

## Germany's ZIA warns of negative effect of Solvency II

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The proposed Solvency II regulation for European insurance companies threatens to have serious negative consequences on the entire real estate industry, the German property federation ZIA has warned. 'Real estate investments will become far less attractive with the capital requirements currently planned,' said Bärbel Schomberg, vice-president of Zentraler Immobilien Ausschuss (ZIA).

Even though real estate represents just 5% of insurers' total investment portfolio, the insurance industry still represents one of the largest investment groups in the German property market with no less than EUR 65-75 bn of assets and Schomberg believes that even a partial retreatment of this investor group could have a major impact on the sector.

If approved, the new Solvency II directive will oblige insurance companies to keep considerably more capital on hand to satisfy the stipulations of insurance contracts. Under the proposals, real estate investments in particular will be subject to a flat-rate capital requirement of 25%.

Given that no distinction will be made based on the risk category of investment, insurance companies are expected to invest in higher yield properties, disfavoured real estate markets with low volatility and low risk. Schomberg: 'Under the proposed capital rules it will be more attractive for insurance companies to invest in Bulgarian commercial real estate than in a residential building in the city centre of Munich.'

Schomberg expects the special funds for institutional investors (Spezialfonds) to suffer the most given that they are one of the preferred investment vehicles for the insurance industry.