Insurance *matters*

Value of insurance for people, businesses and the economy

Insurance is a key enabler of modern living. It provides citizens and businesses with mechanisms to manage, mitigate and cope with the risks they face. From driving a car, launching a new business, buying a home or retiring, insurance gives peace of mind, helping not only to make these activities secure, but, very often, enabling them. Insurers are therefore key in addressing some of Europe's biggest current and future challenges, including climate change, ageing populations, or the need for massive investment.

Financial protection for people and businesses

Insurers in Europe pay out €2.8bn per day or €1 010bn annually in claims and benefits — **helping swift recovery from damage.** The financial protection insurers provide to citizens and businesses reduces hardship and plays a key role in supporting the activities of everyday life and economic prosperity and growth.

Reducing & mitigating risks

Insurers can use their risk management knowledge and expertise to help people, businesses and the public sector **reduce risks and exposure, and increase resilience to climate, cyber and other risks.** For example, they do so by advising on building planning and safety standards, introducing early warning systems, and using the money paid after damages have occurred to apply "building back better" approaches.

Helping people saving for pensions and their future

Insurance-based investment products (IBIPs) represent the largest portion (70%) of retail investment in Europe and are the only products that **help people invest to prepare for old age, while offering additional protection features and benefits;** these include financial guarantees and coverage for hospitalisation, inability to work, unemployment, or death.

Through profit-sharing, guaranteed products and biometric coverages insurers serve the needs of the many small savers and investors who would otherwise not have the confidence to invest at all due to fear of losing their money. With unit-linked products, insurers support those willing and able to take more risk.

IBIPs often include the advice and investment management that customers need and are available through the channels they prefer — agents, brokers, bancassurance, or directly through insurance companies themselves.

Financial stability

Life insurers' business model allows them to have a long-term investment time horizon, focusing on the long-term performance of assets. It allows insurers to have a **counter-cyclical and stabilising effect on financial markets and the economy.** This is because the total claims they need to pay out are typically quite predictable and they have access to a continual flow of premiums, even in periods of financial market stress. Insurers can therefore make the long-term investments required to pay future benefits to customers without being exposed to the risk of so-called "forced selling" if share or bond prices fall during a market crash.

Investing to support European growth and sustainable transition

With around €9.5trn assets under management, and a business model which usually allows a long-term perspective, the EU insurance industry is one of the largest institutional investors, allowing it to make an important contribution to the European economy, and **support the transition to net-zero emissions.** Furthermore, by offering IBIPs with sustainability characteristics, insurers enable citizens to contribute to the transition towards a more sustainable economy by investing their savings according to their sustainability preferences.

Contributes to Europe's global leadership & financial autonomy

With their significant business presence within Europe, they help to provide financial autonomy. Internationally, the sector **contributes to Europe's global leadership and competitiveness**, with around a third of all international active insurance groups based in Europe and half of the top 10 largest insurers.

Key priorities and recommendations for Europe

To ensure Europe's prosperity, resilience, autonomy, and competitiveness in the face of the climate, technological, demographic, and other contemporary challenges, it is key to address the priority areas outlined below.

The European insurance sector is already helping citizens, businesses, and the wider economy navigating these challenges by providing financial protection, offering risk reduction advice, and through their significant investment capacity. Taking forward the recommendations in this booklet will allow progress to be made and help insurers to do more.

1

Address protection gaps *climate, pension, health, cyber*

2

Climate Change: *mitigation **and** adaptation*

3

Increasing private investment *into the EU economy*

4

New approach to EU regulation *that facilitates innovation, global competitiveness and digitalisation*

Key priorities and recommendations for Europe

1 Addressing protection gaps

Challenge: *The global protection gap is estimated at $2.8trn per year, resulting in unnecessary hardship and disruption. For example, damages from natural catastrophes are growing faster in Europe than other regions globally, but only about 25% of losses are covered by insurance.*

Priority: *Reducing climate, pension, health and cyber protection gaps is vital to ensure resilience and prosperity for Europe's citizens and businesses, now and in the future. This requires actions and collaboration by industry and policymakers to create environments in which risks can be mitigated, managed, and insured at affordable prices.*

Recommendations:

- **Raise awareness of risks and need for insurance** and savings by:
  - Providing guidance on reducing exposures and encouraging the uptake of adequate insurance and personal savings and investment, for instance through tax incentives and awareness campaigns.
  - Promoting routine health check-ups and preventative measures.
  - Promoting good cyber security practices to reduce risk exposure.
- **Promote public-private partnerships** in cases where risks are uninsurable by the private sector alone.
- **Encourage member states not to apply taxes to insurance premiums**, as this can affect coverage affordability.
- **Ensure insurers can access and make use of data.** This includes allowing customers to consent to sharing data from their vehicles, health apps, and personal devices. Without data, insurers cannot provide cover and limited data results in higher premiums. Data is vital across all areas of insurance for pricing, risk analysis, risk mitigation and prevention, innovation, and fraud detection and prevention.
- **Ensure insurers can price their solutions in line with the real risk**, as this allows them to continue to offer reliable coverage while promoting risk prevention, for instance in the area of climate adaptation. Risk-based pricing helps customers understand the true costs **associated with activities, such as building in flood-prone areas, and encouraging more informed and sustainable choices.**
- **Establish a dedicated "insurance expertise centre" in the European Commission.** Such a centre would ensure new initiatives do not compromise the availability and affordability of insurance. It can also support the development and use of standards and guidelines for mitigating risks, and, as such, contribute to increasing the resilience of citizens and businesses.

