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GLOBEX UPDATE

Events, developments, and opportunities in the international marketplace

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Brazil - Traditional Three License Model Under Pressure?

Under the Brazilian reinsurance regulatory framework, the market is currently comprised of three different categories of reinsurers - local, admitted and occasional - each with different licensing and capital set-up requirements and each subject to different risk cession rules and taxation requirements. There are currently about 16 local reinsurers in Brazil, 40 admitted reinsurers and 78 occasional reinsurers. The recent IPO of the IRB and its strong focus on overseas risks, together with the fact that Brazil strives to be a reinsurance hub for the region, are changing the dynamics of the Brazilian market for specialty business. One aspect is an increasing emphasis on the need for clarity around the rules which will set the legal framework for the country's pursuit of a freer market, aligned with international practice.

A recent decision issued by the Brazilian Tax Authority (RFB) has brought some clarity to the tax regime which is applicable to admitted reinsurers operating in Brazil. The decision differentiated between admitted reinsurers who act with "ample powers" (i.e. similar to local reinsurers), and those who act in a limited manner, that is exercising a service or ancillary activity (i.e. similar to occasional reinsurers). In a private ruling (PLR) No. 62/2017, dated January 20, 2017, the Brazilian Tax Authority (RFB), ruled that representative offices established in Brazil by non-resident reinsurers (i.e. so-called admitted reinsurers) should be treated in the same way as a reinsurer domiciled in Brazil (i.e. a local reinsurer). The ruling came as a shock to admitted reinsurers, as they found themselves pooled into the same group as local domiciled reinsurers, and subject to the same tax regime. The ruling was also problematic because it was binding as of the date of its issuance, potentially retrospective for five years, and as it was not a new law but a ratification of an existing law, it was not subject to appeal.

As a result, investors are feeling apprehensive regarding the credibility of the Brazilian reinsurance market. Further developments in August of 2018 have offered more nuances. This ruling is retroactive and renders the earlier ruling void. The August 2018 ruling draws a separation among admitted reinsurers with an office in Brazil by separating those acting with “ample powers” (for the purposes of their reinsurance operations), from those acting in a “limited manner” (that is by performing a service activity). The former will be denoted as “local” reinsurers, whereas the latter will be considered “occasional” reinsurers. The two groups will be assigned differing tax levels. The recent tax developments brought by PLR No. 91/2018 have added fuel to a wider speculation in the local market that the three-license model in Brazil (i.e. local, admitted and occasional) may be under pressure. For additional information, please contact any Globex Underwriting team member.

Algeria - Compulsory Lines

In an effort to support the development and financing of the economy, the financial gurus in Algeria are promoting legislation to be passed within the insurance industry, which will require all lines of cover to be compulsory. Algeria is following the example of neighboring countries such as Tunisia and Morocco. The lack of compulsory insurance and a communication culture are real obstacles to the development of takaful in Algeria. At present, only insurance covering natural disaster and motor third party liability has been made compulsory.

India - Floods & Cat Nat May Result in Increased Premiums

Recent and regular incidents of flooding in India, particularly in the state of Kerala, are causing some concern among the reinsurance sector in this country. Going forth we may see some increases in the premiums charged by reinsurers for covering Flood risk. Reinsurers may also increase the loss deductibles to quote a lower rate to cover catastrophic risk. In the case of the Kerala floods, the loss will be higher in the motor insurance portfolio as the state has a sizeable number of costly vehicles. The deductibles will vary among primary insurers based on their loss experience. However, the premium rate for the policyholders may not necessarily be increased by the primary insurers, unless the Regulator sees reason to request higher premium rates. According to sources, the extent of damage in the state of Kerala is around INR 200bn ($2.86 bn). Analysts say insurance companies will bear around 5% of the total economic loss, or about INR 10bn.

Recent Successes

- Placed General Liability and Property stand - alone policies in Australia, and fronting policies in Chile and China for a leading USA scaffolding manufacturer.
- Secured a Marine Transit reinsured policy in Spain for a leading global vehicle rental operator.
- Placed General Liability and Products Liability reinsured policies in Bangladesh for a leading manufacturer of technical sports apparel.
- Instrumental in placing Property All Risks reinsured policies in Japan, South Korea, India, Russia, and Malaysia for a Chinese multinational investment holding conglomerate, specializing in internet-related services, products, entertainment, and technology.

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