

## **EIOPA Consultation on supervisory statement on the authorisation and ongoing supervision of (re-)insurance undertakings related to private equity**

### **Invest Europe Response**

<b><i>Q1. Do you have general comments on the consultation paper?</i></b>
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Whilst we appreciate that the European Insurance and Occupational Pensions Authority (EIOPA) acknowledges benefits of private equity ownership of (re)insurance undertakings (including diversified investment strategies, access to capital and operational efficiencies), we are concerned that the focus of the draft supervisory statement specifically on private equity (PE) ownership models would create a de facto two-tiered regime which, in effect, would apply a higher, more onerous standard to a PE acquirer. We would instead encourage a proportionate, risk-based approach to be applied consistently across the board.

Given the way the draft supervisory statement is framed, some of the items that EIOPA has focused on may have a disproportionately adverse effect on the private equity industry, limit investment into the European (re)insurance sector, create uncertainty and effectively duplicate existing regulatory requirements (in circumstances where the EU is otherwise seeking to streamline regulatory requirements).

However, we note that many of the issues described in the draft statement are not unique to PE ownership models but broader trends that can be observed across the insurance industry. For example, the low-interest rate environment resulted in many insurers increasing their allocations to private assets, rather than this being a feature specific to PE ownership. Further, private equity ownership of insurers encompasses a range of ownership models and transactions, which do not fall into a single common ‘modus operandi’ – as is also the case for other types of acquirers.

Therefore, we do not think it is appropriate for the guidance to focus specifically on PE acquirers and ownership models. We would instead encourage EIOPA to use the consultation as an opportunity to create clear guidance for regulators such that a consistent approach can be applied with respect to both PE and other acquirers of (re)insurers across the EU. In light of this, we have set out some comments on the proposals.

Enhanced supervisory scrutiny of any acquisition in the (re)insurance sector is appropriate where it remains proportionate, risk-based and clearly focused on policyholder protection and long-term financial stability.

In this regard, it is also important to recognise that (unlike many other types of acquirers) PE funds and, more particularly, their managers established in the European Union are already subject to a comprehensive regulatory framework, notably under the Alternative Investment Fund Managers Directive (AIFMD). Indeed, similar regulatory frameworks are also in place in other jurisdictions (e.g. the UK). The AIFMD framework imposes stringent requirements relating to governance, risk management, conflicts of interest, transparency, valuation, reporting and capital adequacy. Regulated PE managers (i.e. AIFMs) are subject to ongoing supervisory oversight, including conduct of business rules and detailed disclosure obligations to both investors and regulators.

Accordingly, regulated PE managers operate within an established prudential and supervisory environment. Their governance structures, fiduciary duties and internal risk controls are already designed to manage leverage, align incentives and mitigate conflicts of interest. Any additional expectations in the context of (re)insurance acquisitions should therefore take into account the existing regulatory safeguards applicable at fund manager level.

Furthermore, PE investment models typically involve long-term value creation strategies. Funds are incentivised to enhance operational performance, strengthen governance, invest in systems and infrastructure, and improve capital efficiency over a multi-year horizon in order to realise value at exit. This model is generally aligned with sustainable business development rather than short-term value extraction. In many cases, PE ownership can actually support and advance strategic transformation, digitalisation and improved operational discipline within (re)insurance undertakings. PE firms often have owned multiple regulated insurers for many years more akin to a strategic investor and their business model depends on being able to get regulatory support and a good relationship with the competent regulatory. Accordingly, they are incentivized to establish a good working relationship with regulatory authorities, not only for the present but also for future investment.

While it is appropriate for supervisors to apply careful scrutiny to acquisitions of (re)insurance undertakings, a different supervisory treatment applied solely on the basis of acquirer type would be disproportionate. Differential treatment should be justified by clearly identified, evidence-based risk factors arising from the specific transaction, structure or financing arrangements, rather than from the classification of the acquirer as a PE investor per se.

A proportionate approach would therefore:

- Focus on transaction-specific risks, including leverage, governance arrangements and sustainability of the business plan;
- Avoid imposing duplicative requirements where equivalent safeguards already apply (e.g. under AIFMD);

- Ensure consistency of treatment across different categories of investors, subject to risk-based differentiation where objectively justified;
- Maintain openness to PE investment that strengthens (re)insurers' capital position, operational capabilities and long-term competitiveness.

In conclusion, enhanced scrutiny of (re)insurance acquisitions is appropriate and consistent with prudential objectives. However, supervisory measures should remain proportionate, risk-based and neutral as to the type of acquirer, ensuring a level playing field while safeguarding policyholder interests and financial stability.

Whilst the benefits of private equity investment are mentioned, it would be helpful if it was more clearly stated upfront - maybe in the Objective section - that private equity and other financial acquirors provide much needed capital and liquidity, and potentially other benefits, to the sector and this supervisory statement is not intended in any way to discourage supervisors from approving such acquirors but instead to highlight areas that supervisors should consider if relevant when approving any acquiror on a change of control application.

