AMICE raises alert on reliance on credit rating agencies

"The pricing practices of credit rating agencies are leading to increased Solvency II implementation costs which are already very high especially for the smaller players. The reliance on credit rating agencies should be re-examined in the Solvency II review due in 2018." says Hilde Vernaillen, President of AMICE.

As part of the new prudential regime, information provided by credit rating agencies is required to calculate the Solvency Capital Requirement (Standard Formula) and to report to the National Competent Authorities (NCAs) and to EIOPA, the European Supervisor. The Standard Formula uses credit ratings from credit rating agencies as the main driver to gauge market risks so that if an insurer invests in non-rated assets, or if an insurer has no information on those assets, the capital requirement will be very high. Insurers may create their own model to avoid these requirements but developing such an internal model is costly and burdensome.

With the entry into force of Solvency II, credit rating agencies have decided to charge market participants additional costs for the use of the credit rating information in their reporting to NCAs. As a result, insurers have to pay several times for the same information. AMICE has already alerted EIOPA and the European Commission about the increase in rating agency fees by up to 80%.

The current legislation increases the dependency on credit rating agencies and leads to excessive costs for insurance companies. Moreover, the dependency on a few market players in the credit rating industry with high market entry barriers creates a systemic risk.

Consequently, AMICE invites the European Parliament, the European Commission and EIOPA to reassess the approach with regard to the use and transparency of credit ratings. Furthermore, we invite them to ensure that the new prudential regime does not become needlessly costly as these costs will in fine impact consumers. We therefore call on the co-legislators to review the articles of the Solvency II framework where reference to credit ratings is made.
Notes to the editors

About AMICE (Association of Mutual and Cooperative Insurers in Europe)

AMICE is the voice of the mutual and cooperative insurance sector in Europe. The Brussels-based association advocates for appropriate and fair treatment of all mutual and cooperatives insurers in a European Single Market. It also encourages the creation and development of innovative solutions for the benefit of European citizens and society.

Mutual and cooperative insurance follows the principles of solidarity and sustainability and is characterised by customer-membership and democratic governance. The mutual business model, with its focus on using surpluses for the benefit of its members, is the natural way to provide insurance.

In Europe, the close to 2,800 insurers united in the mutual and cooperative sector account for more than half of all insurance undertakings and for a market share of almost 30%. They provide cover for more than 200 million customers and employ more than 400,000 staff within the European Union.

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