Guernsey Financial Services Commission

Reinsurance and Other Forms of Risk Transfer

Thematic Review 2021

Foreword

The Guernsey Financial Services Commission (the "Commission") is pleased to present the findings of its Thematic Review of Reinsurance and Other Forms of Risk Transfer (the "Thematic Review").

Many insurers in Guernsey utilise reinsurance, in some form or another, to mitigate insurance risk. In doing so, the insurers expose themselves to the various risks associated with reinsurance.

The aim of the Thematic Review was to analyse the use of reinsurance by looking at a cross section of the insurance industry in Guernsey. It further allowed the Commission to assess the effectiveness of reinsurance for insurance companies, and the level of observance across the insurance industry of the Guidance Note for Licensed Insurers on Reinsurance and Other Forms of Risk Transfer, which was published in 2018 (the "Guidance Note").

The thematic focussed on those firms that had outstanding reinsurance liabilities at the time of the questionnaire. However, the Insurance Business (Solvency) Rules 2021 require that all insurers have risk management frameworks that are appropriate to the nature, scale and complexity of their business. Reinsurance is a key mitigant for insurance, capital and liquidity risk. The Commission would expect all insurers to incorporate the Guidance Note into their risk management frameworks and consider the use of reinsurance as a mitigant within their risk management frameworks, regardless of whether they currently use it.

The Commission's findings from the Thematic Review are reflected in this report and we hope that all licensed insurers will find the content useful. We would encourage all licensed insurers to read the report and satisfy themselves that their own arrangements reflect good practice.

Whist this thematic examines current practice within the insurance industry, we would encourage potential new insurance companies to consider the findings within this report when preparing their application for licensing. A firm's proposed reinsurance framework is an important part of its business plan and is considered in detail by the Commission during the application process.

We would like to thank the licensees who have taken the time to contribute to this review.

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1. Executive Summary

Reinsurance plays an important role within the insurance industry in Guernsey. A well-structured reinsurance programme brings many benefits, but conversely it has the potential to cause significant harm to insurers and their policyholders if implemented poorly. The credit risk from a reinsurer defaulting is widely recognised but there is also a legal risk from reinsurance contracts not mirroring the underlying insurance policies, and liquidity risk from late or non-payment by reinsurers.

The Guidance Note was introduced in 2018 following the revision of the IAIS Insurance Core Principle 13 “Reinsurance and Other Forms of Risk Transfer” in November 2017. It is three years since the Guidance Note was published. The Commission chose reinsurance as the theme of this year’s insurance thematic, both to review industry’s adherence and to understand how reinsurance is used more widely.

The thematic identified a number of good practices within industry. Some firms assess themselves regularly against the Guidance Note, have well-thought-out reinsurance strategies, comprehensive and detailed policies and procedures and high quality reinsurance contracts. There were, however, examples of poor practice. These included:

- A majority of firms assessed themselves against the Guidance Note when it was first published but have not done so since.
- A significant number of firms have never assessed their reinsurance framework against the Guidance Note.
- A number of firms had reinsurance contracts missing clauses that would reasonably be expected to be in the agreements.
- A number of firms utilised unrated reinsurers with little or no consideration of the potential risks from using them and the mitigants required.
- Several firms accepted the reinsurers proposed by brokers without making appropriate, risk-based independent checks on their creditworthiness.
- Several firms have inadequate policies, procedures and controls appropriate for the size, nature and complexity of their business.
- Few firms considered the liquidity risk of their reinsurance framework.
- A small number of firms had reinsurance contracts that remained unsigned for long periods after cover incepted.
- One firm had policies and procedures but did not follow them and did not document why it had not followed them. In this instance the firm had adopted a strategy that exposed it to significant risk, which it may not have done had it followed its own policies and procedures.

The Guidance Note sets out the Commission’s expectation that licensed insurers will effectively manage their use of reinsurance and other forms of risk transfer as part of the risk management framework. A failure in this framework may result in a firm being unable to pay claims to its policyholders. Whilst noting the good practice within industry, the Commission is concerned by the number of firms who are not following the Guidance Note, potentially creating unnecessary risk for their policyholders and the viability of their business/professional reputation.

