GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: Superintendent Jeremy Rudin
Office of the Superintendent of Financial Institutions
12th Floor, 255 Albert Street
Ottawa, Ontario
Canada

Cc: Neville Henderson, Assistant Superintendent Insurance Supervision Sector
Ben Gully, Assistant Superintendent Risk Support Sector

Date: 2 July 2019

Subject: GFIA comments on OSFI discussion paper on OSFI's reinsurance framework.

Dear Superintendent Rudin,

GFIA is writing to express its concerns about OSFI's June 2018 "Discussion Paper on OSFI's Reinsurance Framework". The proposal in the June 2018 discussion paper relating to the policy limit rule affecting large global commercial writers, if implemented, would increase the cost of insurance in Canada and reduce overall insurance capacity while at the same time imposing burdensome measures designed to discourage the participation of foreign reinsurers in the Canadian market. While GFIA recognises that a supervisor has the duty to ensure that insurers account for counterparty risk, the approach detailed in the discussion paper is drastic and will have enormous unintended consequences.

Global insurance and reinsurance groups that currently serve Canadian customers are alarmed by the discussion paper as the envisaged measures do not promote market-based solutions. When groups tested the effect of the policy limit rule recently at OSFI's request, it became clear that the rule would create an estimated $21-$30 billion CAD capital gap. This gap means that the affected insurers would on average need to more than triple their current capital base to remain in Canada and writing the same policies as they currently do. The proposal would have the effect of significantly reducing the return on capital relative to opportunities which may be available to groups globally, thus disincentivising groups from offering insurance and reinsurance services or investing in Canada. Regrettably, it seems inevitable that such requirements will discourage participation in the Canadian market.

Counter to OSFI's stated philosophy of avoiding too much concentration of reinsurance risks in one place or in one reinsurer, the proposed capital requirement has the potential to result in a heavier and potentially detrimental concentration of reinsurance risk within Canada. Furthermore, these proposed regulations may restrict the flow of international reinsurance into Canada to such a degree that they would leave Canadian registered reinsurers in a situation where they do not have the capacity to address the reinsurance needs of Canadian registered insurers, particularly for reinsurance on large risks.

The proposal to restrict the ability of Canadian registered insurers with foreign parent companies to rely on the foreign parent's use of global treaties to manage its risks globally also is troubling. The proposal amounts to interference with the insurer's business operations. Each insurer is unique and its reinsurance arrangements may encompass many forms of reinsurance (global treaty, quota share, excess of loss, surplus, facultative, or fronting),

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all of which have a legitimate role. Consistent with OSFI's desire for a principles-based regime, the decision as to what reinsurance structure works best should be left to the Canadian registered insurer to determine, based on optimal arrangements for its own business operations.

Finally, the proposed approach to reinsurance regulation is radically different to the global best practices for reinsurance supervision. The International Association of Insurance Supervisors (IAIS) recently updated guidance to insurance regulators on reinsurance in its "insurance core principle" on reinsurance (ICP 13). ICP 13 states *"[g]eographical diversification of risk, which typically involves risk transfer across jurisdictional borders, is a key element of ceding insurer's and reinsurer´s capital and risk management. Geographical diversification can also have an impact in the jurisdiction of the ceding insurer, in particular jurisdictions exposed to catastrophes. By ceding insurance risk across borders, ceding insurers in the jurisdiction, and the jurisdiction as a whole, can benefit from a reduced concentration of insurance risk exposures at the ceding insurer and jurisdiction level respectively. This may also contribute to the financial stability of the jurisdiction"* (ICP 13 13.0.2). It continues, *"Ceding insurers and reinsurers may face external limitations on geographic diversification, for example in the form of constraints to cross-border risk transfer. The supervisor should be aware of and take into account the potential impacts of such limitations on individual ceding insurers and reinsurers as well as on the soundness and efficiency of the insurance market"* (ICP 13, 13.0.3).

As suggested by the IAIS, GFIA hopes that OSFI will take into account the potential impact of the limitations it has proposed.

Sincerely,

Brad Smith
Chair of the GFIA Trade working group (BradSmith@acli.com)

About GFIA

Through its 41 member associations and 1 observer association, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 64 countries. These companies account for around 89% of total insurance premiums worldwide. GFIA is incorporated in Switzerland and its secretariat is based in Brussels.