ECONOMIC AND LEGAL ASPECTS OF EU INSURANCE MARKET DEVELOPMENT

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ABSTRACT

Background: *Differences related to the development of the insurance market in the EU countries have led to the development and implementation of a regulatory environment through the implementation of the relevant Directives of the European Parliament and the Council of the European Union. Such legal changes provide for the unification of requirements for the activities of insurance companies and are aimed at improving the conditions for the development of the EU internal insurance market.*

The purpose of the study: *to study the main indicators of the EU insurance market and to assess the measures taken by EU member states to transpose the requirements of regulatory directives into national law.*

Methods: *quantitative and qualitative analysis; synthesis; system approach; content analysis; prognostication; trend models.*

Results: *The EU insurance market is the largest segment of the global insurance market. In terms of insurance premiums in most EU countries, the insurance business tends to grow. In 2018, almost 7,000 both national and foreign insurance companies operated in the EU market. It was found that the number of relevant regulatory measures to transpose the requirements of Directive 2009/138 / EU Solvency II was higher in those EU countries where the insurance market is less developed, i.e. their legislation did not meet the generally accepted requirements. The existing regulatory regime of the EU countries has led to differences in approaches to the transposition by national authorities of the requirements of Insurance Distribution Directive 2016/97 / EU. The results of forecasting based on the trend model show that the insurance market tends to grow, as the positive impact of changes in the legal regulation of EU member states will have a lasting effect.*

Keywords: Insurance regulation in the EU; The effectiveness of Solvency II; EU insurance markets; Legal regulation of the insurance market.

INTRODUCTION

The EU is characterized by a high level of development of the insurance market and a gradual reduction of differences in the regulation of the insurance business between member states. Common rules are being implemented to unify and facilitate the activities of insurance companies in the EU, ensure the protection of policyholders, expand the market for services and improve them. The development of various sectors of the economy, including the

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expansion of agriculture, internal contradictions and external threats cause new contradictions related to the insurance of production, institutional, market, price, financial risks (Kulawik, 2018). In addition, the issue of lack of standards for the activities of insurance intermediaries remains relevant (Marano, 2019). Another important issue of insurance within the EU is the supervision of systemic risk due to low interest rates, the general vulnerability of insurers, ongoing supervision and cooperation in the field of control in the context of information exchange (Schoenmaker, 2016). Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) has had a significant impact on the EU insurance market through new requirements and a new regulatory regime for insurance companies. EU member states had to make appropriate changes to their national legislation to implement Solvency II, which was expected to affect the insurance business. At the same time, the need to study the problems and challenges related to the regulation of the EU insurance market and the response of business to changing operating conditions is emerging.

LITERATURE REVIEW

The scientific literature does not sufficiently study the changes that have taken place in the insurance market in the EU countries after the entry into force of Directive 2009/138/EU Solvency II. Research focuses on the general issues of legal regulation of insurance activities and the importance of insurance in business and the national economy (Mrówczyńska-Kamińska & Standar, 2016); issues of the legal framework in the technological segment of insurance (Marano, 2019); regulation of international and national supervision over the functioning of the EU internal insurance market (Schoenmaker, 2016); the conditions of the insurance market in connection with the introduction of Solvency II (Peleckienė, 2018); study of the theoretical foundations of agricultural risk insurance (Kulawik, 2018); insurance regulation and fragmentation of the EU insurance market, gaps in the legal framework, features of EU insurance requirements (Kunertová, 2017); study of the peculiarities of insurance market regulation at the international level, in particular through the analysis of EU Directives and the International Association of Insurance Supervisory (IAIS) (Pukała et al., 2017); analysis and assessment of insurance risks in the new legal conditions of insurers (Bølviken & Guillen, 2017; Weber, 2018; Manolache, 2019).

The concept of Solvency II was based on the Own Risk and Solvency Assessment (ORSA) system (Pukała et al., 2017). "Solvency II has definitely promoted enterprise risk management (ERM) in the European insurance industry and improved the system of governance of insurance companies" (Santomil & González, 2020). In a study by Pukała et al. (2017) proved the impact of Solvency II regulatory priorities on the development of insurance, in particular in the field of supervision through risk assessment and solvency by insurers. They note, among others, that Solvency II regulates the scope of permitted activities of insurance undertaking. Insurance companies limit the objects of insurance and operations, which leads to problems of interpretation and discussion of the provisions of Solvency II in different EU countries (Kunertová, 2017). In fact, Solvency II has led to a number of legal conflicts and their impact on the insurance market, which is actively discussed in the scientific literature. The new Directive has led Member States to misunderstand the types of insurance, which insurers can deal with, and one of the gaps is the lack of standards for insuring certain types of business risks (Kulawik, 2018; Marano, 2019). At the same time, Peleckienė (2018) emphasizes the advantages of the new Directive, as "Solvency II introduces a new, harmonized EU-wide regulatory regime, which replaces 14 existing insurance Directives". Eling & Jung, (2020) compare the regulatory component of Solvency II with other global models for insurers'