2 Climate change: mitigation and adaptation

Challenge: *Bringing greenhouse gases to net-zero by 2050 is a must, but while this would slow global warming, it will not stop it. Our world will therefore continue to experience more extreme weather, resulting in a range of negative consequences.*

Priority: *To limit climate change, it is vital to continue focusing on the net-zero transition. But to help people and businesses cope with the already changing climate, it is also fundamental for governments to ensure concrete progress on increasing adaptation and resilience.*

Recommendations:

- **Promote the accelerated uptake of adequate climate adaptation measures at all levels, from the individual to the municipal and state level.** This includes, but is not limited to, ensuring strong and enforced land-use controls and building codes, or investment into infrastructure.
- **Encourage the provision of detailed risk and exposure information to buyers and renters** about buildings to enhance their risk awareness and influence their decision-making.
- **Focus on transition and transition financing, in addition to already green activities.** This includes improving the EU Taxonomy and other sustainability related reporting so they work as intended and are as efficient as possible.
- **Limit new reporting and regulatory requirements to what is absolutely necessary,** and focus instead on getting existing sustainability reporting implemented, working, and available through the electronic single access point (ESAP).
- **An "insurance expertise centre" within the European Commission would play an important role.**

3 Increasing private investment into the EU economy

Challenge: *The EU has massive investment needs to combat climate change, increase security, achieve autonomy, including in the areas of energy, food, and technology, and to fund growth. The green transition alone is estimated to need at least €620bn annually.*

Priority: *To meet these needs while helping to close the pensions savings gap, it is essential to increase retail investment, including through insurance savings and retirement products, and to diversify funding sources for EU businesses.*

Recommendations:

- **Make it easier for consumers to invest in insurance and pension products.** Through the Retail Investment Strategy (RIS), the EU should simplify and modernise the investment process for Europeans, providing clear and streamlined customer information, offering flexibility in choosing advisory models, and ensuring a well-supervised market that maintains high standard.
- **Improve prudential rules which act as barriers.** Finalise the Level 2 technical details of the Solvency II review, taking into account the impact on the fulfilment of the CMU objectives. This includes removing barriers for insurers to a) offer the long-term and guaranteed products that many customers want and need in order to invest and b) to invest more into CMU-related assets.
- **Increase insurers' access to assets such as venture capital, infrastructure, SME equity and debt.** Funds can provide the scale and access for a wide range of insurers to invest in these asset classes. Actions should be taken to assess where and why such funds have been successful and how their use can be expanded. Other barriers to cross-border investment should also be addressed.
- **Promote improving financial and insurance education and nudging mechanisms.** Individual pension dashboard and tracking systems can nudge and help citizens to invest more.

4 A new approach to EU regulation that facilitates, instead of stifles, innovation, global competitiveness and digitalisation

Challenge: *Regulation in the EU has grown exponentially and has become more complex, creating an unnecessarily high regulatory burden on EU businesses, including the insurance industry. For example, there were 12 legislative texts at EU level impacting insurers in 2012, and there will soon be about 70. Over-regulation leads to significant costs not only for business but also indirectly for consumers, reduces capacity and ability to innovate and grow, and damages Europe's global competitiveness.*

Priority: *Ensure a regulatory environment in the EU that supports innovation, competitiveness, and growth*

Recommendations:

- Deliver on commitment to **reduce reporting burden by 25%.**
- **Change approach to regulation** by developing and enforcing clear principles to ensure new regulation is as effective and efficient as possible i.e.:
  - only introduced where truly necessary;
  - avoid EU and national duplication and overlap;
  - ensure regulation works for insurance and allows a level playing field;
  - undertake thorough impact assessment considering costs, unintended consequences and international competitiveness;
  - take a phased approach and embed proportionality;
  - allow enough time for implementation.

How insurance works

Buying an insurance policy for a smaller, known premium, removes the risk of a larger, potentially unaffordable loss.

By pooling premiums and insured events, between groups of policyholders and/or over time, the financial impact of an event that could be disastrous for one policyholder is spread among a wider group. Prevention and mitigation are key in this model, as they help to keep risks insurable at an affordable price.

However, for insurance to work, the following key conditions need to be met — without them, risks can be uninsurable.

Enough risks to create a diversified pool

There must be enough customers to create a diversified pool so that costs can be spread, making the price of insurance lower. With too few risks in the pool, insurance may not be possible.

Premium is fair and affordable for customers

Customers can only pay premiums that they can afford. Where the claim would be very large, for example in the case of a home flooding, the risk must be low. Otherwise, the premiums can be too high to afford.

Risk-based pricing allows customers to be charged based on how much they contribute to the risk and size of claims. If those who contribute with a very small amount to the overall claims have to pay the same as those who contribute the most, they are likely to stop buying the insurance, leaving only the riskiest group. Risk-based pricing, for some products can also help incentivise customers to avoid risky behaviour, which can improve the outcomes for everyone.

Need to be able to avoid customers acting unfairly to each other or the insurer

The risk needs to be random because otherwise customers who know a risk will happen will buy insurance, increasing the claims and costs for all the others. Customers must also have an interest in trying to avoid claims. This is a key reason why insurers often have the customer pay some of the cost of the claim.

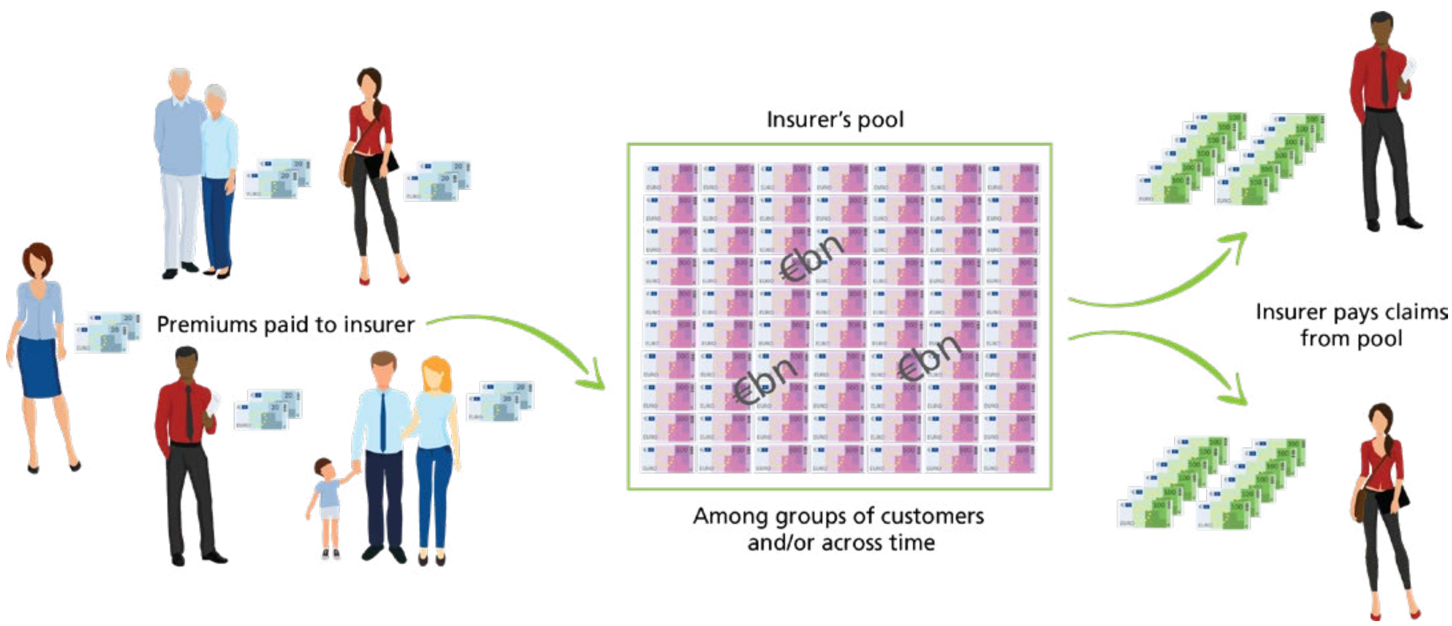
Data is available to quantify the risks and calculate the price

