



## Globex Update (Feb. 2008)

### Legislative Changes in the Brazilian Reinsurance Market

The reinsurance market in Brazil has been closed to foreign reinsurers and all reinsurance has been provided by the national reinsurer IRB since 1996, but new legislation is about to change all this. Globex has gone into the local market to find out what these changes mean for our US partner markets. Here is what we learned:

Complementary Law no. 126 ("CL 126") was enacted on January 15, 2007, and it effectively abolished the IRB's reinsurance monopoly. However, the IRB retains its authority to operate in reinsurance and retrocession, without need for governmental approval, thus immediately being qualified as a local reinsurance company. The IRB will no longer supervise reinsurance transactions; they will now be under the oversight of SUSEP. CL 126 left the specific implications and requirements for foreign reinsurers largely undefined.

To clarify the situation, CNSP Resolution No. 168 was passed on December 17, 2007, which is giving non-Brazilian reinsurers the parameters within which they can operate. The resolution defines three distinct categories of reinsurers:

1. *Local Reinsurers*: These are corporations domiciled in Brazil whose sole purpose is the execution of reinsurance and retrocession transactions. Currently, the IRB falls into this category.
2. *Admitted Reinsurers*: These are non-Brazilian domiciled reinsurers who have a representative office in Brazil. They must be registered by the Superintendent of Private Insurance (SUSEP). They also must have a surplus of no less than \$100,000,000 and a minimum rating of B+. Additionally they must have \$5,000,000 in a Brazilian bank account.

3. *Occasional Reinsurers*: These companies are foreign reinsurers domiciled outside Brazil who are registered with SUSEP. They must have a minimum surplus of \$150,000,000 and at least a B++ rating. They must have an attorney-in-fact domiciled in Brazil, as their legal representative. In our estimation, this may be the logical point of entry for many of our clients.

Until January 16, 2010, 60% of ceded premiums must be offered to local reinsurers. After that date, the mandatory cession will be 40%. The local reinsurer has 5 to 10 days to accept or decline the offer. Only when all Brazilian reinsurers have declined the offer, may a Local or Admitted Reinsurer reinsure the risk.

Taking all the restrictions that continue to be placed on foreign reinsurers into consideration, the opening of the Brazilian market is not a one-time event, but rather a slow and protracted process. In the last few weeks, Munich Re, Lloyds and Swiss Re have indicated that they are beginning the licensing process, and we expect to see this trend continue.

We will continue to follow the market changes in Brazil and to provide you with most accurate market intelligence. If you have any further questions, please feel free to contact us at any time.