

LEVERAGING THE ROLE OF INSURANCE IN THE EU ECONOMY



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Insurance, innovation and investment: delivering for Europe's economy

Europe's insurance sector plays a central role in supporting households, businesses, and the broader European economy. As the EU advances its digital and green transitions and deepens the Savings and Investments Union (SIU), insurers can contribute through long-term investments, risk management and innovation. Unlocking this potential requires a balanced approach that enables the use of data and artificial intelligence (AI) while preserving trust, consumer protection, and financial stability.

AI is already reshaping insurance across the value chain. EIOPA's survey on generative AI in insurance shows many insurers are already experimenting with or deploying these technologies, mainly to improve efficiency, customer interaction and decision-making. Many

use cases are concentrated in back-office functions such as claims management, document processing, fraud detection and software development. These applications make processes faster, cheaper and more reliable, allowing insurers to process claims more quickly, reduce operational costs and free resources for innovation. Over time, such productivity gains can translate into better customer outcomes, broader access to insurance and more tailored products. Technology also makes it easier to communicate complex products, helping to demystify insurance and make services viable that were previously uneconomic. Concurrently, the survey results highlight that adoption remains cautious and often human-in-the-loop, underlining the importance of governance, transparency and oversight.

Supervisors therefore face a dual task: enabling experimentation while managing risks. EIOPA's Opinion on AI governance and risk management aims to support innovation by providing clarity on how existing legislation already applies to AI systems. The European framework — including the Solvency II Directive, the Insurance Distribution Directive and the Digital Operational Resilience Act — already provides strong foundations. The challenge today is not to create entirely new rules, but to apply existing principles consistently in a fast-paced landscape. A risk-based and proportionate approach is key: low-impact applications should benefit from light-touch governance, while higher-impact uses require stronger safeguards, including explainability, outcome monitoring, and human oversight. Maintaining consumer trust is essential to support the responsible uptake of these technologies.

Digitalisation and trust can strengthen Europe's insurance sector.

Digital transformation also calls for stronger supervisory convergence across Europe. EIOPA's Strategy towards 2030 stresses that digitalisation is reshaping markets financial markets fast and that supervisory frameworks must keep pace. Digitalisation is inherently cross-border. Fragmented supervisory approaches create uncertainty and risk slowing

innovation. This is an area where more centralised coordination would provide greater integration in the Single Market. EIOPA continues to promote common supervisory practices, strengthen knowledge sharing among national authorities and support the responsible adoption of new technologies.

In an era of rapid technological change, supervisors themselves must also become more digital. The use of supervisory technology, shared tools and improved data sharing can enhance risk monitoring, improve efficiency and contribute to a level playing field across Europe.

Regulatory simplification remains another key priority, but it should not be understood as deregulation. Europe benefits from a strong prudential framework that has contributed to the resilience of its insurance sector. The greatest scope for reducing burden lies not in weakening safeguards, but in applying proportionality and modernising supervision. EIOPA's strategy highlights the importance of reducing duplication, streamlining reporting and making better use of data. Digitalisation can make reporting and exchanges between supervisors and industry more efficient and eliminate unnecessary burdens. This is particularly important for smaller and medium-sized insurers, for whom compliance costs can be relatively high.

Beyond digital transformation, insurers remain natural long-term investors. Their long-dated liabilities align closely with the needs of the real economy and society at large – supporting retirement provision and channelling investments into capital markets. The revised Solvency II framework offers an opportunity to strengthen insurers' contribution to long-term investment, provided its implementation maintains strong risk sensitivity and avoids creating unintended incentives for excessive risk-taking.

By combining innovation with trust, simplification with strong safeguards and investment with resilience, Europe's insurance sector can continue to support growth, resilience and consumer confidence across the Union.



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Keeping pace with risk: The role of insurance and supervision in the EU economy

The insurance industry faces a profound shift in the risk landscape. Traditional hazards persist across all risk categories, increasing in both frequency and severity and new risks linked to technological developments and geopolitical instability have come to the fore. The central question arises: how can the EU economy, and the European insurance sector in particular, keep pace with a rapidly evolving risk environment and ensure that the regulatory framework remains fit for purpose? Effective collaboration is needed between supervisors, insurers' strategic role, and the regulatory framework underpinning the sector.

