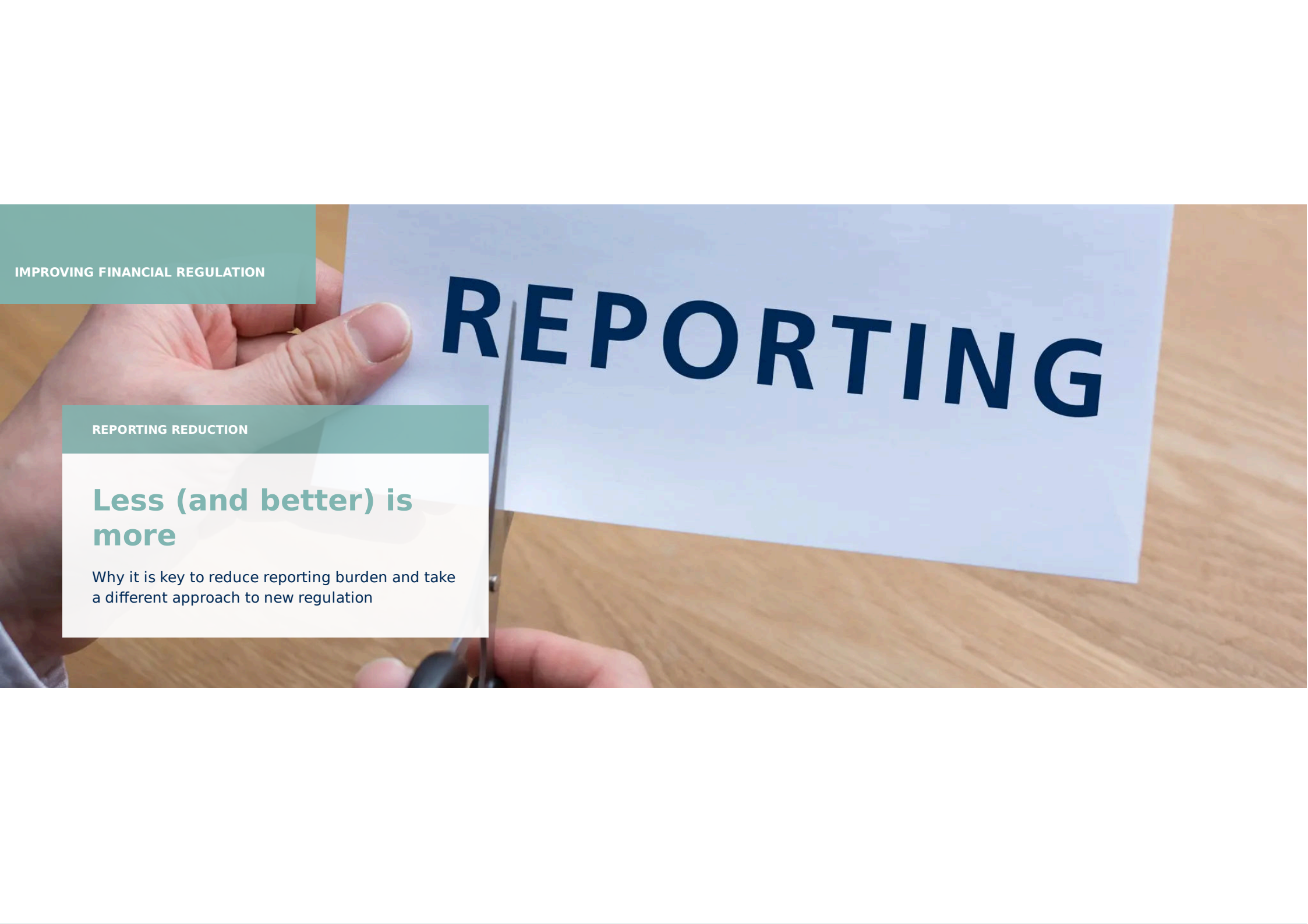




IMPROVING FINANCIAL REGULATION

REPORTING REDUCTION

Less (and better) is more

Why it is key to reduce reporting burden and take a different approach to new regulation



Olav Jones

Deputy Director general and director
economics & finance, Insurance Europe

Regulation plays a key role in ensuring fairness and safety for European citizens and businesses. For insurers, efficient and effective regulation can help maintain customer trust and confidence, preserve the level playing field and allow cross-border growth and competition.