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capital and note a significant increase in requirements in the EU market. Pradier & Chneiweiss (2017) believe that the main components of insurance market regulation are aimed at preventing possible future crises of insurance companies. Some relevant studies can be found in Shvets et al. (2013) and Romanenko & Chaplay (2016).

In addition to Solvency II, the scientific literature discusses the implementation of Directive (EU) 2016/97 of the European Parliament and the Council on insurance distribution (IDD), (Köhne & Brömmelmeyer, 2018). Studies prove the feasibility of adopting this Directive, which covers the activities of all insurance companies, taking into account the growth of liabilities in order to reduce systemic risks. At the same time, there is a somewhat excessive regulation provided by the IDD norms (Köhne & Brömmelmeyer, 2018).

METHODOLOGY

Realization of the purpose of research provides use of such methods: content analysis of the EU Solvency II and IDD Directives on the requirements for the activities of insurance companies and the conditions of regulation of the insurance market of the EU countries; analysis of data on the implementation of the provisions of the Solvency II and IDD Directives by EU countries; systematic and logical analysis, method of information synthesis for the formation of conclusions and recommendations for the development of the insurance market of the European Union; systematization, generalization of statistical data that characterize the development of the EU insurance market.

The study used information from EUR-lex, as the official website of EU legislation and public documents, Insurance Europe - to obtain up-to-date information (Insurance Data) to assess the European insurance industry, and the Organization for Economic Co-operation and Development and Statists to assess the dynamics of the insurance market of the world and the EU. The study period covered 2008-2018 as such, when EU countries implemented the requirements of Solvency II and IDD.

In order to form a forecast for the development of the EU insurance market, trend models of time (time) series were used. The selection of the trend function is carried out by the method of least squares. To determine the accuracy of the model, a coefficient of determination was used, built based on estimates of the variance of empirical data and values of the trend model. To forecast the development of the insurance market, countries with different indicators of insurance premiums (the amount paid to an insurance company for an insurance policy and make up the primary revenue source for insurers) were selected.

RESULTS

The activity on the insurance market in the EU countries reflects a positive result in the context of ensuring the formation of efficient business during the study period. In fact, the EU countries are the largest segment of the global insurance market and are characterized by the development of developed legislation governing the insurance business (Table 1).

TABLE 1
WORLDWIDE INSURANCE PREMIUMS (MILLION USD)

World Premiums,	Europe	Asia	North America	Latin America	Other
2009	1600	1050	1252	108	78
2010	1602	1214	1279	131	86
2011	1640	1338	1346	155	95

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2012	1552	1398	1398	167	99
2013	1631	1319	1391	174	100
2014	1713	1389	1398	179	105
2015	1509	1399	1433	159	102
2016	1457	1521	1463	153	101
2017	1546	1615	1520	168	107
2018	1641	1683	1597	163	110

Source: Insurance Europe (2020)

According to the Organization for Economic Co-operation and Development (OECD, 2020) and Statists (2020) in 2018 based on insurance premiums, the United Kingdom, France and Germany were the three largest European insurance markets (Table 2).

TABLE 2
INSURANCE PREMIUMS IN EU COUNTRIES (MILLION USD)

