



JEAN-JACQUES BONNAUD

EUROFI

Preserving social and economic roles of the Insurance sector in the post pandemic world

The Insurance sector will be confronted with two sorts of challenges in the present and next future.

Firstly, one has to mention the challenges presented by the immense environmental transformations triggered by climate and the sustainability stresses, which produce a growing magnitude and frequency of natural catastrophes such as floods, hurricanes, big urban fires and wildfires, destruction of crops. Not mentioning the possible costs of covering the negative consequences of the sanitary constraints imposed by States on the earnings of firms, whenever they are not entirely addressed by state subsidies, these sustainability stresses will imply massive and unexpected expense increases within the insurance and reinsurance sectors. It is clear that regulatory costs will also be faced by the European insurance sector. They are due to the unexpected increase of these risks and will come in addition to the rising burden of operating costs.

This is no doubt that cost efficiency is thus essential for the sector, which requires these regulatory costs to be evaluated in particular against the necessity to maintain the competitiveness and risk mitigation role of the European sector. This is all the more important in a context of interest rates set at low and even negative levels to address inflation issues, which further inflate the longer-term liabilities of insurance undertakings and related provisioning.

Such evaluation should lead to a renewed concertation between the sector and the EU authorities, regarding beyond the technicalities of Solvency II, on an accurate understanding of these new types of risks.

A second and additional problem, which also questions the regulatory framework, will arise as soon as the end of the Covid19 pandemic will allow for an economic recovery. In this context, worldwide, the States as well as the private sector are projecting to spend enormous amounts of money, which will raise a financing problem.

These expenses are crucial in particular in the EU, to relaunch the economy and address beyond those already planned before the pandemic, the long-term investment in infrastructures of all kinds, e.g., pharmaceutical, renewable energy,

new materials, digitalisation, telecoms, ... necessary to speed-up to the much-needed green transition and the enhancement of innovation capabilities.

Should there not be any increase of interest rates, it would be even more essential to provide the insurance sector with a regulatory framework enabling it to further channel the individual's savings towards long-term equity investments of listed or non-listed companies, well beyond the mere sovereigns and corporate borrowings, the financing of which will be further indirectly supported by ECB non-conventional monetary policy.

Indeed, insurance companies are essential for addressing the financing of these needs. Firstly, they are a privileged channel between the EU economy and the savers, whose ability to assess risk is limited. In addition, due to the specificity of their business model, they have the unique ability to invest in medium to long term horizons, which match with most of the public and private expenses envisaged.