**Q4. Do you have comments on Section 4 "Strategy and modus operandi"?**

The proposal suggests that prospective acquirers should provide comprehensive information on:

- The complete ownership chain and governance arrangements;
- Entities influencing decision-making;
- Third-party interests;
- The acquisition financing structure and associated leverage.

Moreover, it is suggested that supervisors should assess the sustainability of the proposed business model, including at least a three-year business plan, with particular attention to long-term operational investment (e.g. IT infrastructure and digital resilience) and avoidance of excessive short-term value extraction. If the business plan is not sufficient, it is suggested to consider requesting minutes of the PE investment committee and board that made the investment decision.

**Our view:** Enhanced supervisory scrutiny of a proposed acquisition is appropriate where it ensures transparency of ownership and financing structures. However, we think this is something that is already envisaged in existing rules and guidance and is not / should not be limited to PE acquirers.

The proposal further suggests that where material risks are identified, particularly in complex or cross-border structures, supervisors may consider proportionate conditions for approval and enhanced information exchange between authorities.

**Our view:** As articulated, this guidance is too vague and could, in practice, hinder the completion of a transaction. Whether an acquisition structure is “complex” or involves different jurisdictions should not (by default at least) have any significant influence on a regulator’s assessment of a proposed transaction.

For a PE investment, it is relatively common for a PE fund to have what might be regarded as a more “complex” structure (as compared to a typical corporate group structure) – for the avoidance of doubt, this is typically for various legal, regulatory and operational reasons including, for example, to accommodate fundraising mechanics, investor demographics / preferences and the marketing strategy of the PE fund.

However, what might be perceived as a “complex” structure does not necessarily introduce additional risks. As noted already, the PE manager itself will be regulated and supervised in its home country. In turn, the acquisition structure will be controlled by the PE manager and will mostly consist of passive holding vehicles.

As such, the concern that a “complex” PE holding structure makes the supervision, information flow and communication between the PE manager / competent regulators more difficult is, in most cases, unfounded in our view.

<b>Q5. Do you have comments on Section 5 "Maintaining sound and effective system of governance"?</b>
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EIOPA states that post-acquisition supervision should ensure that undertakings maintain an effective system of governance, independent decision-making and prudent management in the interests of policyholders and that conflicts of interests are monitored.

Supervisory focus should include conflicts of interests, also regarding:

- Intragroup transactions (IGT) and any related transactions (e.g. asset management agreement, reinsurance, outsourcing) and IGT policies;
- Intragroup transactions conducted on an arm’s-length basis;
- Fair value of commissions and related arrangements.

Supervisory authorities should evaluate how operational risks arising from cost-cutting measures are reflected in the Own Risk and Solvency Assessment (ORSA).

**Our view:** Whilst we agree with these comments, we consider these factors are already adequately addressed under existing regulation.

**Q6. Do you have comments on Section 6 "Prudential aspects"?**

Material shifts toward illiquid or complex assets should be subject to supervisory review to ensure compliance with the prudent person principle, robust valuation practices and sound asset-liability management.

Heightened scrutiny is warranted where reinsurance or other balance sheet optimisation techniques materially reduce capital requirements. Supervisors should assess the effectiveness of risk transfer, counterparty risk, liquidity implications, and impacts on SCR and technical provisions.

**Our view:** In the experience of our members, regulators already interrogate the inclusion, valuation and rating of private assets

Similarly, we are not aware of significant intra-group reinsurance that is not thoroughly interrogated by local regulators. Properly managed intra-group reinsurance arrangements provide material benefits to insurance groups and are not by any means confined to groups with PE ownership.

Also, the potential benefits of alternative assets should not be ignored. Alternative assets offer the potential to create better, more diversified risk adjusted investment returns for policyholders when done in the right way. The PE manager is often in the situation to contribute particular knowledge and expertise regarding the management of such alternative assets.

**Q7. Do you have comments on Section 7 "High leverage and capital enhancements"?**

The proposal suggests that supervisors should assess whether leverage at any level of the structure is sustainable and does not impair the insurer's resilience. According to the proposal, particular attention should be given to:

- The extent of liens or pledges over the insurer;
- The relationship between leverage and committed capital;
- The impact on group solvency and financial flexibility.

EIOPA considers whether additional reporting, stress testing or group SCR calculations at the level of the ultimate non-EU parent, even where an EU sub-group exists, may be appropriate where warranted by the risk profile.

**Our view:** Whilst we agree that it is important for regulators to understand leveraging and financing structures, we do not consider these issues to be unique to PE owners. Furthermore, we would also argue that the current Solvency II regime is transparent and provides sufficient protection for policyholders. EU supervisors have clear guidelines under existing rules to supervise EU groups appropriately and overreaching beyond the current rules risks introducing uncertainty both for PE acquirers as well as for existing (re)insurance groups which have overseas parents/ regulators.

**Q8. Do you have comments on Section 8 "Early dialogue and guidance"?**

The proposal encourages early engagement between acquirers and supervisors to facilitate efficient review within the 60-working-day approval period.

**Our view:** This again is a sensible approach to take for any acquirer in our view.