



# **Analysis and Evaluation of Policies and Procedures for Reinsurance**

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Supervisory Standard No. 7

# **INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS**



## **SUPERVISORY STANDARD ON THE EVALUATION OF THE REINSURANCE COVER OF PRIMARY INSURERS AND THE SECURITY OF THEIR REINSURERS**

**January 2002**



## **Skills Needed by the Supervisor (Sufficient expertise, § 18)**

**Knowledge of products ( §§ 3-7 )**

**Knowledge of reinsurance strategy and management  
procedures ( §§ 8-17 )**

- **Knowledge of risk management**
- **Knowledge of corporate governance**



# Education Programs

- **Forms of reinsurance**
  - treaty/fac, prop/non-prop
- **Characteristics. How, where and why to use**
  - q/s, surplus, fac/obl, fac, x/1, stop loss
- **Evaluation of single risks**
  - PML, MFL, EML
- **Evaluation and cover of cat losses**
  - accumulation, conflagration, several classes of business, EML-failure, reinstatements, aggregate deductible
- **Correlation between prop and non-prop**
  - construction of a reinsurance program
- **Administration of reinsurance**
  - renewals, accounting, wordings/clauses



## **Supervisory regime for insurance business (reinsurance cover and security)**

- **Before granting a license ( § 19 )**
  - do the reinsurance cover MFL?
- **Regularly evaluation and reporting ( §§ 20-22 )**
  - annually?
  - amounts outstanding from reinsurers
- **On-site inspections ( § 23 )**
  - prudence of the risk profile
  - evaluation of risk concentrations ( aggregate exposures )



# **The Danish system for monitoring of reinsurance - REMOS**

**REMOS is designed to include information  
both on coverage and on security.**



Remos

Quit System Data SysAdm

# Remos

DB size	30 MB	Home	o:\remos\program	
Free space on application disk	2048 MB	DB	o:\remos\produktionsdata\remos.mdb	OK
Free space on local disk	544 MB	DB dir	o:\remos\produktionsdata\	
		SP	c:\classic v5_link_remos\db1.mdb	OK

Start Microsoft Office Progra... Microsoft PowerPoint - ... Indbakke - Microsoft O... Remos 09:28



# The Application of REMOS

- The reinsurance cover of the insurance companies
- Risk profile
- Security
- Benchmarking
- Info on reinsurers
- Info on brokers



Finanstilsynet - Microsoft Internet Explorer leveret af Finanstilsynet

Filer Rediger Vis Foretrukne Funktioner Hjælp

Tilbage Fremad Stop Opdater Startside Søg Foretrukne Oversigt Post Udskriv Rediger

Adresse <http://www.finanstilsynet.dk/frame.asp?categoryID=238&menuID=238> Gå Hyperlinks

**FINANSTILSYNET** Søg Kontakt Abonnement Sitemap English

### INDBERETNING AF REASSURANCE-KONTRAKTER (GA)

**Skadesforsikring**

Download indberetning af Reassurance-kontrakter (GA).

[Excel Zipfil \(17/1-2001\)](#)

Download Finanstilsynets vejledning vedrørende indberetning af reassurancekontrakter for 2001 (GA blanketsæt).

[Word-fil \(17/1-2001\)](#)

Download Finanstilsynets specialvejledning vedrørende risikoklassifikation i forbindelse med indberetning af reassurancekontrakter

[Word-fil \(17/1-2001\)](#)

Download liste med S & P selskaber. I listen kan du se selskabernes SP\_id numre.

[Excel-fil \(22/1-2001\)](#)

Om Finanstilsynet

Pressemeddelelser, publikationer mv.

