# Globalization and Restrictive Insurance Practices – a reinsurers perspective

**4th Le Rendez-Vous de l’Assurance Transports**

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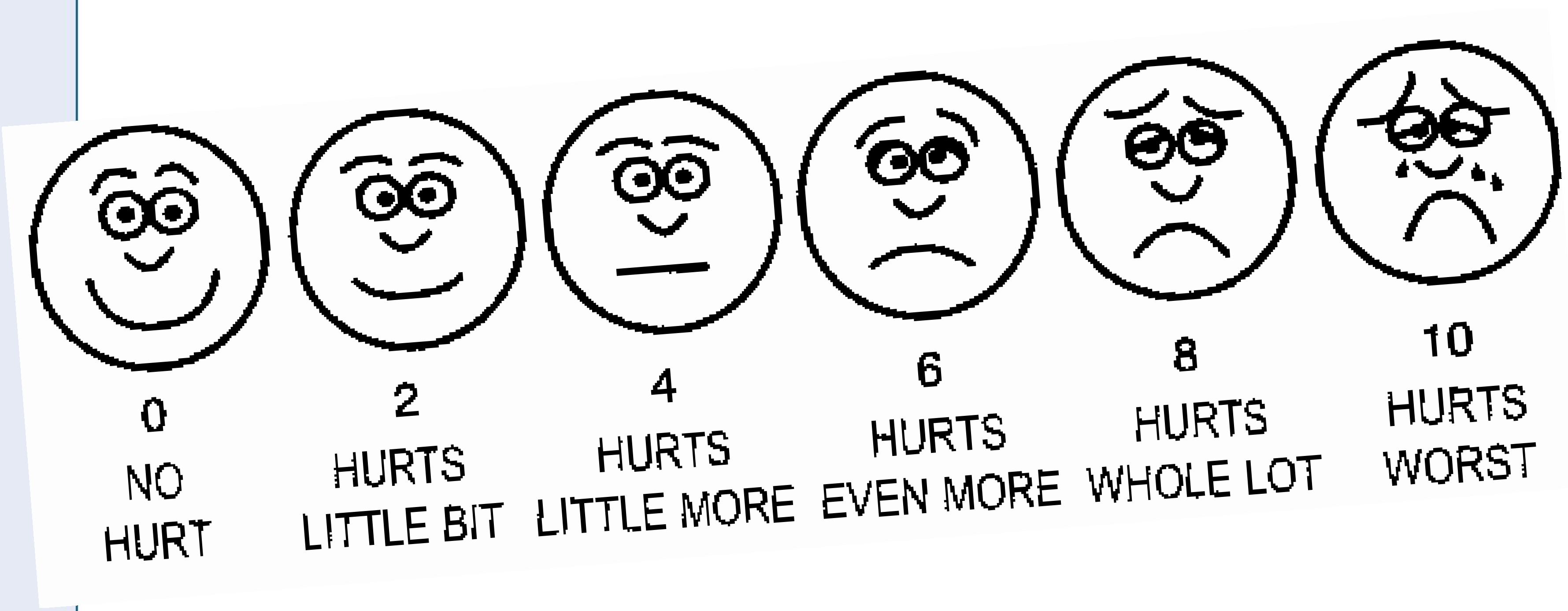
# Presentation on Reinsurance Regulatory Environment – definitely a 10!



# Global Insurance Regulators have been busy…..

Another day on the job for insurance regulators

# What does reinsurance regulation protect?

# Goals of Reinsurance Regulation

- Solvency of reinsurers in the market; making sure reinsurance gets paid.
- Functioning market; availability of capacity
- Facilitate the formation of a local reinsurance industry; self-reliance, jobs
- Revenue; tax and fees
- Protection of local reinsurers; maintaining competitive balance
- Maintaining funds/capital within a country; investment and wealth creation

# USA – 50 pairs of eyes

# USA Reinsurance Regulation

- Very focused on solvency and collectability; seen as company to company transaction between knowledgeable parties, different than primary insurance.  No oversight of rate and form.

- Domestic reinsurers licensed or accredited in each of 50 states; common licensing for states with similar standards

- No laws requiring reinsurance from a US Company (domestic) but foreign companies (alien reinsurers) require security arrangements as 50 state insurance departments aren't equipped to assess solvency of alien reinsurers

- Regulate through insurers balance sheet credit for reinsurers; direct solvency regulation (domestic) or by collateral requirements (alien)

