



Article from

Reinsurance News

July 2017
Issue 88

Argentina: The Gradual Opening of the Reinsurance Market. New Opportunities for International Reinsurers

By Javier Campelo

In 1946, the Instituto Mixto Argentino de Reaseguros (I.M.A.R.) was created by the passing of Decree 15.345/1946, ratified by Law 12.988 and formed by supported capital of both the national government and the Argentine insurance companies. The aim was to have a national reinsurer that could carry the reinsurance cessions from national insurers of their surpluses over their technical retention (article 15). The foreign insurance companies operating in Argentina had to cede to I.M.A.R. 30 percent of all general and personal insurance risks underwritten in our country. Furthermore, I.M.A.R. had to redistribute the risks among the Argentine insurance companies, and the resulting surpluses could be placed in foreign reinsurers not constituted in Argentina, such as Lloyd's of London (article 17).

In 1952, I.M.A.R. was renamed the Instituto Nacional de Reaseguros (INDER), maintaining the fixed retention system aforementioned for both Argentine and foreign companies. INDER functioned as a nonprofit organization and had commercial links to both international reinsurers and national insurers, determining its own retention limits for every insurance category and offering priority of its surpluses to Argentine insurers through retrocessions.

The Argentine State Reform started in 1989, based on Law 23.696 (State Reform Law) and Law 23.697 (Emergency Economic Law). It allowed enormous privatizations of state-owned companies (electricity, gas, water, telecoms, railways and YPF—the national oil company), the market deregulation and the end of public subsidies. In this context, in November of the same year, Resolution 412 was passed, starting the process of ending the INDER reinsurance monopoly. This resolution authorized the Argentine insurance companies to freely reinsure with either local or foreign reinsurers 40 percent of their non-retained surpluses (article 2).

In 1992, with the passing of Decree 171, the mandatory cession regime to INDER was ended and INDER was dissolved on March 31. Three years later, in 1995, Resolution SSN 23.881 established the first general rules required for the authorization of local and foreign reinsurers, as well as for reinsurance brokers. Finally, in 1996, Resolution SSN 24.805 and its subsequent modifications established the basic regulation with which all the reinsurance placements had to comply.

Starting with Resolution SSN 35.615, in February 2011, there was a paradigm change in the Argentine reinsurance market. Since 1992, up until 2011, when the liquidation of INDER was undertaken, the market had been almost totally foreign, favoring a constant currency flow abroad, with a low-intensity control with regard to the justification of such transfers and other issues that affected the normal development of the market.

Resolution SSN 35.615 established that local insurers could be authorized to reinsure their portfolios with only reinsurers established in Argentina, either national or branches of foreign reinsurers (local reinsurers). As an exception, article 19 of this resolution established that SSN could allow insurers to place reinsurance with foreign reinsurers operating from their home office when, due to the magnitude and characteristics of the ceded risks, these reinsurance transactions could not be taken up by the national reinsurance market.

Furthermore, article 20 of this resolution defines the requirements that foreign reinsurers had to comply with in order to underwrite business from their home office abroad (admitted reinsurers). Following this, Resolution SSN 35.794 of May 19, 2011, set retention criteria, such as:

- Local reinsurers had to retain a minimum of 15 percent of their issued premiums, taking into account their entire portfolio.
- Individual risks with a face amount of more than USD 50 million could be placed with admitted reinsurers, but only the surplus over that USD 50 million (it defines criteria for the exception considered in article 19 of Resolution 35.615/2011).
- Retrocessions could be placed both with local and admitted reinsurers.
- Local reinsurers were not allowed to transfer to sister foreign companies within their groups more than 40 percent of their premiums.
- In group life and burial insurance, the reinsurance contracts had to be fully retained by local reinsurers.

CHARACTERISTICS OF THE CURRENT ARGENTINE REINSURANCE MARKET¹

Even though Argentina has started going down a different path than Brazil (our neighboring country went from an institutional monopoly in the Brazilian Institute of Reinsurance—I.R.B.—to the market opening up to foreign reinsurers in 2008), both countries are the only ones in South America to develop a local reinsurance market. In particular, Argentina broke with 20 years of an almost fully foreign reinsurance market to promote the composition of a local market as a public state policy.

There are at the moment 26 local reinsurers, with a mixed composition, including reinsurers funded by only national, only foreign and joint ventures. With regard to admitted reinsurers that operate in retrocessions, 81 companies are registered.

The annual ceded premiums were about ARS 13.7 billion in the period 2014/2015, which is the last informed by the regulator (more than USD 1 billion, based on the exchange rate at that time), with the reinsurance cession rates about 9 percent of the insurance premium market.

The reinsurance cession rates in general insurance (10.2 percent) were much higher than in personal insurance (3.7 percent), with insurance types that are very dependent on reinsurance, such as aviation (78.7 percent); fire (69 percent); and hail (54.5 percent). However, the biggest types of insurance, in terms of direct insurance production (motor vehicle and workers' compensation) have very low reinsurance cession rates (4.4 percent and 0.1 percent, respectively).

With regard to the ways of operating, about 74 percent of ceded premiums are facilitated through automatic contracts (85 percent proportional reinsurance, such as quota share, and 15 percent non-proportional reinsurance, such as excess of loss and catastrophe) and 26 percent through facultative placements.

