

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



GLOBAL REINSURANCE MARKET REPORT (GRMR)

End-year edition

22 DECEMBER 2010

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GRMR Highlights

- Reinsurers faced a moderate cat year in 2009, yielding a weighted loss ratio of 58% for 2009, the most favourable result since 2006 (58%). Together with an expense ratio of 33%, the combined ratio was a positive 91% compared to 99% in 2008.
- Reinsurers were able to raise capital in 2009 to levels comparable to pre-crisis amounts; and, in many instances, they returned capital to shareholders, through dividends and share buybacks.

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GRMR Highlights

- With respect to natural catastrophes, while 2009 proved to be a relatively calm year, 2010 witnessed the occurrence of some large events; however none had a significant negative impact on global reinsurance players.
- The insurance securitisation market appears to have metabolised the impact of the financial crisis, showing signs of recovery with respect to issuances, and importantly, demonstrating improved transparency and increased prudence in relation to management of assets.

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GRMR Highlights

- The passing of the Dodd-Frank Act in the USA has included the Nonadmitted and Reinsurance Reform Act (NRA), has established the Financial Stability Oversight Council (FSOC) and has created the Federal Insurance Office (FIO).
- Within the OECD, the continued development of the Global Insurance Statistics (GIS) project underscores the OECD's efforts towards expanding their kit of key monitoring tools, and strengthening its insurance statistics framework.

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We are pleased to present the 7th edition of the year-end Global Reinsurance Market Report (GRMR). This report is part of the expanding efforts of the Reinsurance Transparency Subgroup (RTG) of the IAIS, in coordination with other international bodies, to study and monitor the global reinsurance industry with the goals of market transparency, risk identification and ultimately the promotion of financial stability.

With the year-end GRMR we introduce an ongoing contribution to macroprudential surveillance. We document a unique global data set made possible by the participation of 45 reinsurers in 9 jurisdictions in North America, Europe and Asia. The financial position of reinsurers is then linked to the broader financial economy by a discussion of the inter-linkages between the reinsurance sector and other financial sectors.

In 2009, recovering global credit market and equity indices, below average catastrophe losses enabled reinsurers to raise capital and enhance profitability. Additionally, risk management regimes proved adept at diversification thereby minimizing the affects of cross-sector risk transference. In 2009 and currently, challenges to the reinsurance industry appear manifested in softening rates, other underwriting concerns and abundant capacity.

We may safely conclude that the reinsurance sector overall has emerged from the depth of the financial crisis with robustness and has shown ability to substantially recover financial positions and capital levels impaired by the crisis in relatively short order. Still, the interconnectedness of the world economy and particularly the financial sector means that cross-border and cross-sectoral linkages remain a perennial concern.

Finally, we would like to congratulate and thank the GRMR drafting and experts team, led by Dr. Sebastian von Dahlen (IAIS) and Dr. Marcelo Ramella (office of the RTG Chair). Furthermore, we are grateful for the contributions from other international bodies and all of the many contributing reinsurers and supervisors for their hard work in making this report possible. We are a global community and it is through efforts like these that we prove it.

CHAPTER I



ASSESSING REINSURANCE MARKET STABILITY AND LINKAGES

CHAPTER I

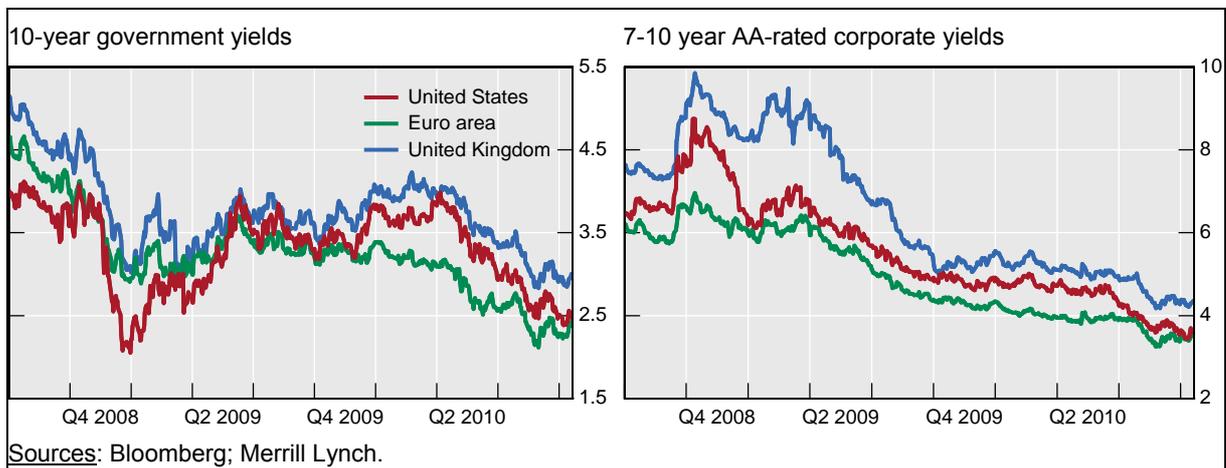
The Global Reinsurance Market Report (GRMR) constitutes a key output of the Reinsurance Transparency Subgroup of the IAIS (RTG). This 7th edition of the GRMR adds to the work that the RTG has been developing over the years in relation to identification and surveillance of risks at a macro level, that is, those risks that manifest themselves in aggregate and that often escape the pincers of firm level supervision.

The analysis presented here draws heavily on data from a unique survey of global reinsurers for the year 2009 conducted by the RTG. The data gathered are used to evaluate reinsurance market stability as at year-end 2009, and to better understand the position of the reinsurance industry within current financial markets environment.

We are pleased to argue that reinsurance markets have again proved their resilience during the observation period of the IAIS GRMR report. As this chapter shows, faced with quite significant detrimental effects stemming from the current global financial crisis, reinsurers have featured comparatively better than other financial sectors.

A low bond yield environment prevailed in recent years. Core business activities at reinsurers and insurers result in the accumulation of long-dated liabilities that they will seek to match with long-term investments, including an appropriate bond portfolio. Therefore, reinsurers and insurers are often among the long term investors. Insurance supervisors need to monitor interest rate developments, since protracted low interest rates can have important implications for the balance sheets of fixed income investors. Interest rate expectations and further quantitative easing in a context of macroeconomic uncertainty have led to an environment of low bond yields among the major economies (Graph I-1).

Graph I-1 – Government and AA-rated corporate yields

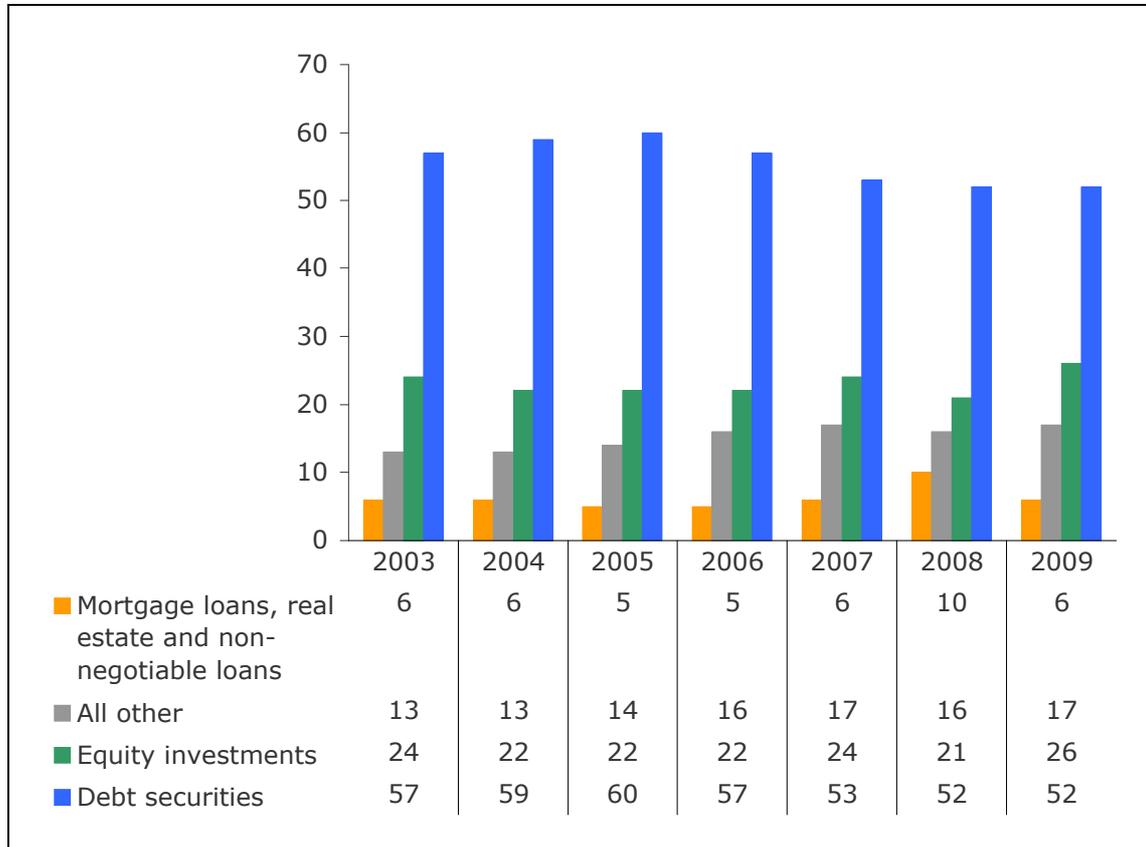


Asset Distribution

Participating reinsurers in the GRMR survey reported total **invested assets of US\$ 747 billion in 2009**. The distribution of assets shows some increase in risk appetites, mirroring the recovery of worldwide equity indices from the sharpest declines of the financial crisis in the last three quarters of the year, tempered by the maintenance of flexibility through short-term investment positions pursued by

reinsurers during the crisis and lingering market ambiguity. Graph I-2 shows asset composition from the 7-year period of the survey.

Graph I-2 – Asset composition (2003 – 2009)



Source: IAIS

Investment in debt securities ...