Supervisory perspective

From a supervisory standpoint, adapting to emerging risks is a core task. The Austrian Financial Market Authority (FMA) closely monitors insurers' responses to new and evolving risks, focusing on product governance, disclosure, and risk management. The Austrian insurance market is uniquely and closely linked to Central and South-

Eastern Europe, which accounts for most foreign premium income. Supervisory activities are therefore embedded in a broader regional context, with emerging risks in these markets considered when defining supervisory priorities. From our regulatory standpoint, the primary objective is not to close insurance gaps as such, but to ensure insurers launching new products have sufficient risk-bearing capacity, to preserve financial stability, while also ensuring value for money, for customers and supervisors.

Role of Insurers

Beyond the regulatory perspective, insurers play a pivotal dual role in the EU's strategic goals as risk managers and the largest institutional investors in Europe. The European insurance sector, with trillions in assets, can support businesses (especially SMEs and mid-caps) by providing long-term capital through investments in equity, venture capital, private equity, and infrastructure. Insurers are central to the Savings and Investments Union's objective of channelling European savings into productive investment.

From a sociopolitical perspective, insurers also play a vital role in mitigating risks, including ones arising from natural catastrophes, by transferring and diversifying these risks through innovative methods. In life insurance, they play a crucial role in addressing the pension savings gap. As providers of occupational and personal pensions, insurers expand private retirement saving options, diversify retirement income sources, thereby supporting consumers' retirement planning, and help to reduce pressure on public resources, in alignment with the goals of the Savings and Investment Union.

Main new risks

Against this background, the insurance industry increasingly faces three types of risks that traditional models struggle to address effectively.

First, a valuation gap is emerging, due to the heavy reliance on historical data of established models, while facing climate and cyber risks that are forward-looking, non-linear, and subject to uncertainty.

Second, capital volatility has become more pronounced. Interest rate shifts and geopolitical disruptions may generate pro-cyclical effects, including forced asset sales.

Third, there are increasing systemic concentration risks that stem from reliance on common service providers, such as cloud infrastructure, or from concentrated investments in specific technologies, including renewable energy.

Solvency II – Response to risks?

The current Solvency II Review aims at modernising the framework to support the EU's dual transition (green and digital), while maintaining a high level of policyholder protection. The key challenge lies in balancing robust risk management with an efficient and proportionate regulatory scope.

Consequently, the evolving risk landscape places extensive demands on the insurance industry. While large international insurance groups may be better positioned to absorb these changes, many smaller and mid-sized insurers face considerable challenges, ranging from data availability to the need for substantial IT investments, particularly in the context of new regulatory initiatives such as DORA and the AI Act.

Rapidly changing risks require adaptive supervision and resilient insurance markets.

Conclusion

Risks cannot be addressed solely through capital requirements. Both insurers and supervisory authorities must continually deepen their understanding of changing risks. Such an understanding is essential to develop robust risk-bearing capacity concepts applicable to insurers, policyholders and, where relevant, public-sector commitments. From a supervisory perspective, adequate risk-bearing capacity and value for money are needed to keep pace with a rapidly evolving risk environment, while contributing expertise to the broader debate on addressing insurance gaps through innovative solutions and supporting a resilient European insurance sector.



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Resilient insurance under compounding climate and macroeconomic risks

In recent years, Greece has been at the “forefront” of NatCat risks, with more frequent and intense fires and floods, widening the insurance protection gap and increasing volatility for households, businesses and the State.

Despite Greece’s high exposure, data from EIOPA indicate that overall insurance coverage remains exceptionally low. Consequently, a large share of financial losses is uninsured and absorbed through public support measures, adding pressure on economic resilience.

This persistent protection gap makes it essential to sustain insurability in high-risk areas without undermining affordability or market stability. In practice, that means an effective combination of risk-based pricing with credible prevention measures, under a supervisory framework that safeguards policyholders and financial robustness.

Greek insurers are rapidly adjusting. On the Market side, underwriting is becoming more sophisticated. Some insurers utilize geospatial mapping of perils and perform event-based scenario

analytics. Product design is also evolving through higher deductibles and clearer exclusions. Moreover, some insurers provide discounts linked to mitigation measures such as maintenance of space and flood-proofing of property, shifting from a “pay and repair” to a “prevent and protect” approach.

