Reinsurance and Solvency II

Hannover Re supports you preparing for the new regulatory system

Solvency II replaces the previous solvency regime Solvency I from 2016 onwards. Solvency II finds unique application in all member states of the European Economic Area (EEA). The new solvency regulation introduces a number of fundamental changes.

The most significant changes are a) the move from a volume based capital regime to a risk-based capital regime, b) increasing requirements on risk management and internal control systems and c) extended requirement on public disclosure and reporting to the supervisor.

As member in national and international insurance forums and associations Hannover Re has closely followed the Solvency II processes for several years. We have participated in all quantitative impact studies (QIS 1-5) advancing the regulation. In addition, we have received supervisory approval to calculate our solvency capital requirements according to our internal capital model covering the most important risk categories underwriting risk, market risk and counterparty default risk.

Based on this profound experience and knowledge about Solvency II we offer support to align our clients’ reinsurance structure towards the upcoming changes. With respect to reinsurance we find the following aspects most important:

• Solvency II requires capitalisation at a security level of 99.5%. This is equivalent to a 200 year event and thus represents higher requirements compared to a protection of e.g. the 100 year event.

• As a principle, Solvency II recognises the risk mitigation effect of reinsurance arrangements whenever risk transfer can be shown. Special solutions such as stop-loss contracts, however, do not reduce capital requirements in the standard formula of Solvency II. Hannover Re can support the individual adjustment of the standard formula to guarantee that innovative and flexi-

Under Solvency II reinsurance lowers capital requirements and increases own funds

- Solvency II requires capital for counterparty default risk to reinsurers. The amount of capital depends on the rating and more general the capitalisation of the reinsurer. Hannover Re offers its clients a high level of security and by its very strong ratings (Standard & Poor’s AA+, A.M. Best A+, both corresponding to a Credit Quality Step of 1 under Solvency II) helps to minimise the counterparty default risk of its clients.

• The Solvency II framework considers the benefit of reinsurance not only from the perspective of exposure management, but also in view of a company’s overall capital and risk management. The risk mitigation effect of reinsurance is also reflected in an increase of own funds due to a lower risk margin.

Contact

If you have any particular questions in this matter please contact your corresponding travelling underwriter or account executive.