For the second year in a row, bonds and other securities comprised 52% of invested assets, amounting to US\$ 385 billion. Persisting low interest rates and the doubtful prospect of a near to medium-term improvement kept relative holdings in debt securities at their lowest level (with 2008: 52%) at the time of the GRMR survey. Movement in asset allocation occurred in equities.

... equities ...

After a tepid first quarter, the equity market rebounded by year-end 2009 closing with double-digit gains. The U.S. markets, for example, powered their best returns since 2003. The reinsurance industry responded to improving market conditions by increasing their relative positions in equities. The GRMR survey showed that reinsurers held 26% (US\$ 194 billion) of invested assets in equities, 5% more than in 2008. This was the first time that equity allocation exceeded one-quarter of investment.

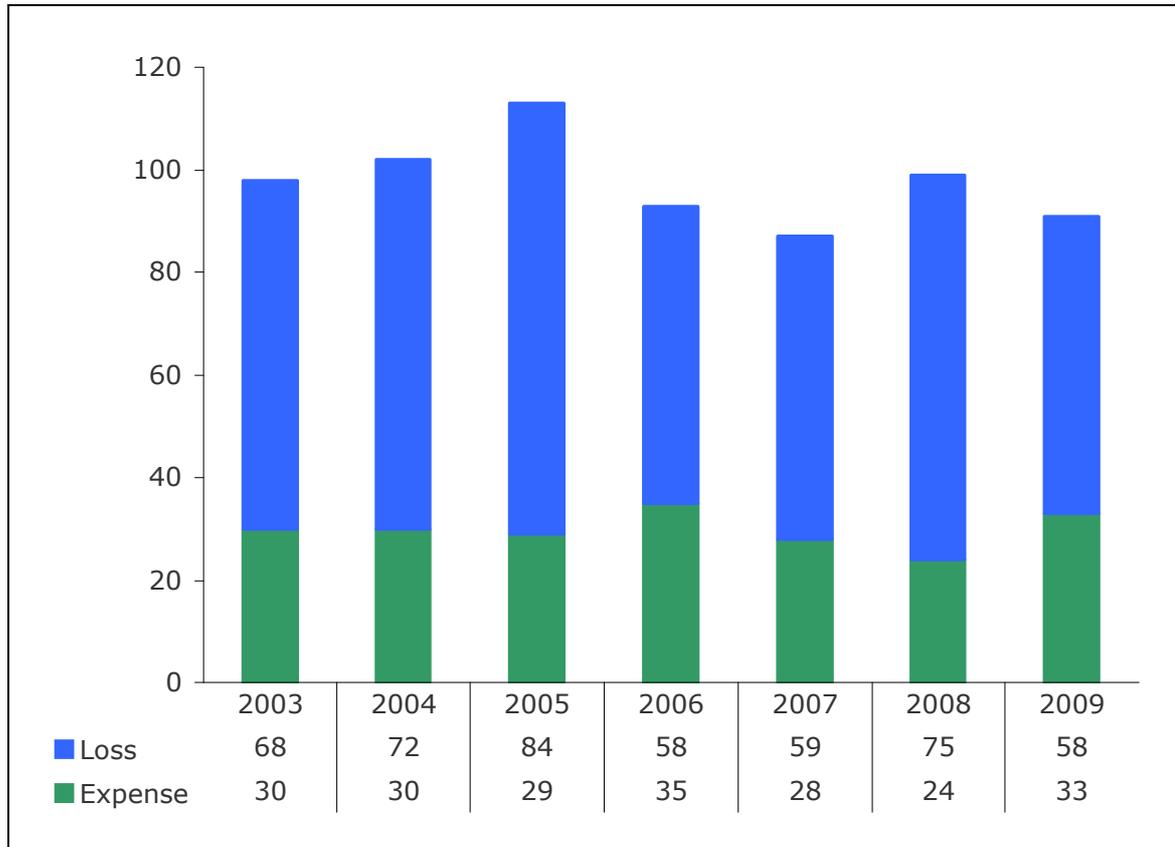
... other asset categories ...

Reinsurers' holdings in "all other" asset classes remained stable at 17% of invested assets or US\$ 125 billion. This category includes a mix of instruments including derivatives and loans and other alternative investments, and cash and cash equivalents. Within this range of classes, reinsurers appeared to have sustained cash and short-term investments in the wake of the crisis and uncertain climate to ensure risk diversification and flexibility. Finally, investment in mortgage loans and real estate and other non-negotiable loans dropped as a proportion of assets to 6% (US\$ 42 billion).

Profitability

The year 2009 was notable for being a relatively calm year from the perspective of loss events. In a nutshell, reinsurers faced moderate catastrophe losses, incurred from the Atlantic hurricane season and from major financial guarantee losses. In 2009 insured losses from natural catastrophes was US\$ 22 billion below average and financial guarantee losses were lower. Represented in Graph I-3, **the loss ratio of 58% for 2009 was the most favourable result since 2006** (58%). Together with an expense ratio of 33%, the combined ratio was a positive 91% compared to 99% in 2008.

Graph I-3 – Loss and Expense Ratios (2003 – 2009)



Source: IAIS

When examining individual lines of business, the loss ratio for property lines (note: ratios by lines of business are drawn from reinsurance business assume only) was at 40% in 2009, up slightly from 35% in 2008. Impacting property lines, despite low levels of loss overall, were softening rates that depressed some underwriting results.

Looking at other books of business, the loss ratio for financial lines improved dramatically from 85% in 2008 to 58% in 2009, pointing toward the improving financial environment in the wake of the global downturn in 2007 and 2008. The loss ratio for liability lines remained low at 57% (59% in 2008).

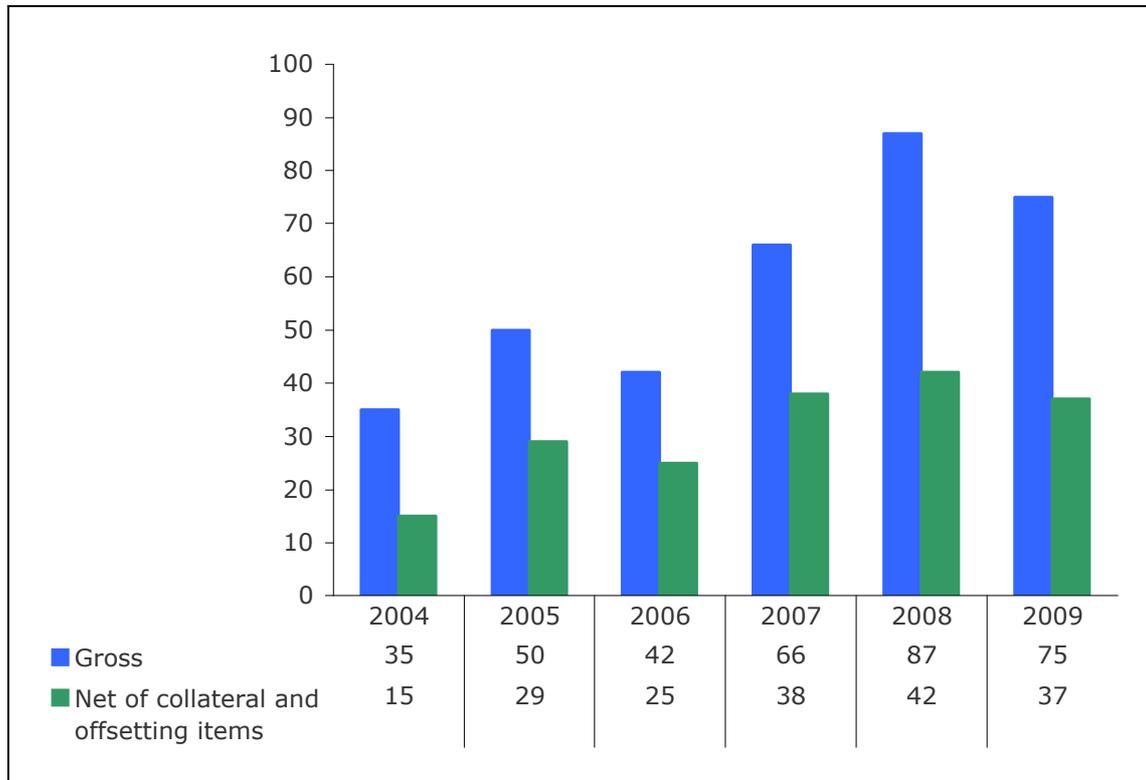
Reinsurers recorded US\$ 184 billion in net premiums earned, augmented by US\$ 29 billion in investment income. Investment income was only 16% of net premiums earned, the lowest ratio in the span of the GRMR survey. Interestingly, this result likely speaks more to underwriting performances than the recuperating investment climate of 2009, though investments were hampered some by write-downs. ***The total profit result of US\$ 45 billion underscores the solidity of the core business practices of reinsurers***, to the extent that positive results may be achieved without investment income.

Capital Adequacy

Well capitalized positions framed the resiliency of the industry during the financial crisis. Reinsurers were able to raise capital levels in 2009 on the turn of the worldwide credit markets and equity indices to levels comparable to pre-crisis amounts. Although reinsurers benefited from government financial assistance programs throughout the crisis in general, the restoration of the capital base, was accomplished without government assistance, with only few exceptions. This has enabled reinsurers to return capital to shareholders in many instances, through dividends and share buybacks. Influential also in returning capital is the sluggish pricing environment and the slow growth experienced in the market.

The GRMR survey showed reinsurers with a total capital base of US\$ 281 billion in 2009, of which US\$ 124 billion was a regulatory requirement. Available capital was in excess of its regulatory requirement by 45%. We should echo here a common topic in international regulatory and industry dialogue: new regulatory developments like the EU Solvency II Directive and the continued enhancement of capital requirements generally, may impact some the current situation of surplus capital.

Graph I-4 – Gearing Ratios (2004 – 2009)



Source: IAIS

Gearing ratios, shown in Graph I-4, reflect the overall capital improvement on the year. Gearing ratios measure reinsurers' dependency on reinsurance (for direct business) and retrocession (for assumed reinsurance business) by taking recoverables compared to total available capital. In 2009, reinsurers returned a gearing ratio of 75% and a gearing ratio net of collateral and offsetting items of 37%, each a significant improvement on 2008.

