

RAB response to consultation on PRA's approach to the authorisation and supervision of insurance branches

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The Insurance Europe Reinsurance Advisory Board (RAB) welcomes the opportunity to respond to the Prudential Regulation Authority (PRA) consultation (CP21/23) on its approach to the authorisation and supervision of insurance branches.

The RAB considers that the proposed consolidation of SS2/1 into a new Statement of Policy (SoP) is a positive initiative.

The RAB agrees that, as a general principle, the prudential supervision of branches should ensure a high degree of recognition of home state legal entity supervision that is already in place, where deemed comparable to the UK's objectives and standards. The RAB therefore welcomes the PRA's position on a "broadly equivalent" assessment of the home supervisory regime. This, together with effective supervisory co-operation and an appropriate home jurisdiction winding-up regime, warrants an overall proportionate approach to the supervision of branches.

Further information can be found below.

Clarifying the PRA's approach to assessing risks of a third country (re)insurance branch

- **The expectation for the subsidiarisation of reinsurance branches is a barrier to business:** The RAB notes that the PRA intends to adopt a proportionate approach when considering subsidiarisation and intends to consider using the level of FSCS-relevant business being written as a key indicator to require subsidiarisation. The PRA recognises that "it would not be beneficial to require subsidiarisation where the risks arising from the branch are not considered impactful". However, the costs of imposing subsidiarisation based on a discretionary risk assessment should not be misjudged.

The RAB understands that the PRA recognises that any potential subsidiarisation of reinsurance branches could undermine the business being written in the UK by third country reinsurers and act as a deterrent for new business. Expectations for the subsidiarisation of reinsurance branches, which constitutes a market-access barrier, would harm both long-term capacity and the attractiveness of the London market as a major global centre for reinsurance business.

- Priority of policyholders during insolvency: The PRA provides that UK policyholders should be given “appropriate priority” (see 2.25 of the draft SoP). However, the RAB stresses that reinsurance policyholders (ie cedants) are not afforded any special priority over general (non-insurance) creditors under UK insolvency laws. It is therefore not appropriate for the PRA to expect other jurisdictions to do so, including when assessing applicable laws relating to winding-up in relevant jurisdictions (see paragraph 2.26 of the draft SoP). The PRA should therefore clarify that the reference to policyholders should only apply to insurance policyholders and not reinsurance policyholders (cedants), to maintain consistency with UK law. The RAB considers that this distinction between needs to be made throughout all the documents (eg paragraph 3.3 of SS44/15 should be clarified).
- Branch authorisation: Paragraph 2.6 of the Consultation Paper uses wording that may lead to misinterpretation. It could be understood that it would be a concern if a company does most of its UK business through its UK branch, which is undoubtedly a branch’s intended purpose. The PRA should clarify whether this was the intended meaning, or rather that a situation where a third country (re)insurer does most of its non-UK business out of the UK branch may raise concerns. Given the availability of qualified insurance professionals and the reliable regulatory regime in the UK, the RAB would not see an obvious concern where companies decide on using their UK branch to write non-UK business. Such situations should be assessed on a case-by-case basis.

The PRA’s approach to assessing the reinsurance arrangements of a third country branch

- The RAB considers that the PRA’s proposed approach would be overly restrictive, without corresponding improvement in the protection afforded to UK policyholder protection for third-country branches undertaking operating in a “broadly equivalent” home jurisdiction, where there is a high level of cooperation between home and UK regulators.
- While recognising the importance of transparency and actuarial soundness, the RAB stresses that the appropriateness of internal reinsurance arrangements should be assessed depending on the objectives those arrangements seek to achieve. As a general rule, encouraging intra-group reinsurance is sensible and aligns with existing and common risk management practices as it allows for the pooling of capital and liquidity. A reason why third country branches are set up is to access these additional resources of risks, but the proposals outlined in the PRA’s approach would limit the attractiveness of bringing UK insurance risks into reinsurance undertakings’ pooling of risks. As a result, this may affect risk diversification, ultimately negatively affecting UK policyholders where there is “broad equivalence” with the home jurisdiction’s supervisory and regulatory regime.
- In particular, the RAB is concerned about the new expectations in 6A.3 of SS44/15 which will mean notifying the PRA where the reinsurance arrangements of the third country branch undertaking change materially from the point of authorisation. This does not seem a proportionate expectation given that this is not required from subsidiaries. If such a material change modifies the risk profile of the branch, it will already be covered in the Own Risk and Solvency Assessment (ORSA).

Own Risk and Solvency Assessment (ORSA) reporting

- The RAB welcomes the PRA’s proposal to provide options of either submitting the third country branch undertaking’s ORSA or a separate third country branch ORSA.
- Moreover, the RAB would support a proportionate approach to the ORSA requirement, whereby only impact category 1 and 2 would be under scope, while impact category 3 and 4 branches would be exempt from an ORSA requirement given their limited financial stability impact and the absence of local branch SCR.

Sharing of information on the third country branch undertaking

- The RAB urges the PRA to clarify the new paragraph 6.8A of SS44/15 regarding the scope of information sharing. The RAB understands that the PRA expects the branch to share a copy of the supervisory reporting documentation of the third country branch undertaking which are relevant to the branch operations, and a summary of any significant concerns which the home supervisor has raised with the third country branch undertaking with regard to branch operations.
- The RAB appreciates that paragraph 6.8A starts with “with regard to branch operations”. However, it would be helpful if the PRA could clarify whether this applies to each information sharing request.
- The PRA should also clarify which “supervisor” is referred to in paragraph 6.8A of SS44/15, the home supervisor or the PRA.

Insurance Europe’s Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at chairman and chief executive officer (CEO) level by the seven largest European reinsurance firms: Gen Re, Hannover Re, Lloyd’s, Munich Re, PartnerRe, SCOR and Swiss Re, with Insurance Europe providing the secretariat.

Through its member bodies, the RAB represents more than 50% of total worldwide reinsurance premium income. The RAB promotes a stable, innovative and competitive market environment. It further promotes a regulatory and trading framework that facilitates global risk transfer through reinsurance and other insurance-linked capital solutions.