reinsurance
advisory board

RAB response to EIOPA's consultation paper on the criteria for the identification of exceptional sector-wide shocks

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The Insurance Europe Reinsurance Advisory Board (RAB) welcomes the opportunity to provide comments to EIOPA's consultation paper on the proposal for Regulatory Technical Standards (RTS) on the criteria for the identification of exceptional sector-wide shocks.

The RAB supports the positions of the wider industry and the comments provided by Insurance Europe in its response to the consultation. From the RAB's perspective, the following aspects of the industry response are most important:

- **Resilience of European insurance sector**: During the multiple and increasingly severe crises of recent years – including a war in Europe and a global pandemic, the European (re)insurance industry has demonstrated resilience to the resulting economic shocks. Sector-wide shocks should, therefore, be reserved for extraordinary circumstances with impacts exceeding those of recent crises. Frequent intervention through sector-wide shocks and subsequent measures should be avoided, as it risks undermining the reliability of the EU financial market.
- **Criteria should be set to ensure that "exceptional" means a very remote risk of activation:** Broad or discretionary criteria may lead to unwarranted declarations of shocks, impacting investor confidence and the cost of equity and subordinated debt for European insurers. This could harm the sector's competitiveness globally, particularly during periods of economic stress, and exacerbate procyclicality.
- **Importance of a coordinated approach at EU level**: In the context of Solvency II, the single European market should be viewed as sector because insurance companies can operate across borders with a single insurance license. Therefore, sector-wide shocks shall reflect the entire European market to correctly capture both the national and European perspective of possible impacts of such shocks.
- **Importance of considering the expected duration of the shock**: Insurers, unlike banks, do not fail overnight. Insurers are actually countercyclical players because short-term risks (fire, motor, medical expenses, etc.) are not correlated to the market, while long-tail risks (casualty, longevity/mortality risks, long-term care) make (re)insurers patient investors that can hold assets through the cycle. A shock needs to be considered long-term with irreversible adverse effects to trigger Article 144c.
- In addition, when considering any decisions or actions, there should be **recognition of the countercyclical role of (re)insurers in financial stability**. Such additional principles and considerations can include, for example:
  - (Global) reinsurance programmes and other capital protection solutions to mitigate the impacts on insurers;

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- avoiding potential contagion risks from one market to another, as well as other sectors like pensions, and avoiding triggers of pro-cyclical behaviour in line with Article 28 of Directive 2009/138/EC;
  - ensuring competitiveness of insurance groups and carefully considering any interruption of the free flow of (intragroup) dividends to avoid aggravating any impact.
- Even if there is an EU-wide shock, restrictions should only apply to vulnerable undertakings which should be assessed from a solvency perspective. If the level of the Solvency Capital Requirement (SCR) is sufficient on a company level, there is no need for the measure to be applied.

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.