Given the high volatility of NatCat losses, robust reinsurance remains the key shock absorber. Recent experience has shown how reinsurance can materially reduce net domestic balance-sheet impact after extreme events. Storm “Daniel” in 2023 is a typical case, since although financial losses were significant, reinsurance functioned as a critical shock absorber for the domestic market.

From a supervisory perspective, Bank of Greece expects climate risk to be embedded in governance, ERM, and capital planning, not as a policy exercise, but as a systematic risk management. This includes ORSA scrutiny, thematic reviews, and model challenges on an ongoing basis.

However, innovation alone is not adequate to close Greece’s protection gap. To preserve insurability in high-risk areas, structured public-private risk sharing that makes roles explicit across loss layers is required. A practical blueprint is the ECB-EIOPA “Ladder Approach”, where low-to-moderate losses are managed through private insurance, higher losses through reinsurance and capital-market instruments (e.g., catastrophe bonds), and truly extreme tail losses through a PPP anchored in an explicit public backstop, thereby avoiding ad-hoc fiscal interventions and reducing “insurer of last resort” moral hazard.

**Looking ahead, the S-II
review is expected to
strengthen transparency
and supervisory
cooperation.**

Macroeconomic instability reflected in fluctuating inflation, interest rate uncertainty and concerns about public debt sustainability have increasingly become the new normal. These conditions affect financial activities with a strong impact on insurance undertakings, whose business model is inherently based on long-term investments matched against long-term liabilities.

As in the rest of Europe, insurance undertakings in Greece manage the often-conflicting effects of

these macroeconomic shifts. In this environment, investment diversification, strengthened Asset-Liability Management (ALM) practices and adequate liquidity buffers constitute key risk-mitigation tools, in line with the Solvency II (S-II) risk-based framework.

Greek insurance undertakings’ investment portfolios are placed in government bonds, issued by Greece and other Mediterranean countries. A high concentration of investments rated above BBB supports credit quality and diversification across the government debt portfolio. Furthermore, the Supervisory Authority conducts dialogue over strategy addressing macroeconomic volatility, inflation, geopolitical risks, and financial market fluctuations.

Recent market volatility confirms the relevance and resilience of SII for both Greek and European insurance market. Capital requirements (SCR & MCR) capture key risks. Potential procyclicality from market volatility can be mitigated through LTG measures, limiting short-term fluctuations in technical provisions. In Greece, several insurance undertakings use Volatility Adjustment, while the use of other transitional measures is limited.

Forward-looking supervisory approach in Greece is reinforced through the ORSA, where financial risk and combined stress scenarios are analyzed to assess resilience. Insurance undertakings self-assess their solvency position, incorporating adverse macroeconomic scenarios into strategic decisions. In addition, the pan-European stress tests conducted by EIOPA serve as a valuable tool, contributing to identifying vulnerabilities that may require supervisory attention.

Looking ahead, the S-II review is expected to strengthen transparency and supervisory cooperation, particularly in cross-border supervision, supporting the mitigation of systemic risks.

Overall, the S-II review aims to balance solvency requirements with investment capacity, maintaining a prominent level of policyholder protection.



FLORENCE BAILLY

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Insurers: which levers to improve the EU's competitiveness?

According to Mario Draghi's report, the European Union must mobilize nearly €800 billion per year by 2030 to meet its transition needs. The Savings and Investment Union aims to create better financial opportunities for EU citizens and businesses by strengthening the system's ability to channel savings into productive European investments. In this context, household savings represent a strategic lever of sovereignty.

In the European financial ecosystem, the insurance sector is one of the largest pools of private capital, with around €9.5 trillion in assets under management. Insurers have a dual role: a social role in providing financial protection for property, people and their savings through the provision of insurance cover, and a role as long-term institutional investors. The reversal of the production cycle specific to our industry requires a stringent regulatory and prudential framework to guarantee the commitments made to our policyholders. As a result, the insurance sector is particularly stable and resilient.

