EUROPEAN PARLIAMENT

REPORT

Policy Department
Economic and Scientific Policy

WORKSHOP

Solvency II - Group Supervision

Presentations and notes

IP/A/ECON/WS/2008-09

PE 408.561

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DIRECTORATE-GENERAL INTERNAL POLICIES OF THE UNION

- DIRECTORATE A -
ECONOMIC AND SCIENTIFIC POLICIES

Workshop: Solvency II - Group Supervision
04 June 2008
European Parliament, Brussels, Room: **PHS P4B001 09.00-12.30h**
(English language only)

09.00-09.05 Introduction by the Chair of the ECON Committee - Ms. Pervenche Berès
09.05-09.10 Introduction by Mr. Peter Skinner (Rapporteur Solvency II)

09.10-10.30 **Session 1:** **Ensuring the effectiveness of the group supervisor and communication / collaboration with solo supervisors**

Guest speakers:
1. Mr. Klaas Knot, Member of the Managing Board CEIOPS, Frankfurt
2. Mr. Nick Kitching, Manager of the CAPD-Groups Policy, Wholesale and Prudential Policy, FSA, London
3. Mr. Lorenzo Esteban Jodar, Chief Supervisor of Area, Spanish Insurance Supervisor, Madrid
4. Mr. Audrius Linartas, Deputy Chairman of the Insurance Supervisory Commission of Lithuania, Vilnius

10.30-12.30 **Session 2** **Group Support**
- Clarifying the mechanism of Group Support taking stock of eventual legal material impediments to prompt action
- Clarifying the legal status of the group support declaration
- What implementing measures if any should be put into place for the coordination of enforcement measures
- The structure/swiftness of capital transfer

Guest speakers:
1. Mr. Maarten van Eden, General Manager Capital Management, ING Group, Amsterdam
2. Dr. Peter Hemeling, General Counsel of Allianz SE, München
3. Mr. Paul Caprez, Head of Capital Allocation, Generali, Trieste
4. Mr. Henrik Rättzén, CFO at Trygg Hansa, Stockholm
5. Mr. Adrian Savage, DLA Piper, London

CurriculaVitae

Session I

Klaas Knot

Klaas Knot (14-4-1967) is currently Division Director of the Supervisory Policy Department at De Nederlandsche Bank where he is responsible for the development of prudential standards and instruments for banks, insurers, pension funds and investment firms. He is a member of the CEIOPS Managing Board within which he carries responsibility for the coordination of all Solvency 2 related activities. Klaas is also part-time professor in Money and Banking at the University of Groningen and has published many articles in leading (international) professional journals in the field of monetary and financial economics. He is a board member of the recently established Duisenberg School of Finance. Klaas was previously associated with the International Monetary Fund and the Dutch Pensions and Insurance Supervisory Authority.

Nick Kitching

Nick Kitching is manager of Groups Policy in the Wholesale and Prudential Policy Division at the FSA. The Groups Policy team has responsibility for the development of prudential supervision policy in respect of all types of financial groups including banking, investment and insurance groups and conglomerates.

Nick Kitching is the FSA representative on the CEIOPS Insurance Groups Supervision Committee. Nick Kitching was closely involved in the recent joint UK Treasury and FSA discussion paper on enhancing group supervision under Solvency II published in April this year.

Lorenzo Esteban Jodar

CSA (Chief Supervisor of Area)

Office of the General Director. Spanish Insurance Supervisory Authority

Lorenzo Esteban is working for the Spanish Insurance Supervisory Authority since 1983. Due its actuarial background, during these 25 five years he worked in the more technical areas, including five years as responsible of the accounting and statistical service, two years as responsible of the pension funds schemes supervision and another five years as responsible of the financial and actuarial services. Currently he has almost completed three years as coordinator of Solvency 2 supervisory software. Besides, he carried out on-site inspections during sixteen years and has been participating since 1985 in the international activities of the Spanish Insurance Supervisor.

In the international field, he has attended among others insurance experts meetings in the OECD, IAIS, ASSAL and the main European Institutions.

Regarding Solvency projects, he formed part of the Spanish delegation in the Solvency 1 project since its very first steps, in Berlin 1995, up to the last meeting of the Council in Brussels in 2002.

Regarding Solvency 2 he also takes part of the project since its beginning in 2003, as member of the Life Experts Group organised under Commission steering, during the so called phase 1. From 2004 up to 2006 he belonged to CEIOPS technical group involved in Pillar 1 issues. Currently, since 2007 he is following the debates of Solvency 2 proposal of Directive, both in the Council and the level 2 regulatory Committee (EIOPC).

Audrius Linartas

1. Family name: Linartas
2. First name: Audrius
3. Nationality: Lithuanian
4. Education: MA in Economical analyze and planning (Vilnius University, 2000)
5. Present positions:

Deputy Chairman of the Insurance Supervisory Commission of the Republic of Lithuania (ISC)

Main responsibilities: supervision of insurance groups, insurance accounting and financial analysis, international relationships, ISC representation in CEIOPS and Lithuanian Accounting Standards Board, adoption of the ISC resolutions

Relevant professional experience: Head of Life assurance division (ISC, until 2005), Chief economist of Financial supervision division (ISC, until 2000) and TAIEX expert (since 2006)

Years within the firm: 11

Lecturer at the Mykolas Romeris University (Lithuania)

Courses lectured: Financial markets and institutions; Requirements for issuer's information disclosure; Insurance markets; Insurance products

Years within the firm: 4

Session II

Maarten van Eden

Maarten van Eden is head of capital management at ING Group. After spending two years as a communications officer in the Royal Netherlands Navy and four years at university, he started his career at the Dutch Ministry of Finance in 1980, working in the area that planned the financing of the central government deficit and advised on the coordination of fiscal and monetary policy. Maarten moved to London in 1984, starting in derivatives at Orion Royal Bank. After selling to central banks at Swiss Bank Corporation he moved to J.P. Morgan in 1989. There he structured private placements before moving in 1991 to the syndicate desk, responsible for the fixed income new issue business in Europe, and eventually heading it. Maarten was co-head of fixed income and derivatives sales at HSBC Markets in London before rejoining J.P. Morgan Investment Management in 1997 where he became head of the European institutional client group. Before joining ING in 2005, he worked for Paloma Partners, a hedge fund based in Greenwich, Connecticut. Maarten is a keen sailor and enjoys reading history. He has travelled extensively and between jobs lived in Tunisia and Venezuela. Maarten van Eden holds a cum laude degree in macro monetary economics from the Erasmus University in Rotterdam.

Dr. Peter Hemeling

- General Counsel of Allianz Group since July 2004
- October 2001 - July 2004: Deputy General Counsel within Group Legal Services of Allianz AG, heading the legal M&A-Team and advising on relevant capital market and regulatory law issues

- 1986 - 2001: Legal department of Dresdner Bank (Corporate Center and Investment Bank)

During his legal career, Peter Hemeling was actively involved in numerous major transactions including crossborder transactions (e.g. foundation of Allianz SE by way of a crossborder merger), privatizations and international equity offerings. Peter Hemeling is active in various associations (e.g. German Insurance Association GDV) and publications in the area of corporate and capital market law.

Paul Caprez

Paul is Head of Capital Allocation at Generali. He has worked for a number of years in the areas of Enterprise Risk Management and Economic Capital Modelling. He is actively involved in the group's preparations for Solvency II and related risk management activities. Paul represents Generali at the CRO Forum. He has worked with Generali since 1994.

