



Recommendation of the Council on Assessment of Reinsurance Companies

**OECD Legal
Instruments**

This document is published under the responsibility of the Secretary-General of the OECD. It reproduces an OECD Legal Instrument and may contain additional material. The opinions expressed and arguments employed in the additional material do not necessarily reflect the official views of OECD Member countries.

This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

For access to the official and up-to-date texts of OECD Legal Instruments, as well as other related information, please consult the Compendium of OECD Legal Instruments at <http://legalinstruments.oecd.org>.

Please cite this document as:

OECD, *Recommendation of the Council on Assessment of Reinsurance Companies*, OECD/LEGAL/0295

Series: OECD Legal Instruments

© OECD 2018

This document is provided free of charge. It may be reproduced and distributed free of charge without requiring any further permissions, as long as it is not altered in any way. It may not be sold.

This document is available in the two OECD official languages (English and French). It may be translated into other languages, as long as the translation is labelled "unofficial translation" and includes the following disclaimer: *"This translation has been prepared by [NAME OF TRANSLATION AUTHOR] for informational purpose only and its accuracy cannot be guaranteed by the OECD. The only official versions are the English and French texts available on the OECD website <http://legalinstruments.oecd.org>"*

Date(s)

Adopted on 25/03/1998
Abrogated on 12/07/2017

THE COUNCIL,

HAVING REGARD to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

HAVING REGARD to Rule 18 b) of the Rules of Procedure of the Organisation for Economic Co-operation and Development;

CONSIDERING the need for ceding insurance companies to assess adequately the soundness of the reinsurance companies to which they cede insurance risks;

CONSIDERING, in general, the need for transparency and disclosure of information in the reinsurance markets and noting that a great deal of information may already be available in the public domain;

CONSIDERING that it is desirable to provide for some guidance on approaches to such assessments, including on the main factors which insurance companies may want to consider and in relation to which reinsurance companies may be prepared to make information available upon request, but recognising that such guidance should not be considered either as mandatory or as exhaustive;

CONSIDERING that application of such guidance should not discriminate (*de jure* or *de facto*) between reinsurance companies from different Member countries;

CONSCIOUS that reinsurance companies may be unable to provide some information either to preserve confidentiality or for other legitimate reasons;

On the proposal of the Insurance Committee;

I. RECOMMENDS that Member countries:

1. Invite insurance companies under their supervision to take all appropriate steps to assess the soundness of reinsurance companies to which they cede or propose to cede business having regard to the contents of the Annex to this Recommendation of which it forms an integral part ;

2. Invite reinsurance companies under their supervision, or established within their territory, to provide, on request, information to insurance companies, which will assist the latter in making assessments.

II. INVITES non-member countries to take account of the terms of this Recommendation.

ANNEX

ASSESSMENT OF REINSURANCE COMPANIES

It is the responsibility of the insurance companies to identify the information they need for assessing the soundness (which includes the fact that the individual reinsurance company is able, financially and administratively, to pay legitimate claims and can be relied upon to do so promptly) of reinsurance companies.

The nature and extent of the assessment may vary, according to the nature and importance of the transaction, the nature and importance of the parties concerned.

While the responsibility for assessment remains ultimately with the ceding companies, it may be appropriate to draw on the experience of brokers or other sources of information and expertise (e.g. specialised press and rating agencies), but in a prudent way.

Reinsurance companies will, for the purpose of this Recommendation, be understood as professional reinsurance companies, associations of underwriters authorised to accept reinsurance, direct insurance companies accepting reinsurance. They have different characteristics and may be subject to different regulatory and supervisory frameworks, including accounting rules.

There are a number of possible sources of information relevant to an assessment. In addition to statutory annual reports and accounts, examples include publicly disclosed regulatory returns and other sources. These may provide an adequate basis for an assessment. Where such information is not available, or appears insufficient, then insurance companies may consider the following factors or comparable ones:

1. Legal and statutory framework

- Legal status of the reinsurance company;
- Scope of regulation and supervision of reinsurance in the home country (licensing registration, solvency provisions, rules related to technical provisions, collateralisation, winding-up, accounting), and if necessary in host country;
- Reinsurance regulation of investments, existence of rules related to liquidity, diversification, spread currency matching, maturity matching, derivatives, securitisation, and movements of capital. Reinsurance regulations on investments abroad, transfer of profits, premiums, claims;
- Tax regulation of reinsurance in the home country, and, if necessary, in host countries;
- Characteristics of the reinsurance contract law applicable to the contract when not specified in the contract.

