



THE CONTRIBUTION OF REINSURANCE MARKETS TO MANAGING CATASTROPHE RISK

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The potential contribution of reinsurance

- Insurance encourages risk management and provides a source of financing for recovery and reconstruction
- Reinsurance markets provide additional financial capacity for loss absorption and opportunities for international diversification
- Reinsurance markets should:
 - Support the availability and affordability of primary insurance
 - Contribute to the management of catastrophe exposures
 - Reduce economic disruption in the aftermath of a catastrophe event
 - Limit the insurance market dislocation that often follows a large loss

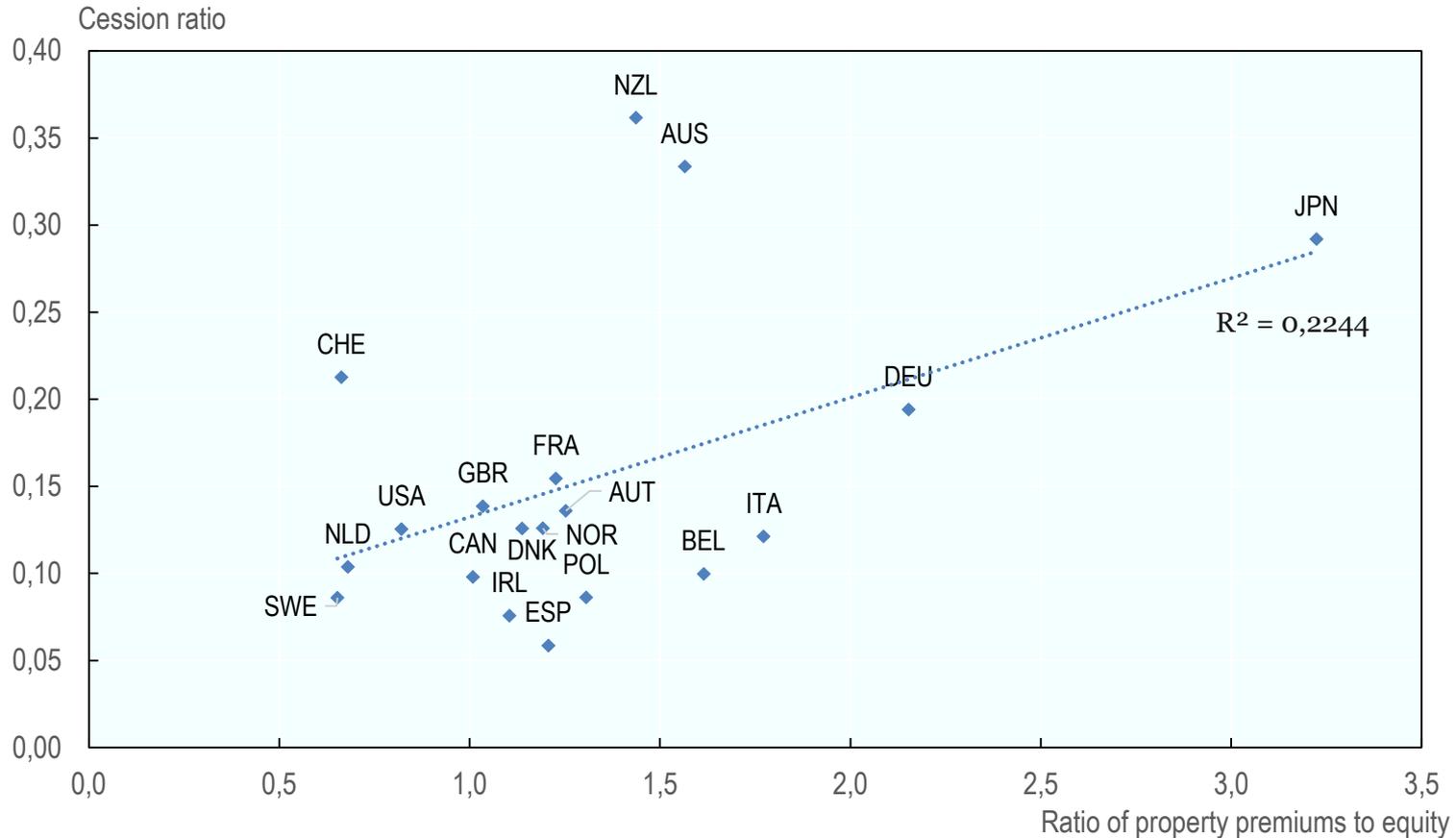


Approach

- Using data provided by global reinsurers on premiums and claims across countries and for specific catastrophe events, the OECD report examines:
 - Contribution of reinsurance market to increasing primary market capacity
 - Contribution of reinsurance market to managing catastrophe risks
 - Contribution of reinsurance markets to reducing economic disruption
 - Contribution of reinsurance markets to reducing primary insurance market disruptions



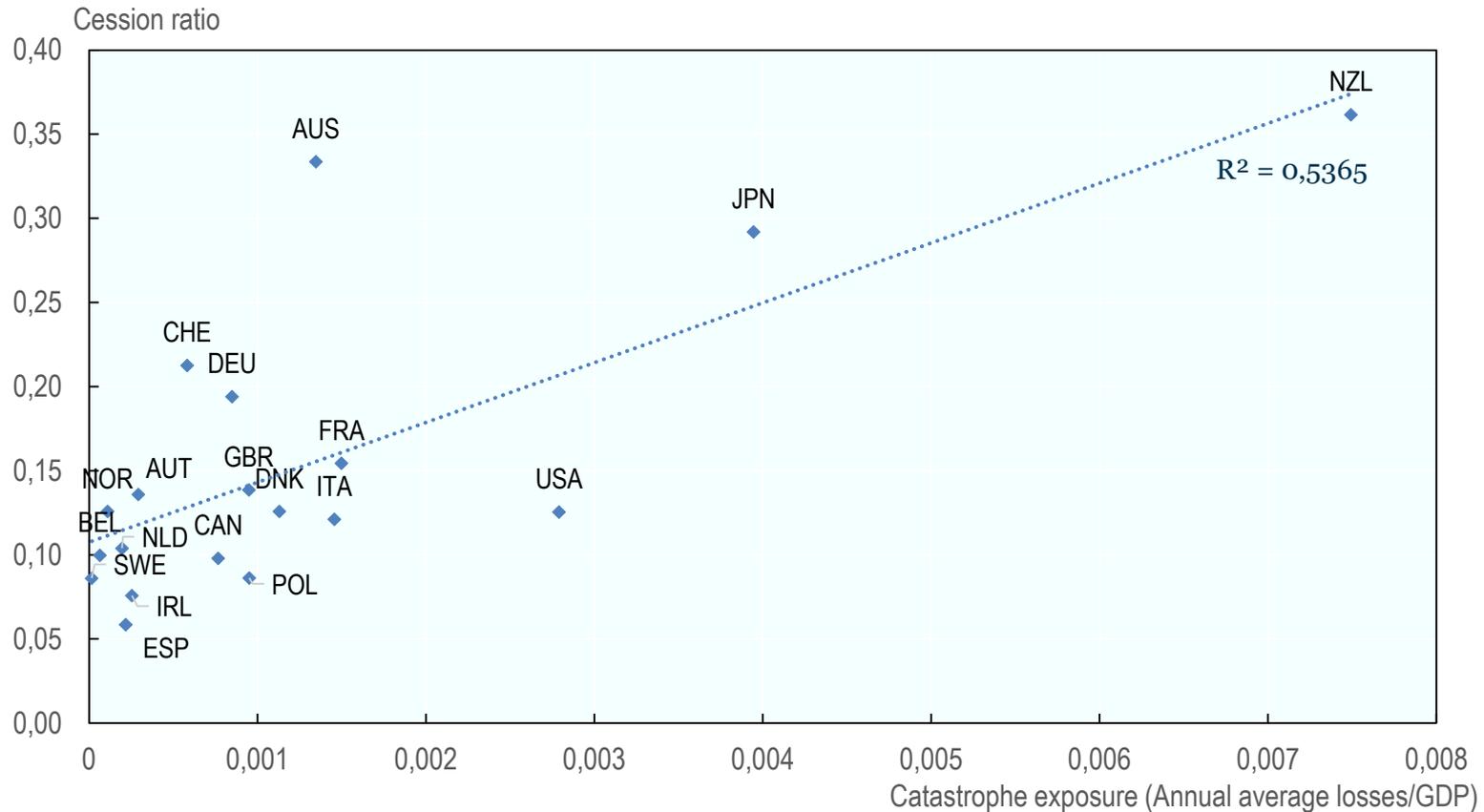
Contribution of reinsurance to increasing primary market capacity



