

GFIA response to EIOPA consultation on its supervisory statement on the supervision of reinsurance concluded with third-country reinsurers

- GFIA recognises EIOPA's commitment to encouraging EU member state supervisors to ensure high-quality and convergent supervision of reinsurance from non-equivalent, third-country jurisdictions.
- GFIA is, however, concerned that EIOPA's draft Supervisory Statement could encourage national competent authorities (NCAs) to contravene best practice in reinsurance supervision by encouraging new restrictions on third-country reinsurance.
- GFIA is also concerned about the potential for such restrictions to lead to reciprocal restrictive measures in other jurisdictions. The adoption of restrictive measures in EU member states could lead to a proliferation of such barriers globally because of their implied validation by the EU.
- It is therefore important for EIOPA to encourage NCAs to adopt best practices when supervising insurance companies' reinsurance risk management practices. The intensity of the supervisor's focus should vary depending on how concerned it is about the financial stability of the insurer or reinsurer. A risk-based approach to supervision is the right one to adopt. It would be wrong to impose blanket restrictions on cross-border reinsurance.
- Instead, "good practices" should aim to ensure that restrictions on global reinsurance are phased out to allow greater diversification in the placement of reinsurance and more capacity to be brought into the market at a competitive rate, not the opposite.
- Reinsurance services are traditionally provided on a cross-border basis. Reinsurers' business models are based on the ability to write a large number of diversified risks in various markets and geographies.
- If implemented, the supervisory expectations laid out in the draft supervisory statement would deprive EU policyholders and cedants of international capacity and expertise and undermine the global reinsurance market by encouraging new local barriers around the world.
- Open international reinsurance markets are essential to the reinsurance business, which is based on the global diversification of risks. Risk diversification supports insurers, whether operating globally or locally, and enhances resilience. In addition, the cross-border provision of reinsurance enables more efficient risk-transfer pricing and capital allocation. Consequently, access to cross-border reinsurance brings tangible benefits to local insurance industries, consumers and the wider economy.
- This view is supported by the IAIS Insurance Core Principles, which state (at 13.0.2 and 13.0.3):
 - *13.0.2: Geographical diversification of risk, which typically involves risk transfer across jurisdictional borders, is a key element of ceding insurer's and reinsurer's capital and risk management. Geographical diversification can also have an impact in the jurisdiction of the ceding insurer, in particular jurisdictions exposed to catastrophes. By ceding insurance risk across borders, ceding insurers in the jurisdiction, and the*

jurisdiction as a whole, can benefit from a reduced concentration of insurance risk exposures at the ceding insurer and jurisdiction level respectively. This may also contribute to the financial stability of the jurisdiction.

- **13.0.3: Ceding insurers and reinsurers may face external limitations to geographical diversification, for example, in the form of constraints to cross-border risk transfer. *The supervisor should be aware of and take into account the potential impacts of such limitations on individual ceding insurers and reinsurers as well as on the soundness and efficiency of the insurance market.***

- The EU should not follow the negative trend of erecting market-access barriers. EIOPA should seek to prevent the imposition of blanket restrictions on third-country reinsurers, with all the negative effects this could create.

- GFIA would further encourage EIOPA to call on supervisors to continue engaging in regular regulatory dialogues with international counterparts to work towards aligned regulatory and supervisory approaches focused on managing any risks associated with open reinsurance.

Contacts:

Brad Smith, chair of the GFIA Trade Working Group (BradSmith@acl.com)

GFIA secretariat (secretariat@GFIAinsurance.org)

About the GFIA

Through its 40 member associations and 1 observer, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 68 countries. These companies account for around 89% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.