The global reinsurance market stable in 2009

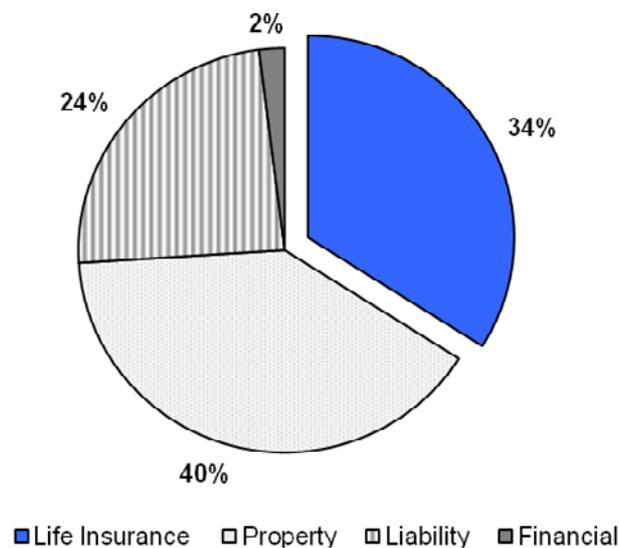
Turning from financial performance, we now focus on the business size and composition of the reinsurance industry; in other words: in what areas of coverage and by what amount did reinsurers concentrate their portfolios?

Compared to 2008, the global reinsurance market slightly decreased to reach US\$ 157 billion in gross premiums written. The reduction of 1% in 2009 is by far smaller than the reduction by one-fifth in 2008. Gross premiums in life reinsurance amounted to US\$ 52 billion compared to US\$ 57 billion in 2008 and retrocession went down by 45%. Non-life reinsurance grew slightly to reach US\$ 105 billion.

Life reinsurance accounted for 33% (2008: 36%) of the global market in gross premium terms. North America's share in the global market increased to 47%. Europe's remained stable at 38% while the rest of the world amounted to the remaining 15% of which Asia and Australia contributed 9 percentage points.

Data by the reinsurers taking part in the GRMR (i.e. all those reinsurers writing in excess of US\$ 800 million gross unaffiliated reinsurance premium) show that in 2009 reporting reinsurers wrote 1.2% less gross premium than in 2008. Premiums in life reinsurance were down 9% to US\$ 52 billion. Non-life reinsurance premiums increased 3% to US\$ 105 billion. Property reinsurance went up 2%, liability reinsurance rose by 9%, whereas financial lines reinsurance contracted by some 30%.

Graph I-5 - Gross Reinsurance Premiums Assumed by Line of Business

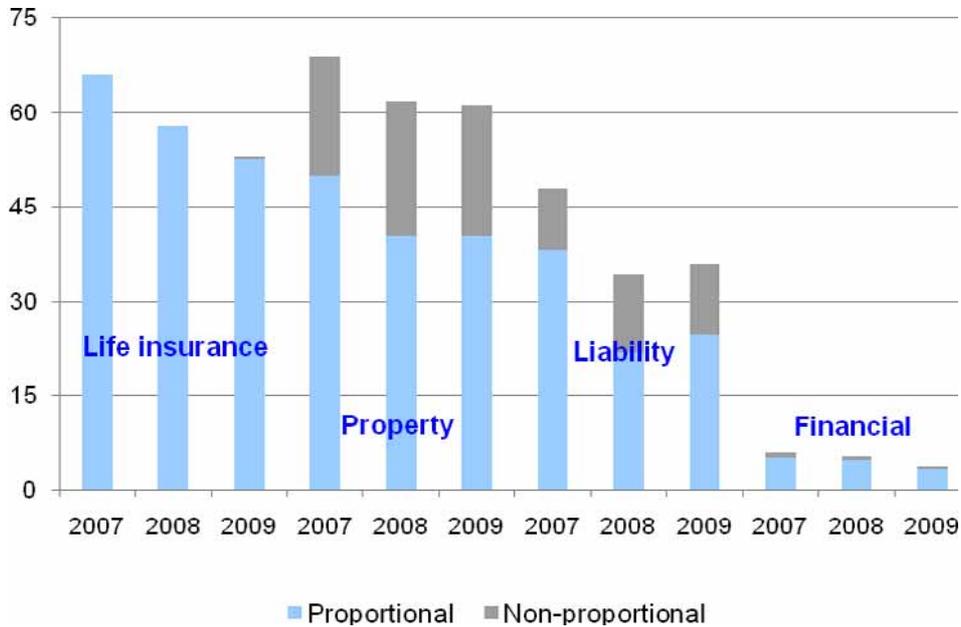


Source: IAIS

The flat gross premium evolution was accompanied by a significant increase in net reinsurance premiums in the range of 8% to US\$ 107 billion. Net life reinsurance premiums went up 22%. Non-life reinsurance premiums decreased 13%: property reinsurance decreased 15%, also did liability reinsurance (-7%) and financial lines reinsurance decreased 52%. Retrocession to other entities decreased 46% for life reinsurance and 21% for non-life reinsurance.

The class structure of the global reinsurance market remained in 2009, in gross premium terms, about one-third life reinsurance and two-thirds non-life reinsurance. In net premium terms, however, life reinsurance increased its part from 26% in 2008 to 29% in 2009.

Graph I-6 - Reinsurance Premiums Assumed by Class of Business and Contract Type (US\$ millions)



Source: IAIS

On the net reinsurance premium basis, the reporting entities in 2009 assumed US\$ 30.8 billion of life risk and US\$ 63.9 billion of non-life risk. The 2009 1:2 life to non-life ratio shows a significant increase from the 1:3 ratio of 2008.

There was a significant decrease in retrocession in 2009. Overall, the reporting entities for that year retroceded 24% of gross premiums assumed, compared with 37% in 2008.

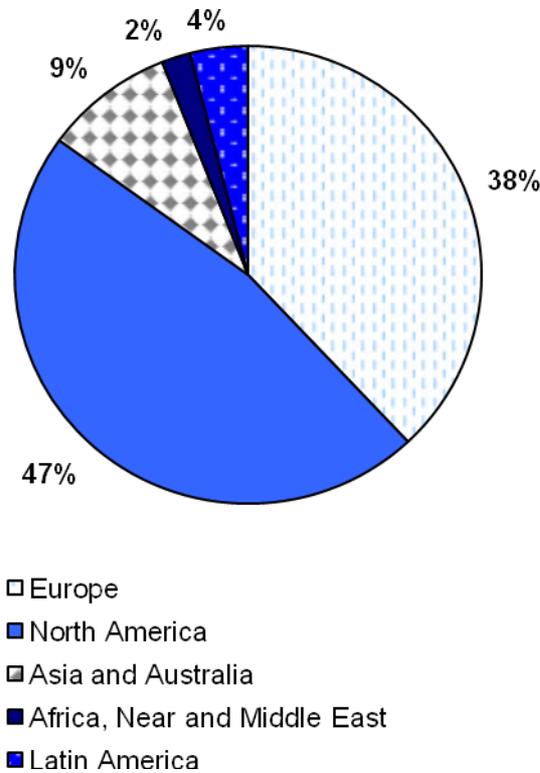
Retention in life reinsurance increased in 2009 to 59% (44% in 2008), and it decreased in non-life reinsurance, to 61% (72% in 2008). In 2009, as in 2008, there was significantly less retrocession to the reporting entities than to other entities.

In both gross and net premium terms, in non-life reinsurance the reporting entities assumed significantly more property risk than liability risk in 2009, in comparison to the previous years. For non-life, on the gross reinsurance premium assumed basis, in 2009 the reporting entities assumed under proportional contracts 68% of gross premiums (2008: 66%). In 2009, 66% of property risk, 69% of liability risk and 88% of financial lines were written on a proportional basis.

Geographic structure of the global reinsurance market

Differences in regional dynamics affected the geographical structure of the global reinsurance market in 2009. Notwithstanding rapid growth in emerging markets, North America, with an increased share, and Europe remained largely dominant.

Graph I-7 - Gross Premiums Assumed by Region of Ceding Insurer



Source: IAIS

In particular, the 11% increase in gross regional premiums assumed from cedants in North America (to US\$ 73 billion), increased North America's share of the global reinsurance market to 47%, up from 41% in 2008. Europe's part increased slightly to 38% in 2009 to US\$ 60 billion. The 9% decrease in gross premiums assumed in Asia and Australia in 2009 to US\$ 15 billion decreased the region's share in the 2009 to 9%, from 10% in 2008. Gross premiums assumed in "Latin America" went down by 47% and by 54% in "Africa, and Near and Middle East", which accounted for small parts of the global market, 4% and 2% respectively.

Profile of risk, by proxies of gross premiums assumed and premiums ceded, by region

Data in the new table below, show gross reinsurance premiums assumed and ceded by, and net positions of the reporting entities, by region of domicile. The GRMR reporting entities are domiciled in Europe, United States and Bermuda ("North America") and Japan ("Asia and Australia"). None are domiciled in Africa, Near and Middle East and Latin America. The premiums assumed in those regions have been assumed by European, US and Japanese entities.

Table I-1: Gross reinsurance premiums assumed/(ceded) by region:*

	(1) Gross assumed by reporting entities US\$M	(2) Gross ceded to reporting entities US\$m	(1)– (2) Net position US\$m
Europe	97,268	(60,143)	37,125
North America	63,927	(72,941)	(9,014)
Asia and Australia	2,201	(14,569)	(12,368)
Africa, Near and Middle East	-	(3,419)	(3,419)
Latin America	-	(5,825)	(5,825)

Source: IAIS

* Based on the latest available (2009) data generated for 2010 report

The table shows that European entities are net insurance risk takers, assuming US\$ 37 billion more risks than the risks ceded, contrary to North American that cede more than they assume leading to a net position of US\$ -9 billion.