Data is fundamental to the provision of insurance. Without it, new products cannot be designed, existing products cannot be priced, risks cannot be assessed, and prevention measures cannot be developed. Even if regulation is agreed to avoid using certain customer data for individual pricing decisions, it is still needed to assess the overall costs and risks expectations.

Premiums and maximum loss are acceptable for insurers

To be able to offer insurance products, insurers need to be able to charge premiums which, in aggregate at least, cover future claims, sales, and operational costs.

The insurers have to hold significant amounts of money in reserve to ensure they can take risks on behalf of customers and honour all their promises (solvency capital). Minimum target levels of solvency capital needed are determined by a comprehensive risk-based standard formula, set by European regulation or by even more sophisticated internal models, developed by the company. Insurers need to be able to assess exposure to catastrophically large events. They also need to earn enough profit on their business to pay enough returns to those who provide the solvency capital (typically shareholders).



INSURANCE MATTERS

CAPITAL MARKETS UNION

The right actions under a renewed Capital Markets Union (CMU) project can support the EU's massive need for investment, reduce the savings and pensions gap for citizens, increase funding for EU start-ups, venture capital and SMEs, and allow the EU economy to be more innovative, competitive, and resilient. The insurance industry already plays a key role in supporting CMU objectives by providing the protection that allows risk taking and economic activity, by providing savings and retirement savings products to help people save, and by investing in the economy. The right actions will also help the insurance sector to do significantly more.

With insurance…

Protection to citizens and business
Insurers provide protection to citizens and businesses against potential risks and offer mechanisms to manage, mitigate and cope with the risks they face. Insurers thus play an important role in society: they help people and businesses recover from events, which otherwise would lead to significant financial losses.

Insurers boost retail participation in the CMU
Insurers offer a wide range of products that combine investment with insurance protection. Insurance-based investment products (IBIPs) represent the largest portion of retail investment in Europe (70% according to EIOPA), thus having a crucial role in the development of the CMU.

The largest EU long-term institutional investor
The insurance industry is Europe's largest institutional investor and an important provider of stable, long-term funding for governments and businesses. European insurers invest close to EUR9.5trn in the economy and 69%[1] of their investments in equity, corporate and sovereign bonds are within the EU.

Global success story, supporting EU's financial autonomy
European insurers are globally successful and many internationally active insurers are EU ones[2].

Without insurance…

Increased vulnerability and limited ability to innovate
Without insurance to help absorb and spread risks, even relatively minor events could have catastrophic financial consequences for those affected. The absence of insurance would discourage entrepreneurship, investment, and innovation. Businesses would be reluctant to take on new ventures or expand without the protection that insurance provides against potential losses.

Increased investment, protection and savings gaps
Without insurance savings and pension products, consumers will have less choice and less products that can address their needs. Our pension survey confirmed what other surveys have found, that safety of their money is the number one concern for Europe's citizens.[3] Without the protection features offered by insurance savings products many consumers will not be willing to take the risk of investing.

Insufficient long-term investment in the EU economy
The EU needs long-term investors who can invest in both assets listed on financial markets and also those which are not listed which include illiquid assets such as infrastructure, private equity and private debt. Without insurers there would less long-term investors and less investors who can act as stabilisers during market turmoil.

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[1] EIOPA estimates
[2] IAIGs are defined by the International Association of Insurance Supervisors (IAIS)
[3] 2023 Insurance Europe's survey of nearly 16,000 people in 15 countries found that security and safety were by far the main priorities when considering saving for retirement

WHAT ARE THE CURRENT CHALLENGES THAT NEED TO BE ADDRESSED

Today, EU businesses and citizens are not able to benefit from the deep, diversified, efficient and secure funding and investment and EU businesses are not growing at the same rate as in other global markets.

While the EU has one of the highest saving rates in the world, it is marked by a very low level of retail investor participation in capital markets – a 2022 study showed that 72% of citizens were not investing in any financial product. The EU needs to encourage increased retail participation in capital markets. However, there are behavioural, practical and regulatory barriers that need to be overcome.

The reliance on banks and lack of diversity in funding for EU businesses is also a well-known issue and a key focus for the original CMU project. There are various drivers for this situation. One of them is excessive capital charges insurers face generally but including those applying for equity investments.

Looking at the regulatory environment, regulation for EU businesses is currently tying up significant costs and resources, limiting ability to innovate and grow and reducing Europe's global competitiveness. It impacts all European companies but can be particularly overwhelming for start-ups and SMEs.

INSURERS CAN DO EVEN MORE…

How can policymakers help?