Primary insurers are, to some extent, using reinsurance to increase their capacity to write more business.



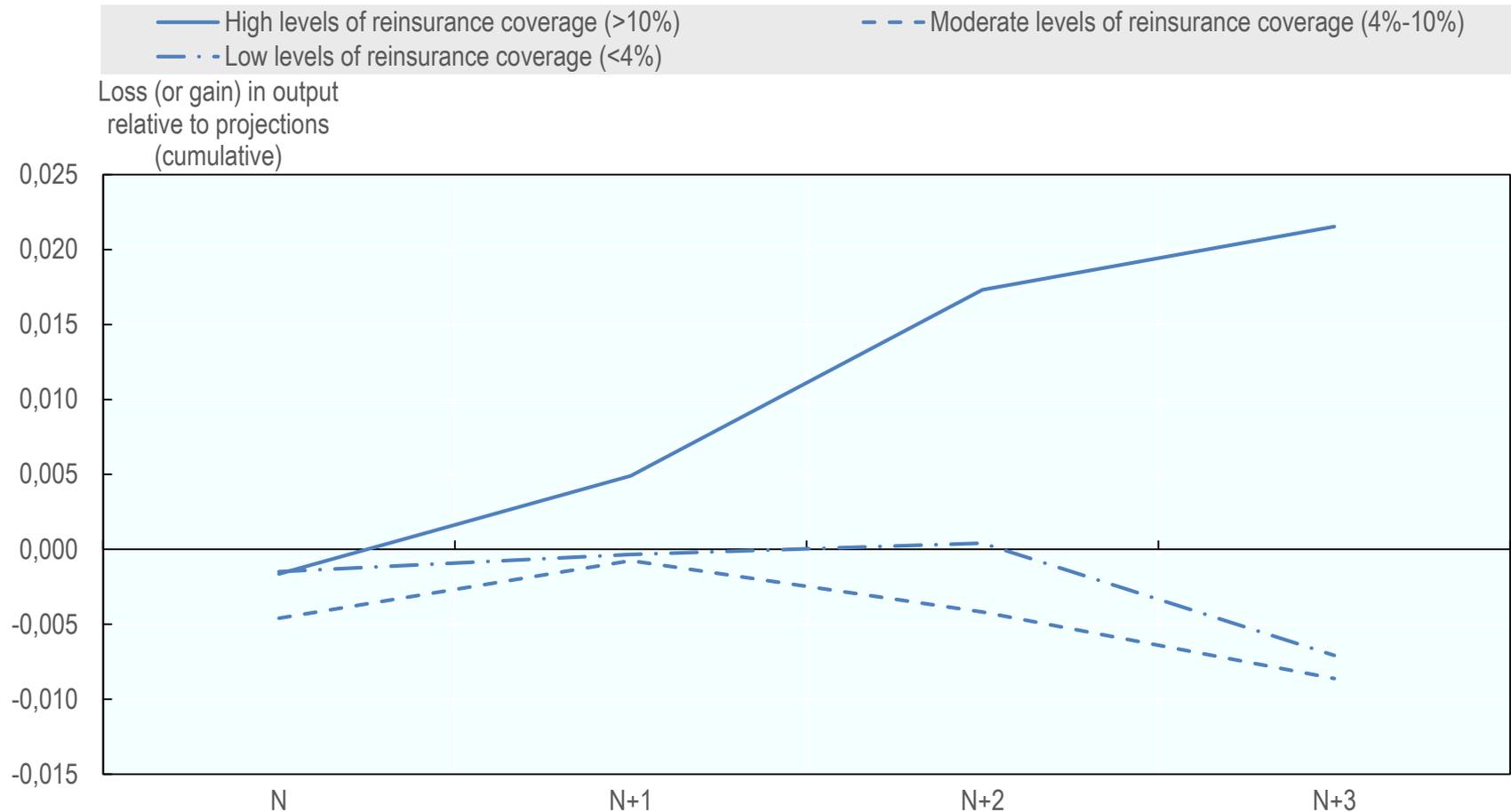
Contribution of reinsurance to managing catastrophe risk



