FINANCIAL SUPERVISION COMMISSION

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Chairman
Andrzej Jakubiak

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Insurance/reinsurance companies
Life and non-life insurance companies

In view of the situation in the global financial markets, uncertainty as to the manner of resolving the debt crisis in certain euro area countries, a possible upcoming significant economic slowdown in Europe and the absence of evidence for the reversal of negative trends in the short term, the regulatory authority points out that these phenomena may contribute to the persistence of an elevated risk surrounding the Polish economy and adversely affect entities operating in the financial market, including insurance/reinsurance companies.

In this situation, it is necessary for such companies to monitor potential threats as part of their operations and implement measures allowing them to ensure an adequate capital buffer. Maintenance of adequate capital security by insurance/reinsurance companies is necessary to minimize potential negative effects of rapid changes in the insurance sector's environment, including the financial markets, and changes resulting from catastrophic events.

Due regard should also be given to the provisions of the Solvency II Directive which may cause the need to supplement a company's own funds due to higher capital requirements and which will force necessary expenditures on changes in the organization of activities of insurance/reinsurance companies, including, in particular, changes in IT systems and the creation of internal models. In the opinion of the regulatory authority, the funds necessary for this purpose should be accumulated by insurance/reinsurance companies in sufficient advance.

In consideration of the foregoing, the regulatory authority, the statutory objective of which, as laid down in the Financial Market Oversight Act of 21 July 2006 (Journal of Laws of 2006 No. 157 Item 1119, as amended), is to ensure the proper operation, stability and security of the insurance market as well as confidence in the financial market, recommends that insurance/reinsurance companies adopt a conservative dividend policy and use any profits they generate to strengthen their capital position.

In particular, it is recommended that insurance/reinsurance companies refrain from the payment of a dividend in the event of fulfilling at least one of the following criteria:

- as at 31 December 2011, having the capital coverage ratio (construed as the minimum of the ratio of own funds to the solvency margin and the ratio of own funds to guarantee capital) below 160% for life insurance companies or 200% for non-life insurance companies;

- having received a BION rating for 2010 below 2.5;
- in recent stress tests for any type of risk, the capital coverage ratio dropped below 110%;
- a shortage of equity to cover the solvency margin or to cover guarantee capital or a shortage of assets to cover technical reserves was reported in 2011 (in monthly or quarterly periods).

Other insurance/reinsurance companies should limit their dividend payments to a maximum of 75% of profits generated in 2011 while maintaining their capital coverage ratio after the dividend payment at a level of at least 110% and allowing for additional capital needs over a period of 12 months following approval of the financial statements for 2011, including additional capital needs resulting from any entity-specific concentration of investments of such insurance/reinsurance companies.

In the opinion of the regulatory authority, such activities undertaken by insurance/reinsurance companies with a view to maintaining an adequate capital buffer will serve the purpose of a stable operation and development of such companies, and thus will contribute to ensuring better protection for the interests of policyholders, insureds, beneficiaries and persons entitled under insurance agreements.

Andrzej Jakubiak
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Chairman of the
Financial Supervision Commission