Henrik Rättzén

Henrik Rättzén was appointed Chief Financial Officer (CFO) of RSA Scandinavia in December 2007.

Henrik has over 18 years experience in the insurance industry and joined RSA from KPMG in Sweden where he was a Partner in their Financial Services practice and Head of Insurance from 2002 to 2007. In his role at KMPG, Henrik was responsible for developing KPMG´s role as audit and advisory firm to the Swedish insurance industry. He worked with the majority of the leading Swedish and Nordic insurers as well as international insurance companies operating in the Nordic region.

Henrik holds a Bachelor of Commerce degree from The University of Uppsala and has a higher degree in Accounting and Finance from the Swedish Chamber of Commerce.

Henrik is married with two daughters.

Adrian Savage

Adrian Savage trained as Chartered Accountant in the audit practice of Deloitte Haskins and Sells in London, a legacy firm of PwC. He was admitted as a solicitor in 2003. He has specialised in dealing with London market insurance insolvencies and restructuring since 1991. He has been at DLA Piper since 2002, where he is an associate in the Restructuring Department.

Slides

Session I - Ensuring the effectiveness of the group supervisor and communication/collaboration with solo supervisors

Presentation by
Klaas Knot

CEIOPS
Committee of European Insurance and Occupational Pensions Supervisors

Solvency II – Group Supervision
European Parliament

Brussels, 4 June 2008

Klaas Knot, De Nederlandsche Bank,
Member Managing Board CEIOPS

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CEIOPS

CEIOPS main work streams

Draft CEIOPS Work Programme 2008:

- Insurance sector: Ongoing Solvency II workload
- Occupational Pensions reviews
- Supervisory culture, convergence and cooperation
- Financial Stability, accounting and international relations
- Consumer protection and market conduct

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CEIOPS

CEIOPS Final Advice on Group Supervision

- Published 28 May 2008
- Two main parts in the report:
  - Group Support Regime:
    - Legal Conditions
    - Internal Control and Risk Management
    - Public Disclosure
  - Coordination, cooperation and exchange of information

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CEIOPS

Coordination Arrangements SII Framework Directive Proposal

- Art. 252 defines the rights and duties of the group supervisor.

  This article is based on article 11 of the Financial Conglomerates Directive and already existing Level 3 measures for insurance groups.
- Art. 238 defines the rights of the group supervisor and the solo supervisor with regard to monitoring and enforcing the Solvency Capital Requirement under a Group Support Regime.

  The article is new and introduces a difference between “monitoring” and “enforcing”:
  - The solo supervisor will continue to monitor the SCR, but the responsibility for enforcing the SCR lays with the group supervisor.
  - The solo supervisory will monitor and enforce the MCR.

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CEIOPS

CEIOPS Advice on Measures to facilitate effective supervision of groups

- CEIOPS has drafted 30 implementing measures
- CEIOPS MM adopted the advice unanimously
- The implementing measures formalize existing informal arrangements:
  - organization of Colleges of Supervisors (currently CoCo´s)
  - functioning of Colleges of Supervisors
  - division of responsibilities among supervisors
  - exchange of information between supervisors

➢ Cooperation is necessary
➢Voluntary agreements now become law

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CEIOPS

Powers of supervisors to perform role

- The Framework Directive Proposal moves the responsibility to *enforce* the SCR from the local supervisor to the Group Supervisor.
- The Framework Directive Proposal proposes that an authorizing supervisor would request additional capital from an entity that he has no legal control over.
- Supervisors are concerned that this is currently incompatible with their legal responsibilities and accountability.
- Policy holder protection !
  - Protection of a policyholder a stand alone insurer:

    MCR/capital + SCR/capital
  - Protection of a policyholder of a subsidiary of a group under a group support regime:

    MCR/capital + SCR/declaration of group support

Majority of CEIOPS' Members believes further clarification is necessary

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CEIOPS

Advice

- Majority of CEIOPS´ Members supports a ***narrow*** interpretation (as does the industry): The solo supervisor is prohibited from requiring the SCR to be restored by the injection of own funds, but does not prohibit the solo supervisors from imposing sanctions or other enforcement measures on the subsidiary (BE, BG, CY, CZ, DE, DK, EE, FI, GR, HU, IE, IT, MT, NL, PT, RO, SE, SI, SK, UK).
- A minority of CEIOPS´ Members oppose any derogation of supervisory powers including the enforcement of the injection of own funds (AT, ES, LT, LU, LV, PL).
- One CEIOPS Member has not taken a position (FRA).
- Some further thought may have to be devoted to issues like: whom should contact whom, what would be appropriate time lines for such stress communication and under what conditions will or might group support come to a formal end.

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CEIOPS

QUESTIONS ?

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Presentation by Nick Kitching

European Parliament Workshop

Solvency II – Group supervision

Nick Kitching
Manager, Groups Policy

Financial Services Authority

4 June 2008

Group supervision under Solvency II

Group supervision delivers two of the key objectives of Solvency 2:

- Protection of policyholders
- Promotion of better regulation

There are a number of developments that enhance the framework for supervision of insurance groups under Solvency 2 including:

- Appointment of a group supervisor for each group
- The procedure for allowing internal models
- The application of Pillar 2 supervisory review to groups

These developments promote a risk based and forward looking approach to the supervision of groups

The benefits of the group support regime

- **Encourages groups to develop more effective capital management by allowing the group to recognise group diversification benefits**
- **Operates within a framework with clear criteria (being developed by CEIOPS) that supervisors can use to assess a groups eligibility to use the regime.**
- **Builds upon existing insurance concepts of ancillary own funds**

The importance of colleges and supervisory co-operation

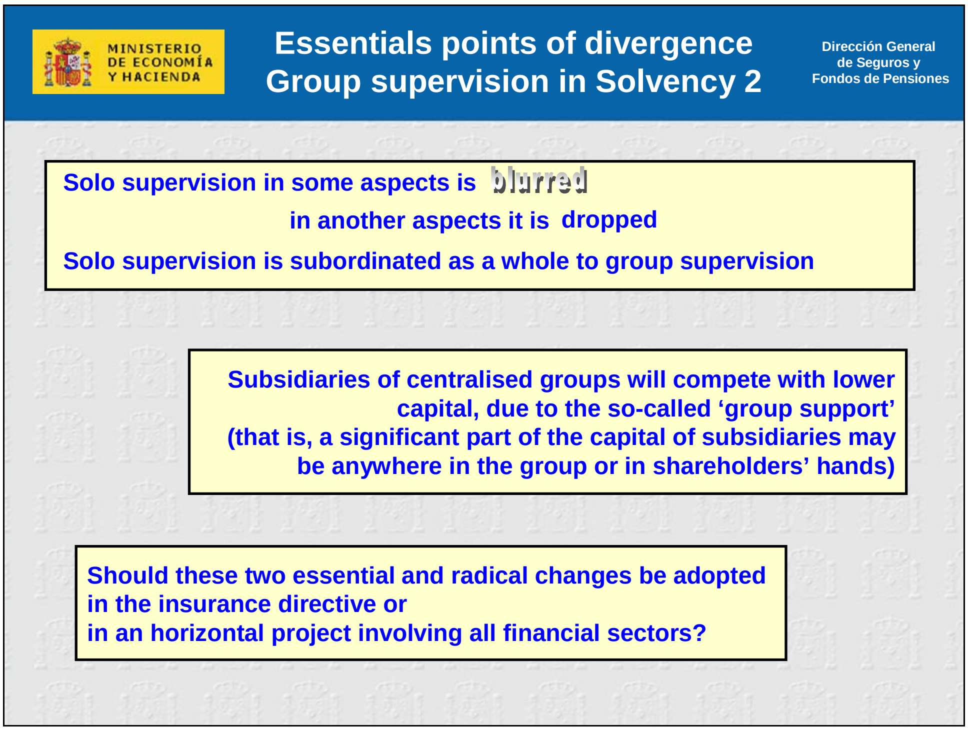
Colleges will enable supervisors to gain a clearer understanding of the group activities as a whole under Solvency II, enhancing their capacity to supervise the entity located in their jurisdiction.

