ZURICH

The European Challenge for a Global Insurer

Speech at the Swiss Insurance Day, Brussels, October 17, 2006

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First, I would like to thank Ambassador Marfurt for his generous hospitality. The fact that this event is being held at the Swiss Mission attests to your ability to bridge the worlds of business, politics and diplomacy. This is not an easy act, and you have proven to be a fine mediator. I would also like to thank the many people from many different organizations who made this day possible. It is a first of what I sincerely hope will be a series of events stretching well into the future.

My topic for today is the European challenge for a global insurer. This is a good topic; who does not like to conquer challenges? But I believe it will be more appropriate to speak about the European promise. Contrary to common belief, the old continent is not in decline. Over the last decade, European companies have adapted their structures and internal processes to the realities of globalization. Their home market is no longer defined by national boundaries, and they are running their businesses on a consolidated basis across borders. This allows them to harness the efficiency gains that come with an increasing scale of operations and size of markets.

The same is true for our company. Shortly after its foundation in 1872, Zurich started to expand outside the borders of Switzerland, first in neighboring European countries, later also overseas. Today, Zurich is a global insurer with a strong foothold on both sides of the Atlantic and a significant presence in other world markets. Roughly half of our general and life insurance premiums are generated in Europe. We are the number three general insurer in the UK, the number two in Switzerland, and the number one in the international program business. Clearly, Zurich is a force to be reckoned with.

In Europe, we are managing our operations on an integrated scale. A year ago, Zurich was one of the first companies to write business for corporate customers from an entity in Dublin. We do this through a European-wide branch network under the new EU Non-Life Insurance Directives. We have created European-wide shared services and established market-facing, organizational structures to implement a pan-European platform. The ability to derive synergies through economies of scale is bound to improve the service to our customers, lower costs, and leverage our resources more effectively.

We are pursuing similar efficiency gains in life insurance. But I believe my point is clear: Zurich is well positioned to become a truly pan-European insurance provider.

Just as European corporations have integrated their operations, policymakers must adapt to the new landscape. I am pleased to see that this is happening, certainly in insurance. European regulators have recognized that oversight aimed solely at national performance can no longer be justified and that they must develop a consolidated view. This will be a long journey, of course. That's why I would like to sketch a roadmap as seen from the vantage point of a large global insurer.

Let me say upfront: I favor prudent supervision and regulation. However, the overriding principle should be that regulation is market-friendly and strong. It should support the workings of competitive markets and prevent them from failing. This may sound contradictory. But it does not need to be so as long as regulation is based on principles rather than rules and does not attempt to substitute for market forces or stifle competition.

These principles are based on personal experience. Over the years, I have learned that strong regulation is an asset when dealing with foreign jurisdictions and different regulatory systems. Only strong regulation at home can appeal to the principle of mutual recognition. It is a principle often referred to by Swiss insurers and the Swiss Federal Office of Private Insurance when approaching regulators abroad. We must continue to uphold it going forward.

But it would be wrong to downplay the downsides of regulation. If we are not mindful of its costs and benefits, regulation will become an Albatross. Recently, it was proposed to introduce EU-wide Insurance Guarantee Schemes. While it is nearly impossible to quantify their benefits, industry estimates show that harmonized guarantees schemes could cost European citizens up to 1 billion euros. This is a lot of money with a highly uncertain and most likely negative return.

Hence, I applaud Commissioner Charlie McCreevy's decision to postpone a decision on guarantee schemes. His position is in line with last year's White Paper on Financial Services Policy for the years 2005 to 2010. It focuses on the consolidation of existing regulation rather than launching new initiatives and it reiterates McCreevy's strong commitment to better regulation. I particularly welcome his acceptance of open and transparent consultations and, more importantly, his readiness to conduct sound cost/benefit analyses prior to introducing measures. These are meaningful steps toward an improved regulatory process, which will strengthen the industry while upholding the legitimate interests of customers.

