

INFORMATION ON THE RESPONDENT

A) Name and address of the respondent

German Insurance Association – Gesamtverband der Deutschen Versicherungswirtschaft (GDV)

B) The respondent is

- A financial conglomerate
- A financial institution other than a financial conglomerate
- A regulator
- A supervisor
- **An association of stakeholders**
- Other, please specify

C) If the respondent is an association of stakeholders, how many members do you represent?

The Berlin-based German Insurance Association (GDV) is the umbrella organisation for private insurers in Germany. Its 468 member companies, with 212 000 employees and trainees, offer comprehensive coverage and retirement provisions to private households, trade, industry and public institutions, through 447 million insurance contracts. As a risk taker and major investor (with an investment portfolio of about 1 165 billion EUR), the insurance industry has outstanding significance in connection with investments, growth and employment in our economy.

GDV articulates and represents the positions of the German insurance industry before society, politicians, businesses, the media and academia, working to achieve regulatory conditions which will allow insurers to perform their responsibilities in optimal fashion. At the same time, the Association is a source of expert information about all matters relating to the insurance industry, making available its wealth of experience and information to the public. GDV informs and supports its member companies as a service provider, addresses political and social developments of relevance for the sector and develops solutions.

The comments below reflect especially the views of a GDV Working Group on Financial Conglomerates with the following members:

- Allianz (financial conglomerate)
- Debeka (financial conglomerate)
- Inter (financial conglomerate)
- Munich Re (so far still no financial conglomerate)
- R+V (insurance part of DZ Bank financial conglomerate)
- W & W (financial conglomerate)

D) Do you object to the publication of your response?

No

Question 1

For which of the following a review with respect to the transparency of group structures would be justified? Please select all that apply and explain why:

- Yes, for all conglomerates
- Yes, for all conglomerates larger than 100 billion euro total assets
- **Yes, for all groups, banks or insurers or conglomerates**
- Yes, for all groups larger than 100 billion euro total assets
- No, I don't think that a review of transparency of group structures is justified

Why?

General considerations

We agree that the issue of sufficient transparency of group structures may deserve consideration.

First of all, we would like to hint at all the existing reporting requirements as regards group structures for supervisory purposes and in accounting. The review should be based upon this reported information and should not introduce additional reporting burdens on undertakings.

Transparency of group structures can be considered in different ways: Looking at the number of legal entities is only one dimension (whether only subsidiaries are included or participations or even branches). The nature, scale and complexity of the risks of the business may contribute to intransparency as well. Centralised risk management (e. g. accompanied by group-wide internal models) and consolidated supervision strongly increase the economic transparency even though legal structures may be still complex.

The degree of transparency of a group's activities from an outside perspective of supervisors is heavily linked to the substantial cooperation of the supervisory authorities concerned and the clear definition of their roles in supervising the group. For example, the role of a strong group supervisor, chairing the college of supervisors, will reduce effectively the issue of sufficient transparency of group structures.

Scope of a review

It would not be reasonable to restrict the issue of sufficient transparency to financial conglomerates only. We note that there exist small and low-risk financial conglomerates but other high-risk institutions in financial services where transparency is a more obvious issue.

The criteria of a certain fixed amount of total assets is not convincing because it is not adequate to measure complexity or transparency. The threshold of 100 billion euro is arbitrary.

In respect of the third option, we do not see the case for a review of all groups regardless of the nature, scale and complexity of the risks of their business.

Aim of a review

It is unclear to us what a review of the issue of transparency of group structures is aiming at. If regulation is planned to split groups considered as too intransparent, we heavily object such considerations (somehow anti-trust regulation). We are also reluctant to a two level approach in supervision whether groups are classified into systemic relevant or not. There's the risk of

arbitrage. However, we accept that the need of an enlarged exchange of information between supervisors might increase depending on the group structures.

Conclusion

None of the alternatives is considered as appropriate. Any review of the issue of transparency of group structures, if any, should take into account the caveats above and should not put additional reporting requirements as burden on undertakings.

Question 2

Do you think that a more in-depth investigation is justified with respect to the supervisory scope of supplementary supervision, especially in relation to the non-regulated parts of financial conglomerates? Please explain why.

Basically yes, if the further investigation takes accurately account of the different types of non-regulated entities.

