reinsurance
advisory board

Market access challenges: Introduction

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The RAB has identified a number of priority markets in which major reinsurance access and discriminatory trade barriers exist. These include Canada, China, India and Indonesia.

However, the problem of reinsurance trade barriers goes much wider than these four countries. The latest list of reinsurance trade barriers and market access issues published by the Global Reinsurance Forum in August 2019 identifies 45 major territories, including regional groupings, that have either implemented, or are in the process of implementing, barriers to the transfer of risks through global reinsurance markets. These barriers are to be found on all continents, including Europe, and take a variety of forms:

- Restrictions on the ability of reinsurers to freely conduct business on a cross-border basis, thus limiting the capacity of global reinsurers to spread risk globally and to prevent domestic concentrations of risk (eg Germany).
- Requirements for reinsurers operating on a cross-border basis to collateralise or localise assets, preventing the global reinsurance market from transferring and spreading risk on the basis of a competitive, level playing field across borders (eg Argentina and Brazil).
- Restrictions on foreign ownership of subsidiaries and other barriers to the establishment of branches, subsidiaries and operations. This limits the ability of reinsurers to deliver their full economic benefit by providing local underwriting expertise and direct services to transfer risk out of domestic markets on an open and competitive basis (eg Malaysia).
- The use of discriminatory and anti-competitive mechanisms — such as compulsory cessions to domestic entities, systems of "right of first refusal" and compulsory subsidised or monopolistic governmental mechanisms — limiting the competitive capacity of global reinsurers to operate on a level playing field (eg in the African Union).

There has been a significant increase in cases of such barriers in recent years, particularly since the global financial crisis. This adverse trend has been compounded of late by the reluctance of international governments to denounce protectionist barriers. Regrettably, the last two G20 summits omitted reference to the undesirability of such barriers, in contrast to prior summit statements.

The RAB published a paper on the benefits of open reinsurance markets in 2015. This explained that:

- Open reinsurance markets are vital to enable reinsurance markets to operate efficiently, to diversify risk globally and to promote continued growth and recovery of global and national economies. Barriers to trade in reinsurance undermine the efficiency of reinsurance markets. They lead to higher reinsurance costs and less capacity in the long term.
- Reinsurance provides a mechanism for insurers to reduce their underwriting risk across a broad range of non-life and life business classes. It thereby enables insurers to strengthen their own solvency and expand their capacity to absorb different types of business and customer risk, both catastrophic and non-catastrophic. In addition, reinsurance helps insurers to reduce the volatility of their earnings, accompanied by positive effects on capital costs that insurers can pass on to policyholders, for example in the form of lower prices.

Growing protectionism is a particularly unfortunate trend at a time when, as research consistently shows, there remains a huge and persistent gap between the level of economic losses experienced (particularly following catastrophes) and insured levels worldwide.

This is an issue of particular importance to Europe, since it is home to the largest global reinsurers (all of them RAB members) and is therefore particularly affected by this trend of restrictive practices.