Within this landscape, institutional investors play a key role and unlock the potential of European household savings by channeling resources into

investments that serve the real and sustainable economy in Europe. For the French market, long-term life insurance products cover insurance-based investment products and retirement products with allocations combining euro funds which include a guarantee and unit-linked funds, depending on the saver's profile. Around €350 billion of CNP Assurances' total portfolio is invested in Europe. Of this amount, 36% are directed towards financing governments and local authorities, while 64% support the financing of European companies (27% in equities, 58% in corporate bonds, and 15% in real estate, infrastructure and private equity). Increasing the share of our diversification assets involves either reviewing the capital cost of these assets or applying a government guarantee mechanism to maintain prudential and financial stability.

SMEs and innovative firms still rely heavily on bank lending, but banks can no longer meet Europe's growing financing needs. Developing a stronger European bond market is therefore essential to help banks refinance loans, spread risks, and expand their lending capacity in the face of rising private and unlisted debt. In this context, securitization represents a major lever. The recent regulatory evolution proposed by the European Commission concerning the reduction of capital costs for securitized assets and due diligence requirements for Simple, Transparent and Standardized securitization transactions, is a positive step. As an insurer and responsible investor, we are interested in diversifying our portfolio with securitized assets by calling on external experts to perform due diligence checks.

Coordinated action by stakeholders will strengthen EU sovereignty and competitiveness.

Along the same lines, the 2024 revision of Solvency II concerning the Long-Term Equity Investment mechanism should increase insurers' ability to invest in riskier equity-type assets without deteriorating their solvency ratios.

However, the effectiveness of these measures also depends on a strong capacity to channel savings towards investments in the eurozone. The Finance Europe label initiative contributes to this channeling, particularly for retirement savings

plans (PER) in France. Restricting the investment universe could push savers towards riskier products outside the eurozone. The introduction of incentives, such as tax breaks, to offset this reduction in the investment universe appears justified and would enhance the attractiveness of long-term insurance products that channel savings within the eurozone.

At the same time, Member States must encourage the emergence of asset-management firms of critical size, able to raise multi-billion-euro funds that meet the needs of digital technologies and DeepTech. The expansion of funds and partnerships with banks or institutions, is a key lever for structuring the innovation-capital financing chain at the pre-IPO stage and for enabling European companies to scale up while staying within the EU. This dynamic is all the more necessary given the continent's clear shortfall in venture and growth capital: The average size of national and European funds remains insufficient to support large-scale fundraising, often leaving foreign investors to step in during advanced growth phases.

Consolidating a genuine innovation-capital market is a key challenge, particularly to finance healthcare, digital technologies, breakthrough innovations and European scale-ups. Financing these actors requires substantial and stable investment capacity, as well as a strong risk appetite. Yet the high-risk profile of scale-ups and prudential constraints limit the ability of institutional investors position themselves, making the pooling of resources and the sharing of risks essential — a need also highlighted by Enrico Letta, who calls for stronger coordination and the prioritization of strategic investments to achieve true European critical mass.



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Support real-economy lending: permit credit insurers within the STS framework

Securitisation frees up bank balance-sheet capacity to support real-economy lending and advance Capital Markets Union objectives. Synthetic securitisation allows banks to manage risk while maintaining client relationships for balance-sheet-intensive portfolios such as residential mortgages and SME loans — precisely the lending that drives long-term economic growth. To maximize this tool, Europe must permit EU-authorized insurers that belong to groups subject to Solvency II-equivalent group supervision to provide credit protection within the Simple, Transparent, and Standardised (STS) framework.

The Case for Insurance-Based Protection

Insurers are natural shock absorbers. Unlike cyclical credit funds, insurers manage long-term, non-correlated risks, such as natural catastrophes, property and casualty. Their credit exposure is not marked-to-market, providing stability when funded investors might retrench.

The data supports this resilience:

- **European Performance:** Since 2016, insurance protection on ~€6 billion of European synthetic tranches has seen zero defaults or payment failures.
- **U.S. Validation:** During the COVID-19 volatility, insurers' share of the U.S. mortgage credit-risk market jumped from 25% to 40% as other investors pulled back. By 2024, they covered \$64 billion of risk referencing \$1.6 trillion in mortgages without a single failure.

The European Commission, Council, and Parliament have all recognised the prudence of insurance-based protection within the STS framework. The debate has moved beyond whether insurers can play this role. The question is whether the framework enables a genuine European market.

Economic Value and Market Depth

Insurers are long-term, liability-driven institutions built to absorb diversified, non-correlated risks. Credit risk is not marked-to-market and does not depend on short-term funding — making insurance protection stable across cycles. Funded investors can be cyclical and market-sensitive; insurers' capacity is anchored in liability structures, providing consistent risk-transfer where it is needed most.

