Position Paper

# Response to UK House of Lords' Industry & Regulators Committee call for evidence into commercial (re)insurance regulation

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The Insurance Europe Reinsurance Advisory Board (RAB), which comprises Europe's largest reinsurers, is the main advocacy body of the reinsurance industry on European issues. Together, the RAB accounts for more than 50% of worldwide reinsurance business and is represented at chairman and CEO levels by the following European reinsurers: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, SCOR and Swiss Re. Its members seek to promote a stable, innovative, and competitive reinsurance environment and are committed to promoting a regulatory and trading framework that facilitates global risk transfer through reinsurance and other insurance-linked capital solutions.

Our response outlines the areas of improvement that would allow the reinsurance industry to support (re)insurers as providers of long-term cover and investments and key players in the UK's sustainable growth and climate-change goals.

**Key questions**

*Q1: Is the UK regulatory framework appropriate for the commercial insurance and reinsurance sectors?*

N/A

*Q2: To what extent do the Bank of England and Financial Conduct Authority apply and interpret regulatory policy in these areas in a proportionate manner and strike the right balance between regulation and competitiveness?*

N/A

*Q3: How do the activities of the UK's financial regulators affect the ease of carrying out commercial insurance and reinsurance business in the UK? What impact does this have on the availability and cost of insurance cover in the UK?*

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**Open reinsurance markets are vital** to enable the insurance sector to operate efficiently, to diversify risk globally and to promote the continued growth and resilience of global and national economies. Any barriers to trade in reinsurance undermine the efficiency of (re)insurance markets and lead to higher reinsurance costs and less insurance capacity in the long term.

**As a cross-border, business-to-business activity, reinsurance should get special, fit-for-purpose treatment in regulation**. In particular, a pure reinsurance branch of an undertaking situated in a country that has been deemed equivalent should be subject to very limited — if any — additional UK regulation with respect to the local UK branch activities.

**An appropriate regime governing the activity of branches of foreign (re)insurers is key to maintaining and promoting the UK as an internationally competitive (re)insurance hub**. The recent equivalence decisions in respect to EEA jurisdictions granted by HM Treasury were welcomed by the RAB. The propositions below would support HM Treasury's efforts in this regard while ensuring a solid and sensible approach to the supervision of branches of foreign (re)insurers.

**The RAB believes that the prudential supervision of branches should have a high degree of recognition of home state, legal entity supervision that is already in place,** where deemed equivalent to the UK's objectives and standards. With the UK's withdrawal from the EU, there will be a new population of UK branches of firms domiciled in EEA states, which are regulated under Solvency II. These firms are already subject to regulatory oversight, capital and reporting requirements with the key underlying objective of policyholder protection and financial stability. Adopting such an approach also allows for increased proportionality in the supervision of these branches. The case is even stronger for pure reinsurers, given the cross-border nature of their business, which is already recognised in Solvency II, and the fact that a pure reinsurer's branch assets are not required to be localised under the current UK regulatory framework.

The RAB explains in its *paper on the benefits of open reinsurance markets* why barriers should not be placed in the way of professionally managed and well-capitalised reinsurance companies accessing markets on a cross-border or branch basis. **Non-admitted EEA reinsurers (as well as reinsurers from other equivalent jurisdictions) can currently reinsure UK ceding companies without being subject to additional regulatory requirements**. Therefore, UK reinsurer branch requirements create a disproportionate level of supervisory scrutiny, whereas equivalence appropriately provides the same regulatory treatment and recognition of reinsurance contracts provided by cross-border reinsurers subject to equivalent home state supervision only. **The specifics of a reinsurance branch in facilitating cross-border, business to business reinsurance activity has already received some recognition in the UK regulatory framework, which does not require the localisation of assets for pure reinsurance branches**. This supports the management of the pure reinsurer's assets at firm level and obviates the case for local branch capital requirements.

Pooling into a global risk portfolio constitutes prudent use of financial resources. For third country branches, this translates to reinsuring the local risks with the global parent entity. This ultimately benefits retail policyholder and businesses as more protection is available at a lower cost. It also allows commercial insurers and reinsurers to play their vital role in supporting and stabilising markets. **The free flow of risk and capital across borders through intra-group reinsurance is essential to optimising diversification.**

Against this background, the RAB would urge the House of Lords to consider:

- **The removal of branch capital requirements**. A branch cannot fail independently of the firm, and branch capital requirements provide limited prudential benefit, while imposing a burden on a branch of a foreign (re)insurer. As explained above, the RAB believes capital requirements for foreign reinsurance branches serve no purpose, as they do not provide additional protection, would be meaningless as they are based on an artificial balance sheet, and would be misleading as the risks would be artificially inflated by lack of recognition of the risk diversification across the firm.

- **The removal of branch reporting requirements** for pure reinsurers which provide limited benefit, while entailing high implementation and process costs in order to segregate data at branch level that otherwise may not necessarily exist, be meaningful or be managed on a branch stand-alone basis. The RAB believes that all of the current reporting requirements for branches of foreign (re)insurers, both quantitative and narrative, should be removed for pure reinsurers in particular in the UK framework. Therefore, the RAB welcomes the PRA's Waiver Modification by Consent notice of 30 November 2021 but notes that it does not provide sufficient certainty for reinsurers as the waiver can be withdrawn at any time.
- **The removal of the branch own risk and solvency assessment (ORSA) requirement,** as the meaningfulness of an ORSA at branch level is doubtful. The ORSA, similarly to capital requirements, must consider the overall risk profile of the firm, including risk diversification across every part of the business, as well as the overall risk and business strategy of the firm. An ORSA at branch level would have no economic substance and could potentially lead to an incomplete, misleading and probably artificial representation of the branch's solvency.
- **To not create any public disclosure of branch stand-alone information**.
- **To not introduce restrictions related to the level of intra-group reinsurance.** Restrictions or additional requirements (e.g. reporting or collateral) would increase the friction of operating in the UK with a branch model and risk creating an uneven playing field with the EU.

As a concluding remark, the RAB would like to stress that EEA reinsurers are subject to domestic rules equivalent to UK rules. **By implementing all the above recommendations, EEA reinsurers would not gain any advantage over UK-based reinsurers in their capital and reporting requirements**. On the other hand, repeating in the UK the supervision already operated at home level would reduce the attractiveness of the London market to EEA reinsurers.

*Q4: What is the status of the London Market's global competitiveness, and how is this impacted by different regulatory approaches in other territories?*

N/A

*Q5: What improvements could be made to the regulation of commercial insurance and reinsurance in a post-Brexit context?*

Please refer to our response to Question 3.

*Insurance Europe's Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at CEO level by the seven largest European reinsurance firms: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, SCOR and Swiss Re. Through its member bodies, the RAB represents around 60% of total worldwide reinsurance premium income.*