insurance europe

Insight Briefing

Insurers, regulation & stability

Regulations should help not hinder insurers in their central role of promoting stability and economic growth.

With many EU countries still recovering from the financial crisis, a central aim of European policy makers is to promote growth and stability.

In order to stimulate growth, policy makers must attract money for both governments and businesses, along with investment for other job creating activities, such as major infrastructure projects. All of these things require long-term investments, requiring policy makers to make Europe appealing to potential investors.

At the same time regulators are working hard to find ways to stop a similar situation to the financial crisis from happening again. It is critical, however, that the regulators seeking to protect the financial system do not inadvertently disrupt or discourage investment from the EU's largest institutional investors: insurance companies.

Insurers face more regulation

Following the financial crisis insurers are subject to more regulatory scrutiny than ever before on a local, European and global level. As an example, over the tenure of the last European Commission 130 legislative initiatives were proposed that had bearing on insurers either directly, or indirectly.

While recognising the important role of effective, well thought-out regulation, insurers are concerned that certain areas of regulation could make it more difficult for them to continue to provide long-term investment.

Some Solvency II rules are, for example, based on the assumption that insurers need to sell their assets frequently. This is not the case: due to their long-term business models, insurers often have the ability and willingness to hold the assets long-term or until maturity.

As a result, in many cases, Solvency II rules make long-term investments appear riskier than they actually are. This means that insurers will need to set aside larger amounts of money to mitigate unexpected losses resulting from those investments, so the cost of making long-term investments increases.

Given the sums involved, if insurers are less able to make long-term investments, then it could have a major impact on the European economy.

Regulation must be appropriate

Policymakers are, of course, right to work towards making the financial system more secure.

They have not yet, however, reached the point at which their proposals — in addition to ensuring security — also fully recognise the distinctive and naturally stabilising features of insurers' investment activity.

The result is a policy agenda that errs on the side of unnecessary caution — despite the fact that insurers did not cause the financial crisis.

New regulations do not necessarily appear to be being developed as a result of identified short comings, rather "to safeguard" against potential future "unknown" risks.

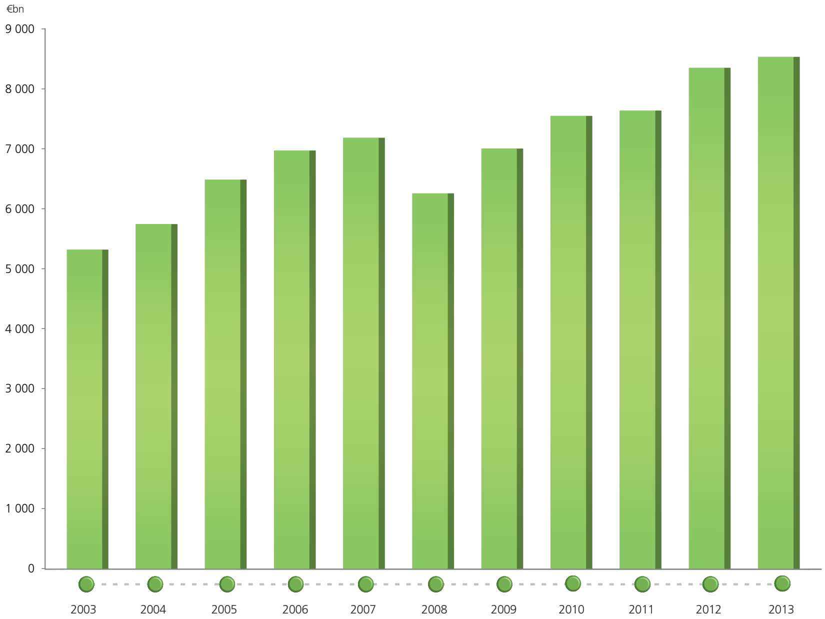
Much regulation also appears to take its basis from banking regulation, which was designed for a completely different industry.

It is crucially important for regulators to fully understand and take into account the nuances of the insurance industry when designing its regulation, both to properly protect policyholders, as well as ensuring that insurers are not unnecessarily overburdened, or discouraged from making their crucial contribution as long-term investors in the European economy.

Insurers promote growth and stability

As the largest institutional investors in the European economy, insurers currently have around €8 500bn of assets under management.

Total European insurers' investment portfolio — 2003–2013 (€bn)



Insurance Europe's figures show that the size of these investments has grown by around 50% over the last ten years, even despite the financial crisis. Given that Europe is currently enjoying more favourable economic conditions, it is likely that their size — and so contribution to the European economy — will also continue to grow in the future.

Insurers' investments currently account for over half of all institutional investment in Europe, including 24% of European government debt and 21% of European corporate bonds, as well as a vast array of other investments across the continent.

Due to their business models, insurers — and life insurers in particular — are a prime source of long-term investment. This is because:

- They can predict reasonably accurately the amount of payments that they will be required to make to policyholders over a certain period of time.
- As a result, insurers often require less liquidity from their investments, because they don't necessarily need to sell them in the short term.

Insurance Europe's research has also revealed that most policyholders continue to pay their premiums during an economic downturn. This continual flow of premiums enables insurers to buy assets that are undervalued during downturns, when many other market players are forced to sell.

As such, insurers are able to keep investing when others withdraw from the market, allowing them to have a counter-cyclical and stabilising effect on financial markets and the economy.

An effectively regulated insurance industry has so much to give to European society. It is therefore crucial that regulators and policymakers work collaboratively with insurers in order to reach a situation where everyone's best interests are safeguarded.

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Funding the future: Insurers' role as institutional investors

Insurance Europe and consultants Oliver Wyman published a study in 2013 analysing the role of insurers as long-term investors.

The study examines how insurers invest and why. It looks at the benefits this largely long-term investment approach brings to policyholders and to the wider economy.

It also identifies the developments in a range of policy areas that could have a detrimental effect on these benefits.

The study is available for download from Insurance Europe's website: www.insuranceeurope.eu