RAB OPINION

Denis Kessler

Chair, Insurance Europe Reinsurance Advisory Board (RAB)
Chairman of the board of directors, SCOR, France

OPEN MARKETS

Fewer barriers, more resilience

The reinsurance industry relies on open markets to fulfil its crucial function of fostering economic development and strengthening societal resilience

Recent developments have served as a stark reminder that uncertainties and instabilities of all kinds are multiplying. The world is facing ever more violent shocks and increasingly multi-faceted threats. Broadly speaking, risks are becoming more interdependent, serial and global in scale. Many risks are no longer restricted by time and space, as was traditionally the case. The COVID-19 crisis is glaring proof of this.

Over the past few years, as well as the pandemic, the world has experienced an ever-increasing number of natural catastrophes and rising risks associated with climate change. For example, 2021 was the fifth consecutive year to be marked by heavy natural catastrophe losses, a sharp increase compared to the average losses observed in the past. Furthermore, new risks are multiplying and evolving with increasing speed, notably due to rapid scientific progress and technological innovation.

In a nutshell, our modern societies face an increasingly unpredictable and volatile environment. This multiplication of uncertainties and risks casts doubt neither on the relevance of reinsurance nor its business model. Quite the reverse! An ever riskier world with more catastrophic events demonstrates more than ever the crucial role of reinsurance which, through its fundamental function of pooling risks and its capacity to absorb shocks, helps to ensure resilience and thus support the development of societies and economies globally.

A key distinction must be made between insurance and reinsurance. Insurance markets are largely national, with limited cross-border transactions. Most insurers, therefore, operate domestically, pooling risks only on a *local* scale. The reinsurance market, on the other hand, is by its essence *global*. Reinsurers facilitate risk-sharing worldwide, applying the centuries-old motto of Lloyd's of London — "the contribution of the many to the misfortune of the few" — on a truly global scale, to maximise resilience to shocks of all kinds.

By leveraging the diversification effect at a "higher level", reinsurance reduces the cost of risk coverage, to the ultimate benefit of all policyholders. It also increases the underwriting capacity of primary insurers, allowing them to issue policies with higher coverage limits, notably for peak risks that require a global diversification benefit. Last, but not least, reinsurance increases insurers' ability to absorb peak events and thus protects their solvency. In other words, it allows insurers to provide more substantial and affordable protection, thus contributing to reducing the protection gap.

As reinsurance is a genuinely global industry, a reinsurer may operate optimally if, and only if, it can build an international footprint — without friction — to serve insurers and businesses throughout the world and hence receive unhampered access to all markets. This is the fundamental reason why the RAB's primary mission is to advocate regulatory frameworks that facilitate global risk transfer. Removing barriers to risk transfer is required to bring the full value of reinsurance to individuals and businesses in each and every market.

There are many examples of trade barriers in reinsurance; some are long-standing and others have emerged more recently. They can take many forms, such as collateral requirements, local presence requirements or even restrictions on foreign ownership of businesses. An April 2022 report by the Global Reinsurance Forum shows that barriers to trade in reinsurance are present in over 50 territories, including regional groups, clearly demonstrating the scale of the issue.

Europe itself is not immune. While the EU has generally allowed non-European Economic Area reinsurers to conduct business without prior authorisation, this is not the case in all member states, and new barriers may still arise, as evidenced by some proposals being discussed in the context of the Solvency II review. Any restrictions affecting reinsurers from third countries, such as limitations on cession rates or collateral requirements, would represent a step back from the liberalisation of global reinsurance markets. In addition, the more risk- and economic value-based regulatory frameworks are, the better. Even if it is not a trade barrier as such, a fair recognition of risk transfer is critical to promote the use of reinsurance by insurers. In this regard, the RAB supports improvements to the Solvency II standard formula.

The RAB has focused its advocacy on several priority markets and contributed to some positive developments. Even though significant barriers remain, India has increased foreign investment limits for insurers, subject to certain safeguards, signalling the welcome further liberalisation of the market and increasing its attractiveness to foreign investors. The EU and the US are in the final stages of implementing their bilateral "covered agreement", which, under certain conditions, removes regulatory collateral requirements for cross-border reinsurance.

And the UK regulator has recognised the specific characteristics of reinsurance as a cross-border, business-to-business activity and adopted a waiver of capital reporting requirements for third-country reinsurance branches that materially reduces their reporting burden.

The RAB will continue to be a strong advocate for open markets across the globe, so that reinsurance can operate optimally and contribute to the continued growth, welfare and resilience of the world's economies.

What is the RAB?

The Insurance Europe Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. The RAB comprises the seven largest European reinsurers — Gen Re, Hannover Re, Lloyd's of London, Munich Re, PartnerRe, SCOR and Swiss Re — which together represent more than 50% of total reinsurance premiums income worldwide. It is represented at chairman or CEO level, with Insurance Europe providing the secretariat.