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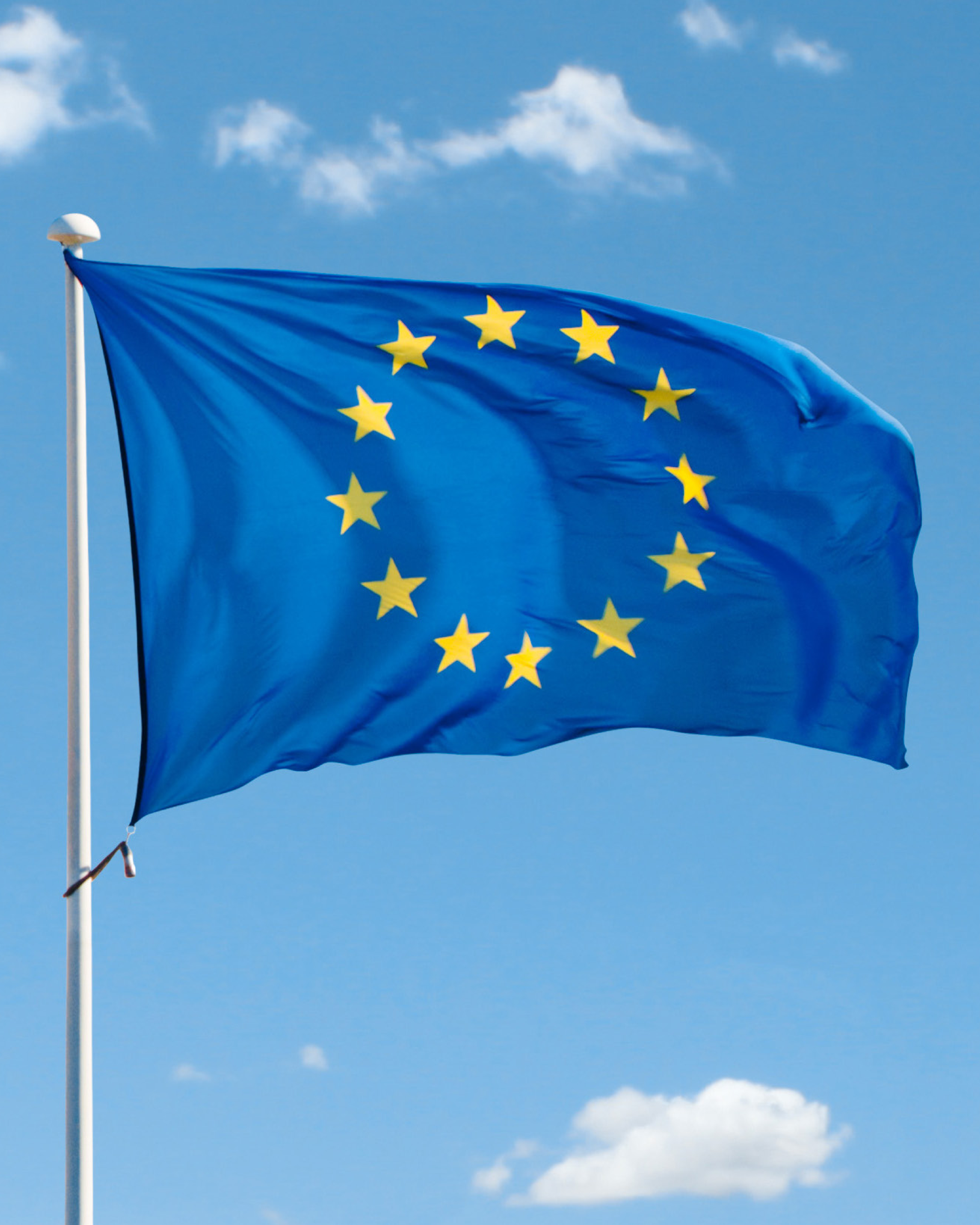
Protecting Europe's Future:

Ideas for the next European Commission

Zurich Insurance Group
January 2024



Introduction

All of us at Zurich are assiduously following the run-up to the forthcoming EU elections, and we care deeply about the outcome.

