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 businesses
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 €9.5trn 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 from the EU.[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 be fewer long-term investors and fewer investors who can act as stabilisers during market turmoil.

[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 processes that discourage EU citizens from investing.
    - focusing disclosures and advice on what matters 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 multinational 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.