31 August 2015

Reinsurance Trade Barriers and Market Access Issues Worldwide

I am writing to you on the above subject on behalf of the Global Reinsurance Forum (GRF). GRF Members, co-signing this letter, represent many of the leading global reinsurers, and account for more than 65% of global net reinsurance premiums

The GRF supports open and competitive markets as well as strong prudential regulation of the insurance and reinsurance industry. It believes that such open and competitive markets bring significant benefits to economies and insurers worldwide in the following ways. They:

- Allow insurers greater choice of reinsurers, products and prices than would be available to them under more restrictive regimes;

- Reduce the underwriting risk assumed by insurers, strengthening their solvency and expanding their capacity to absorb risk;

- Enable primary insurers to spread risk and have recourse to the financial strengths and expertise of the international reinsurance community;

- Promote financial stability by reducing the adverse consequences of accumulation of losses; and

- Play an important role in protecting national economies against the shock of economic losses resulting from catastrophic national events.

For reinsurance markets to function well, they need to be able to pool different sorts of catastrophic and non-catastrophic risk. Reinsurers of large events rely on the principle of diversification in underwriting the risk which they assume. Barriers to trade in reinsurance undermine the efficiency of reinsurance markets. They reduce competition, leading to less choice for consumers and result in higher reinsurance costs and less capacity over the long time horizon. Open reinsurance markets are thus vital to enable reinsurance markets to operate efficiently, to diversify risk globally and to promote continued growth and recovery of global and national economies.

Most jurisdictions worldwide allow reinsurance to be transacted freely, both on an establishment and cross border basis. They recognize the benefits of open reinsurance markets and acknowledge the business-to-business nature of reinsurance transactions involving the transfer of risk from one professional party, an insurer, to another, its reinsurer(s).

However, notwithstanding the above advantages of open and competitive markets, many countries, both in the developed and developing world, impose barriers to the transaction of reinsurance business. These barriers can take different forms and include:

- Restrictions on the ability of reinsurers to freely conduct business on a cross-border basis, thus limiting the capacity of global reinsurers to spread risk globally and to prevent domestic concentrations of risk.

- Requirements for reinsurers operating on a cross-border basis to collateralize or localize assets, preventing the global reinsurance market from optimizing capital management and from transferring and spreading risk on the basis of a competitive, level playing field across borders.

- Barriers to the establishment or operation of branches or subsidiaries, restricting the ability of reinsurers to deliver their full economic benefit by providing local underwriting expertise and direct services to transfer risk out of domestic markets on an open and competitive basis.

- Various other discriminatory and anti-competitive barriers such as compulsory cessions to domestic entities, and systems of 'right of first refusal', limiting the competitive capacity of global reinsurers to operate on a level playing field.

The GRF has prepared a table listing current and prospective barriers to trade and market various issues in reinsurance in some of the major jurisdictions worldwide. This is attached to this letter. It does not purport to be an exhaustive list.

Whilst alleviation of current restrictive rules in reinsurance can be discerned in a couple of jurisdictions, it is very disappointing to have to report that the overall trend is towards greater protectionism worldwide. The number of countries, which have introduced or are contemplating introducing, reinsurance trade barriers is increasing. Ironically this comes at a time when the international community regularly affirms its opposition to protectionist measures or measures which inhibit the free-flow of international commerce.

Barriers take many different forms. Some are evidently protectionist. Others claim to be motivated by prudential concerns, while ignoring reinsurers' financial strength, their ratings, their proven track record, their business model, the quality of their Home State regulatory and supervisory regimes and the choice and benefits they bring to local economies and cedants. These measures are all the more surprising when prudential rules governing reinsurers are generally based on agreed international rules or principles, often underpinned by a trend in recognition of the equivalence of reinsurance regulatory regimes.

The GRF is sending this list to you and to a number of national and international policymaking bodies with a view to raising the public profile of these restrictive measures and to generate debate about what actions can be taken to address these barriers to trade, both generically, and in relation to the specific jurisdictions mentioned.

The GRF would therefore welcome the opportunity to discuss with you the issues raised in this letter and what can be done to promote open and competitive reinsurance markets.