Why?

General considerations

We agree that certain non-regulated parts of financial conglomerates might justify a more in-depth investigation with respect to supervisory scope of supplementary supervision.

Our first point would be that financial conglomerate supervision is supplementary; i. e. analysis might have to be done first at sectoral level. Where non-regulated parts of banking group or insurance groups exist the question is if or how this could be addressed at sectoral level.

Second we would expect the substantial parts of risks from non-regulated parts to be included in consolidated solvency calculations at group/financial conglomerate level, e. g. operational risk of service providers within these groups or the increased market risk by investment vehicles (even if non-regulated).

Different types of non-regulated entities

It is crucial to differentiate between different types of non-regulated entities. The character of entities might differ significantly, as the following types of entities show.

1) Entities with non-financial activities

They should not be supervised as regulated entities at solo level. For example, where an insurer holds a participation in a car repair shop for strategic reasons (serving its motor insurance policyholders). it is not appropriate to subject pure service undertakings to supplementary financial conglomerate supervision. Of course implications of them on the group's risk position are covered by pillar 2 requirements.

2) SPVs / entities which hold investments

SPVs and other entities which hold investments will be subject to additional (sectoral) rules introducing more oversight over them. For example, Solvency II foresees implementing measures for such entities. From an economic point of view it is relevant that investment risk is captured without double counting.

Other entities which hold investments cannot be regarded as non-regulated, as their

investment activities have to be considered within the framework of the SCR-calculation of the respective (re-)insurance undertaking. This happens due to the fact that Solvency II follows a look-through approach. Hence, no additional regulation is required in the latter case.

3) Holdings

There are already rules how and to which extent holdings at top level or at intermediate level have to be included in the scope of sectoral or supplementary supervision.. We do not regard them as non-regulated part of financial conglomerates or sectoral groups.

Conclusion

When defining the methodology and the scope of a more in-depth investigation in relation to material non-regulated parts of financial conglomerates due consideration has to be taken on different types of non-regulated entities and of their treatment at sectoral level.

Question 3

In your opinion, would the debates on the definition of capital in the banking and insurance sector respectively, justify a more in-depth investigation of the cross-sectoral perspective? Please explain why.

Yes

Why?

General considerations

It is important to recognise the distinguishing features between insurers and banks

- Unlike banks, the business model of insurers, which sees them funded mainly by premiums paid in advance with limited possibility for consumers to withdraw cash, makes them inherently less vulnerable to liquidity crises.
- Likewise, the level of interconnectedness between insurers is far less than that between banks, thus reducing contagion risk in times of stress.
- Finally, the three levels of solvency requirements placed on insurers – the solvency capital requirement, the minimum capital requirement and the technical provisions – create a ladder of regulatory intervention that does not exist in banking prudential regulation and that allows for regulatory action while a company still has net assets to meet its liabilities toward policyholders.

In general, copying banking rules to insurance is not appropriate. This should even not be done via financial conglomerate supervision. However, in the area of regulatory own funds we see the case for a more in-depth investigation of the cross-sectoral perspective.

Alignment between banking and insurance

We believe that there should be an appropriate alignment between banking and insurance in the definitions of hybrid capital. This will provide consistency when marketing instruments to investors and in valuing these instruments. We also agree that there should be consistency in the regulatory treatment of these capital instruments between banking and insurance to avoid arbitrage. However, we believe that insurance should have certain distinct limits. For instance, coupon deferral or coupon cancellation can be a valuable long term loss absorption tool used in the run-off of insurance liabilities, which may not be appropriate to meet the challenges of a bank liquidity crisis.

It is clear that the general concepts of determining own funds in banking and insurance, i. e.

excess of assets over liabilities in the Solvency II balance sheet, cannot be combined. Therefore alignment can only cover the criteria for tiering of hybrid instruments of capital markets open to insurance and banking (in the wording of Solvency II Framework: only “subordinated liabilities” should be part of such considerations).

