IAS Consultations

Print view of your comments on "Revised Insurance Core Principles 13 Reinsurance and Other Forms of Risk Transfer" - Date: 31.07.2017, Time: 15:37

Organisation	Global Federation of Insurance Associations
Jurisdiction	Global
Role	Other (not IAIS Member)
Email	secretariat@gfiainsurance.org
Phone	003228943081
Treat my comments as confidential	No

	Question
	Q1 General Comment on ICP 13
Answer	GFIA welcomes the opportunity to comment on revised ICP 13: Reinsurance and Other Forms of Risk Transfer. In particular, we support the recognition in revised ICP 13 of the importance of diversification. GFIA has some general concerns that ICP 13, at least in some paragraphs, assumes that the regulators' function is to look over the shoulders of companies' strategic management and weigh in where they feel it is off base, inconsistent, or ill advised. GFIA believes it is inappropriate to authorize regulators to 'second guess' management's legitimate strategic objectives or initiatives.
	Q2 Comment on Guidance ICP 13.0.1
Answer	Revise the last sentence to read: "For simplicity, this ICP uses "reinsurance" and "reinsurer" to refer to both traditional reinsurance and other forms of risk transfer." This change provides clarity for terms used throughout the ICP. In addition, the paragraph should specify that there are transactions with capital markets that are not reinsurance and ART transactions that are not intended to be covered by this ICP.
	Q3 Comment on Guidance ICP 13.0.2
Answer	GFIA strongly supports inclusion of a discussion on the importance of diversification, including geographical diversification. This provision should be maintained. In addition, to maintaining the current language, additional text can be added to strengthen the argument for global diversification. Add the following language: "Market development is adversely affected by limiting the use of cross-border reinsurance. By excluding or severely limiting the participation of international reinsurers in their markets, a jurisdiction forfeits the benefits of international expertise, experience and innovative insurance products. Reinsurance restrictions increase insurance costs in restricted markets. The overall decrease in reinsurance capacity created by restricting access to global reinsurance markets makes available reinsurance more expensive for ceding insurers, which in turn raises the cost of insurance in that jurisdiction for consumers. In addition, if a local reinsurer acts as a pass-through by retroceding risks offshore, the cost of reinsurance will increase due to the extra transaction costs of the local reinsurer."
	Q4 Comment on Guidance ICP 13.0.3

Answer

IAIS should strive for an objective description of the reinsurance contract. As the contract transfers risk in form of an indemnity, i.e. as any insurance contract, it is a legally binding transfer of risk. The risk receiving party is legally liable, but, in most cases, it does not step into the legal position of the insured. Also, the primary insurer remains liable to its policyholder. Therefore, GFIA would question whether the differentiation between "legal transfer" and risk transfer in an "economic sense" is necessary.

The reinsurer assumes insurance, timing and operational risk. However, GFIA does not see material credit risk in standard reinsurance agreements, where the liability to pay claims is contingent on the prior payment of premium. At the same time there may be transactions, where the reinsurer is also assuming credit risk, e.g. if a substantial overcollateralization is required.

Clarify the third sentence to read: “The supervisor should remain aware that while reinsurance transfers insurance risk from the ceding insurer to the reinsurer, it may also give rise to other risks.”

Revise last sentence to read: “In a standard transaction, the ceding insurer reduces its insurance risk and assumes credit, operational and, sometimes, basis, risk; the reinsurer assumes insurance, timing, operational and sometimes credit risk.”

Q5 Comment on Guidance ICP 13.0.4

Answer

GFIA believes that the wording in this paragraph is too broad if it is meant to include capital instruments such as cat bonds. Investors in cat bonds could potentially have a lesser degree of knowledge and sophistication. That is why the document should clarify that its scope is the insurance side of those transactions, not the investment side.

Q6 Comment on Guidance ICP 13.0.5

Answer

Q7 Comment on Guidance ICP 13.0.6

Answer

Q8 Comment on Standard ICP 13.1

Answer

Q9 Comment on Guidance ICP 13.1.1

Answer

GFIA notes that the guidance could be breached in situations where reinsurance cessions are mandatory. Mandatory cessions may not be consistent with the strategy of the insurers, resulting in unnecessary risks for the insurer and the reinsurer. GFIA recommends that the guidance acknowledge the additional risks created by mandatory cessions. In addition, paragraph 13.1.1, as well as many other provisions of ICP-13, discuss “strategies.” It is important that the ICP is concerned with the substance of the strategy and that the ICP does not elevate form over substance and become overly prescriptive in mandating strategy documents, forms and procedures.

