



REINSURANCE GOVERNANCE: IS YOUR BOARD OF DIRECTORS AWARE?

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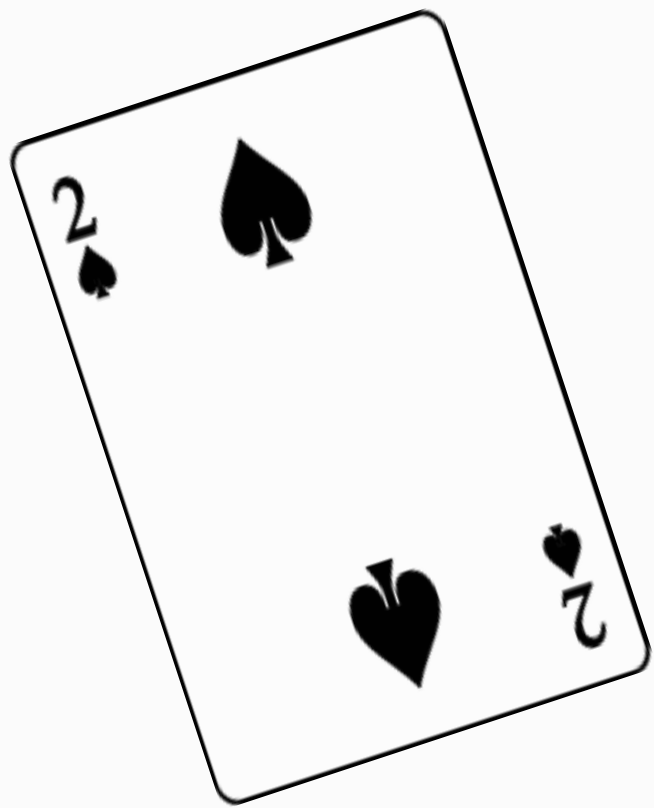
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1. Why talking about reinsurance governances?
 2. Worldwide trend on governance and accounting principles
 3. The Investment Asset Principles
 4. Sound reinsurance practices & procedures: a case study on Corporate Governance Guideline
 5. Reinsurance governance tailored to Caribbean market

WHY TALKING ABOUT REINSURANCE GOVERNANCE?











- “Reinsurance is an important risk management tool available to an insurer”
- Stresses the importance of effective reinsurance practices and procedures to maximize the benefits (e.g. reduces risk and volatility / increases capacity and capital efficiency)
- Highlights the risk of ineffective reinsurance practices and procedures (e.g. operational, legal, and counterparty)
- Insurers to have a comprehensive Reinsurance Risk Management Policy (RRMP)
- Expectations are that Insurers perform due diligence on its reinsurance counterparties.

WORLDWIDE TREND ON GOVERNANCE PRINCIPLES



1. Globally

- G20 Financial Stability Board

2. Europe

- CFO Forum – High Level Discussion Group

3. North America

- Sarbanes–Oxley Act
- SEC, NAIC and OSFI Guidelines

THE INVESTMENT ASSET PRINCIPLES



Fundamentals in security analysis

- Issuer
- Ratings
- Probability of defaults
- Embedded options
- Financials
- Management, operations and outlook

Fundamentals in reinsurance analysis

- Reinsurer
- Ratings
- Credit Default Swaps
- Use of retrocession mechanisms
- Financials
- Management, operations and outlook

Assessing the value and quality of your reinsurer is a key component of sound reinsurance governance!

SOUND REINSURANCE PRACTICES & PROCEDURES: A CASE STUDY ON CORPORATE GOVERNANCE GUIDELINE



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- Regulator (OSFI)
 - Section: Sound Business and Financial Practices
 - Corporate Governance Guideline
 - Regulator's expectations of Board & Management to corporate governance
 - Many sound principles:
 - Board Performance
 - Risk management
 - Internal controls
 - Oversight
 - Relationship, Independence and Holding Companies

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- OSFI B-3 (Effective date January 1st, 2011)
 - Principles based versus rules based approach
 - 4 key principles
 - Sound & comprehensive reinsurance plan subject to Board approval
 - Adequate level of due diligence on reinsurance counterparties
 - Terms of reinsurance provide clarity & certainty prior to date of coverage
 - Ceding company, policyholders & creditors not to be adversely affected by reinsurance contract

Key Principles – 1: sound & comprehensive reinsurance plan subject to Board approval

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- Reinsurance Risk Management Plan (RRMP) is integrated with enterprise-wide risk management plan
 - Risk appetite & tolerance
 - Objectives, concentration limits, ceding limits
 - Controlling reinsurance risks: roles of positions implementing RRMP, practices for selecting/implementing reinsurance arrangements
 - Effectiveness & stress testing
 - Board approval of RRMP annually

Key Principles – 2: Adequate level of due diligence on reinsurance counterparties

- Evaluate reinsurance counterparties
- Claims payments record
- Balance sheet strength & funding sources
- Management
- Retrocession arrangements
- Conduct own due diligence on financial strength of reinsurance counterparties