The above suggests, prima facie, that European entities remain the largest gross and net reinsurers in the global market. It should be noted that interpretation of the data is constrained by the number of reporting entities being limited, the effects of intra-group transactions, and the approximation in the allocation of assumed premiums by region. In addition, one must caution that the above data may not show the actual extent of the risk transfer from North American to European reporting entities or, indeed from North America to Europe. The analysis of unaffiliated nationally-aggregated data (on a group basis) would be required to assess more accurately life and non-life risk transfers among regions, assuming there is no risk transfer among reporting groups located in the same jurisdiction, which may not be a valid assumption. Moreover, since risks differ by class and line, analysis of entity-level data would be necessary for completeness of such an analysis. Cross-regional flows of funds in respect of claims payments are likely to show a different pattern. Advanced analysis of geographical risk transfer is likely to prove difficult.

Counterparty linkages and exposures

The GRMR tracks the participating reinsurers' exposures to other financial counterparties. This helps to indicate the inter-connectedness of the reinsurance market, and the extent to which reinsurers are part of the financial system as a whole.

There is no remarkable change from previous years, with the reporting reinsurers' largest exposures still being to other insurance entities. While a large part of that exposure arises from reinsurance recoverables, in respect of both ceded reinsurance and retrocessions, investments in insurance entities, whether equity or debt, remain significant.

Exposures to banks and other non-insurance financial institutions remain relatively much smaller, with less than 10% of the exposure to insurance entities.

The reinsurance industry's relatively conservative investment strategy is reflected by the exposure to Sovereign debt, which continues to exceed the exposure to other non-financial institutions.

The GRMR also looks at the affiliation of counterparties to the reporting reinsurers. The picture is similar to last year. In total about one third of the industry's counterparty exposure is to affiliated counterparties. However, it is notable that approximately 85% of reinsurance recoverables are attributable to affiliated entities. Intra-group reinsurance arrangements vary and tend to be complex, so interpreting this statistic is difficult. However, in general one may infer that risk spreading or pooling mechanisms are a significant element. The reinsurance recoverables attributable to non-affiliated counterparties, show a trend towards increased collateralisation, to the point where in aggregate the collateral covers the exposure.

CHAPTER II



NATURAL CATASTROPHES AND REINSURANCE

This chapter discusses a topic central to the reinsurance industry and to reinsurance supervisors, that of catastrophes. A key contribution to welfare by global reinsurers is their ability to assume catastrophic risks. On the other hand, the unique characteristics of these risks pose distinct challenges to both the reinsurance sector and reinsurance supervisors.

The sections below look at the evolving nature of catastrophic risks, in particular, at key events as they unfolded during 2009 and 2010. Further, it discusses the impact that catastrophes have had on reinsurers, with special attention dedicated to insurance securitisations, as key mechanisms for transferring catastrophic risks from insurers and reinsurers books directly to the capital markets.

Natural Catastrophes in 2009 and 2010

The paragraphs below offer an analysis of a primary business concern of the reinsurance industry: insurance cover for natural disaster. In particular, this section discusses the overall storm environment for 2009 and 2010, with special attention to heavily reinsured catastrophes and their impacts on the industry.

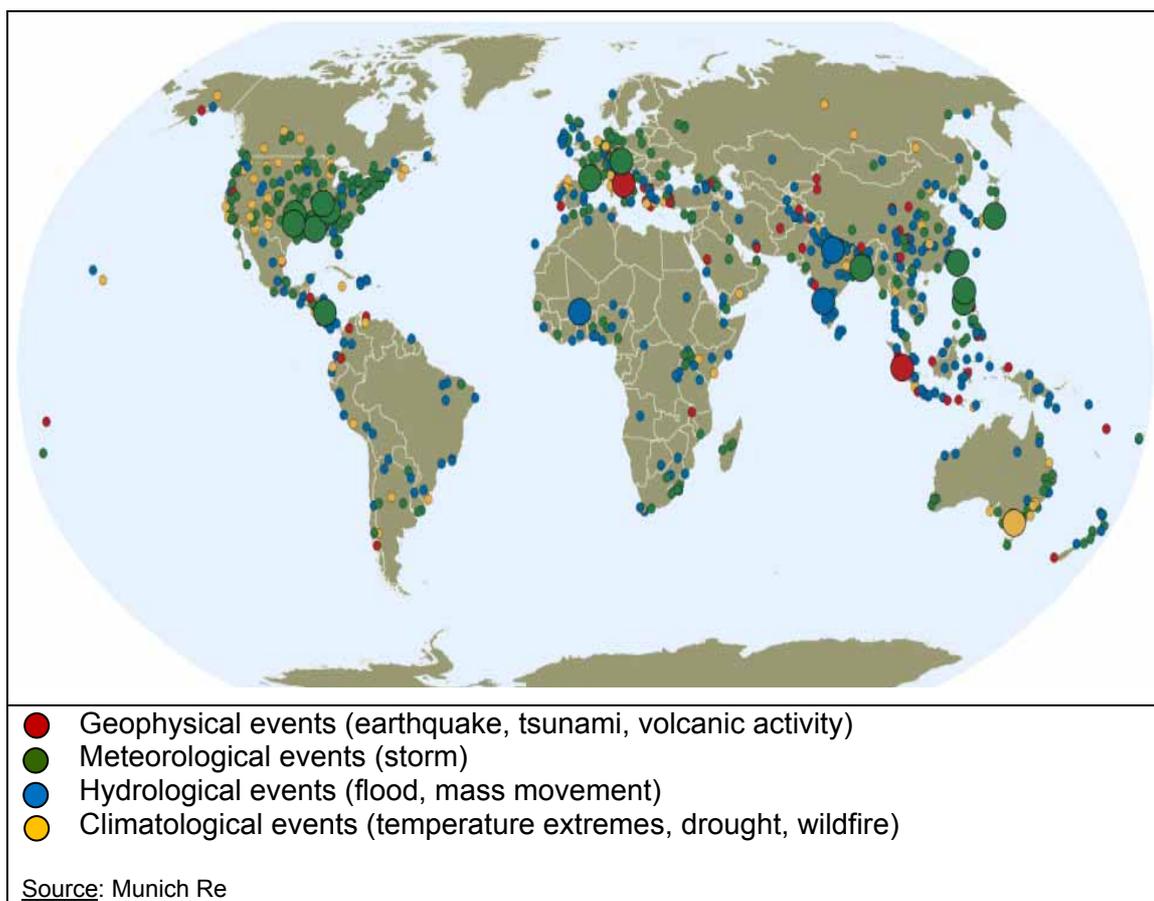
Weather catastrophes are usually divided into meteorological, hydrological, and climatological events. Meteorological events include tropical cyclones (hurricanes, typhoons, cyclones, etc.), extra-tropical cyclones (winter storms) and local storms (severe storms, thunderstorms, hailstorms, snowstorms and tornadoes). Hydrological events refer to floods (general floods, flash floods, storm surges/coastal floods) and wet mass movements (landslides, avalanches). Last but not least, climatological events cover extreme temperatures (heat waves, cold waves, extreme winter conditions), droughts, and wildfires (forest fires, bush/brush fires, scrub/grassland fires, urban fires).

Claims development in 2009

Last year's overall losses of US\$ 50 billion from natural catastrophes worldwide were lower than at any time since 2001. Half of the losses were in North America, which also made up 62% of the US\$ 22 billion insured losses whilst Europe accounted for 30%. The most expensive losses in Europe were Winter Storm Klaus (US\$ 3 billion) and severe weather in Switzerland and Austria (US\$ 1.2 billion).

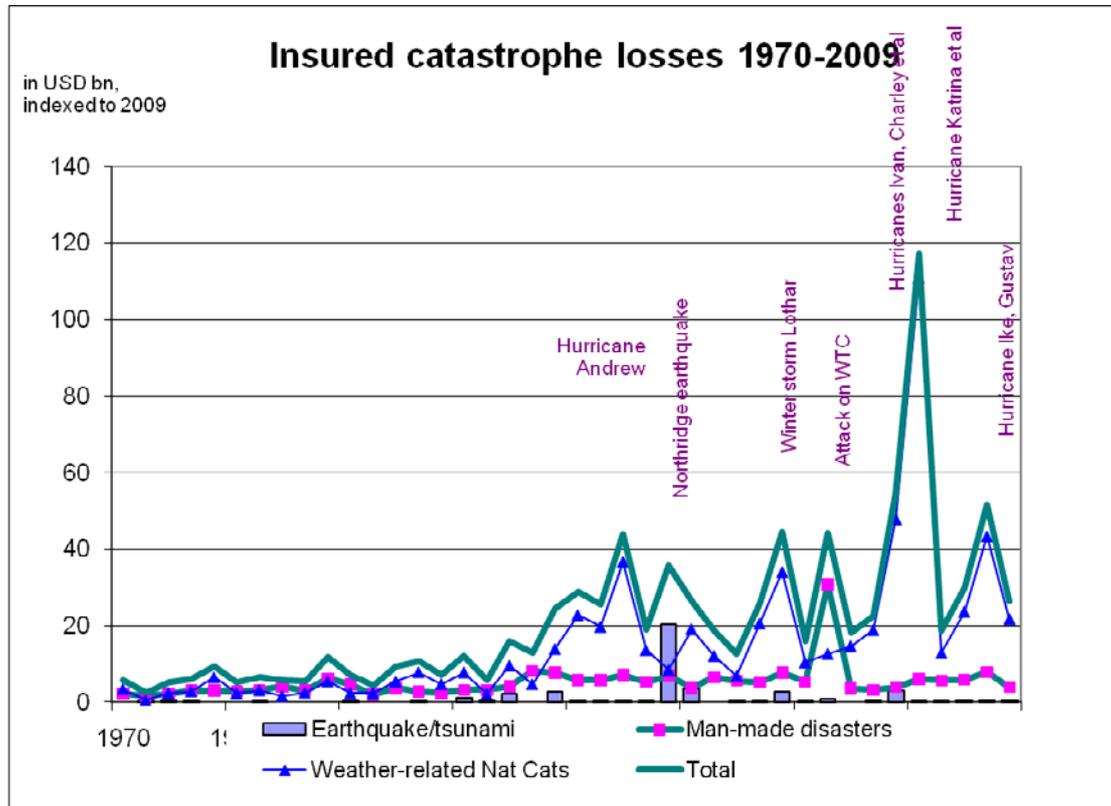
Out of all natural catastrophes worldwide, 93% were caused by atmospheric conditions and 7% were attributable to earthquakes and volcanic eruptions. None of last year's events qualified as a great natural catastrophe as defined by Munich Re NatCatSERVICE catastrophe classes. The fatalities in 2009 accounted for 11,000 deaths, far fewer than the long-term average of 57,000 per year since 1980. Severe wildland fires and extreme heatwaves caused over 500 deaths in Australia. The deadliest event of the past year was the Sumatra earthquake in Indonesia on 30 September, in which 1,200 people died. Altogether 2,000 people died in the series of severe typhoons in Asia.

