EU insurance sector strong but still fragmented

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As the largest institutional investors in the European economy, insurers currently have about €8,500 billion of assets under management.

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Fragmentation due to localised culture

There are many reasons for the fragmented EU markets, according to Catherine Stihler, a British MEP with the Socialists & Democrats group.

Stihler is a member of the economic and financial affairs committee – working on regulation impacting on the insurance industry such as the Solvency II rules, which have reset the capital requirements financial institutions including insurers are required to maintain as a ratio of their riskier investments.

She explained that European insurance markets have traditionally remained national due to factors such as language barriers, cultural differences, the need for local claims

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handling to deal with cross-border redress and also the different legal, regulatory and supervisory rules between member states.

All of these add additional costs to the price of premiums when trading cross-border.

“After-sales service is hugely important to consumers and at present many people are unlikely to take out a policy from a firm based abroad and they are not familiar with,” according to Stihler.

Consumer interests detect the hand of national champions and interests at play too.

The situation with cross-border access to bank accounts illustrates the illusory nature of the financial single market, according to BEUC’s spokesman.

He points to the recently adopted Payment Accounts Directive which will enter into force next year, allowing consumers to open bank accounts in other member states.

“This positive achievement was ultimately considerably undermined because of the pressure exerted by the financial industry,” he said.

The BEUC spokesman explained that the directive will allow banks to require from consumers who wish to open a basic bank account in their territory to show a genuine interest in opening an account in that country.

“The interpretation of genuine interest may depend on each individual bank and would prevent consumers from shopping for better deals across the EU,” he said, explaining that similar vested interests stymie the insurance sector.

Attempts to offer cross-border services

Regulatory changes in the aftermath of the financial crisis, and technological advances, are both factors nudging change to the sector.

Solvency II is only one part of a jigsaw of new regulations coming into place that will affect the sector, strengthening pan-European standards that should encourage cross-border services.

Trilogue negotiations, three-way talks between the European Commission, Parliament and Council, on the Insurance Mediation Directive (IMD2) are currently taking place.

“Part of the aim of IMD2 is to reduce the fragmentation between member states by ensuring common standards,” according to Catherine Stihler.

She believes that despite the many obstacles to cross-border services in the insurance sector, “this is a great opportunity to see an increase in cross-border sales”.

Meanwhile there are moves under way to bring about change on a global level too. The International Association of Insurance Supervisors (IAIS) is developing a common framework to help supervisors cooperate and coordinate more efficiently when supervising international active insurance groups.

Regulatory moves on European and global level

As part of this framework, the IAIS – which works closely with the G20 – is currently developing an international capital standard which to apply to global insurance groups, which it plans to finalise by the end of next year.

Coming on top of European changes, the industry is cautious about these developments.

Insurance Europe warned against rushing these international initiatives without careful consideration of potential unintended consequences.

“It is also vitally important that capital measures are developed for insurance business model and do not introduce artificial volatility into insurers’ balance sheets, thus potentially reducing insurers’ willingness and ability to invest long-term,” according to a statement from the group.

The main factors – including language and culture – which keep the insurance markets largely local cannot be addressed through legislation.

However, Stihler believes a gradual increase in cross-border business can be expected in the future, driven by rising consumer confidence and the development of new technologies.

Consumers lukewarm on cross-border finance, insurance

A key problem facing policymakers and industry analysts looking to the provision of cross-border services in finance is the level of consumer demand.

After all, what is the point of ensuring that a service is available where it is not even wanted?

In this respect the insurance sector offers a mixed picture.

In 2014 the European Consumer Centre in Germany carried out a study on the cross-border insurance market, covering France, Germany, Austria and UK.

The study examined six frequently used insurance products: travel cancellation, liability car insurance, private liability, individual accident, home insurance and life insurance.

The aim was to check whether consumers can make online purchases of insurance products with a provider established in another country.

Of the 567 insurers approached, only three offered insurance to consumers...
residing in another member state.