Add the following language: “Supervisors should be aware that measures that limit or restrict cedents’ ability to optimize risk spreading pose a risk to the ability to serve policyholders appropriately.”

Q10 Comment on Guidance ICP 13.1.2

Answer

Q11 Comment on Standard ICP 13.1.3

Answer

GFIA suggests eliminating the word “insurance” in the first bullet, shortening the 3rd bullet to “levels of diversification,” and revising the 4th bullet to “appetite for counterparty risk.”

Revise the language to read: “The reinsurance strategy should take into account the ceding insurer’s business objectives, levels of capital and business mix, with particular reference to:

•Risk appetite (both gross limit and net retention);

•Peak exposures and seasonality in the insurance book;

•Levels of diversification; and

•Appetite for counterparty risk.

Q12 Comment on Guidance ICP 13.1.4

Answer

Q13 Comment on Guidance ICP 13.1.5

Answer

Q14 Comment on Guidance ICP 13.1.6

Answer

Recommend the deletion of the second sentence of paragraph 13.1.6. While the Board has a general obligation to oversee the insurer’s business objectives and the strategies for achieving such objectives, it should not have an affirmative obligation for formally approving each such reinsurance strategy and programme.

Revise the language to read: “Senior Management develops the reinsurance strategy and programme, and is also responsible for establishing appropriate systems and controls to ensure that these are complied with.

Q15 Comment on Guidance ICP 13.1.7

Answer

This paragraph is unnecessary and redundant of other paragraphs and with ICP 7, Corporate Governance.

Delete the paragraph: Large and/or complex ceding insurers, or those with a complex reinsurance strategy, may wish to appoint a committee of the Board to oversee the implementation of the reinsurance strategy.

Q16 Comment on Guidance ICP 13.1.8

Answer

Senior Management should have responsibility to regularly review the performance of the reinsurance programme. A Board is not constituted to review the functioning and performance of the insurer’s reinsurance programme, this type of regular review should be the responsibility of Senior Management. See ICP 7 Corporate Governance paragraph 7.2.6. The Board is to review the insurer’s business strategies on an annual basis to see if they are being properly implemented—not on a “regular’ basis.

Revise the language to read: The Senior Management of the ceding insurer should regularly review the performance of its reinsurance programme, to ensure that it functions as intended and continues to meet its strategic objectives. It is likely that such a review would take place as part of the feedback loop that is part of the risk management framework.

Q17 Comment on Guidance ICP 13.1.9

Answer

Authorizing the supervisor to challenge a reinsurance strategy or program merely because the supervisor feels the strategy or program is not appropriate is too loose a standard to provide any meaningful direction. The last sentence of the paragraph imposes way too large a burden on supervisors and authorizes the supervisor to substitute his or her own business judgment for the management's business judgement, which constitutes an inappropriate infringement on the insurer's management.

Revise the language to read: "The supervisor should understand the ceding insurer's business objectives and strategies, how its reinsurance strategy fits into these, and the extent to which objectives and strategies are adequately reflected in the reinsurance programme".

Q18 Comment on Guidance ICP 13.1.10

Answer

The revision to the opening sentence appropriately allows each supervisor slightly broader discretion. The addition of the word "net" to the fourth bullet point would help supervisors be aware of potential offsets across each group. The addition of the word "expected" to the sixth bullet point clarifies that the assessment is forward-looking. The revised tenth bullet point more concisely states the issue of not selecting unqualified brokers.

GFIA acknowledges the significance of brokers and, perhaps to better demonstrate the importance of brokers, the last bullet point should be moved up in the order listing. Likewise, IAIS may wish to consider revising the order of bullet points 3 through 6 for structural reasons.

Modify the language to read: "The supervisor's assessment of a ceding insurer's reinsurance programme should be based on a number of factors, which may include, among others, the…

4th bullet point: "levels of aggregate net exposure to a single reinsurer or different reinsurers being part of the same group."

6th bullet point: "Expected resilience of the reinsurance program in stressed claims situations…"

10th bullet point: "The selection process for outsourcing functions, including criteria to assure that unqualified brokers are not selected."

