By Andreas Brandstetter, president, and Michaela Koller, director general

The European insurance industry is a global success. Nearly half of all international insurance groups are European. And, within Europe and beyond, the industry supports societies and economies through both the billions of euro it pays in claims to individuals and businesses every day and through its long-term, multi-billion euro investments.

The need for a sound, well-functioning insurance industry that just happens to also be Europe's largest institutional investor could not be greater, as we live in particularly uncertain times — rising inflation, a climate emergency, stark geopolitical risks and major demographic change.

Good regulation, not more regulation

The success of our vital industry requires appropriate and effective regulation. This is absolutely essential to ensure Europe's insurers are trusted by their customers. Sound consumer protection is paramount in an industry that is based on trust.

We have long called for quality over quantity when it comes to regulation. Existing regulation should always be correctly and fully implemented — and its effectiveness then assessed — before any additional regulation is considered. Duplicated requirements in different pieces of regulation should also be avoided or removed.

And proposals for new regulation should always consider whether the benefits of adding more regulation to an already highly regulated industry truly outweigh the costs. After all, over-regulation can have a negative impact on consumers too, as it can affect the cost, availability and attractiveness of insurance products. For proof, look no further than the staggering 339 disclosures that must be made to a customer who simply wishes to buy a sustainable insurance-based investment product (see article here). Hardly the way to encourage more retail investors.

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This is why we were heartened to see the pledge of the von der Leyen Commission in 2019 to institute a "one in, one out" policy when preparing regulation. And yet, looking at the EC Workplan for 2023, what is the tally? Depressingly, it is 43 in, two out. Not an impressive score.

The Retail Investment Strategy has just been published. Still more regulation is in the pipeline, in particular regulatory proposals related to sustainability (see article here) and to data security and management to increase the burden on our companies.

Two ways to improve regulation

There are two underlying factors that contribute to the unnecessarily high regulatory burden placed on our industry.

The first is that insurance, which touches all aspects of modern life and economies — from car driving to catastrophes — is captured in a multitude of sector-specific regulations. For this reason, any piece of regulation should not be produced in a "silo" that does not take account of existing laws in all the areas affected by it. Likewise, in the development of any new law, those with expertise on all the sectors it will affect must be involved at the very earliest stages.

The second factor is that insurance is burdened with regulation that is not appropriate for its unique business model. Insurance is a specialised sector of the financial services industry whose business model makes it very different from banks and other financial service providers. Its regulation must reflect this.

Take, for example, the EU's proposed Insurance Recovery and Resolution Directive (IRRD). It draws heavily on banking regulation. Yet the fallout from the bank runs that recently imploded Silicon Valley Bank and Signature Bank in the US would never happen if an insurer failed. As we explain in the article here on the IRRD, insurer failures are not only rare but they also happen gradually over a long period time, allowing for a structured wind-down and making any systemic risk and potential for financial contagion far, far lower than in banking.

Insurance regulation must not copy from other sectors' laws that are fundamentally unsuited to the insurance sector's specific characteristics.

"Insurance is burdened with regulation that is not appropriate for its unique business model."

A unique financial sector

The stabilising value of insurance and its unique business model of pooling risks, investing long-term and paying claims is not widely understood. Insurance Europe is increasingly working on materials that explain the fundamentals of insurance, such as this video on the principles of risk-based underwriting and pooling, because without a grasp of the fundamental principles of insurance, even well-intentioned regulatory reforms can have negative consequences.

To take just one example, the discussions over introducing “rights to be forgotten” for survivors of cancer and other diseases when applying for certain types of insurance (see article here) are in many quarters taking place without a full understanding of the possible effects such a right may have on the availability and cost of insurance for all consumers.

Insurance Europe’s mission continues to be to promote the value of insurance and to increase understanding of how it works so that regulatory solutions are found that work for insurance customers and their providers, as well as for the economies and societies of Europe.