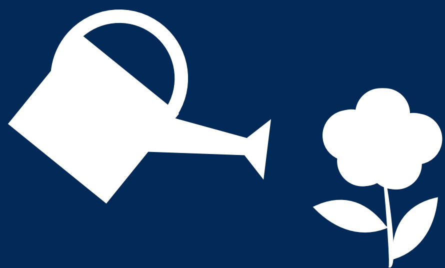
insurance europe

How insurance stimulates growth

How do insurers stimulate economic growth and protect financial stability?



Insurers play a number of important roles in our society:

- They encourage better risk management in society and protect policyholders when the worst happens.
- This protection provides individuals and businesses with the confidence to engage in economic activity, which leads to growth.
- Insurers also stimulate economic growth and stability through making long-term investments, which came to around €8 500bn in 2013.

A healthy insurance industry is, therefore, required for economic growth to happen. To remain healthy the insurance industry requires effective and appropriate regulation.

To support growth, insurance regulation needs to be strong enough to protect policyholders, but not so prescriptive as to stop insurers from supporting economic activity through the products they provide and the investments that they make.

Can regulations actually promote economic growth and stability?

Yes, if ...

... policymakers design regulations that both protect policyholders and enable insurers to make even bigger economic contributions.

They must also avoid trying to impose "one-size-fits-all solutions" on insurers and their policyholders:

- Policyholders in different countries have different needs.
- Insurers should, therefore, be free to provide innovative solutions to match those specific needs.

Policymakers must ensure that any possible unintended consequences of new rules are understood and minimised, and that the rules enable insurers to meet policyholders' demands and to increase these contributions to society, rather than limit them.

Can new regulations threaten economic growth and stability?

Yes, if ...

... the consequences of new regulations are not fully considered, they can negatively impact consumers, insurers and the wider European economy.

For example, while welcoming many aspects of Solvency II, insurers are concerned that it will make their long-term investments seem riskier than they actually are. As a result, insurers will have to assign an amount of capital against those investments that is unnecessarily high.

- This makes it more expensive for insurers to invest in things like government bonds, businesses and infrastructure projects.
- This discourages insurers from making such investments – which, currently, account for over half of all institutional investment in the EU.

At the moment it is not clear how current insurance regulations affect growth and stability, as no impact assessments have been carried out to gauge the impact of regulations already in place.

Given the high number of new regulatory initiatives being proposed, it makes sense to investigate the effectiveness of those already in place, and their impact on growth in the EU.

How can new regulations impact consumers?

Rules written to protect consumers in one industry can negatively impact those in other, completely by accident.

For example, while the protection of an individual's data should be paramount in any organisation, new rules on data protection currently being considered by the EU could potentially make it harder for insurers to fight fraud and provide consumers with appropriately priced products. This is because insurers won't be able to access and process customers' data to the extent which they need to operate effectively.

This could mean that insurers might either have to make insurance products significantly more expensive or stop providing certain types of cover altogether. This would leave consumers either out-of-pocket or without any financial protection at all.

Another example relates to anti-discrimination law. People's rights to be treated fairly and equally are, of course, a fundamental part of European society. Some of the new rules designed to protect these rights could, however, inadvertently stop insurers from being able to price insurance policies fairly according to the risks that individual consumers pose.

This will simply mean higher costs for everybody, which is in no-one's interest.

What is Insurance Europe?

Insurance Europe is the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. 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 generate premium income of more than €1 110bn, employ almost one million people and invest over €8 500bn in the economy.

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