Q19 Comment on Guidance ICP 13.1.11

Answer

GFIA supports the inclusion of this language on group perspectives. GFIA notes, as with paragraph 13.1.1, this paragraph discusses an insurer's or an insurance group's "strategies." It is important that the ICP is concerned with the substance of the strategy and that the ICP does not elevate form over substance and become overly prescriptive in mandating strategy documents, forms and procedures.

Q20 Comment on Guidance ICP 13.1.12

Answer

GFIA suggests deleting this guidance, as alternative risk transfer (ART) products may not be appropriate for all insurance groups. Where management has determined not to consider ART, the company need not have a strategy including it. Alternatively, GFIA suggests that the phrase ", if any" be added to the end of the sentence.

Delete the paragraph: The group-wide supervisor of an insurance group should require that the reinsurance strategy of the insurance group covers the use of alternative risk transfer, including capital markets risk transfer products.

Q21 Comment on Standard ICP 13.2

Answer

Q22 Comment on Guidance ICP 13.2.1

Answer

The second sentence should be deleted. The supervisor should not be micro-managing the insurer's reinsurance programme to determine if in his or her opinion the programme is "appropriate." "Neither "appropriate" nor "suitable" are adequate legal standards to make an objective determination and leave the supervisor with too much subjective discretion to substitute his or her own opinion on what constitutes an "appropriate" or "suitable" reinsurance programme.

"Control of the reinsurance programme should be part of the ceding insurer's overall system of risk management and internal controls".

Q23 Comment on Guidance ICP 13.2.2

Answer

Q24 Comment on Guidance ICP 13.2.3

Answer

Q25 Comment on Guidance ICP 13.2.4

Answer

The fourth bullet point discusses parties incorporating rating downgrade or other special termination clauses into the reinsurance contract. This language is somewhat at odds with 13.5.5 which provides that a downgrade clause can give rise to liquidity issues under certain circumstances. The document should address this inconsistency.

The ICP should not encourage a specific requirement for collateral but rather should note collateral may be provided under some reinsurance contracts. Paragraph 13.5.4, for example, clarifies that the use of such arrangements may be a commercial matter between the ceding insurer and reinsurer.

Revise the 5th bullet point to read: "incorporate collateral provisions into the reinsurance contract."

Q26 Comment on Guidance ICP 13.2.5

Answer

Q27 Comment on Guidance ICP 13.2.6

Answer

Q28 Comment on Guidance ICP 13.2.7

Answer

GFIA urges adding guidance to recognize that mandated cessions and otherwise protecting local reinsurers creates concentration and counterparty credit risks that can be difficult for cedents and supervisors to manage.

Q29 Comment on Guidance ICP 13.2.8

Answer

Q30 Comment on Guidance ICP 13.2.9

Answer

The last sentence should be modified to delete the reference to the Board as the entity setting maximum net capacity and risk limits. Such determinations should be for Senior Management.

"…If facultative reinsurance is necessary to ensure that acceptance of a risk would not exceed maximum net capacity and/or risk limits, such reinsurance should be secured before the ceding insurer accepts the risk."

Q31 Comment on Standard ICP 13.2.10

Answer

GFIA suggests deleting the words “economic and coverage” because the full phrase “principal economic and coverage terms and conditions” is not a recognized industry term and creates unnecessary ambiguity. The recognized phrase is “terms and conditions.”

In order to reduce the risk and scope of future disputes,… to document the terms and conditions of reinsurance contracts clearly and promptly.

Q32 Comment on Guidance ICP 13.2.11

Answer

There is a certain practice but not a legal requirement, as to finalizing the reinsurance contract prior to the contract’s inception.

Revise the paragraph to read: “Ceding insurers and reinsurers should finalise the formal reinsurance contract without undue delay, ideally (but not necessarily) prior to the inception date of the reinsurance contract.”

Q33 Comment on Guidance ICP 13.2.12

Answer

Q34 Comment on Guidance ICP 13.2.13

Answer

Q35 Comment on Guidance ICP 13.2.14

Answer

The provision should clarify that the supervisor has access to reinsurance documentation from the entity that it regulates, the cedent.

“The supervisor should have access, on request, to the cedent’s material reinsurance documentation..."