The key benefits of colleges are:

- Enables the effective exchange of relevant and essential information
- Facilitates the planning and coordination of supervisory activities
- Provides a forum for supervisory concerns to be considered and addressed


FSA
Questions ?
Welcome now or:
nick.kitching@fsa.gov.uk

Presentation by
Lorenzo Esteban Jodar



MINISTERIO DE ECONOMÍA Y HACIENDA

Solo supervision is blurred, dropped and subordinated

Dirección General de Seguros y Fondos de Pensiones

Group supervisor is the final decision-maker in case of disagreement, even regarding subsidiaries

Some features may not be controlled at individual level
i.e. concentration risk –art 248– and system of governance –art 250

In case of 'group support', local supervisor is stripped of setting capital requirements (art 236 & 238)
(Commission written explanation: local supervisor may artificially hinder the group support regime,
See MARKT/H2/DT/az D(2007) , in particular page 3)

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Solo supervision is blurred, dropped and subordinated

Dirección General de Seguros y Fondos de Pensiones

Where is this said?

If the Council and the European Parliament confirm the substance of the draft proposal, the ***European Commission could propose that the group supervisor become the only point of contact for the insurance group…***,

Group supervision is no more a mere addition to solo requirements but the main requirement*. The draft Solvency II proposal therefore created the condition to drop, under certain conditions, solo supervision.*

Who says this? European Banking Federation D0591. 7 April 2008

This debate has not been explictly presented or carried out in the Council or the European Parliament.
Should the Commission decide this essential point in level 2 implementing measures?.
Should the debate involve all financial sectors?

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CRITICS TO THE PYRAMIDAL APPROACH

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A solid and reliable group supervision is only possible if based on complete and enforced solo supervision

Responsibilities of home supervisors are unclear. ‘*What if bankruptcy*’ is not solved

A group supervisor lacks knowledge to deal with the diversity and complexity of national markets. Host supervisor possesses the best and most reliable knowledge to assess the solvency position of insurers authorized in its market (subsidiaries included)

Efficiency is not achieved by dropping solo supervision. The only way is fostering convergence among supervisors: same criteria, common supervisory reporting, common goals

A pyramidal scheme is less efficient to preserve market stability, both at national level and EU level *(i.e. lack of expertise on national economies, supervisory arbitrage)*

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SOME PARADOXES OF THE PYRAMIDAL APPROACH

Group supervisor may decide against CEIOPS advice, and such a decision is determinative in territories different to the one of the group supervisor.

The same supervisor receives different treatment:

- **when acting as group supervisor** *(i.e. sets SCR of subsidiaries operating in other markets)*
- **when having the role of subsidiary supervisor** *(i.e. can not set SCR of subsidiaries operating in the market the supervisor controls)*

In markets with subsidiaries of groups of various countries, subsidiaries and independent insurers will compete having different supervisors → supervisory arbitrage

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An example to explain our views

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Let's be a bit provocative

Good,… really provocative

Sincerely,… extremely provocative!

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Let's imagine that, in order to foster more efficient regulation at EU level the following institutional framework is proposed

The Parliament and the Council of the EU shall cooperate closely and shall provide one another with any essential or relevant information which may allow or facilitate the exercise of their respective tasks.

In the absence of a joint decision between the Parliament and the Council regarding a legislative initiative, the Council shall make its own decision on the initiative.The decision shall be set out in a document containing the fully reasoned decision and shall take into account the views and reservations of the Parliament. The decision of the Council will be considered as determinative.

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Before kicking the speaker, please answer two questions:

A) Do you think that Parliament interests will be appropriately preserved with this innovation ?

B) Do you think that this proposal fosters cooperation and mutual trust?

If you answered : 'YES', to both questions, you are aligned with the Commission proposal

In any other case, … you may find worthy hearing about the next slides.

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A real alternative: Horizontal Approach. Joint decision in common issues.

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Joint decision in common issues
Common responsibilities.
Mechanisms to dialogue

Pyramidal approach is obsolete, has failed in recent financial crisis and does not foster mutual trust and cooperation

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Best alternative: Horizontal Approach. Joint decision in common issues.

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Joint decision in common issues.
Mechanisms to dialogue and narrowing to zero the possibility of disagreement.

Analysis of group supervisor and host supervisors on market specific basis

Colleges of supervisors as a platform to work together and coordinate individual decisions

CEIOPS mediation (non-legally binding)

History of similar cases

Comply or explain

In an horizontal approach, there is no real risk of blocked positions due to disagreements.
Virtues: 1) Legally secure, 2) jurisdictionally respectful and 3) really fostering cooperation and trust.
All in the same boat.

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Technical references for a more in-depth analysis

→ **Commission's proposal on 'group supervision'. A critical eye** *(supervisory responsibilities and 'group support')*

→ **Conceptual procedures in the alternative approach** *(short work paper in the Council, about supervision and procedures in the alternative approach)*

Twelve + Three members States supporting a different approach to group supervision in the Council

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Should essential and significant changes regarding group supervision be adopted in the insurance directive or in an horizontal project involving all financial sectors?

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Insurance directive or an horizontal project involving all financial sectors?

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Unilateral decisions in one sector endanger and hinder financial stability policies.
i.e. 'group support' will lead to substantial movements in the property of own funds from some economies to others, and perhaps from EU to non-EU markets.

Impact assessment should be carried out in a coordinated manner to avoid biased competition advantages.
i.e. There is no impact assessment about 'group support'.
QIS4 does not capture either macroeconomic impact or competition distortions with banking sector (or within insurance sector competitors).
QIS4 contains *'innovative'* calculations in some essential risks.

The analysis of essential decisions about group supervision shall be more complete and reliable if developed in an horizontal project.
i.e. 'group support' lacks analysis of the legal, technical, accounting and financial practicalities of its implementation and cross-sector influence.
Work in progress has revealed significant drawbacks and risks.
Is 'group support' just a *theoretical idea*?

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Horizontal project involving all financial sectors?

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Does the 'horizontal approach' endanger Solvency 2 project as a whole?
An 'horizontal approach' fully preserves Solvency 2 at solo level, as such approach preserves also the calculation of group capital requirements. Furthermore, it allows an evolution of group supervision in significant areas (colleges of supervisors, CEIOPS mediation, common reporting templates,…)

Does the 'horizontal approach' require complex changes to the proposal?
Changes identified. Mainly:

1- Deletion of subsection 6
2- Deletion of article 214.6 and minor changes in article 214.4
3- Concrete changes in articles 248 and 250 to clarify that both of them limit their scopes to the group level, preserving also solo level.
4- Article 252. Introduction of colleges of supervisors
5- Concrete changes in article 260 (solvency report)
6- Articles 225 and 263. Recognition of third countries reserved to the Commission (not the group supervisor)

The adoption of an horizontal project would likely guarantee the adoption of a wide-scope Solvency 2 Directive in 2008.