The Commission will be taking up specific instances of poor practice with firms through direct regulatory engagement to ensure that the risks they present are effectively mitigated. The Commission would remind all insurers of the importance of following good policies such as those set out in our Guidance Note when implementing a reinsurance framework. In the event that an insurer becomes distressed, the extent of the firm's observance to the Guidance Note will form part of the Commission's consideration of any subsequent action against the firm and its board.

The thematic did not identify other forms of risk transfer from the sample of firms reviewed, but the Guidance Note is also applicable to those.

Manus Carvill
Deputy Director
Banking and Insurance Division

2. Scope

The population sample selected for the Thematic Review mainly comprised licensed insurers that undergo reactive supervision under the Commission's risk-based supervisory framework, PRISM. However, to gain an understanding of the use of reinsurance within the wider insurance industry in Guernsey, licensed insurers that have pro-active supervisory oversight by the Commission were also included in the population sample.

A sample of twenty-three firms out of all firms that reported outstanding insurance liabilities in their regulatory solvency assessment was chosen to take part in the Thematic Review and form the sample population. The sample population was chosen to ensure a mix of retail insurers, captive insurers, and reinsurers.

Insurance managers have a significant influence on the policies and procedures of the firms they manage and the majority of insurers in the thematic sample used an insurance manager. The sample was chosen to ensure that it included firms that utilised a representative cross-section of the insurance management industry: the insurers used nine different insurance management companies in total.

Although this was principally a low impact thematic, the population sample was not restricted to low impact firms to make it representative of the industry. The selection included a cross section of the insurance industry and represented 24% of the firms that report the use of reinsurance.

The approach taken by the Commission, outlined in section 5, placed emphasis on examining the selected firms' policies and procedures, reinsurance contracts, and most recent annual returns, so that observations and findings were as relevant as possible. The review was carried out in the second half of 2021, with the most recent annual returns being used.

3. Terminology

For the purpose of this report,

- "Insurance Business Law" means the Insurance Business (Bailiwick of Guernsey) Law, 2002
- "Guidance" and "Guidance Note" mean the Guidance Note for Licensed Insurers on Reinsurance and Other Forms of Risk Transfer.
- "Firm" and "insurer" means firms licensed under the Insurance Business Law.
- "Insurer" includes reinsurer when buying reinsurance.
- "Reinsurer" includes retrocessionaire.

4. Current Responsibilities of Licensees

The key responsibilities of licensed insurers in respect of risk management are set out in the Insurance Business Law and the rules, codes and guidance published under that law. These can be summarised as follows:

- A licensed insurer must establish and maintain a risk management framework that is appropriate to the nature, scale, and complexity of the business. [1]
- A licensed insurer's board is required to set and oversee the implementation of the insurer's business objectives and strategies for achieving those objectives, including its risk strategy and risk appetite, in line with the insurer's long-term interests and viability.[2]
- A licensed insurer's board is required to provide oversight in respect of the design and implementation of sound risk management and internal control systems and functions.[3]
- A licensed insurer is required to establish, and operate within, effective systems of risk management and internal controls.[4]
- A licensed insurer is required to have an effective risk management function capable of assisting the insurer to identify, assess, monitor, manage and report on its key risks in a timely way.[5]
- A licensed insurer is required to have, or to have access to, an appropriate and effective internal audit function capable of providing the board of the insurer with independent assurance in respect of the insurer's governance, including its risk management and internal controls. [6]
- A licensed insurer's board should carry out an annual review of the effectiveness of its corporate governance and internal controls.[7]

The responsibilities of licensed insurers that utilise reinsurance and other forms of risk transfer are set out in the Guidance Note and can be summarised as follows:

- Ceding licensed insurers should have a reinsurance programme that is appropriate to their business, and is part of their wider underwriting, risk, and capital management strategies.[8]
- Licensed insurers should establish effective internal controls over the implementation of their reinsurance programme.[9]
- A licensed insurer should consider the impact of its reinsurance programme on its liquidity management.[10]