Lovsamling og afgørelser

**Indberetninger**

Fit & Proper

Regnskaber

Virksomheder under tilsyn

Statistik og nøgletal

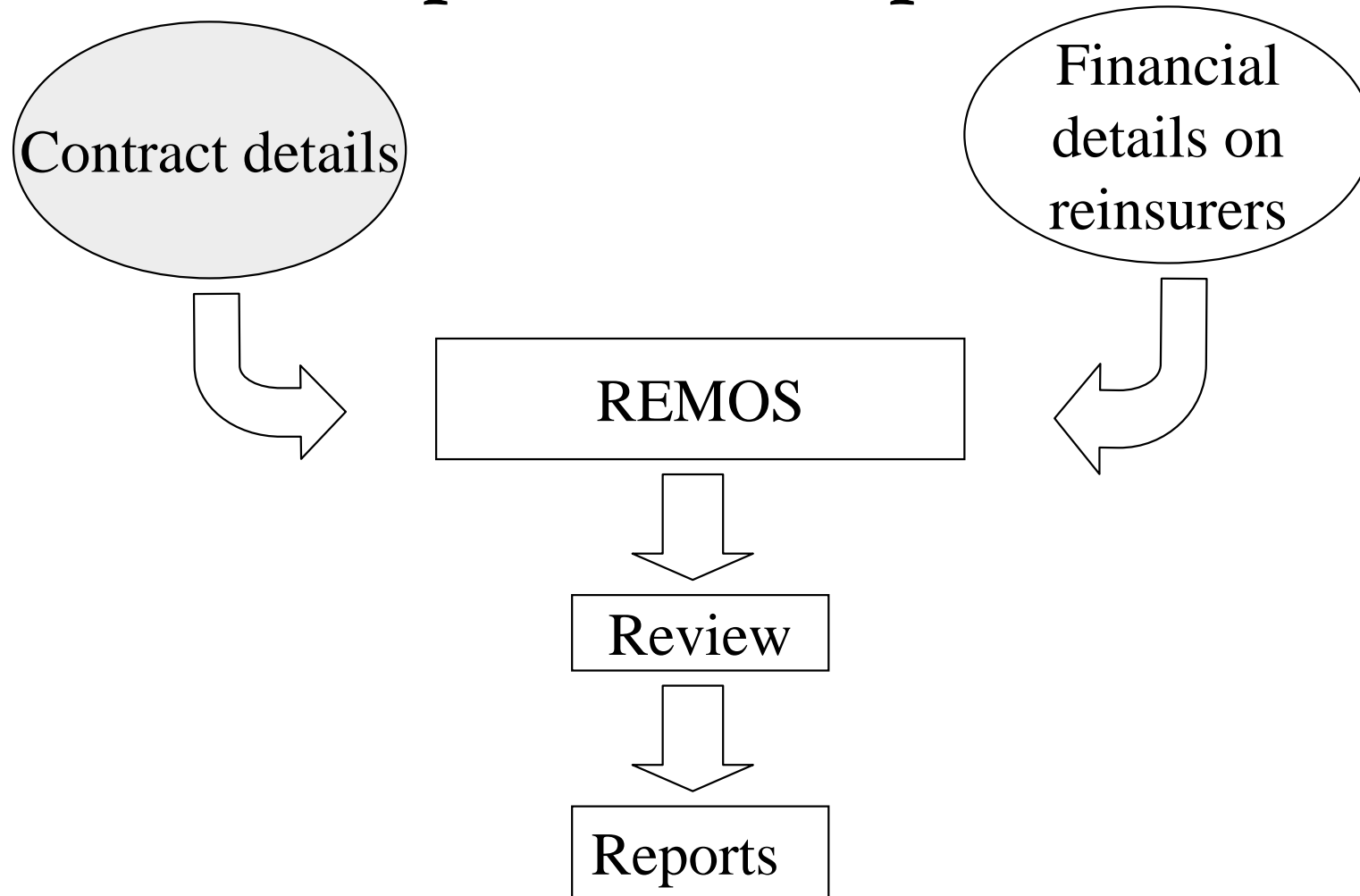
Start Microsoft ... Microsoft ... Indbakke... Remos Journalise... Finanstils... Finanst...