Primary insurers in high-risk countries are using reinsurance to manage catastrophe exposure.



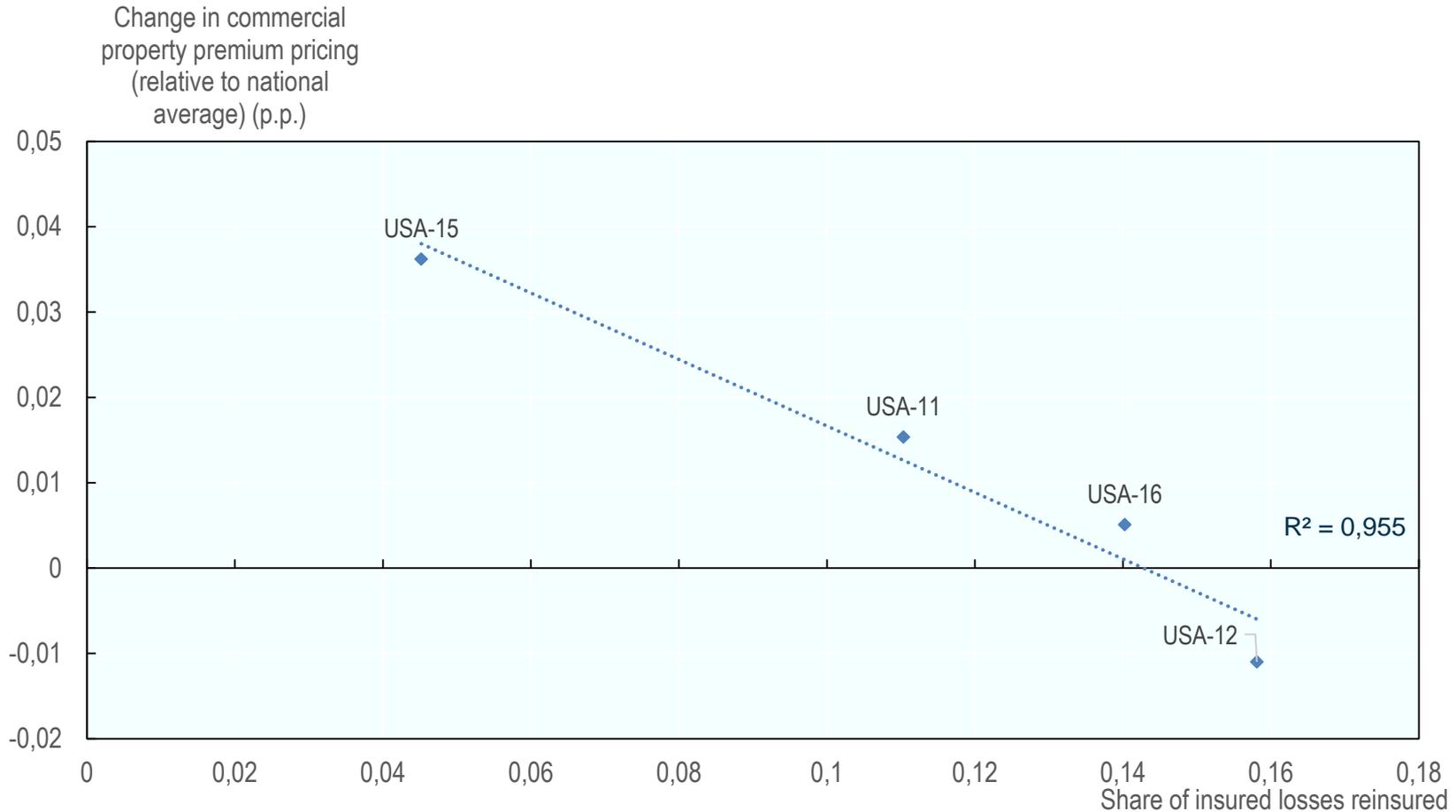
Contribution of reinsurance to reducing economic disruption



Highly-reinsured catastrophe events were associated with lower levels of “lost” economic output in subsequent years.