To increase retail investment…

- **Make it easier for consumers to invest in savings and pension products**
  - The Retail Investment Strategy (RIS) needs to encourage and facilitate investments while ensuring consumers remain protected by:
    - reducing and not adding to the current information overload and complicated, lengthy sales process that discourage EU citizens from investing.
    - focusing disclosures and advice on what matter most to consumers in their investment decisions: financial guarantees and insurance protection against risks.
    - making use of digitisation to simplify and streamline the process.
    - not limiting existing access to advice and distribution channels
- **Improve prudential rules which act as barriers**
  - The Solvency II Review needs to address the current excessive capital and volatility, resulting in unnecessary barriers for long-term, guaranteed and profit sharing products.
- **Improve financial and insurance education and nudging mechanisms**
  - Efforts at EU and member state level to promote financial and insurance education have a vital role to play in ensuring that European citizens are equipped with the necessary knowledge, confidence and skills. Pension dashboard and tracking systems can nudge and help citizens to invest more.

To diversify funding for EU businesses…

- **Improve prudential rules which are unnecessarily holding back insurers' investments**
  - It is key that the Level 2 technical details of the Solvency II review are finalised taking into account the impact of the review on the fulfilment of the CMU objectives.
- **Increase insurers' access to SME equity, venture capital, SME debt and infrastructure**
  - National funds, containing SME equity and debt, venture capital or infrastructure assets, provide the scale and access for insurers to invest in these assets. The potential for multi-national or EU versions of such funds and benefits involving financial instruments such as Invest EU should be investigated.
- **Facilitate greater cross-border investment**
  - Increase trust and confidence in cross-border investment within the EU, by making progress in the areas of insolvency law and increasing intra-EU investment protection.

To create a conducive environment for EU companies (start-ups, SMEs, listed companies) to innovate, compete globally and grow…

- **Reduce the EU regulatory overload**
  - Deliver on the EC commitment to reduce existing regulatory reporting by 25%.
  - Develop and enforce clear principles of good, efficient and effective regulation. New regulation should be introduced only when truly needed and be simpler, proportionate, avoid unintended consequences and be focused on achieving meaningful progress.

INSURANCE MATTERS

CLIMATE CHANGE AND SUSTAINABILITY

Due to climate change, the impact of events such as severe floods, storms, droughts, or heatwaves keeps growing, affecting Europeans and their livelihoods. The severity and frequency of such events will continue to increase, resulting in unprecedented economic losses and increasing the chances of a growing number of people not being adequately protected against such risks.

Insurers play a crucial role not only in fighting the effects of climate change, by increasing the resilience of people and businesses through their cover, by incentivising climate adaptation, and by providing advice to authorities on risk management and prevention, to some extent through public-private partnerships, but also by contributing to limiting climate change. Indeed, as one of the largest groups of institutional investors, insurers help finance the transition to a carbon-neutral, resource-efficient and more sustainable economy.

The global natcat protection gap is around US$139bn per year and average annual losses increased from US$126bn (1990–1999) to US$219bn (2010–2020).

Source: GFIA, 2023

With insurance…

Green "net-zero" transition
Insurers can facilitate the transition towards net-zero emissions by providing insurance coverage for renewable energy projects and by making significant investments in such projects.

Cover and protection in the wake of an event
Insurance enables a swift recovery from climate-related events by providing timely compensation for losses. This helps affected communities to rebuild and recover more quickly, minimising the long-term socio-economic impacts of extreme weather events.

Adaptation
Insurance companies often collaborate with governments and communities to develop comprehensive climate adaptation and resilience plans. These initiatives involve assessing vulnerabilities, identifying priority actions, and implementing measures to protect lives, property, and critical infrastructure from climate-related hazards.

Behavioural change
Advice, insurance pricing and coverage terms can influence individual and corporate behaviour towards more climate-resilient practices. For example, premium discounts can be provided to property owners who implement flood mitigation measures, whereas charging higher premiums for buildings in high-risk areas is an incentive not to build in such areas.

Without insurance…

Lack of resilience in the aftermath of an event
The cost of climate-related disasters falls solely on those affected, potentially leading to financial ruin for many and hindering recovery efforts.

Increased risk of maladaptation
Without insurers sharing their risk management expertise and experience through collaborative efforts, there is a higher risk of public authorities or the private sector initiating projects or building infrastructures that are not designed to cope with the changing climate, thus increasing the risk of maladaptation.

Lack of investment in green transition projects
The European Green Deal is estimated to require investments of around EUR 520bn per year until 2030, according to the European Environment Agency. Without private investment, including from key institutional investors such as insurers, the green transition will not be achieved.

Efforts to mitigate and adapt to climate change would be severely hindered, and the costs and consequences of climate-related disasters would be disproportionately borne by individuals and society as a whole.

CULTIVATING A CULTURE OF RISK AWARENESS AND ANTICIPATION

As climate change accelerates, events that once seemed unimaginable are becoming more frequent. Insurers are directly affected, as their ability to continue to provide cover will be increasingly dependent on efforts to reduce greenhouse gas emissions (GHG) and strong adaptation measures. These efforts require joint action, by businesses, including insurers, citizens and public authorities. It also involves making tough choices, such as restricting construction in flood-prone areas. Such decisions, which require a good understanding by decision-makers of the climate change related challenges, have economic ramifications in the short term, but are crucial to bolstering climate resilience in the long run. Equally vital is the need to ensure that citizens and businesses are well-informed about potential risks they face, in order to act and adapt accordingly.

Understanding, managing and reducing risks is also increasingly important in the context of battery use, storage, disposal, and recycling. Indeed, the green transition requires the massive use of (lithium-ion) batteries in all economic sectors. The high risks related to such batteries make some of the activities involving them difficult to insure at prices policyholders expect. Efforts therefore need to be put in reducing risks, notably by enhanced prevention, risk awareness and risk management. Achieving this requires joint efforts by insurers, policymakers and key stakeholders, such as e-waste recycling plants. The stakes are high: achieving, or not, the green transition.

INSURERS CAN DO EVEN MORE…

How policymakers can help insurers in their role as providers of protection…

Accelerate the uptake of adequate climate adaptation measures at all levels, from the individual to the municipal and state level.