This determination of the low level of cross-border service offering backed up existing statistics determining consumer demand.

In a survey conducted for the Commission in 2007 by Ipsos, 29,000 interviews with consumers were conducted across the then 25 EU member states.

**Consumer interest in insurance across borders is low**

Insurance services were rated the second best of 11 sectors with the lowest level of dissatisfied customers.

EU consumers believed overwhelmingly (88%) that there was enough competition in the insurance markets. Fewer than half, 37%, even thought it possible to purchase services from an insurer outside their country.

On the face of it then, this is a sector in which few cross-border sales are demanded or required.

If consumers prefer to buy insurance locally, there are some good reasons for this. Apart from the obvious barriers to cross-border sales posed by language and culture, the need for post-sale services, such as repair work or itemisation of loss suggest practical reasons for proximity between consumer and insurer.

“After-sales service is hugely important to consumers and at present many people are unlikely to take out a policy from a firm based abroad and they are not familiar with,” according to British MEP Catherine Stihler (Socialists & Democrats). Stihler is a member of the European Parliament’s committee for economic and financial affairs.

Consumer demand is not straightforward to gauge however, and the wide disparity of prices for financial products including insurance across EU countries is an indicator that market fragmentation is not working in their favour, according to European Consumers group BEUC.

**Design of online forms can freeze cross-border activity**

The consumer group believes that in a more integrated market, prices across member states should converge.

“It is to some extent a chicken-and-egg discussion whether demand generates and stimulates supply or vice versa, whether demand adapts to the existing supply of products and services,” according to a BEUC spokesman.

He illustrated the point from another sector: saying that the demand for smartphones was largely created by the phones themselves rather than demand.

“When it comes to the non-existing cross-border market for financial services and barriers for taking out such products in another market, it would be a misguided approach to only focus on the demand side,” he said, adding: “The main issue is that consumers are not aware of the wide diversity of prices for similar products in other member states; they have no information on alternative products that could better meet their needs.”

Consumer awareness is to some extent reinforced by business practices.

The Commission’s IPSOS study suggested that there are numerous design obstacles preventing consumers from shopping on-line for insurance and other financial services in the EU.

For example, online order forms are prefilled and consumers cannot choose their country of residence, or user accounts must be created to conclude the contract.

“Consumer awareness of their rights and protection needs to be enhanced,” according to the BEUC spokesman.

This is not something that can be legislated, however, and the dynamic of consumer awareness is likely to evolve with a combination of technological advance and regulatory change.

As online financial services increase in popularity, so the desire for more offerings is likely to grow.
European insurers’ global reach challenged by cyber threat

Europe plays a leading role in the global insurance business. But maintaining this position will depend on its ability to respond to emerging threats in the digital economy, analysts warn.

Insurers are Europe’s largest institutional investors, and in 2013 had over €8,500 billion’s worth of assets under management, according to Insurance Europe, an industry federation.

Equivalent to 60% of the entire Gross Domestic Product (GDP) of the EU, it is unsurprising that the sector claims to be relevant to the wider economy.

“Insurers also contribute directly to important infrastructure projects, such as bridges, hospitals and new housing,” according to the group’s latest report on the sector’s financial impact, published in March.

Juncker investment plan

While these do not make up a large percentage of insurers’ investments, “they are certainly an asset class that could be suitable for more investments in the future,” the report adds.

Such infrastructure projects make up the lion’s share of the Juncker Investment Plan proposals from member states, showing how relevant an investor the sector could be.

The Juncker Plan is designed to kick start the flagging eurozone and alleviate Europe’s youth unemployment crisis.

Insurers hold approximately 25% of all European government bonds and approximately 21% of European corporate bonds, as well as a significant percentage of all listed equities.

The insurance business is also relatively insulated from the crisis, since premiums continue to flow in, enabling the sector to continue its investments.

“It also enables them to buy suitable assets that others need to sell, which in turn helps to kick-start recovery. In this way, insurers help to reduce volatility in the financial markets,” according to Insurance Europe’s report.

