Insurance Supervision Policy Statement
No. 6:

Reinsurance Management Strategy for Insurance Companies Licensed to Conduct Insurance Business in Fiji

I. Introduction

1. Every insurer carries in its financial statements a significant liability to meet its obligations to policyholders and claimants. Reinsurance management plays a vital role in ensuring the insurer's ability to meet these obligations and ensures its viability and capital protection.

2. Reinsurance management refers to the selection, monitoring, review and control of reinsurance arrangements within acceptable risk parameters, where a portion of the risks assumed by an insurer is ceded to another insurer.

3. This Policy is issued under Section 3(2)[a] and complements the requirements of Section 39 of the Insurance Act 1998 as part of the Reserve Bank of Fiji's standards governing the conduct of insurance business in the Fiji Islands.

II. Objective

4. The Reserve Bank of Fiji acknowledges the differing practices that insurance companies have, to determine the appropriate reinsurance cover and their choice of reinsurers. The purpose of this Policy is to outline the minimum requirements of the Reserve Bank of Fiji in the development of Reinsurance Management Strategies (REMS) of insurance companies licensed to conduct insurance business in Fiji.

III. Requirements under this Policy Statement

5. Role of the Board of Directors

(a) The Board is required to:

(i) identify, assess and document the risk appetite of the company; and
(ii) approve a reinsurance strategy that is appropriate to the company's overall risk profile.

(b) The reinsurance strategy must define and document the insurer's strategy for reinsurance management, identifying the procedures for:

(i) selecting and monitoring reinsurance programs; and
(ii) determining all aspects of a reinsurance program, including the:
  (1) identification and management of aggregation risks;
  (2) identification and management of upper bounds of programs; and
  (3) selection of participants including consideration of diversification and creditworthiness.

(c) The Board must ensure that all legal and regulatory requirements for reinsurance are complied with.

This is in line with Section 39 of the Insurance Act 1998, which states that:

> (1) *An insurer must at all times have in place arrangements approved by the Reserve Bank for reinsurance of liabilities in respect of risks against which persons are, or are to be, insured in the course of its carrying on insurance business in the Fiji Islands.*
>
> (2) *An insurer must submit details of its reinsurance arrangements to the Reserve Bank as soon as possible after the commencement of the period of cover provided by the arrangements.*
>
> (3) *In determining whether an insurer's arrangements for reinsurance are satisfactory, the Reserve Bank must have regard to all matters that it considers relevant and, in particular to –*
>
> *(a) the class or classes of insurance business carried on or proposed to be carried on by the insurer;*
> *(b) the amount of premiums retained by the insurer during its last preceding financial year in respect of each class of business carried on by it;*
> *(c) the amount of premiums expected to be retained in respect of each class of business by the insurer during its next financial year;*
> *(d) the retention limits in each class of insurance business carried on or proposed to be carried on by the insurer;*
> *(e) the insurer's exposure to catastrophic loss;*
> *(f) the amount of the insurer's capital and free reserves;*
> *(g) the nature and value of the assets of the insurer;*
> *(h) the places in which liabilities of the body corporate may be incurred; and*
> *(i) the person or persons by whom the reinsurance is or is proposed to be undertaken.*

(d) The Board must review the Reinsurance Management Strategy once every calendar year for General Insurers and once every five calendar years for Life Insurers. In addition, the Reinsurance Management Strategy must be reviewed when there have been changes in the company's circumstances, its underwriting strategy, or the status of its reinsurers.

(e) If the insurer in Fiji is part of a global insurance group or operates as a foreign insurer, its REMS is to include information on its global reinsurance policy. This may include policy objectives and strategies in respect of reinsurance management, but must particularly include the reporting arrangements between Fiji and foreign or home office operations, the monitoring of Fiji operations by the foreign parent or home office and the home regulator's supervisory arrangements regarding reinsurance. Where elements of the REMS are controlled by the home office or foreign parent, these are to be identified and detailed in the institution's REMS.

6. Role of Senior Management

(a) Senior management must define and document clear operational policies and procedures for implementing the Reinsurance Management Strategy approved by the Board of Directors. This includes:

- (i) setting underwriting guidelines that specify the types of insurance to be underwritten, policy terms and conditions, and aggregate exposure by type of business;
- (ii) establishing limits on the amount and type of insurance that will be automatically covered by reinsurance (e.g. treaty reinsurance); and
- (iii) establishing criteria for acquiring facultative reinsurance cover.

