



Investing from insurers' perspective

Executive summary

The European Union's strategic priorities — the Green Deal, the Competitiveness Compass and the Savings and Investment Union (SIU) — require unprecedented levels of private capital to drive sustainability, innovation, and competitiveness. The insurance sector, investing nearly **€9.5 trillion** (around **70% within the EU**), is one of Europe's largest institutional investors and a key provider of stable, long-term funding.

Insurers' business model — collecting premiums upfront to meet future claims and pensions — naturally positions them to invest with a long-term horizon, withstand market volatility and have a counter-cyclical and stabilising effect on financial markets and the economy. Three features underpin this role:

- **Liability profile and duration:** Predictable, long-dated obligations (e.g. annuities) allow investment in illiquid, higher-yielding assets like infrastructure, private equity and real estate, while shorter-term liabilities require more liquidity.
- **Guarantees:** Capital or return guarantees address concerns about risk taking and therefore allow a wider range of citizens to invest, but also constrains insurers' risk taking ability and necessitate insurers core skills in risk management and duration management.
- **Scale:** As major institutional investors, insurers can mobilise large amounts of capital. Deep and scalable markets help them deploy it most effectively.

Their investment decisions are influenced by **fundamental factors** (risk/return trade-offs, expertise in specific asset classes, availability, cultural risk preferences, and consumer financial literacy) and by **legislative and regulatory factors**. While the Solvency II regime for insurers ensures prudence, capital charges and regulatory fragmentation still constrain long-term and cross-border investments. Tax inconsistencies, especially withholding taxes, further hinder efficient capital allocation, while sustainability rules and accounting standards can unintentionally discourage equity or transition investments.

Policy action is needed to unlock insurers' full potential to invest in the EU economy, notably to reduce market fragmentation, adjust capital and tax treatment for long-term and sustainable assets, strengthen public-private partnerships, and enhance legal certainty. By ensuring regulation reflects the features of insurers' business model and its structural strengths, the EU can mobilise significant private capital to finance its green, digital and competitiveness objectives.

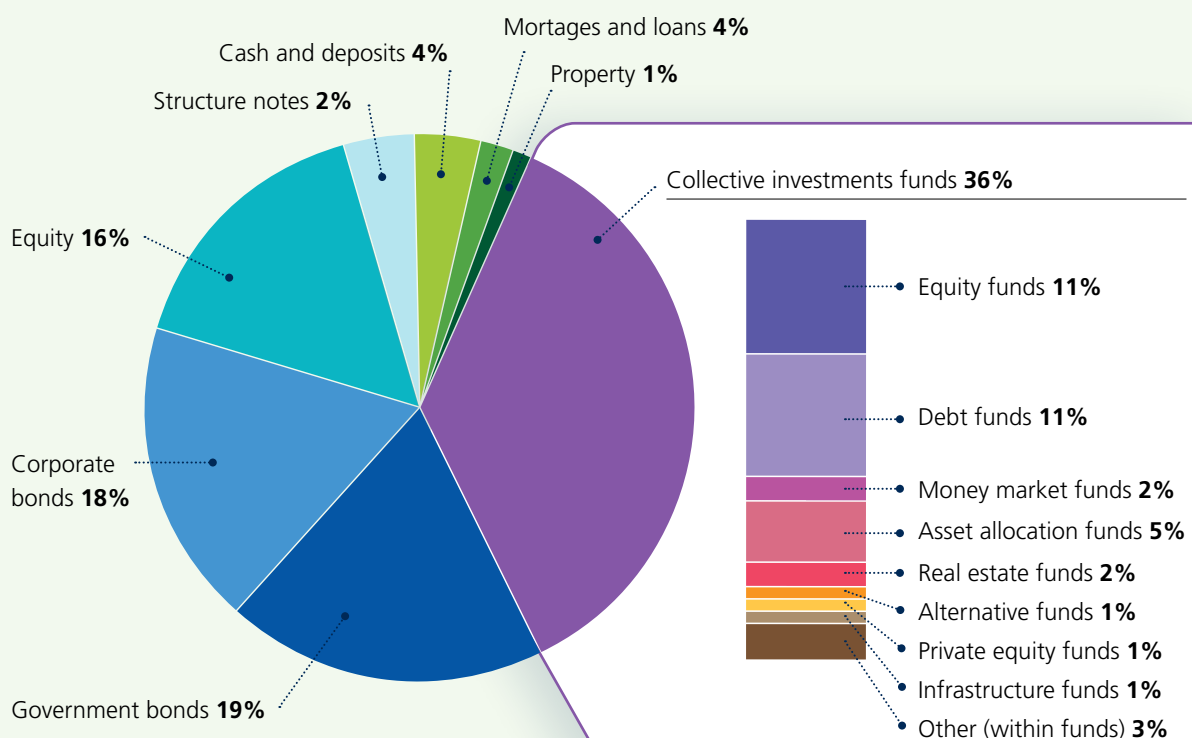
The paper serves two purposes – **explaining the role of insurers as institutional investors**, the drivers of insurers' investment decisions and factors that need to be considered and **presenting actionable policy recommendations where relevant**.