# USA Reinsurance Regulation Modernization

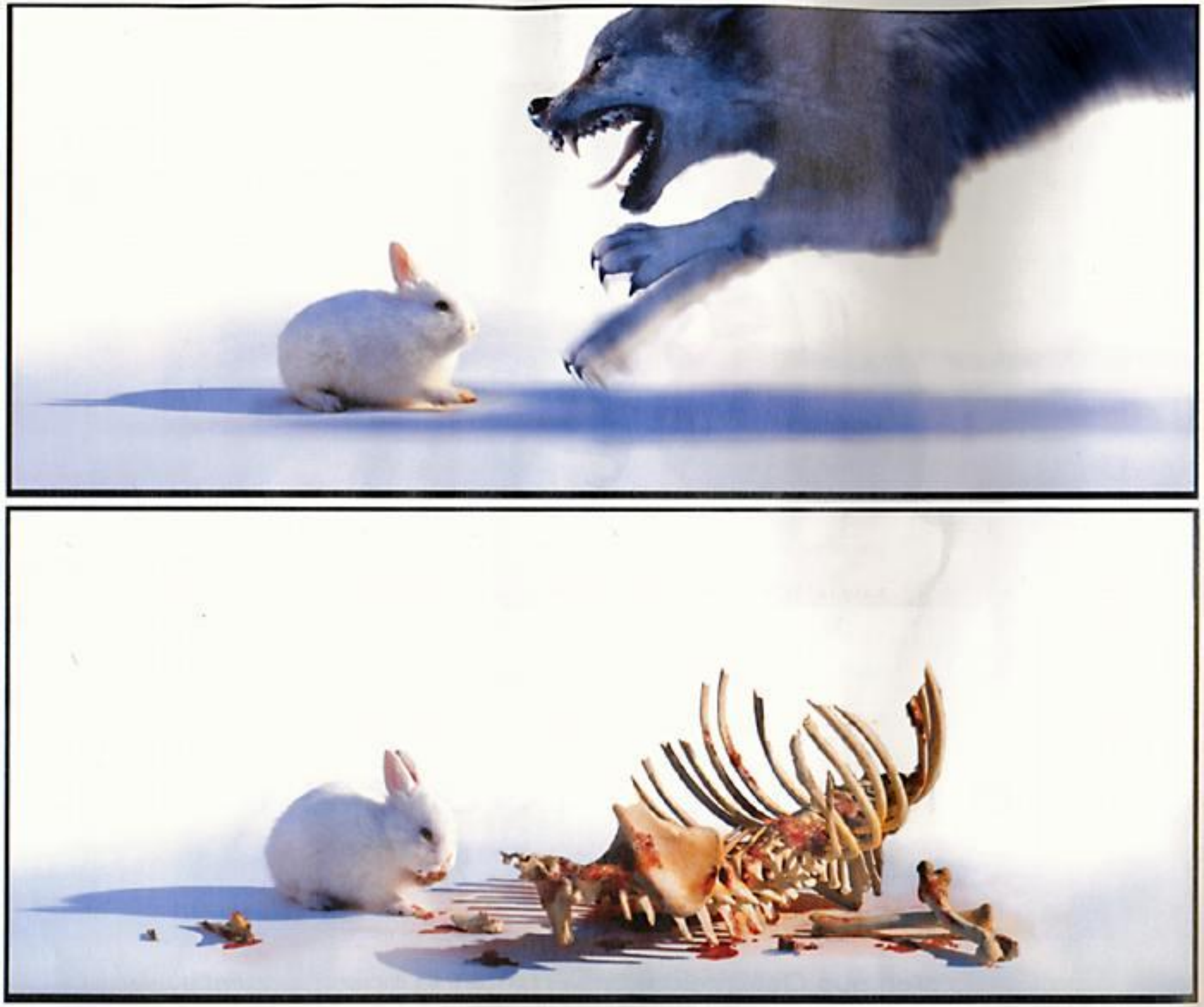
> Dodd – Frank Wall Street Reform and Consumer Protection Act created Federal Insurance Office (FIO) to modernize and improve the system of insurance regulation in the USA. Report due January 2012 now significantly overdue.

> More federal influence but will not replace the state-based regulatory system;

> Reduction of collateral requirements for alien reinsurers domiciled in qualified jurisdictions with approved solvency regimes (i.e. Solvency II);

> International representation in global regulatory development and negotiations.

# Protecting Developing Markets



# Brazilian Reinsurance Regulatory Timeline

- 1939 insurance and reinsurance put under government control;, 50 years of attempts to open market followed

- 1996 ‘Brazils congress authorized changes, but progress languished for more than a decade

- In 2007 legislation ended monopolization of reinsurance market by Instituto de Resseguros

- March 31st 2011 measures adopted by the National Private Insurance Council (CSNP), two resolutions 224 and 225, requiring placement of 40% of reinsurance business with local Brazilian reinsurers and prohibit local insurers and reinsurers from ceding more than 20% of their insurance premiums to an affiliated, intragroup reinsurer located abroad.

