RAB Response to FSRA of ADGM Discussion Paper No.1 of 2025

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The Reinsurance Advisory Board (RAB) welcomes the opportunity to respond to the Abu Dhabi Global Market Financial Services Regulatory Authority's (FSRA) *Discussion Paper No. 1 of 2025*.

The RAB welcomes the FSRA's initiative to update its regulatory framework for re/insurance and its intention to strike a prudent balance between competitiveness, regulatory strength, and operational simplicity.

The RAB particularly welcomes the intention to combine the most effective elements of global regulatory standards, such as the IAIS ICPs, and leading international standards, such as the EU's Solvency II and the Swiss Solvency framework.

In relation to specific prudential aspects raised in the Discussion Paper, the RAB would like to note the following:

- The RAB welcomes the intention to introduce a more risk-sensitive, economic capital-based approach. Two elements in the approach are key for re/insurance: appropriate recognition of diversification and allowance of Internal Models.
- First, **diversification** is a fundamental tool by which reinsurers create value and ultimately provide efficient and effective protection for insurers. It is achieved by writing a mix of business that is exposed to different risk factors that are as independent as possible. The RAB supports the proposed recognition of diversification benefits across geographic, sectoral, and product dimensions and recommends recognition of diversification not only by geography, sector, and product, but also across risk types (market, underwriting, credit), between asset classes, and between lines of business. The framework should be intentionally broad to capture all diversification effects.
- Second, the RAB particularly welcomes the allowance of **Internal Models** as an alternative to the standard formula for the calculation of capital requirements. Internal models are already an integral part of modern solvency regimes like Solvency II and the Swiss Solvency Test (SST), and they offer a number of benefits, making companies' risk profiles more transparent and enriching the dialogue between the supervisor and the undertaking. Internal models analyse risk in more detail so that the output of the model more closely reflects an undertaking's risk profile. **A reinsurance perspective on Internal Models can be found in a publication by the Reinsurance Advisory Board (here).**

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- The RAB welcomes the introduction of the **minimum capital requirement** (**MCR) and the ADGM Solvency Capital Requirement (ASCR) concepts**, as well as the Value-at-Risk (VaR) approach for the calculation of the ASCR. These align with the approaches of European prudential supervision and international standards. The RAB recommends aligning with Solvency II and SST by requiring insurers to hold 100% of ASCR. The ASCR should already reflect each insurer's risk profile, as it is intended to be risk-based. In a risk-based framework, higher-risk exposure should implicitly mean higher capital requirements. In practice, as we have seen in European jurisdictions, re/insurers will often set a target above the pure 100% SCR level, aligned with their targeted risk profile.
- The RAB agrees that a **holistic supervisory approach, aligned with global standards, includes three key pillars**, namely: capital requirements, qualitative risk management and governance, as well as reporting and disclosure.
- **The RAB supports the prudent person principle (PPP) under Solvency II and SST**, which permits a broad range of investments as long as the insurer can properly identify, measure, monitor, and manage the associated risks, and ensure that assets are appropriate for the nature and duration of liabilities. In relation to this, the RAB would support the philosophy that the EU introduced when transitioning from Solvency I to Solvency II, namely an approach where, as long as insurers hold the right amounts of capital (measured through either the standard formula or an Internal Model), there is no purpose in imposing additional limitations on asset holdings. The focus should therefore be on how to calibrate the right amount of capital to be held against various asset classes. The RAB further supports the introduction of a Prudent Person Principle as a key element in insurers' investment policies. An appropriate approach to capital requirements, combined with the PPP, should provide the right incentives for insurers to invest in the best interests of all relevant stakeholders.
- The RAB welcomes the FSRA considering permitting **composite structures**, consistent with leading international regulatory practices.
- **The RAB acknowledges the intention of the FSRA to support the development of an insurance-linked securities (ILS) framework.** We observe that the appeal of ILS typically depends on the size of the capital markets that can be tapped into, and that, in many jurisdictions, the development of an ILS market has often been constrained by administrative burdens related to licensing and registration processes.

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.