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EU insurance rules (Solvency II)

Industry lobbying pays off, as EU fails to protect policy holders

The European Parliament and Council last night reached an agreement on revising the EU's prudential rules for insurers (the Solvency II Directive). The Greens criticised the outcome for falling short in key areas aimed at protecting policy holders. Commenting on the outcome, Green finance spokesperson **Sven Giegold** said:

"The EU has missed an opportunity to truly reduce risk in the insurance sector and protect policy holders. Intensive lobbying by big insurance companies and their backers in national governments and the EP has paid off, as they succeeded in lowering prudential capital requirements. While this will clearly increase profits for long term insurance products, it flies in the face of the recommendations by the Europeans Systemic Risk Board and the European insurance supervisory authority EIOPA.

"The provisions on capital relief and capital requirements will enable insurance companies to effectively ignore losses caused by the financial crisis and lower interest rates, masking their real financial vitality. This is not prudent regulation. According to EIOPA assessments, it would appear the package provides a whopping €277 billion in capital relief and life insurers will be allowed to hold solvency capital of just 4.5% of their assets. In other words, an unrecoverable drop in asset values of just 4.5% would leave them unable to meet their insurance commitments. This is bad for policy holders and taxpayers, who will be ultimately left to foot the bill.

"Corporations will now be able to distribute profits even if the market value of their assets suggests that they might not be able to meet claims of policy holders. This is particularly alarming at a time when worrying long-term growth and interest rate projections cast a big shadow of doubt over whether life-insurance and savings products can live up to their promises.

"One silver lining is a provision, insisted on by the Greens, to ensure that insurance companies using any of the long-term guarantee measures must report the quantitative effect to the public. We will make sure that all companies making use of these privileges are named and shamed on a website including their brands and the billions of missing capital."

* More in-depth information can be found at the following URL: <http://www.sven-giegold.de/2013/solvency-ii-insurance-lobby-celebrate-a-landslide-victory-over-consumer-protection/>

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Sven Giegold

Member

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