POLISH FINANCIAL SUPERVISION AUTHORITY

Chairman
Marek Chrzanowski

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R E C E I V E D

Insurance companies
Reinsurance companies

Ladies and Gentlemen,

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, also under the new Solvency II framework, which confirms the arguments for continuing development of adequate capital buffers.

The year 2016 was another period in which elevated levels of risk were observed in the external environment of the Polish economy, in particular resulting from a complex political and economic situation in some euro zone countries and the eastern part of Europe, increasing uncertainty about the future development of the economic situation in Poland.

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 compensation for moral damages, treatment costs, spare parts, replacement vehicles, taxation of services, withdrawal fees in unit-linked insurance, the effects of which may still adversely affect the financial standing of insurance/reinsurance companies, or even increase the losses recorded previously in some insurance segments. 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, as well as appropriate reputation of the whole sector.

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 2015 profits, which was distributed among insurance/reinsurance companies in the letter of 1 December 2015, 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 2017. 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 2015;
II. in the individual quarters of 2016 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 2016 they were not covered by a short-term financial plan or the remedial plan referred to in Articles 312 and 313 of the Insurance and Reinsurance Activity Act;
IV. as at 31 December 2016, 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 2016, 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 2016 (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 2016 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 2016 financial statements, which may result, among others, from changes in the market and legal environment.

Sincerely,

CHAIRMAN
POLISH FINANCIAL SUPERVISION AUTHORITY
Marek Chrzanowski