Digitisation: A threat and an opportunity

But the changing nature of the financial services industry, and the relentless onset of digitised services, is challenging the insurance industry, revolutionising not only the way people buy insurance products, but also the risk environment that the sector exists to protect.

Cyber-attacks are increasing in number, sophistication, scope and impact, and represent the most salient non-traditional security issue on the global agenda.

Companies in almost all sectors are exposed to cyber threats, with the potential for causing enormous damage in terms of reputation and physical losses, liabilities, and regulatory costs.

There is an inadequate global cyber governance framework, and since cyber-attacks do not respect national borders, a comprehensive global cyber security governance is lacking.

This creates a gaping need for a global cyber governance framework, and this will represent a clear opportunity for the insurance industry.

“To remain competitive going forward there is a need for innovation and there is also the cyber liability market which has yet to be fully explored with sales currently very low,” according to British MEP Catherine Stihler MEP (Socialists & Democrats).

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The development of rules to deal with the cyber threat, and the role that Europe's risk protection industry play in framing these, will play a critical role in determining the extent to which the insurance sector can maintain its current leading role on the European and global stage.

Global reach

How successful insurers are in dealing with cyber risks could define tomorrow's insurance market and determine whether European companies maintain the leading global role they currently enjoy.

"Europe has 35% of the global insurance market, making it the largest in the world and a huge contributor to GDP," according to British MEP Catherine Stihler MEP (Socialists & Democrats).

"The closest global competitor is the US, and the main difference between the two markets, is that the US is primarily focused on domestic sales. As a result (Americans) don't have the same obstacles we do in Europe," she added, alluding to the still patchy EU single market.

But Europe's market position is threatened by lawmakers, according to some in the industry who believe that new rules introduced since the financial crisis could have a freezing effect.

Detractors claim that the effect of the European Solvency II rules is to treat insurers as if they invest like traders and are faced with the same risk as traders.

"Treating insurers like traders exaggerates the actual risks involved in long-term investing," according to Insurance Europe's recent report.

"This will create unnecessary costs and problems for insurance companies wanting to offer long-term products to policyholders where they have to invest long-term to match their promises to policyholders," the report said.

Insurers lead moves to include financial services in TTIP

Insurers from the US and EU are amongst leading backers of a financial services chapter within the Transatlantic Trade & Investment Partnership (TTIP), although the US remains officially opposed.

European negotiators meeting this week in New York for the ninth round of TTIP negotiations have repeated requests to include a financial services chapter within the comprehensive trade deal.

The US remains reluctant, but the position of its insurance sector reinforces the impression that US opposition to financial services in TTIP emanates from regulators rather than industry.

For its part, the EU is pushing for the inclusion of financial services as, in the European Commission's view, "Financial stability is not served by a fragmented regulatory approach, inconsistent rules and low levels of co-operation."

Cooperation between the US and the EU on financial services regulation is nothing new. The Financial Markets Regulatory Dialogue (FMRD) provides a forum for discussing rules affecting insurance, among other things.

European insurance industry favours strong TTIP

TTIP could take cooperation one step further, going so far as to offer mutual reliance on the rules of the other bloc's regulatory authorities.

Insurance is a highly regulated sector and insurers frequently find themselves subject to costly duplicative regulatory requirements.

Insurance Europe, the body representing the industry, believes that the inclusion of financial services in the negotiations has the potential to stimulate economic growth and job creation on both sides of the Atlantic.

"We encourage the EU and US to work towards full market access and national treatment for the insurance sector," the group said in a position paper on TTIP published in December last year.

The group strongly welcomed a European Commission proposal to establish a framework for regulatory cooperation in financial services.

US insurers stand to gain from TTIP

Support for the initiative has come from the other side of the Atlantic as well.

The insurance services sector accounted for about 2.9% of total US GDP in 2011, according to a report on the potential impact of TTIP published last year by the UK embassy in Washington.