Insurers as long-term institutional investors

The European Union is working to build a competitive, sustainable, and resilient European economy through flagship initiatives like the Green Deal, Competitiveness Compass, and Savings and Investment Union (SIU). Given the unprecedented investment needs Europe is facing, private investment is needed to drive forward innovation, sustainability and competitiveness.

The insurance industry is one of Europe's largest institutional investors and an important provider of stable, long-term funding for governments and businesses. European insurers invest close to €9.5trn in the economy and around 70% of their investments in equity, corporate and sovereign bonds are within the EU.

European insurers' investments allocation



Investing is a consequence of the insurance business model: policyholders pay premiums upfront, which insurers then invest to meet future claims and benefits. This can be years or even decades for savings and pension products. It is this long-term business model that creates insurers' ability, and need, to focus on the long-term performance of assets rather than short-term market volatility, and their ability to invest in illiquid assets and avoid procyclical behaviour. These advantages benefit the economy and also allow insurers to better invest for the benefit of their customers.

Insurance companies invest in a broad range of assets. Most of these assets are allocated to government bonds, covered bonds, corporate bonds, equities and infrastructure, real estate or private equity. These categories make up 88% of all investments¹.

- Government and covered bonds are often favoured by insurers as instruments able to provide cash flow or duration-matching of their assets and liabilities. Via these investments, insurers play a significant role in supplying the funding needs of governments and mortgages.
- Corporate bonds are also a very attractive asset class for insurers as they provide cash flow or duration-matching of their assets and liabilities. Via these investments, insurers play a significant role in supplying the funding needs of corporates.
- Public equities, which are a core source of corporate financing through the capital markets, and which play an important and not easily replaced role in society.
- Insurers also provide long-term funding via investments in infrastructure, real estate, securitisations, private equity, private debt and venture capital, the last one being a key instrument for funding innovation. Insurers would like to increase their allocations to these investments to expand the diversification of their portfolios and enhance returns for customers.

The investment mix varies considerably between companies and countries within Europe to meet product needs, local requirements, conditions and traditions.

Having exposure to long dated fixed income instruments also means that monetary policy, particularly persistently low interest rates, has fundamentally altered insurers' investment strategies. Low rates increase the present value of liabilities while compressing asset returns, which can force a search for yield through higher-risk or illiquid assets. While insurers are structurally suited to hold such assets, as part of diversified portfolios, prolonged low rates may inflate liability valuations, asset prices, distort credit markets, and increase systemic risks. It also complicates retirement savings, premium pricing, and policyholder guarantees.

- At company level, it typically depends on the types of insurance products sold - that is, on the mix of protection products, life unit-linked and life guarantee-type products. The risk appetite of a company and its areas of investment expertise will also affect its investment mix.
- Variations in investment mix between countries typically reflect differences in national product features and also traditions, regulation, government policy and taxes.

¹ EIOPA estimates, 2023 ([link](#))

Insurers operate within a complex framework of prudential rules, tax policy, accounting standards, and macroeconomic pressures, all of which influence their ability to invest. Policy changes and improvements in these areas can help unlock insurers' capacity to contribute to Europe's investment priorities. This paper offers a high-level view of the different factors affecting insurers' investment decisions, and is structured as follows:



PART I:

What sets insurers apart?

1. Profile of liabilities, duration and liquidity
2. Guarantees
3. Asset size



PART II:

Fundamental factors

1. General risk/return principles
2. Company size and asset class specific expertise
3. Cultural factors



PART III:

Legislative and regulatory factors

1. Overall corporate and administrative burden
2. Prudential regulation
3. Taxation
4. Sustainability considerations
5. Accounting treatment of assets

PART I:

What sets insurers apart?

The insurance sector's investment strategies are fundamentally shaped by the nature of its business model. Insurers manage large, long-term portfolios not only to generate returns, but to meet future claims obligations to millions of European households and businesses. Three factors underpin this model:

The profile of insurers' liabilities, the inclusion of financial guarantees in insurance products and asset size.

Understanding how these elements interact is essential for policymakers seeking to unlock private capital for Europe's long-term priorities, from infrastructure and clean energy to sustainable innovation and SME financing.



1. Profile of liabilities, duration and liquidity

At the heart of insurers' investment decisions is the profile of their liabilities. The duration - how long before a claim must be paid - and the predictability of those liabilities determine both the investment time horizon, and the liquidity needed in the portfolio.

For long-term, predictable liabilities such as annuities or guaranteed savings products, insurers can safely invest in illiquid, higher-yielding assets like real assets, private equity or private debt. These assets match the liabilities' long-term cash flow profile and can be held to maturity, providing steady returns without liquidity pressure.

In contrast, shorter-term or less predictable liabilities, as seen in property and casualty (P&C) insurance, predominantly require portfolios with higher liquidity and flexibility. Claims from catastrophic events like floods or windstorms are both infrequent and unpredictable, prompting insurers to hold liquid assets for immediate payouts or transfer these risks through reinsurance while keeping predictable liabilities on their books.

In reality, insurers often manage a wide range of long term and short-term products at an aggregate portfolio level making claims more predictable. In property and casualty (P&C) insurance, while contracts tend to be short term, the real duration can be longer because of policy renewals and complex claims take time to resolve.

