



LA CHRONIQUE EUROPEENNE PAR ADRIAN LADBURY, BIE

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Heading - Act now or repent at leisure

Introduction - The risk and insurance management agenda in Europe has been dominated in recent weeks by one big topic that refuses to go away – risk regulation. Adrian Ladbury, International Editor of Business Insurance newspaper returned from 10 days of meetings and conferences all over Europe with the latest news for risk and insurance managers and a call for action on Solvency II in particular.

Both the United States and the European Council of Ministers have decided to create systemic risk boards that will try to stop a repeat of the global financial crisis from occurring and spreading so quickly again.

President Barrack Obama announced the US plan in late June as part of a wider package of measures designed to help drag the US out of its current recession and set up a system to prevent it happening again.

For more detail on the overall plan, causes and solutions to the crisis see an excellent summary provided by Federal Reserve Chairman Ben S. Bernanke in a speech at the Council on Foreign Relations, Washington, D.C. March 10, 2009 Financial Reform to Address Systemic Risk (<http://www.federalreserve.gov/newsevents/speech/bernanke20090310a.htm>.)

Debate is now under way in Congress about whether to accept Mr. Obama's plan under which the Federal Reserve would be given the power to oversee the largest financial firms and ensure they do not taking excessive risks that could destabilize the economy. This role would be carried out by what will be called the Systemic Risk Authority.

But several top Democrats and Republicans rapidly questioned whether it would be wise to give so much authority and responsibility to an agency that was in charge when the crisis occurred in the first place and that is largely blamed for making it worse by poorly managing the subsequent bailout.



It has also rapidly been pointed out that the Authority does not really have any teeth as it will be primarily an advisory body with no power to intervene in a concrete manner.

The European Systemic Risk Board does have teeth as it is able to issue risk warnings and demand that companies identified as vulnerable explain how they are going to react.

But again experts have rapidly asked whether these teeth will be used by the right people.

The European plan was also announced in mid-June when the European Council of Ministers approved a plan submitted by the European Commission.

The plan includes the creation of the European Systemic Risk Board, which will monitor potential systemic risk problems and intervene when they occur, and the European System of Financial Supervisors, which is intended to facilitate greater cooperation between national supervisors in the European Union and other countries.

The ESRB will be led by the chairman of the European Central Bank and will be composed of representatives of central banks from each E.U. member state.

Thomas Steffen, chairman of the Committee of European Insurance & Occupational Pensions Supervisors and head of the insurance unit at the German financial supervisor the BaFin, is the only member of the new body who represents the insurance sector.

Speaking at a conference organized by the Comité Européen Des Assurances on the day that the new plan was announced in June 19, Henri De Castries, Chairman of AXA Group said that the European Commission needed to rethink its plan and redress the balance on the board.

“Central bankers have had a lot of opportunities to be together in the past, and this has not prevented us being in the current crisis. Therefore,



if you want to create a strong new system it needs a balanced board of representatives of central banks and insurance supervisors—but not 27 to one,” said Mr. De Castries. He also said the board should include academics and practitioners and ask lots of nousey questions (I suggested a financial journalist who specializes in risk management and is trained to ask nousey questions would be a good idea, but, nobody seemed to take any notice!).

David Wright, deputy director general of the E.C. Directorate General for Internal Market and Services, said the board would consult with insurance industry before making decisions that affect the sector. “The insurance industry will be very present in this discussion where necessary,” he said.

Mr. Wright may be correct. Maybe the central bankers will consult their insurance supervisory colleagues and hopefully other experts. Maybe they could even be persuaded to listen to some real risk management experts such as those represented by FERMA.

But, most of the senior delegates at this event agreed with Mr. De Castries that this was a good idea that had not made a good start. As one delegate quipped over lunch: “If each of these central bankers had to formally apply for the job to an independent panel it would be difficult to prove that they had the track record to get the job.”

Closer to home for most insurance buyers in Europe is the rapidly nearing completion of Solvency II, Europe’s planned new capital adequacy regime for the insurance sector.

Mr. Steffen, who seems to be an approachable and sensible chap and popular with his peers, has a lot on his plate currently to try and ensure that the timetable is met and the critical implementation measures agreed by the year-end.

