

Press release

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FERMA calls for withdrawal of new Brazilian reinsurance regulations

The Federation of European Risk Management Associations (FERMA) has called on the Brazilian government to withdraw two new reinsurance regulations due to enter into force on 31 March 2011 because they threaten to reduce the capacity for coverage of large commercial risks and increase the cost of insurance.

FERMA has taken the unusual step of making this appeal to support the large number of its members whose companies have invested in Brazil and to strengthen the lobbying efforts of the national and regional risk management associations, the Asociación Brasileira de Gerencia de Riesgos (ABGR) and the Asociación Latinoamericana de Administradores Riesgos y Seguros (ALARYS).

Peter den Dekker, the President of FERMA, stated: "We believe that these regulations will damage the interests of our members and the development of the insurance and reinsurance market in Brazil. We, therefore, ask the Brazilian government to rescind them."

The background to this development is that in 2007, the Brazilian Parliament abolished the monopoly control of local reinsurance market by the Instituto de Reaseguros do Brasil (IRB) that dated from 1939 and phased in competition from other domestic and multinational reinsurance companies. (Complementary Law 126).

Within two years the market had grown substantially to include six local reinsurers and 25 admitted reinsurers. In addition, since 16 January 2010, Brazilian insurers have been allowed to place 60% and sometimes more of any reinsurance abroad with pre-approved reinsurers.

In December 2010, however, the executive branch of the country's National Board of Private Insurance (CNSP) enacted the two new resolutions without public consultation. FERMA believes that these measures will substantially roll back the liberalisation of reinsurance enacted by the Brazilian Parliament by means of an executive order.

From 31st March 2011, these resolutions will:

- Prohibit intra-group transactions since insurers would be forbidden to cede business to an affiliated, intra-group reinsurer. This ban would greatly affect foreign players who have obtained licenses or set up local operations to write Brazilian risks and cede them back to a group company for greater capacity. (Resolution 224).

- Mandate placement of 40% of reinsurance business with local reinsurers who can change terms and conditions without penalty, instead of simply giving them the right of first refusal. (Resolution 225).

FERMA believes such obstacles to accessing foreign capacity can hinder the completion of large programmes which rely heavily on reinsurance, such as the vast infrastructure projects for the 2014 FIFA World Cup and 2016 Olympics in Brazil. It can also affect reinsurance contracts currently in force and create a vacuum of coverage while ceding companies try to adapt to the new measures. More players and more transactions would also be required, increasing costs with a direct impact on insurance premiums to be paid by Brazilian insureds.

Said den Dekker: "We do not believe these two regulations will benefit the Brazilian economy or the country's image as a good place for foreign companies to do business, so we ask the government take advantage of the opportunity to reconsider."

About FERMA

The Federation of European Risk Management Associations (FERMA) brings together 19 national risk management associations in 17 European countries. FERMA has over 4,000 individual members representing a wide range of business sectors from major industrial and commercial companies to financial institutions and local government organisations. Their members play a crucial role within their companies with respect to the management and treatment of complex risks and insurance issues.

Member associations are from the following countries: Belgium (BELRIM), Czech Republic (ASPAR CZ), Denmark (DARIM), Finland (FinnRiMa), France (AMRAE), Germany (Bfv and DVS), Italy (ANRA), Netherlands (NARIM), Norway (NORIMA) Poland (POLRISK), Portugal (APOGERIS), Russia (RusRisk), Spain (AGERS and IGREA), Sweden (SWERMA), Switzerland (SIRM), Turkey (ERMA) and United Kingdom (AIRMIC).

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