

IE final position on investments in the European defence industry

Our reference:	ECO-CRISF-25-137	Date:	13-05-2025
Referring to:	Defence Investment Gaps Analysis - European Commission		
Contact person:	Philippe Angelis	E-mail:	Angelis@insuranceeurope.eu
Pages:	4	Transparency Register ID no.:	33213703459-54

Executive Summary

European (re)insurers acknowledge the strategic importance of a secure and resilient European Union, and support political initiatives aimed at enhancing defence capabilities. However, any push to increase private investment in defence should consider the financial sector's regulatory, ethical, and operational realities.

While (re)insurers already invest in defence—primarily through direct investments or sovereign bonds—many exclude companies involved in controversial weapons (e.g. cluster munitions, landmines). As a general principle, insurers assess investments in defence based on risk-return profiles, ethical considerations, and national legal frameworks. Challenges in increasing investments include sector opacity, limited due diligence capacity, and lack of clear regulatory alignment with sustainability frameworks like the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR).

To facilitate investment in the defence sector, Insurance Europe recommends:

- **Developing Attractive Investment Opportunities:** Governments must create clear, stable, and long-term procurement contracts with defence companies to make the sector more investable. EU coordination through bodies like the European Defence Agency (EDA) and new mechanisms such as the European Military Sales Mechanism can help structure large-scale opportunities. Investments should also target underfinanced SMEs and non-listed companies that currently fall outside traditional investment categories.
- **Clarifying Regulatory Barriers:** Defence investments, besides investments in controversial weapons, should not be automatically excluded under the EU's "Do No Significant Harm" (DNSH) criteria. Recent EU communications have rightly clarified that sustainable finance rules do not prevent funding of the defence sector—this alignment must continue and expand, especially in the ongoing SFDR review.
- **Leveraging Insurers' Long-Term Investment Capacity for Infrastructure:** As major institutional investors, insurers are well-positioned to support critical dual-use infrastructure needed for defence mobility across Europe. This includes investments in multimodal transport corridors and facilities that serve both civilian and military needs. Ensuring regulatory certainty and financial predictability will be vital in unlocking insurer contributions to these long-term projects.

Insurance Europe stresses that successful mobilisation of private capital into defence depends on coordinated public-private efforts, regulatory clarity, and the creation of investable, ethically sound opportunities that align with long-term financial commitments and European security priorities.

Insurance Europe's key position

Introduction

- **European (re)insurers recognise the importance of a strong and secure EU**

Insurance provides protection to citizens and businesses, helps people save for retirement and their future, and is one of Europe's largest institutional investors and an important provider of stable, long-term funding for governments and businesses. Insurers are therefore uniquely positioned to contribute to sustainable economic growth and to help finance digitalisation and transition to a carbon-neutral, more sustainable and resilient economy, in line with EU priorities, such as the Savings and Investment Union, and in response to current challenges.

European (re)insurers recognise the importance of a strong and secure EU capable of protecting its citizens and values from internal and external threats. In this context, (re)insurers support the political goals of increasing defence capability and resilience in Europe. However, care should be taken to ensure that these political goals remain consistent with the regulatory requirements for the financial industry.

While the defence industry plays a critical role in ensuring security, it also entails important ethical considerations, including the potential risk of human rights violations. This gives rise to a complex dilemma which requires careful deliberation by various stakeholders over time.

- **Insurers already invest in defence but with exclusions for certain controversial weapons**

Most, if not all, (re)insurers hold some defence-related investments. This can be direct investments in defence companies through equity or corporate bonds and loans or indirect investment via government bonds, some of which can be used to support national defence purchase and investment.

Most European countries have certain restrictions, for example, forbidding investments in companies that produce landmines, cluster munitions, and chemical or biological weapons. Considering national restrictions, each insurer individually determines its approach to direct investments in the defence industry, with a key consideration being the risk-return profile of such investments relative to alternative investment options. Consequently, the decision to invest, whether fully, or partially, is a combination of respecting the treaties signed by the country where the company is operating, and the portfolio designing on a company-by-company basis. Some insurers fully exclude defence investments for ethical reasons, while others choose to invest prioritising factors such as sustainability policies, client preferences, shareholder preferences, ethics and reputation risks, due diligence capabilities, costs and returns.

- **Why defence investment can be challenging for insurers**

Investment decisions regarding defence companies are made on a case-by-case basis, primarily guided by the risk-return profile relative to alternative opportunities. Ethical and reputational considerations are also considered.

Assessing investments in defence companies can be challenging due to the sector's complexity, confidentiality, and frequent lack of transparency, as well as limited investor capacity, knowledge, and available data. Additionally, many countries have implemented oversight mechanisms that restrict certain capital operations involving the defence industry. In France, for example, the *Code de la Sécurité intérieure* requires government approval for any capital transaction involving companies that are part of the defence technological and industrial base. Similarly, in Germany, the Foreign Trade and Payments Ordinance (AWV) allows the government to review and, if necessary, block foreign investments in defence-related firms to protect national security interests.

Sustainability requirements might also create difficulties, in particular, some companies have concerns that the Do No Significant Harm (DNSH) criteria under the EU Taxonomy or the 'sustainable investment' definition impact their ability to invest.

Moreover, because each European country has different export regulations, investment assessments should not only consider the company itself but also the regulations enforced by the country it operates from.