[1] *See Part 8 to The Insurance Business (Solvency) Rules, 2021.*
[2] *See Principle A:1 to the Finance Sector Code of Corporate Governance.*
[3] *See Principle A:9 to the Finance Sector Code of Corporate Governance.*
[4] *See Principle A:10 to the Finance Sector Code of Corporate Governance.*
[5] *See Principle A:12 to the Finance Sector Code of Corporate Governance.*
[6] *See Principle A:15 to the Finance Sector Code of Corporate Governance.*
[7] *See Principle A:17 to the Finance Sector Code of Corporate Governance.*
[8] *See Note 2(a) to the Guidance Note for Licensed Insurers on Reinsurance and Other Forms of Risk Transfer.*
[9] *See Note 2(b) to the Guidance Note for Licensed Insurers on Reinsurance and Other Forms of Risk Transfer.*
[10] *See Note 2(c) to the Guidance Note for Licensed Insurers on Reinsurance and Other Forms of Risk Transfer.*

5. Approach

The Thematic Review consisted of three stages:

- A questionnaire was sent to twenty-three licensed insurers that were identified as undertaking reinsurance or other forms of risk transfer. The questionnaire sought responses in several areas relating to the policies, procedures and controls, and the reinsurance programme, documentation, and brokers. The responses to the questionnaire are considered in section 6 of this report.
- An in-depth assessment was performed on the documentation supplied by the firms. This included evaluating the completeness and accuracy of both the quantitative and qualitive information submitted via the questionnaire, and how this information met the requirements of the Guidance Note.
- An assessment was carried out by an external specialist firm on a selected sample of contracts to confirm the soundness and fitness for purpose of the contracts between the insurers and the reinsurers.

This approach enabled the Commission to identify the level to which the Guidance Note had been considered by the firms, and to assess specific areas of good practice and the potential for improvement amongst firms. It also allowed the Commission to evaluate the adequacy of the Guidance Note and determine any aspects that may require updating or adjusting.

The following pages consider how firms are managing their risk mitigation and reinsurance programmes.

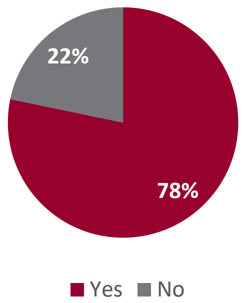
6. Key Findings: External Questionnaire

In this section, we examine the responses by firms to the questionnaire. While no other forms of risk transfer were identified, it would be the Commission's expectation that firms follow the Guidance Note's advice when undertaking these risk transfer practices or alternative, equally good practises. Each question is framed within quotation marks below and areas of good practice, or which require improvement, are highlighted throughout.

6.1 Policies, Procedures & Controls

6.1.1 Assessment of the firms Policies Procedures and Controls for Managing the Use of Reinsurance

Does the Firm have written policies and procedures for managing the use of reinsurance?



GOOD PRACTICE:

Most of the firms provided positive answers with regards to the firms' policies, procedures, and controls that are in place. This was substantiated by the additional comments provided by the firms on the questionnaire, emphasising their respective boards involvement in reviewing and approving policies, procedures, and controls as well as reviewing matters relating to reinsurance.

AREA FOR IMPROVEMENT:

One of the firms that answered no to the above question failed to provide its policies, procedures and controls while also stating that it has no written strategy. This leads the Commission to question the effectiveness of the firm's board and management.

POINT OF NOTE:

Of the five firms that answered no:

- Two of these firms stated that the questions are not applicable to them as they did not purchase reinsurance at this time and that the reinsurance that is reflected in their business plans and returns are historical books of business.
- Two further firms stated that they do have a documented strategy, however they had not entered any new reinsurance contracts in the relevant period and did not provide any further information.

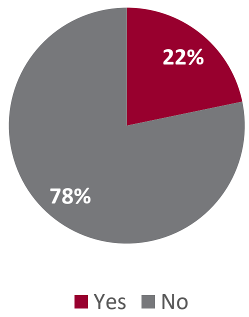
Any firm purchasing reinsurance since the Guidance Note came into effect in 2018 should have had policies and procedures in place from this date, or from the date it first purchased reinsurance.