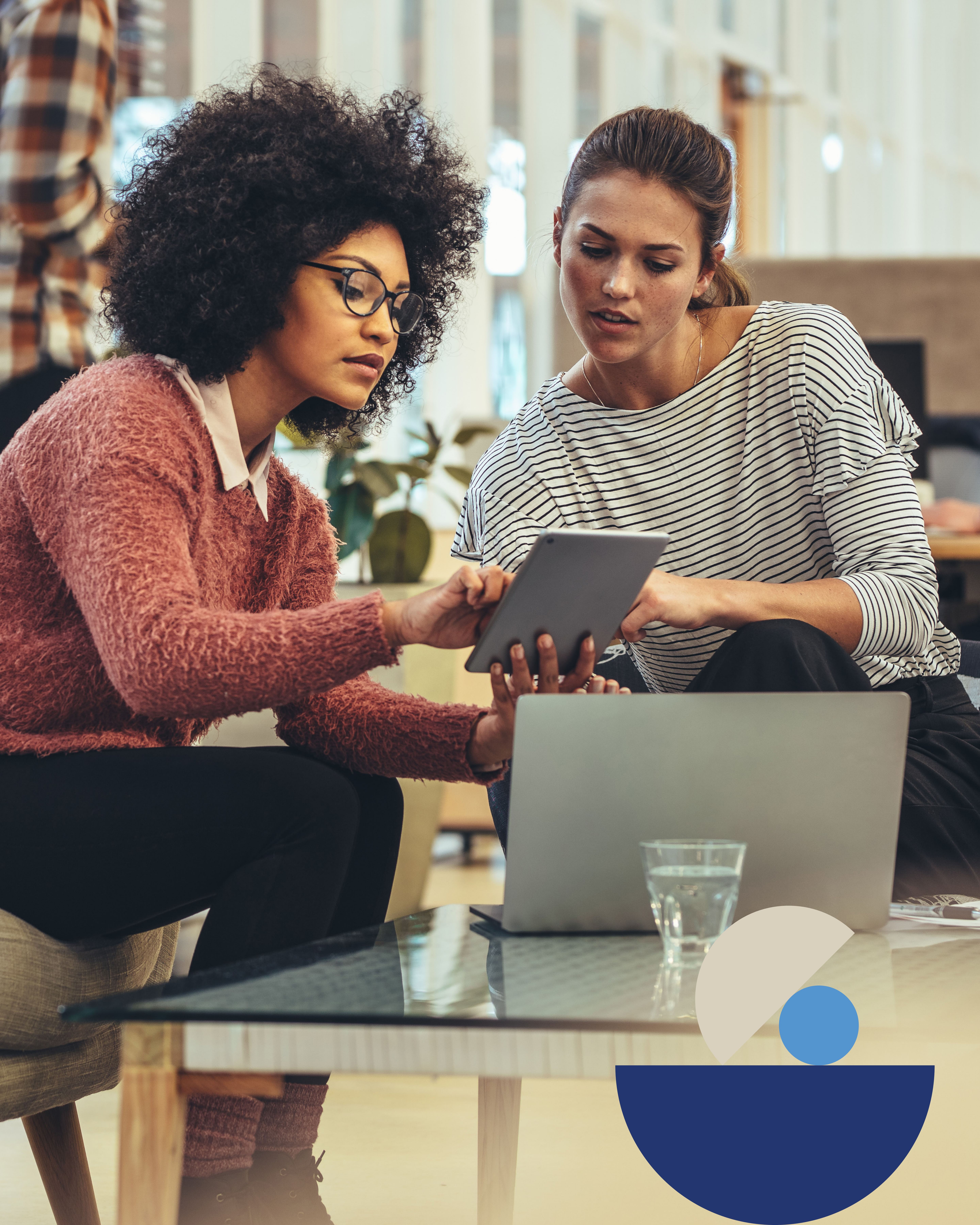
European policymaking has always been about delivering positive change, and change is embedded in our DNA. For over 150 years, Zurich has worked in the midst of change – some subtle, some radical – and we've adapted and acted to provide steady, trusted support for our customers and communities, across Europe and around the world. We have experts in key policy areas – pensions; climate risk; digitalization – who have insights, bold ideas, and the experience to execute those ideas.