Risk and insurance managers must double their efforts to ensure that their voice is heard over the coming months.

Solvency II is designed above all to make the European insurance sector a safer and more efficient market for the customers. But it is a very technical debate and a delicate balance is needed between the protection of buyers’ interests and the maintenance of a healthy insurance market.



If the rules are too strict then they will effectively force insurance companies out of business, reduce competition and raise costs. If they are too weak then it will have been a very expensive waste of time.

Rob Jones, Managing Director at Standard & Poor's in London said at the agency's 4th Annual European Insurance Symposium in Munich, Germany the week after the CEA conference that he believes that Solvency II will definitely reduce choice for buyers.

Mr. Jones said that based on the last round of consultation on Solvency II carried out by CEIOPS some 11% of Europe's insurers failed to cover the standard capital requirements.

He said that as high as 25% of the insurers would need to raise capital, buy more reinsurance, reduce risk, write less business, merge or be acquired and close to new business.

"Mergers and acquisitions will occur and some companies will consolidate. The decision not to include group support (by which local operations could use holding company capital for solvency purposes) means that the diversification benefit will be lower because of lack of group support," Mr. Jones told delegates at S&P's.

And there is the threat to captives too.

Captive insurance companies based in the European Union will be subject to Solvency II and so there is a fear that the rules designed for commercial insurance companies will significantly raise capital requirements and administrative costs.

The capital threat appears to have receded because the European Commission has publicly stated that the rules should be proportionate and therefore lighter for those captives that do not write third party business.

But many captives do write third party business. And, even if the capital rules are lighter, the administrative and modeling costs will still be very high for generally very small operations that often only make sense because they are so small and simple to operate.

This topic was discussed in detail at a conference held in Frankfurt Germany two days after the S&P event that was organized by BI along with the Deutscher Versicherungs Schutzverband e.V. and the



Bundesverbundener Versicherungsvermittler und gesellschaften e.V., the two main German insurance buyer associations.

The European Captive Insurance and Reinsurance Owners' Association, the group formed only last year to represent captives at the EC level, was also a supporting partner.

Both keynote speakers Stefan Sigulla, President of the DVS and Chief Executive Officer of Insurance at Siemens A.G. and Peter Klatt, a member of ECIROA, the BfV, board member of the DVS and Managing Director of the captive broker of BMW, stressed that insurance buyers are worried about the impact of Solvency II on captives and the availability and cost and capacity of insurance on offer.

"There is an increased workload that needs to be done to meet the regulation and it does not bring a lot of added value...it risks making captives quite unattractive," said Mr. Klatt.

Marisa Attard, Insurance Regulator at the Malta Financial Services Authority and sponsor of the event, agreed with other speakers that the new capital adequacy regime could place pressure on smaller and niche insurance companies to continue operations that would not necessarily be in the interests of insurance buyers. She called for more lobbying from the buyers.

"We need more lobbying from the smaller insurers because they play a very important role in the markets. They need to prioritize and promote themselves through associations like the CEA," said Ms. Attard.

Peter Den Dekker, new President of FERMA and corporate insurance manager at aerospace company Stork in the Netherlands, said that lobbying on Solvency II and other key matters for insurance buyers is a top priority for him in his new role and this will be a hot topic of discussion at the FERMA conference in Prague in early October.

The good news is that Mr. Steffen told delegates at the CEA conference that he is aware of the concerns of insurance buyers and that further consolidation is not the intention of the new regime.

He told me that he would welcome any input from the European risk and insurance management community to help ensure that their interests are not threatened by Solvency II.



Importantly this was said in front of Mr. Wright of the competition Directorate and Karel Van Hulle, Head of Insurance and Pensions, Internal Market and Services at the European Commission.

The door is therefore open. But it will not be open for too long and the risk and insurance management community need to fully back and support Mr. Den Dekker at FERMA and ECIROA to make sure that the opportunity is not wasted.

A healthy turnout of risk managers at the FERMA conference in Prague October 5-7 is also critical because the insurance buyers' voice will only be taken seriously by the European Commission if it can be shown that the issues have been properly discussed and strategy agreed upon at a pan-European level.

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