Position Paper

RAB response to IRDAI Exposure Draft Guidelines on Collateralized reinsurance transactions for placement of reinsurance business with Cross Border Reinsurers (CBRs)

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The Insurance Europe Reinsurance Advisory Board (RAB) welcomes the opportunity to provide comments to the IRDAI Exposure Draft Guidelines on Collateralized reinsurance transactions for placement of reinsurance business with Cross Border Reinsurers (CBRs).

The RAB notes the Insurance Regulatory and Development Authority of India's (IRDAI) intention to introduce collateral requirements for reinsurance transactions with CBRs (not applicable to intragroup retrocessions), either in the form of irrevocable letter of credit (LC) covering 80 to 100% of outstanding claims liabilities, or in premiums/funds withheld by the ceding reinsurer, covering 50% of the premiums ceded. **The RAB would kindly invite the IRDAI to reconsider the introduction of this market access barrier.**

The IRDAI suggests that the use of collateral requirements protects the interests of policyholders and insurers. However, this statement is fundamentally misleading. In fact, by introducing non-prudential incentives into reinsurance purchasing decisions, collateral requirements are much more likely to effectively undermine rather than strengthen both local insurers and reinsurers and to ultimately lead to higher (re)insurance premiums. The RAB has observed in many jurisdictions globally that a sound risk-based supervision is more effective to achieve the objectives of ensuring policyholder protection and supporting the development of a local industry than trade barriers.

Furthermore, the RAB would like to highlight that the IRDAI has already addressed the topic of CBR counterparty default risk in its recent Technical Guidance in respect of the Risk Based Capital Framework Quantitative Impact Study-1 (RBC QIS 1 guidelines). For CBRs, these guidelines prescribe a risk charge factor in the range of 5% (for CBRs rated AAA) to 75% (Unrated). The RAB strongly advises the IRDAI not to introduce different sets of requirements to address the very same risk.

Indian insurers are best placed to ensure that the reinsurance arrangements they enter into are subject to appropriate controls and risk management. The RAB considers that the decision to purchase reinsurance should not be based on the geographical location of a reinsurer but on **a risk-based assessment of the reinsurer's financial strength, credit ratings, business expertise and experience, as well as the robustness of the supervisory framework it is subject to**. Professionally managed and well-capitalised (re)insurance

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companies that are subject to risk-based solvency requirements and reliable supervision should be able to operate in open markets worldwide.

Full access to cross-border reinsurance has tangible benefits for any domestic insurance industry, consumers and the wider economy. In order to deliver to its full capacity, the reinsurance industry relies on an open and global reinsurance market. This is a prerequisite for reinsurance to fulfil its social and economic function of efficiently transferring and globally diversifying risks and promoting the resilience, recovery, and continued growth of national and global economies.

Such introduction would also go against the spirit of the ongoing EU-India trade agreement negotiations and may undermine the gains from preferential market access that is being negotiated.

Therefore, in the RAB's view, **introducing collateral requirements, as proposed in the exposure draft guidelines, is unlikely to bring the intended regulatory effect**.

The RAB would also like to reiterate that the development and maintenance of a reinsurance market which benefits the Indian society and economy is not only relying on access to cross-border reinsurance. It also requires a fair, equitable and transparent treatment of reinsurance regarding other aspects of the regulatory framework. (e.g. removal of the order of preference, free flow of capital, ease of doing business for Indian reinsurers and foreign reinsurance branches, tax parity), as mentioned in previous RAB communications and responses to IRDAI consultations.

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.