Financial Supervision Authority
Chairman
Andrzej Jakubiak

L.dz.DNU/W1/606/219/1/12/EU Warsaw, 5 December 2012
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Insurance Undertakings
Reinsurance Undertakings

Having regard for the persisting uncertainty on the financial markets, the regulatory authority deems that there is an elevated risk for the Polish economy and its environment whose materialization could adversely affect financial market entities, including insurance and reinsurance undertakings.

In 2012 the insurance sector was not exposed to very high catastrophic losses; nevertheless, it is important for insurance and reinsurance undertakings to have the requisite capital security so as to be able to provide for the proper performance of their obligations that may emerge as a result of catastrophic events.

Moreover, despite the probable deferral of the effective date of the Solvency II system requirements, insurance and reinsurance undertakings should continue to accumulate the indispensable financial resources in conjunction with implementing the Solvency II system, both on account of the prospective necessity of replenishing their own funds having in mind the elevated capital requirements following the effective date of the Solvency II system and on account of incurring the required expenditures to prepare insurance and reinsurance undertakings to function under the new regime, including changing their IT systems and the possible construction of internal models.

The BION assessments, stress tests and QIS survey conducted once again in 2012 enabled insurance and reinsurance undertakings and the regulatory authority to reconnoiter more precisely risks and areas which are not sufficiently contained or duly managed.

The results obtained from the aforementioned assessments and surveys as well as the information provided by insurance and reinsurance undertakings on their activities formed the basis for asserting that the criteria embraced in the previous recommendation concerning dividend payments such as: solvency ratios, BION assessment and stress tests are appropriate and should continue to form the basis for this recommendation in this subject area.

In light of the foregoing, the regulatory authority, following the recommendation on dividend payments from the profit generated in 2011 conveyed to insurance and reinsurance undertakings in its letter of 13 February 2012, having in mind the time when insurance and reinsurance undertakings plan for the assumptions in their 2013 financial plans, deemed it to be justified to issue a recommendation on dividend payments from the profit generated in 2012. The regulatory authority recommends that insurance and reinsurance undertakings adopt a conservative dividend policy and that the profit generated be designated to strengthen their capital position.

It is recommended that only those insurance and reinsurance undertakings, which jointly meet the following criteria consider the justification for a dividend payment:

I. they received a BION score for 2011 higher than 2.50;
II. they did not show a shortfall of own funds in 2012 to cover their solvency margin or guarantee capital or a shortfall of assets to cover their technical provisions (in monthly or quarterly periods);
III. in 2012 they were not subject to a remedial plan or program as referred to in art. 187 sections 1-3 and 8 of the insurance activity act;
IV. as at 31 December 2012 they have a capital requirements coverage ratio (understood to mean the minimum of own funds to the solvency margin and own funds to guarantee capital) of at least 160% for section I undertakings or 200% for section II undertakings;
V. as a result of the most recently conducted stress tests for all the surveyed types of risk the capital requirements coverage ratio was at least 110% and the technical provision coverage ratio with the relevant assets was at least 100%.

The insurance and reinsurance undertakings that meet the foregoing criteria should curtail the dividend payment to a maximum of 75% of the profit generated in 2012, where the capital requirements coverage ratio after the dividend payment should remain at the level of at least 110%. At the same time, it is permissible to make a dividend payment of all the profit generated in 2012 insofar as the capital requirements coverage ration after dividend payment will remain at a higher level than the one specified under criterion IV, and that the fulfillment of criterion V will be upheld while giving consideration to the state as of 31 December 2012 adjusted by the dividend amount.

Insurance and reinsurance undertakings fulfilling the aforementioned criteria when making the decision on the dividend payment should incorporate their additional capital requirements with an outlook for the twelve months from the time of approving the 2012 financial statements.

In the opinion of the regulatory authority, the actions taken by insurance and reinsurance undertakings to maintain the appropriate capital buffer will serve the stable operation and development of insurance and reinsurance undertakings, whereby they will contribute to procuring better protection for the interests of policyholders, insureds, beneficiaries and entitled persons under insurance agreements.

At the same time, the regulatory authority announces that the actions taken by insurance and reinsurance undertakings to implement this recommendation will be a subject of interest to the Financial Supervision Authority during the course of carrying out its day-to-day supervision tasks.

Respectfully,
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Andrzej Jakubiak
Chairman
Financial Supervision Authority