The Guidance Note is not intended to be prescriptive about how often a firm should review its policies, procedures, and controls. This is for a firm's board to determine based on what the board believes is adequate taking into account the nature, scale and complexity of its business.

The Commission would expect that boards would approve a reinsurance strategy that is appropriate for a firm's risk profile and to review the strategy and policies and procedures when there have been changes to the strategy or business plan. The Commission would expect that, where firms utilise unrated reinsurers or a reinsurer's status changes, that a review is undertaken regularly.

6.1.2 Assessment of the firms Policies, Procedures and Controls against the Guidance Note

Has the Firm carried out a review or assessment of the Firm's policies, procedures, and controls against the Guidance Note for licensed insurers on reinsurance and other forms of risk?



GOOD PRACTICE:

A firm stated that the content of the Guidance Note is considered by the board whenever reinsurance policies are due for renewal.

The Guidance Note was published with the intention of providing firms with guidance on what the Commission would expect, as a minimum, from a firm's board when considering and/or determining the firm's reinsurance strategy. This was put in place to ensure:

- firms follow effective procedures when entering into new reinsurance agreements.
- firms have considered all relevant risks that are:
  - associated with the reinsurance on the firm; and
  - associated with the reinsurer.

AREA FOR IMPROVEMENT:

From the questionnaire, most of the firms have indicated that they have not reviewed their own policies, procedures, and controls against the Guidance Note. While some firms have indicated that a review had been undertaken, the reviews were undertaken when the Guidance Note was published, and had not been repeated since.

The Commission would expect the boards to consider and determine the frequency of reviews based on:

- The nature, scale and complexity of the firm; and
- The nature of their reinsurance programme.

POINT OF NOTE:

Two of the five firms who stated that a review of their policies, procedures and controls had been undertaken against the Guidance Note, provided details of the review. A further two firms provided a statement that the Guidance Note had been "noted" by their board of directors when it was published and that they believed that suitable controls were already in existence. However, no supplementary information was provided by either firm documenting this decision.

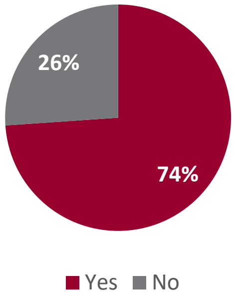
The remaining firm, in answering the question, noted that they had reviewed their policies, procedures, and controls against the Guidance Note but failed to provide any supporting information. In this instance, it was difficult to determine if such a review had indeed been undertaken or if the firm was effective in reviewing the policies, procedures and controls against the Guidance Note.

The Commission issues Guidance Notes to support industry in implementing the controls and procedures needed to adequately address the risks in their business. If a firm fails to appropriately consider the Guidance Notes our initial assumptions would be that its controls are not adequate. This does not mean that there are not alternatives to prescriptively implementing every part of our Guidance Note, but firms need to have considered and determined that their approach to reinsurance could deliver outcomes as good as those the Guidance Note is striving to ensure.

6.2 Reinsurance Programme

6.2.1 Assessment of How the Firms Business Plan and Accompanying Policies, Procedures and Controls Explain the Objectives of their Reinsurance Programme

Do the policies, procedures and controls as well as the business plan provided by the Firm explain fully the objectives of the reinsurance?



GOOD PRACTICE:

During the review, it was noted that one firm reviewed and approved its reinsurance agreement on an annual basis. This firm demonstrated good practice as although the Guidance Note does not prescribe a specific timeframe by which the policies and agreements should be reviewed, the Commission expects firms to review their own documentation on a basis which they feel is suitable for the nature and complexity of the firm. The expectation of the Commission is that a firm that has retail and/or commercial customers will assess the effectiveness of its policies, procedures and business plan in meeting the objectives of its reinsurance strategy more frequently.