Over the next five-year cycle, Europe will not only have to continue to deal with today's pressing issues, it will also face new challenges, some that we can't even anticipate right now. We are ready to play a role in helping to address those challenges wherever we can. As we look forward to the next five years, there are three policy areas in particular that are essential for the future resilience, growth, and betterment of Europe – and where Zurich can lend critical support:

I. Empower EU citizens to bolster their investments and pension savings.

II. Enable Europe to reap the benefits of digitalization – and promote cyber resilience.

III. Focus on prevention to mitigate costs of increased climate risk.



I. Empowering consumers to invest

Europe’s future economic success and the well-being of its citizens will depend on mobilizing private investment. Accelerating climate transition and delivering digitalization of Europe’s economy will require significant additional amounts of private capital. Ensuring a financially secure future for European citizens will demand positive action to address pension gaps. To meet these challenges, Zurich calls on EU decision-makers to modernize regulation and to place the public’s interest at the center of retail investing. By providing the opportunity and confidence to retail customers to invest, we can help power growth, transform European economies, and provide security in retirement. We see the proposal for a EU Retail Investment Strategy as a major opportunity to make this happen. Right now, though, clear options linking European citizens’ savings with investment opportunities are still missing, and at the same time, the green and digital transition are lacking the investment they need.

That said, we understand why the European public is still reluctant to invest. Next to a sound regulatory framework, Europe needs to foster financial education.[1] At Zurich, our experts have ideas how to make this happen. They are ready and willing to support public authorities and other insurers in furthering financial education, for example through the development of digital resources in conjunction with educators at a regional and national level.

But there is another reason we need to bring retail investment and financial literacy to the next level. Demographic and societal changes are putting unprecedented pressure on health and pension systems globally, especially in countries with low levels of savings and high dependency on the government-provided first pillar pension. In Europe, we are confronted with a major pension gap, defined as "the difference between the savings needed to sustain a reasonable standard of living (65–70 percent income replacement) for the next generation of retirees and the currently projected inflows into the system."

[1] The 2022 Eurobarometer has shed some light on the question why EU citizens do not invest, with 14% of respondents indicating, for example, that they don't know how to do this or find it too complex.
European Commission, October 2022, Flash Eurobarometer 509: Retail Financial Services and Products
www.europa.eu/eurobarometer/surveys/detail/2666

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Almost one in five people in the EU are at risk of poverty in old age. A woman's pension is likely to be a third less than that of a man. Only 45 percent of people believe that they will have enough money to live comfortably in retirement.

Even drastic and unpopular legislative measures – such as significantly increasing the retirement age – would only reduce the pension gap but not fully close it. To address the pension gap, close collaboration between public and private stakeholders is essential.[2] Both the European Parliament and the European Commission have argued that the mandatory pension systems (first pillar) should be complemented by collective occupational pension systems (second pillar) and individual pension products (third pillar) since the three-pillar pension structure is considered to be the most balanced by European institutions.

We're calling on policymakers to embrace bold action on pensions and to use all levers at their disposal.

[2] Please see the recommendations of the Global Federation of Insurance Associations (GFIA). GFIA, March 2023, Global protection gaps and recommendations for bridging them www.gfiainsurance.org/topics/487/protection-gaps#

This includes promoting pension savings and educating individuals, especially the young, on the value of continuous saving from the beginning of their working life. Public policy initiatives dedicated to pensions should be connected to initiatives in other policy areas, such as employment, housing, taxation, and healthcare. When it comes to the workforce, it will be crucial to incentivize employers to offer pension arrangements, and to enable part-time workers, self-employed workers, and "gig economy" workers to join retirement saving schemes.

While we know from our collaboration with Oxford University [3] that insufficient retirement savings is the top concern of Europeans, we understand that we need a shift in perception, from pension gaps being an abstract anxiety to a concrete problem that individuals can solve using tangible solutions. Digital tools can help us get there: A Digital Pension Portal can make the public and private pensions for an EU citizen visible. Clearly, we need investment and savings flowing across the EU so that they can benefit consumers, companies, and those advancing the green and digital transition.

