reinsurance advisory board

Position Paper

Response to UK PRA consultation on proposed changes to Solvency II reporting requirements and expectations

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Introduction

Insurance Europe's Reinsurance Advisory Board (RAB) welcomes the possibility to comment on the Consultation Paper of the UK Prudential Regulation Authority (PRA), setting out proposed changes to the Solvency II reporting requirements and expectations, which is relevant for a number of reinsurers with third-country branch undertakings in the UK or firms within the PRA's Temporary Permissions Regime. Below, the RAB presents its points of view and suggests adjustments that aim to ensure that the proposed requirements appropriately capture the specific characteristics of reinsurance activities.

The suggestions outlined below are meant to maintain the principle of fair competition in and equal access to the UK market. The RAB would like to stress that EEA reinsurers are subject to domestic rules equivalent to the UK rules, so they do not gain any advantage over any UK-based reinsurers in their capital and reporting requirements.

The RAB is aware of the review of Solvency II undertaken by Her Majesty's Treasury (HMT), which it has contributed to (here). However, given the timelines set out in for the Temporary Permissions Regime (TPR) by the PRA, the transitional relief period offered to firms operating in the TPR will come to an end before a decision is made and incorporated into law. **The RAB would ask the PRA to consider the specific treatment of reinsurance ahead of the end of the transitional relief period or to extend the transitional relief period until the outcome of HMT's review is known and implemented.** This will avoid firms expending valuable time and resource to deliver on a number of reporting requirements that may then cease to apply or be modified, some of which the RAB believes are not suitable for reinsurance. It would also remove the need for firms to apply for waivers or modifications of the reporting rules as well as the requirement for the PRA assess any such applications.

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Detailed comments

Proposed changes to the reporting requirements of Solvency II Quantitative Reporting Templates (QRTs)

The RAB acknowledges the two-phase consultation and its aim to reduce the volume of financial information reported to the PRA, which potentially could be implemented by firms and the PRA relatively quickly, and with a low operational impact. The deletion of the reporting requirements outlined in §2.2 of the consultation document is welcome. Removing templates is the RAB's preferred option, as even minor changes in reporting templates may entail considerable costs to adapt reporting and financial systems. In a prudential regime with branch capital requirements — which the RAB would not favour — this would help avoid costly duplication for foreign firms.

The RAB recommends keeping national specific templates and *ad hoc* requests to a minimum, as these require significant additional resources and operational capabilities. While it is understood that a changing environment may require spontaneous reporting requests, key considerations for such requests are timing and the allowance of time for planning. Structuring *ad hoc* requests around a pre-determined timeline/window regarding regular reporting timeline during a year would allow better planning of resources for *ad hoc* requests. Moreover, it is important that those requests avoid being too strongly focused on legal entities and reflect the specific characteristics of a branch set-up.

An increase of the annual reporting timeline from 14 to 16 weeks would be welcome.

For the quarterly reporting, the RAB would encourage the PRA to either drop the Q4 submission or replace the quarterly submissions with one mid-year submission. The current Solvency II reporting in Q4 creates redundancy and operational complexity with the standard reporting process of solvency figures and conflicts with the annual reporting process, while not bringing a significant added value in terms of updating the risk profile of the company.

Change in the minimum capital requirement (MCR) reporting frequency

The reduction of reporting frequency of the MCR collected via S.28 templates from a quarterly to a semi-annual basis is welcome. The RAB would propose that the reporting frequency of these templates is reduced further and that these templates are only included in the annual submission.

Change to the reporting proportionality threshold for S.16.01 to exempt pure reinsurance businesses

The PRA's proposal to further exempting pure reinsurance business from reporting this template is welcome, but pure reinsurers generally have little exposure to annuity-type business, and few have reported this template in the past. There will be little general benefit as a consequence of this change.

Extension to the quarterly reporting waivers

The RAB welcomes the proposal to extend the eligibility of the modification by consent to Category 3 firms, whether solo or part of a group.

Other comments

The RAB generally believes that the UK Solvency II framework works as intended and supports its market-consistent and risk-based approach. A number of areas of the framework have proved to work well and are essential to reinsurers.

The future UK solvency regime should continue to recognise the specific treatment of reinsurance as a cross-border business-to-business activity. In particular, the pure reinsurance branch of an undertaking situated in a country that has been deemed equivalent should be subject to very limited — if any — additional UK regulation with respect to the local UK branch activities.

