insurance europe

AMBITIONS FOR EUROPE

FINANCE SUSTAINABLE EU ECONOMIC GROWTH

THE CHALLENGES

Europe has an estimated €645bn annual overall investment gap[1] and needs to promote private investment to close it. And to fulfil the aims of the European Commission's Capital Markets Union (CMU) project to boost growth, the EU needs to further strengthen the single European market and stimulate the sustainable development and integration of capital markets in Europe.

WHAT INSURERS OFFER

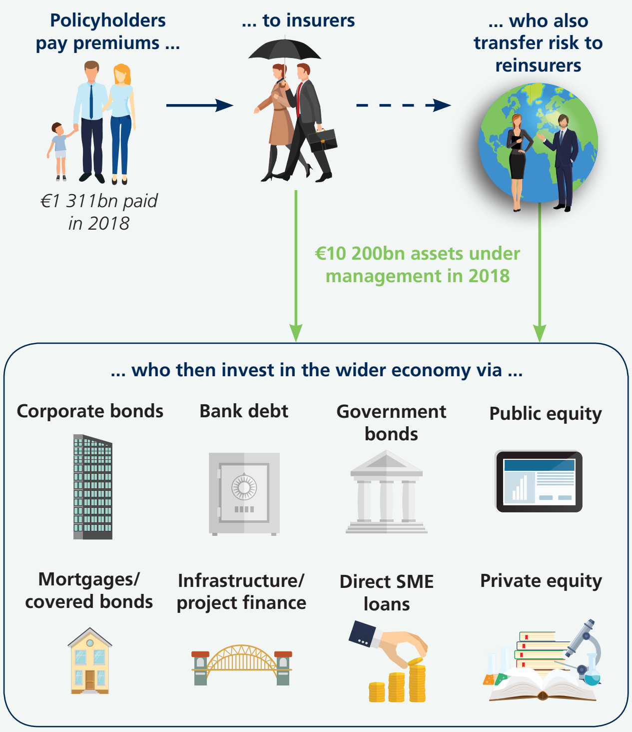
The insurance industry is the largest institutional investor in Europe. In 2018, insurers invested €10 200bn in bonds, equity and other investments, such as infrastructure, property, loans and mortgages.

The insurance sector contributes significantly to sustainable economic growth in Europe, so it is well placed to support the EU's green and sustainable financing objectives.

The insurance industry is an important provider of stable, long-term funding for governments and businesses. Its investing is a consequence of the insurance business model: policyholders pay premiums upfront, which insurers then manage until claims and benefits become due. A significant amount of insurers' assets are generated by long-term savings and pensions, which means insurers can and want to invest long-term in the economy for the benefit and security of their customers' policies, savings and pensions. Insurers' ability to commit funds long-term is vital to the economy because it allows businesses and governments to engage in large projects that take many years to complete or become profitable.

In addition, the nature of the insurance business model allows insurers to have a counter-cyclical and stabilising effect on financial markets and the economy, since they have access to a continual flow of premiums, even in periods of financial market stress. Insurers can make the long-term investments required to pay future benefits without being exposed to the risk of forced selling when prices decrease.

Insurers' investments in the wider economy



Government bonds form a significant part of insurers' investments. Based on Eurostat figures, Insurance Europe estimates that in 2018 insurers held 21.4% of all euro-area government debt.

Insurers hold over €2 000bn in corporate bonds, thus financing Europe's medium and large enterprises, many with a global presence.

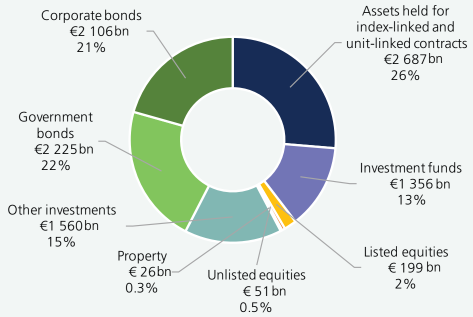
Insurers hold €250bn in listed and unlisted equities — a core source of corporate financing.

Insurers provide a small percentage — but a significant absolute level — of investment in securitisations, mortgages, real estate, private equity and venture capital, the last two being key instruments for funding innovation. Insurers have considerable appetite to increase their allocations to these investments to expand the diversification of their portfolios and enhance returns for customers.

Insurers' investment in infrastructure — directly or through public/private partnerships — supports inclusive economic growth. Through their investment in illiquid projects with a long-term perspective — such as transport systems, ports, power systems, schools and hospitals — insurers fill funding gaps across Europe.

Insurers are a source of direct funding for SMEs, making such companies less dependent on bank lending when entering new markets or seeking to improve productivity.

Breakdown of insurers' investment portfolio 2018



Source: EIOPA Solo Annual Balance Sheet Report 2018

A few examples

- **Austria** Insurers' investments have led to the creation of more than 100 000 units of affordable rental housing.
- **France** A partnership that includes five insurers financed over 800 SMEs between 2015 and 2017.
- **Germany** In 2018, insurers invested €77bn in mortgages and €262bn in covered bonds, which provide credit institutions with diversified and stable funding for mortgage loans for housing and non-residential property.
- **Italy** In 2018, insurers invested €7bn in infrastructure in sectors including: electricity; gas; steam; air conditioning; construction; and information technology and communication.
- **Netherlands** One insurer is a partner in a €300m special fund to make schools, theatres and other public-use buildings more sustainable.
- **Poland** Insurers' investments in corporate bonds and equities provide capital to grow businesses as well as to finance public spending on health, education and infrastructure. In 2016, more than 225 000 jobs were created as a result of insurers' investments, adding an estimated 2% to Poland's GDP.
- **Spain** One company allocated over €220m to dedicated programmes for funding SMEs, start-ups and entrepreneurs.
- **Sweden** Insurers' investments in green bonds issued by the City of Stockholm in 2018 funded projects including energy-efficient housing, electricity supply points for electric cars, schools and a modern wastewater sewage treatment plant.

WHAT POLICYMAKERS SHOULD DO

To enable insurers to maximise their investment potential and contribute to economic growth, the right regulatory conditions and appropriate measures need to be in place.

Address regulatory barriers to insurers' long-term & sustainable investment

Regulation should ensure that insurers have enough capital and that consumers are protected. However, if the design of insurance regulation does not take due account of the industry's distinctive characteristics, it can have unintended consequences for long-term investing and affect insurers' ability to support sustainable economic growth.

In a 2018 survey by Insurance Europe of 87 insurers in 17 European markets, nearly 50% reported that Solvency II, the regulatory regime that governs insurers, acted as a barrier to investing in assets related to the real economy. The 2020 review of the Solvency II Directive provides an opportunity to address these flaws and reduce unwarranted prudence, thus allowing the insurance sector to sustain and increase its contribution to Europe's economic growth.

Increase the availability of suitable long-term & sustainable assets

Policymaker action is needed to stimulate the supply of assets that meet not only sustainability criteria but also quality and security requirements. Key areas in which the supply of assets needs to be fostered include infrastructure and, more broadly, sustainable assets.

1 "Restoring EU competitiveness", European Investment Bank, 2016