The EU rightfully has high ambitions to create a strong regulatory framework to protect citizens, the environment, and financial stability. However, it tends to create over-complicated, overly detailed and overlapping regulation developed in silos and can ignore the growing accumulative costs and the risks of unintended consequences. EU Regulation impacting insurers has grown dramatically from 12 texts in 2012 to about 70 which are or will be applicable going forward. The complexity and level of detail have also increased with some texts, including their implementing acts and guidelines, comprising thousands of pages. Every piece of regulation requires resources and expertise to implement and to ensure ongoing compliance. Often many resources are needed as well as significant IT and data projects. This leads to substantial costs which must be passed on to customers, reduces capacity and ability to innovate and grow and reduces European insurers' global competitiveness.

Existing regulatory burden needs to be streamlined and tangibly reduced

In 2023, the European Commission made an important commitment to rationalise and simplify reporting requirements for companies and administrations and to reduce such burdens by 25%. The industry welcomed the European Commission's recognition of the need to address the huge reporting burden which forms a substantial part of the overall excessive regulatory burden for insurers. For this to result in any material benefit, there must be a serious commitment with real changes.

So far, we have been disappointed that the proposals for streamlining reporting requirements presented by the European Commission in October 2023 would have almost no benefit for our sector. The main initiative the EC refers to for insurers is the postponing of the work to add sector-specific standards which the Corporate Sustainability Reporting Directive had required by 2024. However, this change was already known and is not a reduction but a delay in adding new requirements. The Commission also proposed adjusting the thresholds of the Accounting Directive to account for the impact of inflation which will take more smaller insurers out of scope of certain regulatory requirements – but this is a normal and expected adjustment and only helps the very smallest of insurers, doing nothing for all the others. In the meantime, the regulatory pipeline keeps adding more significant new requirements, through the Solvency II Review, the Insurance Recovery and Resolution Directive (IRR), the Digital Operational Resilience Act (DORA) and Retail Investment Strategy (RIS) and many others.

Therefore Insurance Europe provided a range of proposals in its [response](#) to the dedicated EC call for evidence identifying how to reduce current reporting burden, including in relation to the insurance prudential regulation framework, Solvency II, the conduct of business area, and sustainability.



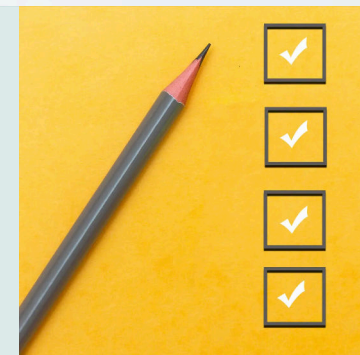
“EU Regulation impacting insurers has grown dramatically from 12 texts in 2012 to about 70 which are or will be applicable going forward.”

The EU needs to fundamentally improve how it approaches and develops new regulation

In addition to reducing current reporting burdens, the EU needs to take a different approach to regulation going forward and only introduce new regulation or changes if they are “truly justified”, said John Berrigan, Director General, DG FISMA recently. Similarly, the recent report on the future of the Single Market by Enrico Letta also proposes that “a comprehensive approach not only elucidates the path towards a more efficient and competitive Single Market but also advocates for a streamlined and vibrant economic ecosystem”.

Burden is created not only by too many requirements, but by regulation which is not well designed for the sector, by duplications and overlaps across different pieces of legislation, lack of sufficient time to implement the requirements, as well as lack of clarity and timely provisions of Q&As.

Insurance Europe also provided in its [response](#) to the EC call for evidence, on how to reduce the current reporting burden, key principles which the EC should adopt to ensure that only truly justified regulation is developed and that it is designed to be both efficient and effective as possible and does not undermine the sector’s ability to compete globally.