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Horizontal project involving all financial sectors?

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If not adopted in Solvency 2 project, do we loose the train?
Next revision of Financial Conglomerates Directive

In Solvency 2 project all stakeholders have been heard, except… regarding 'group supervision'. Who have been omitted?
Supervisors!!
Insurance supervisors:
In CP25, Not allowed to put into question the proposal
(*see call for advice from the Commission*)
Other financial supervisors (i.e. bank supervisors)
They have not been considered as part of the project

We support the efforts to achieve cross-sectoral consistency because financial innovation created areas of overlap between the two sectors and the number of competing financial instruments is increasing. Regulatory and technological barriers, as well as legal restrictions on balance sheets, have been substantially reduced. Thus, competition between banking and insurance has intensified, especially between the asset management and life insurance segments. European Banking Federation

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Conclusion

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Supervisory responsibilities:
THERE IS AN ALTERNATIVE approach achieving the SAME GOALS → efficient group supervision.
An evolutionary approach legally secure and based on consensus

Insurance Directive or Horizontal project involving all sectors?
In a closely related world with strong cross-sector interactions, Is Solvency 2 Directive the appropriate *place and time* to adopt essential changes regarding supervision of financial groups?

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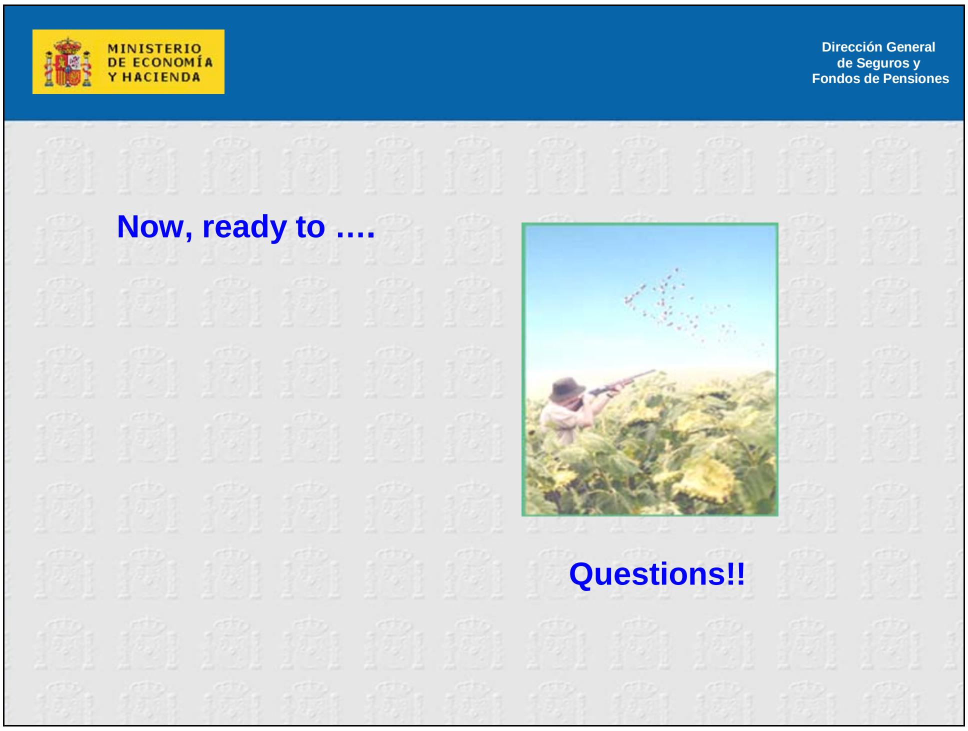
Thanks for paying attention…

… and showing interest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Y HACIENDA
Dirección General
de Seguros y
Fondos de Pensiones
Now, ready to ….
Questions!!

Presentation by

Audrius Linartas

Lietuvos Respublikos
draudimo priežiūros komisija

Supervision of Insurance groups

Audrius LINARTAS
Deputy Chairman
Insurance Supervisory Commission

Lietuvos Respublikos
draudimo priežiūros komisija

Experience of Lithuanian insurance market

Recent experience

Lietuvos Respublikos draudimo priežiūros komisija

- Two major crises in Lithuanian insurance market during the last 3 years:
  - 2005/08 – bankruptcy of insurance company INGO Baltic
    - subsidiary of INGOSTAKH group, Russia
    - 5% of total insurance market, 7% of MTPL (*as for 30/06/2005*):
  - 2008/02 – bankruptcy of insurance company Balticums
    - subsidiary of Balticums group, Latvia
    - 6% of total insurance market, 14% of MTPL (*as for 01/01/2007*):

Cooperation between supervisors

Lietuvos Respublikos draudimo priežiūros komisija

- In case of Balticums group, both supervisors from Lithuania and Latvia:
  - cooperated in due time
  - shared all necessary information
  - had common formal and informal meetings to discuss development of the situation in this insurance group
  - discussed with board of managers and CEOs of the group of the possible means to make the company more stable

Early warning indicators

Lietuvos Respublikos draudimo priežiūros komisija

- In both cases the financial difficulties in the companies were identified well before the situation developed to the worst. This was achieved due to:
  - quarterly report on solvency position and investment portfolio
  - information received from on-side inspection
  - difficulties for the shareholders promptly transfer additional capital to improve financial position of the company

Promises to increase capital

Lietuvos Respublikos draudimo priežiūros komisija

- In both cases, the insurance group as the whole and the board of the parent company promised to:
  - increase the capital of the subsidiary in near future
  - make all what's possible to keep this subsidiary solvent and to stay in local market for the sake of reputation of the insurance group

Lietuvos Respublikos draudimo priežiūros komisija

Group decision

- After the long *(more than 1 year)* and intensive negotiations with management and shareholders of the insurance group, the parent undertaking decided:
  - to depart from the promise to transfer additional capital to the subsidiary
  - to minimize losses for the group as the whole by allowing the subsidiary to go bankrupt

Lietuvos Respublikos draudimo priežiūros komisija

Crisis aftermath

- In the case of INGO Baltic, the local market consumers confidence in insurance protections providers shattered (more than 70.000 clients had suffered and not yet received compensations due to the long term of bankruptcy procedure)
- In the case of Balticums, the worse consequences were avoided only due to swift actions from the side of ISC:
  - The shareholders were pressed immediately transfer necessary level of capital and
  - when they, despite prior promises, failed to do that, the license of the subsidiary was gradually limited forcing the company to go in run-off