AREA FOR IMPROVEMENT:

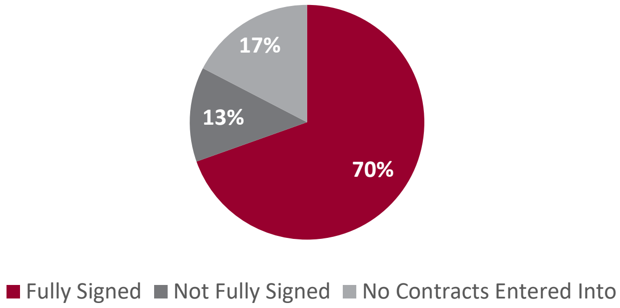
One firm provided no documentation of any relevance to explain the structure and objectives of its reinsurance programme. In this instance, it was difficult to determine how management had decided that the reinsurance agreement was suitable for the firm and what the objectives of the reinsurance agreement were. Firms should fully document the purpose and structure of the reinsurance they engage in.

POINT OF NOTE:

Where firms have reinsurance programmes that have gone into run-off with outstanding liabilities, the Commission would recommend that firms continue to review their policies and procedures with appropriate frequency to ensure they remain adequate for the remaining exposures.

6.2.2 Assessment of the Reinsurance Documentation Provided by the Firms

Is the reinsurance documentation provided by the Firm completely signed?



GOOD PRACTICE:

One of the firms that provided reinsurance documentation that was not signed at the time of the questionnaire, explained that the reason for this was due to unreasonable terms in the drafted contract. In this instance the firm had gone back to the reinsurer and requested that the reinsurance documentation be reviewed to fairly reflect the terms of both parties. This demonstrates good practice by the firm, and that the policies and procedures in place function correctly, ensuring that the documentation reflects the intent of the contract.

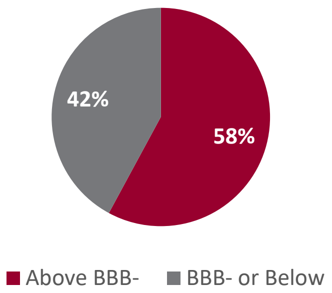
AREA FOR IMPROVEMENT:

In one instance, where a firm did not provide the signed reinsurance documentation, an explanation was provided that the reinsurer did not return the contracts to the firm for signing. Similarly, another firm also provided reinsurance documentation that had been signed over one year after the effective date of the contract. This poses a significant risk to the firms should they wish to claim on the reinsurance contracts as, if not signed, there is the potential for disputes over coverage.

Whilst the Guidance Note does not prescribe an exact timeframe in which firms must sign the documentation, the Commission expects the board of all firms that undertake reinsurance activities to set policies appropriately to ensure that the firms do not leave themselves open to unnecessary risks that could leave them unable to play claims.

6.2.3 Assessment of the Financial Strength of the Reinsurers Used by the Firms

Has any reinsurer with a rating equal to or below Standard & Poors BBB- (or equivalent) been used in the past 24 months?



GOOD PRACTICE:

Where firms choose to use low or unrated reinsurers, whether from related or unrelated parties, those firms should be aware of the potential impact caused by the failure of the reinsurer. An example of good practice in this area is a firm quantifying more thoroughly the potential impact that could be caused by the failure of its reinsurers. This allows the firm to better understand its exposure and enable it to put in place effective mitigation strategies to reduce its capital and liquidity risk as well as ensuring it meets its capital requirements.

An area of good practice was in respect the firms who had used reinsurers whose rating had been downgraded since the effective date of the reinsurance contracts. One of these firms has since withdrawn from using the reinsurer they were engaged with because of this. Firms should have sufficient policies and procedures in place to mitigate their exposure in the event of a credit rating downgrade of the reinsurer, such as rating downgrade clauses that can alter the terms of the reinsurance contract. Many of these clauses were identified throughout the reinsurance documentation provided by the respondents and, similarly, special termination clauses were also included in many of the contracts. These clauses can reduce the exposure of the firms to credit and liquidity risks posed by reinsurers becoming insolvent or not upholding the terms of the contract.

AREA FOR IMPROVEMENT:

One firm reported using multiple unrated reinsurers, where the policies provided by the firm stated they would use A rated reinsurers wherever possible, and only use unrated reinsurers in exceptional circumstances. The Commission would expect the firm to document their reasons each time for selecting unrated reinsurers. It would further expect that firms follow their internal policies and procedures as closely as possible to reduce both the credit risk and liquidity risk exposures they would face from an unrated reinsurer failing to meet its obligations.