Procedural considerations

Alignment is difficult from procedural perspective: The setting of regulation in banking and insurance is not in parallel: CEBS just published standards on tier 1 hybrid capital (final CP 27). CEIOPS published its advice on own funds implementing measures (final CP 46) and the Commission will make a proposal on Solvency II implementing measures (Level II) in the course of 2010. In the Commission’s proposal on the first omnibus directive technical standards are foreseen in this area for the FCD and the CRD. In analogy technical binding standards could be proposed for the Solvency II directive (in the second omnibus directive). It might be desirable that the Joint Committee (of EBA, EIOPA and ESMA) will prepare jointly draft standards to ensure compatibility at least as far financial conglomerates are concerned.

Conclusion

For avoiding arbitrage in the use of hybrid instruments in financial conglomerates and not applying the stricter rules in banking or insurance on financial conglomerate we support an analysis of the criteria of classification of such capital instruments ensuring the level playing field within and across sectors.

Question 4

With respect to the group wide remuneration policies in financial conglomerates, would you regard it as useful to consider the compatibility of these policies across the banking and insurance sectors within the conglomerate?

Basically no

Why?

General considerations

First of all, we would like to reiterate our position that insurance is fundamentally different from banking (see question 3). Therefore, we think that remuneration regulation in banking and insurance should differ and allow for appropriate treatment of these different business models. Remunerations in insurance did not cause the crisis. In the insurance sector, inadequate remuneration policies and structures (as in investment banking) did not and do not exist.

However, we acknowledge the FSB Compensation Principles which stipulate that variable compensation must depend not only on the individual’s performance, but also on the entity’s or group’s performance. To this extent, policies in a financial conglomerate should be compatible, i.e. the compensation of employees of insurers and banks of a financial conglomerate must reflect the conglomerate’s performance.

But apart from this, we cannot see any need to align the policies between banks and insurers, or bank and insurance groups respectively, in a financial conglomerate. The policies must be allowed to differentiate, to take account of the different business models. It is not justified to require that remuneration policies applicable to an insurer be different for the mere reason that the insurer is part of a financial conglomerate.

We think that banking rules should apply to entities under banking supervision and insurance rules should apply to insurers within the financial conglomerate at solo level. We object that at solo entity level of a financial conglomerate both banking and insurance rules have to be applied:

At group level consistency of the application of remuneration rules has to be ensured as part of an effective group-wide risk management. Hence, there is a strong case for the application of the proportionality principle.

Question 5

Are you identified as a financial conglomerate, either waived (Art 3(3) FCD) or not?

- Yes, waived.
- **Yes, not waived.**
- No, I'm not a financial conglomerate.
- Don't know.

All members who took part in this questionnaire and qualify as a Financial Conglomerate confirmed that they are not waived.

Question 6

Please indicate the size of your banking and insurance businesses in terms of total assets and gross premiums, respectively, as of 30 June 2009.

Banking business total assets (BA, all authorized banking business types):

- **BA < €10 billion**
- **€10 billion < BA < €100 billion**
- €100 billion < BA < €500 billion
- BA > €500 billion
- Decline to state

The size of the banking business in terms of banking assets varies. Two groups hold banking assets less than € 10 billion whereas the banking assets of two another groups are in the range between € 10 and € 100 billion.

Insurance total gross premiums (IP, all authorized insurance types):

- **IP < €5 billion**
- **€5 billion < IP < €10 billion**
- €10 billion < IP < €25 billion
- **IP > €25 billion**
- Decline to state

The amount of collected premiums varies. Two groups collect premiums less than € 5 billion whereas the premiums of another group are in a range between € 5-€ 10 billion. The largest group collects premiums of more than € 25 billion.

Question 7

Please indicate the number of authorized legal entities in your banking (incl investment) and insurance (life, non-life, re-insurance) businesses, your conglomerate held in Q2 of 2009.

Banking

- **Less than 10**
- **Between 10 and 99**
- Between 100 and 199
- 200 or more
- Decline to state

Two groups have less than 10 legal entities whereas two other groups have legal entities linked with the banking sector in a range between 10-99.

Insurance

- **Less than 10**
- Between 10 and 99
- Between 100 and 199
- **200 or more**
- Decline to state.

Only one group includes more than 200 insurance entities.

Question 8

Your (identified; waived or not) conglomerate level is:

- **an MFHC (Mixed Financial Holding Company)**
- a regulated banking entity
- **a regulated insurance entity**

There are two respondents with a regulated insurance entity on top of the conglomerate and two conglomerates with a MFHC.

