Reinsurance Advisory Board response to DNB consultation on resolvability of insurers

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Name and contact details:	Reinsurance Advisory Board (RAB) international@insuranceeurope.eu		
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The Insurance Europe Reinsurance Advisory Board (RAB) welcomes the opportunity to provide input on the consultation by De Nederlandsche Bank (DNB) on insurer resolvability (Beleidsregel Afwikkelbaarheid Verzekeraars) and appreciates the DNB's work aimed at clarifying the aspects under consideration when assessing the resolvability of insurers and groups.

The RAB would like to comment on Article 9:2d of the consultation document, which stipulates that DNB shall assess the extent to which resolvability is taken into account when making strategic decisions, so that these strategic decisions do not impede the implementation of resolution measures. The RAB would like to point out that, by definition, this assessment will be a subjective exercise, so the RAB would urge the DNB to provide clarity on the criteria to be used for the assessment.

Furthermore, when referring to strategic decisions related to risk and capital management, the explanatory note lists reinsurance transactions and outsourcing as examples of strategic choices that could impede the application of resolution measures such as the bail-in tool (p.11).

Reinsurance is an essential part of good risk and capital management in the insurance sector, and a valuable tool to de-risk parts of insurers' balance sheets. The RAB is concerned that reinsurance has been uniquely highlighted as an issue that companies must take into consideration with regards to actions impeding resolvability. This is especially concerning since the consultation document fails to explain why reinsurance is deemed to be problematic in cases of resolution, for example in a bail-in situation. The RAB is not aware of any evidence indicating that reinsurance transactions are usually a factor impeding resolvability. In fact, solvent run-off is the most appropriate resolution tool for insurance business, and maintaining existing reinsurance arrangements is vital for ensuring that the undertaking can remain solvent as liabilities run off. While there may be individual and unusual cases that the DNB has in mind, not specifying these gives the impression that reinsurance itself is seen as a barrier to resolvability.

The RAB is concerned that the current drafting of the paper will lead to confusion among primary insurers with regards to their reinsurance arrangements and could have the unintended consequence of discouraging the use of reinsurance. This would be counterproductive to the goal of avoiding having to put insurers into recovery or resolution, as reinsurance is a vital risk management tool that allows insurers to preserve their financial position in case of extreme events and large losses. The RAB is therefore firmly convinced that by pooling and diversifying

Insurance Europe's Reinsurance Advisory Board
Secretariat • rue du Champ de Mars 23, B-1050 Brussels
Tel: +32 2 894 30 59
E-mail: international@insuranceeurope.eu

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risks across lines of business and geographies, reinsurance contributes to the overall resilience of the insurance market. The RAB believes that a reinsurance strategy that meets the extensive Solvency II requirements on risk management (including reinsurance) does not need to be amended for the purpose of improving resolvability, given the protections in place in Solvency II and the ongoing role reinsurance is likely to play in the run off of insurance liabilities in resolution.

In the RAB's view, the positive contribution of reinsurance in stabilising the insurance market should not be disregarded and it warns against placing restrictions on reinsurance. Consequently, the RAB is disappointed that the draft text under consultation could give the impression that the DNB discourages the use of reinsurance transactions and calls on the DNB to remove the reference to reinsurance as an impediment to resolvability in the explanatory note.

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