

IRSG

INSURANCE AND REINSURANCE STAKEHOLDER GROUP

SMEs Access to Insurance – The Information
Gap and a Way Forward

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EXECUTIVE SUMMARY

Small and Medium-Sized Enterprises (SMEs) are often called the backbone of the European economy. Their importance at the EU level is evidenced by the creation of the “Small Business Act” EU policy initiative in 2008, which set 10 principles upon which policies are designed, and respective best practices are exchanged across Member States. Following these policy initiatives, a need had emerged to assess SMEs’ financial performance, at a pan-European level, which would allow meaningful relevant comparisons across Member States (MS). In this context, the ECB Survey of Access to Finance (ECB-SAFE) and EIB Investment Survey (EIB-IS) were gradually developed to capture important information of SMEs access to finance and investment respectively. These two surveys and the respective databases that accompany them, offer valuable insights in creating a pan-European picture of SMEs access to finance and investment respectively. However, assuming that insurance comprises an equally important part of the financial performance of any economic unit, next to financing and investing, there is a substantial information gap on SMEs access to insurance.

The significance of this substantial lack of information is evidenced at a regular basis. From the 2021 floods to the COVID pandemic effect on SMEs vulnerability, the need to consistently monitor SMEs access to insurance gradually rises, along with the new risks that emerge (i.e. cyber risks). This need is only further highlighted by individual and fragmented pieces of data, like the striking figure of less than 1% of the estimated global pandemic-induced GDP loss for 2020¹, that was estimated to be covered by business interruption insurance. This relative lack of information on SMEs access to insurance is mainly due to the fact that the insurance world is complex and diverse. A data collection exercise at a pan-European level should be carefully designed to reflect this complexity.

The main objective of this paper is thus to highlight the substantial relative information gap on SMEs access to insurance. The paper first shows the importance of SMEs at the European level and then builds on revealing the relative information gap on SMEs access to insurance, in the context of the three-pillar architecture of the financial system, as approached by the respective regulatory framework in place.

The overall conclusion is clear: we need data on SMEs access to insurance, in a similar context of already available data for SMEs access to finance and investment.

¹ https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/insurability_report_web.pdf

1. SMES AND THEIR IMPORTANCE FOR THE EUROPEAN ECONOMY

The importance of small and medium enterprises (SMEs) for the European economy is highlighted by the introductory paragraph of the EC official link that refers to SMEs² according to which: “*Small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99% of all businesses in the EU. They employ around 100 million people, account for more than half of Europe's GDP and play a key role in adding value in every sector of the economy [...] They are essential to Europe's competitiveness and prosperity, industrial ecosystems, economic and technological sovereignty, and resilience to external shocks*”. Table 1³ shows detailed information on the figures of number of enterprises, value added and employment per the three main categories of SMEs, namely micro (0 to <10 employees), small (11 to <50 employees) and medium (51 to <250 employees)⁴.

Table 1: Number of enterprises, value added and employment in the EU-27 by enterprise size class in 2020

	Micro SMEs	Small SMEs	Medium-sized SMEs	All SMEs	Large enterprises	All enterprises
Enterprises						
Number	21,044,884	1,282,211	199,362	22,526,457	40,843	22,567,300
%	93.3%	5.7%	0.9%	99.8%	0.2%	100.0%
Value added						
Value in € million	1,179,476	1,071,196	1,087,613	3,338,286	2,956,544	6,294,829
%	18.7%	17.0%	17.3%	53.0%	47.0%	100.0%
Employment						
Number	36,988,539	25,313,006	20,130,548	82,432,093	44,358,284	126,790,377
%	29.2%	20.0%	15.9%	65.0%	35.0%	100.0%

Note: Large enterprises have 250 or more employees.
Source: Eurostat, National Statistical Offices, DIW Econ

² https://ec.europa.eu/growth/smes_en

³ Source: Annual Report on European SMEs 2020/2021: <https://ec.europa.eu/docsroom/documents/46062>

⁴ The official EC definition of SMEs takes account of three different criteria to distinguish SMEs into micro, small and medium: level of employment, level of turnover, size of the balance sheet. The level of employment criterion is the most widely used.

According to the figures shown in Table 1, more than 9 out of 10 enterprises are micro, employing less than 10 employees. Micro and small enterprises employ around 50% of total employment in Europe. Value added is spread evenly across the three size classes at around 17.5% per size class. Overall figures show the vast importance of SMEs in terms of number of enterprises and employment for Europe.

