Position Paper

# RAB response to the EIOPA on technical advice on the implementation of the new proportionality framework under Solvency II

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## General comments

The RAB welcomes the opportunity to respond to the EIOPA consultation on the technical advice on the implementation of the new proportionality framework under Solvency II.

The RAB is concerned by specific references to reinsurance in the consultation which present reinsurance in a negative light. Such negative references could cause insurers to hesitate in their use of reinsurance as a risk mitigating tool, undermining good risk management practices, and should be removed. Disincentivising the use of reinsurance in this way could counterproductively increase risk exposures and undermine effective reinsurance risk transfer strategies for undertakings aiming to benefit from proportionality measures.

The use of reinsurance should not be singled out in the assessment of the application of proportionality measures, either through conditions specific to reinsurance (condition 16) or in the description of the condition (condition 4). Reinsurance is a proven tool used for decades by the industry to simplify and stabilise the risk profile of small to medium-size insurers, and regulatory text on proportionality measures should not create real or perceived barriers to the application of proportionality measures resulting from the use of reinsurance. Other non-reinsurance specific conditions or wordings are sufficiently broad to capture the extent to which reinsurance may be relevant for the assessment of proportionality measures.

## Q26: Do you have any comments on condition 2?

As part of condition 2, (re)insurers are required to have no material changes in the business model over the last three financial years, **this aspect is too restrictive and should be removed.**

The proposed requirement for no material business model changes in the last 3 years would be in addition to the directive requirement for no such changes planned within the next 3 years, giving rise to a requirement for 6 years with no material changes in the business model. It is not practical to require 6 years of no material changes in the business model to benefit from proportionality measures and could increase risk if it disincentivises companies from making necessary business model changes over such a long period.

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The backward-looking criterion on business model changes is overly strict and not tailored to the directive requirement to consider risk profile. A business model change could have been made in the last 3 years to considerably reduce or simplify risk profile; such risk profile reductions or business model simplifications could involve the use of reinsurance. It also implies that improvements in the risk profile and reduction of risk would hinder the classification as small and non-complex undertakings (SNCU).

The forward-looking criterion of the directive is sufficient, and the proposed backward-looking requirement makes the proposal overly restrictive and not appropriately targeted.

**Q28: Do you have any comments on condition 4?**

The RAB is concerned about the **negative portrayal of the use of the term "innovative use of reinsurance."**

The explanation of this condition states that a firm's activities should be considered as simple when, among other factors, the firm does not make "innovative use" of reinsurance as a risk mitigation technique.

The term "innovative use of reinsurance" risks unfairly labelling non-standard risk mitigation techniques as particularly risky without clear definition or assessment. **As such, the following part of the sentence should be removed "or do not make innovative use of reinsurance".** Instead, it should be left to supervisory assessment as part of the approval process as to whether the firm's use of reinsurance affects the assessment of whether the firm's activities are of a simple nature.

**Q40: Do you have any comments on condition 16?**

This condition is redundant as the objective (to address firm exposure to the same reinsurance undertaking) is already covered by condition 15 (material exposures from the asset and liability sides of the balance sheet) and should be removed.

A material concentration of counterparty exposures to reinsurance undertakings is only relevant for the purpose of this proportionality measure if it could potentially give rise to a material liquidity risk/exposure. It is not necessary to single out reinsurance in this way as such a potential risk or exposure is already captured in condition 15.

*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.*