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
United Kingdom	454666	342609	325141	339365	368525	340385	365688	336743	403794	394114	469120
France	279451	302185	297324	289082	258641	275750	294033	250873	314251	314319	338708
Germany	303291	247779	241052	255708	302739	333713	338764	293086	294660	311208	335669
Italy	144169	167509	169910	156982	138232	161161	193455	165854	151423	150732	163781
Netherlands	71889	67436	52450	58654	51267	51142	48603	37399	77358	80465	86997
Spain	91805	85507	76388	86378	72880	77177	76604	65514	73655	74242	78578
Sweden	31435	25465	25624	28062	24669	27203	49890	40254	39107	44382	49044
Ireland	87328	46847	45313	44591	45586	45314	52557	48802	54182	49821	48129
Denmark	32505	..	..	33844	32745	...	37098	31997	33498	37549	40976
Belgium	42982	39735	39209	40872	41936	37521	38345	30746	30432	30839	33703
Luxembourg	15952	23156	27464	19176	25168	24705	28945	21278	20289	24314	24539
Austria	26438	..	..	..	..	25084	25102	21091	20647	20485	21880
Poland	24641	16475	17963	19289	19231	18307	17412	14539	14213	16495	17211
Portugal	22605	19806	21066	15642	13559	17003	18667	13945	12079	12941	14868
Czech Republic	8191	7562	8167	8764	7846	7998	7608	6173	6002	6402	7052
Finland	9123	9508	11626	10133	9352	13061	14125	11917	10012	10084	5156
Slovak Republic	3009	2899	2816	2998	2772	2959	2986	2400	..	5047	..
Greece	7811	7244	6954	6893	5781	5407	5056	3964	3908	4213	4485
Hungary	5145	4081	4053	4054	3377	3582	3584	2991	3146	3484	3767
Slovenia	2864	3033	2888	3039	2816	2808	2783	2386	2416	2596	2863
Estonia	..	344	566	561	617	774	839	764	815	924	1092
Lithuania	..	..	596	686	665	753	798	716	786	895	1037
Latvia	..	514	434	555	574	626	687	589	589	730	893

Source: OECD (2020)

In 2018, about 7,000 insurance companies operated in the European market, including 528 national companies in Germany, 402 national companies in the United Kingdom, 1,445 foreign companies and 264 national companies in France.

Following the adoption of Directive 2009/138/EU Solvency II, EU Member States were required to develop and implement national measures to transpose the requirements of the

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Directive, which entered into force on 1 January 2016. According to EUR-Lex (2020), the number of regulatory measures required to bring national legislation in line with the Directive was greater in EU countries where the insurance market was less developed (Figure 1).

Most countries with a high level of insurance market development have implemented a small number of legislative documents at the national level, as their market is generally in line with EU requirements. For example, in Germany in 2015 was adopted the single normative document “Law on Modernization of Financial Supervision on Insurance”; in Italy was adopted the “Implementation of Directive 2009/138/EU on the taking-up and pursuit of the business of Insurance and Reinsurance” (Solvency II), Spain - “Law 20/2015 of 14 July 2003 on the organization, supervision and solvency of insurance and reinsurers” and “Royal Decree 1060/2015 of 20 November 2003 on the organization, supervision and solvency of insurance and reinsurers”. In fact, the introduction of the principles of the insurance market has ensured the unification of the activities of senior citizens,

Following the implementation of the Solvency II Directive, companies only carry out insurance activities after obtaining a permit from the country's supervisory authority, but such a permit is valid throughout the EU. EU insurance companies need to have equity in line with their risk profiles to ensure that they have sufficient financial resources to withstand financial difficulties. Companies also create an adequate and transparent management system with a clear division of responsibilities, publicly disclose information and have the administrative capacity to address various issues (insurance risk management, compliance with the law, internal audit). Insurance companies regularly conduct Own Risk and Solvency Assessment (ORSA), which assesses risk profiles and their compliance with financial resources.

