German Insurance Association

REGULATORY SIMPLIFICATION

Maintaining Europe’s Competitive Edge in Insurance and Beyond

Europe is home to world leading insurers and reinsurers. The world’s largest insurance group and two of the largest reinsurance groups on the planet are based in Germany. Overall, the EU (re)insurance environment provides for excellence and leadership in managing and transforming existing and future risks of our economy and society. Enhancing the leading role of the EU insurance industry to the benefit of EU citizens and businesses, Europe must strengthen its competitive edge to keep abreast with the US and China as well as upcoming, self-confident emerging countries such as India.

The strategic importance of the sector for Europe’s competitiveness more generally is rooted in its unique role in providing cover for the increasing risks that households and businesses face as well as in financing the real economy as the largest institutional investors in Europe. Fostering the position of the global players based in Europe and strengthening the position of smaller insurers must therefore be a key part of Europe’s wider competitiveness agenda.

An improved, i.e., streamlined regulatory framework would serve as an important enabling factor for insurers and reinsurers to compete at the global stage and further expand their support for the European economy. Mario Draghi correctly identified excessive regulatory and administrative burdens as a major obstacle the competitiveness of EU companies compared to other parts of the world. The insurance sector is no exception in this regard: Every Euro that is spent on meeting such requirements cannot be invested or used to provide additional cover.

The roadmap outlined below provides 17 necessary steps to streamline the regulatory framework for (re)insurers. However, regulatory simplification is just one dimension of a comprehensive programme needed to maintain Europe’s competitive edge in insurance and beyond. It is equally important that the Savings and Investments Union recognizes the sector’s strategic role. Prudential rules should enable insurers to compete globally, and the industry must have access to the data and technology necessary for innovation and improved efficiency. Additionally, systemic risks should be addressed in partnership with the sector.

Gesamtverband der Deutschen Versicherungswirtschaft e. V.
German Insurance Association
Wilhelmstraße 43 / 43 G, 10117 Berlin
Postfach 08 02 64, D-10002 Berlin
Phone: +49 30 2020-5000 · Fax: +49 30 2020-6000
Lobbyregister-No R000774

Rue du Champ de Mars 23, B-1050 Brussels
Phone: +32 2 28247-30 · Fax: +49 30 2020-6140
ID-number 6437280268-55
www.gdv.de

Contact
European and International Affairs

E-Mail
bruessel@gdv.de

Insurers keep European Businesses Competitive on the Global Stage

The availability of insurance cover is a precondition for all economic sectors to manage and mitigate the growing risks their face. Risk-taking is necessary for businesses to innovate, and insurers enable them to do so. Thus, Europe will only succeed in creating an economic future based on growth and innovation if the insurance and reinsurance sector can continue to play its role as a key facilitator.

A vital and effective insurance and reinsurance sector is important for the competitiveness of EU businesses at global level. The sector's commitment to Europe's economy and society is proven by a strong track record: more than 70% of the investments of German primary insurers stay within the Eurozone.
Insurers' investments already make a significant contribution to the financing of the European economy and to the EU's growth and resilience. With total assets of EUR 1.9 trillion at the end of 2023, German primary insurers and reinsurers are in a unique position to invest at a very large scale and, based on their business model, over the long term.

Not only is the insurance sector an important lender to government. At the same time, German insurers fund business activity and infrastructure, e.g., corporate (non-financial) fixed-income investments amount to approx. € 291 bn, infrastructure investments to € 100 bn, investments in equities to € 99 bn and investments in Venture Capital stand at € 8 bn.

A competitive insurance and reinsurance sector could also improve access to financing for small and medium-sized enterprises (SMEs). For example, the promissory note loan (German *Schuldscheindarlehen*), which is already being used by companies from other EU countries (e.g. France, Austria) to finance their growth, is a simple, cost-effective, established private debt financing tool.

The GDV provides credit guidelines that briefly summarise the financing requirements for insurers that have been agreed with the financial supervisory authority BaFin and enable quick and uncomplicated lending to companies in practice. As part of the Savings and Investments Union, the use of instruments like the promissory note loan should be further expanded across Europe.

Roadmap for a Streamlined Regulatory Framework for the Insurance & Reinsurance Sector

The following key adjustments to sustainability regulation, the rules for SME insurers, the supervisory framework, as well as tax and distribution law are necessary to enable European insurers and reinsurers to compete globally. The aim should be to increase efficiency in the regulatory framework.

