

# 06/12

*newsletter* ★★



This newsletter provides a summary of CP06/12. Please see 'Who should read this paper?' below to see if CP06/12 is relevant to you.

## Financial Services Authority

# Implementing the reinsurance directive

### Why are we issuing this Consultation Paper?

In this Consultation Paper (CP), we set out our proposals for implementing the EU Reinsurance Directive (RID).

We describe what the RID does, our overall approach to implementation, our main proposals and the firms that will be affected by them.

### Who should read the paper?

The overall effect of the RID is limited for most UK reinsurers, as they are already required to meet similar rules, but three sets of firms will be affected in various ways by the proposals described in this paper:

- pure reinsurers: firms that only write reinsurance business, including captive reinsurers that only accept business from a single firm;
- mixed insurers: this is a new classification of firms, covering direct insurers that also write a significant amount of reinsurance business<sup>1</sup>; and

1

The RID defines a mixed insurer as a direct insurer that also does reinsurance business where the reinsurance premiums collected exceed 10% of total premiums, or reinsurance premiums collected exceed €50m, or technical provisions resulting from reinsurance acceptances exceed 10% of total technical provisions.

- direct insurers: our proposals for Insurance Special Purpose Vehicles (ISPVs) and the principles we propose for financial reinsurance may have an impact on the way insurers use reinsurance to mitigate risks.

## How do our proposals affect consumers?

The implementation of the RID is unlikely to affect consumers or consumer groups directly as it deals with the prudential regulation of reinsurance, an activity that is by nature a business-to-business transaction in the wholesale market. Nonetheless, the prudential regulation of reinsurance has an effect on consumers because the ability of direct insurers to meet policyholder claims can be at least partially dependant on the financial security of their reinsurers. Pricing in the reinsurance market will also tend to influence insurance premiums paid by consumers.

## What is the background to this?

The RID came into force on 10 December 2005 and must be implemented across the EU by 10 December 2007. Until now, there have been no EU directives specifically relating to the prudential supervision of reinsurance business, although in the UK we have broadly carried over the requirements of the existing direct insurance directives to reinsurers.

The RID is an interim measure that introduces a minimum level of harmonised prudential supervision of reinsurance across the EU, in advance of a wider directive that will apply to all insurers, known as Solvency 2. The Commission intends to create a single European market in reinsurance and remove remaining barriers to trade within the EU that arise from the existence of varied supervisory regimes across Member States. Under the RID, each reinsurer will be supervised by the competent authority in its home state and will be able to operate throughout the EU on that basis. The RID also allows Member States the option to establish an ISPV market. We intend to introduce a fit-for-purpose regime for authorising and regulating ISPVs.

## How is the CP set out?

This CP sets out our proposals in detail, and asks for responses in a number of areas. The chapters discuss:

- proposals affecting life and non-life reinsurance business;
- introducing a fit-for-purpose regime for ISPVs;
- introducing a principle-based approach for risk transfer;
- proposals affecting insurance groups and financial conglomerates;
- changes to the insurance annual returns;
- our market failure and cost benefit analysis; and
- our compatibility statement.

The proposed changes to our rules and guidance are in a draft instrument at Appendix 1. This follows the structure of the proposed new Prudential Sourcebooks, namely the Insurance Prudential Sourcebook (INSPRU) and the General Prudential Sourcebook (GENPRU)<sup>2</sup>. These were consulted on in CP06/10, CP06/03 and CP05/03 respectively<sup>3</sup>.

## What happens next?

In our Business Plan for 2006/07, we announced that we would be consulting on the implementation of the RID during the third quarter of 2006. We have brought this consultation forward to 20 June and, following discussions with the industry, we have decided to shorten the period for responses to two months, ending on 20 August, so our final rules can be in place for December 2006. This will enable firms to benefit from our proposed rule changes as at 31 December 2006 for year-end reporting purposes.

While this CP contains the bulk of our proposals for implementing the RID, it does not include provisions to enable reinsurers authorised in another Member State to passport into the UK. This requires HM Treasury (the Treasury) to make changes to the Financial Services and Markets Act 2000 (FSMA). Further amendments to FSMA, and regulations made under it, will also be required to implement the RID conditions for an insurance business transfer and other elements of the directive related to consultation with the competent authorities of other Member States. These aspects of the implementation will be subject to a separate consultation by the Treasury, expected in Autumn 2006.

---

2 IPRU(INS) has not been updated to take account of the development of GENPRU and INSPRU, with the result that cross-references to prudential rules in Annex F of the draft instrument continue to be to PRU.

3 CP06/10 Strengthening Capital Standards – Restructuring the Handbook (May 2006), CP06/03 Strengthening Capital Standards 2 (February 2006) and CP05/03 Strengthening Capital Standards (January 2005).

This newsletter summarises Consultation Paper 06/12. The Financial Services Authority invites comments on this CP. Comments should reach us by 20 August 2006.

Comments may be sent by electronic submission using the form on the FSA's website at ([www.fsa.gov.uk/pages/library/policy/cp/2006/cp06\\_12\\_response.shtml](http://www.fsa.gov.uk/pages/library/policy/cp/2006/cp06_12_response.shtml)).

Alternatively, please send comments in writing to:

Rob Curtis,  
Insurance Technical Risk,  
The Financial Services Authority,  
25 The North Colonnade,  
Canary Wharf,  
London E14 5HS

Telephone: 020 7066 2170

Fax: 020 7066 2171

E-mail: [cp06\\_12@fsa.gov.uk](mailto:cp06_12@fsa.gov.uk)

**It is the FSA's policy to make all responses to formal consultation available for public inspection unless the respondent requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure.**

## How can I get the full paper?

You can download the full Consultation Paper from:

[www.fsa.gov.uk/pages/Library/Policy/CP/2006/06\\_12.shtml](http://www.fsa.gov.uk/pages/Library/Policy/CP/2006/06_12.shtml)

Or you can order hard copies of the paper:

Phone our helpline on 0845 608 2372, quoting reference CP06/12

Order online at: <http://www.fsa-ec.com/>

Copies are available at £10 each. Please allow five working days for delivery.

We also have a targeted email alert service for all FSA newsletters.

To subscribe please visit: [www.fsa.gov.uk/pages/Doing/Contact/Register/index.shtml](http://www.fsa.gov.uk/pages/Doing/Contact/Register/index.shtml)

For more information on our publications, please go to:

[www.fsa.gov.uk/Pages/library/index.shtml](http://www.fsa.gov.uk/Pages/library/index.shtml)

To get the latest information online, please visit our home page:

[www.fsa.gov.uk](http://www.fsa.gov.uk)

---

The Financial Services Authority 25 The North Colonnade Canary Wharf London E14 5HS

Main switchboard: 020 7066 1000 Fax: 020 7066 1099