Insurers, as long-term investors, are therefore much less likely to have to sell their assets in reaction to short term volatility on equity markets. On the contrary, having a long-term view allow them to take advantage of short-term volatility to improve portfolio returns. This flexibility, investing long-term where liabilities allow, and managing liquidity where necessary, makes insurers natural providers of stable, long-term capital. It is one of the insurance industry's most valuable contributions to Europe's investment ecosystem.

Why insurers are natural long-term investors

- **9.5 € trillion:** Total assets held by European insurers (EIOPA, 2024)
- **Investments supported** by long-term insurance liabilities and stable own funds
- **88%** of insurers' assets are in government bonds, corporate bonds and equities — essential long-term financing for governments and businesses
- **Stable premium inflows** allow insurers to invest countercyclically, even during market downturns

This liability-driven, long-horizon model enables insurers to act as a stable source of long-term capital — exactly the kind of investment the EU economy needs.

2. Guarantees

Insurers embed guarantees in their product to respond to a **strong demand for predictability** desired by European citizens. These insurance guaranteed products benefit from being long-term, outperform bank accounts and still invest money in equities, corporate bonds and other assets which help drive the economy. However, these guarantees may constrain investment strategy to ensure the promised outcomes and reduce potential return because they lower risk, incur costs.

When insurance products carry guarantees, such as guaranteeing some or all of the premium invested or a minimum annual return, investment strategies must ensure expected returns exceed those guarantees throughout the product's lifetime. For instance, a 10-year life product guaranteeing 3% might be matched 90% of investments with a 10-year bond yielding 4% at purchase which covers the guarantee and the other 10% in equities to provide additional return. In economic terms there is very little risk because the bond is held to maturity insulating the insurer from market value fluctuations and the returns on the equity are not needed to cover the guarantee.

However, real-world constraints complicate this strategy. Regulatory capital requirements, such as those under Solvency II, assign higher capital charges to certain assets based on risk. Additionally, market availability poses limitations: suitable long-duration assets may simply not be on offer when needed. In such cases, insurers may either replicate desired exposures with derivatives or accept and hold capital for a carefully managed degree of mismatch risk. Finally, a low-interest rate environment means that investors may need to find assets that give a higher return.

Defined benefit (DB) products are insurance or pension contracts that promise a fixed or guaranteed benefit to the policyholder, such as a minimum annual return or a predetermined pension payment. The insurer bears the investment and longevity risk, ensuring these benefits are paid regardless of market conditions. This makes liability matching and stable, long-term investment returns essential components of insurers' investment strategies. In some countries, there are similar guarantees also for defined contributions (DC) products.

3. Asset size

Insurers manage some of the largest institutional portfolios in Europe. This enables them to diversify widely and access asset classes unavailable to their customer investors but it also presents practical challenges.

To invest most effectively and keep administrative costs low, insurers ideally need asset classes and investments with sufficient market depth and scalability.

For products with long-term liabilities, in addition to liquid fixed income instruments, insurers may invest in some illiquid assets such as infrastructure, private and public equity, and real estate. These offer reliable cash flows over extended periods, aligning naturally with liabilities.

When several asset classes can meet liability-matching requirements, insurers select those offering the best risk-adjusted return — achieving either a higher return for the same risk or reduced risk for a similar expected return. This trade-off between duration, liquidity, and yield is a cornerstone of the sector's investment discipline.

Yet, barriers remain since some investments are simply unavailable when insurers have capital to deploy. This can be the example of certain long maturity bonds or infrastructure investments.

PART II:

Fundamental factors

1. General risk / return principle

Insurers, much like any institutional investors, navigate the fundamental trade-off of achieving the best possible long-term returns relative to the underlying risk. What differentiates insurers from other institutional investors are the constraints imposed by their liability profiles, product guarantees, solvency requirements, accounting treatment and market realities.

An insurer's investment strategy is primarily shaped by the **duration and predictability of its liabilities**. As long-term investors, insurers are well-positioned to access **illiquidity premiums** in private assets — opportunities less accessible to investors with short-term funding needs.

Duration defines the investment time horizon, while **predictability**, influenced by policyholder behaviour, embedded product options, and risk assumptions, determines the portfolio's liquidity requirements.

For products with **guarantees**, such as annuities, insurers must ensure that expected returns consistently exceed promised guarantees, while actively managing associated risks, including interest rate, credit, liquidity, and market risks. This requires a careful balancing of return potential with the certainty of meeting future obligations but can still allow for equity investment as shown by the earlier example.



Blended finance: derisking tool

The **Copenhagen City Ring (M3 Line)** is a major urban metro expansion project completed in 2019, adding 17 stations and 15.5 km of underground track to the city's transport system. The project was structured using **blended finance**, combining **public funding, concessional finance, and private capital**.

Blended finance structure:

The project was developed by Metroselskabet, a public company owned by the Danish state and local municipalities. While public authorities provided the majority of the capital, the project leveraged:

- **EU support through the EIB (European Investment Bank)**, which provided long-term concessional loans at favourable rates.
- **Private contractors (CMT consortium)** financed and implemented parts of the design and construction under a Public-Private Collaboration.
- Revenue from future **ticket sales** and **value capture (land taxes, property development around stations)** helped secure financing and reduce public risk.

