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2011 Cat Losses Demonstrate Brazil's Enormous Risk with Protectionist Reinsurance Regulation

A coalition of reinsurance trade groups has pointed to the record 2011 global natural disaster insured catastrophe losses as a warning sign as to why protectionist reinsurance regulation will backfire in jurisdictions which try to impose limits on global risk distribution via reinsurance. In 2011, more than $105 billion (US) insured catastrophe losses were incurred from hurricane, earthquake, flood, brushfire and other natural disaster events. Nearly 45% of these insured losses will be paid by global reinsurers, nearly all of which were not located in the jurisdiction in which the event occurred. Reinsurance is insurance for insurance companies and is a way to diversify and distribute losses globally. Brazil's protectionist reinsurance regulation, by contrast, would force domestic reinsurers to pay these record losses with less assistance from international reinsurance markets.

"The reinsured share of the very largest losses of 2011 (Australian flooding and windstorms, New Zealand earthquakes, Japanese earthquakes, Thai flooding) were very heavily reinsured. The larger the loss, generally the greater share of the loss that flows into reinsurance markets. The share of the 2011 mega event cat losses that were reinsured ranged from 40% to 73%. The Chilean earthquake, which occurred in 2010, had a reinsured share of 95%," noted Brad Kading, President of the Association of Bermuda Insurers and Reinsurers (ABIR). "Despite record losses reinsurers are financially strong; and the reinsurers' track record in paying these large claims is excellent."

"Notably, the reinsurers of these losses were generally not located in the jurisdiction where the loss event occurred. Thus the losses were exported to "foreign" reinsurers who then make claims payments to the local insurers in the economy where the event occurred. The impact of this is to speed recovery in the disaster-affected economy, since the loss is not largely borne by the local business and insurance community. The amount of the reinsured share of the losses sent to non-domestic reinsurers from these events ranged from 90 to 100%," noted Michaela Koller, Director General of the CEA, the European insurance and reinsurance federation.

"Brazil's protectionist reinsurance regulations, adopted in 2011, restrict the degree to which non-Brazilian reinsurers can share Brazilian losses; thus losses are not distributed globally as they are under other mega-loss events. Under the Brazilian rules, 40% of all risk must be placed with Brazilian reinsurers. If those Brazilian reinsurers are foreign controlled, they are prohibited from ceding more than 20% of their own losses to their foreign parents. Thus the impact of the Brazilian regulations is to compel mega event losses to be contained within the Brazilian economy, meaning that Brazil would not receive the economic boost from reinsurance recoveries that were received in 2011 in Australia, Japan New Zealand and Thailand; and in 2010 in Chile," stated Frank Nutter, President, Reinsurance Association of America.

"While Brazil is not known to be exposed to earthquakes or hurricanes, it is exposed to catastrophic loss from crop failure, flooding and catastrophes that could occur to infrastructure, oil and industrial production facilities, from fire, explosion, terrorism or other man-made causes. Brazil has had a number of catastrophic floods in recent years, and elsewhere in the world such flood insurance losses are largely reinsured to prevent an accumulation of losses that might overwhelm domestic insurers," stated David Matcham, CEO, International Underwriting Association of London.

"Reinsurance is one of the most globalized industries in the world today. Reinsurers' unique ability to pool risk and pay claims on a global scale produces all the same welfare enhancing effects for businesses and consumers as free trade—helping stimulate economic growth, jobs and fostering stability. Brazil is now the seventh largest economy in the world, largely as the result of its international trade, but that rapid growth has left the economy vulnerable to large scale catastrophic losses similar to those suffered in other fast growing economies such as Thailand and Chile. Free and open access to global reinsurance markets is essential if Brazil is to protect its Brazil's long-term investments in its future," said Dr. Robert Hartwig, President and Economist for the Insurance Information Institute."

Although the US and Europe were spared from the largest global loss events in 2011, previous evidence (Hurricane Katrina, Windstorm Xynthia) demonstrates that for mega events, a large share of losses are distributed to non-domestic reinsurers, Kading noted. The timely, claims payment record of reinsurers in spite of record setting losses is well documented from such historical events.

Reinsured Cat Incurred Loss Table 2011, with Chile 2010[i]

Estimated Reinsured Share		Non-Domestic Reinsured Share
Australia:	44%	90%
New Zealand:	73%	100%
Japan:	40%	98%[ii]
Thailand:	60%	95%
Chile:	95%	100%

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[i] This information is drawn from published reports including investment analysts, reinsurance brokers, insurance trade publications

[ii] This estimate is based on conversations with industry sources; the information is closely held due to proprietary relationships