KNF - Polish Financial Supervision Authority

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Deputy Chairman

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**Insurance companies**
**Reinsurance companies**

The regulatory authority, following the practice from 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, a conservative dividend policy by insurance/reinsurance companies has positive effects, in particular it ensures that solvency ratios remain at adequate levels under the new Solvency II framework, which contributes to stability of the insurance sector, which is an important part of the financial sector. This confirms the arguments for continuing development of adequate capital buffers.

The year 2017 is another period, in which the events occurring in the legal and regulatory environment of the insurance sector continue to have a material impact: court judgments and interpretations related to payment of general damages, treatment costs, spare parts, replacement vehicles, taxation of services, withdrawal fees in unit-linked insurance. We should also note the introduction in 2018 of new legal regulations in respect to the broadly-defined protection of interests of the insureds, such as the implementation of the regulation on PRIIPs or the Insurance Distribution Directive.

The regulatory authority believes that the effects of these events do and will continue to affect the financial standing of insurance/reinsurance companies.

Consequently, it remains a challenge for the insurance sector to ensure adequacy of revenues as compared to operating expenses in the long term, to offer products based on a relational culture, i.e. good relations with clients that pay off in the long term thanks to their increased loyalty and trust (an in some insurance segments – even rebuilding of trust) of the clients, which will contribute to the proper mitigation of reputation risk of the whole sector and guarantee its safety.

Bearing in mind the need to ensure sustainable capacity of the companies to pay out claims and benefits and therefore 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 to be improved further. It is also important to consider appropriate capital security of insurance companies, in the event of negative effects of potential catastrophic events.

Consequently, the regulatory authority, in a manner similar to the recommendation for the payment of dividends from the 2016 profits, which was distributed among insurance/reinsurance companies in the letter of 8 December 2016, bearing in mind the period that the insurance/reinsurance companies need to prepare assumptions for their financial plans for the next year, has found it appropriate to issue a dividend policy recommendation for 2018. Accordingly, the regulatory authority recommends that insurance/reinsurance companies continue their conservative dividend policy and use the profit earned by them 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 (2.00) BION risk score for 2016;
II. in the individual quarters of 2017 they reported no shortage of own funds to cover the capital requirement (defined as the maximum of the minimum capital requirement (MCR) and the solvency capital requirement (SCR));
III. in 2017 they were not covered by a short-term financial plan or the remedial plan referred to in Article 312 and Article 313 of the Insurance and Reinsurance Activity Act;
IV. as at 31 December 2017, the level of own funds, without deducting the expected dividends, was at the level of at least 175% of the capital requirement amount for companies operating in section I and at least 150% of the capital requirement for companies operating in section II.

Those insurance/reinsurance companies that satisfy the above criteria should limit their dividend payments to 75% of the profit earned in 2017, while the coverage of the capital requirement in which the dividend was paid out should be maintained at no less than 110%.

At the same time, the insurance/reinsurance companies are permitted to pay out a dividend equal to the entire profit earned in 2017 (which means that payment from other equity elements is not permitted), provided that the capital requirement coverage (after expected dividends are deducted from equity) at the end of 31 December 2017 and for the quarter when the dividend is paid, is at least 175% for companies operating in section I and at least 150% for companies operating in section II.

Those insurance/reinsurance companies that satisfy the above criteria, when deciding on the level of dividends, should take into account the additional capital needs within the period of twelve months from the approval date of the 2017 financial statements, which may result, among others, from changes in the market and legal environment.

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