Key Principles – 3: Terms of reinsurance provide clarity & certainty prior to date of coverage

- Process to ensure comprehensive, written & binding contract executed prior to effective date
- If reinsurance contract not executed by effective date then binding summary document, prior to effective date, sets out: premium, percentage risk, risks reinsured, duration of coverage, any exclusions, standard clauses & material issues likely to arise
- Duly authorized signature on reinsurance contract within a short timeframe i.e. Within 120 days of execution

Key Principles – 4: Ceding company, policyholders & creditors not to be adversely affected by reinsurance

- Should provide that funds will be available to cover policyholder claims in the event of either the cedant's or reinsurer's insolvency
- Treatment offsets acceptable, but must be reasonable, clear and understandable

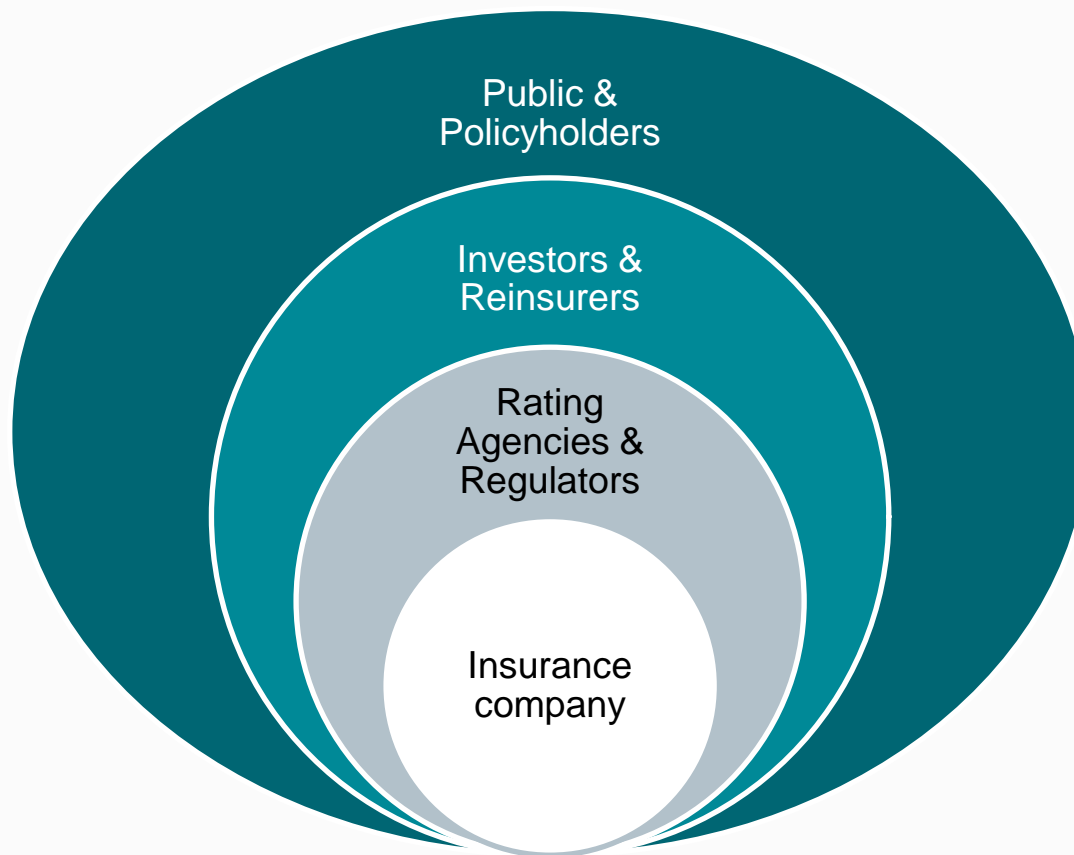
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1. Develop and maintain RRMP, which ultimately can be provided to regulator for appropriate governance
 2. Promptly inform regulator of any material change in RRMP
 3. Failure to meet reinsurance governance principles could mean regulator may not grant a capital/asset credit for reinsurance arrangements
 4. Senior officer to make annual declaration to Board to confirm reinsurance risk management practices meet regulator requirements

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- Provided by your reinsurer to satisfy RRMP requirements
 - Worldwide / Local branch operations framework (in terms of assets, retro)
 - Risk management practices
 - Key figures (5 years):
 - Premium income, profits, investments, ROE, market capitalization
 - Assets, liquidity, investment quality, ratios, MCCR
 - Ratings and outlook

REINSURANCE GOVERNANCE TAILORED TO CARIBBEAN MARKET



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- Mergers & Acquisitions
 - Regulator & Rating Agencies satisfaction
 - Awareness of who's your reinsurance partner
 - The asset principle (investment strategy)



Simple appropriate governance on reinsurance provides and attractive look to all stakeholders!



THANK YOU!

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