



Opportunities and Challenges for the Opening of Brazilian Reinsurance Market

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Opportunities

- **Catastrophe free country**
- **Geographically diversified country
(three different climate zones from north to south)**
- **High growth potential insurance market**
- **Good economic perspectives**



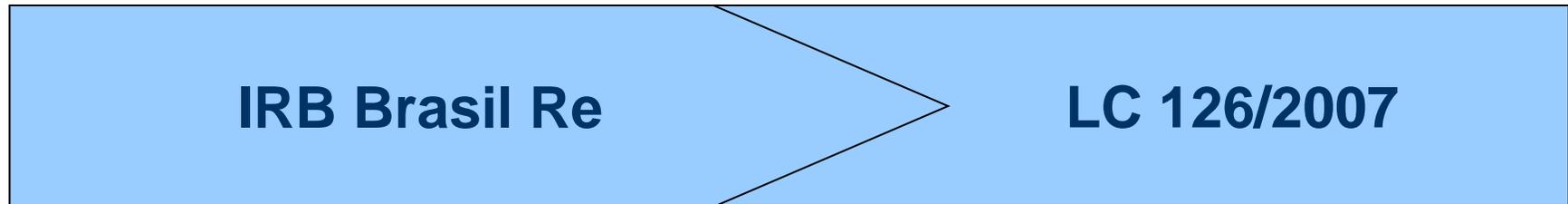
Brazilian Reinsurance Market

2006

- **Premium of R\$ 3,4 billion
~ US\$ 1,9 billion**
- **Retention ratio 57%**
- **Claims ratio 49%**
- **Combined ratio 72%**



Brazilian Reinsurance Market



- **State monopoly since 1939**
- **State run but equally owned by government and insurance companies**
- **Reinsurance market regulator**
- **Three different types of reinsurance companies: local, admitted and eventual**
- **Preference rule for the local reinsurance market**
- **CNSP and SUSEP as regulator and supervisory bodies**



Complementary Law 126

- **Local Reinsurer** – Brazilian corporation with the sole purpose of conducting reinsurance and retrocession transaction, subject to Brazilian supervision
- **Admitted Reinsurer** – foreign reinsurer with representative office in Brazil, registered with SUSEP filling requirements such as financial strength, credit rating and financial guarantees
- **Eventual Reinsurer** - foreign reinsurer, registered with SUSEP filling requirements such as financial strength and credit rating

Complementary Law 126

Safeguards

- Preference rule: 60% of each transaction has to be offered to local reinsurers during the the first three years and 40% after that
- Limited cession to eventual reinsurers: up to 10% of annual transactions (for insurers and local reinsurers)
- Eventual reinsurers: tax heaven based reinsurers are not allowed to register



Challenges for insurers

- **Focus on results:** insurers may obtain better price conditions if their results are better than market average, partnerships with reinsurers become a reality.
- **Reinsurance cycles:** insurers will be more affected international reinsurance market cycles.
- **More professional market:** insurers will have more freedom and involvement in the definition of their reinsurance programs – level of retention and type of reinsurance.



Challenges for insurers

- **Internal controls must be developed:**
 - Define, manage and monitor their reinsurance program: best covers and prices,
 - Interact with many reinsurers,
 - Manage exposure and credit risk of reinsurers,
 - Compliance with legal requirements: regulation, legal wording, legal disputes



Challenges for SUSEP

- **Direct supervision:** risk based capital requirements for both insurers and local reinsurers
Underwriting (claims)
Market (investment risk and AL mismatch)
Credit (security and diversification)
Legal (contract wording and legal disputes)
Operational
- **Indirect supervision:** register and monitor security of foreign reinsurers, monitor quality of risk transfer agreements of insurers.
- **Resources:** need for hiring more personnel and training.