In 2011, the US exported $3.5 billion worth of insurance services to the EU. Nearly $1 out of every $4 in US insurance services exports went to the EU in 2011.

A variety of non-tariff measures restrict US insurance services exporters' access to the EU market, according to the report, and these are equivalent to a 10.8% tariff on US exports.

"Implementation of an ambitious TTIP by 2027 is expected to increase US insurance services exports to the EU by $340 million annually when fully implemented, a rise of almost 10% from 2011 levels. The vast majority of these gains would result from the non-tariff measures' reductions," the report found.

Little wonder that the insurance sector on both sides of the Atlantic would welcome the inclusion of a financial services chapter within the trade deal. This was underscored by a statement issued by business
Insurance tsar: Deliver on pensions to instill confidence in single market

A pan-European pension markets product would help spur more cross-border economic activity and instill confidence in the single market amongst consumers, says Gabriel Bernardino.

Gabriel Bernardino, a Portuguese citizen, is the chairman of the European Insurance and Occupational Pensions Authority (EIOPA), an independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA monitors and identifies trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors. He answered questions from EurActiv’s Jeremy Fleming.

Is it your impression that the markets for insurance in the EU remain fragmented and subject to the existence of national champions?

Although Europe is making progress, the internal market for insurance is still insufficiently integrated. A true single market, also for insurance, is one of the fundamental underpinnings of Europe. And with good reason: it makes the economy stronger, creates jobs, brings better choices for consumers through more competition, and overall increases the welfare for its citizens.

However, the European insurance market is and will keep on growing. If
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we look at the cross-border groups for which EIOPA has a so-called college of supervisors in place, we count almost 100 of them, and there are more cross-border operating groups.

Let’s be frank, there are some 5,000 insurance companies in Europe, many of them quite small and providing services to national, sometimes even local target groups. So, not each and every insurer has to start working cross-border. There will always be a role for those small national champions. On the other hand, we should keep in mind that the bigger national champions are often also European champions.

Let me give some more figures to show that European insurance have already advanced to becoming a real international business. Cross-border insurance – measured as the foreign share in total gross written premium (GWP) – appears to be persuasive at 36%, from which 29% is from other EU countries.

Moving from country to individual firm level, the results indicate that the 25 largest European insurers are very international with 32% of GWP in the rest of Europe and 27% in the rest of the world. Banking is in fact far less international.

But this is not to say that more could not be done – including building a single market for consumers and reducing costs for insurers working in different EU markets. For instance, more can be done in the area of consumer protection measures, to achieve much better consistency in approach across EU markets.

**How would you rate the European insurance sector compared with global competition?**

I like to emphasise that the European insurance sector is an important and strong sector. Insurers employ almost one million people, and invest over €8500 billion in the economy.

**Competition, national, European** and global, is to be welcomed, because it ensures competitive (better, innovative) products and (more risk adjusted) prices.

I believe that European insurers are very well-positioned for any competition. They are able to compete also in the global arena. Comparing the main regions, it appears that the large European insurers are far more international (at 60%), than their American (at 22%) and Asian (at 4%) counterparts. It is therefore no surprise that five out of the nine global systemically important insurers are from Europe, while only three are from the US and one from China.

**What attempts should or could be made to make the market more cross-border? Is there any consumer demand for such services?**

The financial crisis showed two major problems. Firstly, the lack of a strong and integrated European supervision, which is necessary to ensure a true level playing field and would reflect the increasing integration of financial markets in Europe. The danger is that the weak links in the chain weaken the whole chain.

And we saw a breakdown in consumer trust, because consumers lost money and lost faith too in the supervision of financial services. The two most important concrete steps to be taken to achieve an integrated European insurance market are a single rule book, combined with consistent supervision, and the same high levels of consumer protection all over Europe.

The concept of ‘cross-border’ can only work if protection is consistent between member states. For an individual to trust his or her contributions to a provider based in another European country, he or she has to have confidence that there are consistent and high levels of protection, including a high level of transparency and relevance of the information provided. This is a crucial point: strong consumer protection across all jurisdictions is I believe a precondition for a flourishing and integrated single market.

