# Insight Briefing

# It's time to (re)evaluate the risks of protectionism

## Policymakers must recognise benefits of engaging with foreign (re)insurers

International trade is an essential component in boosting economic growth around the world. (Re)insurers can play a crucial role in facilitating that growth by offering financial protection and dispersing insured risks across a global network.

This means that the financial impact of natural and man-made disasters is not concentrated within the economies where they occur. Of course, this is the central objective of insurance: to share risks, so that losses are more easily absorbed.

The ability of foreign (re)insurers to protect and contribute to economic growth is closely tied to their ability to be authorised by regulators to do business, and to be treated the same as local competitors.

Even as the world becomes more interconnected in practice, several jurisdictions are worryingly adopting protectionist measures to limit the involvement of foreign (re)insurers in their domestic markets.

Such actions could have serious unintended consequences for those economies, leaving them not only isolated but — more dangerously — exposing them to a much greater concentration of risks.

### Dangerously concentrating risk

For example, following the merger of its four state-owned reinsurers into Indonesia Re, the Indonesian insurance regulator announced regulation introducing compulsory local reinsurance cessions. Similarly, in 2015, the Ecuadorian regulator enforced a compulsory retention of 95% for individual life, group life, personal, health and motor reinsurance.

As optimum insurance coverage of major loss events is only possible through a wide geographic diversification of the risks, such moves could lead to a concentration of risk within the respective insurance markets, which could in fact have a severe impact their wider economies in case of major events.

### Limiting progress, increasing costs

While stopping short of an outright ban on foreign (re)insurance cessions, some jurisdictions impose punitive limits on reinsurance cessions to foreign (re)insurers, which place their insurance markets at risk.

For example, in Argentina, cross-border foreign reinsurers are only allowed to provide coverage for the portion of a risk above USD 50 million and retrocession services.

There are also rules being considered that would increase local reinsurer's retention to 75% for life and health, and 25% for property & casualty by 2017.

Similarly, in Brazil a number of limits on cessions to foreign affiliates are in place and are also likely to increase over the coming year, up to 75% in 2020. In addition, local retention limits apply and foreign reinsurance branches are prohibited.

There are similar examples in India. While the Indian government took important and welcome steps towards reducing trade

**Examples of protectionism**

A July 2016 report by the World Trade Organisation (WTO) on the developments in the international trading environment found that between mid-October 2015 and mid-May 2016, WTO Members applied 154 new trade-restrictive measures, amounting to 22 new measures per month.

This constitutes a significant increase compared to the same period the previous year, which recorded an average of 15 measures per month. It is the highest monthly average registered since 2011, when WTO recorded a peak in the monthly average of new trade restrictive measures.

barriers and improving access to its (re)insurance market by allowing global reinsurers to establish branches, some of these positive changes were reversed in implementing regulations, which are intended to offer first preference to local market players.

Such regulatory initiatives risk being detrimental to all of these markets, as they significantly limit the access of foreign (re) insurers to the local markets.

This is despite the fact that in addition to capital, foreign (re) insurers bring operational expertise, skills and discipline in underwriting, access to a wider range of products, a strong risk management culture, technological developments and training, all of which can benefit other companies and sectors.

In addition, limiting domestic insurers' access to foreign reinsurance could constrain their ability to optimise the management of their risk exposures and corresponding capital requirements.

This could increase costs for both insurers and their customers. Such a move could also result in the accumulation of risks by insurers faced with less interesting opportunities to cede risks, therefore compromising their underwriting performance.

## Seeking for changes

Many protectionist practices also contradict international agreements on free trade. This is why Europe's insurers engage with the European institutions to help identify such practices, so that they can be addressed at an international level. For example, it is hoped that many of the issues outlined in the Argentinian and Brazilian markets will be addressed by EU policymakers in the forthcoming discussions on a possible trade agreement between the EU and the Latin American Mercosur bloc (Argentina, Brazil, Paraguay, Uruguay and Venezuela).

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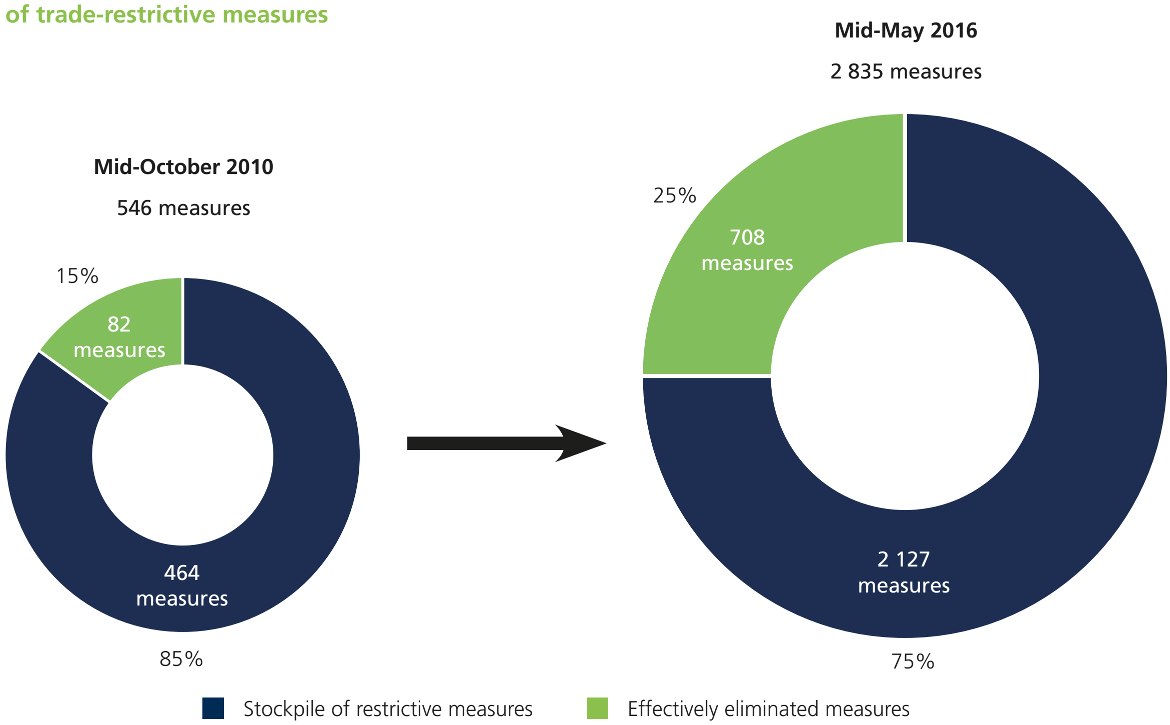
**Stockpile of trade-restrictive measures**




*Source: WTO Trade Monitoring Report, July 2016*