- Policymakers should provide guidance on how citizens and businesses can increase their resilience, encouraging the uptake of risk reduction measures and instilling a reflex in citizens and businesses to consider possible risks facing them and their properties.
- Policymakers should introduce a requirement to provide risk information to prospective house buyers and renters.
- Policymakers should review the rules on land-use and urban planning, as well as building codes, so that they are climate-proof.
- Decision-makers should be encouraged to, where appropriate, make arbitrage decisions, such as deciding not to build in risky areas, even when that is a missed economic opportunity, in the short term.
- People and businesses should be incentivised to make their properties more resilient to climate risks like windstorms and flooding through education, grants, and tax relief. Policymakers should encourage national governments to support these efforts and create a tax environment that promotes purchasing insurance and resilience efforts, thus incentivising insurers to offer premium reductions for resilience improvements.

Continue efforts to strengthen the dialogue between all key stakeholders.

- It is key that policymakers continue their efforts in ensuring a good understanding of climate risks, as well as a holistic approach to identifying avenues to explore in combatting climate change.
- This also includes launching initiatives to increase the insurability of new risks, for example by initiating the development of guidelines or standards, involving all relevant stakeholders, on resilient building standards or to help reduce risks related to the growing use and application of lithium-ion batteries, e-waste recycling, and photovoltaic panels.

Set up an "insurance expertise centre" in the European Commission that serves as a knowledge hub across Directorate-Generals.

- Such a centre would ensure due consideration is given to all risks involved in any new legislative initiatives, so they meet the objectives without compromising insurability and, ultimately, climate resilience.

How policymakers can help insurers in their role as long-term investors…

Shift focus to implementation of key obligations and reporting with the highest impact and ensure that new rules work in practice.

- While the insurance industry is generally supportive of the EC's many policy initiatives related to sustainable finance and sustainability reporting, it is vital that they are designed and implemented in the right way if they are to achieve the objective of channeling private investment into the transition and increased transparency. In some cases, there is a need to improve their design in order to ensure that the requirements are appropriate and workable. It is also key that the framework ensures legal certainty and a period of stability for financial market participants, consumers and investee companies.

Enable insurers to continue playing their role as a long-term investor.

- This includes eliminating regulatory barriers to insurers offering the long-term products, guarantees and investments, including investments in the projects necessary to achieve the green transition.

INSURANCE MATTERS

COMPETITIVENESS

The success of EU businesses requires appropriate and effective regulation. In times of uncertainty and a challenging economic reality, the right regulatory environments are needed for companies to be able to maintain their competitive-ness on the world stage and to contribute to the EU objectives of sustainable, innovative and inclusive growth.

The European (re)insurance sector itself is also a global success story. With its significant business presence internationally, the insurance sector contributes to Europe's competitiveness, global leadership, and financial autonomy. *With around €9.5trn assets under management, and a business model which allows a long-term perspective, the insurance industry is also one of the largest institutional investors and makes an important contribution to the European economy, to the sustainability transition and to financial stability. The sector is also a significant employer, employing over 920 000 people in the EU.*

With insurance…

Provide protection and maintain consumer trust
The insurance industry supports societies and economies through both the billions of Euros it pays in claims to individuals and businesses every day and through its long-term investments.

Support cross-border growth, competition and innovation
Insurance touches all aspects of people's life and economies — from driving to protecting against catastrophes. It is a specialised sector of the financial services industry whose business model makes it very different from banks and other financial service providers.

Contribute to EU global leadership
With its important international business presence, the insurance sector contributes to Europe's global leadership and competitiveness. There is significant potential for the EU to further strengthen the global leadership of its businesses via its trade negotiations and agreements.

Without insurance…

Increased vulnerability
Individuals would bear the financial burden of unexpected losses or have to hope that governments would step in. Without insurance to help absorb and spread these risks, even minor events could have catastrophic financial consequences

Limited growth and ability to innovate
The absence of insurance could hinder economic growth by discouraging entrepreneurship, investment, and innovation. Businesses may be reluctant to take on new ventures or expand operations without the financial protection that insurance provides.

Losing ground at the international stage
In order to maintain its competitive edge, the EU needs champions and strong and resilient sectors, such as insurance. However, the (re)insurance industry increasingly faces various market access and trade barriers. 54 major territories have implemented, are implementing, or are considering barriers to global reinsurance.

WHY THE EU REGULATORY FRAMEWORK MAY CURRENTLY NEGATIVELY IMPACT THE COMPETITIVENESS OF EUROPEAN INSURERS?

In recent years, the (re)insurance sector has been subject to a very significant increase of regulatory and reporting requirements. Insurers were impacted by 12 texts in 2012 and there are about 70 which are or will be applicable going forward. The complexity and level of detail has also increased dramatically. European regulation on sustainability reporting, digital issues, solvency requirements, conduct of business, due diligence and much more, all tend to be more onerous and expensive than those applied to international competitors. This results in a heavy and costly compliance burden. In turn, it negatively impacts customers, eg through higher costs and less innovation, and puts the EU insurance industry at a competitive disadvantage.

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

Beyond this, the EU needs to take a different approach to regulation and only introduce new regulation or changes that are truly justified. 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 continue to reap the benefits of a resilient, efficient, innovative, and reliable insurance sector. Insurance 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.

INSURERS CAN DO EVEN MORE…

How can policymakers help?

Streamline and tangibly reduce the existing regulatory burden for the insurance sector

- Insurance Europe fully agrees that there is a need to address what has become an excessive reporting burden and has welcomed the EC commitment to rationalise and simplify reporting requirements for companies and administrations and to reduce such burdens by 25%. This must be a serious commitment with real changes made to achieve it. Insurance Europe has provided a range of specific areas where reductions can be made.

