ERHVERVS- OG VÆKSTMINISTERIET

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MINISTRY OF BUSINESS AND GROWTH
Slotsholmsgade 10-12
1216 København K

Tel. 33 92 33 50
Fax 33 12 37 78
CVR-nr. 10 09 24 85
evm@evm.dk
www.evm.dk

Agreement improves the regulatory environment for Danish pension savers

As a protection of the Danish pension savers, Minister for Business and Growth, Ole Sohn, has signed an agreement with the insurance association Forsikring & Pension, preventing policyholders from suffering unnecessary losses due to historical low interest rates and exceptional market conditions. To increase capital strength, restrictions on dividends and upwrites of pensions are introduced.

A large proportion of the Danish pension policyholders have taken out a pension product containing the promise of a guaranteed nominal interest rate. The historical low interest level combined with the regulation for technical provisions forces insurance companies and pension funds to enter into short term investment decisions.

This is addressed in the agreement between Minister for Business and Growth, Ole Sohn, and Forsikring & Pension, in which insurance companies and pension funds are given more flexibility to set out a long term investment strategy.

Minister for Business and Growth, Ole Sohn, says:
- I am very satisfied with the constructive dialogue with Forsikring & Pension and that it is ending up in a sustainable and balanced solution in the benefit of policyholders.

- It is key that insurance companies and pension funds have the ability to provide the pensioners of the future the highest returns. The regulatory environment should not force companies into short term investment decisions due to exceptional market conditions.

Chair of Forsikring & Pension, Peter Damgaard Jensen, says:
- In my view the agreement that we have made is a solid one. It will give us the ability to deliver the highest possible pensions to our customers and at the same time to contribute to the country’s growth agenda.

- The cost of the change is zero, both for the state and for others. It is not a rescue package but a change of the methodology that fails to function under the current exceptional market conditions.

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The technical change in the agreement is to make a lift of the long end of the discount rate curve, used for the calculation of technical provisions, equivalent to a more ordinary market condition and in line with the generally agreed long term projections for growth and inflation. This avoids insurance companies and pensions funds locking customers' future returns at the current historical low level interest rates. With this change of the discount rate curve an important step towards the future EU-regulation of insurance companies (Solvency II) is taken.

The agreement contains several other initiatives. Among these are restrictions on dividends, a temporary limit on upwrites of pensions and increased transparency. Measures are also taken to ensure the robustness of the capital going forward and to prevent any subsidizing between generations of pension savers coming from the change of the discount rate curve.

Along with the changes implied by this agreement is it important to stress that the insurance companies and pension funds currently hold sufficient capital to resist a further decline in interest rates and that there is no immediate risk of the sector not being able to live up to their pension promises. However, a continuing low interest level can force companies into short term investment decision on the expense of pension savers' long term objectives.

Contact person: Søren Møller Nielsen (+45 33 92 31 66)

Contact person: Jesper Hjorth Jespersen (+45 31 52 41 56)