POLISH FINANCIAL SUPERVISION AUTHORITY

Chairman

Andrzej Jakubiak

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Insurance companies

Reinsurance companies

Dear Sirs

The regulatory authority, in a manner similar to that applied in respect of recommendations issued in the previous years, recommends that insurance / reinsurance companies continue to apply a conservative dividend policy and allocate any profit they may have earned to enhance their capital standing. In the opinion of the regulatory authority, the conduct of a conservative dividend policy by insurance / reinsurance companies has positive effects, in particular in the form of maintaining solvency ratios at relatively high levels, and thus developing adequate capital buffers.

The year 2015 was another period in which elevated levels of risk were observed in the external environment of the Polish economy, in particular resulting from a complex political and economic situation in some euro zone countries and the eastern part of Europe, increasing uncertainty about the future development of the economic situation in Poland.

Of great significance is the practice in the insurance area consisting of judicial decisions in respect of the payment of compensation, spare parts, replacement vehicles and applied withdrawal fees in unit-linked insurance which may adversely affect the financial standing of insurance / reinsurance companies. Consequently, the challenge remains to offer products based on relational culture, i.e. good relations with clients that pay off in the long term thanks to their increased loyalty and trust.

Moreover, the provisions of the Solvency II Directive entering into force as of 1 January 2016, which imply new solvency requirements for insurance / reinsurance companies gain significant importance. The preparatory reporting according to Solvency II, presented in 2015, has enabled both insurance / reinsurance companies and the regulatory authority to develop a more accurate recognition of capital needs associated with the new solvency regime.

Accordingly, bearing in mind the need to protect the interests of policyholders, insureds, beneficiaries and persons entitled under insurance agreements, it is recommended that the capital security of the insurance sector continue to be strengthened. At the same time, one factor that should not be lost from sight is the unfavorable effects of potential catastrophic events for which insurance / reinsurance companies should be adequately prepared by having appropriate capital buffers in place.

Consequently, the regulatory authority, similarly to the recommendations for the payment of dividends from profits generated in 2014 distributed among insurance / reinsurance companies by letter dated 3 December 2014, bearing in mind the length of time required for the planning of assumptions for the financial plans for 2016 by insurance / reinsurance companies, has found it appropriate to issue a recommendation on the payment of dividends from profits generated in 2015. Therefore, the regulatory authority recommends that insurance / reinsurance companies continue their conduct of a conservative dividend policy using the generated profit to enhance their capital standing.

It is recommended that dividends be paid only by those insurance / reinsurance companies that meet all of the following criteria:

I. They received a good (1.00) or satisfactory (2) BION risk score for 2014;
II. In 2015, they reported no shortage of shareholder funds to cover the

solvency margin or guarantee capital and no shortage of assets to cover technical provisions (in monthly or quarterly periods);

III. In 2015 they were not covered by the remedial plan or program referred to in Article 187 sections 1 – 3 and 8 of the Insurance Activity Act;

IV. Their capital requirements coverage ratio according to Solvency I (understood as the lower of the ratio of shareholder funds to solvency margin and the ratio of shareholder funds to guarantee capital) as at 31 December 2015 was at least 160% in the case of life insurance companies or 200% in the case of non-life insurance companies;

V. As at 1 January 2016, their capital requirements coverage ratio according to Solvency II (understood as the lower of the eligible shareholder funds before deducting expected dividends to the capital solvency requirement and eligible basic shareholder funds before deducting expected dividends to the minimum capital requirement) was at least 150%;

VI. Their stress tests conducted as at 31 December 2015 for all tested risk types indicated the capital requirements coverage ratio according to Solvency I of at least 110% and the ratio of coverage of technical provisions with pertinent assets of at least 100%;

Those insurance / reinsurance companies that satisfy the above criteria should limit their dividend payments to a maximum of 75% of the profit earned in 2015, while the capital requirements coverage ratio according to Solvency II after the dividend payment should be maintained at no less than 110%.

At the same time, it is permitted to pay a dividend from the entire profit earned in 2015 (which means that it is not permitted to pay a dividend from profits earned in previous years), provided that after the payment of the dividend the capital requirements coverage according to Solvency II after deduction of expected dividends will be maintained at a level equal to or higher than that specified in criterion V and criterion IV and VI will be met, taking into consideration the status as at 31 December 2015 adjusted for the amount of the dividend.

Those insurance / reinsurance companies that satisfy the above criteria should, when making decisions on the dividend amount, take into account additional capital requirements within the 12 months following the approval of the financial statements for 2015, including those following from increase of the costs caused by changes to the market and legal environment.

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