Insurers of Europe

Press Release

11 March 2010

CEA warns of economic downsides to excessive capital requirements

New report shows consumers, the insurance industry and the EU economy would suffer if insurers are required to hold too much capital

Brussels, 11 March 2010: A report published today by the CEA, the European insurance and reinsurance federation, warns of the macro-economic effects of imposing excessively prudent capital requirements on the European insurance industry under the new Solvency II regulatory regime.

The CEA strongly supports the EU's Solvency II Framework Directive in the form in which it was approved, which requires that capital requirements are complemented by qualitative supervision in areas such as governance and organisational structure.

Europe's insurers are concerned that the implementing measures proposed by the Committee of European Insurance and Occupational Pensions Supervisors (Ceiops) may revert to the dated and simplistic Solvency I approach of adding "prudence on top of prudence" in the financial requirements they impose.

"We believe there is still time to get Solvency II right, and our report is intended to facilitate constructive debate on the detail of Solvency II with Ceiops and the European Commission within the framework set by the Council and the European Parliament" said Tommy Persson, CEA president.

"The insurance industry has serious concerns about the effect of some of the current proposals, as they would be bad for consumers, bad for Europe's economy and bad for the insurance industry," said Persson. "The reduction in investment and underwriting capacity would have worrying downsides at macro-economic level."

Policyholders would be hurt the most, as the prices of many life and non-life products would increase, the report shows. With investment returns lower, consumers would have to reduce their current spending to fund their retirement.

At macro-economic level, the report demonstrates that overly prudent capital requirements would restrict the insurance industry's role not only as a risk-absorber but also as an institutional investor financing long-term economic growth. The likely under-funding of pensions would also have serious social costs.

Over-capitalisation would affect the competitiveness of the EU insurance sector and its ability to attract new funding, putting it at a disadvantage in the global market.

The CEA 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 by supporting a healthy and competitive insurance market.

The CEA calls on both Ceiops and the European Commission to take this balanced approach and to fully reflect the spirit of the Framework Directive when drafting the implementing measures.

The CEA report, "Why excessive capital requirements harm consumers, insurers and the economy", is available to download from the CEA's website, www.cea.eu.

Background

Solvency capital requirements for EU insurers have been in place since the 1970s. Following a review required by the third generation Insurance Directives of the 1990s, limited reforms, known as Solvency I, were agreed by the European Parliament and Council in 2002.

The European Commission launched its proposal for a more fundamental and wider ranging review of solvency requirements — Solvency II — in July 2007. The text of the Solvency II Framework Directive was agreed after prolonged negotiation between the European Parliament, Council and Commission in spring 2009.

The Committee of European Insurance and Occupational Pensions Supervisors (Ceiops) has prepared advice to the Commission on the Level 2 implementing measures that provide the technical detail of the Framework Directive. The EC is now drafting its proposals for the implementing measures.

The Directive is due to be transposed into national legislation by 31 October 2012.

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Notes for editors

1. For further information please contact Janina Clark, head of communications & PR (tel: +32 2 547 5812, clark@cea.eu).
2. Copies of all CEA press releases are available on the CEA's website (www.cea.eu).
3. The CEA is the European insurance and reinsurance federation. Through its 33 member bodies, the national insurance associations, the CEA represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. The CEA, which is based in Brussels, represents undertakings that account for approximately 94% of total European premium income. Insurance makes a major contribution to Europe's economic growth and development. European insurers generate premium income of €1 100bn, employ one million people and invest more than €6 900bn in the economy.