Graph II-1 – Natural Disasters 2009



The overall and insured losses in 2010 (up to October) were signed by high losses due to earthquake, storm and flood events. Up to October 5 events were qualified as a great natural catastrophe – the earthquakes in Haiti, Chile and China, the heat wave/forest fires in Russia and the floods in Pakistan. More than 240,000 people died in 2010 (up to October), most of them in the earthquake in Haiti. Some severe weather events affected the US and caused insured losses of US\$ 10 billion. Also Australia was hit by weather events, esp. by two large hailstorms.

Graph II-2 – Losses of catastrophes worldwide (1970-2009)

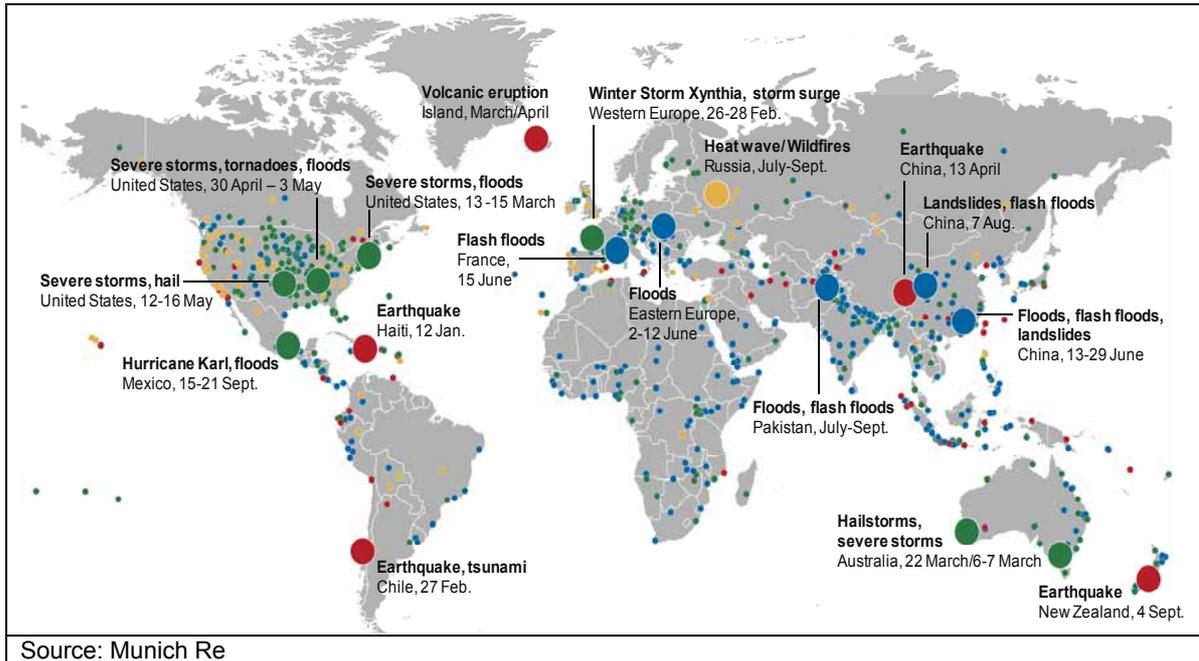


Source: Swiss Re, sigma catastrophe database

Portugal and Spain were the first countries to be affected by winter storm Xynthia on 27 February, followed by France and Germany on 28 February. Southern Portugal was hit by 100 km/h winds, due to the extreme southerly track taken by Xynthia peak gusts of 100–120 km/h being recorded in northern Portugal and the northwestern half of Spain. Xynthia reached its greatest intensity along the French coast, where most of the deaths occurred – mainly due to a storm surge caused by a dyke collapse. Winter storm Xynthia cost US\$ 4.5 billion overall losses, more than US\$ 3 billion were insured.

Also at February 27 a very strong earthquake shook southern Chile. It occurred along the subduction zone between the Nazca plate and the South American plate. The moment magnitude of this earthquake was 8.8, which means that this event was the fifth strongest earthquake worldwide ever recorded. The overall losses rose to US\$ 30 billion, US\$ 8 billion of which were insured. This earthquake was the second one in 2010. In January a great humanitarian catastrophe happened in Haiti, with more than 220,000 fatalities. Graphs II-3 and II-4 below provide details of natural catastrophes up to October 2010, by geographical location and insured losses respectively.

Graph II-3 - Natural catastrophes in 2010 (to October)



Hurricanes and other weather cats, 2009 and 2010

The 2009 North Atlantic hurricane activity was thus well below the average of 14.3 named storms, including 7.5 hurricanes and 3.7 major hurricanes for the warm phase beginning in 1995. In 2009 there were only nine named systems. Three reached hurricane force and two of these developed into major storms (Category 3 and above). Only two storms –Claudette and Ida– made landfall in the US. Hurricane Ida caused nominal losses to infrastructure in the United States and also affected El Salvador, Nicaragua, and Mexico. The overall loss from this single event reached up to US\$ 1.5 billion, with insured losses of US\$ 300m.

Up to the end of 2010, the hurricane season in the North Atlantic was very active, but without a US landfall. Sixteen named storms developed, 9 of which with hurricane force; 5 of these systems were strong hurricanes (Saffir Simpson Scale 3-5). Hurricane Karl hit Mexico in September and caused overall losses up to US\$ 3.9 billion with small scale insured losses. A complete analysis of the 2010 hurricane season will be done by the end of the year.

The number and scale of weather-related natural catastrophe losses in the first ten months of 2010 was exceptionally high. Significant weather catastrophes like floods in central Europe, wildfires in Russia, widespread flooding in Pakistan happened up to October. Globally, 2010 has been so far the warmest year since records began over 130 years ago, the tenth warmest during that period, all falling within the last 12 years. The warmer atmosphere and higher sea temperatures are having significant effects. A total of 760 weather-related natural hazard events with significant losses from January to October 2010, the second-highest figure recorded for the first ten months since 1980 has been recorded. Approximately 21,000 people lost their lives, with 1,760 people in Pakistan alone.

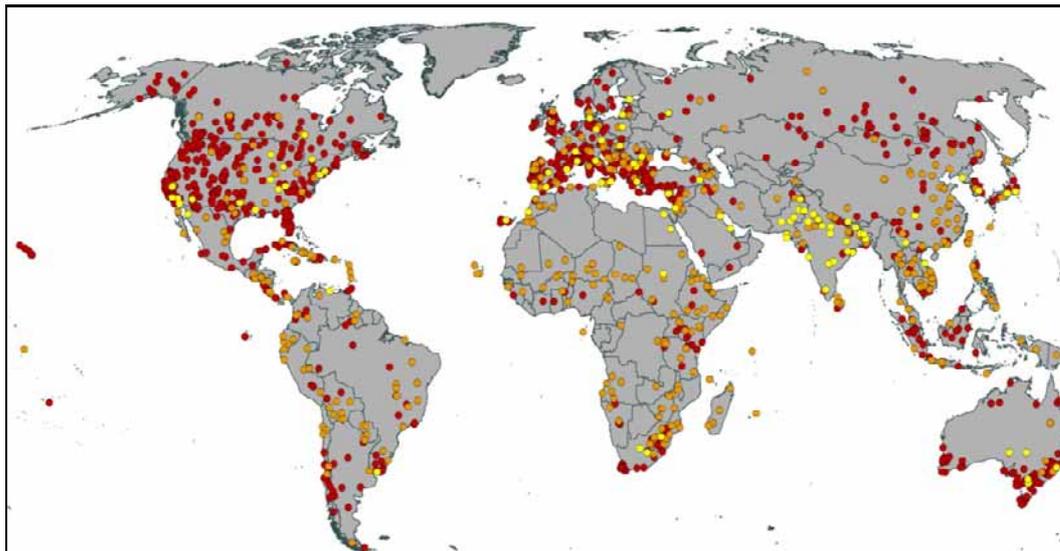
Table II-1 - Five largest natural catastrophes in 2010 (to October)

Date	Country/Region	Event	Fatalities	Overall losses US\$m	Insured losses US\$m
27.2.2010	Chile	Earthquake, tsunami	521	30,000	8,000
26-28.2.2010	Europe	Winter Storm Xynthia	65	4,500	3,400
12-16.5.2010	USA	Severe storm, hailstorm	3	2,500	1,750
13-15.3.2010	USA	Severe storm, floods	11	1,500	1,160
15.6.2010	France	Flash floods	25	1,500	1,070

Source: Munich Re

Overall losses due to weather-related natural catastrophes from January to October came to more than US\$ 65 billion and insured losses to US\$ 18 billion. In particular, Europe was affected by two contrasting type of events: floods in the eastern part of Europe in June and the heat-wave and forest fires in Russia. Dry weather conditions, high temperatures up to 45°C and high wind speeds over several weeks caused a series of wildfire in Russia. In addition the population was mainly affected by the heat-wave. 11,000 people died during the summer time from July – September. Graph II-5 below provides data on forest fires, heat waves and droughts for the period 1980 – July 2010.

Graph II-4 – Forest fires, heat waves and droughts: 1980 – July 2010



Symbols show the most affected regions. The map shows events with property losses and/or fatalities.

Source: Munich Re

CHAPTER II

The following table provides additional regional perspectives. In this respect it summarises the total number of catastrophes for the year 2009.