Introduce principles to ensure that any new regulation is efficient and proportionate

It is essential to not only simplify and reduce existing reporting burden, but also to avoid, as far as possible, new reporting. To this end, the following principles should be embedded into regulatory initiatives:

- **Minimise new requirements** – the ratio of benefits to cost needs to be high
- **Take a phased approach** so regulation is simpler to develop and agree, less expensive to implement and better decisions can be made on how/if to proceed with a next step
- **Report only once** – and avoid reporting and other overlaps and duplications
- **Involve experts** with knowledge of the sectors concerned in the development of regulation
- **Always embed proportionality**
- **Ensure sufficient time** is given for implementation
- **Conduct thorough consumer-testing** to ensure the requirements really will help and work as intended
- **Avoid over-prescriptiveness and allow flexibility** – monitor concerns rather than trying to cover every possibility with lengthy and detailed regulation. More detail can be added if the need is proven.
- **When detail is needed, get it right** - where requested, by those under scope, provide Q&As quickly and ensure a proper and swift correction process for errors in implementing technical standards (ITS)
- **Seek to avoid extra burdens** created by the European supervisory authorities

Ensure that all insurance regulation is tailored to the specifics of the sector

- An "Insurance expertise centre" should be set up within the European Commission. Serving as an insurance knowledge hub across Directorate-Generals, this centre would ensure that due consideration is given to all risks involved in any new initiative, that the issues at stake are reflected on holistically, and that new (non) legislative efforts meet the intended objectives.

Ensure global standards enhance EU competitiveness

- Global standards can affect Europe in significant ways. Therefore, international regulation and standard-setting should be treated as a political instrument to ensure a global level playing field. In this respect, it is key that there is 1) alignment between initiatives where appropriate and 2) consistent implementation across jurisdictions.

Remove market access and trade barriers

- EU policymakers must target cases of protectionism and discriminatory trade barriers and must prioritise ambitious trade negotiations that lead to more global opportunities for EU businesses.

insurance europe

INSURANCE MATTERS

PENSIONS

Shifting demographics, resulting notably in a growing imbalance in the ratio of active workers to retirees, and evolving labour market dynamics are exerting significant pressure on the financial sustainability of pension systems. This raises concerns about the extent to which pension systems can continue to ensure adequate retirement income for all citizens. This also means that, without sufficient savings, retirees could be led into financial hardship, impacting their ability to afford essential healthcare, but also straining public finances further. It is therefore imperative for individuals to save and invest more for their retirement, but many are not doing so, for different reasons.

Life insurers, as providers of both occupational and personal pensions, play a key role in addressing the pension savings gap. As such, insurers help diversify retirement income sources, thereby enhancing financial security for individuals and alleviating pressure on public resources.

39 percent of Europeans are not saving for their retirement.

Source: Insurance Europe's Pan-European Pension Survey, 2023

"Closing the global pension protection gap of US$51trn would require an additional annuity payment of approximately US$1trn per year."

Source: (GFIA, 2023).

With insurance…

Diversification of income sources
Insurance products, whether they provide annuities or a lump sum, can provide income streams on top of state-funded pensions and personal savings. This diversification helps spread risk and ensures a more stable income during retirement.

Guaranteed income and risk management
Annuities offer the option of a guaranteed income for life, regardless of market fluctuations or longevity risk (the risk of outliving one's savings). This provides retirees with peace of mind, knowing they will have a steady income throughout their retirement years. Insurance solutions also help retirees manage longevity risk or healthcare expenses. Products like long-term care insurance can protect against the financial burden of medical or nursing home costs in later years.

Flexibility and customisation
Insurance solutions often offer flexibility in terms of payment options, withdrawal strategies, and beneficiaries. This allows retirees to tailor their insurance plans to their specific needs and preferences, ensuring a personalised approach to retirement planning.

Tax advantages
Some life insurance products, such as certain types of annuities or pension insurance policies, may offer tax advantages that can help retirees maximise their retirement income.

Without insurance…

Reduced number of pension options
Without insurance-based pension options, individuals would primarily rely on government-funded pensions or personal savings. This limited income stream might not be sufficient to maintain a comfortable standard of living in retirement, especially considering longer life expectancies and potential healthcare expenses.

Increased financial vulnerability
The absence of insurance solutions leaves retirees more vulnerable to financial shocks, such as unexpected medical expenses. This vulnerability results in higher rates of poverty and financial insecurity among the elderly population. Insurance solutions typically offer various risk management tools, such as annuities or biometric coverage, which can protect retirees and their families from unforeseen circumstances. Without these options, retirees may lack adequate protection against risks like longevity risk or the financial impact of a premature death.

Increased pressure on social welfare systems
In the absence of private insurance solutions, the burden on state pension systems would escalate. This could strain public finances and potentially lead to benefit cuts or increased taxes, negatively impacting all citizens.

Without insurance solutions, people's retirement prospects could be significantly compromised.

WHY THE PEPP IS FAILING…

The pan-European personal pension product (PEPP) was put forward to complement national pension solutions. This ambitious project aimed at increasing pension adequacy, allowing for portability between EU member states, and increasing the range of products available to EU citizens, among other goals. Unfortunately, it has yet to meet policymakers' high expectations, as, so far, just one provider is offering PEPPs, in a limited number of countries.

The primary reason for the PEPP's "failure" is the overly complex PEPP regulation, the administrative burden it puts on providers, legal uncertainties, as well as unrealistic requirements, such as the requirement to outperform future inflation, in most cases through risk mitigation techniques and the 1% annual fee cap on the accumulated capital for the basic version. And it is a fact that the taxation of pension products is not harmonised in the EU. These regulatory challenges have deterred providers from offering PEPP products. Indeed, to make the PEPP a viable option, substantial changes to the PEPP regulation are necessary.

Nonetheless, it is key for policymakers across Europe to prioritise national solutions that promote increased personal savings. Europe's policymakers have a key role to play.

INSURERS CAN DO EVEN MORE…

How can policymakers help?