[3] Zurich Insurance Group and Smith School of Enterprise and the Environment, University of Oxford, October 2019, People protection: Insights on empowering an agile workforce www.zurich.com/en/knowledge/topics/future-of-work/people-protection-insights-on-empowering-an-agile-workforce

We remain strongly supportive of the Capital Markets Union (CMU), aimed at building deeper, better-connected capital markets in Europe, and we regret that the EU has not made progress, particularly in terms of global competitiveness. Europe's capital markets continue to fall behind: The latest data (New Financial research)[4] shows that the global share of EU-27 capital markets has fallen from 19 percent in 2006 to 10 percent in 2020 and is expected to have fallen to 9 percent in 2022. We welcome recent initiatives re-thinking European capital markets, such as the French-German road map (published on 13 September 2023), and support the idea of unlocking the potential of European capital markets, exploring the potential of a bottom-up approach to the CMU.

[4] C. Breen, M. Bierbaum, and W. Wright, New Financial, September 2023, EU capital markets: a new call to action www.newfinancial.org/report-eu-capital-markets-a-new-call-to-action/

II. A sound framework to harness Europe's digital future

We call on European regulators and policymakers to build resilience and to encourage innovation in financial services, allowing consumers and industry to reap the benefits of digitalization. What do these benefits look like in insurance? Recently, increased use of artificial intelligence (AI) and machine learning has improved the accuracy and speed of risk assessment, underwriting, and claims processing, and this helps us offer more personalized and efficient service to our customers. Digitalization is also accelerating a different mindset in insurance: We are moving from being reactive to steering prevention, for example by creating insights from new data sources such as connected cars to help improve road safety.

To bring this to the next level, we call for a regulatory approach that will boost Europe's capabilities in developing and rolling out key technologies as well as tools and hardware required for digitalization across industry sectors.

Companies are accountable for responsible use of new technologies; we need to take the lead in building customer trust. The responsible use of data and AI to power digital innovation has the potential to improve consumer protection, drive efficiency, and boost productivity. We have seen the benefits of such a proactive approach when we initiated our AI Assurance Framework, which governed the use of AI in our company in 2021 – even before the start of the negotiations around the EU AI Act.

We understand that the digital transformation also has a dark side: Cyber criminals are becoming ubiquitous and ever more sophisticated. Much has been done to increase the level of cybersecurity, with the Digital Operational Resilience Act (DORA) a clear example of public sector action. Still, an important question remains: How can we best join forces with the public sector to improve the education and awareness of customers to help them be prepared against evolving cyberattacks and mitigate cyber threat consequences?