2. MAIN PILLARS OF THE EUROPEAN FINANCIAL SECTOR AND RESPECTIVE EUROPEAN SUPERVISORY AUTHORITIES

The architecture of the European Financial Sector is clearly structured as approached by the respective regulatory framework that is built to oversee it. Specifically, the European System of Financial Supervision (ESFS) includes the macro-prudential instrument of the European Systemic Risk Board (ESRB), plus the three (micro-prudential) European Supervisory Authorities (ESAs): the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). EBA supervises credit institutions, financial conglomerates, investment firms, payment institutions and e-money institutions. ESMA covers securities markets and participants. EIOPA is primarily concerned with insurance and reinsurance undertakings, insurance intermediaries, financial conglomerates and institutions for occupational retirement provision.

This regulatory infrastructure clearly shows the balanced significance of the vertical sectors of the European financial system, namely credit and payment institutions (EBA), securities markets (ESMA) and insurance and occupational pensions (EIOPA). This balanced significance of each vertical sector is also highlighted by the official European Parliament webpage about the ESFS which notes that: *“Micro-prudential oversight is performed by the EBA, the ESMA and the EIOPA in each of the relevant sectors of financial services – banking, capital markets and insurance”*⁵.

It is thus clear that the European financial system can operate efficiently, in terms of consumer protection and financial stability, when all three vertical pillars are equally represented in a context of information availability that sheds light to respective operations.

⁵ <https://www.europarl.europa.eu/factsheets/en/sheet/84/european-system-of-financial-supervision-esfs->

3. INFORMATION ON SMES ACCESS TO FINANCE / INVESTMENT / INSURANCE

In the context of the afore-mentioned European financial sector architecture, approached by an SMEs perspective, three respective areas of interest are identified, regarding the interaction of SMEs with the financial sector: SMEs access to finance, SMEs access to investment and SMEs access to insurance. All three areas should be of equal significance for SMEs, viewed within the rationale of the equally significant vertical parts of the overall European financial sector. Indeed, in case any of these sectors is overlooked, it may lead to imbalances as regards the smooth financial operation and thus economic efficiency of SMEs.

Following the three areas of interest mentioned above, information on the respective three fields of access to (finance, investment, and insurance), is vital to assess the multi-dimensional interaction of the SMEs and the financial sectors. This information should be consistent, periodic and should be collected at European level, so that cross-country comparisons can be made in a single market context.

As regards the first two areas of interest mentioned above, namely SMEs access to finance and investment, information does exist at European level. Specifically, the European Central Bank runs the semi-annual Survey on the Access to Finance for Enterprises⁶, where detailed information is collected in various fields that concern SMEs access to finance. While the European Investment Bank runs the annual Investment Survey⁷, where, similarly, important information on the field of SMEs access to investment is being collected. Unfortunately, there is no such initiative to cover the remaining equally important pillar of the European financial sector, namely SMEs access to Insurance.

The insurance world is complex and diverse. There is a wide variety of insurance products being offered to SMEs, and there are also significant differences in insurance markets along national lines. This inherent complexity of the insurance world seems to have contributed to the relative opaqueness of the SMEs access to insurance issue. Nevertheless, this “significant differences” argument, although valid, should not necessarily restrain authorities from designing a way to collect pan-European data. Similar cross-country differences exist in the case of SMEs financing, as

⁶ https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html

⁷ <https://www.eib.org/en/publications-research/economics/surveys-data/eibis/index.htm?sortColumn=startDate&sortDir=desc&pageNumber=0&itemPerPage=10&pageable=true&language=EN&defaultLanguage=EN&tags=5bf8095afa70f13f9d3b51b3&ortags=true&orCountries=true>

described, for example in EC (2017) where it is explicitly mentioned that *“there are significant differences in how financing to SMEs is channelled in EU countries”*.

4. INTRODUCING THE SMES ACCESS TO INSURANCE INFORMATION GAP

This lack of consistent, comparable and periodic data at European level, on SMEs access to insurance, leads to an obvious respective information gap, so that no assessment can be made on the overall landscape of SMEs access to insurance. This information gap is important on its own existence, let alone when respective databases already exist for the other two main pillars of the financial sector, namely regarding SMEs access to finance and investment.

The significance of this substantial lack of information is evidenced at a regular basis. For example, the 2021 floods in several MS last summer caused much damage but there is no definitive estimate on the cost to SMEs. Moreover, new risks, like cyber-security risks, endanger the continuity of SMEs. In the meantime, insurance intermediaries report decreasing budgets for insurance coverage among SMEs, while where coverage is provided, for example within business interruption insurance, occur to be somehow unclear.