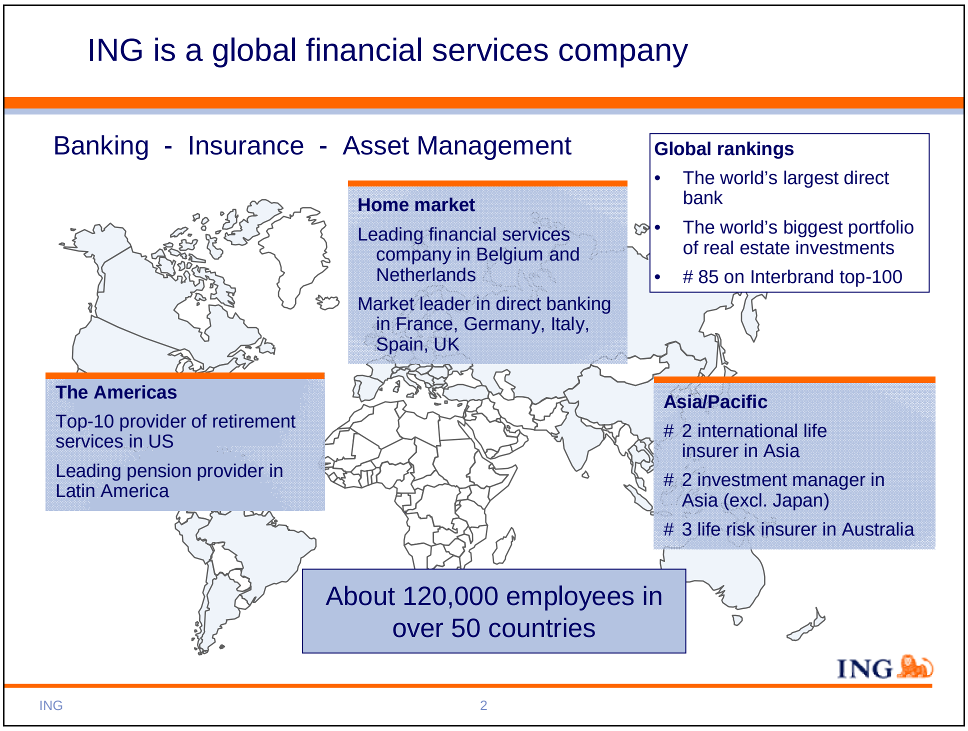
Lietuvos Respublikos
draudimo priežiūros komisija

Thank you
for your attention!

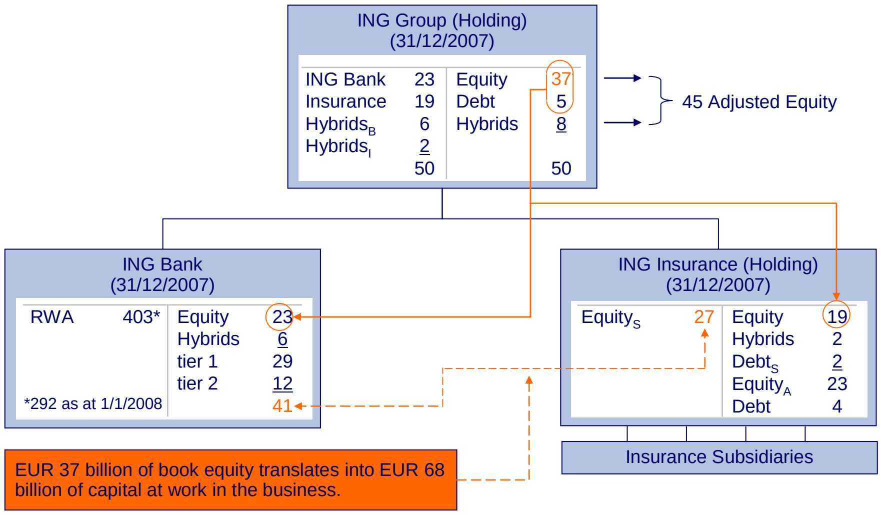
Session II - Group Support

Presentation by

Maarten van Eden

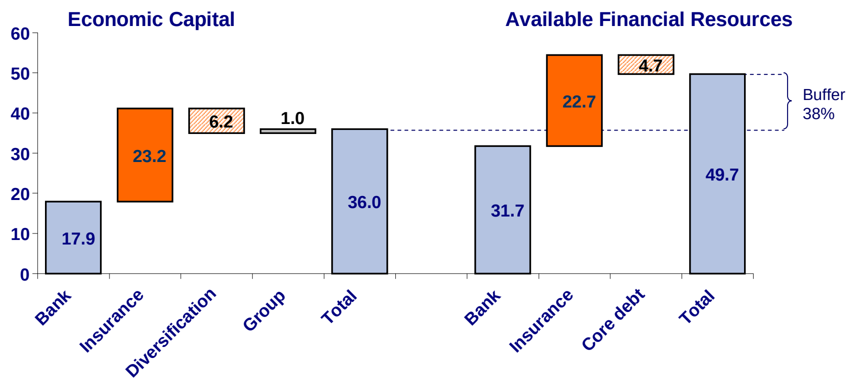


ING Group Capital Structure: a unique strength



Group capital position on an economic basis: 38% buffer

ING's excess capital on an economic basis: AFR - EC (EUR bn, 4Q 2007 full IFRS)



Group EC = EC Insurance (23.2) + EC Bank (17.9) -15% diversification + EC Group (1.0)
EC Group = EC ING Group unconsolidated (0.2) + Market risk on the assets backing ING Bank equity (0.8)

The internal marketplace for capital at ING

Capital demand

EB: MTP Planning

Capital supply

Business units: MTP plans, new proposals, overruns and acquisitions

Shareholders: dividend pay-out, buy backs

Available capital

Newly generated net profit

Hybrid capital issuance

Divestments

Spare leverage capacity

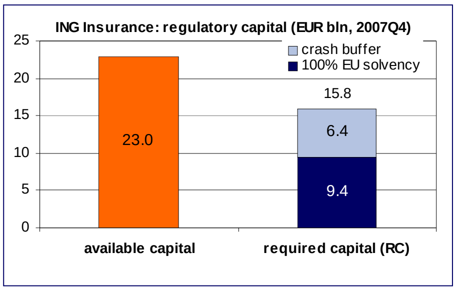
Balance sheet management

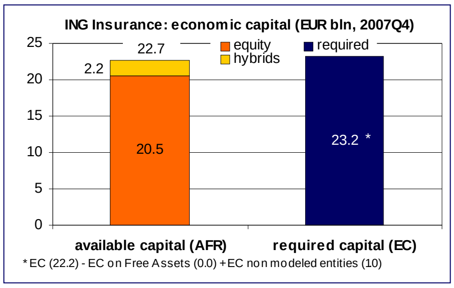
Securitisation

ING

ING 5

The capital position of ING Insurance is robust





Observations

- Internal capital coverage ratio is 145%
- Solvency II as yet too far away to calculate impact. Due to AA rating standard, we expect limited impact.

Observations

- Small capital deficit acceptable as long as ING Group as a whole has an adequate capital buffer

ING

ING 6

Flexibility of capital

- Priorities
  - Capital should be adequate to support business growth
  - Capital should move up as well as down (dividend discipline)
  - Free surplus should be unlocked
  - Develop the toolkit for contingencies (good and bad)

ING

ING 7

Short term capital/risk instruments

- Cash flows between ING Group, ING Insurance and ING Bank
- Hybrid capital issuance: currently both ING Bank and ING Insurance well within hybrid limits
- Risk mitigation transactions: re-insurance and securitisation, hedging
- Sell equity stakes, divestments
- Adjust dividend payout
- New instruments: ViF securitisations

ING

ING 8

Use of hybrids and core debt increases efficiency and financial flexibility

- The drivers behind this efficient structure are the use of core debt and hybrid capital:

Key Capital Ratios	31/12/2007	Target
Group core debt	9.53%	≤10%
Insurance core debt	13.63%	≤15%
Insurance Hybrid ratio	16.47%	≤25%
Bank Hybrid ratio	21.49%	≤25%
Bank tier 1 ratio	7.39%	≥7.2%
AFR/EC ratio Bank	177%	≥100%
AFR/EC ratio Insurance	98%	≥100%
AFR/EC Group	138%	≥120%

