



Press Release

International Association of Insurance Supervisors

FOR IMMEDIATE RELEASE:

Thursday, 19 July 2012

CONTACT: Andrew R. Stolfi

+41 76 350 8139

andrew.stolfi@bis.org

IAIS Releases Policy Paper on Reinsurance and Financial Stability

***Complements 2011 Policy Paper on Insurance and Financial Stability;
Concludes that Traditional Reinsurance Unlikely to Cause, or Amplify, Systemic Risk***

Basel – The International Association of Insurance Supervisors (IAIS) today released a policy paper entitled *Reinsurance and Financial Stability*. A sequel to the 2011 policy paper *Insurance and Financial Stability*, today's paper addresses reinsurance-specific concerns and evaluates the reinsurance marketplace in examining the relationship between reinsurance and financial stability and more particularly whether traditional reinsurance-related activities pose systemic risk.

"Similar to primary insurance, traditional reinsurance is unlikely to cause, or amplify, systemic risk," said Peter Braumüller, Chair of the IAIS Executive Committee. "Systemic risk may exist, however, in non-reinsurance activities undertaken by certain entities, and the evolving nature of alternative risk transfer products – as well as their affinity to the financial markets in particular – make it prudent to call for continued monitoring of the reinsurance sector and strengthened macroprudential surveillance on national and global levels."

Non-reinsurance activities, such as banking activities (e.g. providing credit), credit default swaps (CDS), collateralized debt obligations (CDO), and some forms of alternative risk transfer (ART) entail considerable systemic potential. The financial crisis has shown that, for example, CDS and CDO underwriting without appropriate provisioning carries a considerable potential for systemic risk. Supervisors must be mindful that in recent years non-insurance entities, and in particular entities set up by investment banks, have started to offer longevity and pension services with risk transformation and risk transfer features similar to products offered by non-life and life insurers. The IAIS is currently developing a methodology to determine whether an entity engaged in non-(re)insurance activities could be a systematically important institution.

Reinsurance and Financial Stability addresses reinsurance-specific concerns relating to market concentration rates, risks arising from accumulations and high value risks, and issues associated with ART, which include activities such as the underwriting of CDS products. It concludes that traditional reinsurance is unlikely to cause, or amplify, systemic risk, but that the case may prove to be different for non-reinsurance activities. It also finds that while reinsurance establishes intra-sector connectivity, the mainly hierarchical structure of the (re)insurance market dampens any propagation of shocks.

Reinsurance and Financial Stability can be found at the IAIS website (www.iaisweb.org) or by clicking [here](#). *Insurance and Financial Stability* can also be found at the IAIS website, or by clicking [here](#).

About the IAIS: The IAIS is a global standard setting body whose objectives are to promote effective and globally consistent regulation and supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders; and to contribute to global financial stability. Its membership includes insurance regulators and supervisors from over 190 jurisdictions in some 140 countries. More than 120 organisations and individuals representing professional associations, insurance and reinsurance companies, international financial institutions, consultants and other professionals are Observers. For more information, please visit www.iaisweb.org.