Question 9

The level of your group, where capital for the group is attracted and where chief officers (CEO, CFO, CRO, COO, etc) are responsible for group-wide policies and strategic decisions, is organized at:

- **the MFHC level,**
- **the highest sectoral regulated entity level,**
- **otherwise. Please specify:**

There are two groups qualifying for the first and one for the second structure. One group consists of two mutual companies at the same level with several participations in insurance companies and one participation in a bank (building and loan association). The management boards of all these companies except the bank consist of the same persons. That is why all insurance companies are managed in the same way.

Question 10

The entity referred to in Question 9 is:

- **in the same member state as the highest level regulated entity,**
- in a different member state,
- outside the European Union

Question 11

Do you want to share any other relevant information with the Services regarding the supervision problems at the top level?

Particularly referring to the “durable link”-criterion we experienced an extensive interpretation of the FCD by the supervisory authorities leading to an inclusion of participations of merely or even less than 20% in the scope of supplementary supervision. This practice is not feasible given the intentions of the additional supervision of Financial Conglomerates and results in an unnecessary burden for companies. With regard to minor participations it is very problematic to comply with the information requirements particularly in the area of risk concentrations since they cannot legally be forced to deliver information. Therefore, we plead for a regulation that recognizes the proportionality principle also with respect to the scope of entities recognized for the calculation of capital adequacy and would allow for an exclusion of less marginal entities. Therefore, we strongly plead for a harmonization of the FCD with Art. 212(2) Solvency II, which requires a significant influence in order to constitute a participation.

Question 12

Please indicate the relative importance of the AMCs in your group in terms of revenue

- <1% of total gross revenue
- < 5% of total gross revenue
- >5% of total gross revenue
- Not applicable.
-

There is just two conglomerates and one group not qualifying as a conglomerate including AMC's.

Question 13

Do these AMCs serve

- the banking business only
- the insurance business only
- both of the above

If both,

- as separate entities for each sector, or
- as entities serving both sectors at the same time
- None of the above.
- Don't know.

Question 14

If the AMCs are serving both the group itself (proprietary business, risk for the group) and external clients (non-proprietary business, risk for the client), do you separate the two types of business in separate legal entities?

No

Question 15

If you separate proprietary (risk for the group itself) from non-proprietary (risk for the client) business of your AMCs, could you indicate their relative importance in terms of revenue (choose the closest answer)?

- **10 prop / 90 non-prop (most risks of asset management born by clients)**
- 50 prop / 50 non-prop
- **90 prop / 10 non-prop (most risks of asset management born by conglomerate itself)**

The answer applies to two groups including AMC;s.

Question 16

Would you like to share any other relevant information regarding the inclusion of AMCs? Could you, for example, illustrate how you make the distinction between proprietary and non-proprietary business in an operational and legal sense, such as how do you allocate resources to the two types of business?

No

Question 17

Which of the following indicators could be used in addition to or instead of 10% of solvency and of total assets in the other sector to make the identification process of a financial conglomerate more risk-based? Select all that apply:

- (a) **income structure: in addition** / instead / not
- (b) off balance sheet activities: in addition / instead / **not**
- (c) **relative size of respective businesses in their respective markets: in addition** / instead / not
- (d) business structure, i.e., relations between the respective sectors within the conglomerate: in addition / instead / **not**
- (e) **other, please specify:**

Proportion of risk capital allocated to asset management activities

Question 18

Do you think that bancassurance groups whose smallest sector is smaller than 6 billion euro **and** smaller than 10% of its solvency and of total assets would never be materially exposed to group risks?

- **Yes**
- **No**
- Don't know.

There is no unanimous opinion with regard to this question.

Question 19

Would you like to share any other relevant information with respect to the identification process of financial conglomerates?

We repeatedly argued for the possibility to exclude small groups with a low risk profile. However, the current interaction between relative and absolute thresholds may lead to the identification of financial conglomerates that obviously don't have a risk profile justifying a supplementary supervision. The current thresholds are clearly not adequate in order to identify a financial conglomerate. Therefore, we still plead for an increase of the relative threshold from 6 bln. up to 10 bln. EUR. This adjustment would appropriately reflect the growth of the financial markets and the inflation since enactment of the FCD in 2002. The fact that the current Financial Conglomerates do not show a clear cut as regards the thresholds underlines we need for flexibility in respect of an even higher threshold.