- Increasingly, Capital Management looks at AFR and EC employed when managing capital

ING

ING 9

Capital Adequacy: external vs internal measures

External solvency metrics

- EU solvency
- Basel I and rating agencies: tier 1
- S&P's capital model: adjusted equity
- D/E ratio's, hybrid ratio's (S&P requirements)

Solvency targets are related to rating agency requirements, but we manage our business mainly on economic measures

Internal solvency metrics

- Available Financial Resources (AFR): AFR should exceed EC
- EC / RAROC -Bank
- EC / MVaR - Insurance
- ROEC -Insurance

Basel II, Solvency II and rating agency requirements will converge towards ING's EC

SHIFTING OVER TIME

ING

ING 10

Key considerations

- The only way to judge the solvency of a financial institution is on a consolidated basis
- The solo capital requirements of subsidiaries should not lead to significant overcapitalisation at Group level
- Equity leverage creates flexibility
- Capital support will be given to subsidiaries to the extent it does not endanger the viability of the Group
- Excess capital in subsidiaries should be up-streamed as dividend
- Capital should be held as much as possible at Group/main entity level in order to maximise flexibility
- Financial flexibility is paramount, the future is uncertain, every crisis is different, avoid predetermined sequences of events

ING

How Solvency II could work

		Subsidiary			Group
		A	B	C	
SCR subsidiaries		1,000	2,000	3,000	6,000
Group diversification	30% of stand-alone SCR				1,800
SCR group					4,200
MCR subsidiaries	50% of stand-alone SCR	500	1,000	1,500	3,000
Own funds group	110% of group SCR				4,620
Debt	15% of group own funds				693
Total liabilities group					5,313
Own funds subsidiaries	116% of MCR	580	1,160	1,740	3,480
“cash”at group level					1,833
Total assets group					5,313
Group support		420	840	1,260	2,520
Group support	Available at group level				1,833
	Available at subsidiary level	80	160	240	480
	Originating from diversification				207
					2,520

ING

Certain of the statements contained in this release are statements of future expectations and other forward-looking statements. These expectations are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those in such statements due to, among other things, (i) general economic conditions, in particular economic conditions in ING's core markets, (ii) changes in the availability of, and costs associated with, sources of liquidity such as interbank funding, as well as conditions in the credit markets generally, including changes in borrower and counterparty creditworthiness, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) interest rate levels, (vii) currency exchange rates, (viii) general competitive factors, (ix) changes in laws and regulations, and (x) changes in the policies of governments and/or regulatory authorities. ING assumes no obligation to update any forward-looking information contained in this document.

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ING

Presentation by
Dr. Peter Hemeling

Allianz

European Parliament - workshop on group support

Group support

1 Allianz worldwide

2 Allianz: supervision in EU

3 group support declaration – features and triggers

4 transfer of own funds

5 enforcement of transfer

Dr. Peter Hemeling
Allianz SE, Group Legal Services
04.06.2008

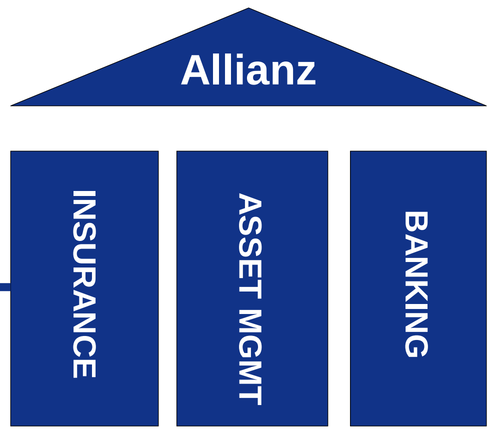
INSURANCE | ASSET MANAGEMENT | BANKING

Allianz

1 Allianz worldwide

Allianz worldwide

- # 1 P&C insurance
- # 1 assistance services*
- # 1 credit insurance**
- # 6 life insurance
- # 8 reinsurance



* Mondial Assistance

** EulerHermes

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Allianz

2 Allianz: supervision in EU

- Allianz SE – first European company on Euro Stoxx 50
- EU is home market of Allianz:
  - # 1 insurer in EU
  - active in almost all member states
  - very strong presence in DE, FR, HU, IT

- reinsurance supervision
- financial conglomerate supervision

Allianz SE

- subgroup supervision in **11** member states
- insurance solo supervision

insurance subsidiaries in 21 member states

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Allianz

3 group support declaration – features and triggers

1. Features

- contractual agreement between parent and subsidiary under private law
- parent's obligation limited to amount declared
- supervisory recognition as own funds to be approved by solo and group supervisor

2. Triggers

- breach of subsidiary's MCR
  → restore compliance with MCR*
- termination of group support
  → restore compliance with SCR*

* up to the amount of the declaration

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4 transfer of own funds

- transfer of **assets** (cash/kind) to subsidiary in need
- which leads to an increase of **own funds** eligible to cover MCR/SCR (depending on trigger)

1. transfer from parent
   - formal capital increase (cash/in kind)
     → no impediments under corporate law to downstream transfer
   - injection to capital reserve
   - subordinated loan agreement
2. transfer from subsidiary
   - in particular subordinated loan agreement (on arm's length basis)
   - formal capital increase (cash/in kind)

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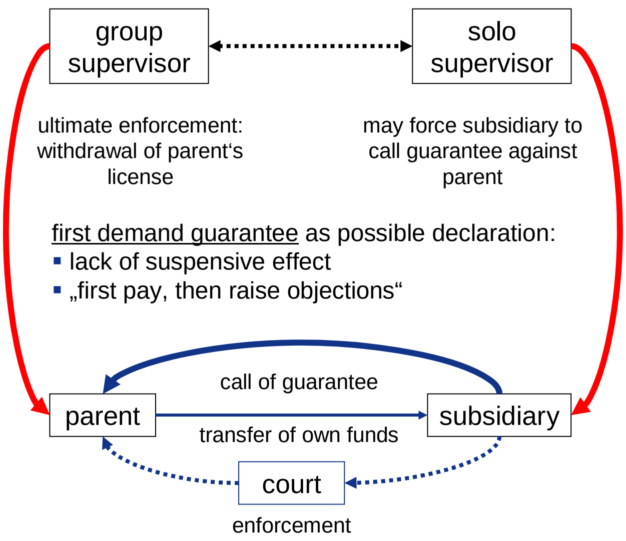
5 enforcement of transfer



public law

private law

Intervention by

Paul Caprez
Head of Capital Allocation, Generali, Trieste

Ladies and gentlemen good morning. My task for the next 10 minutes is to outline our thinking on Group Support in Solvency Il.

My comments will reflect the perspective of a large group. Generali is Europe's third largest insurer, with premiums in 2007 of € 66 billion. Incorporated in 1831 the Group is today established in over 40 countries. Although international, the Group is concentrated in continental Europe; some 90% of premiums come from countries of the European Union.

Our core business is insurance and our mission is to be a leading insurance group measured by profitability serving primarily retail and small and medium sized enterprises through multi-channel distribution.

Our primary aim is to reward the capital investors have provided us, whilst offering quality products and services that adequately meet consumer demand.

Viewed another way we define our business as absorbing risk from households and companies, diversifying much of it away, and managing the remaining risk to produce sustainable returns to debt-holders and share-holders alike.