In the context described above, it is important to keep in mind that there are areas which raise significant insurability challenges and therefore cannot be insured by the private insurance sector on its own, as, for example, the case for pandemic risk. The striking figure of less than 1% of the estimated global pandemic-induced GDP loss for 2020, that was to be covered by business interruption insurance, speaks for itself. However, collecting more accurate data on business interruption would be important to help the ongoing discussion on the possible creation of public-private partnerships (PPPs) to cover the huge losses that many SMEs across Europe had to bear due to the containment measures that were being implemented by governments all around Europe and even beyond it. PPPs on pandemic risk are still an ongoing work that requires both time and effort but also a strong and broad political support at the highest level. In this sense, it is positive that the European Commission in its communication on Solvency II review, pointed out that it will continue to work with EIOPA and all relevant stakeholders on some of the elements concerning “business interruption insurance” during pandemics.

There are also areas where the insurance market is under development, such as cyber insurance. In this context, the data collection exercise should be designed in a way to be able to capture either the demand to design new products in uninsured areas, or the ongoing processes of developing new products, such as cyber insurance, so as to reflect current trends in the SMEs insurance market.

This lack of data has been raised in the academic community as well. The most striking reference is found in the abstract of a recent paper in the *Journal of Banking and Finance*, where Asai (2019)

states that “Several empirical articles have attempted to clarify the insurance demands of listed firms, but few have sought to analyze small and medium enterprises’ (SMEs) demands **because of the unavailability of adequate data** (emphasis added)”; the paper also mentions in the conclusions section that “to the best of [the author’s] knowledge, this study is the first to focus on SMEs’ insurance demand”. One can imagine that once the academic community admits, as recently as 2019, that no academic research has been conducted in the field of SMEs’ insurance demand, because of data unavailability, the information gap is indeed important.

This information gap issue has already been raised by the SMEs representative in the IRSG and an initial discussion has already been initiated with EIOPA and EC colleagues, where the following conclusions were drawn and jointly agreed upon:

- ▶ the current data availability on SMEs access to insurance is not possible to draw a clear, concise and comparable picture about European SMEs access to insurance.
- ▶ all stakeholders acknowledge the importance of creating such a database.

5. CLOSING THE INFORMATION GAP: THE WAY FORWARD

There is no need to draw detailed argumentations about the importance of access to insurance for SMEs, for both the insurance industry and the SMEs as beneficiaries. Access to insurance can play a significant role in mitigating risks by absorbing shocks and managing risks associated with irregular and unpredictable income. Insurance can make micro and small enterprises resilient to shocks, also making them more financially sound. Meanwhile, there are a lot of expectations regarding the application of new technologies in insurance products that focus on sustainability. SMEs need assistance in this area, but the decisions on scope of support requires a monitoring mechanism, that is currently missing for the insurance sector.

SMEs access to insurance data will reveal levels of access to insurance, associated with respective issues like affordability, awareness, product assessment, and other obstacles to access in the short run, and is expected to lead to the expansion of the insurance industry, the creation of new products, the mitigation of financial systemic risk, and even to tailor-made regulation on insurance products that specifically target SMEs.

Methodological know-how already exists, in the context of the (similar in context and approach) surveys of the ECB and EIB in the respective access to finance and investment fields. The existence of a similar SMEs access to insurance survey would offer the missing piece in the financial sector puzzle approached by an SMEs perspective. Collecting data on SMEs access to insurance, at a pan-European level, will be a challenging endeavour. The data collection exercise should be carefully designed, to reflect the complexity of the insurance sector, and to capture various qualitative features. In this context, a design-in-stages approach could be best; for example, an initial mapping exercise may be needed, to explore the cross-country differences and to assess the level of categorization of products that could be adopted at a pan-European basis. The initiative to create such a database would fit in the Commission 2022 Work programme⁸, under the initiative “An Economy that works for People” and more specifically under “Small and medium sized enterprises - Facilitating small and medium sized enterprises’ access to capital”, while it also fits well in the context of the Sustainable Finance policy⁹, under Social considerations of inclusiveness, as it addresses the financial inclusion of SMEs.

⁸ https://ec.europa.eu/info/publications/2022-commission-work-programme-key-documents_en

⁹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en

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ECB - Survey on the Access to Finance of Enterprises:

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