For the EIOPA consumer, protection is the most important objective. Our work in this area has two main dimensions. We ensure that undertakings are soundly managed and have the money to fulfill the commitments made to their customers. And we work to ensure the right contracts are sold to the right people. Currently, we are mainly working on ensuring a paradigm shift towards much better transparency for consumers, reinforced fairness in selling practices, and product governance and suitability.

I believe that a great opportunity to further develop the European insurance market will be the introduction of a truly European personal pension product. In personal pensions, we are still facing a fragmented market with great diversity in the regulatory framework and no European approach at all. This is not the best for the European citizen, as great potential economies of scale that could be achieved across the whole EU are not realised. And some citizens in some jurisdictions are poorly served, with poor choices. This is in a context where we need to better mobilise savings for growth, and where individual citizens increasingly need to take more responsibility for their own retirement planning. I believe we face therefore a great opportunity.

But we need to seize that opportunity. We need a strong and quality pension product that can be trusted, that can be sold throughout the EU to citizens of all kinds.

This will help to achieve a critical mass to decrease costs, to deliver simpler products, with transparent fee structures, to avoid conflicts of interest in selling practices and to provide good value for money for consumers.

Overall, the EU economy could benefit from such personal pensions becoming another main driver for sustainable long term investments, contributing to the Capital Markets Union, needed for speeding up economic growth and the creation of jobs, the main goals of the European Commission.

**EurActiv.com | Jeremy Fleming**
Commission to put financial services, insurance under spotlight

The EU executive is set to launch a broad consultation on the state of the internal market for financial services to gauge how fragmented it is and what can be done to encourage more cross-border activity in the insurance sector.

Final preparations are still under way and the format of the consultation has not yet been agreed internally – although a so-called “green paper” is likely – an EU official told EurActiv.

It is likely a consultation will be launched during the first half of this year, but this is also yet to be confirmed.

The survey will impact on a number of sectors, such as insurance.

“The internal market for retail insurance products is still fragmented, with obstacles impeding cross-border activities for insurance providers or consumers,” the official said.

The Commission’s statistical data shows that cross-border sales represent only a very small percentage of gross premiums written in the EU.

Different prices for the same products

“Most consumers only buy insurance products in the member state where they live, even though products in other member states may be cheaper and better suited to them,” the official added.

The EU executive has identified price differences on almost identical products – such as car insurance or travel insurance – in different member states.

“There are also issues around geographical limitations on insurance products in terms of coverage, validity and availability,” according to the official.

Insurance groups say that risk differentials explain pricing variations in their products.

“Motor insurance premiums differ not only between member states, but also within member states,” Thomas Ilka, the executive board member responsible for European and international affairs with the Berlin-based German Insurance Association (GDV) told EurActiv.

“This is due to the fact that risks are different from region to region and, when it comes to cross-border situations, the civil laws ruling liability and damage compensation are not the same in the Member States,” Ilka added.

In an interview with EurActiv last week (24 April) Gabriel Bernardino, the chairman of the European Insurance and Occupational Pensions Authority (EIOPA), described the internal market for insurance as “still insufficiently integrated”.

EIOPA – an independent advisory body to the European Parliament, the Council and the Commission – monitors and identifies trends, potential risks and vulnerabilities stemming from the micro-prudential level, across borders and across sectors.

“The concept of ‘cross-border’ can only work if protection is consistent between member states,” Bernardino said in the interview, explaining: “This is a crucial point: strong consumer protection across all jurisdictions is I believe a precondition for a flourishing and integrated single market.”

The aim of the consultation will be “to get a clearer picture of the fragmentation of markets, the causes for the low cross-border business, consumer expectations and consequences for competition and consumer protection,” the official said.

On the basis of the gathered evidence the Commission will decide “what should or could help the EU insurance market become more cross-border,” he explained.

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