- **Ensure regulation enables insurers to continue providing their role as protectors.** There is a strong demand for the financial guarantees, annuities, and biometric coverage that insurers have traditionally offered. It is vital that regulations, especially the Solvency II Directive and the new Retail Investment Strategy, do not hinder or discourage insurers from fulfilling their critical protective role.
- **Raise awareness and ensure that citizens can access accurate and easily understandable information about their future pension entitlements.** Being informed empowers citizens to make decisions that align with their personal circumstances. The European Commission has a pivotal role in promoting best practices and encouraging all member states to advance in this regard, for instance by promoting pension dashboards or tracking systems, and incorporating European Retirement Week as an official EU calendar event.
- **At national level, consider implementing automatic enrollment schemes for employees where appropriate and on a voluntary basis.** Research indicates that people are more inclined to join pension savings programmes through auto-enrollment, as long as they have the option to opt out if they prefer. Here, too, "one size fits all" will not work because the national pension systems differ greatly.
- **Introduce fiscal incentives to encourage all citizens, whatever their personal circumstances, to save for their old age.** Tax incentives can encourage people to save by providing financial rewards or benefits for saving money in certain accounts or investments. These incentives typically come in the form of tax deductions, credits, or deferrals.
- **Reduce complexity: make disclosures more user-friendly and simplify the sales process.** Policymakers should ensure that consumers have easy access to simple and clear information, which makes it easy to understand the benefits that insurance products can offer. It is important to reduce and not add to the current information overload. It is equally fundamental to simplify complicated, lengthy sales process that discourage EU citizens from investing. Legislation should not hinder the use of digital solutions to assist, simplify, and streamline the process. In addition, having a wide choice of product types/structures/features and distribution channels allows consumers to have access to pension and life insurance products through their preferred channel.
- **Take stock of why PEPP failed before introducing any alternative pan-European product.** For the PEPP to be realised, significant reforms will be needed, impacting various aspects of the regulation.

INSURANCE MATTERS

DIGITAL TRANSFORMATION

Digitalisation is driving societal progress in Europe, reshaping the way economies function, public services are delivered, and sustainability initiatives are pursued. At the same time, digitalisation comes with important challenges, in terms of data privacy, cybersecurity, and social inclusivity, as well as challenges in terms of creating a regulatory environment that is conducive to innovation and level playing field on the one hand, and consumer protection on the other. Furthermore, the digital transformation is expected to become increasingly affected by challenges arising in relation to environmental sustainability and resource scarcity, necessitating a shift towards more efficient and sustainable practices across digital infrastructures and supply chains.

Insurers contribute to digital transformation, first and foremost by helping building resilience in the face of increasing and evolving cyber risk. In addition to ensuring their own digital operational resilience, insurers increasingly offer cyber insurance solutions, which focus on prevention, risk management, and post-event support. Secondly, through their uptake of digital solutions, insurers increase efficiency, improve consumers' journey, and promote financial inclusion. Finally, insurers' data use, which is inherent to their business model, is fundamental for risk analysis, risk mitigation and prevention, and, therefore, for offering services and products consumers need and expect. As such, insurers' use of data and technologies is pivotal to increasing the insurability of risks. It is also key for detecting and preventing fraud.

With insurance…

(Cyber) resilience

Insurance provides financial resilience to businesses in the face of unexpected disruptions, such as cyberattacks, natural disasters, or supply chain disruptions. Insurers can help businesses recover from such events, which otherwise would lead to significant financial losses and operational setbacks. Insurance therefore contributes to the stability and continuity of digital transformation efforts.

Financial inclusion

Through digital channels, insurers increase the access of individuals to insurance products and to pension savings, thereby enhancing the opportunity for people to get protection and ultimately boosting the resilience of vulnerable groups.

Road safety and sustainability

Through data access, telematics, and Internet of Things devices, insurers can offer more accurate pricing based on actual usage and driving behaviour, thus promoting safer conduct and potentially reducing premiums for low-risk customers. From an environmental point of view, in the motor area, "pay as you drive" or "pay how you drive" policies have the potential to encourage people to drive less and in such a way that their driving style keeps their emissions to a minimum.

Without insurance…

Disruptions and exposure for businesses

Insurance plays a crucial role in mitigating risks associated with digital transformation. Without insurance coverage, businesses would face heightened financial exposure to potential cyber threats, data breaches, and other digital risks. This could deter companies from adopting innovative technologies due to fear of financial losses.

Lack of innovation

Insurance provides a safety net for businesses to take calculated risks and invest in innovation. Without insurance protection, companies may be more hesitant in their approach to digital transformation and in allocating resources to new technologies or ventures due to the perceived financial risks involved. This could stifle innovation.

Without insurance, businesses would face greater uncertainty, financial exposure, and reluctance to embrace digital technologies

WHY PRESERVING A LEVEL-PLAYING FIELD IS KEY FOR THE DIGITAL ECONOMY TO THRIVE

In the digital age, insurers are faced with several challenges in terms of competition, and this is directly affecting consumers. First, the entry of Big Techs into the insurance domain is poised to disrupt the level-playing field. With their resources, expansive customer base, and troves of data, Big Techs may circumvent regulatory requirements and oversight as they advertise, market, and distribute insurance products through their online platforms. Moreover, their use of aggregate data could potentially evade data privacy regulations. And while insurers' access to and use of data is increasingly subject to supervisory scrutiny, Big Techs are already monetising on the vast amounts of customer data they have access to, by providing personalised financial products and services.

Insurers are also faced with an uneven playing field in the context of access to car data, notably because in-vehicle data remains almost exclusively in the hands of car manufacturers, acting as the sole gateway to the data. Even when access is granted, it is usually costly and under unfair contractual terms, leaving insurers at a distinct disadvantage. Without direct, independent, unmonitored, and fair access to in-vehicle data, it will be challenging for insurers to introduce innovative products and services to consumers, such as advanced "pay how you drive policies", theft notification systems, advanced breakdown services, and real-time traffic management solutions. Access to data that is necessary to establish the circumstances of an accident is also a pre-condition to insuring future autonomous cars.

Finally, policymakers' push for European digital sovereignty may imply new requirements that could adversely affect the agility of insurers, and, with this, innovation and competition, notably at a time when efforts are increasing to boost the transition towards a digital economy. For example, insurers should be able to scale up or down their use of cloud services, in line with changing operational demands and evolving customer needs, and not be faced with any restrictions to their choice of provider.

INSURERS CAN DO EVEN MORE…

How can policymakers help?

Remove barriers and ensure an innovation-friendly regulatory environment.

- The regulatory and supervisory framework should facilitate a data-driven financial sector and support the uptake of new technologies. The adoption of new technologies and novel tools can bring various benefits, from enhancing the customer experience to fraud detection and providing innovative products or facilitating access to insurance protection.