Contribution of reinsurance to reducing insurance market disruption



There is some evidence of reduced post-event price adjustments where losses were reinsured.



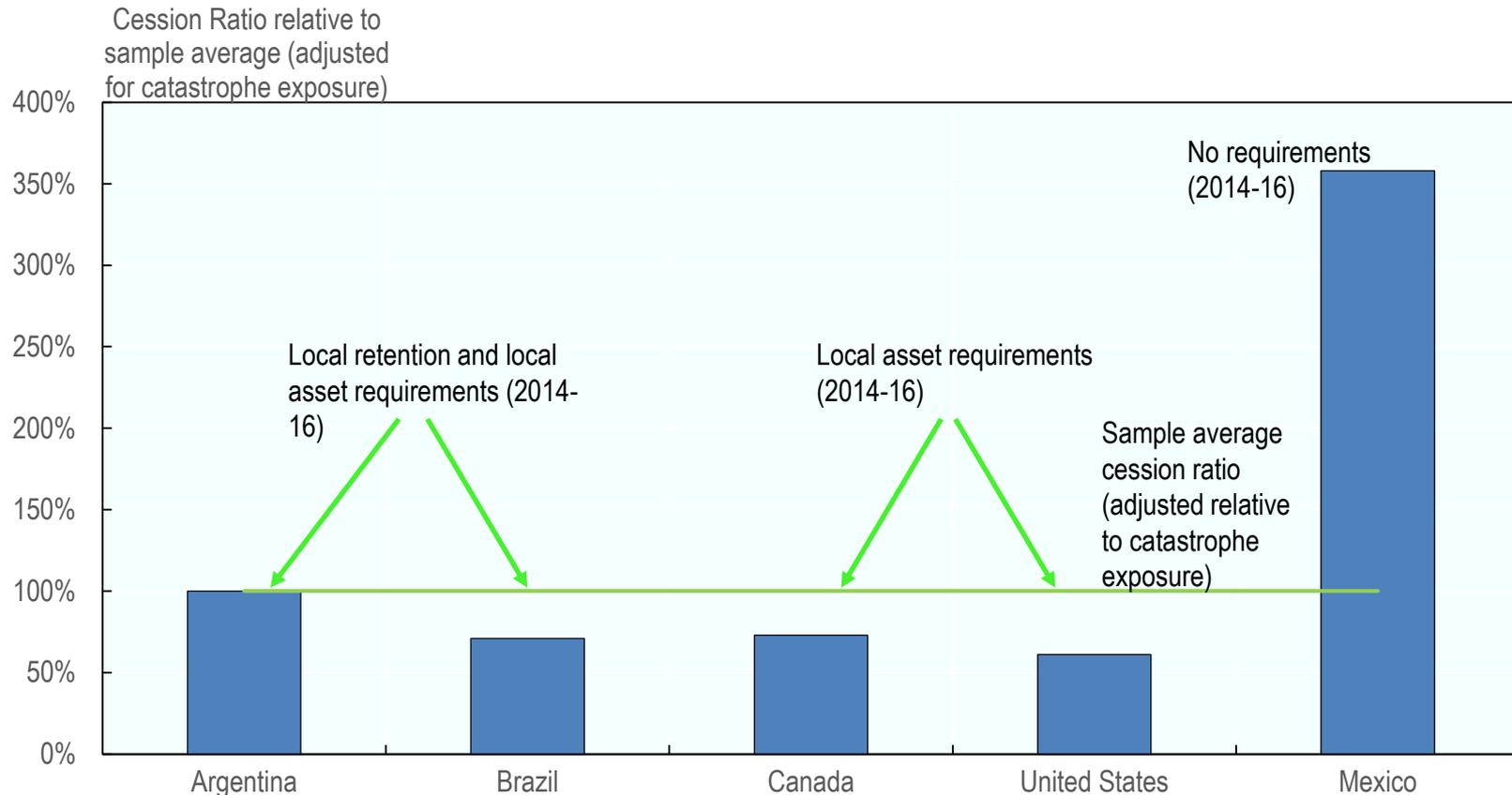
Regulation and supervision of reinsurance risk