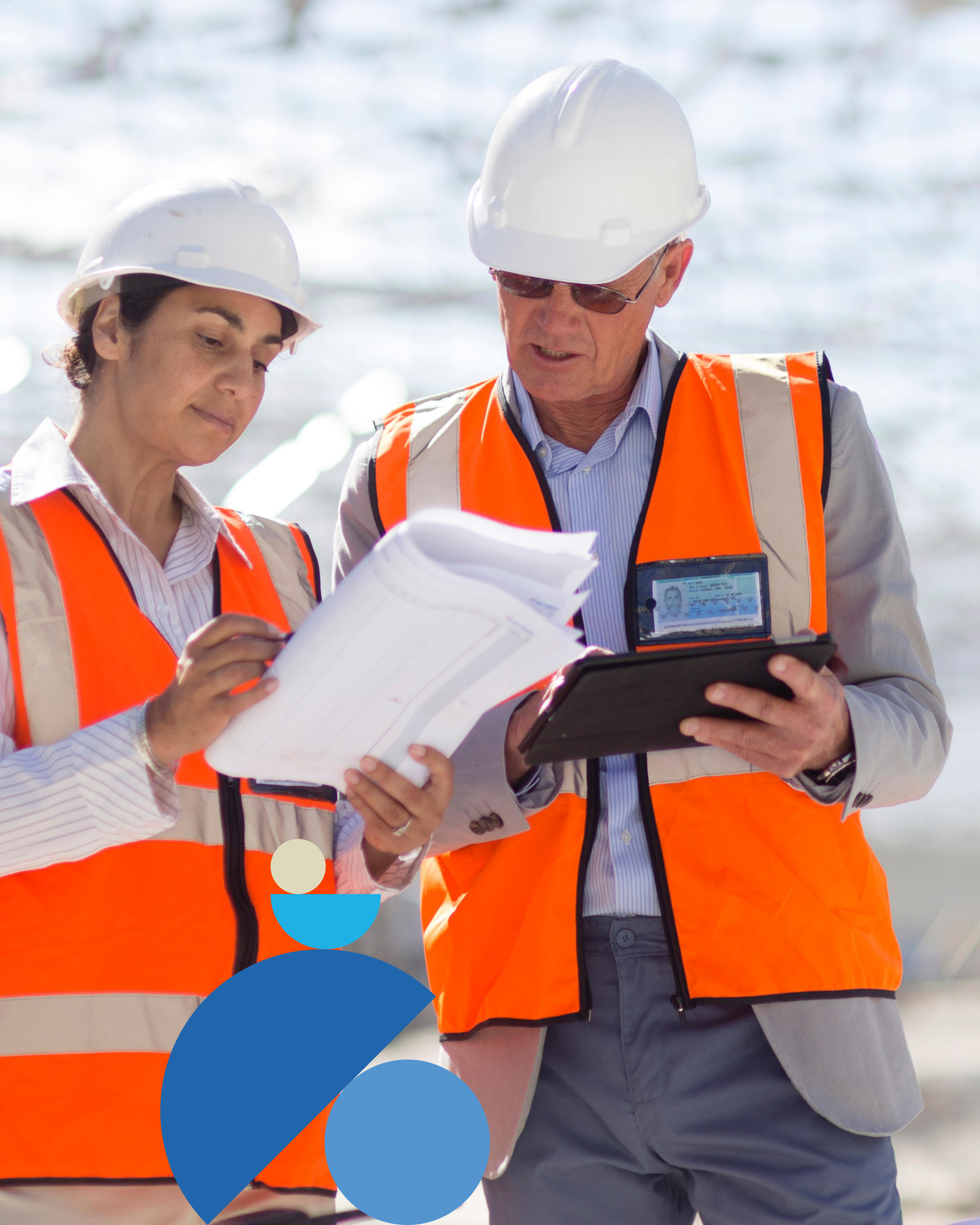
The EU digital agenda will only live up to its full potential if our society is more resilient to cyber risk.

In parallel to these important efforts, Europe must incentivize innovation. In insurance, exciting new solutions are often developed at the intersection of different industry sectors, with new services evolving, for example, around connected cars, Internet of Things (IoT) crop management devices in agriculture, or in-building sensors communicating with homeowners. We have been partnering with start-ups that are transforming the business models and ecosystem of insurance. For instance, Caruso Dataplace, winner of the 2022 Zurich Innovation Championships, showed us how connected vehicles can revolutionize the fleet industry, thanks to underwriting based on new data sources.

But this also means that the right regulatory incentives are required to ensure insurance can deliver these new solutions and reach all customers. We have seen great progress in terms of EU regulators determining key principles, such as the EU Data Act.

In some areas, though, we are still missing the right incentives for cross-sector data sharing, like, for example, when it comes to leveraging mobility data to improve customer experience.

Also, our own sector, financial services, is subject to a very ambitious initiative: the new proposal for a Financial Data Access (FIDA) framework, which will radically alter the way that customer data is shared by financial services firms. The proposal requires some reshaping to make it workable in practice, but we are pleased that it addresses a series of questions that are also front and center in the Zurich innovation journey: How can we best give effective control to customers over the use of their data? How can we promote digital transformation and speed up the adoption of data-driven business models while continuing to protect customer data? Next to these strategic questions we hope that in the next EU mandate, delivering on implementation of ambitious legislation will be considered as important as new initiatives. At the same time, more energy should be devoted to identifying and addressing inconsistencies among the various pieces of EU legislation determining data use in the financial sector.