Branch supervision and capital requirements

An appropriate regime governing the activity of branches of foreign (re)insurers is key to maintaining and promoting the UK as an internationally competitive (re)insurance hub. The RAB welcomes the recent equivalence decisions in respect of EEA jurisdictions reached by HMT. The propositions below would support HMT's efforts in this regard while ensuring a solid and sensible approach to the supervision of branches of foreign (re)insurers.

The RAB opposes branch capital requirements as it strongly believes that they provide no additional protection. A branch cannot fail independently of the firm and the branch capital requirements provide limited prudential benefit while imposing a burden on the branch of a foreign (re)insurer.

The RAB explains in its paper on the benefits of open reinsurance markets[1] why barriers should not be placed in the way of professionally managed and well-capitalised reinsurance companies accessing markets on a cross-border or branch basis. Non-admitted EEA reinsurers (as well as reinsurers from other equivalent jurisdictions) can currently reinsure UK ceding companies without being subject to additional regulatory requirements. The requirements placed on UK branches of EEA undertakings therefore create a disproportionate level of supervisory scrutiny, since equivalence appropriately provides the same regulatory treatment and recognition of reinsurance contracts provided by cross-border reinsurers subject to equivalent home state supervision.

Branch capital reporting requirements

The specifics of a reinsurance branch that facilitates cross-border business to business reinsurance activity is already recognised in the UK regulatory framework, which does not require the localisation of assets in the UK for pure reinsurance branches. This supports the management of the pure reinsurer's assets at firm level and obviates the need for local branch capital requirements. For this reason, branch capital reporting requirements for pure reinsurers provide no additional benefit, while entailing high implementation and process costs in order to segregate data at branch level, which may not be managed on a stand-alone basis for that branch. The RAB believes that all of the current reporting requirements for branches of foreign (re)insurers, both quantitative and narrative, should be removed for pure reinsurers in particular in the UK framework. It also strongly opposes any public disclosure of stand-alone branch information. The meaningfulness of an own risk and solvency assessment (ORSA) at branch level is also doubtful since, similarly to capital requirements, it considers the overall risk profile including risk diversification, as well as the overall risk and business strategy of the firm.

Home-state supervision

The RAB believes that the prudential supervision of branches should contain a high degree of recognition of the home-state legal entity supervision already in place, where deemed equivalent to the UK's objectives and standards. With the UK's withdrawal from the EU, there will be a raft of UK branches of firms domiciled in EEA states, which are regulated under Solvency II. As such, firms are already subject to rigorous governance, regulatory oversight, and capital and reporting requirements with the key underlying objectives of policyholder protection and financial stability. Adopting such recognition also allows for increased proportionality in the supervision of these branches. Branch governance requirements should be minimal in recognition of the robust governance frameworks already in place at firm level. The case is even stronger for pure reinsurers, given the cross-border nature of the business, which is already recognised in Solvency II, and the fact that a pure reinsurer's branch assets are not required to be localised under the current UK regulatory framework.

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[1] https://www.insuranceeurope.eu/publications/461/the-freedom-of-reinsurance/

For third-country branches, the opportunity to report in the reporting currency of the firm and according to the regulations and accounting standards in the home state would be of a considerable benefit from an operational perspective, as it would leverage considerably from existing processes and systems. The RAB takes the view that the frequency of the regular supervisory report (RSR) for third-country branches should be minimal (currently every three years as a standard case).

As mentioned above, the RAB encourages the PRA to consider the removal of branch capital requirements where they apply, which by extension would mean also largely removing branch reporting requirements.

Lighter reporting requirements for reinsurance branches would be a concrete and pragmatic step towards proportionality in the regulation. As UK branches of EEA reinsurance firms are fully subject to Solvency II in respect to their total entity business, the need for additional reporting for those branches should be proportionate to the benefit expected from the additional layer of supervision performed by UK supervisors. Supervisory objectives could be addressed through closer supervisory coordination with the home supervisor.

Insurance Europe's Reinsurance Advisory Board (RAB) is a specialist representative body for the European reinsurance industry. It is represented at CEO level by the seven largest European reinsurance firms: Gen Re, Hannover Re, Lloyd's, Munich Re, PartnerRe, SCOR and Swiss Re. Through its member bodies, the RAB represents around 60% of total worldwide reinsurance premium income.