- Significant setback after struggles to open the market

# Brazilian Reinsurance Market

## Local Reinsurer

- Incorporated in Brazil
- Mandatory first right of refusal for 40% of placement
- Local capitalization and regulatory oversight
- 51% of current market; 34% IRB

## Admitted Reinsurers

- Registered abroad but local office in Brazil
- Minimum capital requirement
- Eligible to write 60% of a placement or more if local market does not fill 40%
- With occasional, 49% of the market

## Occasional Reinsurers

- Foreign Reinsurers without offices in Brazil
- No registration or licensing.
- No capital requirement
- Eligible to write 60% of a placement or more if local market does not fill 40%
- With admitted, 49% of the market

# Local Brazilian Reinsurers (8 players):

- *Ace Resseguradora S.A*
- *Austral Resseguradora S.A*
- *Chartis Resseguros S.A*
- *IRB - Brasil Resseguros S.A*
- *J. Malucelli Resseguradora S.A*
- *Mapfre Re do Brasil Companhia de Resseguros S.A*
- *Munchener Ruck do Brasil Resseguradora S.A*
- *XL Resseguros Brasil S.A*

# Admitted Brazilian Reinsurers (28 players):

- *ACE Tempest Re Escrit6rio de Representag~o no Brasil Ltda.*
- *Allianz Global Corporate & SpecialtyAG*
- *American Home Assurance Company Escr.Representacao no Brasil Ltda.*
- *Ariel Reinsurance Company Ltd.*
- *Everest Reinsurance Company*
- *Factory Mutual Insurance Company Escr.Representacao no Brasil Ltda.*
- *Federal Insurance Company- Escrit6rio de Representacao no Brasil Ltda.*
- *Hannover Re Escrit6rio de Representacao no Brasil Ltda.*
- *Kolnische Ruckversicherungs-gesellschaftAG*
- *Liberty Mutual Insurance Company Escritorio de Representacao no Brasil Ltda*
- *LLoyd's Escritorio de Representacao no Brasil Ltda.*
- *Mapfre Re, Compania de Reaseguros S.A.*
- *Mitsui Sumitomo Insurance Company, Escr.Representacao no Brasil Ltda.*
- *Odyssey America Reinsurance Corporation*
- *Partner Re Reinsurance Europe Escritorio de Representacao no Brasil Ltda.*
- *Royal & Sun Alliance Insurance Plc*
- *Scor Global Life U.S. Re Insurance Company Escrit. de Representacao no Brasil Ltda.*
- *Scor Reinsurance Escrit6rio de Representacao no Brasil Ltda.*
- *Swiss Re America Escrit6rio de Representacao no Brasil Ltda.*
- *Swiss Re Escrit6rio de Representacao no Brasil Ltda.*
- *TORUS Specialty Insurance Company*
- *Transamerica Reinsurance Escritorio.Representacao no Brasil*
- *XL Re Latin America Escrit. de Representacao no Brasil Ltda.*
- *Zurich Insurance Company*

# Argentinean Reinsurance Regulation

- Changes made effective September 1, 2011 by SSN (Argentinean insurance regulator), taking from an open market to one with limited trading rights for foreign reinsurers.