Table II-2 - Overall catastrophes in 2009 by regions

Region	Number	in %	Victims	Insured loss		
				in %	(in US\$ m)	in %
North America	54	18.8%	543	3.6%	12 655	48.2%
Europe	32	11.1%	874	5.9%	7 697	29.3%
Asia	125	43.4%	9 386	62.9%	2 436	9.3%
South America	13	4.5%	547	3.7%	50	0.2%
Oceania/Australia	7	2.4%	706	4.7%	1 297	4.9%
Africa	26	9.0%	932	6.2%	180	0.7%
Seas/Space/Worldwide	31	10.8%	1 928	12.9%	1 956	7.4%
World total	288	100.0%	14 916	100.0%	26 270	100.0%

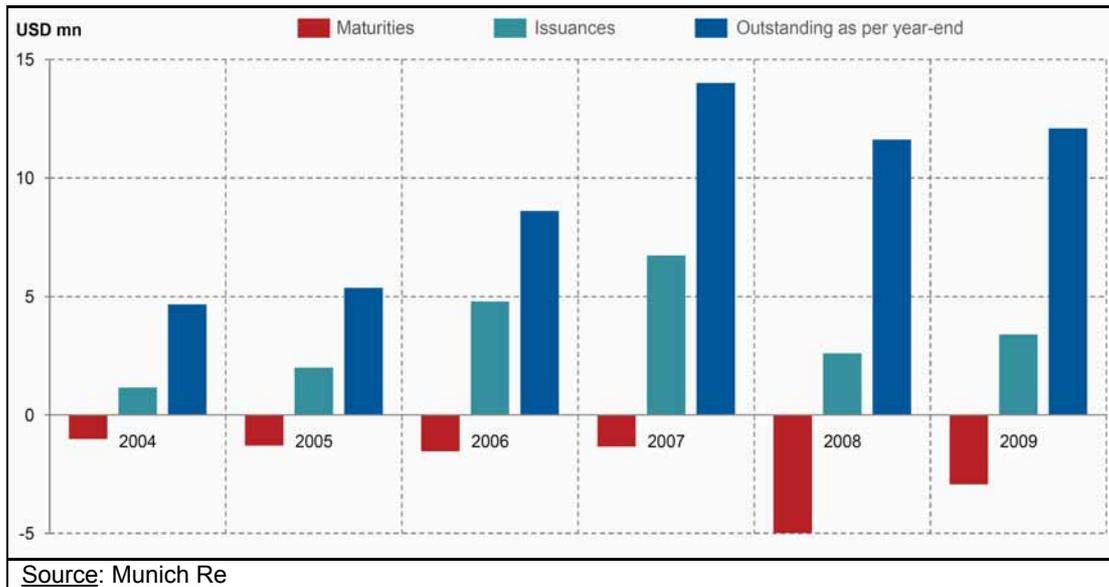
Source: Swiss Re, sigma catastrophe database

Developments in insurance securitisations during 2009 and 2010

The IAIS argued in the 2009 Midyear Edition of the Global Reinsurance Market Report (MY GRMR 09) that insurance securitisations offered a valid complement to traditional reinsurance. Via linking the reinsurance and the capital markets insurance securitisations contributed to widening the pool of risk capital available to reinsurers as well as providing capital markets with the opportunity to invest in reinsurance risk, which carry considerable less correlation to other capital market investments. Further, upon examination of in excess of 300 issuances of insurance securities it concluded that in practice insurance securitisations have worked well, despite the high degree of complexity that these transactions entail. However, and in light of the many disruptions created by the current global financial crisis, the MY GRMR 09 highlighted the important difficulties encountered by some insurance securitisation arrangements impacted by the bankruptcy of the Lehman Brothers financial conglomerate which took place in late 2008. The paragraphs below discuss in brief key developments in the insurance securitisation market in 2009 and 2010.

First, there appear to be some signs that the insurance securitisation market has metabolised the negative impact caused by the Lehman's collapse. For example, the net negative outflow of capital that the sector experienced in 2008 appears to have reversed in 2009, and in 2010. Graph II-6 below provides data for the 2004 – 2009 period.

Graph II-5 - Issuances, Maturities and Outstanding Volume (2004-2009)



Importantly, among the factors underpinning this positive development, there has been a trend towards improved **transparency** and increased **prudence** in relation to the management of assets held by Special Purpose Entities to back the insurance risks transferred to them. More comprehensive and more frequent reporting of the asset position of SPEs as well as more conservative investment practices (e.g. shift towards Government-backed assets) appear to have played a part in the recovery of investors' trust in insurance-linked securities. On the other hand, the moderate cat year experienced during 2009 as well as the continued softening of the insurance cycle may have acted as counter forces to the securitisation market recovery. Above all, the IAIS welcomes developments in the sector that contribute to strengthening the transparency and soundness of cross-sectoral risk transfer.

We conclude this chapter by highlighting, from an insurance supervisory perspective, the importance of sound understanding of the short and long term trends with respect to the occurrence of natural catastrophes, and probably most importantly, with respect to the relation between these trends and the reinsurance sector. With particular regard to the macroprudential surveillance of global reinsurance markets, understanding the interplay between natural or human-made events and reinsurance is of key importance to supervisors worldwide. Catastrophes test in a unique fashion reinsurers' risk management ability as well as supervisors' ability to carry out their duties. Further, as the management of catastrophic risks entails increasing levels of complexity, and of cross-border and cross-sectoral linkages, insurance supervisors worldwide face mounting pressure to collaborate effectively with peers in other jurisdictions as well as peers in other financial sectors. Since its first edition in 2004, the Global Reinsurance Market Reports has aims to contribute to this joined-up work.

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RECENT DEVELOPMENTS IN (RE)INSURANCE REGULATION AND MONITORING

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The chapter introduces and discusses key developments worldwide in the field of monitoring and supervision of insurance and reinsurance markets. These developments are of particular interest to the insurance regulatory and supervisory community, as they treasure the potential ability to promote and enhance cross-border cooperation among supervisory agencies. This is of crucial value in the reinsurance sector, given its global nature.

The sections below concentrate on recent developments in the USA and the Organisation for Economic Cooperation and Development (OECD). With respect to the former, the focus is on the substantial regulatory and supervisory reforms underway in the USA both at State and Federal levels. The topics addressed are a continuation of an on-going discussion on the USA financial sector reform, which has featured in previous editions of the GRMR. Regarding the latter, particular attention is given to Global Insurance Statistics (GIS) project, as part of the OECD's efforts towards strengthening its insurance statistics framework.

U.S. Reinsurance Regulatory Developments

State Reforms

The Reinsurance Regulatory Modernization Framework (Framework) proposal is a conceptual framework that was developed by the Reinsurance Task Force of the National Association of Insurance Commissioners (NAIC) during 2007 and 2008 in response to its charges to consider the current collateralization requirements regarding unauthorized reinsurers, and to consider the design of a revised U.S. reinsurance regulatory framework. The Framework is intended to facilitate cross-border reinsurance transactions and enhance competition within the U.S. market, while ensuring that U.S. insurers and policyholders are adequately protected against the risk of insolvency. The NAIC adopted the Framework during its 2008 Winter National Meeting.

The Framework recommended implementation through federal legislation in order to best preserve and improve state-based regulation of reinsurance, ensure timely and uniform implementation of this legislation throughout all NAIC member jurisdictions, and provide a more comprehensive alternative to related federal legislation. The Reinsurance Task Force developed federal legislation during 2009 in an effort to implement the Framework; however, the U.S. Congress focused on its broader financial reform and health care package. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law on July 21, 2010. Among other provisions, the Dodd-Frank Act includes the Nonadmitted and Reinsurance Reform Act (NRRA), establishes the Financial Stability Oversight Council (FSOC) and creates the Federal Insurance Office (FIO) within the U.S. Department of the Treasury.

The NRRA becomes effective 1-year after enactment and prohibits a state from denying credit for reinsurance if the domiciliary state of the ceding insurer recognizes such credit and is either (1) an NAIC-accredited state; or (2) has financial solvency requirements substantially similar to NAIC accreditation requirements. The NRRA's pre-emption of the extraterritorial application of state credit for reinsurance laws provides an opportunity for the NAIC and the states to enact reinsurance regulatory reforms through means other than the NAIC's proposed federal legislation. During 2011, the Reinsurance Task Force intends to amend the NAIC *Credit for*

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Reinsurance Model Law and Credit for Reinsurance Model Regulation in an effort to implement key elements of the reforms contemplated within the Framework.

The NAIC has initiated this process by developing Recommendations Regarding Key Elements of the Reinsurance Framework for Accreditation Purposes (Recommendations). It is anticipated that the NAIC will consider the Recommendations for adoption during an interim meeting via conference call in December 2010. It is important to note that the Recommendations do not change the current NAIC Accreditation requirements at this time; they are simply intended as guidance to be used by the Financial Regulation Standards and Accreditation Committee when reviewing any state collateral reduction reforms that are enacted prior to the adoption of amendments to the models and any related changes to the Accreditation standards.

Federal Reforms

Title I of the Dodd-Frank Act establishes the FSOC, which is charged with identifying threats to the financial stability of the U.S.; promoting market discipline; and responding to emerging risks to the stability of the U.S. The FSOC will be comprised of 10 voting members, including an independent member with insurance expertise. The FSOC will also have five nonvoting members, including a state insurance commissioner, state banking and securities regulators, the Director of the Federal Insurance Office, and the Director of the new Office of Financial Research.

Title II of the Dodd-Frank Act addresses systemic risk and orderly liquidation authority. With respect to systemic risk determination, a 2/3 vote of the Federal Reserve Board of Governors and the affirmative approval of the Director of the FIO is required for an insurance company to be deemed a systemic risk to the economy and in need of winding down. By comparison, all other financial companies (except broker/dealers) require a 2/3 vote by the Federal Reserve Board of Governors and a 2/3 vote by the Board of Directors of the Federal Deposit Insurance Corporation (FDIC).