This brings me to Solvency II, arguably the most important project of the European Union in the area of insurance. To be implemented by 2010, Solvency II is bound to change the way we look at product development and pricing. It will also impact the deployment of capital, and it will affect the assessment of our industry's ability to meet the obligations toward our policyholders.

Structurally, Solvency II will also reset the parameters of competition. There is likely to be a premium on better diversified players and companies who make their decisions on more sophisticated risk models. More importantly, Solvency II is a decisive step toward regulatory convergence in Europe well in synch with the dynamics of a unified market.

But this is precisely where the integration agenda awaits completion. A coherent, cost-efficient and consistent supervisory framework that includes group supervision remains a dream when it should be a reality. The pace of reform is too slow. National interests, all too often disguised as in the best interest of consumers, continue to drive the agenda. But a truly integrated insurance market – and an integrated market for financial services for that matter – will have tangible benefits for all. Competition works. All stakeholders – including our customers – will ultimately benefit from a more competitive insurance industry.

Let me add a caveat from the unique perspective of Zurich. Since Switzerland is not a member of the EU, Zurich is always exposed to the risk of regulatory discrimination. Although we are, together with our European peers, included in EU-wide consultations leading to Solvency II, the Swiss Federal Office of Private Insurance is not. Moreover, under proposals advanced by the Committee of European Insurance and Occupational Pensions Supervisors, Switzerland's regulator would not be recognized as a group supervisor. Such exclusion would clearly discriminate a global player like Zurich who happens to be domiciled outside the borders of the EU. It would also jeopardize the Union's explicit goal to create a level playing field and violate the principle of mutual recognition.

There can be no doubt that the Federal Office of Private Insurance has created, and is enforcing, one of the strongest supervisory regimes in Europe. Switzerland's regulatory framework is cutting edge, and the newly introduced Swiss Solvency Test or SST in short, anticipates the Solvency II model. The SST approach is risk-based, dynamic and definitely a positive step up from the static system of the past. Moreover, legislation currently being discussed in the Swiss parliament would integrate the supervision of insurance companies and banks. It would create one financial market supervisor that meets or surpasses all current European standards. There can be no doubt: Switzerland has a modern and strong supervisory financial sector framework that will stay ahead of the curve for years. Hence, there is absolutely no reason why the principle of mutual recognition should not apply and the Swiss regulator be excluded from the table.

To the contrary, Solvency II and the further integration of the market for financial services should be a common European project. Capital flows and business transactions do not stop at borders, and that should also be true for the regulatory framework guiding such transactions. Europe has the potential to become a powerful home market for all financial services, including insurance. European services providers are likely to gain a competitive advantage over peers who are operating in a fragmented market.

The potential contrast is particularly striking in comparison to the United States. American insurers are subjected to 50 different state insurance commissioners who are imposing 50 different regulations for the one and the same business. Although congress has started discussing an Optional Federal Charter, which would provide an option for insurers to be regulated by one common federal supervisor, such legislation is unlikely to be advanced in the immediate future. Hence, the ability of US insurers to provide superior services to their domestic customers and compete globally from a strong home market continues to be hampered by an inefficient regulatory system.

Let me sum up.

European policymakers have begun a long journey toward a consolidated view of financial services and insurance regulation. They are following the pace of the industry, which, over the last ten years, has harnessed efficiency gains associated with the growing scale of an integrated market. These developments are likely to strengthen the regulatory environment and the competitive advantage of European insurers. Well designed and, above all, market-friendly regulation is central to our industry's performance in the global marketplace. It is in the interest of all stakeholders that we should endeavor to make Europe's regulatory system the best in the world.

I urge my colleagues in the insurance industry to work with national regulators, elected officials on national and European levels, and the Commission as I firmly believe that open and transparent consultations are an important if not the most important precondition to better regulation.

European insurers have a lot going for them. One of their biggest opportunities derives from the potential of a modern regulatory framework. This is the European promise I talked about at the beginning. I assure you that Zurich is fully prepared to live up to it.