Improve Sustainability Regulation

The German insurance industry remains strongly committed to supporting the green transition of the EU economy, both as providers of risk coverage and as major institutional investors. Insurers and reinsurers – perhaps more than any other sector – already deal with the effects of climate change on a day-to-day basis. We are convinced that an effective sustainable finance framework is necessary to accelerate the transition to a sustainable economy.

The sheer volume, the level of granularity and potential overlaps of the individual frameworks developed over the last 5 years, however, are putting the competitiveness of Europe's world-leading insurance industry at risk.

1. CSRD – Evaluation phase and strategic shift at EFRAG

We propose stopping the further development of sustainability reporting standards, meaning that the mandate for EFRAG to deliver sector-specific standards by June 2026 should be removed. Instead, the focus should be on clarifying existing requirements in the sector-agnostic ESRS, as ambiguities can lead to inefficient reporting and weaken sustainability reports. Many companies are already facing significant challenges with implementing ESRS (Set 1). Clear, concise, and practical support through concretisation and practice-oriented interpretations is urgently needed. These clarifications should – unlike previous EFRAG Implementation Guidance – be as clear and concise as possible. To this end, the Commission should provide EFRAG with a clear mandate to deliver such support.

2. CSRD – Quick-fix for immediate streamlining of the existing reporting standards

In addition, the Commission should aim to reduce the scope of reporting requirements under the current ESRS (Set 1) by removing, simplifying, and focusing on decision-critical data. This would provide immediate relief to companies and achieve a 25% reduction in bureaucratic burdens at least. The recently finalised Joint ESG data catalogue for large companies by the BdB, GDV and VÖB provides a practical example on the necessary data for investment decisions and can be taken as a reference for simplification. In the first years, reporting should focus on climate change-related information vital for sustainable transformation, while ensuring the data is both comparable and reliable.

Value chain reporting should focus on areas where companies have direct impact. In downstream reporting, a clear distinction should be made between areas which insurers can

control and areas which can only be impacted by changing customer behaviour.

3. SFDR – Delete company-related data from the PAI statement and simplify information requirements for products advertised as sustainable

Under the Sustainable Finance Disclosure Regulation (SFDR), financial market participants have been obliged since 2023 to publish a statement on significant adverse sustainability impacts (Principal Adverse Impact, PAI) at company level on their website. This PAI statement must be updated annually. However, it attracts little interest from (retail) investors. In addition, the PAI indicators must also be published in the CSRD report. This double reporting and the risk of information overload for investors should be reduced. To this end, the PAI statement with the company-related information should be separated from SFDR. The PAI statement should be part of the CSRD report and reduced to the most important indicators. This would eliminate the need for disclosures under Art. 3, 4, 5 of the SFDR and reduce the burden on financial market participants.

The standardised product information sheets specified in the SFDR should be simplified and replaced by user-friendly ESG information that only contains absolute core statements for consumers. For further information, it should be possible to refer to the corresponding product information description on the product issuer's website.

4. Taxonomy Regulation – Limit reporting to important key figures

According to Article 8 of the Taxonomy Regulation, companies must indicate the extent to which their activities are taxonomy-aligned. Insurers must collect a large number of key figures for their investments and present them at portfolio level. This involves collecting a lot of information with little relevance for investors, customers, or other stakeholders. The focus should be placed on key indicators that offer added value for managing the transformation.

For example, the key indicator ‘taxonomy-aligned capital expenditure (CapEx)’ is useful as it provides information on the sustainable orientation of a company. As part of a broad stakeholder dialogue, the key indicators that offer significant added value to the various interest groups should be identified. The aim should be to significantly reduce the number of key figures to be reported. The specifications for these key indicators should be unambiguous, understandable and appropriate. In addition, the key indicators should also be comparable to add value for a broad set of stakeholders.

Strengthen Proportionality for SME Insurers

Current proportionality frameworks are not sufficiently tailored to the specifics of the insurance sector. This leads to very small insurance undertakings being subject to the same requirements as global players in the real economy – an imbalance that must urgently be addressed.