About 75 percent of the ceded premium is placed directly with reinsurers and the remaining 25 percent through reinsurance brokers. The 10 biggest reinsurers in Argentina, in terms of ceded premium, account for 63.3 percent of the total. The top five are Allianz Argentina (10.8 percent); Punto Sur (9.6 percent); American Home (9.5 percent); Zurich Compañía de Reaseguros Argentina (8.3 percent) and Mapfre Re (6.4 percent).

THE NEW RESOLUTION (SSN 40422/2017) AND ITS EFFECT ON THE REINSURANCE MARKET

After the passing of Resolution SSN 40422/2017, the insurance regulator authorized the insurance companies to reinsure their business of all types with non-national reinsurers (admitted



reinsurers), according to a scheme of allowable maximum ceded premiums. This scheme will come into force on July 1, 2017, with a maximum of 50 percent of ceded premium allowed to be placed with admitted reinsurers. This rate grows incrementally up to 75 percent by the year 2019 (before, under Resolution SSN 35.615/2011, the insurance companies were only authorized to reinsure their business with local reinsurers, with the exception of facultative reinsurance placements with a face amount more than USD 50 million.)

Additionally, the facultative reinsurance placements with a face amount more than USD 35 million can be fully placed with admitted reinsurers and will not be taken into account when determining the aforementioned percentages (Under

Resolution SSN 35.794/2011, only the excess more than USD 50 million was authorized to be placed with admitted reinsurers.)

On the other hand, the new regulation (Resolution SSN 40163/2016) abolishes the part of the Insurance Activity General Rules that currently determines that national reinsurers (local reinsurers) have to retain a 15 percent minimum of their issued premium (Resolution SSN 35.794/2011).

In addition, the regulation has established a new structure for local reinsurers to adjust to the capital adequacy requirements as stipulated in Resolution SSN 40422/2017. This consists of proving ARS 60 million by March 31, 2017; ARS 130 million by Dec. 31, 2017; ARS 250 million by Dec. 31, 2018; and ARS 350 million by Dec. 31, 2019 (about USD 21.7 million).

This new regulation substantially modifies the Argentine reinsurance market, favoring the larger international reinsurers that in the vast majority of cases operate as admitted reinsurers. This goes against the local reinsurers, which were created under the previous reinsurance regulation framework.

The 81 admitted reinsurers in Argentina will have a distinct advantage under the new regulation because it will substantially increase the volume of premiums that the Argentine insurance and reinsurance market will cede to them, either through reinsurance or through retrocession business.

On the contrary, the 26 local reinsurers in Argentina are very likely to discontinue their operations due to the new capital adequacy requirements and the new reinsurance framework (Resolution SSN 40422/2017). Perhaps a handful of local reinsurers might merge in order to continue their operations.

It is important to state that those local reinsurers funded by national capital will not be able to start operating as admitted reinsurers, because only foreign reinsurers can operate as admitted reinsurers, according to Resolution SSN 35615/2011 and its subsequent modifications.

OUR VIEWPOINT ON RESOLUTION SSN 40422/2017

From our perspective, the Argentine reinsurance market, as it was defined by the previous regulation framework, needed to be reformed structurally, because it did not achieve its goals. The retrocessions from local reinsurers to admitted reinsurers were, in many cases, the rule and not the exception, and there were high retrocession rates to admitted reinsurers in these years.

However, we also believe the new capital adequacy requirements and the new reinsurance framework might not reach the gradualism objective planned by the regulator, and a mass exit of local reinsurers will probably occur. Although capital requirements for local reinsurers under the previous rules

were extremely low (ARS 30 million), we believe that the rise to ARS 350 million (about USD 21.7 million) is too much. If we multiply the 26 local reinsurers by ARS 350 million, we get ARS 9.1 billion (about USD 563.5 million), which is disproportionate in respect to the ceded premiums from the Argentine market. Conversely, the solvency requirements in our country continue to fall short of the best international practices that capture the risk diversity faced by insurers and reinsurers in terms of investments, policy profile and operational risks.

From our viewpoint, the abrupt public policy changes are counterproductive to incentivize the long-term investments, either from national or international capitals. We believe it is important that the Argentine insurance sector continue to have a medium- to long-term strategic plan, not being substantially modified by the political changes in our country. This plan must include quantitative projections of the impact of different regulatory changes on the evolution of the solvency, profitability, market production and other variables relevant to the sector. We have been working together with a highly qualified actuarial team and other experienced professionals, with the participation of all the relevant market players, from both the public and private sectors, including the insurance and reinsurance companies' authorities within Argentina with regard to the formulation of the Argentinean Strategic Plan for the Insurance Industry (PlaNeS 2012–2020).

PlaNeS includes the need to improve the solvency levels within the Argentine insurance and reinsurance markets and considers, with the Word Bank's assistance, that the local insurance and reinsurance market moves to a risk-based supervision scheme with risk-based capital requirements, in accordance with the best international practices. We strongly believe that PlaNeS, as stated public policy, must continue and that the implementation of the strategic policies defined in it will substantially increase the solvency and profitability of the Argentine insurance and reinsurance market. ■

Javier Campelo, ASA, is director of actuarial services at Re Consulting, SOA ambassador for Argentina and regional ambassador coordinator for Latin America and the Caribbean. He can be reached at jcampelo@re-consulting.com.ar.

ENDNOTE

- 1 Superintendencia de Seguros de la Nación (SSN). "Information About Reinsurance in the Argentinean Insurance Market." Bulletin SSN 3870.