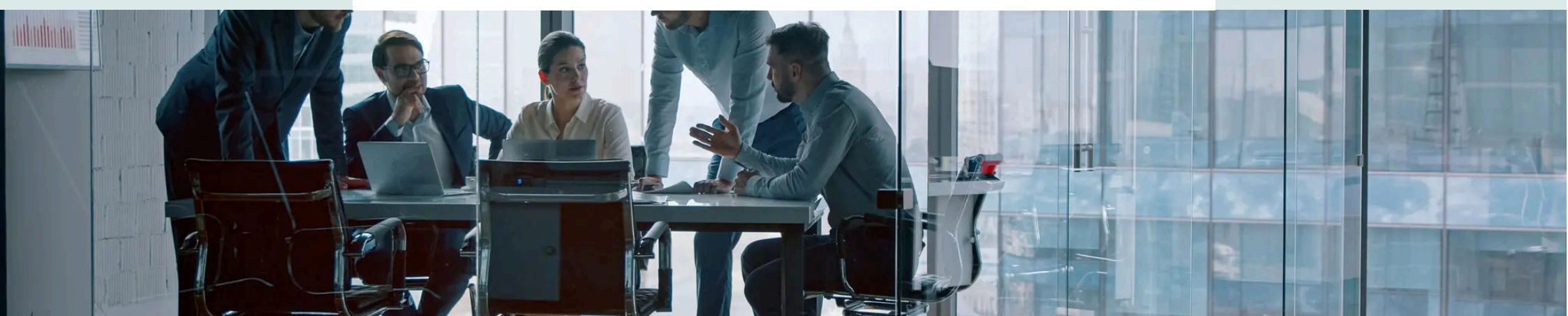
Key principles to be followed for any new regulations or reviews

Regulation impacting the insurance sector should be tailored to its specifics

Regulation of the insurance sector that is based on broader concerns about banks and other financial sectors or ignores key fundamentals of the insurance business model, products or markets should be avoided. It results in additional, unjustified operational and cost burdens that are ultimately paid for by consumers.

Instead, the regulation and supervision of insurers should be distinct from that for banks and other financial institutions and be designed to take into account the specific features of insurance. This will ensure that the insurance regulatory regime is focused on the right risks and, ultimately, that consumers and society at large can avoid unnecessary costs and continue to reap the benefits of a resilient, efficient, innovative, and reliable insurance sector.

Insurance, which touches many aspects of modern life and economies – from car driving to catastrophes – is captured in a multitude of sector-specific regulations. For this reason, regulation should not be produced in a “silo” that does not take account existing laws in all areas affected by it. Likewise, those with expertise in the sectors regulation will affect must be involved in its development from the onset.



Key principles to be followed for any new regulations or reviews:

- Avoid unnecessary new reporting requirements. Impact assessments on all EC and European Supervisory Authority (ESA) initiatives are vital and new reporting should only be taken forward when justified by a very high benefit-to-cost ratio.
 - Ensure changes initiated by the European supervisory authorities are also carefully reviewed and assessed. These are currently often not covered by an assessment of how and why the new data is necessary or an appropriate cost/benefit analysis. For example, in the area of Solvency II, recent changes to quantitative reporting templates (QRTs), entirely on the initiative of EIOPA and its members, have resulted in the addition of up to around 6 000 new data points.
 - Do not create reporting overlaps and duplications with existing sectoral or horizontal regulations.
 - Always embed proportionality into the requirements, including those for smaller companies of insurance groups. that the smaller the reporting entity the higher the relative reporting burden, as certain base costs of implementation are incurred regardless of the size of the company.
 - Always ensure sufficient time is given for implementation. This means timing the application of new reporting requirements relative to the official publication of final reporting specifications – which may be defined via Level 2 or Level 3 measures – and not as fixed dates. The time allowed for implementation should be 18 months by default and never less than 12 months. Periods of 24 months may be needed for reporting requirements involving complex reporting and/or hard to generate.
 - Avoid over-prescriptiveness and allow flexibility to the extent possible.
-
- Where requested by the industry, provide the necessary clarity and Q&As quickly, i.e. as soon as possible and at least 6, and ideally 12, months prior to the application date.
 - Conduct thorough consumer-testing on both proposed and existing consumer disclosures to ensure that the proposals indeed benefit consumers and match their actual information needs.