5. Define size categories for financial entities in the Accounting Directive

Horizontal EU regulations, such as the CSRD, often use the size categories of the Accounting Directive to determine the scope. Companies no longer count as SMEs but as large companies if they exceed two of the following three criteria: Turnover > EUR 50 million; balance sheet total > EUR 25 million; employees > 250. The criteria are only suitable for SME insurers to a limited extent, as they have a higher balance sheet and turnover scaling in relation to the number of employees than companies in the real economy. As a result, insurance companies can be classified as ‘large companies’ even though some of them have far fewer than 50 employees. These companies should not have to fulfil the same requirements as international groups in the real economy. Financial companies should therefore have to fulfil all three characteristics to be classified in the relevant size classes under the Accounting Directive. Insurers with fewer than 250 employees would then no longer be categorised as large companies, but as SMEs. This would exempt many SME insurers, for example, from the CSRD.

6. Remove SMEs and group subsidiaries from the definition of public interest entities

The Public Interest Entities (PIE) category was introduced in 2013 in response to the 2008/2009 banking crisis. Regardless of their size, market relevance and capital market orientation, all insurers that fall under Solvency II are categorised as PIEs. In the GDV's view, many SME insurers are not of public interest due to their activity, size or low market share and should therefore be excluded from the PIE categorisation. The general application of the PIE definition should be limited to entities whose transferable securities are admitted to trading on a regulated market, as these are really of public interest. The Solvency II supervisory framework includes SMEs and non-capital-market-oriented companies and is more than sufficient. In addition, Member States would still have the option of specifically categorising certain companies as PIEs. With the abolition of the blanket PIE classification for SMEs, stricter requirements for external auditor rotation or the documentation-intensive differentiation from non-audit services by the auditor would no longer apply. In addition, in capital market-oriented insurance groups, only the group parent company should be classified as a PIE in order to prevent multiple regulation at different group levels.

7. Enable proportional simplifications for more SME insurers in Solvency II

The review of the Solvency II Directive provides for a package of automatic proportionality measures for so-called small and non-complex undertakings (SNCUs). In addition, companies that do not fulfil the criteria as SNCUs will be able to apply individually to the supervisory authority for certain proportionality measures. The changes are a step in the right direction. However, only a few German SME insurers will qualify as SNCUs, as the relevant

criteria are too restrictive for the German market. Until the criteria for SNCUs are adjusted to include a substantial share of the German market, straightforward and simple procedures for non-SNCUs to obtain supervisory approval to use individual proportionality measures are urgently needed. EIOPA's complex and burdensome proposals in this regard should be rejected in favor of suitable quantitative thresholds combined with a supervisory judgement based on the risk profile of an undertaking.

8. Streamline the approaches for SME simplifications in other Directives

There are different approaches in European Directives as to how proportional simplifications are made possible for SMEs. As a result, it is sometimes difficult for companies to understand what simplifications exist for them. Furthermore, there are regulations that allow no or only a few proportional simplifications for SMEs. We therefore propose evaluating the approaches for SME simplifications in horizontal regulations. The next step should be to streamline the approaches as far as possible. As a starting point, we recommend a suitable definition of size classes that differentiates between companies from the real and financial economy (see measure 5). Bundles of automatic simplifications should be put together for these size categories. Creating a new category of small mid-caps could also be helpful in this regard. The relevant criteria should not only target the real economy but be designed in a way that allows a sufficient number of insurers to benefit as well.

Streamline Supervisory Law

9. No overlapping mandatory plans on sustainability risks

Insurance companies are obliged under Solvency II to conduct comprehensive risk management that already includes ESG risks. As part of the Own Risk and Solvency Assessment (ORSA), for example, the analysis of long-term climate change scenarios is mandatory. The added value of an additional obligation to draw up sustainability risk plans for dealing with sustainability risks is not clear. This requirement also creates overlaps with the transition plans that insurers within the scope of the CSDDD must draw up, and supervisors have previously explained that these plans are not necessary to ensure proper supervision of insurers' handling of climate risks.

10. Abolish existing Solvency and Financial Condition Report (SFCR), retain QRT reporting

Insurers must inform the public about their solvency and financial position annually in a comprehensive Solvency and Financial Condition Report (SFCR). The report is unsuitable for consumers due to its length and depth of detail (information overload). One indicator of the low added value of the SFCR is the very low number of downloads, with an average of nine downloads per month. Professional users access almost exclusively the publicly available quantitative data in the so-called Quantitative Reporting Templates (QRTs). The SFCR should therefore be completely removed. A requirement to provide information on the solvency ratio on the company website is adequate. The obligation to publish the QRTs for professional users should be maintained. Static content of the SFCR (e.g., corporate

structure), which remains stable over extended periods, can be consolidated and published in a static high-level report. The report can be updated by section in the event of significant changes.