The way we run our business has changed dramatically over the last decade. A combination of globalization, the end of tariffs, the euro and leaps in technology mean we no longer manage our Group as a collection of individual companies but as one entity. We have moved from a "portfolio manager" to a "synergy manager".

Yet, in Europe, it is difficult to achieve operational synergies across borders.

The retail financial services market in Europe remains largely segmented on national lines as natural barriers, such as language, and other constraints such as tax, hamper the development of the single market. There are, however, important synergies that can be delivered by a European group, particularly in the area of capital, risk and asset management.

If we are to capture these benefits and to be able to compete globally we now need regulation to be built around our global enterprise. Arbitrary national regulation should not be an impediment to achieving this economic benefit for our customers and shareholders.

Solvency II needs to respond to these ambitions, by adopting an economic risk-based approach to solvency and by creating a regulatory framework, which recognizes risk diversification and group supervision.

We want to manage our company based on its economics. We hope regulators will do the same.

Of course we are not alone in these desires. Let me remind you of some numbers to put the Groups issue in context.

Large companies, including the biggest Insurance Groups, account for 85% of European premiums.

However insurance groups are not limited to large companies. According to the CEA there are 125 large insurance groups, around 500 medium sized groups and many smaller groups.

So Group issues are important.

Let me move on to today's key topic, Group Support, and its related themes of Diversification and Group Supervision.

Diversification is at the very heart of insurance; a business of pooling and managing risks. Simply put, not all risks materialise at the same time and as a result companies do not need to hold capital against all the risks going wrong at the same time.

Diversification comes in many forms, within insurance risks, across risk types and across companies.

So far this is, I think, clear and uncontroversial but what happens when diversification is across jurisdictions, for example in different countries?

Of course it's the same principal but we face the problem that the economics of risk knows no national borders but regulation does.

Failure to recognise diversification in all its forms will lead to higher capital requirements than necessary and reduced economic efficiency. Policyholders and share holders will be the losers.

This brings me to Group Supervision.

Our Group has welcomed the innovative proposal of group supervision; a single authority assisted by a college of supervisors from the individual group entities.

The Group Supervisor will have ultimate responsibility for:

group solvency;

for risk management and internal control, intra group transactions, and group concentrations, and also for

accepting an application to use the group support regime;

accepting an application to use a group internal model.

The proposal assigns more power to the Group Supervisor, and it has been, for this reason, the subject of some concern amongst EU supervisors.

Of course the key point is that the proposal in no way sees the end of solo supervision. In fact authorisation, checking the level of technical provisions, monitoring the Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR), compliance with investment principles, reporting and public disclosure will continue to apply at a solo level.

The most innovative, and perhaps more controversial part of the proposal, is the group support regime.

In simple terms group support is a guarantee by the parent undertaking to transfer capital to the subsidiary if needed. It has been created as a means for down streaming the group diversification benefit to subsidiaries, from where it came.

The regime in essence permits a subsidiary to cover a part of its capital requirement with a commitment from the parent company called 'group support'.

It means that a group's capital requirement will depend on its risks rather than on its legal structure.

As a result the efficiency and competitiveness of EU insurers is improved.

Some commentators fear that the group support will not be delivered when needed. Failure to deliver will result in what is perhaps not unrealistically referred to as the “death spiral” for an insurance group. The subsidiary is ejected from the group support regime and is to be fully capitalised with own funds. The impact on the group’s reputation and the scramble for funds could have severe and damaging consequences, hence the ‘death spiral’ label. This is a punishing disincentive for anyone contemplating an abuse the group support system. The carrot comes with a powerful stick.

It is important to note that this regime is optional and groups will be able to apply to be regulated under it. Once the application has been accepted by the Group Supervisor, then the responsibility of the solo supervisor will change, and this is the main point which has generated so many objections from EU supervisors.

In particular:

the responsibility to enforce the local SCR moves from local to the group supervisor;

local supervisors cannot impose a capital add-on to the subsidiary but can only propose it to the group supervisor, which has the final decision;

local supervisors continue monitoring the SCR and can request additional group support or own funds from the parent to the subsidiary;

The solo supervisors still remain closely involved in the decision making process, but, for the mechanism to work, and not to compromise the entire structure, the group supervisor should be the final decision maker.

This has been the main reason for the debate concerning a strengthening of the mandate of CEIOPS.

Even if the proposed directive already provides for mediation with CEIOPS, in the event of difficulty reaching a joint decision within the college of supervisors, its legal status and mandate are not sufficient to take and impose decisions.

At present there are different options and proposals under discussion.

While there maybe scope for improvement the important thing is that these discussions do not delay the adoption of the Solvency II Framework directive.

I think that, as for all of us in the industry, the Solvency II proposals on groups cause supervisors to rethink years of practice and require a new and open approach. We know from our own experience that’s no easy task!

I would also ask your indulgence to briefly mention some other major issues which have attracted the attention of all the insurance industry while dealing with the group support regime proposal:

Limit of inclusion of non EU countries for Diversification Benefits;

Transferability and fungibility of capital;

The legal form of group support declaration;

Limiting group support to a fraction of the difference between solo SCR and MCR and, as the key issue, the level of MCR.

Some points are still under discussion and all their implications are still being analysed, in particular transferability - which concerns issues of national legislation - and fungibility.

The Solvency II debate is ongoing and in conclusion I believe that it maybe worth setting out what we might call “red lines” which we believe should not be crossed if we are to preserve the spirit of the Commissions Solvency II proposal:

► In our view diversification benefits should be recognized in full, at least for all EU countries.

► The calibration of the MCR should be agreed and fixed soon especially as it will have an important impact on the hypothetical group support limitation. We believe that the compact approach, that is to say a determined percentage of the SCR, is the best solution for its simplicity, economic sense, given the SCR is risk based, and compliance with the principles of the proposed directive.

► The legal form of group support declaration from the parent undertaking to the subsidiary should be ‘a first demand mechanism by which I mean “first pay then raise objections”.

► Group supervisors should have the powers set out in the draft directive proposal while the solo supervisor should be involved in the decision making process within the supervisory college.

Ladies and gentlemen the proposals contained in Solvency II are indeed bold and innovative.

The entire team at the Commission are to be commended for their commitment to adopt a more sophisticated and economically based system of group supervision and capital assessment.

This will put Europe’s insurers in a more competitive position in the global market place and most importantly provide better protection to policyholders.

Presentation by

Henrik Rättzén

TRYGG HANSA
part of the RSA Group

Henrik Rättzén

Chief Financial Officer

INTRODUCTION

TRYGG HANSA

Codan/Trygg-Hansa – a part of the RSA Group

- meeting customer needs locally in Scandinavia
- Access to the resources and expertise of a large insurance group
- RSA - head office in the UK; operations globally
- Integrated capital management across the group

Supportive of Solvency 2 proposals

- an excellent and well grounded proposal – strongly welcome it
- Groups supervision – level 1 principles excellent
  - Allows groups and supervisors to hold a dialogue on the same level;
  - the potential to improve the efficiency and effectiveness of the supervision of groups;
  - Promotes a harmonised approach:

    But implementation has to be appropriate

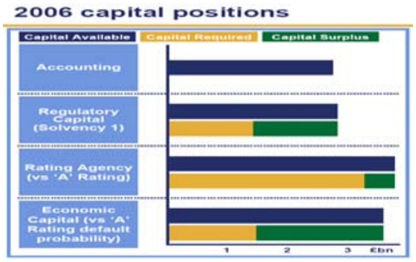
2

CAPITAL MANAGEMENT PROCESSES IN PRACTICE

TRYGG HANSA

The RSA group coordinates capital centrally. What does that mean in practice?

