

COMMENT

Next stop Brussels?

BRUSSELS APPEARS TO BE THE domicile of choice for many UK-based international insurers and reinsurers keen to maintain access to the European Union post-Brexit.

Australian insurer QBE said that a “significant milestone” in its Brexit plans had been achieved as the National Bank of Belgium granted a licence to its new Belgian subsidiary, QBE Europe, guaranteeing the company continued passporting rights across the EEA.

The group said it would leverage its “existing and substantial” Brussels base to ensure a “seamless transition of service” for its insurance and reinsurance customers across Europe.

The underlying message was clear to this commentator at least: This is not a letterbox operation from which QBE will reinsure everything back to London and carry on as normal.

Lloyd’s too has chosen Brussels as its new European base and was delighted to announce licence approval from the National Bank of Belgium for Lloyd’s Insurance Company S.A. – otherwise known as Lloyd’s Brussels.

The Belgian government has been keen to welcome UK insurers to Brussels and its Minister of Finance, Johan Van Overtveldt, made no secret of its delight at having made such an internationally renowned sale.

Lloyd’s – along with all the other UK-based insurers and reinsurers setting up new subsidiary operations in specialist centres such as Dublin, Luxembourg and Brussels – is, of course, keen to stress that these decisions are not purely cost-driven and that operations will be properly staffed and managed with real substance.

But I asked a group of leading Narim numbers during our latest European Risk Frontiers discussion what they thought about Lloyd’s Brexit solution. The answer was pretty clear.

“I find this decision by Lloyd’s to set up a company in Brussels very interesting and am not sure that it will work in the long run. Surely Lloyd’s can’t just go to Brussels, set up a company with limited staff and resources and just reinsure the business 100% back to London as if Brexit never happened? But if the Belgian regulator and government has given the green light then I guess it will happen,” one commented. The same

response was received during our recent German roundtable.

Risk managers across Europe will clearly need some convincing that simply setting up a subsidiary in Brussels, Luxembourg or Dublin and reinsuring the bulk of the business back to London is anything other than a temporary quick fix.

EIOPA, the European insurance supervisory body, is clearly well aware of the potential problem.

Last October, Manuela Zweimüller, head of its policy department, gave a speech at a conference in London during which she explained the reasons for an opinion published by the supervisor this time last year.

“EIOPA expects undertakings to show an appropriate level of corporate substance; EIOPA will not accept characteristics of an empty shell. The supervisors should carefully scrutinise any transfer of risks and require a minimum retention of risks from the authorised undertaking. As an indication, a minimum retention of 10% of the business written could be envisaged. Outsourcing of undertakings’ important functions should be subject to the full responsibility of the management body for the outsourced activity and shall not materially impair the quality of governance, increase operational risk, impair the ability of supervisors to monitor compliance or undermine continuous and satisfactory service to policyholders... Sound supervision demands appropriate location of management and key functions. Empty shells or letter boxes are not acceptable,” said Ms Zweimüller, in clear words that suggest quick-fix Brexit solutions may not be long lasting.

It also worth noting that every time we ask a group of risk managers what they really want from insurers they say improved and more consistent service, with genuinely local management.

So one would have to conclude that any international insurer truly serious about maintaining and building a solid, long-term European business should work towards properly managed and staffed bases, ideally in cities close to their largest numbers of potential customers.

Perhaps locations such as Paris, Madrid and Cologne might therefore make more sense for insurers to set up fully-fledged companies following Brexit. We can only wait and see what the future brings.