



Presentation of the Munich Financial Centre Initiative in Brussels

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„Bavaria as an insurance centre - dialogue with Europe: The insurance industry on the eve of profound changes in its regulatory framework”

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Preliminary remarks

Reference to the speech by Bavarian State Minister Huber:
Munich / Bavaria as one of the world's leading insurance locations

To back this up, just a few key figures:

- Premium volume of Munich based primary insurance and reinsurance companies in 2005: approximately 60 billion euros
- Premium volume of insurance groups led out of Munich in 2005: well above 100 billion euros
- Assets under management of insurance groups led out of Munich in 2005: more than 500 billion euros, including Third-party assets under management: more than 1 trillion euros
=> Munich is also a centre for Asset Management

Just as important: A total of around 28,000 employees in Munich and 12,000 employees at two other major insurance locations in Bavaria, Nuremberg and Coburg

Insurance industry – more than virtually any other sector – influenced by national and increasingly European regulations,
– for good reason:

- Premium payment today / Promise of cover for the future
=> great need for consumer protection
 - EU single market highly relevant in this sector
 - o especially for „transport-free“ financial products
 - o no currency risks in the eurozone
- => great need for harmonisation in Europe

Regulation undergoing rapid change: Three examples

- consumer protection
- state supervision „Solvency II“
- accounting

each with far-reaching implications

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1. EU consumer-protection policy in the financial services sector

- Possible guiding principles: consumer as a responsible and informed individual or someone who is overchallenged, uninformed and structurally disadvantaged
- Appropriate balance necessary; current approach geared too little to promoting a minimum degree of individual responsibility
- Specifically in the insurance industry:
 - Undesired consequences as a result of exaggerated consumer protection
 - o Strengthening the rights of individual policyholders often much more to the detriment of the community of insureds than of insurance companies
 - o Community of insureds just as worthy of protection as individual policyholders
- EU-wide harmonisation of all consumer-protection rules desirable, but no automatic adaptation to the highest common denominator
- Need for a critical examination of existing rules in national legal systems
- Plea for stronger gearing of consumer protection to the principle of the consumer as a responsible and informed individual

and very important:

- principle of EU minimum standards as the yardstick – rules should only be made more stringent by member states if this is unavoidably necessary for national reasons

2. New Solvency II insurance supervision regime

- Much more than „Basel II for insurance companies“ – Revolution in insurance supervision
- Key element for a level playing field for insurance companies in Europe
- Chance to create a global standard



Finanzplatz München Initiative

- Objectives of Solvency II
 - o Uniform legal basis for the supervision of insurers and reinsurers
 - o New risk-based, economic approach
 - o Extensive alignment with the new international accounting standard for insurers IFRS 4 Phase II
- Main advantages
 - o Takes into account companies' individual risk profiles
 - o Better support for value based management
 - o Encourages and rewards good risk management with greater responsibility assigned to companies' management
- Historic chance to align supervisory law with accounting and risk- and value-based management
- Consumers, companies and capital markets as beneficiaries of improved insurance supervision regime
- Preconditions for success:
 - o Consistent application of the strictly economic Solvency II principles in translating the directive into national laws
 - o Uniform supervisory practice, in order to avoid „supervisory arbitrage“
 - o Clear distribution of competences between local supervisors and group supervisor, with the main emphasis clearly lying with the group supervisor
- Rapid progress and good quality of the work on the drafts for the framework directive to date

3. IFRS accounting for insurance contracts

- Great significance of accounting rules for the insurance industry's product variety



- Current practice difficult to understand and internationally confused, with disadvantages for insurance companies in the capital markets
- Intensive dialogue between the International Accounting Standards Board (IASB) and the insurance industry about future IFRS rules for insurance contracts
- Central demands made by insurance companies
 - o Reflection of the business model „risk balancing in the portfolio and over time“
 - o Consideration of the „risk“ by means of adequate valuation methods
 - o No artificial volatility of results
- In addition, reasonable cost-benefit relationship for the preparers of financial statements, particularly in the interests of small and medium-sized companies
- Publication of the IASB’s discussion paper „Preliminary Views on Insurance Contracts“ on 3 May 2007 – Result of provisional analysis:
 - o Many of the insurer’s core demands have been met
 - o Criticism of a few important details
 - o Desire for rapid continuation of constructive dialogue

Overall assessment:

- Need for balanced regulation of the insurance industry
- Great significance of European and increasingly global harmonisation
- Chance to realise consistently economic regulation principles
- Applicability for value based management as well
- Demanding requirements for implementation in business practice
- Need for generous transitional rules
- Balanced and economically sensible regulation as a top-ranking location factor for Europe, with the historic chance to set global standards.