III. Focus on prevention to avoid increasing costs from climate risks

For us as an insurer, enabling the net-zero transition of the economy is critical for our customers and the future of our business. We have a critical role to play in facilitating the transition of the wider economy through helping companies understand and manage the risks associated with building new infrastructure and production processes. Insurance products and services are behind every new wind turbine or electric vehicle charging station, advancing the shift to a net-zero economy – within Europe's budgetary constraints and without unpalatable political costs. Without insurers' risk management expertise, the costs of the transition would spiral, or it simply would not happen at all.

But more investment is required. For the global economy to shift to a net-zero trajectory, the International Energy Agency (IEA) estimates that investment in clean energy will need to more than double by 2030.[5]

[5] International Energy Agency (IEA), September 2023, Net Zero Roadmap. A Global Pathway to Keep the 1.5 °C Goal in Reach. 2023 Update www.iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf

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The latest report by the UN-convened Net-Zero Asset Owners Alliance estimates the size of the investment gap for Europe roughly at USD 4 trillion by 2030 and even USD 25 trillion in 2050.[6] We are actively engaging with customers on their net-zero transition plans, and we know from our own September 2023 report "Accelerating the Climate Transition" – where we surveyed 700 companies across various sectors and from around the globe – that there is real appetite for insurer insight and support. The survey underscored the critical role that the renewable energy supply and the switch to new technologies will play in the transition for all sectors. It showed that companies see risk mitigation and resilience as a key element of successfully navigating the transition.

We are also convinced that staying on course with the European Green Deal is decisive in preparing the EU economy to compete with other geographies in a decarbonizing world. Clearly, there are major economic benefits to capturing global market share of emerging green technologies.

6 UN-convened Net-Zero Asset Owner Alliance, September 2023, Unlocking Investment in Net Zero
www.unepfi.org/wordpress/wp-content/uploads/2023/09/Unlocking-Investment-in-Net-Zero_FINAL.pdf

If they fail to do so, European businesses will quickly be at a disadvantage to other industry players that are embracing green competition – notably from the United States after the introduction of the Inflation Reduction Act.

As the EU regulatory framework develops, it is important that there is certainty for both businesses and investors and that the financial stability implications of climate change – as well as implications for social coherence without a just transition – are managed in a risk-sensitive manner. More public investment and more legal certainty – in particular, introducing a well-designed carbon pricing mechanism – would create the right incentives for financial services to also allocate resources toward these areas.

Recently, climate policy has become a more polarized issue. We reject an “either-or” choice between the climate and economic growth. But it would be foolish to take citizens’ support for granted – we have to make the transition work for all people.