Recommendations

1. Recognise that insurers can only increase defence investments if new and attractive investment opportunities are available

Insurers cannot drive defence investment by “pushing” money into the sector - instead, the defence sector, supported by national governments and the EU, must develop new and attractive investment opportunities, backed by clear and long-term investment signals. Here, governments concluding binding, long-term procurement contracts with the defence industry would encourage more private investment in the defence industry.

For insurers, investments in the defence industry are generally treated like any other investment. If an attractive risk-return profile is given, financing will subsequently be provided. If governments wish to increase investments in the industry, they must provide the defence industry with steady, long-term orders enabling defence companies to secure refinancing via capital markets. Binding, multi-year procurement contracts signal predictability and stability, and enable defence companies to issue new shares or bonds, thereby attracting more private investment in the industry. In addition to stable demand, a broader view on the defence industry, including other aspects such as dual-use products/technologies, cyber security and innovation for resilience might foster attractive investment options.

The EU has a central role to play in fostering these attractive investment opportunities. One approach to achieving this would be the systematic aggregation of Member States’ demand through the European Defence Agency (EDA) which could facilitate structuring large-scale procurement initiatives supported by EU instruments. In parallel, the European Commission and the EDA can strengthen the dialogue with industry to provide them with predictability and better anticipate their collective needs. Complementing this, under the European Defence Industry Proposal (EDIP), the EU intends to launch a pilot to gradually establish a European Military Sales Mechanism which would contribute to increasing the availability and improving the delivery time of European defence products.

However, for a meaningful contribution of private capital, the structure of investment channels also needs to be addressed. For instance, insurers observe that investing in the defence industry through traditional investment categories, such as stocks and bonds of large publicly traded companies, is often ineffective as it mainly involves trading securities without providing additional financing for defence companies. Moreover, these publicly traded instruments fail to address the lack of financing in SMEs in the sector. The actual financing need appears to be primarily among non-listed companies, which are not directly reached through common investment categories. Finally, there is often insufficient data available on non-listed companies to conduct full due diligence, including supply chain assessment.

2. Besides investments in controversial weapons, it should be clarified that defence investments do not violate DNSH criteria under the EU Taxonomy or the SFDR’s definition of “sustainable investment”

While it is not appropriate for the definitions of sustainable investments to be changed to include defence investments under the EU Taxonomy or the Sustainable Finance Disclosures Regulation (SFDR), changes are needed to clarify other elements such as DNSH to ensure they are not automatically excluded. Under current requirements, sustainable fund investments should “do no significant harm” to the EU’s environmental and social objectives. This doesn’t explicitly rule out arms investments — but since all weapons are inherently designed to cause harm, many investors have adopted a cautious approach, choosing to limit their exposure to the sector.

The joint communication on EDIS ([here](#)) takes a step in the right direction clarifying that *the EU sustainable finance framework is fully consistent with the Union’s efforts to facilitate the European defence industry’s sufficient access to finance and investment. It does not impose any limitations on the financing of the defence sector.* Furthermore, except for weapons subject to prohibitions by international conventions signed by EU Member States, *the defence industry enhances sustainability, given its contribution to resilience, security and peace* (page 25).

Equally, insurers welcomed the statement in the recently published EC white paper for European Defence Readiness 2030 ([here](#)) that the SFDR does not prevent the financing of the defence sector and welcome that the EC committed to bring additional clarification on the application of the SFDR as part of its review.

3. As one of the biggest institutional investors in Europe and with a business model anchored on long term investments, insurers have a unique role to play in infrastructure investments.

As long-term and institutional investors, insurers are uniquely positioned to contribute to the construction and financing of critical defence infrastructure in Europe.



Infrastructure projects play a key role in defence as they enable the movement of armed forces. To ensure strategic mobility, it is essential for armed forces to have access to critical, dual-use transport infrastructure, which offers both the availability of all transport modes and multiple routings across the European Union and its partner countries.

To this end, the EU has identified four priority multi-modal corridors (rail, road, sea and air) for military mobility which enable short-notice and large-scale movements of troops and equipment. However, for these corridors to effectively operate, substantial and urgent investments are needed. These include widening railway tunnels, reinforcing road and railway bridges, as well as the expansion of port and airport terminals. In addition, the security, maintenance and repair of these corridors must also be guaranteed.

In order to enable these long-term dual-use infrastructure projects, greater financial predictability and regulatory clarity is essential. In support of this, the EU will adopt a Joint Communication on Military Mobility this year, including the necessary legislative proposals. In parallel, the Commission is also contributing to the funding of the European Investment Fund's (EIF) Defence Equity Facility. This Facility supports venture capital and private equity funds investing in European companies which are developing innovative defence technologies with dual use potential.

In this context, European (re)insurers welcome the EC's commitment to regulatory simplification, increased availability of risk capital, as well as the creation of new business opportunities. Given their position as stable, long-term capital providers, (re)insurers are capable of contributing to the objectives and infrastructure priority areas outlined by the Commission. (Re)insurers believe a coordinated approach that brings together public and private capital will be critical in ensuring that armed forces have access to strategic mobility, thereby contributing to Europe's long-term security and autonomy.

Encouraging investments in SMEs, innovation and key sectors, such as the defence sector, is essential for strengthening the EU's strategic autonomy, economic resilience, and long-term competitiveness. To unlock private capital in line with the objectives of the EU Savings and Investment Union (SIU), the provision of government guarantees can help reduce financial risk, improve access to capital, and stimulate private investment in critical areas.