This project demonstrates how **concessional public finance (from the EIB and government)** can be used to **de-risk infrastructure**, making it attractive for **private sector partners**. It's a textbook case of **blended finance** enabling a large, complex urban transport project with shared risk and layered capital structures, unlocking investment that might not have been possible otherwise.

A core principle of insurance investment strategy is risk diversification, spreading investments across asset classes, sectors, geographies, and maturities to reduce exposure to individual risks. This enables insurers to improve portfolio resilience, optimise returns relative to risk, and manage regulatory capital efficiently.

In these cases, insurers turn to market alternatives such as derivatives or accept a carefully controlled degree of asset-liability mismatch — always within prudential and solvency guideline. **In short:** *the insurance business model equips the sector to be a stable, long-term investor. But for insurers to fully realise this potential, the market and regulatory environment must allow access to a broad, investable asset universe that aligns with their liabilities. Enabling this alignment is critical for mobilising private capital at scale in support of Europe's long-term investment goals.*

As the EU works to build a competitive, sustainable, and resilient economy, a predictable business environment is essential for both companies and investors. A lack of clarity and long-term policy direction creates uncertainty about expected returns, which reduces investors' willingness to contribute. Furthermore, investors are primarily responsible for delivering strong returns to policyholders, which limits their ability to invest in projects with high uncertainty or excessive risk—even if those projects could benefit society. Therefore, an effective risk-sharing mechanism is crucial.

Case study: insurers as the private 'P' in PPPs supporting strategic EU projects

Public-Private Partnerships (PPPs) have long played a vital role in delivering infrastructure, innovation, and industrial capacity in Europe. Today, they are also central to financing the twin transitions in climate and digital. One of the EU's most powerful tools for strategic investment is the Important Projects of Common European Interest (IPCEI) framework — large, cross-border projects supporting critical sectors like hydrogen, semiconductors, clean tech, and AI.

Insurers are natural private partners in these partnerships.

With long-term, stable liabilities, insurers are ideally placed to invest in projects with extended time horizons and modest liquidity needs — precisely the kind of patient capital required for infrastructure and industrial transition.

Example:

A clean hydrogen IPCEI might receive public grants and guarantees to de-risk early R&D and deployment. Insurers, through infrastructure debt, direct equity, or blended finance vehicles, could then step in to finance large-scale production plants, storage facilities, and distribution networks, providing stable capital over 20–30 year terms.

Why this matters:

- Mobilises private capital without overburdening public budgets
- Supports the EU's energy resilience, climate neutrality, and digital objectives
- Aligns long-term investment portfolios with sustainable, growth-oriented assets
- Reinforces insurers' role as stable, countercyclical investors



Policy considerations

Increase use of public-private partnerships and have a stronger focus of supranational development banks to crowd-in institutional investors. Partial guarantees can reduce barriers to greater investment and should be recognised under Solvency II (in line with bank regime).

2. Company size and asset class specific expertise

Insurers either maintain dedicated in-house investment expertise to manage their portfolios or delegate this task to external investment managers. During periods of high investment demand or when allocating to complex asset classes such as infrastructure, private debt, or private placements insurers require this expertise to assess risks, source opportunities, and structure bespoke investments tailored to their long-term liability profiles.

This flexible approach to investment expertise ensures insurers can capitalise on market opportunities when they arise, while remaining cost-effective when investment activity slows. It also highlights the importance of regulatory frameworks that support insurers' ability to manage internal capacity dynamically without constraining access to long-term investment opportunities.

Minimising the cost of investing is a key factor for many insurers - contracting external investment managers to invest in particular asset classes (Private Equity, infrastructure...) may be particularly costly, and may therefore not be a viable option.

Another key aspect of cost-effectiveness is the effort required to make an investment. The investment's ticket size, particularly in sectors such as infrastructure, private equity, and SMEs, is a critical factor in determining whether an investment opportunity is worth pursuing. While minimum ticket sizes vary across insurers, they often start in the tens of millions per investment.



Policy considerations

To increase scale and access to venture capital, SME debt and equity, **assess national funds and how their use can be expanded** to other EU markets or potentially multi-national/EU versions.

Example of Venture Capital initiatives: French Tibi Initiative

The **Tibi Initiative**, launched by the French government in 2020 following recommendations by economist Philippe Tibi, aims to direct significant institutional capital—especially from insurers—into French and European high-growth tech companies. Investors voluntarily sign the **Tibi Charter**, committing to invest in “**Tibi-labelled**” VC and growth equity funds. The initiative is overseen by a Treasury-led technical committee, which vets eligible funds based on criteria related to technology focus, asset manager expertise, and French-based teams. Importantly, the investment allocation is decentralised, allowing each institution to choose from a vetted pool of funds rather than a central vehicle.