After an insurance company or subsidiary is deemed systemically risky, it is to be rehabilitated or liquidated pursuant to state law. However, if no action has been taken under state law within 60 days after the determination of risk, the FDIC has the authority to step in and take the matter over from the state insurance commissioner. The NAIC intends to work closely with the FDIC as this authority is developed.

Title V of the Dodd-Frank Act includes the NRRRA. With respect to reinsurance, the NRRRA prohibits a state from denying credit for reinsurance if the domiciliary state of the ceding insurer recognizes such credit and is either: 1) an NAIC-accredited state; or 2) has financial solvency requirements substantially similar to NAIC accreditation requirements. The NRRRA pre-empts the extraterritorial application of a non-domiciliary state's laws, regulations, or other actions, and it reserves to a U.S. based reinsurer's domiciliary state sole responsibility for regulating the reinsurer's financial solvency. Finally, it prohibits any other state from requiring a reinsurer to provide financial information in addition to that required by its NAIC accredited domiciliary state.

Title V of the Dodd-Frank Act also establishes the FIO. The FIO is not a regulator or supervisor; however, it will receive insurance information from the NAIC, and it does have the ability to work with the Secretary of the Treasury in negotiating "covered

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agreements” in certain areas that achieve a level of protection for insurance or reinsurance consumers that is substantially equivalent to the level of protection achieved under State insurance or reinsurance regulations. Furthermore, conferees defined “substantially equivalent to the level of protection achieved,” requiring this equivalence to be demonstrated through specific prudential measures of the foreign entities participating in the agreements. The FIO will impact all lines of insurance except health, long-term care (aside from those long-term care policies included with life or annuity components), and crop insurance.

The Dodd-Frank Act allows the FIO to pre-empt a state insurance measure to the extent that it:

- (1) results in less favourable treatment of a non-U.S. insurer domiciled in a foreign jurisdiction that is subject to a covered agreement than a U.S. insurer domiciled, licensed, admitted, or otherwise authorized in that state; and
- (2) is inconsistent with such covered agreement.

FIO further requires the Secretary of the U.S. Department of the Treasury and U.S. Trade Representative to work jointly on covered agreements and to consult with Congress throughout the process.

It will be imperative that state regulators coordinate with FIO in order to preserve the critical link between state-based solvency regulation and the impact that reinsurance has on U.S. insurer solvency. The NAIC continues to support collateral reduction under appropriate circumstances based upon assessments of reinsurer quality and effectiveness of supervision conducted by the reinsurer’s domiciliary supervisor. The NAIC will continue to provide input as the federal legislation and resulting processes are implemented, in an effort to ensure that the principles included within the NAIC’s proposed reinsurance regulatory modernization framework form the basis for potential future collateral reductions.

The OECD Global Insurance Statistics

What role does the OECD play in insurance?

The importance of insurance as a foundation for economic activity was acknowledged from the inception of the OECD with the creation of an Insurance Committee in the early 1960s. Since then, the scope of the OECD’s Insurance Committee has gradually widened, reflecting the heightened importance of private pensions – the Committee was renamed Insurance and Private Pensions Committee (IPPC) in 2005. In addition to the economic role played by insurance in domestic economies, its social role has also been recognised, particularly insofar as insurance, together with private pension systems, help to promote sustainable development and improve perceptions of well-being.

The overarching objective of the IPPC is to promote efficient, open and sound market-oriented insurance and private pensions systems, based on high levels of transparency, confidence, and integrity, and respecting recognised social objectives of these systems. The main objectives of the Committee include improving insurance and private pensions awareness and education, strengthening private pensions

systems to help them address the challenges of ageing, enhancing the efficiency and effectiveness of insurance and private pensions regulation, and improving the financial management of large-scale risks. OECD work is carried out in co-operation with other OECD bodies and is coordinated, as appropriate, with other international organisations, such as the International Association of Insurance Supervisors (IAIS), International Organisation of Pension Supervisors (IOPS), and International Monetary Fund (IMF).

Under its mandate, the IPPC is expected to enhance surveillance of insurance and private pension market developments and their impact on economic growth and development. This surveillance is based on the OECD's insurance and private pensions statistics and indicators, but is complemented by analytical reports prepared for the Committee and its working parties, overview notes on market trends and developments provided by member countries, and presentations and discussions within the Committee.

Contributing to the development of a macro-overview of the insurance sector

In November 1982, the OECD Insurance Committee constituted the Working Group on Insurance Statistics. In 1992, a statistical questionnaire was developed to collect data on insurance statistics using a common framework and definitions. Since then, for monitoring purposes, the Working Group, which was transformed in 1999 into a Task Force on Insurance Statistics,¹ has collected, on an annual basis, insurance statistics from member countries through the standard questionnaire, as well as discussed relevant methodologies. The results have been disseminated through the *OECD Insurance Statistics Yearbook*. Data, available from 1983 onwards, can also be retrieved from the *OECD.Stat* data browser.²

The 2007-09 financial crisis prompted a review of the OECD's framework for insurance statistics and highlighted the need to collect additional meaningful variables and improve timeliness. With a view to fostering development of a macro-overview of the insurance market as part of its substantive work and supporting international efforts, the IPPC, in 2009, decided to launch a Global Insurance Statistics (GIS) project to enhance the OECD's insurance statistics framework and expand its global reach.

The main long-term goal of the GIS project is to further enhance the monitoring of insurance markets through the analysis of sound, reliable and comparable official international insurance statistics. Ultimately, this should contribute to more efficient and transparent insurance systems and promote the surveillance of insurance markets by industry and other stakeholders, governments and international organisations, and thereby promote economic growth and enhance the quality of decision-making.

¹ The mandate of the Task Force on Insurance Statistics is to contribute to the elaboration, collection, and dissemination of sound and reliable comparable international insurance statistical information in order to contribute to more efficient and transparent insurance systems and promote the surveillance of insurance markets, and thereby promote economic growth and enhance the quality of government decision-making.

² <http://stats.oecd.org/index.aspx>

The GIS project has involved the compilation of an expanded range of statistics (see below) and appropriate indicators, permitting an improved assessment of the insurance sector's financial strength, stability, profitability and solvency, both for direct insurers and reinsurers. The project has also involved accelerated timelines for the delivery of data. The project is currently in an implementation phase.

Going forward, further improvements to the GIS framework are expected, which are aimed at enhancing the monitoring efforts of countries participating in the GIS exercise and of key stakeholders, including other international organisations. Furthermore, the IPPC and its Working Party on Private Pensions will be continuing their monitoring work through analytical notes and publications. For instance, a new insurance market newsletter is expected to be published in 2011.

Filling data gaps and enhancing transparency through the provision of more timely data

The expanded framework provides more extensive and detailed aggregated official data for the direct insurance and reinsurance sectors on an on-going basis, and particularly key aggregates relating to premium volume, balance sheet and income statement items (e.g., total assets, shareholder equity, technical provisions, net income) and more detailed categories of portfolio investments. This data enables the OECD to provide more timely indicators (e.g., rate of return on investment, loss and combined ratios, RoA, RoE).

There was a lack of international insurance statistics and indicators (outside the EU) relating to the financial position and soundness of the insurance sector. One of the main objectives of the revised framework was to fill in these gaps. The OECD now collects for the first time, on an on-going basis and at an international level, statistics on:

- Insurance industry assets (including unit-linked investment products) and net income;
- Further breakdown of insurance industry portfolio investments;
- Technical provisions to cover insurance liabilities; shareholder equity; and solvency levels.

The new insurance statistics framework contains two parts, with each part split into sections. Part 1 seeks aggregate statistics, as well as qualitative information, within an accelerated timeframe, while Part 2 requests more detailed statistics. The contents of each section can be found in the [Box below](#). Year-end data pertaining to the core set of variables collected under Part 1 are released with about a six-month lag. Additional detailed year-end variables are released with about a ten-month lag. Both Part 1 and Part 2 questionnaires are sent at the same time during the first quarter. Data are reported to the OECD on an annual basis, mostly by ministries, supervisory agencies or national statistical offices.

The datasets cover OECD countries and selected non-OECD countries. Under the revised framework of this statistical activity, the OECD is intending to enlarge its global reach by expanding its geographical scope progressively (starting with

selected Asian countries over 2010-11). In this respect, an OECD-Asia Regional Expert Seminar on Insurance Statistics,³ co-hosted by Bank Negara Malaysia, was held on 23-24 September 2010. This seminar provided an opportunity to bring together statistical experts and insurance analysts from all over the world to discuss viewpoints and experiences relating to international comparative insurance statistics and the need for greater transparency. Such an initiative is expected to be renewed in 2011 with a second seminar to be organised in the region.

Text-Box III.1: Detailed contents of the OECD electronic standard statistical questionnaire

1. Section 1.1 deals with **business written in the reporting country** and includes all business written, whether in respect of domestic or foreign (world-wide) risks, and it is analysed according to categories of insurers (“domestic enterprises”, “foreign-controlled undertakings” and “branches and agencies of foreign undertakings”), while Section 1.2 focuses on life insurance premiums by type of contracts (*i.e.*, unit-linked, annuities, other life insurance contracts). The latter include data on pension insurance contracts and are collected as a separate item.
2. Section 2.2 specifically deals with **business written in the reporting country in respect of risks situated outside the reporting country** (=foreign risks), while Section 2.3 covers the breakdown of business between domestic and foreign risks on a net premium basis.
3. Section 2.4 covers **business written abroad by branches, agencies and subsidiaries established abroad** of domestic undertakings and includes all business written outside a given country by these entities (in both OECD and non-OECD countries), while the geographical breakdown of business written by branches and agencies only (*i.e.*, excluding subsidiaries) for the life and non-life segments, respectively, is given under Sections 2.5 and 2.6. Premiums written by classes of non-life insurance are provided by Section 2.7.
4. Sections 1.3 and 2.12 collect information pertaining to **balance sheet and income statement variables** of direct insurers, and in particular key aggregates relating to total assets, shareholder equity, liabilities, technical provisions and net income.
5. Section 1.4 concerns **investments by direct insurers**, while Section 2.13 covers **investments by reinsurers**. Both sections cover the breakdown of investments according to categories of insurance enterprises (“domestic enterprises”, “foreign-controlled undertakings” and “branches and agencies of foreign undertakings”). Data on the geographical destinations of investments by direct insurers (*i.e.*, in the reporting country vs. investments abroad) are also collected under Section 2.8. Breakdown of aggregate **investments for all reinsurers according to their geographical destinations** (*i.e.*, investments in the reporting country or investments abroad) are reported in Section 2.14.