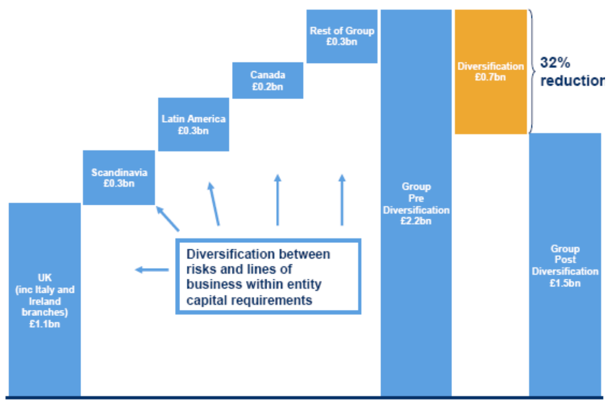
- All business participate in the group planning and capital modelling process
- Locally we work out how much we need to meet our requirements
  - working capital, market counterparty expectations, regulatory capital, rating capital
- Ratings capital currently sets the ceiling. We hold well in excess of regulatory requirements
  - If there is excess capital it can be asked for by the group
  - If we had a shortfall, we could request capital from the group



IMPORTANCE OF DIVERSIFICATION FOR A GROUP

TRYGG HANSA

Economic capital – Group requirement



Year end 2006

CAPITAL EFFICIENCY

TRYGG HANSA

Capital managed and held centrally is much more efficient than requiring the same amount of capital to be held locally!

WHY?

- If a group had 10 subsidiaries and they each could release €10M to the centre, then each subsidiary would have access to €100M
- The same losses could affect more than one entity at a time (i.e., some correlation should be assumed) but for most groups xx% of €100M would give each subsidiary significantly more security than 100% of €10M
  - Facilitating central capital management enhances overall security
  - More efficient use of capital boosts industry competiveness

Capital held centrally is very efficient

5

GROUP SUPPORT – LEGAL STATUS

TRYGG HANSA

- It is the responsibility of the individual companies' boards to ensure we have adequate resources to meet requirements
- If some capital was to be provided via a group support declaration then the board would have to satisfy itself fully about the status of that layer of capital:
  - Valid promises – must be sure assets are there if needed;
  - Legally binding commitments;
  - Clear contractual terms
    - Certainty on these issues is the only way for the board to meet its obligations and duties
- What would give comfort and work?
  - A first demand guarantee
  - Appropriate governance and processes to monitor and manage
  - Legal certainty:
    - external legal advice or,
    - a reliable regulatory template

The board has to ensure that capital is adequate

6

COORDINATION OF ENFORCEMENT

TRYGG HANSA

- Going to talk about enforcing the declaration
- In the event of a crisis affecting the group, it would be critical to take a group view:
  - coordination between regulators should make a single point discussion possible
  - coordination leads to a fair solution – not one which favours the policyholders of one state over another
  - coordination makes a positive solution more likely – uncoordinated actions are more likely to lead to a failure
- Strongly favour therefore a coordinated regulatory approach
  - Enforcing group support should be the responsibility of the group supervisor
  - Decisions could also be taken by the “college of supervisors”
  - Important issue is that the decision is informed by the group view and is not just a local supervisor acting unchecked

Actions must be based on a local and group wide view

7

SPEED AND CERTAINTY OF TRANSFERS

TRYGG HANSA

- Its our business to know our business!
- Not exposed to:
  - big events, or
  - quick changes
- Expect to maintain a significant working buffer
- Therefore:
  - would expect to have months rather than days to deal with capital issues
  - in any case would model all eventualities in terms of liquidity and quantum
  - Board would satisfy itself that availability and timing of assets backing group support were appropriate
  - Would expect to keep local regulators fully informed of all significant changes

8

SUMMARY

TRYGG HANSA

- A strong supporter of group supervision proposals
  - Aligns with how we work
  - Will enhance group competitiveness and provide a level playing field
- Group support is efficient and transparent and will add to security
- Consumers will benefit
- The detailed requirements have to be workable – sensible safeguards necessary but principles must be followed

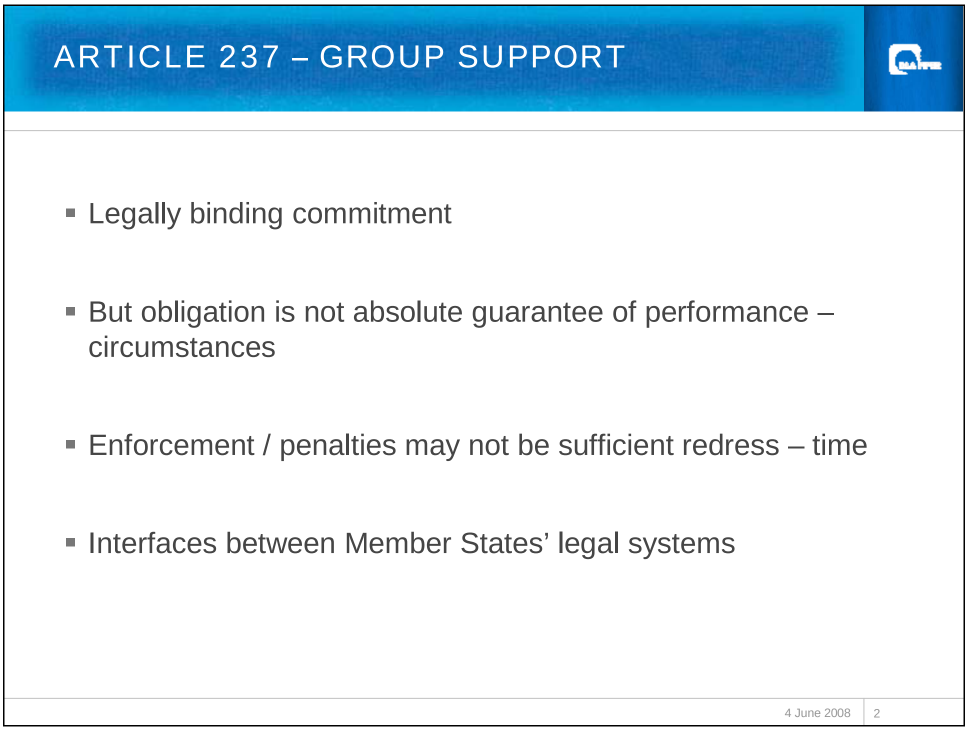
Industry ready to cooperate in developing workable proposals

9

TRYGG HANSA

THANK YOU

Presentation by
Adrian Savage



LETTERS OF CREDIT

- Legally enforceable (against banks)
- On demand
- When required by subsidiary
- Can be subject to contractual (and regulatory restrictions)
- Cross-jurisdictional
- Could be created by fellow subsidiaries

4 June 2008 | 3

LETTERS OF CREDIT (II)

- Availability on required scale?
- Cost
- Mechanisms for adjustment

4 June 2008 | 4

COMPETITION FOR FINITE GROUP SUPPORT

- Article 244
- Ensuring equivalence over time
- Guarantee fund differentials

4 June 2008 | 5

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