanks to the low number of defaults.

5. Are there obstacles for households to invest their long-term savings into capital market instruments (directly or through dedicated financial vehicles, like investment firms, pension funds, insurers …)? What can be done to overcome these impediments? Who should take such measures?

Households can use local long-term savings products to invest (indirectly) cross border. The product itself, like an insurance product for long-term savings, is provided by a local undertaking as local tax regulations play a very important role. Consumers can choose a product that suits their needs. In the near future the Pan-European Personal Pension product (PEPP) could become an alternative to local long-term savings products, especially in less mature markets.

6. Digital transformation and artificial intelligence are both causes for disruption and opportunities for innovation. How should the Capital Markets Union develop to provide a welcoming environment for start-ups and scale ups? and in the financial sector for FinTech? How to develop a dynamic ecosystem of financial innovation? Do you find the "sandboxes" and related initiatives useful? How can new technology support an efficient and sustainable functioning of Europe's capital markets? What are best practices?

How should the Capital Markets Union develop to provide a welcoming environment for startups and scale ups?
Focus should be on access to capital and funding for start-ups, as well as on attracting talents to Europe to create a welcoming business environment.

And in the financial sector for FinTech?
The European Commission's FinTech Action Plan is a good example of what is needed. The key in this domain is open data and platforms.

How to develop a dynamic ecosystem of financial innovation?
Europe should create an environment (regulatory, tax, capital requirements, etc.) where InsurTech, incumbent insurers and other businesses are able to form partnerships.

For instance, a proportionality toolbox to adapt the Solvency II reporting requirements (which are tailored to the "average" European insurer) to the needs of small- and medium-sized insurers as well as InsurTech start-ups, as proposed by the Dutch Association of Insurers and Insurance Ireland.

Do you find the "sandboxes" and related initiatives useful?
Yes, regulatory sandboxes and innovation hubs are very useful to enhance innovation for both InsurTech and incumbents. The ESA effort to coordinate the different initiatives across Member States is a very good start. As the majority of policy is set at EU level, it is difficult to solve issues

with legislation at national level only. Therefore, coordinated efforts to enhance innovation and allow for InsurTech to have more legal certainty and speed to scale up across Europe is more than welcome.

How can new technology support an efficient and sustainable functioning of Europe's capital markets?
Technological development allows for financial services to be accessible and affordable for all European citizens. For example by lowering the cost of financial advice and helping to guide customers with their financial demand and needs, Fintech acts as a driver towards a more inclusive society.

What are best practices?
Efforts of the European Commission with respect to Ethical guidelines for the use of data can be seen as a best practice in this domain.

7. How should capital markets play a role about climate change and aging? How can this be organized in such a way that capital markets grow themselves as well and become more stable? How to bolster the Union's capacity to finance its sustainable growth and job creation?

Investors can play an important role to mitigate the effects of climate change, for instance via engagement on CO_2 intensive companies. Furthermore, it is important that issuing corporate green bonds as well as sovereign green bonds of EU Member States is encouraged. The EU taxonomy for environmentally sustainable economic activities could be used in the long-term by investors (as part of their asset management strategy) provided that issues on its usability from the investment perspective are properly addressed in the level 1 and 2 regulation.

8. What are crucial elements for a well-functioning deep and liquid financial market within the EU27? How should the EU27 Capital Markets Union be structured to be a globally competitive and attractive financial market? How should the relations with financial markets in third countries be strategically shaped?

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9. What should be the 3 key priorities for the next phase of Capital Markets Union?

- Increase the availability of suitable sustainable assets, such as sovereign and corporate green bonds, to support Europe's transition to a low carbon economy.
- Make multi-pillar savings for retirement a major objective in order to ensure adequate pension provisions.
- Maximise insurers' investment potential by fixing how Solvency II deals with long-term business and investments (valuation and capital requirements).