RAB response to EIOPA’s consultation paper on liquidity risk management plans

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Contact person:	RAB secretariat	E-mail:	international@insuranceeurope.eu
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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 liquidity risk management plans (LRMPs).

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.

- **Liquidity risk is not a systemic risk for reinsurers.**
    - Many analyses[1], including from EIOPA, have evidenced that liquidity is not a systemic risk for (re)insurance companies. As such, there appears to be limited value in requiring frequent reporting and overly prescriptive requirements on liquidity risk management systems.
    - Large insurance groups now have to submit up to eight different types of liquidity reporting processes. The development of the LRMP provides the opportunity to reassess the value of these additional requirements and to remove those which are no longer necessary.

- **Principles-based, company-specific plans:** The RAB supports the development of principles-based, company-specific LRMPs. However,
    - liquidity planning is deeply integrated in the risk management processes of reinsurers, as they need to respond to client demands for liquidity after major events; and
    - existing internal liquidity frameworks developed by groups to meet their specific needs should be the implementation of the Solvency II LRMPs, mutatis mutandis regarding the format.

- **Planning, not reporting:** LRMPs should not turn into another reporting-driven exercise meant to produce a Quantitative Reporting Template (QRT). Overly prescriptive LRMP requirements would introduce additional unnecessary administrative burden with no tangible benefits.

[1] EIOPA Stress Test 2021, EIOPA Stress Test 2024, EIOPA Risk dashboard

Insurance Europe’s Reinsurance Advisory Board
Secretariat • rue du Champ de Mars 23, B-1050 Brussels
Tel: +32 2 894 30 00
E-mail: international@insuranceeurope.eu

- The RAB appreciates that the LRMPs need to be part of the information submitted to their respective supervisors. However, quarterly submission of updates to the short-term liquidity analysis to the supervisor is disproportionate. From a practical perspective, submitting a three-month plan five weeks after quarter end – based on projections from the quarter-end appears to be of limited value and operationally challenging.
- An annual submission should be sufficient unless there are significant changes to the risk profile or market conditions. The timing of submission should be agreed upon individually with the supervisors to align with the internal company calendar of risk assessment (ORSA, recovery plans, etc.).
- The time-horizon for the liquidity risk analysis should not be prescribed but rather defined by the company to better reflect its real liquidity needs. Reinsurers' portfolios are not uniform. For example, Non-Life, Life, Nat-Cat risks have very different liquidity patterns.

- **LRMPs should either be prepared at group or at solo level (not both), in alignment with the liquidity strategy of the undertaking**
  - According to Article 246a paragraph 2, subsidiaries which are in the scope of group supervision, are exempted from drawing up and keeping up to date an LRMP at individual level.
  - The RAB suggests clarifying in the RTS the implications of the articulation of the group and solo LRMPs in line with the top-down approach required in Article 246a of the directive (ie exemption of solo plans where a group plan exists but the liquidity is analysed and managed at solo level).
  - However, the RAB recommends that, when a solo approach is adopted, groups should have the option to either use the exemption in Article 246a and submit a group LRMP to the group home supervisor, which would combine the solo liquidity risk analysis of the parent undertaking and the related undertakings within the scope of group supervision into a single document, or submit a solo LRMP to each solo supervisor without the need to derive a redundant group LRMP (ie without using the Article 246a exemption).
  - In any event, this top-down approach of Article 246a focuses on submission (group home supervisor vs solo local supervisors) and the number of documents to derive (single group-level document or multiple solo-level documents) but it does not equate to forcing insurers to adopt artificial group liquidity metrics where the liquidity risk is managed essentially at solo level. This is particularly relevant for the cash-flow projections under Article 5 and the liquidity coverage indicator under Article 7 which should have no effect at group level when a solo approach is used.

- **Criterion to determine the scope of additional liquidity plans requirement should be risk-based.**
  - Additional medium- and long-term liquidity analysis should not be based solely on size, but on a proper assessment of the actual risks the company faces. To be fit for purpose, companies should only be included if they have "material" liquidity risk.
  - Particularly (re)insurers that do not pay surrender benefits or use complex derivatives or financial guarantees should be exempted from the reporting based on risk-based criteria.

- **Medium to long term analysis fit for purpose:** The RAB agrees with EIOPA that it is reasonable to consider 3-month and 12-month intervals as examples of appropriate short-term time horizon and the medium-to-long term time horizon respectively (Article 2(2)), while at same time giving flexibility for alternative intervals if they better suit the company liquidity risk profile and management (Article 2(3)). However, the RAB would suggest presenting these entity-specific time horizons as a real alternative to the 3-month/12-month instead of additive.
  - Furthermore, the application of Article 1 for groups is unclear. It could be interpreted that all subsidiaries in scope of group supervision are subject to medium to long term analysis whenever the group consolidated total assets are greater than €12bn and irrespective of the fact that the total assets of such subsidiaries could be well below €12bn.

- As a result, two identical insurance or reinsurance undertakings would be treated differently whether they are part of a group or not. EIOPA should clarify the RTS to exclude this outcome.

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