Financial Stability: Structurally Protected

Three hard constraints secure financial stability. First, Solvency II discourages concentration through risk-based capital models. Credit insurance represents around 2% of total insured risk for multiline insurers — providing diversification rather than systemic exposure. Second, the bank leverage ratio caps the capital credit recognisable through SRT, creating a hard prudential ceiling on aggregate volumes. Third, the “cliff-edge” downgrade concern was eliminated when CRR3 entered into force on 1 January 2025, reclassifying Solvency II-regulated insurers as regulated financial-sector entities. Counterparty concentration is further mitigated by syndication across multiple insurers.

Enabling a Real European Market

A functioning STS market requires sufficient participating insurers. Unfortunately, Europe faces a practical constraint: too few European-headquartered insurance groups exist to sustain the necessary scale. If the EU wants European expertise, supervision and governance, it must also allow EU-authorized insurers that belong to

groups subject to Solvency II-equivalent group supervision, with binding parent support, to participate. This mobilises global insurance capacity through EU-regulated entities while keeping oversight firmly within the Union.

The proposed framework represents a prudent step toward sustainable growth and resilience.

Market depth also depends on standard-formula insurers. Most EU insurers operate under the Solvency II standard formula, which is explicitly recognised as prudentially equivalent to internal models. Given the small share of credit insurance in insurers' portfolios, excluding standard formula undertakings would be disproportionate and materially constrain capacity.

Conclusion

Without insurance-based protection, European banks face persistent capital constraints relative to U.S. competitors. The proposed framework represents a prudent step toward sustainable growth and resilience — because risk transfer is firmly capped by prudential rules for both insurers and banks. The safeguards are in place. The question is whether Europe will use them.



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Structural constraints are preventing European insurers from leveraging the regulatory capital released by Solvency II reform

The European Insurance sector occupies a central position in the European economy. With approximately euros 9,5 trillion invested in sovereign bonds, corporate credit and equity markets, insurers are among Europe's largest institutional investors and play a decisive role in financing governments, businesses and infrastructure. Their balance sheets are critical not only for policy holder protection but also for supporting the Union's green transition, digital transformation and strategic investment agendas.

At the same time, the sector is operating in a complex and ever-changing environment. Climate-related losses are increasing, cyber risks are growing, geopolitical fragmentation is creating more uncertainty and macroeconomic volatility continues to affect asset valuations. Against this backdrop, regulatory design becomes a key factor in determining an insurer's ability to contribute to the long-term financing

of the economy while maintaining financial stability.

The revised Solvency II framework, agreed in 2023-2024, is expected to increase insurers' available solvency headroom through a combination of risk margin recalibration, adjustments to the matching adjustment framework, and refinements to the volatility adjustment, thereby reducing non-economic volatility while maintaining the overall prudential architecture. In formal balance sheet terms, insurers now possess greater theoretical capacity to invest. The underlying policy assumption is that a more stable and capital-efficient framework would allow insurers to allocate more resources to productive investment within the European Union. International comparisons, particularly with the situation in the United States, highlight the importance of this issue.

However, the release of regulatory capital does not automatically make European investment more attractive or feasible. Firstly, Structural fragmentation of capital markets, the limited depth of certain asset classes, preference for sovereign debt bonds are binding factors. In addition, the availability of bankable, standardised, long-duration projects capable of absorbing this newly investable capital remains uneven across some European countries. Furthermore, European insurers exhibit a consistent allocation bias towards sovereign bonds, accounting for around 20% of their investments, compared to 6% in the US. Finally, the macro financial environment - particularly the persistence of relatively low interest rates - continues to exert a decisive influence on both solvency metrics and achievable returns.

Therefore, the mobilisation of insurers' balance sheets to meet Europe's long-term financing needs depends not only on prudential calibrations, but also on the interaction between regulatory stability, market integration, the development of the project pipeline, and monetary conditions. Therefore, the question is not only how much regulatory capital has been released, but also whether European markets are deep enough and which monetary regime insurers are expected to operate under in the long term.

However, one question remains: how to address the deep risk aversion of the European saver, which may require a lasting set of appropriate incentives.