Q38 Comment on Standard ICP 13.3

Answer

The guidance for this Principle should be revised to allow the supervisor to set standards for risk transfer and for reporting on compliance with those standards. As drafted, the guidance can be read to require the supervisor to intervene to oversee each cedent’s reinsurance program and processes, individually, and separately from any ORSA or other group-wide reporting. GFIA agrees that a supervisor should have the authority to exercise that degree of oversight if needed but disagree that it must be exercised routinely for all companies all the time.

Information shared with the supervisor should be subject to confidentiality requirements. This Standard should reference ICP 3.

Q39 Comment on Guidance ICP 13.3.1

Answer

Q40 Comment on Guidance ICP 13.3.2

Answer

A supervisor should not be challenging the ceding insurer’s Senior Management regarding individual contracts. In addition, the standard “where appropriate” dos not provide sufficient clarity and essentially empowers the supervisor to challenge and second-guess business decisions of the ceding insurer with respect to individual contracts.

“The supervisor should use this information to determine whether or not the reinsurance programme is compatible with the ceding insurer’s stated reinsurance strategy".

Q41 Comment on Guidance ICP 13.3.3

Answer

Q42 Comment on Guidance ICP 13.3.4

Answer

Q43 Comment on Guidance ICP 13.3.5

Answer

This paragraph should be revised to clarify that in addition to reinsuring risk on underlying business that is considered insurance, a degree of insurance risk transfer is also required for a contract to be considered reinsurance.

GFIA would recommend revising the paragraph as follows: "The supervisor should regard as a reinsurance contract an agreement that transfers sufficient insurance risk, which under local rules is accepted as insurance business."

Q44 Comment on Guidance ICP 13.3.6

Answer

Q45 Comment on Guidance ICP 13.3.7

Answer

GFIA does not consider it accurate to put "structured reinsurance" at the same level with "finite reinsurance." Instead, structured reinsurance is not equivalent to finite reinsurance because structured reinsurance arrangements usually includes significant risk transfer as opposed to limited risk transfer which featuring finite reinsurance contracts. In addition, the reference to "non-traditional reinsurance" is outdated and should be abandoned. The same is true for the terms "financial reinsurance" and "loss mitigation reinsurance" since they are neither common nor are legally defined.

Revise the language as follows: "Finite reinsurance is a generic term that, for the purposes of this ICP, is used to describe a spectrum of reinsurance arrangements that transfer rather limited risk relative to aggregate premiums that could be charged under the contract."

Q46 Comment on Guidance ICP 13.3.8

Answer

Q47 Comment on Standard ICP 13.3.9

Answer

Q48 Comment on Standard ICP 13.4

Answer

GFIA supports the added guidance on equivalence and supervisory recognition. International aspects are particularly crucial in the context of reinsurance and the reflection in ICP 13 is therefore appreciated. GFIA further urges that the guidance for this Principle be expanded to include recognition that treating local operations of foreign reinsurers less favorably than local reinsurers can adversely affect cedents' risk profiles by concentrating risks.

Q49 Comment on Guidance ICP 13.4.1

Answer

Q50 Comment on Guidance ICP 13.4.2

Answer

Q51 Comment on Guidance ICP 13.4.3

Answer

Q52 Comment on Guidance ICP 13.4.4

Answer

Q53 Comment on Guidance ICP 13.4.5

Answer

Q54 Comment on Guidance ICP 13.4.6

Answer

Q55 Comment on Standard ICP 13.5

Answer

GFIA generally agrees with the content of 13.5. In fact, ICP13.5 holds equally for capital management as well, so that IAIS could consider replacing "liquidity management" with "capital and liquidity management".

Q56 Comment on Guidance ICP 13.5.1

Answer

There seems to be a contradiction between the first and the final sentence of 13.5.1. GFIA would therefore propose that IAIS deletes the second sentence of 13.5.1, since a degree of liquidity risk is implied throughout all of 13.5. This sentence appears to be largely redundant.

Q57 Comment on Guidance ICP 13.5.2

Answer

The parenthetical "(e.g., resulting from a major catastrophe) should be deleted. As drafted, this provision incorrectly suggests that catastrophe reinsurance has presented lack of willingness to pay issues when there is no evidence to support this in traditional reinsurance.

GFIA would note that the inclusion of the word "reinsurer" in 13.0.1 makes it clear that this provision also refers to ART transactions. In addition, GFIA notes this paragraph should be revised to recognize a similar liquidity risk exists when cessions to a monopolistic reinsurer are mandated.