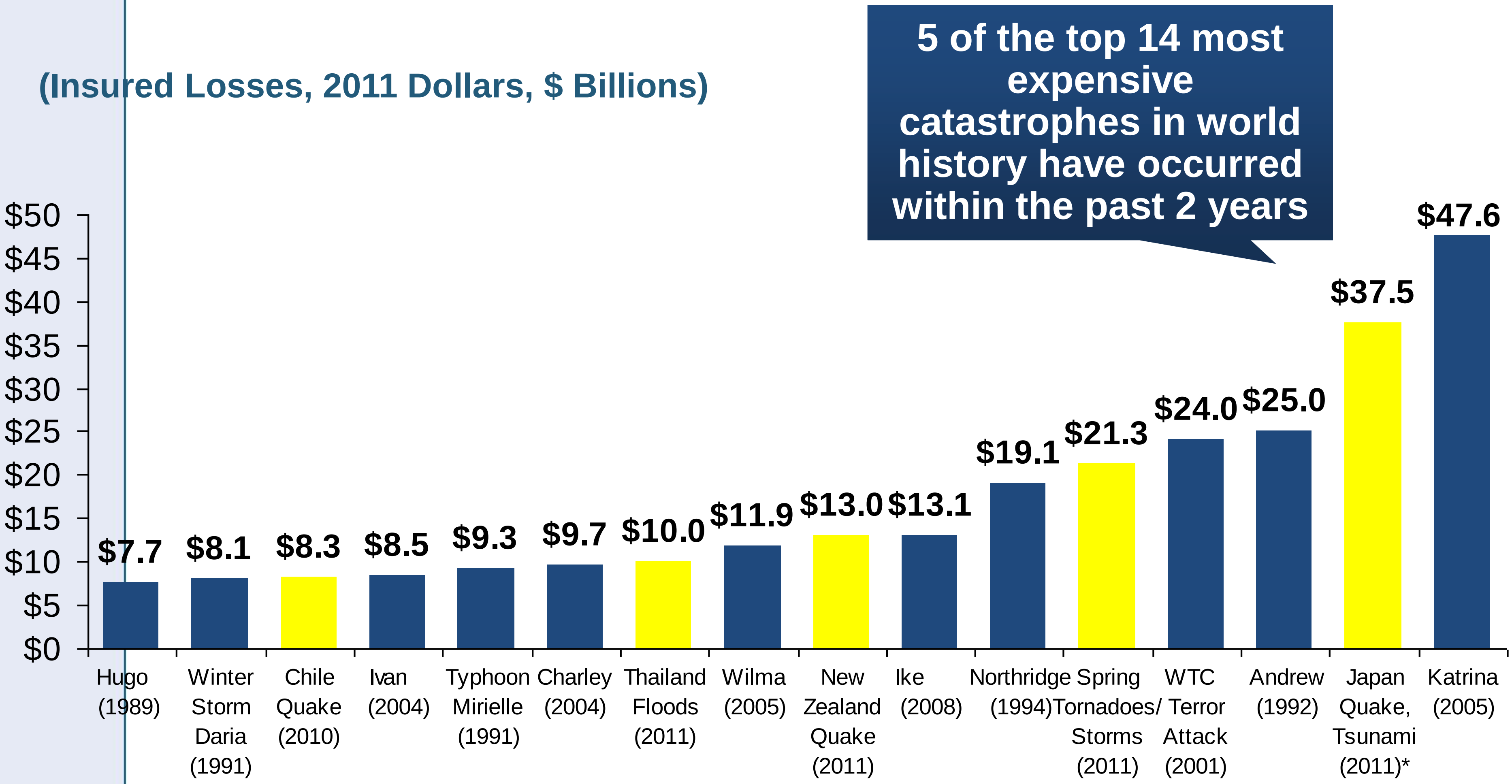
2 types of reinsurers

- Local:
  - established in the country, with ARS20M or 16% of earned premium capital base;
  - Retain min 15% of written premium;
  - No more than 40% of premiums can be ceded to related or same financial group, foreign companies
  - First $50M of each risk to be reinsured by local reinsurers
- Admitted:
  - Companies must be registered by SSN
  - Can only write portion of risks above $50M; “exceptional” risks that cannot be underwritten by local market, and retrocession business.

# Effects of More Protectionist Reinsurance Rules

- Fewer markets, less competition, less capacity, higher costs, lower solvency
- Reduced support for Catastrophe / large loss protection; lack of geographic diversification and availability of capacity
  - 45% of 2011 record losses from global reinsurers, few of whom were located in affected countries.

# Top 16 Most Costly World Insurance Losses, 1970-2011**




*Average of range estimates of $35B - $40B as of 1/4/12; Privately insured losses only.
**Figures do not include federally insured flood losses.
Sources: Swiss Re *sigma 1/2011*; Munich Re; Insurance Information Institute research.

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  - 45% of 2011 record losses from global reinsurers, few of whom were located in affected countries.
  - May impact reinsurance coverage for big events in Brazil such as the FIFA World Cup in 2014 and the Olympic Games in 2016 as well as planned offshore oil production projects, according to Michaela Koller, director general of the CEA.
- Reinsurers with operations in Brazil/Argentina have limited ability to provide retrocessional coverage for their Brazilian Affiliate with own group resources. Drives lower supporting capital, less capacity, and increased costs.

# Effects of Brazils New Reinsurance Rules

*"Reinsurance is one of the most globalized industries in the world today. Reinsurers' unique ability to pool risk and pay claims on a global scale produces all the same welfare enhancing effects for businesses and consumers as free trade--helping stimulate economic growth, jobs and fostering stability. Brazil is now the seventh largest economy in the world, largely as the result of its international trade, but that rapid growth has left the economy vulnerable to large scale catastrophic losses similar to those suffered in other fast growing economies such as Thailand and Chile. Free and open access to global reinsurance markets is essential if Brazil is to protect its Brazil's long-term investments in its future,"*

*- Dr. Robert Hartwig, President and Economist for the Insurance Information Institute."*

# Effects of More Protectionist Reinsurance Rules

- Surprising nature of the changes has raised concern about the transparency of Brazil and Argentina's regulation.
  - The rules were changed without notice or comment period, which runs contrary to international norms and transparency commitments by the Group of 20 countries, of which Brazil is a member.
  - for a highly regulated industry like insurance, a proper process needs to be observed, implementation of changes extremely difficult in expected timeframe
  - Difficulty in getting clarifications on practical implementation of new rules; conflicting advice from regulators not uncommon.

# Questions?

# Thank You for Your Attention!