In this instance all reinsurers used by the firm were unrated but a rationale for using them, which should explain the exceptional circumstances that had caused their use, was not documented. The Commission would expect that, in situations where firms choose to use unrated reinsurers, they are extremely thorough in conducting and documenting the necessary research and due diligence required before entering into these contracts. The Commission also expects firms to fully document the policies and procedures for purchasing unrated reinsurance, fully explaining the processes involved.

The Commission, in Schedule 4 of The Insurance Business (Solvency) Rules, 2021, lists the ratings agencies that have been approved by the Commission and that are referred to as acceptable ratings agencies. Agencies other than those cannot be used to gain credit under the regulatory solvency assessment. This does not prevent firms from using other rating agencies to satisfy themselves with the reinsurer's financial strength. It does mean that the firms' boards are expected to document their decision in doing so. This should include the board's consideration of:

- how they were able to place reliance on the rating agency;
- the counterparty's current financial position; and
- the potential counterparty default risk.

POINT OF NOTE:

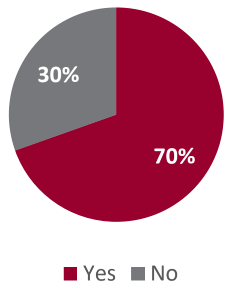
One point of note from the eight firms who used reinsurers of this standard was that four of these reported that the unrated reinsurers used were either group companies or shared common ownership. Similarly, another firm reported using a reinsurer who was rated below BBB- or equivalent but with which they had a long-standing relationship. Although respondents may feel this reduces the risk that firms face when using unrelated reinsurers with rating BBB- or below, the board should maintain effective internal controls over the implementation of their reinsurance programme, and suitable oversight must be in place to manage the credit risk posed by the reinsurer.

It should be noted however, that there is still potential for reinsurers with credit ratings above BBB- to fail. Therefore, it is expected of all firms that the impact of a reinsurer failing should be assessed and planned for in proportion to the risk and impact, no matter the rating.

6.3 Reinsurance Brokers

6.3.1 Assessment of the Policies, Procedures and Controls Regarding the Use of Reinsurance Brokers

Does the Firm use reinsurance brokers, if so are there policies and procedures in place for selecting a reinsurance broker, intermediary or introducer?



GOOD PRACTICE:

Overall, the firms controls in selecting their respective brokers are adequate. The only considerations that were highlighted were:

- That firms need to consider including their criteria for selecting their reinsurance brokers in their policies, procedures, and controls.
- Where a firm's parent company has control over determining the broker used, the firm's board should be able to provide their input into the selection process, especially where the board believes the broker is not suitable. If the board believes that the parent has selected an unsuitable broker, the board should have the authority to reject the broker.

POINT OF NOTE:

Of the twenty-three firms, seven stated that they do not use brokers either due to:

- The reinsurance being with a group company; or
- The firm no longer purchasing reinsurance.

Sixteen firms confirmed that brokers are utilised, and the notable additional information provided by the firms included:

- two firms provided the criteria which is considered by the boards when selecting a reinsurance broker;
- seven firms stated that their respective insurance manager, or a company within its group, provides brokerage services; and
- four firms stated that their parent company controls the choice of broker.

The Commission is aware of instances where firms have placed reliance on their brokers, who have then placed the business with unrated reinsurers. In these instances, the affected firms had undertaken little or no due diligence on the reinsurer and resulted in their reinsurance being placed with a reinsurer which may not have been able to meet its liabilities to the firm.

Reinsurance is a risk mitigant and while the brokers may place the business it is ultimately the board's responsibility to determine if the reinsurance being proposed is adequate and suitable for a firm's needs. Firms' boards need to ensure there are policies and controls in place to ensure that they can make informed decisions on the reinsurance proposed by the brokers.

6.4 Use of Collateral

6.4.1 Points of Note Regarding the Use of Collateral in Reinsurance Contracts

GOOD PRACTICE:

Requiring the reinsurer to post collateral can demonstrate good practice as this can reduce the credit risk posed by the reinsurer. Reinsurers can face solvency issues, which may lead to delayed payment or default, in turn creating significant consequences for the solvency and liquidity of the ceding insurer. Firms should give consideration to requiring the reinsurer to post collateral as this can reduce the impact caused by reinsurer failure, and therefore reduce the capital and liquidity risk to which the firm is exposed.

