BDI DEUTSCHES AKTIENINSTITUT

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Re-calibration of capital requirements for certain asset classes under Solvency II

Dear Mr Bernardino, 12 December 2012

We are concerned that the envisaged Solvency II regime will decrease the willingness of insurance companies to invest in certain asset classes with a long term time horizon significantly. The implementation of this regulatory approach would seriously harm ABS, equity markets and real estate, thereby deteriorating long term financing abilities of the real economy which are already impaired by much stricter capital requirements for banks.

We therefore welcome the initiative, addressed in the letter of Mr Jonathan Faull from 26 September 2012, to reassess the calibration and design of capital requirements of investments in certain long term assets. Nevertheless, it should be explicitly stressed that investments in ABS, in shares and real estate are included in the reassessment process as these three asset classes are of utmost importance for the financing needs of the real economy. For the reasons mentioned below insurers should not be discouraged to invest in these asset classes by regulatory requirements.

In 2011 German insurance companies held more than € 50 billion in structured finance products. It is probable that too tight capital requirements will force insurance companies to refrain from investing in these assets. Among others, this would have a significant negative impact on German car manufacturers using structured finance products for sales financing. The securitisation of loans granted to medium-sized companies which increasingly becomes an option of finance for the German “Mittelstand” would be curtailed as well.

The reasons for too tight capital requirements are hardly understandable. As a matter of fact, European ABS are of high quality and not at all comparable to structured finance products based on US-sub-prime mortgages. Securities backed with loans or leasings of the German automobile sector did resist the tendency of falling prices in the financial markets crisis. Even on the peak of the crisis default rates of structured finance products based on German loans to medium sized companies were negligible. Undoubtedly this high quality will remain in the future.

Another asset class harmfully affected by the capital requirements proposed in Solvency II is the equity market. Regarding the fact that German insurance companies’ investment in shares is already very low strict capital requirements are a bad signal. We fear that this will lead to an enduring low level of equity investment of these very important investors which is likely to decrease even more in the future. The real economy would be harmed which contradicts the aim expressed by the European Commission to improve capital markets access and conditions for listings especially for medium-sized companies. In general, financing via share capital is an efficient way to bolster the equity cushion and to increase the resilience of the company as a whole. A sufficient equity ratio is also the prerequisite for further investments and job creation.

Finally, the regulatory treatment of real estate investments does not adequately meet the financing needs of the real economy. Real estate is a fundamental part of the physical infrastructure that drives the economy. We therefore suggest to reassess the property risk sub-module which overstates the specific risk stemming from property investments for insurers. Especially a recalibration of the market shock factor is imperative to avoid negative consequences for the real estate sector and the economy as a whole.

The German economy has to rely on a broad access to capital in order to preserve and increase its innovative capacities, to invest in infrastructure and to create a more resource efficient, sustainable growth. We would very much appreciate if you could take into account our considerations. Serious harm for the financing conditions of the real economy should be averted.

We strongly encourage you to include the aforementioned asset classes in the re-examination of capital requirements under Solvency II. Our assistants Dr. Reinhard Kudiß (phone: +49-30-2028-1422; email: r.kudiss@bdi.eu) and Dr. Norbert Kuhn (phone: +49-69-92915-20; email: kuhn@dai.de) and we would be delighted to also explain our point of view to you personally upon your convenience. Please do not hesitate to contact us if this is an option for you.

Yours sincerely

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Executive Board Member

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Federation of German Industries

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