Q58 Comment on Guidance ICP 13.5.3

Answer

Q59 Comment on Guidance ICP 13.5.4

Answer

GFIA would propose the following clarification of the second sentence in paragraph 13.5.4:

"If such arrangements are to be used, these arrangements may include clauses […]"

Q60 Comment on Guidance ICP 13.5.5

Answer

13.5.5 states that the supervisor should be aware of the impact of external triggers on the "overall efficiency and stability of the market". In the context of the reinsurance market it would be more appropriate to rephrase this as "overall efficiency and reinsurance cycle stage of the market".

Q61 Comment on Guidance ICP 13.5.6

Answer

While the paragraph describes good practice, GFIA believes this guidance does not belong in an Insurance Core Principle on reinsurance.

GFIA recommends the following paragraph to be deleted: The supervisor should require ceding insurers to take appropriate measures to manage their liquidity risk including funding requirements in reasonably adverse circumstances.

Q62 Comment on Standard ICP 13.6

Answer

GFIA finds this guidance perhaps too detailed for guidance within an ICP. Perhaps this detail would be more appropriate as an Application Paper. GFIA also suggests clarifying where the role of the insurance supervisor clearly relates to the reinsurance aspect of the structures and where and how the role of a financial instruments supervisor may be relevant.

Q63 Comment on Guidance ICP 13.6.1

Answer

Q64 Comment on Guidance ICP 13.6.2

Answer

The delineation between insurance, reinsurance and other risk transfer arrangements could be made clearer to provide clarity and to avoid confusion, GFIA would suggest using "arrangements…" rather than "reinsurance arrangements". Also, the second sentence could read "risk is transferred…" rather than "reinsurance risk is transferred…" This would read more appropriately. Also, it would be helpful to make explicit reference to the term "insurance linked securities", which is a catch-all terminology that is well recognized and understood in the industry.

Q65 Comment on Guidance ICP 13.6.3

Answer

Q66 Comment on Guidance ICP 13.6.4

Answer

Q67 Comment on Guidance ICP 13.6.5

Answer

Q68 Comment on Guidance ICP 13.6.6

Answer

Q69 Comment on Guidance ICP 13.6.7

Answer

Q70 Comment on Guidance ICP 13.6.8

Answer

Q71 Comment on Guidance ICP 13.6.9

Answer

Q72 Comment on Guidance ICP 13.6.10

Answer

Q73 Comment on Guidance ICP 13.6.11

Answer

Q74 Comment on Guidance ICP 13.6.12

Answer

Q75 Comment on Guidance ICP 13.6.13

Answer

Q76 Comment on Guidance ICP 13.6.14

Answer

Q77 Comment on Guidance ICP 13.6.15

Answer

There exists no basis risk where the SPE contains an indemnity trigger. The first sentence of this paragraph should be revised as follows: "Where SPEs contain indemnity triggers (i.e., recovery from the SPE is based on the actual loss experience of the ceding insurer) basis risk is not an issue."

Q78 Comment on Guidance ICP 13.6.16

Answer

Q79 Comment on Guidance ICP 13.6.17

Answer

Q80 Comment on Guidance ICP 13.6.18

Answer

The supervisor should understand the various issues that emerge in the ongoing supervision of SPEs and their use. Consideration should be given to the following areas:

(Last bullet) Where the SPE under stakes multiple transactions, arrangements put in place in the SPE to ensure that the funds corresponding to each transaction are appropriately segregated and legally insulated.

Q81 Comment on Guidance ICP 13.6.19

Answer

Q82 Comment on Guidance ICP 13.6.20

Answer

In addition, the supervisor should understand the process and stages that the SPE goes through when it comes to a natural end and its obligations have been fulfilled and the SPE is liquidated. There is a distinction between unwinding in the event of a loss and unwinding a transaction reaching legal maturity (without a loss having occurred). While the latter case is usually simple and straightforward, unwinding in a full or partial loss situation deserves close attention. Consideration should be given to the following areas:

• issues relating to share buy-back and conditions to its materialisation;

• issues relating to disposal of the investment portfolio;

• "dismantling" of the SPE and residual risks;

• issues relating to the legal insulation and segregation of assets per transaction; and

• supervisory issues relating to risks which revert to the ceding insurer on termination of the arrangement.

Q83 Comment on Guidance ICP 13.6.21

Answer

GFIA appreciates the added guidance acknowledging the global nature of reinsurance and risk transfer business.