

INTELLIGENT INSURER

Argentina: a closer look

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JLT Re Argentina's facultative manager Alejandro Kato analyses the reinsurance market in Latin America's second largest country.

In Argentina, the insurance contract was first legislated by the Commercial Code issued in 1861 which—together with the regulation of commercial companies—began to give a framework of legal certainty, which enabled the establishment of a local insurance market.

Following a lengthy process, in 1937 the National Insurance Superintendence (SSN), a body responsible for establishing the applicable regulations for the creation and operation of insurance companies, was created.

Nearly a decade later, there were some 160 insurers operating in our country. The Joint Institute of Argentinian Reinsurers (IMAR) was created, regulated by Law 12.988, an organisation funded by both the state and Argentinian insurers. A primary objective in its creation was to achieve independence for the local market, in the face of international reinsurance. This outcome couldn't be achieved and its failure generated a lengthy process, finally ending in the liquidation of the organisation.

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As decreed by the Law 14.152 in 1952, the IMAR was replaced by the National Institute of Reinsurers (INDeR), a fully state-owned body approved by a new amendment to Law 12.988. The local market at that time had 303 insurers, who were 'producers' of premium, and placed risks only in the INDeR, which ultimately received 80 percent of the total premiums of the country. The operations of the INDeR incurred growing losses, a situation which proved irreversible, despite the adoption of various measures to solve the problem.

Finally, in 1991 cession to the INDeR was freed up and the organisation was eventually dissolved on January 1, 1992. Since that time, the contracting of reinsurance has operated relatively freely; with regard to the regulations imposed by the National Superintendence, they have only specified the conditions for local reinsurers in their relation with external reinsurers, in order to be able to operate.

The market was then regulated by a series of provisions which culminated in Resolution 24.805 of August 13, 1996, at which point the Argentinian market officially began to operate freely with new, well established players.

The current landscape

We arrive at the present day situation: in 2011, the National Superintendence issued Resolution 35.615. This regulation, very wide in its scope, was aimed particularly at the strengthening of domestic retention. Under this measure, a new mark of reinsurance was established, which made reinsuring with local reinsurers obligatory, for all treaty and facultative reinsurance contracts issued in Argentina.

This compulsory measure has an exception: individual risks where the insured sum or limit is greater than \$50 million, for which traditional international reinsurance placement is permitted only for the sum which exceeds this amount. The regulator also has the power to consider other exceptions, in specific cases.

In line with this measure, a new form of 'admitted reinsurer' was established. This term applies to international reinsurers who have been approved by the SSN, having first demonstrated compliance with certain legal requirements, for example, having in place a legal representative domiciled in Argentina.

Until September 2011, no local reinsurers were established and operating in the country, therefore this was an abrupt and significant change in the market. Only a few international reinsurers decided to establish a local branch, but their capacity could not satisfy fully the demand for reinsurance under the new regulation. For this reason many insurance companies have created a type of local captive reinsurer, so they can utilise this vehicle to seek international capacity through retrocession.

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While the majority of insurance companies created a local reinsurer in order to satisfy their own interests, there were some insurers who decided not to follow this route, remaining without their own vehicle to gain protection through some sort of international programme. The picture was completed

by some captive reinsurers and other companies independent of Argentinian capital who have provided the service of nationalising international reinsurance for small independent insurers.

As might be expected, the new regime changed the distribution of premiums ceded to reinsurance substantially. According to figures provided by the SSN, during the period 2012/2013, local ceded reinsurance premium was 72.9 percent compared with 8.1 percent for the period 2011/2012—a ninefold increase.

This new local reinsurance and retrocession mechanism has been now been up and running for the last few years. Currently 33 local reinsurers are registered to operate in the market, and 74 admitted reinsurers (of which Lloyd's is considered as a special case and is viewed as an admitted reinsurer, including all its syndicates).