

**Member and Observer Comments on IAIS Draft paper:  
ICP 13 / Standards / Guidance: Reinsurance and Other Forms of Risk Transfer  
Draft, 28 June 2010**

**Comments due by 29 August 2010**

Name	Section or paragraph reference	Comment	Resolution (for use of the Secretariat only)
ABIR		The Association of Bermuda Insurers and Reinsurers (ABIR) represents 22 (re)insurers conducting underwriting operations in Bermuda. The membership collectively wrote \$61 billion in gross written premium on a capital base of \$84 billion in 2009. Bermuda is considered to be the third largest reinsurance underwriting center in the world. We appreciate very much the opportunity to file these comments and we congratulate the IAIS on its work to date on this project.	
AB IR	13.1.11	ABIR agrees with the need for ceding insurers to have a risk management strategy in place that helps to avoid concentrations of business in one or more reinsurers. But we believe it is incorrect for the IAIS to expect that such a program will serve as a hard limit on how much risk is actually placed with a specific reinsurer. There will be reasons during the normal course of operations where any guidelines that are established to avoid risk concentrations in any reinsurer may be exceeded. For example, risk can be placed with a reinsurer via a quota share program, an excess of loss program or a facultative program. When quota share programs are used it is not possible to know the aggregate amount of risk ceded until the end of the exposure period. Thus it is not possible to know in advance how much risk will end up with specific reinsurers. With regard to the recoverables measure, adverse development in a reinsurance program may over time lead to amounts in excess of guidelines being recoverable from a specific reinsurer. This can be adjusted going forward by limiting future placements with the reinsurer. However, due to timing issues it is likely that from time to time amounts excess of guidelines could be recoverable from a specific reinsurer. During hard markets, it may be desirable to the ceding insurer to place more business than would otherwise be allowed under its guidelines with certain reinsurers with very high financial soundness measures. Therefore, we think the IAIS should recognize that the ceding insurer should have in place a monitoring program so as to avoid excessive concentrations, but it	

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		<p>should be understood that from time to time a ceding insurer's guidelines will be exceeded due to the aggregation of various reinsurance contracts with groups of reinsurers. Regulators should expect the ceding insurer to set targets for risk limitations and then to have in place a risk management program that ameliorates the impact of concentrations that exceed the guidelines. We would suggest that the paragraph be amended as follows: "A cedant should set prudent limits, or guidelines, in relation to its maximum aggregate exposure to any one reinsurer, which will be complementary to any local regulatory limits, or guidelines. The insurer should also have in place procedures for monitoring this aggregate exposure to ensure that these limits or guidelines are not breached; including procedures to see that excess concentrations are brought back within limits or guidelines, or otherwise managed, going forward."</p>	
ABIR	13.2	<p>ABIR notes that specific reinsurance programs are proprietary. The parties to the contract will know the specifics of the reinsurance arrangement and the regulator would have access to that information during the course of financial examinations. Brokers or other consultants may be privy to the agreement for certain specific purposes related to the transaction. Broadly, information about an insurer's reinsurance program can be ascertained from public financial statements or other required disclosures. However, the supervisory regime should not require disclosure of the specifics of the reinsurance program to "customers"—unless they are the ceding insurer, and other unidentified "stakeholders". The current wording of this paragraph may confuse "customers" with policyholders or ceding insurers. For policyholders, their legal rights rest with the relationship with the insurer—not the insurer's assuming reinsurer, unless there is a specific contract provision such as a "cut through agreement" which provides the policyholder certain additional limited rights. The term "stakeholder" is so broad that it can imply that competitors could have the right to receive information on proprietary reinsurance contracts or programs. Because of these concerns we would suggest that this paragraph be reworded as follows: <b>"The supervisory regime requires that cedants are transparent in their reinsurance arrangements and the associated risks, allowing directors, supervisors</b></p>	

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		<b>and others with contractual rights to understand fully the economic impact of reinsurance arrangements in place.”</b>	
ABIR	13.2.1	The term “suitability” implies a degree of business and management knowhow that we believe is incorrectly provided in this paragraph dealing with supervisory responsibilities. ABIR recommends this paragraph be rewritten as follows: “Supervisors should require that cedants make available to them all information about the reinsurance programme that the supervisor requires in order to form a judgement about risk management and the prudential ramifications of the reinsurance programme and the associated risks. This need not entail an inspection of all individual contracts.”	