To be Tibi-labelled, funds must meet strict criteria applicable at the EU level. Target companies must be tech-driven—grounded in science, innovation, and risk—and managed by teams with a solid track record in tech investing. Since its launch, a total of €12.5 billion have already been invested, including approximately €6.2 billion deployed since 2023, with Phase 2 goals nearly achieved and the commitment target now set at €9–10 billion by 2026. Moreover, 120 accredited funds have raised approximately €30 billion so far, aiming for €45–50 billion at final close.

Of the capital allocated by initiative funds, 32% has gone to deeptech (including 9.5% in biotech), 25% to energy and ecological transitions, 18% to health, 25% to software, and 7% to fintech; deeptech includes 50 accredited funds (18 in health) that have raised €9.5 billion, targeting €14.9 billion.

On the listed side, **30 accredited global tech equity funds** have also received the Tibi label, managing **€15 billion**. The largest of these controls €4 billion, followed by the second largest managing €3 billion, while another two are close to reaching €1 billion, and six oversee more than €400 million. Investment is concentrated in **large-cap equities (80%)**, with the remaining 20% in small and mid-cap firms. Thematically, the labelled funds include 20 generalist strategies, 5 in energy transition, 3 focused on AI, and one targeting the silver economy.

Example of Venture Capital initiatives: German “WIN” initiative

The WIN (“Wachstums- und Innovationskapital für Deutschland”) Initiative is a German public-private investment program designed to bridge the financing gap in growth and innovation capital, especially for startups, scale-ups, and pioneering venture-style infrastructure projects. Launched by KfW and public sector partners, it offers a toolkit of measures to boost venture funding in Germany and Europe through 2030—spanning direct equity/debt injections, enhanced secondary markets, and tax and regulatory reforms. The WIN Initiative aims to mobilise €12 billion by 2030 from a mix of public and private sources, including insurers, pension funds, banks, and industrial corporations. **So far, investors such as pension funds and insurers—including Allianz, HUK Coburg, and others—have formally committed €12 billion to the initiative.**

For small insurers and pension funds, the WIN Initiative’s key appeal lies in its new infrastructure quota and relaxed risk-capital rules. As part of Germany’s Second Act to Strengthen Occupational Pensions, small insurers now can allocate up to 5% of their portfolio into infrastructure investments, without impacting their overall risk-capital quotas.

In essence, WIN creates both the regulatory permission and a supportive ecosystem—through direct investment channels, fund structures, and secondary-market facilities—that encourages insurers to increase their infrastructure and innovation exposure, aligning long-term liability profiles with the high-yield opportunities of growth capital.

3. Cultural and other national factors

Cultural values can also play a role in shaping insurers’ investment strategies across different regions. One key dimension is **risk tolerance**, often reflected through a society’s level of appetite for risk. In cultures with high uncertainty avoidance, such as Japan and Germany, policyholders are typically more conservative, favouring fixed-income and low-volatility assets, which is then reflected in insurers investment portfolios. Conversely, in cultures with lower uncertainty avoidance—like Nordic countries or the United Kingdom—insurers may adopt a more aggressive stance, allocating a higher proportion of portfolios to equities and alternative assets. The national tax and social security framework can also play a major role. In Sweden, for example, everyone is covered by public pension including first tier benefits and adding to that most people (90-95 per cent) are also covered by occupational pension. In combination with a high trust in financial institutions and access to simple savings vehicles like endowment insurance and ISK Swedish households are more used to and may feel able to take more risk in their savings.

Another influential factor is a society’s **long-term versus short-term orientation**. Countries with a long-term orientation, particularly in East Asia, tend to emphasise patience and future-focused planning. This cultural trait aligns well with the insurance sector’s preference for long-duration, stable investments that

match long-term liabilities. On the other hand, in societies with a more short-term orientation leading to respective financial products being favoured by customers, there may be greater emphasis on immediate performance and returns, leading insurers to prefer more liquid and shorter-duration investments.

Finally, **societal preferences and ethical norms** increasingly influence insurance investment decisions. In countries where environmental, social, and governance (ESG) concerns are deeply embedded in public values—such as the Nordic nations—insurers often integrate sustainability considerations into their portfolios. In contrast, in regions where financial returns are prioritised over ethical considerations, insurers may be less responsive to ESG pressures and follow a more traditional approach to asset allocation.

Financial education

Financial education is essential for policyholders as it empowers them to understand insurance and investment products, assess their long-term financial goals, and make informed decisions. With strong financial and risk literacy, individuals are better equipped to evaluate returns, costs, and risks, choose suitable investment-linked policies, and avoid inappropriate or overly risky options. This not only helps them build financial security and prepare for life events like retirement but also fosters confidence and resilience in navigating complex financial markets.

Efforts at EU and member state level to promote financial and insurance education are needed in order to ensure that European citizens are equipped with the knowledge, confidence and skills necessary to improve their understanding of financial products. Initiatives should be adapted to their different needs and age groups to help them understand the information they receive and ask the right questions. In this respect, Insurance Europe welcomes the RIS proposals on financial education. This could build on the financial competence framework developed by the European Union together with the OECD. Similarly to the Mortgage Credit Directive (MCD) requirement under Art. 6, the EC and/or the European Supervisory Authorities (ESAs) could also be required to collect and publish information on the financial and insurance education initiatives available to consumers in the member states to make them more visible and accessible.

