Why insurance is unique

And offers unique benefits for consumers

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings that account for around 95% of total European premium income.

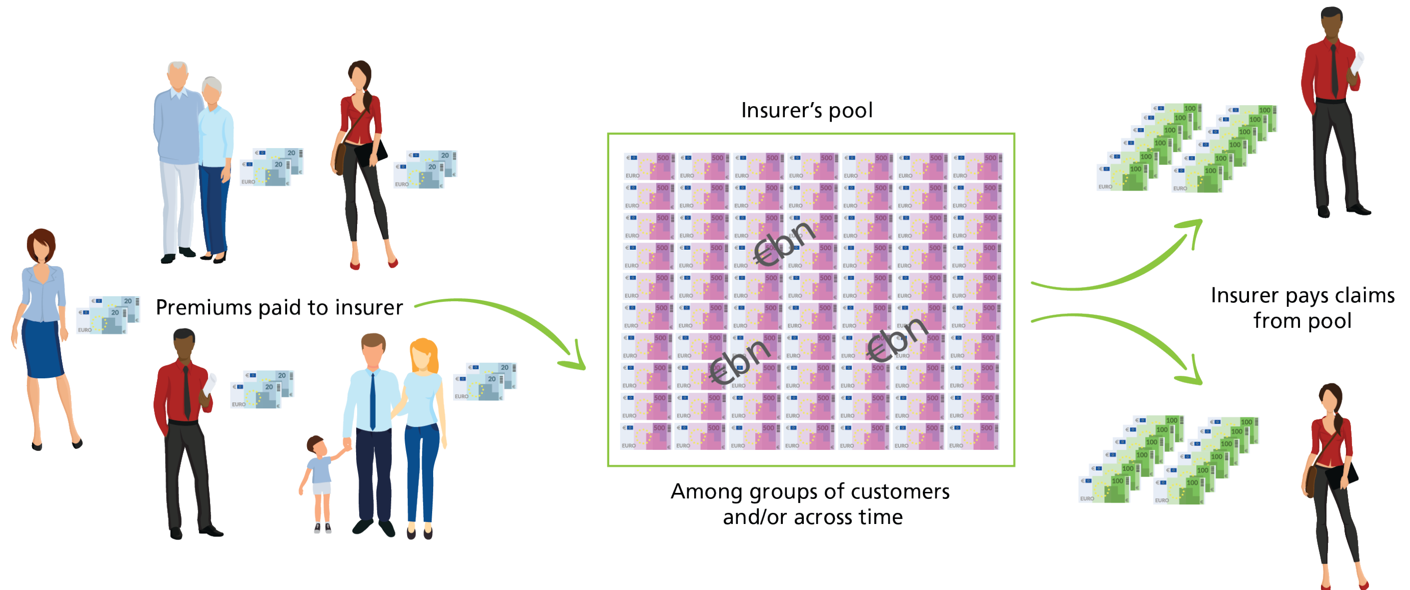
www.insuranceeurope.eu

The unique benefits of insurance

Without insurance, many aspects of modern societies and economies could not function. Insurance provides the cover against unforeseen events that enables individuals and businesses to carry out their daily activities.

Buying an insurance policy for a smaller, known premium removes the possibility of a larger, potentially unaffordable loss, bringing peace of mind and security. These small premiums are collected in a pool, which allows the losses of the few to be spread among the many.

European insurers pay out almost €3 billion a day in claims to help businesses and individuals through difficult events and in benefits to long-term savers.



Many types of cover, many benefits

There are many types of insurance policies covering many different risks. Take home insurance as an example. Buying a house is frequently the biggest investment a person ever makes. Yet, for a small, regular premium, individuals can be sure of help to repair or replace their home and belongings if they are affected by perils such as flood, fire or theft.

Businesses, too, can choose from a range of insurance policies — business interruption, workers' compensation or natural catastrophes, to name but a few — to protect themselves against events that could be disastrous for their operations and staff. Many commercial policies can be closely tailored to the specific needs of businesses.

And when it comes to risks to the person, insurers are covering their customers against illness, disability, old age or death. Morbidity cover, for example, protects an insured's beneficiaries if they die. And disability cover protects those who can no longer work due to injury or disability against loss of income.

