IFIGS
Success Stories

Featured Insolvency

- ***Company*** **Mannheimer Lebensversicherung AG (MLV)**
- ***Insurance*** **Life**
- ***Country*** **Germany**
- ***IGS*** **Protektor Lebensversicherungs-AG (Protektor)**

About MLV

Mannheimer Lebensversicherung AG (MLV) was a medium-sized, long-established life insurance company that had grown significantly in the years leading up to its collapse. In the 2002 business year, with premium income of 416 million euros, it ranked 43rd among the 111 German life insurers at that time. A large portion of the financial investments were made in stocks with good ratings, in the expectation that high investment returns would provide a competitive advantage in the sale of insurance products. In the wake of the capital market crisis on the stock markets 2001/2002, MLV was forced to make substantial write-downs on its stock portfolio.

The parent company, Mannheimer AG Holding, was unable to cover the losses which were demanded by MLV under the Profit and Loss Assumption Agreement. As a result, the company was expected to report a balance sheet deficit as of December 31, 2002.

As a result, the regulatory authority no longer considered the company solvent, and insolvency due to excessive debt looming. So, the regulatory authority required Protektor to take over the insurance portfolios in early 2003 and to compensate for undercapitalization.

MLV sold all types of life insurance contracts, particularly long-term annuities with guaranteed returns as well as disability insurance. To safeguard these policies and thereby protect especially policyholders’ entitlements under their retirement savings contracts, Protektor took over all insurance contracts (approx. 345,000), the associated assets (approx. 3.2 billion euros), and the employees of the life insurance division as of July 1, 2003. The claim for compensation against MLV, which arose from the valuation of the acquired life insurance portfolio including tax risks, amounted to 193 million euros.

Protektor’s shareholders covered the capital shortfall by taking out a subordinated loan of 60 million euro and by making contributions to Protektor’s equity: a total of 240 million euros was contributed, including the provision of the necessary solvency capital. Protektor’s annual loss at 31. Dezember 2003, which included not only the shortfall at MLV but also offsetting positive results from the liquidation of parts of the business/assets in the second half of 2003, amounted to 100 million euros.

Protektor managed the acquired portfolio until 2017 like a standard life insurer without making any changes to the policies. In 2017, the entire insurance business - including the approximately 100,000 policies still in force at that time - was sold to an insurance group specializing in the run-off of portfolios.

Not a single policyholder has experienced any reduction in their guaranteed policy benefits. Thanks to proceeds from the run-off of the portfolio and the sale proceeds, the additional premiums paid in 2003 were repaid to shareholders, with the exception of approximately 4 million euros.

The collapse of Mannheimer Lebensversicherung was the first and, to date, only insolvency of a German life insurer since World War II.

Reasons for creating a continuation instead of compensation scheme based on home-state principle

- *Most of life contracts are intended to provide income security in old age.*
- *Compensation does not adequately address long-term contracts, some of which span more than 50 years.*
- *Due to advanced age and health issues, it is not possible to purchase disability insurance at a later date at the same premium rate.*
- *Policyholders are unable to assess the long-term solvency of a life insurer, and yet, even if the insurer's financial condition deteriorates, they are unable to switch insurance coverage without incurring losses.*
- *The solvency position of a life insurer must be assessed at the company level, not at the branch level. In addition, policies are often sold under the freedom of services within the European Union without establishing branches.*
- *The supervisory system in Europe is based on the home-state principle*

About Protektor

Protektor Lebensversicherungs-AG was founded 2002 by the German life insurers as a voluntary guarantee fund for their life policies. Following the MLV case, the guarantee fund was regulated by law. Today, all life insurers based in Germany are required to be members of the Guarantee Fund for Life Insurers ("Sicherungsfonds für die Lebensversicherer"). This fund is based on the principles of contract continuation defined in 2002.

So Protektor Lebensversicherungs-AG is the insurance guarantee scheme for German life insurers. It manages the life insurers' protection fund, which takes over life insurance portfolios when the supervisory authority orders this due to financial difficulties faced by a German life insurer. In doing so, all policies are protected, regardless of the type of life insurance involved or where the risk is located.

To facilitate the assumption and continuation of the policies, members provide ex-ante financing amounting to 1‰ of the net technical reserves of all members. These currently total approximately 1.2 billion euros. Should the funds prove insufficient in the event of a takeover, special contributions of the same amount may be made.