(b) In order to avoid uncovered risks, the terms and conditions stipulated in the reinsurance arrangements are to be compatible with those of the underlying business.

(c) Adequate internal control systems must be in place to ensure that all business activities are carried out in accordance with the Reinsurance Management Strategy and that the planned reinsurance cover is in place.

(d) Senior management must ensure proper and effective reporting systems are in place, according to the requirements of the Board.

7. Internal Control

(a) The Reinsurance Management Strategy must be a well-defined control structure to monitor and report on the company's reinsurance arrangements. The Senior Management is responsible for establishing a company's internal controls.

(b) The monitoring and review functions of a REMS must, at a minimum, cover the following:

- (i) the identification and recording of policies underwritten, to which reinsurance is attached;
- (ii) the identification of dates when an obligation to pay reinsurance premium arises;
- (iii) the identification of cases where a company has suffered a loss under a policy against which a reinsurance recovery can be made;
- (iv) the management of the timing of payments to, and collection from, reinsurance counterparties;
- (v) the credit standing and capacity of reinsurance counterparties to meet obligations;
- (vi) the concentration of reinsurance programs with reinsurance counterparties, which would create large exposures;
- (vii) the accessibility of intra-group funding under a range of conditions;
- (viii) the impact of adverse trends in estimated insurance liabilities on reinsurance and implications for the capacity of the insurer to meet its future policyholder obligations; and

(ix) any other internal control measure so recommended by the insurer's internal auditors.

(c) Internal control systems that are in place must be subject to annual audit examination.

8. Fronting

(a) Fronting is the passing on to a reinsurer, of all liability to pay money to an insured on an insurance policy. Licensed Insurers must not engage in fronting.

(b) To avoid fronting, each insurance company must assess its reinsurance arrangements according to the definition of 'reinsurance business' as provided for in the Insurance Act 1998. The Act defines 'reinsurance business' as the business of undertaking liability to pay money to insurers or reinsurers in respect of liabilities incurred by insurers or reinsurers on the basis of policies of insurance or reinsurance.

IV. Reporting to the Reserve Bank of Fiji

9. For the purpose of this Policy, all licensed insurance companies in Fiji are required to provide to the Reserve Bank of Fiji, the company's Reinsurance Management Strategy within 90 calendar days after every review period as required in paragraph 5(d).

10. An insurer must adhere to its REMS at all times and must advise the Reserve Bank of instances where it intends to undertake activities in a manner that would represent a deviation from its REMS. Any such activities must first be approved by the Insurer's Board.

11. An insurer must inform the Reserve Bank immediately in writing if there is a likelihood of a problem arising with its reinsurance arrangements that is likely to materially detract from its current or future capacity to meet its obligations, and discuss with Reserve Bank its plans to address this situation.

12. An insurer must submit to the Reserve Bank, the most recent REMS for the purpose of onsite examination.

V. Implementation Arrangements

13. The Reserve Bank of Fiji will assess the compliance of the Insurers with the requirements of this Policy during on-site examinations.

14. This Policy applies to all insurance companies licensed under the Insurance Act and becomes effective from 1st May 2007.

Reserve Bank of Fiji
March 2007

SCHEDULE

Interpretation-

(1) Any term or expression used in this Notice that is not defined in this Notice:

(a) which is defined in the Act, shall, unless the context otherwise requires,
have the meaning given to it by the Act;

(b) which is not defined in the Act and which is defined in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, have the meaning given to it by those policy statements; and

(c) which is not defined in the Act or in any of the Reserve Bank of Fiji Policy Statements shall, unless the context otherwise requires, be interpreted in accordance with generally accepted accounting practice.

(2) In this Notice, unless the context otherwise requires:

'Act' means the Insurance Act 1998 unless otherwise specified.

'Board' refers to the Insurer's Board of Directors.

'Senior Management' refers to the Insurer's executive management or the highest tier of management.

'Cession' is the amount of risk which the insurance company reinsures; the amount passed on to the reinsurer.

'Retrocession' is the amount of risk that a reinsurance company reinsures; the amount of a cession which the reinsurer passes on.