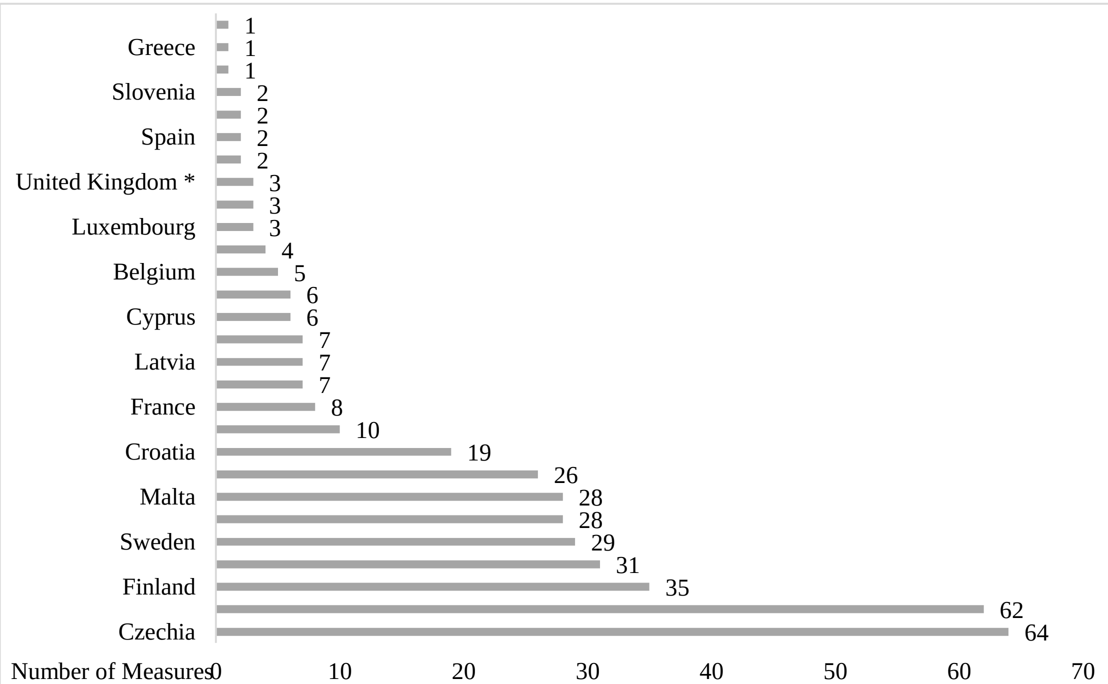

FIGURE 1

NATIONAL TRANSPOSITION MEASURES ACCORDING TO DIRECTIVE 2009/138/EC

The IDD Directive was adopted in order to increase the level of consumer protection and ensure a level playing field for insurance business, which has already been applied to the

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banking, investment and insurance sectors. To implement the Directive, EU member states had to make appropriate changes to national legislation by 2018. At the same time, the existing regulatory regime of each country has led to differences in approaches to the transposition of IDD requirements by national authorities (Table 3).

The information in Table 3 shows the significant differences between different EU countries in the transition from the existing rules of insurance intermediation and market behavior. The diverse set of rules is the result of mixed national insurance market rules, as many countries (e.g. Belgium, Italy, the United Kingdom) have internal regulation of consumer protection, which further fragments the regulatory sphere. The IDD still leaves a lot of flexibility and allows Member States to impose stricter rules and requirements. For example, in the UK, the insurance market regulator has made it clear that, despite Brexit, insurance companies must continue to comply with their obligations and transpose legislation based on previous EU commitments and requirements.

TABLE 3
IDD TRANSPOSITION AND EXPECTED CHALLENGES AND IMPACTS FROM A NUMBER OF EU COUNTRIES

	United Kingdom	Belgium	France	Spain	Netherlands	Ireland	Italy	Denmark	Czech Republic
Needs analysis	Less strict	More strict	Similar	Less strict	Similar	Similar	Less strict	Similar	Less strict
Suitability and appropriateness regime (IBIPs)	Less strict	Similar	More strict	None	None	Similar	Less strict	Less strict	Less strict
Inducements	More strict	More strict	None	Less strict	More strict	Similar	None	Less strict	Less strict
Conflicts of interest	Less strict	More strict	None	Less strict	Similar	Similar	Similar	Similar	Similar
Professionalism requirements	Less strict	Less strict	Less strict	More strict	Similar	Similar	Similar	Less strict	Less strict
Information to clients	Less strict	More strict	Less strict	Less strict	Similar	Similar	Similar	Similar	Similar
Product governance	Similar	Less strict	None	None	Less strict	Less strict	None	Similar	None
Comparison websites	Similar	None	Less strict	None	Less strict	Similar	None	Less strict	None