With regard to the inclusion of participations we believe that the "durable-link" criterion is

responsible for many irritations and inconsistencies in the identification and supervision of financial conglomerates. Inclusion and supervision of participations less than 20% due to a durable link is not appropriate and does not reflect the objectives of the FCD. Independent from the identification issue the practical experience particularly proved that the enforcement of the FCD requirements with regard to participations less than 20% is hardly possible due to company law restrictions. The 20%-threshold would provide a great deal of clarity and consistency with group supervision based on Solvency II requirements. We believe that IFRS definitions would be a good starting point for definitions since alignment of the scope of the regulatory group with the accounting group definition is highly desirable. Such an alignment with accounting is crucial to reflect the internal control and management of groups.

Question 19

Please indicate the absolute and relative size of the aggregate of minority participations (regulated and non-regulated) MP in your conglomerate in terms of total assets?

- MP < 1%
- 1% < MP < 5%
- MP > 5%

The answer applies to three groups. One respondent does not have minority participations at all.

Question 20

Please indicate how much of these minority participations are holdings of more than 10% but less than 20%?

- < 20%
- 20% < 10-20MP < 50%
- 10-20MP > 50%

The answer refers to two groups with minority participations.

Question 21a

Please, if possible, estimate likely impacts in terms of incremental benefits (including capital and information provision-related costs) for your organisation. Please assess separately the most material impacts by referencing to the relevant articles of the FCD which matter to your organisation.

The majority of our members can hardly recognize any incremental benefit arising from the supplementary supervision since the group entities are already subject to supervision both at solo-level and additional supervision for sub-groups such as banking-groups and insurance groups.

However, one respondent states that supplementary supervision gives many information and understanding relating to the other business (banking sector) particularly with regard to the capital commitment. The supplementary supervision may advance the close collaboration with the colleagues from the banking sector.

Question 21b

Please, if possible, estimate likely impacts in terms of incremental costs (including capital and information provision-related costs) for your organisation. Please assess separately the most material impacts by referencing to the relevant articles of the FCD which matter to your organisation.

There will be additional and significant costs such as project-costs for the adoption of the changes of the FCD. Also there will be additional costs to meet the periodical requirements of the new supervision regime.

Question 22

What would be the implications, if any, for the competitiveness of your businesses in the EU and internationally?

The FCD will increase the costs of supervision. It is questionable whether these efforts will contribute to the prevention of such developments that lead to the actual crisis. However, it seems to be clear that groups subject to supplementary supervision do not benefit from this additional regulatory burden in terms of competitiveness.

Question 23

What would be the impact for your clients?

For clients in the life-insurance the impact will condense in less profitability. In the nonlife-insurance there will be only small impact for our clients because of the heavy competition at the market. The effect will condense in less share profit.

Question 24a

If your conglomerate is currently subject to supplementary supervision under the FCD and it were excluded from such supervision, what would be the likely impacts in terms of incremental cost savings (including capital and information provision-related cost savings) for your organisation?

The incremental cost savings vary from € 10.000 to € 500.000

Question 24b

What would be the likely impacts in terms of incremental costs (including risks) for your organisation?

One group considers that It would require a capital distribution within the group, which is not easy between mutual companies. For the rest, there are apparently no incremental costs due to the lapse of supplementary supervision.

Question 25

What would be the implications, if any, for the competitiveness of your businesses in the EU and internationally?

None

Question 26

What would be the impact for your clients?

None

Question 27a

Could you please, if possible, estimate likely impacts in terms of incremental benefits (including capital and information provision-related costs) for your organisation? Please assess separately the most material impacts by referencing to the relevant articles of the FCD which matter to your organisation.

Not applicable

Question 27b

Could you please, if possible, estimate likely impacts in terms of incremental costs (including capital and information provision-related costs) for your organisation? Please assess separately the most material impacts by referencing to the relevant articles of the FCD which matter to your organisation.

Not applicable

Question 28

What would be the implications, if any, for the competitiveness of your businesses in the EU and internationally?

Not applicable

Question 29

What would be the impact for your clients?

Not applicable