The insurance industry is already engaged in a wide range of initiatives to increase consumers' financial literacy and understanding of insurance and contribute to this objective, as displayed in Insurance Europe's [InsureWisely campaign](#) and [Consumer Hub](#).



Insurance Europe welcomes the European Commission's commitment to presenting a strategy on financial literacy and looks forward to contributing to the discussions on improving financial and insurance education.



Policy considerations

- Make insurance literacy a core component of financial education.
- Embed financial and insurance education in national schooling systems.
- Coordinate pension education and tracking tools.
- Address the influence of influencers through education and regulation.
- Introduce a European Day of Financial Education.
- Reinforce EIOPA's role on financial and insurance literacy.

PART III:

Legislative and regulatory factors

1. Regulatory burden and market fragmentation

The current **corporate and administrative regulatory landscape** within the EU presents significant obstacles to investment, innovation, and cross-border operations. Fragmented infrastructure—such as complex and inconsistent approval processes in civil administration—exposes businesses to heightened legal uncertainty, including increased lawsuit risks.

The absence of a true single market and harmonised capital market, coupled with **overly bureaucratic provisions**, disproportionately burdens start-ups and growing enterprises, stifling entrepreneurship and innovation.

A major regulatory shortcoming is the **lack of harmonised insolvency frameworks** across Member States. This fragmentation complicates the resolution of cross-border disputes and undermines investor confidence. Reducing these disparities—particularly by aligning creditor rights and standardising the powers of insolvency administrators—would facilitate asset tracing and promote equitable outcomes in liquidation and reorganisation proceedings. Such reforms are essential to improving legal certainty and fostering a more robust investment climate.

The **depth and liquidity of domestic capital markets** also play a critical role. Insurers in countries with well-developed bond markets, such as the U.S., U.K., and Germany, benefit from more stable and diverse investment opportunities. In more mature financial systems, insurers also enjoy better access to alternative asset classes, including infrastructure, private equity, and sustainable investments. Confidence in these markets is underpinned by **strong property rights, effective contract enforcement, and sound corporate governance**—elements that are crucial for encouraging long-term investment by insurers and other institutional investors.



Policy considerations

- Reduce bureaucracy and unnecessary corporate and administrative regulatory burdens to unleash private investments in Europe.
- Avoid sudden or retroactive changes to local investment laws. Where changes are necessary, safeguards should be introduced. EU guidelines should better ensure protection and legal clarity.
- Establish a dispute resolution mechanism between investors and Member States, such as an EU investment court, to enhance legal certainty and peace.
- Reducing fragmentation in insolvency laws is vital. Harmonising creditor rights and clarifying the powers of insolvency administrators would improve confidence in fair liquidation and reorganisation processes.

2. Prudential regulation

The Solvency II framework, in place since 2016, is a harmonised, sophisticated, economic and risk-based regime. It has a major impact on the insurance industry. Capital and other requirements drive the industry's capacity to cover risks, the ability to offer guarantees and the level and type of investments that can be made.

Insurers have always invested with a strong emphasis on prudence and risk management. Solvency II ensures this is the case for all insurers and raises the importance of capital efficiency. The aims of Solvency II to be a risk-based framework have been strongly supported from the start by the industry. However, concerns that it does not correctly capture the long-term nature of the business and results in excessive capital and excessive volatility have also been made clear. These issues impact investments because they create barriers both for insurers to write the long-term business that allows them to take a long-term investment approach and because they penalise investments such as equities and property. Reducing the excessive capital and volatility has therefore been one of the industry's key areas of focus for the Solvency II Review.

The core principle guiding investments is the **Prudent Person Principle**, which requires insurers to invest in assets they understand, that are appropriately diversified, and that match the nature and duration of their liabilities. As such, insurers—particularly life insurers—may prioritise long-duration, low-risk assets like government and investment-grade corporate bonds, which help them align with long-term liabilities such as pensions and annuities. The interpretation of the Prudent Person Principle by national supervisor also plays a role in the relative attractiveness of certain asset classes – for example, some supervisors appear uncomfortable with insurers investing in securitisation or do not recognise the diversification effect of holding a diversified portfolio of private assets and require extensive risk tracking at individual investment level.

Investment decisions are also heavily influenced by both how the balance sheet is valued (the risk margin, risk free extrapolation and volatility adjustment) and the **Solvency Capital Requirements (SCRs)**, which assign capital charges based on the riskiness of different asset classes. The balance sheet valuations can impact investments in a number of ways. The more volatile the balance sheet, the harder it is to offer long-term products and invest in long-term assets. Excessive SCR charges for certain assets have a direct impact. The widened corridor of the symmetric adjustment of the equity risk charge increases the problems of excessive volatility in the SCR charges. This unnecessarily dis-incentivises insurers away from assets like equities or private equities—unless they can use the long-term equity submodule. Currently almost no companies can make use of the long-term equity category because of excessive criteria, so the improvements being made under the Solvency II Review are key to better reflect the real risks for insurers and allow more equity investment.