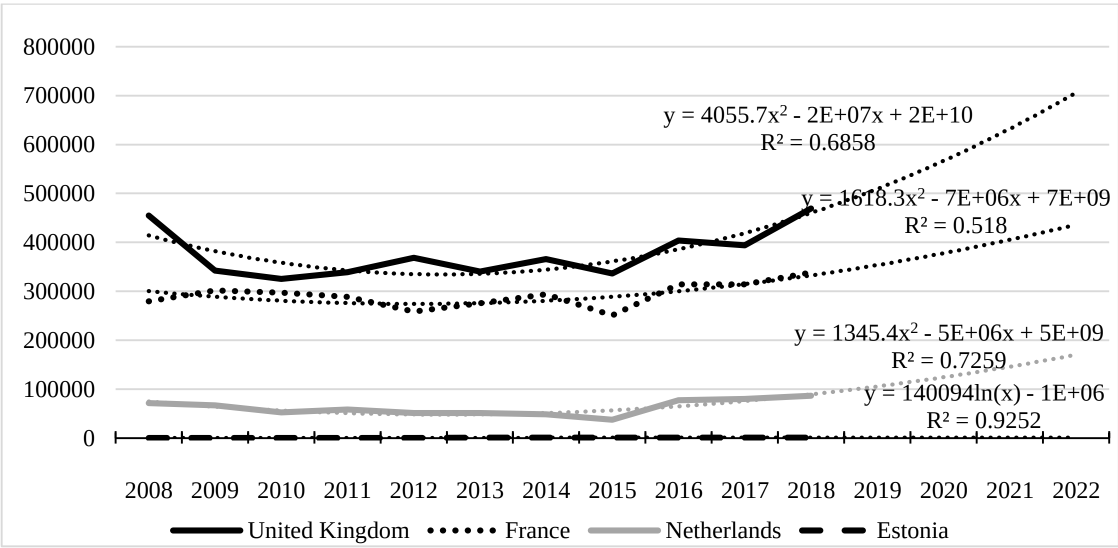

FIGURE 2

FORECASTING THE DEVELOPMENT OF THE EU INSURANCE MARKET BASED ON THE INSURANCE PREMIUMS INDICATOR

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The implementation of the Solvency II and IDD Directives is aimed not only at unifying the rules on the activities of insurance companies, ensuring the professionalism of insurance intermediaries and improving consumer protection, but also at strengthening and further developing the domestic European insurance market. To assess the prospects for the development of the insurance market in the EU based on the indicator Insurance Premiums (Table 3) we use trend models of time (time) series. To forecast the development of the insurance market, countries with different indicators of insurance premiums were selected (Figure 2).

Trend models that describe Insurance Premiums forecasting were selected based on the coefficient of determination. The R^2 is closer to 1, the more accurately the proposed models describe economic processes. As you can see, according to the results of statistical analysis, the most accurate forecast of Insurance Premiums reflects the polynomial trend line, which confirms that the data characterizing the development of the insurance market in the EU fluctuate during the study period.

DISCUSSION

After the financial crisis of 2007-2008, insurance in the EU reached a fundamentally new level, and the key drivers of development were the transnational aspect of business, varying degrees of influence of rules in different countries, the participation of different parties in insurance development (Marano, 2017). The EU Solvency II Insurance Market Regulation Directive has provided comparable macroeconomic stability for insurers. At the same time, companies are affected by the new conditions of the insurance market due to the need to comply with legal norms. Unification and concentration of the insurance market are prerequisites for significant systemic transformation. As noted by Trinh et al. (2016), the legal component is a key basis for the development of insurance in different countries. At the same time, it is proved that the level of development of the country and its insurance market determines the degree of influence of legal regulation on companies. The Directive (EU) 2016/97 ensures the achievement of an equal level of protection for all clients regardless of the level of reinsurance. This rule is in line with the Solvency II principle of equal protection of consumers of insurance products and final beneficiaries. Financial stability is the main goal of IDD's new requirements for market functioning, while Mariani (2017) proves the ineffectiveness of the Solvency II and IDD Directives in forming an integrated market. The Solvency II and IDD directives provide for the coherence of insurance markets, harmonization, strict risk management, strengthening the level of management in insurance companies (Rae et al., 2018). However, among the problems of the Directives are pro-cyclicality, market consistency in different countries (Rae et al., 2018), inconsistency with other regulations. Unification of insurance market requirements has led to different approaches by EU Member States to transpose the requirements of the Solvency II and IDD Directives, and the number of adopted laws and regulations has been higher in EU countries where the insurance market is less developed. This confirms the countries' use of a liberal approach in regulating the activities of insurers (Galetić & Loborčec, 2016). At the same time, the UK's exit from the EU did not mean a change in approaches to the functioning of the insurance market (Burling, 2017).

CONCLUSIONS

The study proves the need to regulate the EU insurance market as the world's largest market, and the effectiveness of the implementation of the new Solvency II and IDD Directives by EU member states. The legal framework in the solvency crisis will reduce the systemic risks of insurance companies, as a result, consumers of insurance services will receive the prescribed

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insurance payments and equity of insurers, taking into account the risks will be at a sufficient level to make timely payments. The main disadvantages of the Solvency II and IDD Directives are the over-regulation and concentration of the insurance market, which, however, ensure financial stability through the supervision of insurers at the supranational level.

The EU insurance market is unevenly developed, despite the active implementation of general insurance requirements at EU level, as evidenced by the different number of regulations and the different nature of national regulatory measures to transpose the requirements of the Solvency II and IDD Directives. The main conclusion is that the implementation of the Solvency II and IDD Directives will have a positive impact on the activities of insurance companies and the EU insurance market as a whole, and the effect of the implementation of measures by EU member states will be long lasting. At the same time, regulatory gaps between the insurance markets of different EU countries cannot be resolved by regulatory measures alone, as disparities are related to economic, historical, social one and many other factors, the study of which has prospects for further research.

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