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LARGE CONSUMERS CONCERNED BY THE IMPACT OF SOLVENCY II ON THE INSURANCE MARKET

Although FERMA supports the goal of the Solvency II European insurance regulatory regime which is to enhance policyholder protection, its members are concerned by the impact that the recommendations of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) to the European Commission will have on the insurance market.

“The main goal of Solvency II is to protect policyholders’ interests” says Peter den Dekker, President of FERMA, “and we represent the largest policyholders in Europe. We have serious concerns that excessive levels of capital requirements as they are currently stated by CEIOPS will affect the availability of insurance cover for medium and large European businesses.

“The fact that insurance companies are concerned that they will have to raise premium by 20% for non-life insurance is a notable development. However, our main concern is the potential reduction in the number of insurers capable of covering our risks. This could force us to retain more risks on our balance sheet, impacting our ability to invest and remain competitive in a global economy.”

FERMA shares the views expressed in the recent report published by the European Insurance Association (CEA) entitled *“Why excessive capital requirements can harm consumers and the economy”*. We believe, as stated in the report, that the lessons of the financial crisis which impacted the banking sector cannot be translated to the insurance sector. Insolvencies are much less frequent and well handled by market regulators.

Increasing capital (by 30 to 50% according to the report) will not necessarily bring better security particularly for catastrophe risks, but will certainly have an impact on premium costs (up to 50% for certain line of business) and product availability.

FERMA, therefore, recommends that a prudent calibration of the Solvency II models should be conducted prior to implementation.

In the absence of adequate choice in the commercial insurance market, large policyholders will have to use alternative solutions to cover their risks. In many cases this would normally be achieved by an increased use of their captive (re)insurance companies. However, FERMA is also concerned about the effect of Solvency II on captives.

FERMA believes that the specific nature of captives should adequately be recognized in Solvency II. The formulas for calculation of capital requirements and corporate governance principles need to be simplified and aligned to the captive business models. The proportionality principle should apply to captive undertakings.

FERMA is concerned that under the present CEIOPS project most captives will be excluded from access to these simplification measures. This could result in a reduction of the number of captive (re)insurance companies, which have proven to be essential risk management and risk financing tools for large businesses.

FERMA believes that a balance is required between protecting the consumer through capital requirements and guaranteeing the consumer a wide choice of competitively priced insurance products and mechanisms.

“We continue our discussions with CEIOPS and the European Commission on both the general impact on the insurance market and the captive industry. Providing solutions to the European Commission is something insurers should be able to do better!” Says Peter den Dekker, “FERMA is in positive discussions with the European Commission and is currently proposing solutions to protect the captive (re)insurance companies’ interests. We trust that the European Commission will be able to balance Solvency II requirements in a way that the real economy will not be affected and our members will still be able to be competitive.”

About FERMA

The Federation of European Risk Management Associations (FERMA) brings together 20 National Risk Management Associations in 18 European countries. FERMA has over 4,000 individual members representing a wide range of business sectors from major industrial and commercial companies to financial institutions and local government organisations. FERMA’s members play a crucial role within their companies with respect to the management and treatment of complex risks and insurance issues.

Member associations are from the following countries: Belgium (BELRIM), Bulgaria (BRIMA), Czech Republic (ASPAR CZ), Denmark (DARIM), Finland (FinnRiMa), France (AMRAE), Germany (Bfv & DVS), Italy (ANRA), Netherlands (NARIM), Norway (NORIMA) Poland (POLRISK), Portugal (APOGERIS), Russia (RusRisk), Spain (AGERS and IGREa), Sweden (SWERMA), Switzerland (SIRM), Turkey (ERMA) and United Kingdom (AIRMIC).

Press contacts

UK/US media

Lee Coppack

+44 (0)20 8318 0330 or by email at lee@coppack.co.uk

Other press

Florence Bindelle

Tel: +32 2 761 94 31 or by email: florence.bindelle@ferma.eu

www.ferma.eu



M ss S t i t i n o t m e n e

FERMA exists to support its members by coordinating and enhancing awareness and effective use of risk management, insurance and risk financing in Europe

g S t t r i t a c b v e c e j O

- 1. To coordinate, promote and support the development and application of risk management in Europe*
- 2. To be recognized as a significant stakeholder in the decision making process at the European level on Risk Management and Insurance issues*