³ All presentations and documentation can be retrieved at: “OECD-Asia Regional Seminar, Kuala Lumpur, 23-24 Sept. 2010”, http://www.oecd.org/document/23/0,3343,en_2649_33761_45024983_1_1_1_1,00.html.

6. Section 2.1 deals with **general information** on the reporting country (e.g., number of undertakings and employees).
7. Sections 2.9, 2.10 and 2.11 concern **gross claim payouts, gross operating expenses and commissions**, respectively.
8. Sections 1.5 and 2.10 seek comments on developments in the insurance sector, by segment, including factors that might explain trends and/or variations.

Enhancing the comprehensiveness and global reach of the Global Insurance Statistics framework

This activity comprises data checking, acquisition and uploading in the *OECD.Stat* data browser. In recent years, significant improvements have been noted in data reception, with increased regularity in data transmission. A comprehensive set of insurance statistics is an important element for sound analysis and forecasting. In an effort to address new data requirements arising from the crisis, and examine options for filling in potential data gaps, the OECD Secretariat contributes to the work undertaken under the FSB-IMF Inter-Agency Group on Economic and Financial Statistics.⁴ In this respect, the OECD has been liaising with the IAIS, BIS, ECB, CEIOPS, Eurostat and other relevant bodies in order to further examine data needs and consider how to make data more accessible and timely for a wider audience.

As an initial step, the OECD Secretariat has conducted a stocktaking of international sources to compare existing statistical frameworks for the collection of insurance statistics. This exercise should result in a better understanding of statistics compiled at an international level. It should also help to fine-tune the design of the GIS framework and identify potential data gaps more comprehensively. Follow-up actions to discuss and fill in identified gaps will be undertaken through the Task Force on Insurance Statistics. This work could improve the scope and value of global insurance statistics and indicators by gradually adding selected statistics that are sufficiently available, comparable, and of common interest across countries. An important component of this work in 2011 will involve further extension of the geographical scope of the GIS exercise to non-member countries (and in particular to OECD accession and Enhanced Engagement countries as well as remaining G20 countries not yet in the framework).

Key anticipated outputs and additional resources

The list below contains a set of publications planned for 2011, as well as additional resources related to this initiative:

⁴ The IMF/FSB report to the G20, *The Financial Crisis and Information Gaps*, identified a need to address four main interrelated areas: build-up of risk in the financial sector; cross-border financial linkages; vulnerability of domestic economies to shocks; and improving communication of official statistics.

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- Dissemination of internationally comparable data on insurance and detailed country-by-country methodological notes through the OECD statistical portal. This portal provides user-friendly web access to data and allows users to extract data and customised queries (*i.e.*, the on-line publication of insurance statistics and indicators via the OECD's central data warehouse accessible at <http://stats.oecd.org/index.aspx>).
- A newsletter (*Insurance Markets in Focus*) would be released during the first half of 2011, containing statistics and indicators as of December 2010.
- Publications
 - *Impact of the Financial Crisis on the Insurance Sector and Policy Responses*, OECD, Paris;
 - *OECD Insurance Statistical Yearbook*, OECD, Paris;
 - Other publications can be retrieved at www.oecd.org/insurance.
- *The Global Insurance Statistics datasets can be retrieved at:*
 - <http://stats.oecd.org/index.aspx>
 - <http://stats.oecd.org/Index.aspx?DatasetCode=INSIND>
 - <http://stats.oecd.org/Index.aspx?DatasetCode=PT2>

Concluding remarks

This brief exploration of developments in place within the USA and the OECD has highlighted some of the reform initiatives in place in relation to strengthening the monitoring, regulation and supervision of the insurance sector. These developments are of vital importance to the IAIS, as the global body addressing insurance supervision. Over the years, the IAIS has shown a key interest in monitoring national and regional developments worldwide with the double goal of capturing and building on potential synergies, as well as avoiding unnecessary duplications.

APPENDICES



Global Reinsurance Market Statistical Tables

The detailed Global Reinsurance Market Statistical tables for the IAIS GRMR end-year report 2010 are available as a separate document in the Reinsurance Transparency Subgroup section on the IAIS website (please compare there specifically the electronic subfolder on reference documents).

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Participating jurisdictions

Bermuda
 France
 Germany
 Japan
 Luxembourg
 Spain
 Switzerland
 United Kingdom
 United States

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Methodology and list of reporting reinsurers

Structure of the statistics

As for the previous report, the method of gathering, processing and releasing the data submitted by reporting reinsurers is based on a three-level approach, with each level of data requiring different treatment and confidentiality rules:

- A-level data (legal entity-based information)
- B-level data (nationally aggregated data)
- C-level data (global data).

Using reinsurer-specific information (A-level data), and using a consistent template, participating supervisors have compiled aggregate reports (B-level data) for their respective jurisdictions. Supervisors have then transmitted the aggregate reports (B-level data) for their respective jurisdictions to the IAIS Secretariat. Based on the aggregate reports received from the supervisors the IAIS Secretariat has compiled the data into global tables (C-level data).

Coverage and selection criteria

To obtain a significant coverage of the global reinsurance market, criteria were agreed upon for the selection of globally significant reinsurers ('reporting reinsurers') to be included in the statistics.

The selection criteria, which are unchanged from the previous year, are based upon unaffiliated business only, to avoid the inclusion in the statistics of those reinsurers whose significant reinsurance transactions are intra-group only. The criteria are as follows:

- Gross unaffiliated reinsurance premiums assumed of US\$ 800 million (US\$ 20 million for monolines); or
- Gross unaffiliated technical reserves of US\$ 2 billion (not applied to monolines); with
- Discretion of the national authority to recommend certain entities to be excluded, with a final decision by the group.

This has resulted in a total of 45 major reinsurers from the 9 participating jurisdictions meeting the selection criteria for inclusion in the 2010 global reinsurance market statistics are as follows:

Bermuda

1. Arch Reinsurance Ltd
2. Axis Specialty Ltd
3. Everest Reinsurance (Bermuda) Ltd
4. Renaissance Reinsurance Ltd

France

1. Paris Ré
2. Caisse Centrale de Reassurance
3. Scor
4. Scor Global Life
5. Scor P&C

Germany

1. E+S Rückversicherung AG
2. Hannover Rückversicherungs-AG
3. Kölnische Rückversicherungs-Gesellschaft-AG
4. Münchener Rückversicherungs-Gesellschaft-AG
5. Deutsche Rückversicherung AG (new)

Japan

1. Toa Reinsurance Company Ltd
2. Tokio Marine & Nichido Fire Insurance Co. Ltd

Luxembourg

1. Swiss Re Europe S. A.

Spain

1. Mapfre Re

Switzerland

1. European Reinsurance Company of Zurich
2. Swiss Reinsurance Company, Zurich
3. SCOR Switzerland AG

UK

1. Aspen Insurance UK Ltd
2. Lloyd's

US

1. Ace America Insurance Company
2. American Agricultural Insurance Company
3. Commonwealth Annuity & Life Insurance Company (new)
4. Employers Reassurance Corporation
5. Everest Reinsurance Company
6. Fireman's Funds Insurance Company
7. General Reinsurance Corporation
8. Hannover Life Reassurance Company of America
9. Lincoln National Life Insurance Company
10. Munich American Reassurance Company
11. Munich Reinsurance America, Inc.
12. National Indemnity Company
13. Odyssey American Reinsurance Corporation
14. Partner Reinsurance Company of the U.S.
15. RGA Reinsurance Company
16. Security Life of Denver Insurance Company
17. Swiss Re Life & Health America, Inc.
18. Swiss Reinsurance America Corporation
19. The United States Business of the Canada Life Assurance Company (new)
20. Transamerica Life Insurance Company (new)
21. Transatlantic Reinsurance Company
22. Wilton Reassurance Company (new)

Collection, aggregation and presentation of the data disseminated in this report

Before using individual items of data from the tables, readers should be aware of some of the limitations which arise from the compilation of the information. These are issues of detail, and we do not believe that they detract in any material way from the broad conclusions that can be drawn from the data. For details on individual tables, please refer to the explanatory notes that accompany the final data sets in Appendix I.

First, it should be noted that the data is a composite of information provided by reinsurers based in different jurisdictions. This gives rise to issues relating to the accounting treatment of certain items (such as deferred acquisition costs), as well as posing difficulties because of different standards of disclosure in different countries. Wider international developments will hopefully lead to convergence of such accounting standards over time, but the extent of this issue at present should not be underestimated. It should also be noted that whilst in most reporting jurisdictions the accounting reference date is the calendar year end, in Japan it is 31 March.

Second, readers should be aware that the data is compiled on a legal entity basis. There are good reasons for doing this, including the fact that group failures are triggered by failures at legal entity level, insurers are supervised primarily on a legal entity basis, and this method facilitated the maintenance of confidentiality and addressed practical considerations around the gathering of data. However, doing so distorts the effect of intra-group reinsurance transactions, which may lead to greater stability at group level but possibly overstate levels of reinsurance dependency at entity level.

It should also be noted that approximations have been used in some parts of the data where the appropriate underlying information is unavailable or compiled on a different basis. Also, comparisons with previous years may provide some misleading results because of (a) changes from year to year in the population of reinsurers who qualify for inclusion; and (b) currency fluctuations.

Finally, it should be noted that the method of compilation of the data is designed to protect the confidentiality of the participating reinsurers at each stage. For this reason it is not possible for any one person to verify the data produced at each stage and, as such, there is greater potential for error than would normally be found in a report of this nature. Nevertheless, it is of course the case that all parties have endeavoured to produce valid data.

The remaining appendices can now be found on the IAIS website, in the area which is accessible to IAIS members and observers, under: Committees, Subcommittees and working parties, Reinsurance Transparency Subgroup, Reference documents.