In recent years, Solvency II has begun to offer favourable treatment for qualifying infrastructure, recognising the role insurers can play in long-term economic development. However, capital charges and regulatory complexity still act as constraints. For example, capital charges for property of 25 % are unrealistically high. Overall, while Solvency II promotes a cautious and robust investment approach, targeted reforms—particularly around long-term asset treatment—could unlock greater insurer contributions to growth, sustainability, and the broader goals of the Savings and Investment Union.

Solvency II does not impose direct caps on specific asset classes but indirectly shapes portfolio decisions by requiring capital charges in proportion to asset risk. Current prudential metrics are too sensitive to short-term fluctuations, discouraging long-term investments during periods of high market volatility.



Policy considerations

- Improvements targeted at capital requirements for long-term holdings of equities are under discussion as part of the Solvency II Review. The insurance industry would welcome further improvements through the Level 2 delegated act, which is currently being developed, to enable further recognition of long-term equity holdings. More generally, the overall long-term investments capital requirements need to be reviewed.

- Other areas of the Solvency II Review, aimed at reducing excessive overall capital requirements and artificial volatility also have a major impact on the ability of insurers to invest long-term. It is therefore key that the Solvency II Level 2 technical measures are finalised taking into account the impact of the review on achieving SIU objectives. For instance, the current capital requirements for property should therefore also be included in the review, as the current 25% requirements do not reflect property market developments in the Union (but only in the UK).
- **On securitisation**, reduce Solvency II capital charges and ease due diligence requirements. These changes are necessary to address current barriers—high capital costs and operational burdens—that limit insurers’ investment in the EU securitisation market and unlock its growth potential.
- Insurance companies be granted the same **favourable prudential treatment** under Solvency II as banks receive in their regulatory framework **when funding EU legislative programs**, to ensure a level playing field and enhance private sector participation in strategic EU initiatives.
- Capital requirements for **property** of 25% do not reflect property market developments in the Union as it is based only on data for the UK. As required by the Solvency II Directive, they must be reviewed as soon as possible and reduced to an appropriate level.

3. Taxation

Taxation has the potential to affect the flow of policy premiums and hence the investment strategy an insurer will adopt. Insurers’ liability profiles and investment strategies are strongly influenced by personal taxation rules, as their products are often designed to be tax-efficient for policyholders. Therefore, personal tax rules relating to insurance products and, especially, retirement savings may affect the flow of funds to the insurance industry.

The taxation of investment gains also affects insurers’ allocation of funds to specific asset classes and/or to specific securities. Whether returns come in the form of capital gains or dividends can make a big difference to the appeal of an asset class. In addition, any tax benefits associated with specific asset characteristics (e.g., tax benefits for long-term assets) will have the potential to affect insurers’ investment decisions.

Tax barriers, such as the application of withholding taxes, or at least their lack of harmonisation, generate complexity and legal uncertainty for businesses, and consequently hinder investment within the European Union. In order to improve investment within the European Union and finance its wider policy objectives, genuine freedom of movement for capital is essential. To achieve this, the withholding tax process should be fastened and simplified.



Policy considerations

- Protect and strengthen tax incentives for long-term savings and pension products to sustain stable capital inflows for long-term investment.
- Encourage investment in long-term and sustainable assets, including infrastructure, private credit, and equity.
- Avoid unintended disincentives in tax policy reforms that could reduce the attractiveness of long-term insurance products for savers.
- Integrate tax policy discussions into the broader EU capital markets and SIU agenda, recognising its pivotal role in channelling long-term savings into productive investments.

4. Sustainability

European insurers are a key for enabling the green transition. As long-term investors they are major investors in renewable energies such as wind and solar.

Insurance companies increasingly **integrate sustainability factors into their investment decisions** by applying Environmental, Social, and Governance (ESG) criteria across their portfolios. This integration spans proprietary investments, insurance-linked assets, and third-party funds managed through affiliated asset managers. ESG integration is supported by governance structures, including sustainability policies, reputational risk reviews, and dedicated ESG teams, ensuring accountability and alignment with long-term financial and societal goals.

Many insurers implement **negative screens** to avoid investments in controversial sectors or regions—such as thermal coal, oil sands, or companies involved in human rights violations. These exclusions are applied during the pre-investment phase and continuously monitored. Investment decisions are informed by both internal and external data sources to assess risks like GHG emissions (Scopes 1–3), climate vulnerability, and carbon intensity. Sector-specific frameworks and proprietary KPIs guide decisions, allowing insurers to quantify ESG performance and alignment with sustainability goals.

Some insurers also adopt **active stewardship strategies**, engaging directly with investee companies through climate- and social-themed dialogues, bilateral engagement, and participation in initiatives such as Climate Action 100+. They use tools like proxy voting, shareholder resolutions, and board-level engagement to influence corporate behaviour, with divestment considered if progress stalls.

Few insurers' that have made **net zero commitments**—such as those made under the Net-Zero Asset Owner Alliance—can play a decisive role in shaping investment strategies in the medium to long term. These pledges require insurers to align their portfolios with science-based decarbonisation pathways, pushing them to reallocate capital toward low-carbon and transition-aligned assets. This shift will likely accelerate divestment from high-emitting sectors, increase investment in climate solutions (e.g., renewables, green infrastructure, sustainable real assets), and raise expectations for ESG performance among investees. Over time, these commitments will influence asset selection, engagement strategies, and product design, anchoring sustainability at the core of insurance investment frameworks.

