BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

PRESS RELEASE

The extensive use by German insurers of reserves belonging to customers to improve their solvency fit for export.

For the first time, BETTER FINANCE and the Bund der Versicherten (BdV) examine the stability of insurance companies for the main EU insurance markets.

24 June 2021–Besides their fundamental business figures, insurance companies have to disclose how stable and secure they are in annual "solvency" reports. In 2021, for the first time, BdV–Europe's most important association for insurance policyholders–in cooperation with BETTER FINANCE, the European Federation of Financial Services Users–analyse these reports from the 10 biggest life-insurers from France, Spain, Italy and the Netherlands, along with Germany. *"There are important differences between the life-insurance markets of these five European member states and there are reasons for concern"*, states Axel Kleinlein, President of BETTER FINANCE and spokesperson for BdV. The extensive use of life-insured persons' profit-sharing reserves as "own funds" of the insurers, through which German life-insurers reduce profit participations for their customers, can now be assessed in France as well.

Also, in both countries the solvency requirements are only fulfilled through "transitional measures",[1] special calculations or the use of the undistributed profits belonging to customers. For half of the companies under investigation in France and Germany, the solvency requirements are at risk of not being met if these adjustments are not taken into account. Hence, in order to protect the savings of customers, policymakers need to impose more stringent controls on these investments.

The situations in Italy and Spain are different. The high solvency ratios of the Italian and Spanish life-insurers are strongly based on their own government bonds. Due to this poor diversification of assets, the companies are heavily dependent on the monetary and financial policies of their states.

The Dutch life-insurers analysed for this research show a sufficient solvency rate, but this overly prudential calculation may only be a consequence of a reduced profit participation for their customers, in itself a cause of concern from a consumer perspective.

Another aspect of the research regards the transparency of the reports. There is much room for improvement in Italy and Spain, but also in France and the Netherlands. German life-insurers show the way forward: *"Our research work over the years has resulted in more discipline from the German life-insurers"*, Kleinlein explains. *"We would like to see the same effect on the life-insurers of the other EU member states"*, he adds.

This translates into one clear message for EIOPA, the European Supervisory Authority for insurance: the savings of customers should not be endangered when being used as solvency capital. For years this charade has been allowed to continue in Germany and now France follows in its footsteps. "*This must*

[1] Transitional measures are actuarial or mathematical adjustments to the technical provisions that may be applied, under certain circumstances (Art. 308 *et seq.* Solvency II Directive) by insurance companies to meet solvency capital requirements.

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not be exported to other EU member states or be applied to other similar markets. EIOPA as the European Supervisory Authority must prevent this consumer detriment", Kleinlein asks.

Another request relates to the establishment of a fully accessible and consistent EU database. "*EIOPA could ensure real transparency through the aggregation of all relevant data of the solvency reports*", Carsten Zielke, head of Zielke Research, concludes. Additionally, he asks for a reform of the Solvency II system and advocates for the transposition of some elements of reporting standards to the solvency rules. "*The cross-border comparisons have shown that there is a lack of consistency with regard to the assessment of insurance liabilities. I urge authorities to refer to an internationally recognised balance sheet standard as initially foreseen by the Solvency II directive. The business figures of the insurers would be projected more accurately and there would be coherence with the risk assessment of the banks (Basel 3), in order to prevent supervisory arbitrage*".

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