Internet

10:01



# Input and Output





# Cover

## *Proportional contracts*

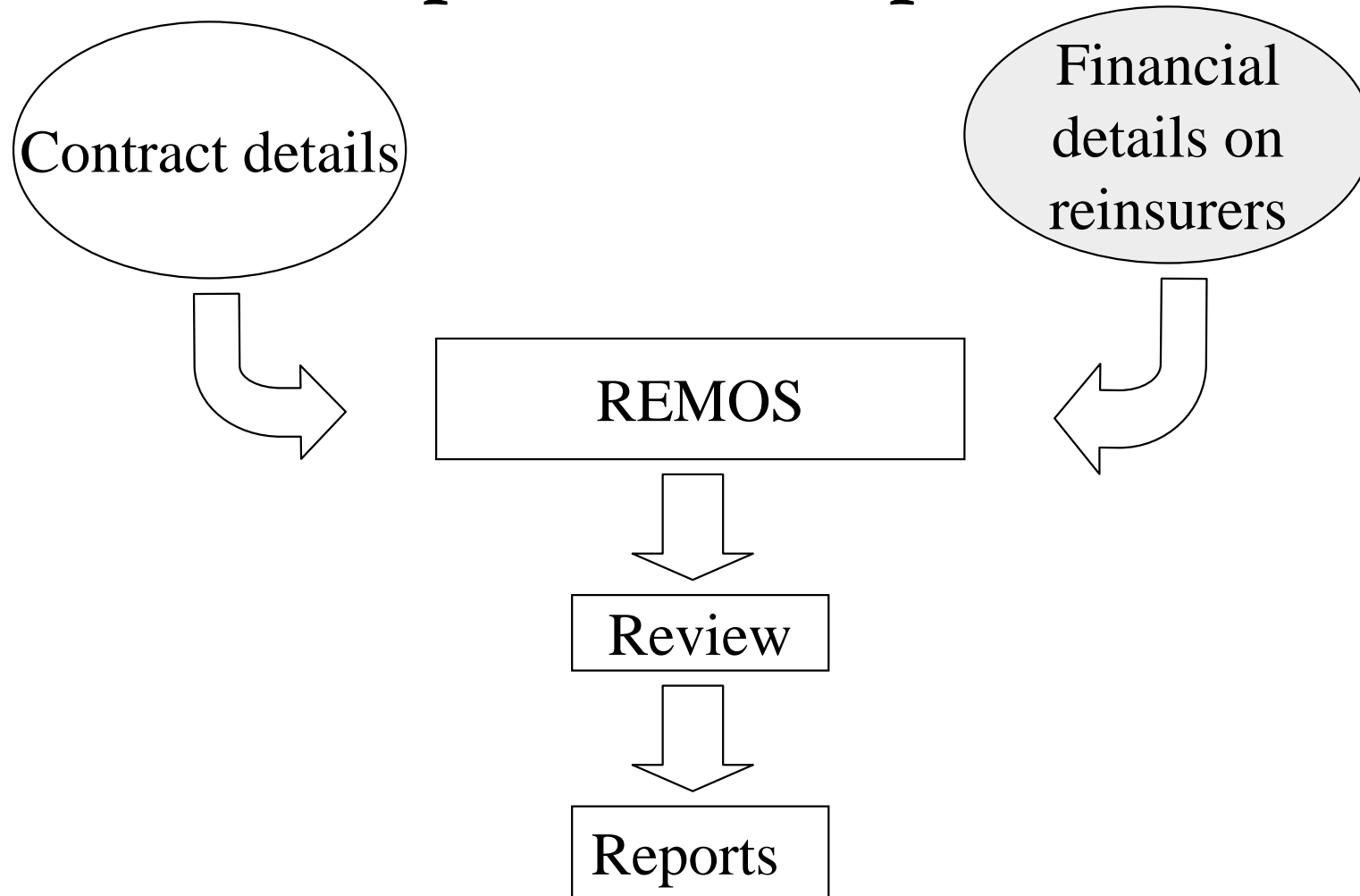
- Contract type (Surplus or Quota share)
- EML/Sum insured
- Retention
- Covered risk

## *Non-proportional contracts*

- Contract type (Excess of loss or Stop loss)
- Limit
- Excess point
- Covered risk
- Aggregates (the limit)
- Reinstatements (the number of)
- Rate on line



# Input and Output





# Financial Details on Reinsurers

- Company in S & P Classic - automatic data retrieval
- Company NOT in S & P Classic - manual data entry



# Ratings

- Internal (Finanstilsynet): Key ratios  
0, 1, 5 - 100 scale
- External : S&P / A.M. Best / other  
0, 1, 5 - 100 scale