The EU's sustainable finance framework provides **definitions** of what “sustainable investments” are through the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, **and tools**, such as the EU green bonds standards (EuGBS), which insurers use both as issuers and investors to increase their contribution to achieving sustainability goals. Coherence and interoperability of concepts throughout the framework is crucial to provide the much-needed stability and clarity to inform investment decisions.

On definitions, on the one hand the current SFDR defines sustainable investments as *“investments in an economic activity that contribute to an environmental or social objective, provided that such investments do not significantly harm any other environmental or social objectives and that the investee companies follow good governance practices”* (Article 2.17). In the German market for example, insurers' position in sustainable investment is around EUR 180 billion.

On the other hand, the EU Taxonomy Regulation defines “environmentally sustainable investments” as investments in one or several economic activities that qualify as environmentally sustainable under the Regulation. To do so, these economic activities must contribute substantially to one or more of the environmental objectives set out in the EU Taxonomy, do not significantly harm any of these environmental objectives, be carried out in compliance with the minimum social and governance safeguards, and comply with the Technical Screening Criteria (TSC) of the Taxonomy. According to [PwC's benchmarking exercise for 2024](#), the average alignment for investment business was from about 1.3% to 5.5% for turnover based alignment, and from about 2.1% to 4.5% for Capex based alignment.

Examples of European insurers issuing Green/Sustainable Bonds

Assicurazioni Generali

Generali issued multiple “green” bonds over several years under its own Green / Sustainability Bond Framework. For example, in January 2024 it placed two new euro-denominated senior green bonds due 2029 and 2034. Its green bonds finance renewable energy, green buildings, and energy efficiency projects. More information can be found in their [Green Bond Report](#).

CNP Assurances

CNP issued its first subordinated green bond in November 2019 (Tier 2 capital). It has also updated its framework to a Sustainable Bond Framework to include both green and social projects. The proceeds support renewable energy, low-carbon transport, and environmentally sustainable real estate. More information can be found in their [Sustainable Bond Framework Report](#).

AXA

AXA issued a €1 billion Tier 2 subordinated Green Bond in 2021, under its then-new green/sustainability framework. Its green bond funds renewable energy, clean transportation, and sustainable water management investments. More information can be found in their [Sustainable Bond Framework](#).



Policy considerations

- Ensure coherence in definitions of “sustainable investments” across the EU Sustainable Finance Framework.
- Ensure sustainability regulation is principles-based and proportionate, enabling insurers to integrate ESG considerations while preserving their ability to manage long-term liabilities.
- Improve the availability, comparability, and reliability of ESG data, for example by including ESG data providers in the European regulation on ESG ratings.
- Avoid penalising long-term investments in transition sectors essential to Europe’s decarbonisation strategy, allowing insurers to support credible transition pathways.
- Recognise the role of insurers as long-term, countercyclical investors in sustainable finance legislation and position them as key delivery partners for the EU’s green and digital transitions under the SIU framework.

5. Accounting treatment

The accounting treatment of investments can also be a consideration when assessing investments opportunities. In particular, the ability to avoid temporary share price volatility from distorting the profit and loss account is instrumental for long term investors. This is true for the accounting treatment under the International Financial Reporting Standard (IFRS), but also under national accounting regimes (such as German or French GAAP).

IFRS 9, introduced in 2018, governs the accounting of financial instruments. For **debt instruments**, if they pass the **SPPI test** (Solely Payments of Principal and Interest) and are held to collect cash flows (or collect and sell), they can be classified at **amortised cost** or **FVOCI with recycling**—treatments preferred by some insurers as they shield the profit and loss (P&L) from market volatility.

For **equity instruments**, IFRS 9 allows insurers to classify non-trading equities as **FVOCI without recycling**, meaning unrealised gains and losses are recorded in **Other Comprehensive Income (OCI)**, not P&L. Only dividends appear in the P&L, and this classification must be made at purchase and is irrevocable.

While FVOCI helps reduce P&L volatility, the **ban on recycling** can understate financial performance by ignoring realised capital gains at disposal—an economically meaningful return component, especially for some insurers. This bias affects **asset allocation and disposal strategies**, pushing insurers toward debt instruments or long-term, dividend-paying equities over capital-gain-driven investments.



Policy considerations

- Revisit the IFRS 9 non-recycling rule for long-term equity investments, recognising that realised capital gains are economically relevant and an essential part of long-term financial performance.
- Ensure accounting frameworks align with EU long-term investment objectives by supporting mechanisms that allow insurers to manage temporary market volatility without distorting headline profitability.
- Promote dialogue between standard-setters, regulators, and the insurance sector to ensure accounting rules facilitate, rather than constrain, long-term sustainable investment in European capital markets.

Insurance Europe is the European insurance and reinsurance federation. Through its 39 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings active in Europe and advocates for policies and conditions that support the sector in delivering value to individuals, businesses, and the broader economy.