

Leveraging the role of insurance in the EU economy

1. Striking the right balance between enabling innovation and safeguarding consumers through fair pricing and real oversight

1.1 Combining technology neutrality with strong governance to keep the human insurer ultimately responsible for AI outcomes

A supervisor drawing on her recent industry experience prior to joining the National Financial Market Authority, emphasised that the supervisory mandate is dual: enabling innovation while preserving technology neutrality, but only where digital innovations safeguard consumers through fair pricing and real oversight. AI allows insurers to develop better products, maintain competitiveness and discover complex risks such as cyber or environmental risks more effectively; without innovation, customers would eventually turn away, and resilience and the business aspect form part of the mandate because Europe would be much worse off without insurance. However, being data-driven and using differential pricing demand careful supervisory oversight to ensure transparency and fair treatment, since data alone should not determine insurance eligibility — clear guidance is needed to prevent discrimination or unjustified exclusion. From a supervisory standpoint, strong governance and controls are expected: regardless of how extensively AI is implemented, model results must be explainable, and the human insurer ultimately remains responsible for those results and must understand how AI arrives at any specific outcome. Supervisors must themselves be fit for the future by building technical competences capable of distinguishing good from bad governance — one of the FMA's main projects, aiming for 360-degree oversight combining different insurance risks for a more sustainable, successful market.

1.2 Facilitating trustworthy AI through FinTech innovation hubs, regulatory sandboxes and supervisory convergence under EIOPA guidance

A representative of a Central Bank agreed that striking a balance between enabling innovation and maintaining customer protection remains a real challenge for supervisors, and described the toolkit deployed by the Bank of Greece to facilitate it. Since 2019, a FinTech innovation hub has acted as a forum where firms — including insurers — discuss innovative products, business models and business cases with the supervisor and receive non-binding guidance on supervisory expectations. Since 2021, a regulatory sandbox has provided a controlled platform allowing undertakings to test products under supervisory protection; uptake has been limited but AI developments are expected to

increase the utility of these tools, which also let supervisors see upcoming developments. On AI specifically, supervisory requirements call for trustworthy systems that are lawful, ethical and robust, both technically and societally. Several elements are essential: human autonomy must be safeguarded through the capacity to intervene at any point in the cycle; the prevention of harm requires that vulnerable groups (children, people with disabilities, the elderly) keep access without unjustified exclusion; fairness implies a right to contest AI decisions and seek effective redress; and explicability ensures procedures are transparent and easily communicated. Prudential and supervisory convergence is key — the whole community faces the same challenges, and convergence in practices under EIOPA guidance is essential.

2. Closing protection gaps in climate and demographic risks through public/private partnerships and global pooling

2.1 Sharing extreme climate risks through robust public/private mechanisms to preserve insurability and the principle of mutualisation

A representative of the industry observed that climate events are becoming more frequent, intense and costly, with losses reaching nearly €300 billion worldwide in 2024, including €40 billion in Europe. The situation calls for political and public responsibility and for strong public/private partnerships: the French national catastrophe (NatCat) scheme is an effective mandatory home insurance system with automatic coverage for natural disasters, and when extreme climate risks are shared between public and private stakeholders, premiums remain affordable and insurability is preserved. Without such mechanisms, grey areas emerge where insurance becomes prohibitively expensive or unavailable. The principle of mutualisation must therefore be protected through public action and through insurers' commitment to maintaining coverage across all territories. An expert added that climate risk is one of the most intense and growing problems everyone will face: globally, less than 50% of losses are insured, and in Europe EIOPA has helped raise attention to the protection gap. Even where insurance is mandatory, as in France since 1983, the growing cost and intensity of natural catastrophes may push coverage costs up sharply and create regional divergences. Thanks to EIOPA, European insurers have accepted the principle of mutualisation of risk and of solidarity, which cannot be realised without participation by the state and local authorities.

2.2 Investing in prevention, adaptation and territorial resilience as reinsurance costs climb

A representative of the industry explained that beyond risk coverage, public/private schemes, prevention funds, risk mitigation measures and adaptation plans are crucial to social stability and territorial resilience. CNP Assurances acts on prudential risk mitigation while financing the transition: clients receive personalised alerts ahead of severe weather events through customer portals (drawing on a partnership with Predict), and the firm participates in a drought initiative with France Assureurs, the CCR and MRN, given that 10 million French homes face high drought exposure by 2050. Through its bancassurance model with La Banque Postale, the firm informs clients about climate risk and enables action through preferential financing, reduced premiums and support for home adaptation. CNP Assurances has €33 billion invested in green assets and supports innovation in energy, renovation and resilience. An expert noted that insurers have evolved from simply calculating premiums on risk toward growing participation in prevention, with many creating subsidiaries to advise clients in exchange for premium reductions. Reinsurance costs have climbed by 50% between 2022 and 2025, making coordination between the state and private companies essential — in France, the CCR takes half of the reinsurance cost. Resilience is decisive: the French state has instituted a special fund for local authorities to accelerate reconstruction in the most exposed zones, helping to avoid mass migration and the decline of local regions.