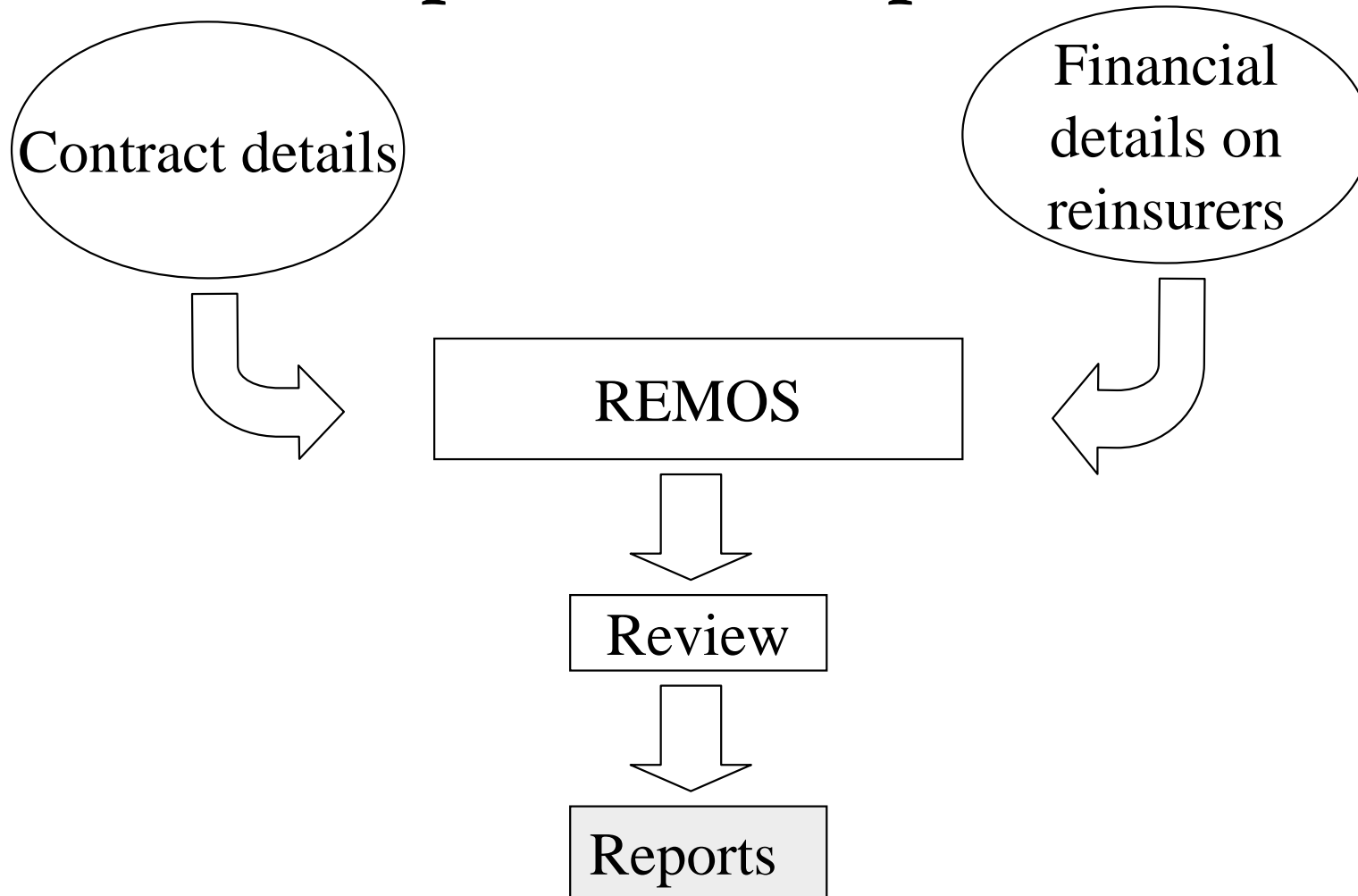


# Internal Rating (Finanstilsynet)

- Elements in the security calculation
  - Combined ratio w: 0.50
  - Return on investment w: 0.25
  - Return on equity w: 0.25
  - Risk base ratio w: 1.00  
(technical reserves + own funds / net premium earned)
  - Equity ratio w: 1.00
  - Loading factor



# Input and Output





# Other Reports

	Market	Reinsurer	Cedant	Broker
1. Reinsurers ranked by liability	X		X	
2. Reinsurers ranked by FT- rating	X		X	
3. Cedents ranked by ceded risk	X			
4. Brokers ranked by placed risk	X			
5. Stratification on risk class	X	X	X	X
6. Stratification on reinsurer domicile	X		X	
7. Stratification on contract class	X	X	X	
8. Stratification on reinsurer rating class	X		X	X
9. Contract shares		X	X	X
10. Cedent exposure		X		X



# Early Warning

- Benchmarking
- Reinsurer(s) with problems
  - Ranking
  - Finanstilsynet can identify the cedants



# Management and REMOS

- Reinsurance policy
  - cover
  - security
- Benchmarks



# The Auditors and REMOS

- The Auditors shall in their report declare that
  - the reinsurance cover is in accordance with the decision of the board of directors
  - the security is satisfactory
  - the procedures for reinsurance settling are satisfactory



# Q & A

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