11. Streamline supervisory reporting wherever possible

Simplification efforts should prioritise core objectives, avoid duplication (respecting the "once only" principle), including redundancies with other accounting requirements and related (national) reporting obligations, and focus on materiality. Reporting for the fourth quarter should be abolished, as these reports offer limited value – especially for smaller companies – due to tight deadlines, simplifications, and low informational value. Instead, the focus should shift to the annual report with validated data, which follows just a few weeks later. Furthermore, an optional exemption from the reporting requirement for the Regular Supervisory Report (RSR) or the Own Risk and Solvency Assessment (ORSA) should be created if one of the reports already fulfils the supervisory information requirements.

12. Halve the Solvency II standard formula, delete immaterial risk modules

The standard formula for calculating the Solvency Capital Requirement (SCR) is divided into the so-called risk modules. However, many individual risk modules have a minimal impact on the SCR. Examples of non-material modules include concentration risk and non-life lapse risk. Overall, the number of risk modules in the standard formula should be reduced by 50%.

13. Abolish regular EIOPA stress tests

The EIOPA stress tests (since 2011) have become obsolete with the introduction of Solvency II (since 2016). The calculation of the solvency capital requirement is already based on the analysis of numerous individual stress scenarios. Insurers report these results in their extensive regular annual and quarterly reporting. Hence, supervisory authorities already have access to comprehensive company data. The EIOPA stress tests therefore do not create any additional knowledge. Furthermore, supervisory authorities have the option of carrying out special queries if additional data is required. Thus, the massive effort required to carry out the additional calculations is not proportionate. The EIOPA stress tests should therefore be abolished.

Declutter Tax Law

14. Reduce reporting requirements, in particular double reporting

In recent years, there has been a massive expansion of reporting requirements in the area of tax law. Their fulfilment now accounts for a large part of the work in the tax departments of insurance companies. For example, companies must report cross-border tax arrangements (although these are perfectly legal and, in many cases, already widely known) and report annually in detail on their tax situation in the individual countries (although much of this information is already available in the annual reports). With the so-called country-by-country reporting, this obligation exists not only vis-à-vis the tax authorities (so-called internal country-by-country reporting), but in a largely identical manner, although with differences in detail, also publicly (public country-by-country reporting). In addition, there are various reporting requirements in relation to insurers' customers, such as the reporting of financial accounts based on the Common Reporting Standard. Existing defensive measures and reporting requirements can also be significantly reduced, especially for companies that are subject to the new global minimum tax regulations, as redundancies often arise (for example regarding the Anti-Tax Avoidance Directive [ATAD]). In addition, the intended introduction of a uniform corporate tax law in the European Union (BEFIT Directive) should align both the scope of application and the tax base with the Minimum Taxation Directive as far as possible in order to avoid double reporting.

15. Better weigh up the costs and benefits of new tax laws

One of the hallmarks of good legislation is that the benefits of the law outweigh the costs of implementation and compliance. The cost-benefit ratio is no longer balanced, particularly in the area of allegedly combating abuse in tax law. In our view, the hoped-for additional tax revenue and information gains from new reporting and abuse regulations are often overestimated and at the same time, the implementation and compliance costs for both taxpayers and the tax authorities are underestimated. A good example of this is the reporting requirements for cross-border tax arrangements (DAC 6). The additional information gained for the tax authorities and the tax legislator through the reports received is very low, whereas the implementation costs for taxpayers were and are considerable. With the global minimum taxation, an entirely new and extremely complex tax regime was introduced, from which, however, only minor additional tax revenues are to be expected for Germany. What all these measures also have in common is that they place a particular burden on those taxpayers who fully comply with their tax declaration and payment obligations anyway, whereas the very few dishonest taxpayers are not deterred from their activities by ever more reporting and abuse measures, but only by increased control measures.

New laws should therefore take compliance costs into account to a greater extent than in the past and should also be regularly evaluated in terms of costs and benefits. It would be an important step here to adopt EU measures (Directives, Regulations, etc.) with a sunset clause or comparable mechanisms in future so that they are not de facto largely set in stone permanently due to the unanimity principle that applies in tax law. The global minimum taxation in particular offers considerable potential for simplification and reducing bureaucracy, which should be consistently exploited in future revisions of the Directive.

