Insurance Europe Response to FSB Consultation on Liquidity Preparedness for Margin and Collateral Calls

Our reference:	ECO-IAR-24-073	Date:	17-06-2024
Referring to:	FSB Public Consultation on Liquidity Preparedness for Margin and Collateral Calls		
Contact person:	International Team	E-mail:	international@insuranceeurope.eu
Pages:	2	Transparency Register ID no.:	33213703459-54

General comments

Insurance Europe welcomes the opportunity to respond to the FSB's consultation on Liquidity Preparedness for Margin and Collateral Calls.

As noted in the FSB paper, European (re)insurers are subject to the Solvency II prudential regime (or Solvency UK). This is an extremely comprehensive prudential framework, which includes liquidity risk management requirements and provides extensive supervision and reporting.

Under Solvency II (and Solvency UK), the use of derivatives by European (re)insurers is governed by the prudent person principle which restricts investment to instruments which the insurer can properly identify, measure, monitor, manage, control and report. Derivatives can only be used insofar as they contribute to a reduction of risks or facilitate efficient portfolio management.

Solvency II requires (re)insurers to include liquidity risk management and investments, specifically derivatives, in their risk management system. In addition, if a (re)insurer uses the volatility adjustment or matching adjustment they are also required to set up a liquidity plan.

These liquidity provisions will be strengthened by new requirements, foreseen as part of the ongoing review of Solvency II, for insurers to develop a liquidity risk management plan (LRMP). While the details of the LRMPs are still to be determined, the (re)insurance industry expects that these will be sufficient to address any continued supervisory concerns about liquidity risk management, including the preparedness for margin and collateral calls.

In addition to the regulatory regime, it should be noted that at an aggregate level, European (re)insurers hold large quantities of highly liquid assets and have relatively limited derivative usage. While this clearly varies between individual companies, it does signal that there should not be widespread concern about the lack of liquidity to meet margin requirements.

Insurance Europe aisbl
Rue du Champ de Mars 23, B-1050 Brussels
Tel: +32 2 894 30 00
E-mail : info@insuranceeurope.eu
www.insuranceeurope.eu

FSB recommendations

Overall, Insurance Europe supports the FSB's proposed recommendations which are both clear and comprehensive. From an industry perspective, they represent best practices for liquidity risk management of derivatives and are either already satisfied by the Solvency II/Solvency UK requirements or will be through the forthcoming LRMPs.

As always, care should be taken to avoid creating unnecessary regulatory requirements when these are considered at a jurisdictional level. This is particularly the case when policy is developed to address a group as broad as the "NBFI" universe, which includes sectors which are already well regulated and supervised, such as the (re)insurance sector. In this regard, the FSB's comments in section 2.4 around proportionality and materiality are very important.

Insurance Europe supports the idea that greater transparency from market participants would contribute to improving their liquidity preparedness. For example, more transparency on how Central Counterparty Clearing Houses' (CCPs) collateral requirements are modelled and calculated, would allow insurers to anticipate any unexpected surge in collateral needs. This would help firms to better identify and contribute to mitigate potential systemic impacts. In addition, the industry supports greater acceptance of non-cash collateral as a means to strengthening firms' liquidity positions and diminishing systemic risk.