POINT OF NOTE:

The ability to require the reinsurer to post collateral can depend upon the relative commercial strengths of the ceding insurers and reinsurers, and therefore this may not be a practical credit and liquidity risk mitigation strategy for all firms involved in reinsurance. Firms should also bear in mind that requiring a reinsurer to post collateral to cover some, or all, their obligations may cause liquidity issues for the reinsurer. Ceding insurers should take appropriate measures to manage their liquidity risk in these circumstances.

The use of collateral is a mitigant for credit and liquidity risk but is not a substitute for an effective reinsurance strategy which adequately assesses the capital and liquidity risks from reinsurers.

6.5 Liquidity

6.5.1 Points of Note Regarding Liquidity Risk

GOOD PRACTICE:

One firm considered within its Risk Appetite Statement its willingness to tolerate liquidity risk, and this fed through to its policies and procedures. This demonstrated that the firm had considered the risk in detail and was prepared for potential liquidity stresses.

AREA FOR IMPROVEMENT:

Most firms who documented consideration of the Guidance Note acknowledged liquidity risk. Only a small number, however, documented in detail how the risks affected their firms. Few firms documented an ongoing consideration of liquidity risk. Regularly considering liquidity risk enables the firm to understand where it is exposed and to avoid or mitigate this risk.

POINT OF NOTE:

There is a significant danger that firms may be unable to recover funds from reinsurers as a result of reinsurer failure. More commonly, the inability to recover funds is a result of a dispute over coverage. In both scenarios the insurers would be put under significant liquidity strain. Insurers usually focus on reinsurer failure, which is a high impact but low probability event, but it is important that consideration of liquidity risk also includes the possibility of large individual claims being delayed or rejected due to contractual disputes.

7. External Contract Review Findings

The purpose of the external contract review was to assess the reinsurance contracts of a number of selected firms and to be advised if those contracts are fit for purpose. Historically, the standard of documentation of reinsurance contracts has not been high and there has been a tendency for them to be something of an afterthought on the grounds that the parties "know what they mean".

In general, the standard of the reinsurance contracts in the sample provided to the external consultant were high, but where the contracts were not found to be fit for purpose, or more substantial concerns were raised, these were brought to the Commission's attention along with the assessors' observations.

The key findings from the external assessment were:

- There were examples of poor drafting, such as the exclusion of the name of one of the reinsurers from the signing page of the treaty. This poses the risk that disputes can be made regarding the contract and the parties involved.
- Concerns were raised about a lack of consistent and accurate terminology defining the risks insured, potentially exposing the insurer to basis risk. Where terminology is inaccurate or inconsistent further disputes can arise regarding the coverage of the policy, which may result in the insurer being unable to recover losses on its reinsurance.
- The wording of a number of contracts was very brief and excluded clauses that might be expected to be seen in a reinsurance treaty. The exclusion of key clauses can lead to uncertainty within the contract and disputes over coverage.
- A number of the reinsurance contracts referred to the previous names of the entities involved and had not been updated at renewal. This implies careless drafting which also suggests that other parts of the contracts may also not have been updated. All contracts should be reviewed at renewal to ensure the information enclosed is up to date.
- The external review identified occasions where unrated and/or unregulated reinsurers were used to provide cover that could be obtained in the market from rated and regulated reinsurers.
- Some reinsurance contracts were not signed by all parties within a reasonable period of the cover incepting.

AREA FOR IMPROVEMENT:

While the contractual documentation from some firms was of a high standard, all firms should ensure that their reinsurance contracts are reviewed thoroughly upon inception and renewal to ensure that they are complete and accurate and reflect the intentions of all the parties.

Firms are reminded of the importance of understanding the risks from using unregulated or unrated reinsurers and ensuring that appropriate controls and mitigants are in place to limit those risks. This is particularly important where a firm has retail customers whose coverage could be at risk should the unrated or unregulated reinsurer fail.