

**RECOMMENDATION OF THE COUNCIL ON ASSESSMENT OF
REINSURANCE COMPANIES**

(adopted by the Council at its 921st Session on 25 March 1998 [C/M(98)7/PROV])

THE COUNCIL,

Having regard to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14th December 1960;

Having regard to Rule 18 b) of the Rules of Procedure of the Organisation for Economic Co-operation and Development;

Considering the need for ceding insurance companies to assess adequately the soundness of the reinsurance companies to which they cede insurance risks;

Considering, in general, the need for transparency and disclosure of information in the reinsurance markets and noting that a great deal of information may already be available in the public domain;

Considering that it is desirable to provide for some guidance on approaches to such assessments, including on the main factors which insurance companies may want to consider and in relation to which reinsurance companies may be prepared to make information available upon request, but recognising that such guidance should not be considered either as mandatory or as exhaustive;

Considering that application of such guidance should not discriminate (*de jure* or *de facto*) between reinsurance companies from different Member countries;

Conscious that reinsurance companies may be unable to provide some information either to preserve confidentiality or for other legitimate reasons;

On the proposal of the Insurance Committee;

I. RECOMMENDS that Member countries:

1. invite insurance companies under their supervision to take all appropriate steps to assess the soundness of reinsurance companies to which they cede or propose to cede business having regard to the contents of the Annex to this Recommendation of which it forms an integral part;
2. invite reinsurance companies under their supervision, or established within their territory, to provide, on request, information to insurance companies, which will assist the latter in making assessments.

II. INVITES non-member countries to take account of the terms of this Recommendation.

ANNEX

ASSESSMENT OF REINSURANCE COMPANIES

It is the responsibility of the insurance companies to identify the information they need for assessing the soundness (which includes the fact that the individual reinsurance company is able, financially and administratively, to pay legitimate claims and can be relied upon to do so promptly) of reinsurance companies.

The nature and extent of the assessment may vary, according to the nature and importance of the transaction, the nature and importance of the parties concerned.

While the responsibility for assessment remains ultimately with the ceding companies, it may be appropriate to draw on the experience of brokers or other sources of information and expertise (e.g.: specialised press and rating agencies), but in a prudent way.

Reinsurance companies will, for the purpose of this Recommendation, be understood as professional reinsurance companies, associations of underwriters authorised to accept reinsurance, direct insurance companies accepting reinsurance. They have different characteristics and may be subject to different regulatory and supervisory frameworks, including accounting rules.

There are a number of possible sources of information relevant to an assessment. In addition to statutory annual reports and accounts, examples include publicly disclosed regulatory returns and other sources. These may provide an adequate basis for an assessment. Where such information is not available, or appears insufficient, then insurance companies may consider the following factors or comparable ones:

1) Legal and statutory framework

- legal status of the reinsurance company;
- scope of regulation and supervision of reinsurance in the home country (licensing registration, solvency provisions, rules related to technical provisions, collateralisation, winding-up, accounting), and if necessary in host country;
- reinsurance regulation of investments, existence of rules related to liquidity, diversification, spread currency matching, maturity matching, derivatives, securitisation, and movements of capital. Reinsurance regulations on investments abroad, transfer of profits, premiums, claims;
- tax regulation of reinsurance in the home country, and, if necessary, in host countries;
- characteristics of the reinsurance contract law applicable to the contract when not specified in the contract.

2) Structural indicators

- structure and composition of the main direct shareholding, whether it belongs to groups or conglomerates, for at least the last three years, taking account of listed/unlisted nature of the company;
- relevant business relationship with other companies (including strategic alliances, significant relation/legal agreement, accepted non-related risks for captives, intragroup retrocessions).

3) Management

- reputation and integrity of board management and legal representatives (and other staff, if relevant); fit and proper criteria, when existing; absence of relevant professionally related criminal or civil sentences or convictions.

4) Performance indicators (for at least the past three years)¹

- gross and net premiums;
- incurred losses (gross and net);
- operating expenses;
- investment income.

5) Technical provisions and solvency

- level and composition of technical provisions, including loss provisions (gross and net) and equalisation provisions (gross and net);
- general methods of valuation of technical provisions and results of past valuations;
- level and composition of guarantee funds, of which shareholders' equity and subordinated liabilities, shareholders' equity being specified as: subscribed capital and equivalent funds, share premium account, revaluation reserves, other reserves and minority interests;
- use of alternative risk transfers.

6) Investments

- for at least the past three years: spread of assets between the following categories: real estate, mortgage loans, shares, bonds with fixed revenue, loans other than mortgage loans, other investments;
- methods of valuation in the balance sheet, including derivatives.

NOTES

¹ In case of premiums, for the main classes of covered risks; and at least for general liability, transport and catastrophic risks; and for the main countries, or regional group of countries, in which they operate.

In case of losses, for the main classes of covered risks, and at least for general liability, transport and catastrophic risks.

These data should enable the calculation of combined ratio (losses plus expenses divided by premiums), loss ratio, expenses ratio, operational ratio (losses plus expenses minus investment income -- insofar as they are included in annual results -- divided by premiums) and retention ratio.

The spread of retroceded premiums per main retrocessionnaires, possibly with names, should also be communicated, for the main classes considered.