- Regulators and supervisors need to ensure that reinsurance risk (counterparty, execution, liquidity) is appropriately managed by cedants (ICP 13)
- In addition, many regulators and supervisors impose specific requirements, such as:
 - Limits on the ability of domestic cedants to transfer risk to reinsurers without some form of **local presence**
 - Measures to require (or encourage) the pledging of **local assets** to back reinsurance liabilities (including through restrictions on branches)
 - Requirements for **local retention** by domestic cedants imposed as minimum retention requirements or obligatory/preferential risk transfer to local reinsurers (or public reinsurer)

In large Latin American markets, local retention requirements (Argentina, Brazil) are being relaxed although local asset requirements often remain.



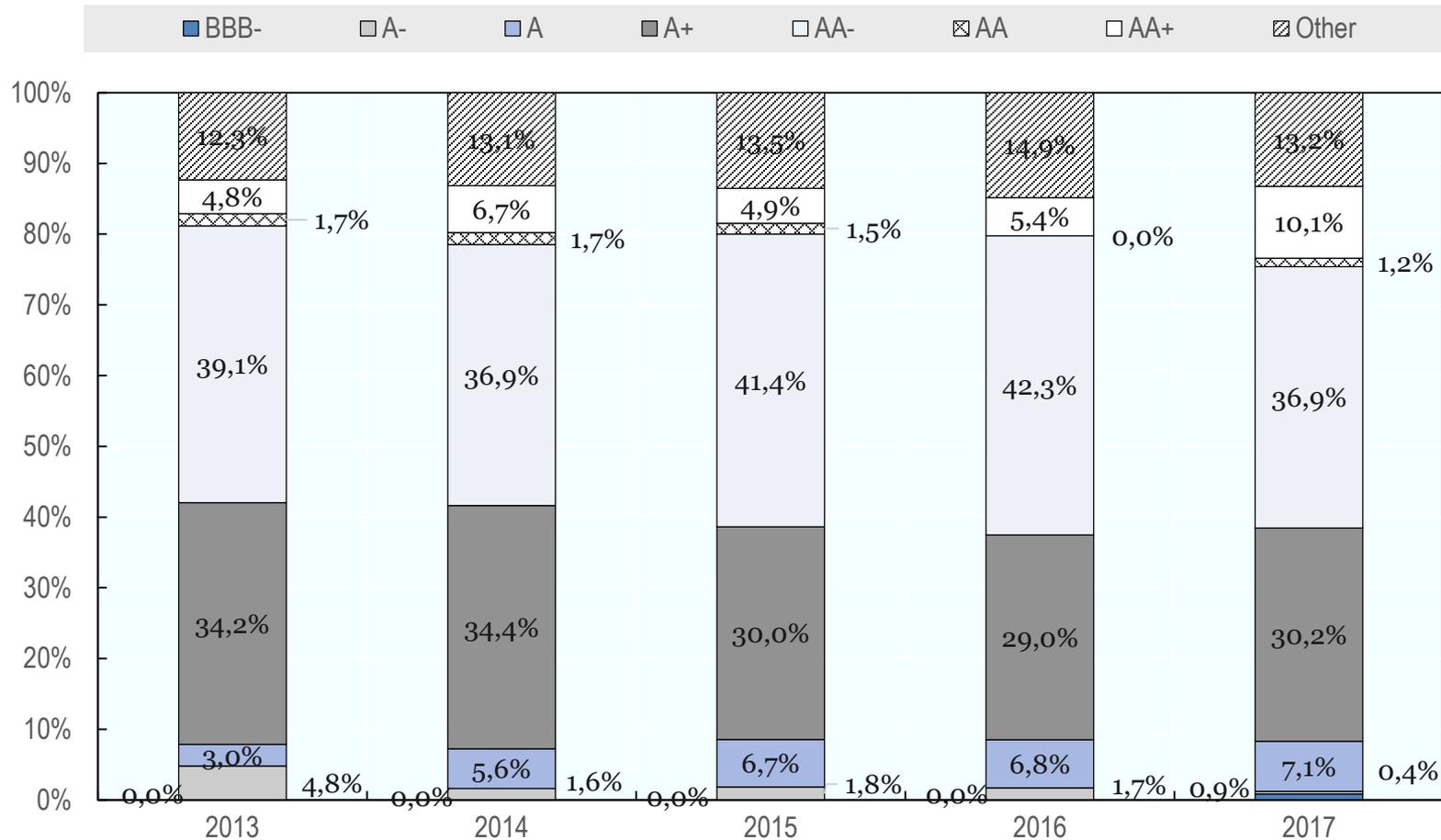
The impact of regulation/supervision on reinsurance use