2. Structural indicators

- Structure and composition of the main direct shareholding, whether it belongs to groups or conglomerates, for at least the last three years, taking account of listed/unlisted nature of the company;
- Relevant business relationship with other companies (including strategic alliances, significant relation/legal agreement, accepted non-related risks for captives, intragroup retrocessions).

3. Management

- Reputation and integrity of board management and legal representatives (and other staff, if relevant); fit and proper criteria, when existing; absence of relevant professionally related criminal or civil sentences or convictions.

4. Performance indicators (for at least the past three years)¹

¹ In case of premiums, for the main classes of covered risks; and at least for general liability, transport and catastrophic risks; and for the main countries, or regional group of countries, in which they operate.

In case of losses, for the main classes of covered risks, and at least for general liability, transport and catastrophic risks.

- Gross and net premiums;
- Incurred losses (gross and net);
- Operating expenses;
- Investment income.

5. Technical provisions and solvency

- Level and composition of technical provisions, including loss provisions (gross and net) and equalisation provisions (gross and net);
- General methods of valuation of technical provisions and results of past valuations;
- Level and composition of guarantee funds, of which shareholders' equity and subordinated liabilities, shareholders' equity being specified as: subscribed capital and equivalent funds, share premium account, revaluation reserves, other reserves and minority interests;
- Use of alternative risk transfers.

6. Investments

- For at least the past three years: spread of assets between the following categories: real estate, mortgage loans, shares, bonds with fixed revenue, loans other than mortgage loans, other investments;
- Methods of evaluation in the balance sheet, including derivatives.

These data should enable the calculation of combined ratio (losses plus expenses divided by premiums), loss ratio, expenses ratio, operational ratio (losses plus expenses minus investment income - insofar as they are included in annual results - divided by premiums) and retention ratio.

The spread of retroceded premiums per main retrocessionnaires, possibly with names, should be communicated, for the main classes considered.

Adherents*

OECD Members

Australia
Austria
Belgium
Canada
Chile
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Israel
Italy
Japan
Korea
Latvia
Luxembourg
Mexico
Netherlands
New Zealand
Norway
Poland
Portugal
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

Non-Members

* Additional information and statements are available in the Compendium of OECD Legal Instruments:
<http://legalinstruments.oecd.org>

About the OECD

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD Member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Legal Instruments

Since the creation of the OECD in 1961, around 450 substantive legal instruments have been developed within its framework. These include OECD Acts (i.e. the Decisions and Recommendations adopted by the OECD Council in accordance with the OECD Convention) and other legal instruments developed within the OECD framework (e.g. Declarations, international agreements).

All substantive OECD legal instruments, whether in force or abrogated, are listed in the online Compendium of OECD Legal Instruments. They are presented in five categories:

- **Decisions:** OECD legal instruments which are legally binding on all Members except those which abstain at the time of adoption. While they are not international treaties, they entail the same kind of legal obligations. Adherents are obliged to implement Decisions and must take the measures necessary for such implementation.
- **Recommendations:** OECD legal instruments which are not legally binding but practice accords them great moral force as representing the political will of Adherents. There is an expectation that Adherents will do their utmost to fully implement a Recommendation. Thus, Members which do not intend to do so usually abstain when a Recommendation is adopted, although this is not required in legal terms.
- **Declarations:** OECD legal instruments which are prepared within the Organisation, generally within a subsidiary body. They usually set general principles or long-term goals, have a solemn character and are usually adopted at Ministerial meetings of the Council or of committees of the Organisation.
- **International Agreements:** OECD legal instruments negotiated and concluded within the framework of the Organisation. They are legally binding on the Parties.
- **Arrangement, Understanding and Others:** several ad hoc substantive legal instruments have been developed within the OECD framework over time, such as the Arrangement on Officially Supported Export Credits, the International Understanding on Maritime Transport Principles and the Development Assistance Committee (DAC) Recommendations.