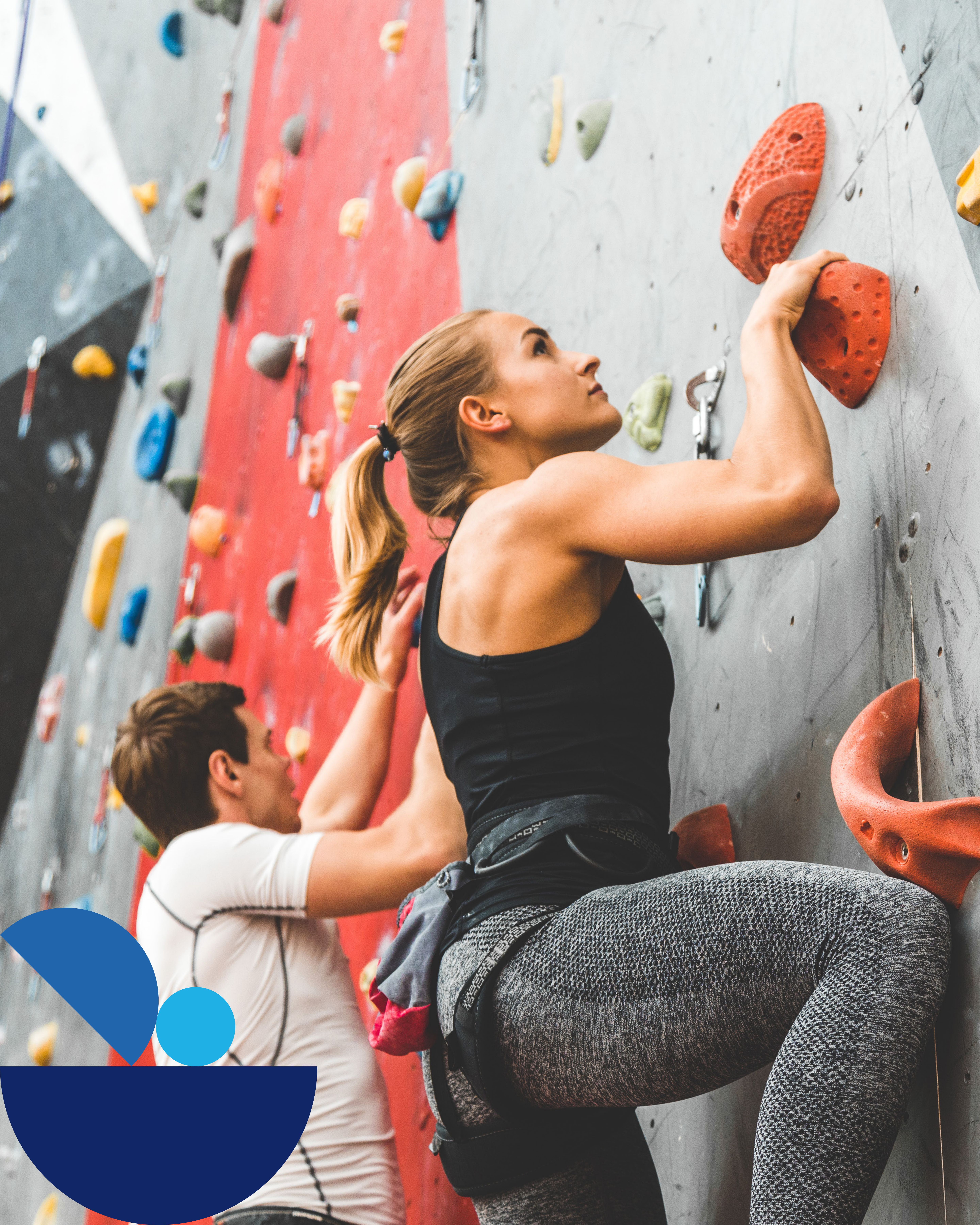
A recent International Monetary Fund (IMF) survey shows that providing even small amounts of information on policy efficacy and benefits – including co-benefits, such as improved air quality and better health – along with an explicit explanation of policy trade-offs can result in greater public support.[7]

Enhanced climate resilience is a concrete deliverable showcasing the value of the EU climate agenda to citizens. Sadly, extreme heat, wildfires, and floods continue to ravage regions across Europe, with the public at large experiencing the climate protection gap firsthand. Prevention needs to be at the heart of any impactful climate adaptation strategy, and Zurich's underwriters and risk engineers on the ground can share valuable lessons. They work with homeowners, SMEs, and multinationals to mitigate the various climate-related risks they may be confronted with, like, for example, by advising them where to move expensive assets in a house prone to flood risks, or to install fireproof roofs and decking in a high-risk forest fire area.

[7] E. Dabla-Norris, T. Helbling, S. Khalid, H. Khan, G. Magistretti, A. Sollaci, and K. Srinivasan, International Monetary Fund (IMF), February 2023, Public Perceptions of Climate Mitigation Policies: Evidence from Cross-Country Surveys www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/02/07/Public-Perceptions-of-Climate-Mitigation-Policies-Evidence-from-Cross-Country-Surveys-528057

Applying these lessons and prioritizing targeted investment to strengthen resilience needs to become an overarching priority of the next European Commission and European Parliament – and endorsed by governments across EU-27.

Europe cannot address these questions in isolation. In an increasingly challenging geopolitical context, dialogue with partners is vital, and as a company with a strong international presence, we count on decision-makers to continue strengthening cooperation with key partners.



Protecting the future

As you can see, we are passionate about a broad range of public policy opportunities. We have insights and expertise – 150 years' worth – and we can help policymakers connect the dots and deliver better outcomes for our communities. But we don't have all the answers either. Sharing this with you, we hope, is only the first step. Our senior leaders have committed to spend more time in Brussels and in EU capitals to listen and discuss this firsthand. We look forward to working with you to help build a better future for Europe.

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