2.3 Pooling longevity risk globally and bringing clarity to long-term retirement products

A representative of the industry observed that longevity and biometric risks are core expertise areas for life insurers, and that quality of life — not just lifespan — matters: the defined benefit schemes signed in the 1970s might not cover such extended lives. From its global perspective, MetLife pursues two lines of action: providing annuities within a retirement framework (including conversions of defined benefit schemes into longer-term annuities for more reliable income), and longevity reinsurance — similar to non-life pooling, life insurance requires pooling whose size and diversity determine risk mitigation, with global engagement avoiding overreliance on too few reinsurers in any one region. Ongoing discussions with EIOPA and the IAIS are encouraged to mitigate risks expected to crystallise over the next 10 to 20 years. On annuities, definitions and methods differ across geographies; further conversations are needed to make these products consumer-friendly and cost-effective. Recent debates around the Pan-European Personal Pension Product (PEPP) may not have brought enough clarity on cost structures and risk mitigation; hedging against inflation, currency risk and volatility is much more expensive today than two years ago. Clarity and transparency must be brought into the whole ecosystem — insurers, regulators and consumer groups. An expert added that increasing the financial literacy of individual savers matters, since most retail investors prefer government bonds or guaranteed investments — a question of long-term mentality.

3. Mobilising patient capital through Solvency II review, a deeper single market and European scale-up funds

3.1 Using Solvency II capital reliefs and better securitisation to channel investment into bankable long-term projects

An expert explained that the Solvency II reform agreed in 2023–24 is expected to increase available solvency headroom through risk margin recalibration, alterations to the matching adjustment framework and refinements to the volatility adjustment, reducing non-economic volatility while maintaining the prudential architecture and increasing insurers' possibilities to invest in long-term projects. A Commission proposal also seeks better use of securitisation: insurer reserves invested in Special Purpose Vehicles are far lower in Europe than in the US, and the move could improve investment in long-term projects and infrastructure. However, increased Solvency II room is not automatically dedicated to long-term projects: it depends on market dynamics, financial fragmentation, and the availability of bankable, standardised and correctly remunerated projects in Europe. Reports on Next Generation indicate the European market struggles to offer attractive returns versus other jurisdictions. A representative of the industry recalled that the European insurance sector represents half of EU GDP; CNP Assurances, with €314 billion in euro funds and €108 billion in unit-linked products and 85% of assets invested in Europe, is firmly established as patient capital. A supervisor FMA added that capital reliefs in Solvency II should be used properly for the green and digital transformation; a representative of a Central Bank added that capital released through volatility adjustment, risk margin and administrative cost reductions can support sustainable and green investments and the SIU.

3.2 Strengthening cross-border supervision and meaningful proportionality – not deregulation – for a true single market

A regulator noted that cross-border insurance activity is growing significantly and necessitates supervisory coordination. A representative of a Central Bank commented that cross-border activity has grown over 10 years of Solvency II, but improvements are needed in transparency and the elimination of supervisory blind spots: the upcoming Solvency II review will improve cooperation between home and host supervisors, with home supervisors gaining a mandate to share information, and host supervisors strengthened through enhanced joint on-site inspections. EIOPA's mediation function will become more prominent. A supervisor FMA noted that Austria acts both as home supervisor for a large Austrian insurer present in 27 other countries and as host, since the premium volume of non-Austrian insurers operating in Austria exceeds that of domestic insurers — trust, timeliness and effectiveness in colleges are key. Crucially, proportionality is not a call for deregulation but a genuine focus on reducing

operational burden, especially for small, non-complex insurers: real simplification must occur after 15 years of regulation. A representative of the industry reported MetLife Europe's 11 branches operating from Ireland under the single market since 2011 — proof that the model works — but flagged only 60-75% overlap among 11 different sets of conduct rules; using regulation rather than directives would assist convergence, and the FiDA Regulation must not solidify fragmentation. He appealed for the single market for insurance to be discussed as frequently as the banking union — a wish echoed by an expert calling for improving a real single market.

3.3 Reducing the capital cost of risky assets through public-action guarantee mechanisms to finance European champions

A representative of the industry emphasised that, from a prudential perspective, measures reducing the capital cost of risky assets — the guaranty mechanism, the Solvency II revision framework, the long-term equity investment framework — are welcome and allow CNP Assurances to take on more risk while keeping its overall envelope constant. However, these measures alone will not address structural under-investment in

strategic sectors. As highlighted by the Noyer/Kukies report, Europe has a strong innovation ecosystem but lacks funds to support scale-up during capital-intensive phases, so promising companies seek financing outside the EU, weakening European competitiveness. The TB scheme, launched by France in 2019, channels private and institutional savings toward technology investment funds and has mobilised €12.5 billion via 150 approved funds. Beyond such initiatives, the European ecosystem requires further strengthening: there is a lack of asset managers with sufficient scale, ratings and benchmarks focus too much outside the EU, and coordinated action must foster large quality European funds — including European scale-up funds — entrust management to European asset managers, promote European rating agencies and realign benchmarks with the EU's long-term savings needs. The priority is therefore reducing the capital cost of risky assets through guaranty mechanisms with public action, to finance startups and champions. A regulator closed by noting that significant changes require involvement from insurers regarding where they invest, state support for fat tail risk and consumer participation, while the Solvency II review enters into force next year and SIU discussions continue.