Ensure that insurers have access to and can make use of data to the benefit of customers

- Without data, new insurance products cannot be designed, existing products cannot be priced, risks cannot be assessed, and prevention measures cannot be developed. Even if regulation prohibits the use of certain customer data for individual pricing decisions, the data is still needed to assess the overall risks and ensure future claims are being paid in line with customers' expectations.
- Additionally, in relation to access to in-vehicle data, sector-specific legislation is needed to fully enable customers to share data from their cars, if they wish so, with insurers. This would bring greater benefits through innovative data-driven products and services.

Set up an "insurance expertise centre" within the European Commission

- Serving as an insurance knowledge hub across Directorate-Generals, this would ensure that policy decisions and initiatives are taken on the basis of an understanding and recognition of the fact that insurers need data to continue to play their key societal role.

Preserve the level playing field

- Policymakers should address the risk of Big Techs not playing by the rules in a comprehensive and coherent manner and ensure a level playing field with incumbent insurers.
- It is also key that, before any new legislative requirement is put forward, an independent and thorough impact assessment is carried out to assess its potential impact on European companies' competitiveness and innovation.

INSURANCE MATTERS

HEALTH

European countries are facing a crucial health challenge: many Europeans do not have proper healthcare coverage and are frequently confronted with high out-of-pocket medical costs. This "health protection gap" is posing significant financial challenges, for individuals but also for governments, as a growing number of people is increasingly relying on publicly funded healthcare services, straining government budgets. At the same time, demographic change and ageing societies, characterised by a growing prevalence of chronic diseases, mean that people need access to affordable healthcare for a longer period of time.

Insurance can alleviate these growing pressures, by increasing the sustainability of health systems and boosting the resilience of individuals by providing an extra layer of protection and offering long-term care services.

*The global health protection gap is valued at **US$0.8trn to US$4trn annually**. The gap in Europe is 5% of this amount.*

Source: GFIA, 2023

With insurance…

Timely access to healthcare

Having insurance means that individuals can access a wide range of healthcare services without delay, including preventive care, diagnostics, treatments, and medications. Coverage extends to specialist consultations, surgeries, hospital stays, and rehabilitation services, and also means that individuals have access to a network of healthcare providers, which ensures timely care and a coordinated treatment plan.

Financial protection

Insurance provides financial security by covering a significant portion of (unexpected) medical expenses, including hospital bills, medicines, and medical procedures. Co-payments, deductibles, and coinsurance help share costs between the insurer and the insured, contributing to the premium remaining affordable. The financial protection offered by insurance allows individuals and families to focus on getting better without having to worry about the cost of care. Disability insurance offers financial protection in the event of a (temporary) loss of income due to health-related problems.

Prevention

Insurers increasingly offer incentives for preventive care and health screenings to help individuals maintain good health and prevent chronic diseases. Coverage for vaccinations, screenings, and routine check-ups encourages proactive health management and early detection of health issues.

Without insurance…

Limited access to healthcare

Individuals may face barriers in accessing healthcare services due to high costs, resulting in delayed medical treatment or no treatment at all. Emergency care may be the only option for those without insurance, and this comes with higher costs and potential medical debt.

Financial strain

Having to cover medical expenses in the absence of insurance can lead to significant financial strain, forcing individuals to deplete savings, borrow money, or find alternative ways to cover healthcare costs. High out-of-pocket expenses may deter individuals from seeking necessary medical care, which could lead to poor health and complications

Lack of preventative care

Individuals may overlook routine health screenings, vaccinations, and check-ups, increasing the risk of undetected health conditions and preventable diseases. Without incentives for preventative care, there is a higher risk of chronic diseases and overall poorer population health.

Ultimately, governments would have to step in and cover the costs, which would imply immense pressure on public finances.

WHY POLICY INITIATIVES AT EU LEVEL MAY COMPROMISE INSURABILITY AND THE KEY SOCIETAL ROLE OF INSURERS

Well-meaning initiatives can result in unintended negative outcomes. For example, the introduction of a so-called "right to be forgotten" (RTBF) that prevents insurers from assessing and pricing the risks they are requested to cover, could reduce access to insurance protection and increase prices to the detriment of most customers. While the aim of supporting more vulnerable individuals and those facing higher risks is desirable, a RTBF may in fact result in reducing insurability and limiting insurers' capacity to offer comprehensive cover. It is therefore crucial that any such initiatives are launched on the basis of the right expertise and knowledge of how insurance works and a proper understanding of the impact that the considered measures would have on the customer base.

Likewise, policymakers are increasingly questioning insurers' use of data, even though data has been, for centuries, at the heart of insurers' capacity to provide the products that people need and expect. Also, insurers are subject to robust national and EU legislation on data protection, equal treatment and distribution of their products. Without access to relevant data, insurers will face difficulties in responding to society's and people's evolving needs. Also, through innovative technologies and progress in medicine, conditions that seemed uninsurable only a decade ago can now, under specific circumstances, be covered by insurance policies. For this to happen, however, insurers must have access to the relevant data.

INSURERS CAN DO EVEN MORE…

How can policymakers help?

Set up an "insurance expertise centre" within the European Commission.

- Serving as an insurance knowledge hub across Directorate-Generals, such a centre would ensure that due consideration is given to all risks involved in any new initiative, that the issues at stake are reflected on holistically, and that new (non-) legislative efforts meet the intended objectives without compromising insurability and, ultimately, sustainability and resilience.

Make sure that insurers have access to and can make use of data for the benefit of customers.

- No insurance without data: even if insurers' use of certain customer data for individual pricing decisions is curbed, it is still needed to assess the overall risks and ensure future claims are being paid in line with customers' expectations.

Facilitate the uptake of new technologies in insurance to support innovation.

- Policymakers should remove any regulatory barriers – and avoid creating barriers – that hold back innovation, and establish a regulatory/supervisory framework that facilitates a data-driven financial sector and supports the uptake of new technologies.

Raise awareness of health risks and health prevention among citizens.

- Policymakers can launch awareness-raising campaigns to promote routine check-ups and preventative action to support insurability.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents all types and sizes of insurance and reinsurance undertakings. Insurance Europe, which is based in Brussels, represents undertakings that account for around 95% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers pay out over €1 000bn annually — or €2.8bn a day — in claims, directly employ more than 920 000 people and invest over €10.6trn in the economy.

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