Avoid Unnecessary Burdens in Distribution Law

16. Do not create unnecessary administrative burdens through the Retail Investment Strategy

For the EU Retail Investment Strategy (RIS) to achieve its objective of boosting retail participation in capital markets, it needs to make financial advice more accessible. Therefore, any provision in the current proposals that increases the length and complexity of the advice process without added value for consumers should be removed. The upcoming trilogue negotiations need to be used to streamline the many overlapping and complex requirements introduced by the co-legislators for the advice and the product manufacturing processes. This applies in particular to the provisions on inducements (e.g. overarching principles, best interest test, inducement test, disclosure) and value for money (e.g. European benchmarks, peer grouping). Special attention must also be paid to the reporting obligations introduced in the RIS. For instance, it would be helpful to limit the reporting by insurers to supervisory authorities to the data that is either already provided (e.g. within Solvency II Templates) or publicly available (e.g. via the product manufacturers' website) or that will be transmitted by the product manufacturer to the European Single Access Point (ESAP).Next to these issues, there are many additional provisions that should be streamlined or clarified including the provisions on the revised annual statement, reporting on marketing communications, professional training in IDD as well as MIFID, and consumer information under IDD and PRIIPs. Finally, it will be key to limit empowerments for Level 2 under RIS to the strict necessary minimum to avoid that regulatory complexity is added at a later stage.

Design Proportionate Rules on Financial Data Access

17. Use FIDA to enable innovation while avoiding unnecessary burdens on businesses

A modern data economy in the European financial sector that fosters innovation, and competition can be a significant step forward in improving consumer access to financial data. However, we believe that the current state of negotiations on FIDA does not fulfil this potential. To achieve FIDA's goals in a reliable and secure manner, it is essential that: (i) implementation is carried out gradually by product categories, (ii) the definition of data is limited, (iii) the scope is restricted, (iv) the extent of data use perimeter remains proportionate, and (v) no data sharing occurs outside the established schemes.

At the same time, market participants would face substantial investments, such as building systems for data exchange, customer dashboards, and interfaces for clients and third parties. These efforts would tie up valuable resources needed for other critical transformations, particularly for DORA. The technical implementation alone could push small and medium-sized enterprises to their limits. FIDA must be designed to be proportionate and flexible to avoid unnecessary burdens on businesses while enabling innovation. Therefore, the security and reliability of financial service providers must take precedence over speed.

Conclusion

Commission President von der Leyen recently highlighted that we have entered a new era of harsh geostrategic competition, and the Competitiveness Compass draws the right conclusion: Europe must act now to regain its competitiveness and secure its prosperity. This project will only succeed if it includes a comprehensive programme to maintain Europe's competitive edge in insurance and beyond.

Three of the measures outlined in this paper concern ongoing procedures and can therefore be implemented immediately:

- → Enable proportional simplifications for more SME insurers in Solvency II
- → Do not create unnecessary administrative burdens through the Retail Investment Strategy
- → Use FIDA to enable innovation while avoiding unnecessary burdens on businesses

The upcoming first Omnibus Simplification Package on sustainability reporting is an ideal opportunity to implement the following steps:

- → CSRD: Evaluation phase and strategic shift at EFRAG
- → CSRD: Quick-fix for immediate streamlining of the existing reporting standards
- → Taxonomy Regulation: Limit reporting to important key figures
- → Define size categories for financial entities in the Accounting Directive
- → Remove SMEs and group subsidiaries from the definition of public interest entities
- → No overlapping mandatory plans on sustainability risks

The remaining steps of this roadmap should be implemented throughout the current legislative term, e.g. through further simplification packages or regular reviews:

- → SFDR: Delete company-related data from the PAI statement and simplify information requirements for products advertised as sustainable
- → Streamline the approaches for SME simplifications in other Directives
- → Abolish existing Solvency and Financial Condition Report (SFCR), retain QRT reporting
- → Streamline supervisory reporting wherever possible
- → Halve the Solvency II standard formula, delete immaterial risk modules
- → Abolish regular EIOPA stress tests
- → Reduce reporting requirements, in particular double reporting, in tax law
- → Better weigh up the costs and benefits of new tax laws

This roadmap for a streamlined regulatory framework for the insurance and reinsurance sector will enable the sector to continue to play a key facilitating role for European businesses to innovate and compete globally. At the same time, it will improve the competitive position of the global players based in Europe and strengthen smaller insurers through a more proportionate approach to regulation.