Insurers in countries with restrictive measures reinsure less than would be expected based on level of catastrophe exposure.



Market is managing counterparty risk



Most reinsurance premium is collected by highly-rated (A+ or higher) reinsurers with a gradual shift towards higher-rated reinsurers.



Opportunities for international collaboration in reinsurance risk oversight

- International collaboration to...
 - ensure greater confidence in – and recognition of – reinsurer home supervision;
 - enhance supervisory cooperation and information exchange; and
 - develop mechanisms to address concerns about access to assets in the event of reinsurer insolvency...
- ...could potentially provide an alternative to restrictive regulation and supervision

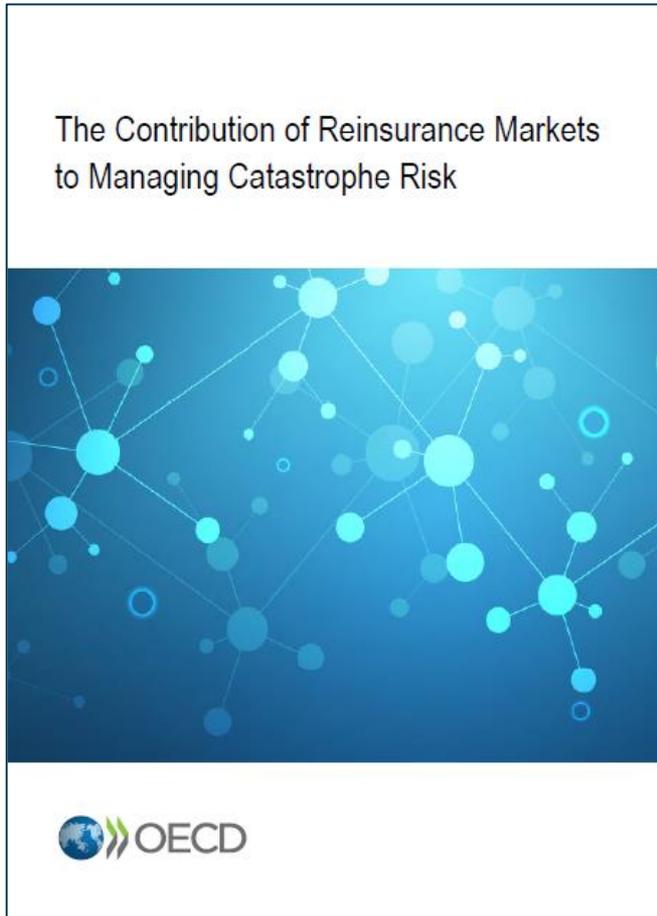


Current OECD work

- In 2019/2020, OECD is undertaking a number of case studies in Asia to identify good practices in establishing a regulatory and supervisory framework that provides access to reinsurance markets while managing the risk for policyholders
- Report on findings to be published in 2020



The contribution of reinsurance to managing catastrophe risks



<http://www.oecd.org/daf/fin/insurance/the-contribution-of-reinsurance-markets-to-managing-catastrophe-risk.htm>