Insurers offer a wide range of additional services with their products. These aim to stimulate risk prevention, speed up claims-handling or lead to improvements in the insurance products themselves. They can include anything from health advice to roadside assistance for motorists or cybersecurity advice.

Insurers also provide different types of long-term savings solutions, including pensions. The products offered often combine investment with some form of protection element, for example guarantees against the risk of losing money on the investments. Protection can also be offered against the risk of outliving savings, through a lifetime annuity. Insurers are thus in the unique position of combining a savings product for long-term investment with life risk cover.

Person lives to 70

Person lives to 100

Most life insurance savings products are based on collective investments and risk-sharing mechanisms, which work by pooling risk among groups of customers and across time. Generally, they have to be kept for a minimum period to allow insurers to invest long-term in a range of assets. This can create the best outcome: long-term guarantees and/or smoothing of returns; attractive investment performance due to a good asset mix; and decreased investment costs due to economies of scale.

Insurers are able to offer products with guaranteed minimum returns. That means that individuals have the certainty that their savings are protected. Even if stock markets plummet, individuals will still receive the agreed amount of money at the agreed time.

A unique product requires a unique regulatory approach

Due to its special features, the insurance industry requires:

1

The freedom to underwrite

Insurers offer protection against a wide variety of risks. These risks require very different approaches: an individual's car insurance, for example, is a far simpler product than tailored environmental liability cover for a huge multinational.

Policymakers sometimes believe that standardising policies or introducing compulsory schemes are the path to affordable insurance. However, standardisation prevents insurers from tailoring products to consumers' needs. Standardisation is particularly challenging at EU level, due to varying national legal, fiscal and liability regimes, as well as cultural factors and risks. Standardised products can also quickly become outdated.

And compulsory insurance schemes only work if certain basic conditions are met (sufficient data, similarity of risks, insurance capacity, competition), otherwise they can lead to a lack of available insurance or of product innovation.

So, insurers need the freedom to develop products that meet consumers' and companies' expectations, fit their risk profiles and meet legal and fiscal national requirements, otherwise the cost and availability of policies will be negatively affected.

2 Tailored prudential regulation

Because of the unique nature of insurers' core activity, their business model is unlike that of other financial services sectors. Premiums are invested — frequently long-term — until claims or benefits become due. The prudential framework for insurers needs to reflect the fact that they usually have stable, up-front and long-term funding and low exposure to liquidity risk and market volatility.

Solvency II, the prudential regulation for European insurers, takes a risk-based approach. This is strongly supported by insurers, but improvements are needed so that it correctly reflects the real risks taken by insurers on behalf of their customers. Improvements will safeguard insurers' ability to offer innovative and good value protection and investment products and play their full role in funding sustainable growth in Europe.

3 Regulation that reflects market realities: unique distribution, varying consumer needs

Insurance products are distributed completely differently to investment products. Whereas investment products under the EU's Markets in Financial Instruments Directive, MiFID II, are generally sold by large, multinational financial institutions, insurance-based investment products, or IBIPs, are still sold by SMEs and one-person businesses in many EU member states.

Those SMEs would find it difficult and costly if they were made to comply with MiFID II rules, which were designed for large financial institutions, and that would lead to a decrease in the number of insurance points of sale, less consumer choice and a fall in employment in the SME sector.

4 Flexibility to present products and costs in a comprehensive way

Under the EU Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation that came into force in January 2018, providers are required to produce a highly standardised disclosure, called the key information document (KID). However, funds, structured products and IBIPs differ enormously, so the KID does not capture their key features and — by misrepresenting certain features or hiding others — can even be misleading.

IBIPs, for example, include additional, unique protection against biometric risks, such as incapacity to work or critical illness. The PRIIPs KID should therefore present prominently the existence or absence of biometric risk cover, as this is a crucial element in consumers' comparison and choice of products.

A product's costs should never be assessed in isolation, of course, but always in terms of value for money in relation to the protection and services provided. So, it is impossible to make a meaningful comparison between the costs of products that contain unique insurance features and those that do not.

Likewise, it should be remembered that premiums for protection against biometric risk are not costs but premiums for which the consumer receives insurance protection and, if relevant, an insurance benefit.

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