International Alert

Reinsurance Rules in Brazil Change Again

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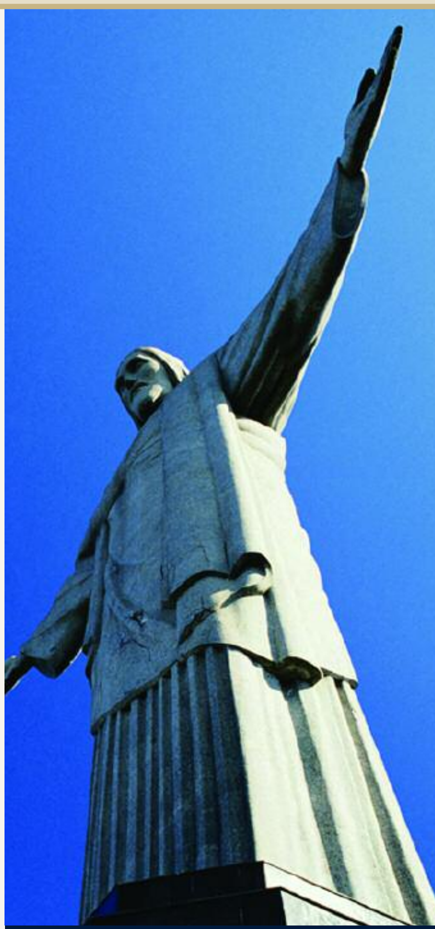

New changes in reinsurance rules in Brazil will make the use of captives for reinsurance purposes extremely difficult for multinational companies. The Brazilian government's reinsurance monopoly, IRB-Brasil Resseguros SA (IRB), issued stricter limits and approval requirements for reinsurers on November 4, 2005, which will directly impact captives and the companies that rely on them for reinsurance. These rules will be less of a problem for traditional reinsurers because most are already compliant with these requirements.

This marks another round of IRB altering the rules for multinationals reinsuring risks in Brazil. Changes issued early in 2005 made it easier for multinationals to reinsure local exposures into their global programs. The new rules do not affect the earlier action.

Captives that do meet IRB's criteria will face maximum retrocession premium limits and limits on retention per risk. If captives fail to meet these criteria, the IRB can demand a financial guarantee or a letter of credit from the reinsuring entity. In either case, the requirements may severely limit the usefulness of captives for reinsurance purposes.

Willis has retail and reinsurance operations in Brazil which offer in-depth knowledge of the local market and IRB policies. We can assist any organization in analyzing their reinsurance situation and can suggest alternative solutions to problems generated by these stricter policies.

For additional information, contact your local Willis office or **Anthony Harvey** of the International Practice at:

Willis Corretores de Seguros Ltda
Rua Alexandre Dumas 2100
4° Andar
Chácara Santo Antonio
CEP 04717-004
São Paulo, Brazil
Tel: 55 11 2161 6010
Fax: 55 11 5181 9377
harveyaw@willis.com

Excerpts from the New IRB Policy

Below are excerpts from the new IRB regulations, with explanatory notes provided by Willis experts on insurance issues in Brazil.

Article 2. Only a reinsurer rated as per one of the classifications below may receive IRB-Brasil Re retrocessions. The maximum premium and responsibility limits are:

S&P	Moody's	AM Best	Maximum Retrocession Premium	Maximum Retention per Risk
AAA	Aaa	A++ A+	1.75% of Net Equity (NE); i.e., assets minus liability	30% of NE
AA+ AA AA-	Aa1 Aa2 Aa3	A A-	1.5% of NE	20% of NE
A+ A A-	A1 A2 A3	B++ B+	1% of NE	10% of NE

Note: A limited number of captives have ratings.
Net equity equals assets minus liabilities.

§1. Besides the above parameters, the retrocession must receive approval from the Security Committee, decided on the basis of the bid submitted by the appropriate sector of the IRB-Brasil Re, as regards ability to pay and compliance with obligations within the periods of time prescribed.

§2. Should a retained reinsurance company not be rated as per one of the risk classifications prescribed, such company may receive IRB-Brasil Re retrocessions only provided that the following requirements are met:

I. Presentation of a financial guarantee in the form of a letter of credit from a first-class banking institution of an amount equal to or greater than the part of the risk underwritten.

This means that the reinsurer wanting to participate in the business cannot participate with a share more than the amount of the financial guarantee. The guarantee has to be for the gross limit ceded to the captive.

II. Operation with retrocessionaire reinsurers that comply with the minimum risk classification requirements and the maximum premium and responsibility limits prescribed above.

This means that the retrocessionaires behind the captive company offering reinsurance also have to comply with IRB's minimum requirements for security as indicated in the chart above.

III. Prior submission to the IRB-Brasil Re of the retrocession contracts signed by and between the retained reinsurance company and its retrocessionaires, containing provisions expressly stipulating that any payment of indemnities due shall be made by the retrocessionaires, in accordance with their respective participation quotas, directly to the IRB-Brasil Re, on the same contractual bases set forth in the cession originally received from the IRB-Brasil Re, the Board of Directors being bound, should it agree to any divergence therefrom, to require the provision of supplementary guarantees in the terms of subparagraph I.

If a company wants to do business with a reinsurer that is not acceptable to IRB, the company will need to provide details about the retrocessionaires behind the reinsurer and, in addition, assure that the retrocessionaires have accepted the business on the same basis as IRB offered to the reinsurer. This also allows IRB to receive payments directly from the retrocessionaires.

Further changes in how the IRB operates are expected in 2006. Willis will continue to keep you up to date on these changes.